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NOTE

From: General Secretariat of the Council
To: Permanent Representatives Committee (part 2)/Council
Subject: 2020 European Semester: The Annual Sustainable Growth Strategy 2020
– Draft ECOFIN Council conclusions

Delegations will find attached the draft Council conclusions on the Annual Sustainable Growth Strategy 2020, as prepared by the Economic and Financial Committee on 6 February 2020.

2020 European Semester: The Annual Sustainable Growth Strategy 2020

– Draft ECOFIN Council conclusions –

The Council (ECOFIN):

A REORIENTATION OF THE 2020 EUROPEAN SEMESTER

1. **WELCOMES** the new Commission's Annual Sustainable Growth Strategy (ASGS), setting out policy priorities focused on competitive sustainability, and marking the starting point of the 2020 European Semester.
2. **BROADLY SHARES** the Commission's analysis of the priorities on which national and EU level policy efforts should concentrate: environmental sustainability, productivity gains, fairness and macro-economic stability. **STRESSES** the need to promote high-quality investment, implement ambitious structural reforms, and ensuring sound public finances across all Member States.
3. **TAKES NOTE** of the Commission's intention that the "European Green Deal" should be Europe's new growth strategy and will thoroughly assess the various proposals set out in the Commission Communication when presented. **SHARES** its view that this new economic agenda must transform the Union into a sustainable and climate neutral economy.
4. **UNDERLINES** that the European Semester should maintain its focus as Europe's main economic governance tool to promote macroeconomic stability and sustainable and inclusive growth, while supporting the transition to a climate neutral economy.
5. **TAKES NOTE** of the Commission's intention to integrate the objectives of the UN 's Sustainable Development Goals in the European Semester. **STRESSES** however, that this should be achieved in a manner that does not over-burden the European Semester. **ENCOURAGES** the Commission to come forward with clear proposals on how this can be achieved.

EUROPE'S ECONOMIC OUTLOOK

6. SHARES the Commission's assessment that the economy is expected to continue expanding in 2020 and 2021. Growth prospects have weakened and downside risks remain, but have become somewhat less pronounced. Labour markets remain strong in most Member States, unemployment continues to fall, albeit at a slower pace, and employment growth is projected to slow further with real wage growth increasing only slowly. Global growth prospects are fragile and uncertainty is having a negative impact on investment decisions. There is a risk of a prolonged period of low growth and low inflation driven by low productivity growth and ageing populations.

MACRO-ECONOMIC STABILITY

7. CONSIDERS that pursuing policies in a manner that fully respect the Stability and Growth Pact and supporting public and private investment and improving the quality and composition of public finances are important and that sound and sustainable public finances remain preconditions for ensuring resilience against future shocks and facilitating the economic transformation towards climate neutrality. ACKNOWLEDGES that Member States should pursue policies which support investment facilitating the economic transformation towards climate neutrality, while preserving the long term sustainability of public finances.
8. UNDERLINES that Member States with high public debt levels should pursue prudent policies to put public debt credibly on a sustainable downward path. AGREES that Member States with a favourable fiscal position should use it to further boost high-quality investments, while preserving the long-term sustainability of public finances.
9. AGREES that if downside risks were to materialise, fiscal responses should be differentiated, aiming for a more supportive stance, while ensuring full respect of the Stability and Growth Pact. Country-specific circumstances should be taken into account and pro-cyclicality avoided, to the extent possible. The Member States co-ordinate their economic policies within the Council.

10. UNDERLINES that improving the quality and composition of public finances is key to improve fiscal sustainability and strengthen growth potential. On the revenue side, taxes should support the transition to a green economy, become fairer and move to sources less detrimental to growth. On the expenditure side, spending reviews should be carried out to promote efficiency and effectiveness of government spending. AGREES that, investments which support the move to a climate-neutral and digital economy are key. NOTES that making use of green budgeting tools could help identify expenditures supporting the transition to a climate-neutral economy.
11. SHARES the Commission's assessment that the resilience of the financial sector in the EU has continued to improve, but further strengthening is needed by making progress on deepening of the Banking Union and Capital Markets Union.

ENVIRONMENTAL SUSTAINABILITY

12. WELCOMES the additional focus on environmental sustainability in the ASGS and that the EU should lead the transition to climate neutral and nature-friendly continent by 2050.
13. AGREES that the European Semester provides a well-established framework for the coordination of economic and employment policies needed to guide the Union to a sustainable climate-neutral and competitive economy and its Member States through these transformations. The European Semester can provide specific guidance to Member States on where structural reforms and high-quality investment are required to move Europe towards a more sustainable and competitive economic model and can help Member States to identify and address key trade-offs.
14. STRESSES that the transition to climate neutrality requires a profound transformation of the whole economy. These changes will represent an economic and other costs but also offer a significant opportunity to modernise the capital stock of the EU economy, to relaunch competitiveness in a sustainable way, to invest in people and their skills, and to increase convergence. Significant public and private investment will be needed to help deliver on the EU's objective of moving towards a climate neutral economy.

15. RECOGNISES the differing starting positions and needs of certain sectors, regions and Member States for this transition. STRESSES that this transition needs to remain inclusive and socially responsible and grant citizens attractive job perspectives and reskilling possibilities. UNDERLINES that such transition can only be delivered in full partnership with all Member States, local as well as regional authorities and civil society. TAKES NOTE, in this light, of the Commission's proposal for a Just Transition Mechanism which Council will examine.

PRODUCTIVITY GROWTH

16. WELCOMES the continued focus on productivity enhancing reforms in this ASGS. In the context of population ageing and increasingly binding resource constraints, future growth in Europe will depend crucially on higher productivity, efficiency and innovation, yet productivity growth remains significantly below the level of other global players.

17. Growth and productivity need to be supported by competitive and efficient markets and structural reforms that enable crossborder cooperation, business growth and remove bottlenecks in the business environment. In this context, AGAIN STRESSES that strengthening the Union's Single Market offers an important vehicle for productivity growth and would generate multiple opportunities to expand trade, create jobs and boost growth. However, progress on the Single Market is uneven and further work on the free flow of services, the digital single market, Banking Union, Capital Markets Union and Energy Union is needed.

18. SHARES the assessment that research and innovation and investment in digital technologies and in education and skills development are crucial for a more productive and green economy.

FAIRNESS

19. STRESSES the importance of a strong, efficient labour market with fair working conditions for all,. Promoting such conditions requires investment in skills, adequate and sustainable social protection systems and fighting against all exclusion.
20. RECOGNISES that national tax and benefit systems need to provide incentives for labour market participation, to guarantee fairness and transparency and to ensure the financial sustainability and adequacy of welfare systems. Tax systems should also ensure sufficient revenues for efficient, sustainable and adequate public investment, education, healthcare and welfare, guarantee fair burden-sharing and avoid distortion of competition between firms. The continued fight against aggressive tax planning practices and the push for fair taxation of globalised companies are essential in this respect.
21. STRESSES that reform implementation remains uneven across the EU and that pressing economic and social priorities highlighted in the ASGS now require decisive progress through implementing national reforms. In light of all the factors above, CALLS on Member States to take advantage of the still relatively favourable economic climate to push forward with structural reforms.