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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
Subject:	Draft ECOFIN COUNCIL CONCLUSIONS on In-depth reviews and implementation of the 2017 country specific recommendations

Delegations will find attached the draft Council conclusions on In-depth reviews and implementation of the 2017 Country Specific Recommendations, as endorsed by the EFC on 14-15 May 2017.

DRAFT ECOFIN COUNCIL CONCLUSIONS ON IN-DEPTH REVIEWS AND IMPLEMENTATION OF THE 2017 COUNTRY SPECIFIC RECOMMENDATIONS

The Council (ECOFIN):

1. WELCOMES the publication of the Commission's country reports analysing the economic policies for each Member State, including the in-depth reviews (IDRs) in the context of the Macroeconomic Imbalances Procedure (MIP), and monitoring progress with the implementation of the 2017 country specific recommendations (CSRs), as well as the accompanying Communication. WELCOMES the integrated analysis and STRESSES the need to keep the IDR analysis well identifiable, complete and transparent.

2. WILL take account of these elements, as well as the National Reform Programmes, the Stability and Convergence Programmes and the recommendation on the economic policy for the Euro area of May 2018, when adopting the 2018 Country Specific Recommendations.

I. IN-DEPTH REVIEWS

3. CONSIDERS that the IDRs present a thorough and high-quality analysis of the country position in each Member State under review, presenting the basis for multilateral surveillance, enhanced domestic ownership of reforms and effective policy action. RECOGNISES that relevant and improved analytical tools have been applied in view of the specific challenges of each economy and complemented by substantive qualitative analysis.

4. AGREES that 11 of the examined Member States (Bulgaria, Croatia, Cyprus, France, Germany, Ireland, Italy, the Netherlands, Portugal, Spain, and Sweden) are experiencing macroeconomic imbalances of various nature and degree of severity under the MIP, and that Slovenia is no longer experiencing macroeconomic imbalances in the sense of the MIP.

5. AGREES with the view of the Commission that excessive imbalances exist in 3 Member States (Croatia, Cyprus and Italy).

6. UNDERLINES that transparency and consistency of the MIP implementation are important for ensuring Member States' ownership of the procedure and for the effectiveness of the MIP. REITERATES that the MIP should be used to its full potential and in a comprehensible way, including with the excessive imbalance procedure applied where found appropriate by the Commission and the Council. REEMPHASIZES that whenever the Commission concludes that a Member State is experiencing excessive imbalances, but does not propose to the Council the opening of the excessive imbalance procedure, it should clearly and publicly explain its reasons.

7. RECOGNISES the further progress achieved by several Member States in correcting their imbalances, supported by reforms and the economic expansion. NOTES that internal and external stock imbalances remain a source of risk as they are only adjusting slowly and at an uneven pace, and not all the adjustment is of a structural nature but is partly linked to the positive economic cycle. STRESSES that cyclical upswings can mask the build-up of macroeconomic imbalances. HIGHLIGHTS the need to reduce harmful imbalances and monitor developments where there are signs of rising cost pressures in product, labour and housing markets in some Member States. UNDERLINES the continued need for policy action and strong commitment to structural reforms in all Member States, especially when they face macroeconomic imbalances affecting the smooth functioning of EMU. Imbalances should be addressed in a durable manner that improve resilience and reduce risks, focusing on key challenges, and creating conditions for sustainable growth and jobs.

8. NOTES that much progress has been achieved among net debtor countries in correcting their external imbalances, although negative net international investment positions exist that are generally coupled with large stocks of private or government debt. Simultaneously, NOTES that large current account surpluses remain almost unchanged in some creditor countries. REITERATES that Member States with current account deficits or high external debt should additionally seek to improve their competitiveness and prevent excessive growth in unit labour costs. Member States with large current account surpluses should create the conditions to promote wage growth, while respecting the national role of social partners, and implement as a priority measures that foster investment, support domestic demand and growth potential, thereby also facilitating rebalancing.

II. IMPLEMENTATION OF COUNTRY SPECIFIC RECOMMENDATIONS (CSRs)

9. NOTES the similar implementation record of the 2017 CSRs compared to previous years with at least some progress recorded for around half of the CSRs. TAKES NOTE that reform implementation continue to be uneven across policy areas and countries.

10. WELCOMES the results in the Commission`s multiannual assessment of CSR implementation that show at least 'some progress' with regard to more than two-thirds of the recommendations since the start of the European Semester in 2011, but NOTES this has been uneven across policy areas, countries and over time. RECALLS that the multiannual assessment by the Commission illustrates that a number of CSRs relate to long-term structural issues that take time to be addressed and that tangible results take time to materialise.

11. STRESSES that in the current favourable macroeconomic environment, reform implementation needs to be stepped up significantly to address the pending reform challenges outlined below, guarding against reform fatigue and overcoming political economy challenges.

12. WELCOMES that general government deficits and debt ratios continue to decline, but STRESSES that fiscal policies should be pursued in full respect of the Stability and Growth Pact, with an appropriate differentiation of fiscal efforts across Member States, thereby taking into account stabilisation needs and sustainability concerns. UNDERLINES that the positive cyclical conditions call for the need to rebuild fiscal buffers, in particular in Member States where debt ratios are high, while continuing to strengthen the growth potential of Member States.

13. WELCOMES the upturn in investment but RECOGNISES that overall investment and in particular public investment still accounts for a relatively low share of GDP in many Member States and that there remains a need to improve investment conditions to attract increased private investment in the real economy and to ensure high quality public investment and infrastructures. WELCOMES the progress made by Member States in the areas of improving the business environment, improving access to finance, especially for the small and medium sized enterprises, reducing administrative burdens and in creating fair and growth-friendly tax systems. STRESSES that further structural reforms should be prioritised to remove bottlenecks to investment, increase growth potential, further improve the institutional and business environment, and strengthen both administrative efficiency and regulatory quality. NOTES, in this respect, the need to reinforce the single market thus fostering further structural reforms in the product and services markets and to reform insolvency frameworks, thereby increasing their efficiency. This would also help improve resilience and enable the economies to deal with shocks.

14. WELCOMES that the situation of the banking sector has improved significantly and that NPL ratios have stabilised in nearly all more affected euro-area Member States or are on a declining trend, but STRESSES that progress remains uneven across Member States and banks. Further action is therefore required, in line with the Council Action Plan.

15. ACKNOWLEDGES that Europe continues to face a productivity challenge, with productivity growth subdued and lagging behind the growth rates of other advanced economies. In this context STRESSES the importance of structural reforms and investment into high quality education and training to foster innovation, digitalisation and facilitate the diffusion of new technologies to boost productivity and jobs. The importance of this challenge is aggravated by demographic ageing. The share of working-age persons in the total population is projected to decline across EU, with particularly marked declines in some Member States.

16. WELCOMES the continued improvement in labour markets, but NOTES that important challenges remain. In some Member States unemployment remain high, and further efforts to reduce youth and long-term unemployment are needed. The successful integration especially of migrants and refugees requires particular attention. Labour markets and social and education systems also need to adapt to face the challenges of globalisation and technological progress. In this context, EMPHASIZES the need for wage bargaining frameworks that support wage setting in line with local and sectoral developments of productivity and unemployment, while respecting the national role of social partners, as well as the need for policy action to support up- and re-skilling with the needs of the labour market and to ensure effective active labour market policies. Dynamic and flexible labour markets are important for creating high quality jobs and supporting labour market transitions.

17. WELCOMES how the Commisssion has incorporated the European Pillar of Social Rights within the country reports to keep track of employment and social performances, which allowed for the focus on macroeconomic imbalances and the main economic reform priorities to be maintained.