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NOTE

From: General Secretariat of the Council
To: COREPER II and Council

Subject: European Semester 2015 - Annual Growth Survey : macroeconomic and
fiscal guidance to Member States and Alert Mechanism Report
= Draft Council Conclusions

Delegations will find attached the revised draft Council conclusions on the Annual Growth Survey and the Alert Mechanism Report prepared by the Economic and Financial Committee, integrated in one single document.

The Council (ECOFIN):

I THE 2015 EUROPEAN SEMESTER

1. **WELCOMES** the Commission's Annual Growth Survey 2015, which sets out broad policy priorities for jobs and growth in the EU and its Member States, and marks the starting point of the 2015 European semester; and **RECALLS** the conclusions of the **European Council** in December 2014 on key measures to increase the Union's attractiveness for production, investment and innovation as well as the need for closer coordination of economic policies.
2. **BROADLY SHARES** the Commission's analysis of the economic situation and policy challenges in the EU. In full respect of the role of all relevant actors, structural, fiscal and monetary policies need to contribute to a growth-friendly approach to tackle the problems of persistent low growth, very low inflation, high debt and high unemployment effectively, acting both on the demand and supply sides of the EU economy. Despite recent improvements, the recovery is weaker than what was previously expected with low productivity gains, low levels of investment and high unemployment. 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 for fostering investment, improving the overall business environment and addressing market failures in Europe as well as pursuing and intensifying Member States' efforts to implement structural reforms and pursuing growth-friendly fiscal consolidation, in order to provide the foundation for growth and jobs in Europe and progress on the Europe 2020 headline targets. **AGREES** on the broad policy priority areas outlined by the Commission on which national and EU level efforts should concentrate in 2015; boosting investment, renewing commitment to structural reform implementation and exercising fiscal responsibility. These priorities should be implemented in an integrated manner in order to tackle the challenges effectively at both EU and Member State level. All three priorities are important and mutually reinforcing.

4. WELCOMES the Commission's suggestions to streamline and reinforce the European Semester. RECALLS the joint EFC-EPC opinion on the mid-term review of the Europe 2020 strategy and its implementation through the European Semester. AGREES that the aim of streamlining of the Semester is to increase political ownership, predictability, accountability and acceptance of the process, to strengthen its credibility and comparability across Member States and to help improve the implementation of the country-specific recommendations. RECOGNISES that the publication of a single comprehensive economic assessment per Member State at the end of February allows for greater transparency and feedback on the Commission's analysis and more time to examine and discuss the EU guidance, which should further enhance ownership and the multilateral surveillance process. UNDERLINES the importance of monitoring of performance and policy implementation, including implementation of the country specific recommendations, throughout the year. INVITES the Economic and Financial Committee and the Economic Policy Committee to stay closely involved.
5. RECOGNISES that the discussion on and changes of the European Semester are also important in view of the upcoming work on economic governance, coordinated by the President of the Commission, together with the Presidents of the European Council, of the European Central Bank and of the Euro group. It is also important in view of Commission's mid-term review of the Europe 2020 strategy, and LOOKS FORWARD to the discussion at the spring 2015 European Council.

II FISCAL AND MACROECONOMIC POLICY ORIENTATIONS

Improving the investment environment and boosting investment

6. RECOGNISES that there is an urgent need to boost investment in order to strengthen the EU's economic recovery and growth potential. RECALLS the Council conclusions in October 2014 on measures in support of investment.
7. WELCOMES the Investment Plan for Europe that the Commission presented alongside the Annual Growth Survey which will complement and boost existing efforts through the aim of mobilising at least EUR 315 billion up to the end 2017 in additional public and private investment.

8. **SUPPORTS** the focus of the Plan on the three policy objectives of (i) reversing recent downward investment trends and providing an additional boost to job creation and the recovery of the EU economy; (ii) taking a decisive step towards meeting the long-term needs of our economy by boosting its competitiveness in strategic areas; (iii) strengthening the European dimension of our human capital and physical infrastructure, with a special focus on the interconnections that are vital to our single market. The plan should also contribute to the transition to a low carbon economy.
9. **UNDERLINES** the importance that initiatives taken under the Investment Plan should address market failures and the needs of the real economy and should be complemented by measures which improve the business environment and make investment more attractive.

A renewed commitment to structural reforms

10. **STRESSES** that making the European economy more competitive and ensuring the right regulatory environment for long-term investment is crucial for growth. **UNDERLINES** the importance of structural reforms. **RECOGNISES** that ambitious implementation of structural reforms in product, services and labour markets are key for increasing productivity, regaining competitiveness and improving the business environment, thereby also fostering private productive investment, employment and growth potential. Moreover, they can contribute to durable rebalancing of the EU growth model, lessen the negative side-effects of deleveraging and contribute to the prevention of macroeconomic imbalances.
11. **ACKNOWLEDGES** that the European single market remains the most powerful engine of growth at EU level and that completing the single market in both goods and services is a priority, **HIGHLIGHTS** the need to remove unjustified or disproportionate restrictions to the Single Market for services, including in the professional and business services sector, construction and retail services and **LOOKS FORWARD TO** Commission initiatives in this area. Also **LOOKS FORWARD TO** the Commission initiatives regarding the establishment of the Capital Markets Union. **RECOGNISES** that this will require a strong focus on further integration of services and goods markets where the potential for jobs, growth, and innovation is significant.

12. UNDERLINES that the Digital Single Market is essential for jobs, growth and innovation given that the global economy is transforming into a digital one. HIGHLIGHTS that the Information and Communications Technology is not only a sector but the foundation of a modern innovative economy.
13. STRESSES that further structural reforms in energy markets are necessary in combination with a forward-looking climate change policy, in line with the Europe 2020 objectives and the 2030 climate and energy framework agreed by the European Council in October 2014, and to enhance security of energy supply and complete the internal energy market, including through better interconnections.
14. ACKNOWLEDGES efforts made by Member States in the implementation of structural reforms. SHARES the view that reforming and modernising our economies is needed to underpin our European social model. HIGHLIGHTS the importance of further measures to increase participation rates of women in the labour market, as a source of increased potential growth.
15. HIGHLIGHTS the need for additional reform efforts in all Member States, commensurate with the remaining level of rigidities and vulnerabilities. UNDERLINES the need to focus on a number of key reforms areas including labour market dynamics, pension reforms, modernising social protection systems, improving competition in product and services markets, improving framework conditions for the business environment, improving the quality of education and of research and innovation investment and improving the efficiency in public administration. While at least some of these areas are important for all Member States, both challenges and consequently the exact relevant measures vary from country to country.
16. EMPHASISES that within the euro area, particular attention should be paid to the implementation of reforms that are especially important for a smoother functioning of the euro area, and to enhancing positive synergies and avoiding negative spillovers.

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

17. WELCOMES the considerable progress made with fiscal consolidation. ACKNOWLEDGES that, at the same time, public debt levels in most Member States remain high and that there is still a need to bring debt levels on a declining path. Therefore, STRESSES that it is crucial for all Member States to stay on course with the agreed growth-friendly and differentiated fiscal consolidation strategy in order to ensure the sustainability of public finances. EMPHASISES that all Member States shall implement their fiscal policies in line with their obligations under 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. Therefore, WELCOMES the Commission's intention to provide a full assessment of the transposition of the Fiscal Compact into national law by mid-2015.
18. RECALLS euro area Member States' commitment made on 8 December to address the risks identified by the Commission in its opinions on the draft budgetary plans for 2015; and INVITES them to continue monitoring closely and discussing the aggregate fiscal situation of the euro area including the fiscal stance, on the basis of the Commission's economic forecasts.
19. TAKES NOTE of the Commission's recent Communication providing additional guidance on how the Commission intends to make best use of the flexibility in the existing rules of the Stability and Growth Pact. TAKES NOTE of the Commission's effort to provide greater clarity on how to ensure that the common fiscal framework is supportive of the EU's jobs and growth agenda, in particular as regards investment and structural reforms, while better reflecting the cyclical situations in individual Member States. UNDERLINES the need to maintain credibility and effectiveness in the implementation of the Stability and Growth Pact.

20. 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 improving expenditure efficiency and prioritising productive investment in government spending, by shifting towards a taxation system that is more efficient and supportive of growth, and by addressing tax fraud and tax evasion to ensure fairness and allow Member States to collect tax revenues in a more effective manner.

III. Alert Mechanism Report

21. WELCOMES the Commission's fourth Alert Mechanism Report (AMR) providing the starting point of the Macroeconomic Imbalance Procedure (MIP) in the context of the 2015 European Semester. WELCOMES the continued progress achieved by Member States in correcting their external and internal imbalances, in particular in relation to current account deficits, competitiveness, and balance sheet repair in all sectors, thus contributing to the rebalancing in the EU and within the euro area. However, NOTES that slow growth and the low inflation environment weigh on the reduction of imbalances and on macroeconomic risks and RECOGNISES that important challenges remain and further progress on policy actions is needed to address imbalances, in particular the high public and private indebtedness as well as high external debt levels giving rise to sustainability concerns. Improving competitiveness in the EU also remains a priority. At the same time, elevated current account surpluses in a few Member States persist and call for a continued closer examination.
22. TAKES NOTE that the economic screening presented by the Commission in the AMR identified 16 Member States warranting further analysis through in-depth reviews (IDRs), on the basis of which the existence or persistence of imbalances and the nature of such imbalances may be identified. RECOGNISES the need for further analysis of recent developments in the Member States where imbalances were identified last year in order to assess the degree and persistence of imbalances, their risks as well as the progress made toward their unwinding, taking into account the implementation of relevant measures, including those previously recommended in the context of the European Semester.

23. While programme countries are not assessed in the MIP, as they are subject to close surveillance under the programme, **UNDERLINES** the need for sustaining, as part of their adjustment programmes, the progress achieved so far with reforms aimed at correcting their identified imbalances. **WELCOMES** the integration of Portugal into the standard surveillance framework and the preparation of an in-depth review following the successful completion of the economic adjustment programme in mid-2014. **CONSIDERS** that this same procedure should be followed for other programme countries once they successfully complete their economic adjustment programmes. **AGREES WITH** the intention of the Commission to prepare an in-depth review for Romania, given delays in completing the semi-annual reviews in the adjustment programme.
24. **WELCOMES** the intention of the Commission to publish at the end of February the 2015 IDRs together with the Staff Working Documents in a single analytical document for each Member State for the first time. This should facilitate a more profound multilateral discussion of the findings and suggested procedural follow-up. It should also allow for a clearer identification of MIP related elements for the country specific recommendations in the context of the European Semester. To ensure the focus and full effectiveness of the procedure, **UNDERLINES** the need to concentrate on addressing key challenges, in particular restoring competitiveness and addressing high public and private indebtedness as well as high external debt levels, while clearly distinguishing between Member States' challenges in terms of different types and degrees of risk and the respective urgency by which they should be addressed in order to avoid negative consequences. **CONSIDERS** that the corrective arm of the MIP should be applied where appropriate.

25. EMPHASISES that, as in the previous MIP rounds, the IDRs should encompass a thorough examination of the sources of macroeconomic imbalances and their associated risks in the Member States under review. With a view to examining the driving forces behind the observed developments in a detailed and consistent way, due account should be taken of country-specific economic conditions, together with the full use of a wide set of analytical tools and the most up-to-date quantitative and qualitative information of a country-specific nature; CALLS ON the Commission to continue to pay special attention to possible negative spillover effects linked to the economic policies and imbalances in Member States under review; INVITES the Member States and the Commission to provide and exchange all relevant information.
26. WELCOMES the use of the latest statistical standards by the Commission for the indicators included in the Scoreboard and the auxiliary indicators. CONSIDERS that the current set of macroeconomic scoreboard indicators covers the most relevant dimensions of macroeconomic imbalances and competitiveness developments. UNDERLINES the need for continuing the technical work with a view to further improving and developing the appropriateness of the scoreboard as well as analytical tools and frameworks for assessing developments and drivers behind the building up and unwinding of imbalances, and supporting transparency of the MIP.
27. TAKES NOTE of the Commission's intention to consider further the role of social indicators in the AMR and in the analysis of employment and social challenges in the IDRs. UNDERLINES the need to carefully preserve the nature of the MIP procedure whilst maintaining transparency and consistency among all existing indicators. UNDERLINES that the use of social indicators in the MIP should remain limited to allowing for a broader understanding of social developments linked to the adjustment of macroeconomic imbalances. To ensure this, further technical discussions with Member States are needed.

28. WELCOMES the Commission's economic governance review, including the review of the application of the MIP; AGREES that, despite the limited timespan since its entry into force, the MIP has contributed to the identification of imbalances and determination of their nature and to a better understanding among Member States of their specific and common policy challenges and policy responses; CONSIDERS that there is a need to improve the predictability and stability of the process, including in the subsequent monitoring, and the implementation of the relevant policy recommendations at the national level.
29. Finally, INVITES Member States to address in an ambitious and concrete manner in their upcoming National Reform Programmes and Stability or Convergence Programs the issues identified within the framework of the MIP.
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