Council of the
European Union

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To:	Permanent Representatives Committee/Council
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Subject:	Recommendation for a COUNCIL RECOMMENDATION on the implementation of the broad guidelines for the economic policies of the Member States whose currency is the euro

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission proposal COM(2015) 251 final.

COUNCIL RECOMMENDATION

of …

on the implementation of the broad guidelines for the economic policies of the Member States whose currency is the euro

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 136 in conjunction with Article 121(2) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Economic Policy Committee,

1 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.

Whereas:

(1) Sustaining and strengthening the development of the euro area requires continued policy efforts to support a balanced adjustment in the private and public sectors and increase the economy's growth potential in the medium to long term. While economic recovery in the euro area is ongoing, it is hampered by legacies of the recent economic and financial crises, including ongoing external rebalancing, high levels of public and private debt and related deleveraging pressures, persistent structural rigidities in national labour and product markets, high unemployment, and low confidence, and a persistent weakness in investment. So far, implementation of the reforms set out in the country-specific recommendations has not been sufficiently ambitious.

(2) The euro area is more than just the sum of its members. The euro area economies are closely interrelated, underscoring the need for stronger coordination of fiscal, financial and structural policies. The policy stance at the euro area level should promote growth and jobs, while at the same time ensuring that the progress made in rebalancing is sustained and fostered. Euro area Member States have a specific responsibility for effective implementation of the governance framework, which has been significantly strengthened in recent years. This calls for increased peer pressure to support national reform implementation and fiscal prudence. It also calls for greater assessment of national reforms from a euro area perspective, internalising potential spillovers and stimulating policies of particular importance for a well-functioning Economic and Monetary Union.

(3) The implementation of ambitious structural reforms that modernise economies and boost competitiveness and growth potential is not yet sufficient in the euro area. The extent of imbalances prior to the crisis, the position in the business cycle, and the fiscal space available vary significantly across Member States. Despite improvements in labour markets and some progress with reforms to improve the resilience of labour markets, unemployment rates remain high and long-term unemployment risks becoming entrenched, further weakening the social situation in the most vulnerable countries. External rebalancing is ongoing, but progress has been asymmetric and elevated current account surpluses in a few Member States persist. Ambitious structural reforms of labour and product markets would facilitate the necessary economic adjustment within the euro area and boost growth in the countries that implement them. By increasing employment and lowering prices for consumers, reforms also contribute to greater social inclusion. If carried out jointly across Member States, structural reforms offer benefits to the euro area as a whole through positive spillover effects through trade and financial channels. This would also encourage the appropriate policy choices in the rest of the euro area. The thematic discussions of the Eurogroup can help this process via the assessment and benchmarking of reforms and their impact on the euro area as a whole. This can be done through learning from best practice, agreement on common principles for good reforms and peer pressure. In view of the adjustment process at national level and therefore the functioning of the euro area, regular monitoring of progress with reforms in Member States which are experiencing excessive imbalances and imbalances requiring decisive action is particularly important.

(4) One of the key policy challenges facing the euro area is to reduce government debt by pursuing fiscal responsibility. Thanks to the consolidation efforts of the past years, the euro area fiscal situation has improved but the coordination of fiscal policies remains sub-optimal. A number of euro area Member States still need to continue with fiscal adjustment to bring down very high levels of debt. Other countries have more room for manoeuvre and could use it to encourage domestic demand, with a particular emphasis on investment; this would support domestic growth and the euro area as a whole. The flexibility embedded in the Stability and Growth Pact rules allows Member States to facilitate structural reforms and investment, while following the commonly agreed rules. Fiscal strategies are not yet sufficiently growth-friendly. On the revenue side, despite increased coordination in the Eurogroup, there is further scope for improving the efficiency of tax systems and reducing the tax wedge on labour. On the expenditure side, more focus is needed on public investment, backed by sound cost-benefit analysis, and other public expenditure with strong and positive growth effects. Spending reviews have emphasised the need for efficiency gains in public administration. Well-functioning national fiscal frameworks will support this process.

(5) Financial market conditions in the euro area have been improving, but lending to the private sector remains subdued and financial markets remain fragmented. This is holding back investment in the euro area. As a result, a wide investment gap has opened, while investment needs exist both in terms of tangible and intangible investments. The EU Investment Plan offers opportunities to mobilise investment and channel it into productive uses. However, the impact of the Investment Plan and the ECB's expanded asset purchase programme will be larger when accompanied by measures in the broader financial sector to restore credit flows, deepen capital markets and boost the long-term financing of the economy. Completion of the banking union is underway and will be supported by the application of the single rulebook and a consistent regulatory approach. Better integrated and more efficient capital markets would mobilise further funding for investment, make the European economy less dependent on banks, and make its financial structures more balanced and more stable.

(6) Notwithstanding the recent achievements in strengthening the EMU architecture, current challenges call for progress in completing its design. Further developing EMU will require a step-by-step approach combining discipline with solidarity. The President of the Commission, together with the Presidents of the European Council, the European Parliament, the European Central Bank, and the Eurogroup, will prepare the next steps on better economic governance in the euro area,

HEREBY RECOMMENDS that euro area Member States take action within the Eurogroup, in the period 2015-2016, to:

1. Use peer pressure to promote structural reforms that facilitate the correction of large internal and external debts and support investment. Regularly assess the delivery of reforms in those Member States which require specific monitoring within the framework of the Macroeconomic Imbalances Procedure. Continue the regular thematic assessment of structural reforms. By spring 2016, take decisions on the follow-up to the coordination exercise on reducing the high tax wedge on labour and on reforming services markets.

2. Coordinate fiscal policies to ensure that the aggregate euro area fiscal stance is in line with sustainability risks and cyclical conditions. This is without prejudice to the fulfilment of the requirements of the Stability and Growth Pact. By spring 2016, hold thematic discussions on improvements in the quality and sustainability of public finances, focussing in particular on the prioritisation of tangible and intangible investment at national and EU levels, and on making tax systems more growth friendly. Monitor the effective functioning of the recently strengthened national fiscal frameworks.

3. Ensure the timely finalisation of the follow up of the Comprehensive Assessment carried out by the European Central Bank, implementation of Directive 2014/59/EU of the European Parliament and of the Council[3] (Bank Recovery and Resolution Directive), completion of the ratification of the Intergovernmental Agreement on the Single Resolution Fund and make the Fund fully operational as from January 2016 . Promote measures to deepen market-based finance, to improve access to finance for SMEs and to develop alternative sources of finance. Encourage further reforms of national insolvency frameworks.

4. Take forward work on deepening Economic and Monetary Union, and contribute to the improvement of the economic surveillance framework in the context of the report on the next steps on better economic governance in the euro area, prepared by the President of the European Commission, Jean-Claude Juncker, in close cooperation with the President of the European Council, Donald Tusk, the President of the European Parliament, Martin Schulz, the President of the European Central Bank, Mario Draghi, and the President of the Eurogroup, Jeroen Dijsselbloem, and its follow-up.

Done at Brussels,

For the Council
The President

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3 Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council (OJ L 173, 12.6.2014, p. 190).