



**COUNCIL OF
THE EUROPEAN UNION**

**Brussels, 7 February 2014
(OR. en)**

6145/14

**ECOFIN 115
SOC 87
COMPET 78
EDUC 41
ENV 109
RECH 50
ENER 46
FISC 23
JAI 65**

NOTE

From: General Secretariat of the Council
To: Permanent Representatives Committee/Council

Subject: Annual Growth Survey 2014: Guidance on the implementation of priorities agreed at the December European Council on macroeconomic and fiscal matters = *Council conclusions*

Delegations will find attached the Council conclusions on the Annual Growth Survey 2014, as prepared by the Economic and Financial Committee.

2014 European Semester: macroeconomic and fiscal guidance to Member States

– Council conclusions –

The Council:

I THE 2014 EUROPEAN SEMESTER

1. WELCOMES the Commission's Annual Growth Survey 2014, which takes stock of the economic and social situation in Europe and sets out broad policy priorities for the EU and its Member States, and marks the starting point of the 2014 European semester; and RECALLS the conclusions of the European Council in December 2013 on the main areas for coordination of economic policies and reform.
2. BROADLY SHARES the Commission's analysis of the economic situation and policy challenges in the EU. The EU and its Members States have made significant progress in many policy areas over recent years and there are now encouraging signs of economic recovery. Despite recent improvements, recovery remains fragile and the legacy of the crisis, high unemployment and persisting financial fragmentation, together with remaining deleveraging needs in the public and private sectors, and necessary sectoral restructuring and adjustment, are likely to continue to weigh on growth. If not addressed, these factors will significantly weaken Europe's growth potential, thereby making it harder to achieve societal goals.
3. Against this background, UNDERLINES the need to preserve the competitiveness of the EU economies vis-à-vis the rest of the world; EMPHASISES the need for continued determined and ambitious implementation of agreed policies at EU level and reform commitments set out in National Reform Programmes and as identified by country-specific recommendations, and for close monitoring of their implementation; AGREES on the five broad policy priority areas outlined by the Commission on which national and EU level efforts should concentrate in 2014.

These priorities are the same as in 2013 and provide appropriate policy continuity. Efforts should in particular focus on pursuing differentiated growth-friendly fiscal consolidation and ensuring long-term sustainability of public finances; restoring lending to the economy; and promoting sustainable and inclusive growth and jobs and competitiveness, while tackling the social consequences of the crisis.

II FISCAL AND MACROECONOMIC POLICY ORIENTATIONS

Pursuing differentiated growth-friendly fiscal consolidation and ensuring long-term sustainability of public finances

4. WELCOMES the considerable progress made with fiscal consolidation and TAKES NOTE that EU and euro area aggregate debt levels are expected to peak in 2014 and to start decreasing in 2015. The aggregate planned fiscal effort in the EU is envisaged to decline in 2014, compared to 1 % on average in 2011-2013.
5. ACKNOWLEDGES that, at the same time, public debt levels in most Member States remain high and continue to increase. Therefore STRESSES that it is crucial for all Member States to stay on course with the agreed growth friendly, differentiated fiscal consolidation strategy in order to ensure the sustainability of public finances, and EMPHASISES that Member States should continue to implement their fiscal policies in line with the Stability and Growth Pact, which allows the automatic stabilizers to work around the agreed path of structural adjustment, while ensuring the long term sustainability of public finances. These policies should be anchored in effective national governance frameworks to enhance confidence.
6. RECALLS euro area Member States' commitment made on 22 November to address the risks identified by the Commission in its opinions on the draft budgetary plans for 2014; and INVITES them to continue monitoring closely the aggregate fiscal stance of the euro area, on the basis of the Commission's economic forecasts.

7. STRESSES that more attention should be paid to the quality and composition of fiscal adjustment as well as to the influence of fiscal policy on growth, by ensuring an appropriate mix of revenue and expenditure measures, including ensuring that tax systems support competitiveness, business, job creation and employability through tax shifts away from labour; better and more efficient public spending and modernisation of public administrations; and giving priority to public spending aimed at increasing the growth potential.

Restoring lending to the economy

8. UNDERLINES that financial stability, including a healthy banking sector, and restoring lending to the economy, is key for underpinning productive activity and sustaining the economic recovery.
9. CONFIRMS that the signs of improvement in financial conditions detected last year have become more solid and financial markets more robust. Risks nevertheless remain, lending conditions for businesses are not yet normalised, financial market fragmentation remains high, and SMEs in particular – continue to face financing constraints in some parts of the EU. While significant progress has been achieved with banking restructuring as well as with improving bank regulation and supervision, further efforts are needed to complete the balance sheet repair of the banking sector where necessary as soon as possible and to ensure that the banking sector, which plays a prominent role in financial intermediation in Europe, functions correctly in providing finance for productive activity and effectively sustains the economic recovery.
10. IS CONFIDENT that the upcoming AQRs and stress tests will provide the necessary assurances in this respect and that the establishment of a fully-fledged Banking Union, together with continued financial sector reforms, will contribute to an efficient functioning of financial markets, a further reduction of market fragmentation and ensuring the integrity of the internal market.

11. EMPHASISES that, simultaneously, priority should be given to developing alternatives to bank funding in Europe; and RECALLS its decision of April 2013 to set up a High Level Expert Group (HLEG) to this end and WELCOMES the November 2013 report of the HLEG and the recommendations therein as a basis for further reflection and action at the EU and national levels as appropriate.
12. RECALLS that specific (legislative and structural funds) measures have been and are being taken at the EU level to facilitate access to finance for SMEs in addition to a great number of national measures; and STRESSES the need for a close monitoring of private debt levels and associated financial risks in a number of countries.

Promoting sustainable growth, competitiveness, and tackling unemployment

13. RECALLS that fiscal consolidation and restoring lending to the economy need to go hand-in-hand with well-designed structural reforms aimed at promoting sustainable growth and jobs, competitiveness and a sustained correction of macroeconomic imbalances, through productivity increases and strengthening the adjustment capacity of Member States' economies; and UNDERLINES that a more coordinated approach to reforms at Member State and EU levels could provide positive synergies both in economic terms and by creating political momentum facilitating reforms, in line with recent steps taken to enhance the European semester process and EU economic governance.
14. EMPHASISES that priority should be given to the implementation of structural reforms that can encourage much needed sustainable investment and to strengthening of the internal market, notably through competitiveness- and competition-enhancing reforms in product and services markets, including increasing competition and infrastructure investment in network industries; ; and a more diligent implementation of the Services Directive and ambitious opening up of services sectors, including regulated professions by removing unjustified barriers. In this context, WELCOMES the Commission's "2014 Single Market Report"¹, pointing to key areas of the Single Market where growth potential is the strongest.

¹ A single market for growth and jobs: an analysis of progress made and remaining obstacles in Members States - Contribution to the Annual Growth Survey 2014.

15. **HIGHLIGHTS** the need to support and simplify the overall business environment, removing unwarranted regulatory and administrative burden on companies and improving the quality of legislation at all levels of government, including through comprehensive impact assessments, efficient implementation and ex post evaluation; and speedy implementation of the REFIT (regulatory fitness) programme; and **STRESSES** the role of effective public administration in support of growth strategies, which points to the need for further efforts to modernise; ensuring interoperable, user-friendly provision of services, including through eGovernment tools; and the quality of the judicial system plays an important role for investment decisions. Improving administrative capacity should also ensure a better use and speedier deployment of EU Structural funds.
16. To build a lasting recovery, **STRESSES** that Member States should focus on establishing appropriate framework conditions for strong, smart, sustainable and inclusive growth also in the longer term, which includes strengthening the digital single market, focusing on conditions driving innovation, including entrepreneurship, new technologies and public and private R&D investment; raising performance in education and training systems and overall skills levels; and tapping the potential of a sustainable economy, so as to increase both overall resource efficiency and environmental protection.
17. **UNDERLINES** that, despite recent progress, current account deficit countries, and countries with high external debt, should continue their efforts to improve competitiveness and reduce current account deficits in a durable manner; and **REITERATES** that addressing market failures and structural reform needs in surplus countries would contribute to rebalancing within the euro area and support aggregate demand, but **RECALLS** that unlike large and sustained current account deficits, large and sustained current account surpluses do not raise concerns about the sustainability of external debt or financing capacity that affect the smooth functioning of the euro area. Measures aimed at improving the functioning of specific sectors, such as services, financial intermediation and other non-tradables should be considered in all Member States.

While respecting the role of social partners and national systems for wage formation, wage-setting frameworks need to be monitored and where appropriate reformed to increase flexibility; reflect productivity developments; and thus contribute to restoring and safeguarding competitiveness, and reducing imbalances in the euro area. Moreover, indexation mechanisms should be reconsidered and minimum wage levels, where applicable, should strike an appropriate balance between fostering employment creation and sufficient income.

18. To tackle high unemployment in a sustainable manner, increase participation and reduce risks of labour market exclusion, EMPHASISES that reforms should aim at making labour markets more inclusive, flexible and dynamic, thereby providing conditions for a job-rich recovery, and improving employability. Special focus should be on under-represented, hard hit and other vulnerable groups, in particular of young people. Well-targeted and cost-effective measures to promote the hiring of hard hit groups should be considered to reduce the risk of persistence of unemployment and dropping out from the labour force, including through life-long learning, vocational training and other cost-effective active labour market policies. Priority should also be given to early intervention to reduce youth unemployment, including through the full implementation of youth guarantee schemes. Access to child and elderly care is also crucial for female labour market participation.
