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COVER NOTE

From: Secretariat General of the Council
To: Coreper / Council
Subject: European semester review 2014 - Letter from the president of the Economic and Finance Committee to the president of the ECOFIN

Delegations will find attached a letter from the president of the Economic and Finance Committee to the president of the ECOFIN.

Encl.:



European semester review 2014

Dear Gikas,

I would like to report to you on the outcome of this year's European semester review exercise that we held on 12-13 June. The exercise covered a review of the Commission recommendations for country-specific recommendations in the area of fiscal and structural policies falling in the area of competence of the Ecofin Council, including recommendations issued under the preventive arm of the Macroeconomic Imbalances Procedure (MIP). Furthermore, the EFC also discussed and prepared draft Council decisions under the excessive deficit procedure for a number of Member States.

As Europe is gradually recovering from the crisis, Members noted there is a need to take this opportunity to embark on a proactive approach to sustain the recovery and put in place the right conditions for sustained and durable economic growth. While the current accommodative monetary policy stance is supportive for growth in the short-term, Europe's long-term growth potential has to be fostered, focusing on increasing productivity through ambitious structural reforms and growth friendly, differentiated fiscal consolidation. There is no room for complacency.

Against this background, Members broadly supported the Commission's proposals for Council recommendations under the European Semester.

The significant fiscal efforts made over the past years have led to a clear improvement in the fiscal situation. As a result, the focus of attention has been shifting from the corrective to the preventive arm of the SGP. Members noted that fiscal consolidation is planned to continue over the programme horizon, although the pace is set to decelerate compared to the past years. There was broad agreement that fiscal consolidation can proceed in a more gradual pace than at the height of the crisis. At the same time they also recognised that structural fiscal efforts need to continue in line with the requirements of the SGP, as many Member States are still in Excessive Deficit Procedure (EDP) or distant from their medium-term objectives and given that structural deficits and public debt levels remain high.

The consolidation strategy was deemed to be appropriately differentiated across EU Member States. Whilst fiscal consolidation at the expense of public investment appears to have been less pronounced than in recent years, one cannot yet discern any trend reversal and further attention should be given to the growth friendliness of the composition of government expenditure and revenue.

Members also discussed the inclusion of a specific reference to the Medium Term Objective (MTO) deadlines in the Country Specific Recommendations for deadlines beyond 2015. While a specific reference to the MTO deadlines would provide a clearly defined policy target under the preventive arm of the SGP, an unstable MTO deadline would risk becoming a moving target, thereby complicating external communication and domestic fiscal policy making.

While the importance of independent fiscal councils was broadly recognised, it was noted that it would be beneficial to have further clarity on the practical criteria for legal and operational independence, including on providing or ensuring independence of the economic forecasts, so as to be able to assess the effectiveness of fiscal councils. In this respect, the review of the establishment of fiscal councils as envisaged by the Commission, in the context of the Fiscal Compact transposition, could serve as a useful starting point. Thematic reviews undertaken by the EPC could also provide relevant material.

Members agreed with the Commission recommendations for the abrogation of the EDP for six Member States. This collective abrogation of EDPs reflects the significant consolidation efforts implemented over the past years and shifts the emphasis from the corrective to the preventive arm of the Stability and Growth Pact. In order to underline this movement, it was agreed to include a specific reference to the preventive arm in the Country Specific Recommendations where appropriate.

Members also agreed with the assessment of effective action for Croatia and Poland. It was also agreed that the EDP should not be opened for Finland, despite a planned breach of the 60% debt ratio in 2015. To this end a draft EFC report under Article 126(4) TFEU reflecting this conclusion was endorsed.

There was broad agreement that as the economic recovery is gaining strength and the fiscal adjustment is steadily progressing, attention should be shifted towards the structural reform agenda. A potential growth rate of - on average - around one per cent in Europe would not provide the right environment for stimulating employment growth and reducing unemployment. With a view to increasing productivity and potential growth, the structural reform agenda would benefit from both a clearer focus and more ambition.

One key area is labour markets, where reforms should be aimed at enhancing their resilience, combatting segmentation and promoting labour market participation. This includes also improving education and skills performance.

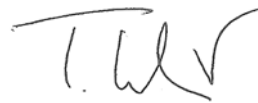
With a view to enhancing competition and competitiveness additional efforts are needed in opening up product markets, which would enable Member States to benefit from their full growth potential. Reforms in the area of energy markets and further developing energy networks also have an important role to play with regard to ensuring security of supply and delivering lower prices for both the corporate sector and households. Finally, measures aimed at modernising public administrations should focus on delivering more for less, meeting public needs in times of tighter budgets and improving the business environment by providing better and more efficient services.

Let me emphasise that the Commission assessments identify well the challenges for both Europe as a whole as well as for the individual Member States. There is broad agreement on the appropriate policy responses outlined in the recommendations, which is key to ensure ownership and for the delivery of reforms. The use of clear timelines for implementation is expected to contribute to enhance the focus of policy responses, as well as to ensure an appropriate sequencing and pace of reforms.

At the same time, more could be achieved by increasing awareness on reform needs, and on ownership of recommendations at national level, in particular in sectoral ministries and beyond.

To conclude, I would like to stress that it will now be important to ensure full implementation of the recommendations. In light of this, a more structured follow-up of the recommendations throughout the year is required. This could possibly be based on well identified broad themes for discussion at ministerial level, prepared by the EPC and EFC.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'T. Wieser', with a stylized flourish at the end.

Thomas Wieser