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OUTCOME OF PROCEEDINGS

From:	General Secretariat of the Council
To:	Delegations
Subject:	Fiscal Sustainability Report 2015 - Council Conclusions on Fiscal Sustainability Report 2015 (8 March 2016)

Delegations will find in the annex the Council conclusions on Fiscal Sustainability Report 2015, adopted by the Council (ECOFIN) at its 3454th meeting held on 8 March 2016 in Brussels.

Council conclusions on the sustainability of public finances in the EU

The Council (ECOFIN),

1. WELCOMES the Commission's "Fiscal Sustainability Report 2015", which updates and enhances the multidimensional approach for assessing fiscal sustainability, based on short-, medium- and long-term challenges.

2. WELCOMES the fact that fiscal risks over the short term have receded since the Fiscal Sustainability Report 2012 with no EU country among those 26 analysed[1] appearing to be at high risk. On the other hand, UNDERLINES that vulnerabilities are still present, also in light of recent developments. In particular, for a number of EU countries the high or increasing debt levels continue to represent important sources of vulnerability that might generate fiscal risks should financial market instability increase.

3. WELCOMES the inclusion of the debt sustainability analysis to enrich conclusions on public debt sustainability in the medium-term. STRESSES that 11 of the 26 EU countries analysed face high medium-term fiscal sustainability risks and 5 countries facing medium risk under the assumption of no policy changes, mainly due to elevated government debt levels, exacerbated in some cases by projected age-related public spending.

4. NOTES that one country of the 26 appears to be at high long-term sustainability risk, and 14 countries at medium risk, primarily due to projected rising cost of ageing. RECOGNISES that the long-term indicator has to be seen in conjunction with the other sustainability indicators notably because it does not incorporate any specific debt level requirement.

[1] The Fiscal Sustainability Report 2015 analyses all EU countries that are not under a macroeconomic adjustment programme

5. HIGHLIGHTS that the appropriate combination of policies to deal with the fiscal sustainability challenge should be embedded in the overall EU three-pronged strategy consisting of reducing government debt, increasing productivity and employment and reforming pension, health care and long-term care systems, depending on the main reasons behind the specific challenges faced by Member States. EMPHASISES that windfalls from the low interest rate environment should primarily be used to reduce debt ratios or to compensate for the effect of persisting exceptionally low inflation on the debt ratio, especially in those Member States with high government debt, but also possibly for investments or structural reforms, depending on the country's fiscal position.

6. UNDERLINES that even in cases where the Commission analyses point to low fiscal sustainability risks in the medium and long-term, Member States need to ensure sustainable fiscal positions, which allow coping with possible shocks over the economic cycle, in line with the Stability and Growth Pact. REAFFIRMS that adherence to the EU fiscal rules, including the debt rule, is necessary to ensure sustainable debt levels.

7. UNDERLINES that, given demographic challenges, comprehensive reforms have a substantial positive impact on long-term fiscal sustainability, as evident from the 2015 Ageing Report. REAFFIRMS the need to continue appropriate policy action on all age-related areas taking into account country-specific situations and avoiding measures that reverse sustainability-enhancing reforms already undertaken. This entails a prompt and comprehensive implementation of the country specific recommendations issued under the European Semester. STRESSES that further steps are still needed by Member States, though to varying degrees, to raise the effective retirement age, including by avoiding early exit from the labour market and by aligning the retirement age, necessary contribution period or pension benefits with life expectancy. Moreover, recalling its Conclusions of 7 December 2010, INVITES Member States to balance the increasing need for universal health care and long-term care in the coming decades with the need to reduce high public debt levels. This highlights the need to assess the performance of health and long term care systems and implement the necessary reforms to improve the quality of public finances in order to achieve a more efficient use of public resources and provision of high quality health and long term care.

8. CALLS ON Member States, especially those found at high sustainability risk over the medium term, to focus attention on sustainability- and growth-oriented fiscal strategies in their upcoming Stability and Convergence Programmes; and INVITES Member States and the Commission to take into account these sustainability findings in their analyses and recommendations in the framework of the European Semester. These strategies and developments of the sustainability of public finances will continue to be regularly assessed by the Council and the Commission, including by incorporating new developments in macroeconomic conditions, fiscal policies and structural reforms, notably in the areas of pension, healthcare and long-term care systems.

9. INVITES the Commission to undertake its regular in-depth overall assessment of the sustainability of public finances by early 2019 using the updated age-related expenditure projections in the forthcoming 2018 Ageing Report, while regularly updating the Commission's sustainability assessment in between. In connection with the Ageing report, INVITES the Commission and Member States to further analyze new demographic developments, including the effect of large migration flows on macroeconomic conditions and public finances. The Economic Policy Committee should on the basis of the in-depth overall assessment report back to the Council.