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Economic and Financial Affairs

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President **Jānis Reirs**
Minister for Finance of Latvia

P R E S S

Rue de la Loi 175 B – 1048 BRUSSELS Tel.: +32 (0)2 281 6319 Fax: +32 (0)2 281 8026
press.office@consilium.europa.eu http://www.consilium.europa.eu/press

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- Where declarations, conclusions or resolutions have been formally adopted by the Council, this is indicated in the heading for the item concerned and the text is placed between quotation marks.
- Documents for which references are given in the text are available on the Council's Internet site (http://www.consilium.europa.eu).
- Acts adopted with statements for the Council minutes which may be released to the public are indicated by an asterisk; these statements are available on the Council's Internet site or may be obtained from the Press Office.

ITEMS DEBATED

EUROPEAN FUND FOR STRATEGIC INVESTMENTS

The Council discussed progress in negotiations with the European Parliament on a proposal for a regulation establishing a European fund for strategic investments (EFSI).

The presidency will continue negotiating on behalf of the Council, taking account of comments made.

The Council agreed its negotiating stance on 10 March 2015. Negotiations started on 23 April, after the Parliament had defined its position. A third trilogue meeting was held on 7 May and a fourth is scheduled for 13 May. The aim is to finalise negotiations by the end of May, so as to adopt the regulation before the summer pause. This would enable new investments to begin as early as mid-2015, as planned.

The EFSI will be established within the European Investment Bank by an agreement between the Commission and the EIB. It will support projects in a broad range of areas, including transport, energy and broadband infrastructure, education, health, research and risk finance for SMEs.

The fund will enhance risk-bearing capacity. By taking on part of the risk of new projects through a first-loss liability, it will enable private investors to join under more favourable conditions.

The fund will be built on €16 billion in guarantees from the EU budget and €5 billion from the EIB. Under the approach agreed by the Council, as proposed by the Commission, EU funding would mostly come from redeploying grants from the Horizon 2020 programme (research and innovation) and the Connecting Europe facility (transport, energy and digital networks), as well as unused margins in the budget.

The regulation requires a qualified majority for adoption buy the Council, in agreement with the European Parliament. (Legal basis: articles 172, 173, 175(3) and 182(1) of the Treaty on the Functioning of the EU.)

The EFSI is one of the core elements of the Commission's €315 billion "investment plan for Europe", published in November 2014.

Press release on the Council's negotiating stance on the EFSI regulation

Communication from the Commission on the investment plan

FOLLOW-UP TO MEETING IN RIGA

The presidency informed the Council of the follow-up to be given to an informal meeting of finance ministers and central bank governors held in Riga on 24 and 25 April 2015.

It emphasised the following two issues:

– Growth potential of the EU: structural reforms;

– Capital markets union.

The presidency plans further discussion on capital markets union at the Council's meeting on 19 June 2015.

ECONOMIC GOVERNANCE

– ***Macroeconomic imbalances: In-depth reviews***

– ***Implementation of structural reforms***

The Council discussed:

– in-depth reviews published by the Commission of macroeconomic imbalances in 16 member states;

– implementation of its 2014 country-specific recommendations on economic, employment and fiscal policies under the European Semester, the EU's annual policy monitoring process.

It adopted the following conclusions:

"The Council:

1. WELCOMES the publication of the Commission's single integrated country reports analysing the economic policies for each of the Member States and the euro area, including the in-depth reviews (IDRs) in the context of the Macroeconomic Imbalances Procedure (MIP), as well as the accompanying Communication summarising the main results of the IDRs.

2. CONSIDERS that this way of streamlining of the European Semester has proven to be a useful first step to better examine and discuss the economic policies of Member States, thus allowing for improved transparency and feedback on the Commission's analysis. For the future, further enhancing ownership, as well as multilateral surveillance, aimed at strengthening the process will be needed.

   I - IN-DEPTH REVIEWS

3. CONSIDERS that the IDRs are structured in an appropriate way and present a thorough analysis of the imbalances in each of the Member States under review, taking country-specific circumstances and qualitative information into account. Relevant analytical tools are also applied in view of the specific challenges of each economy.

4. AGREES that 16 of the examined Member States which are identified in Alert Mechanism Report 2015 (Belgium, Bulgaria, Germany, Ireland, Spain, France, Croatia, Italy, Hungary, the Netherlands, Portugal, Romania, Slovenia, Finland, Sweden and the UK) are experiencing macroeconomic imbalances of various natures and magnitudes. CONSIDERS that enhanced transparency on the criteria for the categorisation of macroeconomic imbalances as well as greater stability and predictability of the procedure itself would be welcome. AGREES that, since last year, the imbalances in Slovenia should no longer be considered as excessive, although high corporate leverage and persistent financial sector fragilities continue to warrant specific monitoring. This is based on the fact that decisive policy actions have been taken on the restructuring of the banking system. Furthermore, improved export performance and growth conditions have reduced risks compared to last year, in particular those linked to the external sustainability.

5. AGREES with the view of the Commission that excessive imbalances exist in 5 Member States (Bulgaria, France, Croatia, Italy, and Portugal), and the Commission's intention to consider in May the policy measures of France and Croatia, taking into account the level of ambition of the National Reform Programme and other commitments presented by that date, and to decide whether further steps are needed under the corrective arm of the MIP.

6. UNDERLINES the need for policy action and strong commitment to structural reforms in all Member States, in particular when they face macroeconomic imbalances, especially if affecting the smooth functioning of EMU. Imbalances should be addressed in a durable manner, reducing risks, facilitating the rebalancing of the EU economies and creating conditions for sustainable growth and jobs; and INVITES the Commission to come forward with well-focused and consistent recommendations to the Member States addressing macroeconomic imbalances in the context of the European Semester.

7. WELCOMES the Commission's plans with regard to specific monitoring of the recommendations by the Council to the Member States with excessive imbalances (Bulgaria France, Croatia, Italy and Portugal). Specific monitoring will also apply to a number of euro area Member States with imbalances requiring decisive policy action (Ireland, Spain and Slovenia), and INVITES the Commission to outline the concrete timing and content of such monitoring. In line with established practice, the monitoring for Ireland, Spain and Portugal will rely on post programme surveillance to avoid duplication.

8. RECOGNISES that a number of macro-economic imbalances are being corrected, but UNDERLINES that there are still sizeable risks in certain Member States. In particular, large external liabilities make debtor countries vulnerable, and improvements in current account are not always sufficient to diminish the stock of external debt. Although losses in price competitiveness compared to pre-crisis levels have been partly corrected in a number of debtor countries, strengthening export growth through further structural efforts remains a priority in order to achieve a sustainable and growth-friendly rebalancing. At the same time, current account surpluses remain high in some Member States: these reflect to some extent weak domestic demand, which can be partially linked to low levels of private and public sector investment. In addition, UNDERLINES that high levels of private and government debt remain an important challenge in some countries, also in the context of low inflation and moderate growth rates. Structural reforms are needed to enhance the growth potential and to tackle high unenemployment, in particular among the youth and long-term unemployed.

II – IMPLEMENTATION OF COUNTRY SPECIFIC RECOMMENDATIONS

9. WELCOMES the overall progress made in addressing the 2014-15 Country Specific and the euro area Recommendations. TAKES note that reform implementation has been uneven over policy areas and across countries and AGREES that reform implementation needs to be stepped up to address the individual policy challenges confronting each Member States and to ensure swift and sustainable economic recovery.

10. RECOGNISES that further structural reforms in the services, product and labour markets and responsible fiscal policies are needed in all Member States to strengthen and sustain the economic recovery, correct harmful imbalances, achieve fiscal sustainability, improve the conditions for investment and reinforce the single market, unleashing the growth potential of Member States' economies.

11. LOOKS FORWARD to the Commission's publication of the 2015-16 Country Specific Recommendations in mid-May to ensure the necessary in-depth multilateral discussions before their adoption by the Ecofin council. INVITES the Commission to take into account the discussion on Country Reports as well as the National Reform Programmes when drafting the country-specific recommendations 2015.

12. STRESSES that country-specific recommendations should focus on areas of macroeconomic significance where there is an urgent need for action, in order to give these issues more visibility in the Member State’s national political debate. At the same time, common challenges for the euro area and the EU as a whole will continue to be identified and monitored. CONSIDERS it important to continue to ensure a sound and transparent analytical basis for the CSRs, safeguarding equal treatment through consistency over time and across countries."

SUSTAINABILITY OF PUBLIC FINANCES – 2015 AGEING REPORT

The Council discussed age-related expenditure projections for the member states over the 2013-60 period, on the basis of a joint report from the Economic Policy Committee and the Commission.

It endorsed the report and adopted the following conclusions:

"The Council adopted the following conclusions:

1. The economic and financial crisis has put a significant burden on public finances and has led to rising deficits and debt levels. Ensuring the long-term sustainability of public finances is therefore particularly important at the current juncture. The Council STRESSES the need for appropriate growth friendly fiscal consolidation and for further implementation of structural reforms in order to enhance the sustainability of public finances.

2. Against this background, the Council ENDORSES the 2015 Ageing Report: economic and budgetary projections for the 28 EU Member States and Norway (2013-2060) prepared by the Economic Policy Committee (Ageing Working Group) and the Commission (DG ECFIN) on the basis of commonly agreed methodologies and assumptions. In line with previous editions, the projections in the 2015 Ageing Report cover public expenditures on pensions, health care, long-term care, education and unemployment benefits.

3. The Council HIGHLIGHTS the main findings of the 2015 Ageing Report:

   - Over the whole period 2013-2060, average annual GDP growth in the EU is projected to be 1.4%, unchanged compared to the 2012 Ageing Report. However, there are significant differences in the growth potential across Member States.
   - Total age-related public expenditures are projected to increase by 1.4 p.p. of GDP between 2013 and 2060 in the EU, to reach 27% in 2060, with large differences across countries. Excluding unemployment benefits (strictly-age-related expenditure), an increase of 1.8 p.p. of GDP between 2013 and 2060 is projected in the EU, to reach 26.3% in 2060.
   - Taking into account possible more adverse macroeconomic assumptions, such as the TFP risk scenario, strictly ageing-related public expenditures could increase by 2.1 p.p. of GDP between 2013 and 2060. As a result of recent reforms and more benign demographic developments projected for the EU as a whole in EUROPOP2013, the projected increase in the total age-related expenditure over 2013-60 is now significantly lower than projected in 2012 (3.3 pp. of GDP).

- After a projected increase up to 2040, also related to the baby boom generation reaching the retirement age, public pension expenditure is projected to return close to its 2013 level by 2060 (11.3 % of GDP for the EU). The diversity across Member States is very large, depending on the degree and timing of population ageing, the specific features of national pension systems and, notably, countries' progress with structural reforms. In most countries, recent pension reforms have had a visible positive impact by containing public expenditure dynamics. Pension reforms have also contributed to an increase in the effective retirement age and thus labour input. The scale of reforms in some Member States is however still insufficient to curb the increase in public pension expenditure.
- Public expenditure on health care and long-term care is projected to increase by 2 p.p. of GDP between 2013 and 2060 in the EU in the AWG reference scenario with considerable differences across countries, reaching 10.6 % of GDP in 2060, which is mainly due to demographic developments. Taking into account possible future developments in non-demographic cost drivers in health care and long-term care spending, as foreseen in the AWG risk scenario, the projected increase in care-related spending could even reach 4 p.p. of GDP between 2013 and 2060.

4. In light of the updated age-related expenditure projections and the current economic situation, the Council, while welcoming recent reforms in many Member States, REAFFIRMS that there is a need to continue appropriate policy action in the EU in all age-related areas, notably pension, health and long-term care reforms while taking into account country specificities, and to avoid measures resulting in the reversal of sustainability enhancing reforms already undertaken. This entails a prompt implementation of the Country Specific Recommendations issued under the European Semester and of the three-pronged strategy for addressing the economic and budgetary consequences of ageing, i.e. by reducing government debt, raising employment rates and productivity, and reforming pension, health care and long-term care systems.

5. The Council HIGHLIGHTS specifically that further steps still need to be taken by Member States, though to varying degrees, to raise the effective retirement age, including by avoiding early exit from the labour market and by linking the retirement age or pension benefits to life expectancy. Moreover, the Council, recalling its Conclusions of 7 December 2010, INVITES Member States to balance the need to provide universal health care and long-term care, meet an increasing demand related to an ageing population, as well as growing patient expectations due to technological development 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 sound and necessary reforms in order to achieve a more efficient use of public resources as well as the provision of high quality health and long term care.

6. The Council INVITES the Commission to factor these findings related to ageing challenges and other relevant information including updated estimates of nearer-term potential GDP growth[1] into its analysis and surveillance under the European Semester, and to take account of its implications in all relevant fields of economic policy coordination in the EU.

7. The Council INVITES the Commission to undertake its regular in-depth overall assessment of the sustainability of public finances by the end of 2015 using this set of comprehensive and comparable updated projections. The Economic Policy Committee should on the basis of the assessment report back to the Council.

8. The Council INVITES the Economic Policy Committee to update, on the basis of new population projections to be provided by Eurostat, in close cooperation with the National Statistical Institutes (NSIs), its analysis of the economic and budgetary implications of population ageing by the autumn of 2018. Moreover, the Council INVITES Eurostat to systematically provide annual updates of their population projections, in particular as regards migration flows, to be used over the short to medium term forecast horizon."

1 On April 1st 2015 the EPC endorsed a revised approach to projecting population growth for the purposes of potential GDP estimation for Ireland, Latvia and Lithuania.

FOLLOW-UP TO G20 FINANCE MEETING

The Council took note of the outcome of the G20 meeting of finance ministers and central bank governors held in Washington D.C. on 16 and 17 April 2015.

It asked the Economic and Financial Committee to prepare the next meeting of G20 finance ministers and central bank governors, to be held in Ankara, Turkey, on 4-5 September 2015.

The second G20 finance ministerial meeting under Turkish presidency focused on global economic developments, G20 growth strategies, investment, IMF reform, financial sector reforms and international tax issues.

OTHER BUSINESS

The Council took stock of ongoing work on financial services dossiers.

MEETINGS IN THE MARGINS OF THE COUNCIL

– ***Eurogroup***

Ministers of the euro area member states attended a meeting of the Eurogroup on 11 May 2015. They were briefed on discussions on a comprehensive list of reforms in Greece, and discussed the economic situation in the light of the Commission's spring economic forecast. They also looked into inflation and exchange rate developments. Ministers shared their experiences in strengthening fiscal frameworks, and discussed how to improve economic governance in the euro area. The Eurogroup also welcomed progress made by Ireland on fiscal, financial and structural issues, reported in the third post-programme surveillance report (following exit from its macroeconomic adjustment programme).

Main results of the Eurogroup meeting

– ***Ministerial breakfast meeting***

Ministers held a breakfast to discuss the economic situation They also took stock of work on flexibility under the EU's Stability and Growth Pact and on financial assistance to Romania.

– ***Economic and financial dialogue with the Western Balkans and Turkey***

Ministers met their counterparts from the Western Balkans and Turkey for a working lunch. Joint conclusions were issued.

Joint conclusions

OTHER ITEMS APPROVED

European Economic Area

EEA Council meeting

The Council took note of preparations on a meeting of the EEA Council to take place in Brussels on 18 May 2015.

Enlargement

Albania

The Council approved the EU's common position ahead of the seventh meeting of the Stabilisation and Association Council between the EU and Albania, in Brussels on 18 May 2015.

Turkey

The Council established the EU's position for the 53rd meeting of the EU-Turkey Association Council, in Brussels on 18 May 2015.