

# European Semester

2012/2677(RSP) - 30/05/2012 - Follow-up document

**PURPOSE:** draft 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.

**BACKGROUND:** the European Commission has adopted a **package of recommendations** for budgetary measures and economic reforms to enhance financial stability, boost growth and create employment across the EU.

The recommendations are **country-specific**, taking account of the individual situation of each Member State. The Commission has also issued **recommendations for the euro area** as a whole. The adoption of the recommendations marks the concluding of the second phase of the European Semester of economic policy coordination, which was launched with the Commission's [Annual Growth Survey](#) on 23 November 2011.

Since its creation, the **Eurogroup** has played a pivotal role and has a special responsibility in the economic governance of the euro area.

The Member States whose currency is the euro have also committed themselves to a set of far-reaching additional policy reforms under the **Euro Plus Pact**, aiming to foster competitiveness, promote employment, contribute to the sustainability of public finances and reinforce financial stability.

On 2 March 2012, the Member States whose currency is the euro and eight other Member States signed a **Treaty on Stability, Coordination and Governance** in the Economic and Monetary Union in which they agreed to ensure that all major economic policy reforms that they plan to undertake will be discussed ex ante and, where appropriate, coordinated among themselves.

**CONTENT:** the recommendations address economic challenges at the national level and at the same time are a central element in determining stability and growth in the euro area as a whole. **During 2012-2013**, Member States whose currency is the euro are called upon to:

- strengthen the working methods of the Eurogroup to allow it to take responsibility for the aggregate policy stance in the euro area, rapidly responding to changes in the economic environment, and to lead the coordination of economic policy in the context of the strengthened surveillance framework which applies to the Member States whose currency is the euro;
- engage in genuine policy cooperation in the Eurogroup by sharing information and discussing draft budgets and the plans of major reforms with potential spillover effects on the euro area : (i) ensure that such reforms are undertaken that are necessary for a stable and robust euro area, including the implementation of the recommendations which the Council has addressed to individual Member States whose currency is the euro and which, in addition to addressing challenges at national level, have an impact on the euro area as a whole;
- strengthen fiscal discipline and fiscal institutions at both national and sub-national levels, leading to enhanced market confidence in the medium- and long-term sustainability of public finances in the euro area. Following the agreement by the euro area Heads of State or Government in July and October 2011 and on 2 March 2012, advance the transposition of the Directive on national budgetary frameworks to the end of 2012 and strengthen fiscal governance further, notably by introducing in the national legislation of all euro area Member States the rules for balanced budget in structural terms and the automatic correction mechanisms;

- ensure a coherent aggregate fiscal stance in the euro area by pursuing fiscal consolidation as set out in Council recommendations and decisions, in line with the rules of the Stability and Growth Pact, which account for country-specific macrofinancial situation:
  - I. Member States affected by significant and potentially rising risk premia should limit deviations from the nominal balance targets even against worse- than- expected macroeconomic conditions;
  - II. other Member States should let the automatic stabilizers play along the adjustment path assessed in structural terms and stand ready to review the pace of consolidation should macroeconomic conditions deteriorate further;
  - III. composition of government expenditure and revenues should reflect the growth impact of spending items and revenue sources. In particular, all the available budgetary margins should be used to foster public investment in the euro area, including by taking into account cross-country differences in the cost of funding;
- take action to improve the functioning and stability of the financial system in the euro area;
- accelerate the steps towards a more integrated financial architecture, comprising banking supervision and cross-border crisis resolution;
- implement structural reforms, which – together with the differentiated fiscal stance – would promote an orderly unwinding of intra-euro area macroeconomic imbalances.

These recommendations should be endorsed by the European Council on 28-29 June and formally adopted by the Council in July 2012.