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European Union

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**NOTE**

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From: General Secretariat of the Council  
To: Permanent Representatives Committee (part 2)/Council  
Subject: Fiscal Sustainability Report 2018  
– Draft ECOFIN Council conclusions

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Delegations will find attached the draft Council conclusions on the Fiscal Sustainability Report 2018, as prepared by the Economic and Financial Committee on 1 February 2019.

## **FISCAL SUSTAINABILITY REPORT 2018**

– Draft ECOFIN Council Conclusions –

The Council (ECOFIN):

1. WELCOMES the Commission's "Fiscal Sustainability Report 2018", which updates and enhances the multidimensional approach for assessing fiscal sustainability in the European Union and is drawn from the 2018 Ageing Report. REAFFIRMS the different functions of the Commission fiscal sustainability analysis, including for the identification of potential fiscal risks building in EU countries and its use as a basis for the formulation of policy requirements and recommendations in the framework of the Stability and Growth Pact and of the European Semester.
2. UNDERLINES that vulnerabilities are still present over the short term, with fiscal risks identified for one country. However, high or increasing debt levels in some Member States continue to represent important sources of short-term vulnerability that might generate fiscal risks even in the short run should financial market perceptions change.
3. HIGHLIGHTS that over the medium-term 7 EU countries appear to be at high risk and 4 other countries face medium risk, mainly due to elevated government debt levels, exacerbated in some cases by a weak fiscal position, sensitivity to adverse shocks, and projected age-related public spending.
4. TAKES NOTE of the use of both the debt sustainability analysis and the fiscal gap (S2) indicator to enrich conclusions on fiscal sustainability in the long term. NOTES that 6 EU countries appear to be at high sustainability risk in the long-term, and 14 countries at medium risk, primarily due to projected rising costs of ageing, and in some cases due to vulnerabilities linked to elevated government debt levels. RECOGNISES the important challenges for the sustainability of public finances over the long-term imposed by demographic change.

5. RECOGNISES that high levels of public debt may hamper economic growth, reduce the ability of public finances to provide counter-cyclical stabilisation in cases of economic downturn, and implies negative spillover effects on financing conditions and financial stability across Member States, in particular those sharing the euro as their common currency.
6. HIGHLIGHTS that the appropriate combination of policies to deal with the fiscal sustainability challenge should focus on ensuring macro-financial stability and sound public finances, including through reforming pension, health care and long-term care systems, as well as capital accumulation and reforms that increase productivity, growth and employment, depending on the main reasons behind the specific challenges faced by each Member State. EMPHASISES that favourable macroeconomic conditions including low levels of interest rates should be used to re-build fiscal buffers, especially in those Member States with high government debt. UNDERLINES that macroeconomic policies and structural reforms should also help to create an economic environment supportive of fiscal consolidation in countries that need to reduce public debt.
7. UNDERLINES that even in cases where the Commission analysis points 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. REAFFIRMS that adherence to the EU fiscal rules is necessary to ensure sustainable debt levels.

8. HIGHLIGHTS that, given demographic challenges, comprehensive reforms have a substantial positive impact on long-term fiscal sustainability, as evident from the 2018 Ageing Report. REAFFIRMS the need to continue appropriate policy action on all age-related areas taking into account country-specific situations and pension adequacy challenges, while avoiding measures that reverse sustainability-enhancing reforms already undertaken. STRESSES that this entails a prompt and comprehensive implementation of the country-specific recommendations issued under the European Semester and that Member States still need to take further steps, though to varying degrees, to raise the effective retirement age, including by promoting longer and higher participation in, and 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 8 November 2016<sup>1</sup>, the Council CONSIDERS that achieving the twin aim of ensuring fiscal sustainability and access to good quality health care services for all, by improving the efficiency and effectiveness of health and long-term care systems, is particularly important.
9. CALLS ON Member States, especially those found at high sustainability risk over the medium term, to focus attention on sustainability- and growth-oriented fiscal and structural policy 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, policy requirements and recommendations in the framework of the European Semester, and within it the Stability and Growth Pact. These strategies and developments of the sustainability of public finances will continue to be regularly monitored by the Council and the Commission, whilst respecting national competences, including by incorporating in their assessment new developments in macroeconomic conditions, fiscal policies and structural reforms, notably in the areas of pension, healthcare and long-term care systems.

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<sup>1</sup> Council Conclusions on the EPC-Commission Joint Report on health care and long-term care in the EU, 8 November 2016.

10. INVITES the Commission to undertake its regular in-depth overall assessment of the sustainability of public finances by early 2022, including improving further the methodologies for assessing the sustainability of public finances, and using the updated age-related expenditure projections in the forthcoming 2021 Ageing Report, while regularly updating the Commission's sustainability assessment in between (through the Debt Sustainability Monitor). The Economic Policy Committee should on the basis of the in-depth overall assessment report back to the Council.
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