



COUNCIL OF  
THE EUROPEAN UNION



## **Contribution by the Council (Economic and Financial Affairs) to the Spring European Council conclusions**

*2847th ECONOMIC and FINANCIAL AFFAIRS Council meeting  
Brussels, 12 February 2008*

The Council adopted the following conclusions:

### **1. Continued economic growth but risks to the downside**

While real GDP for the EU in 2007 increased by 2.9%, it is expected that economic growth in 2008 will moderate, but should remain near potential. Ongoing financial turmoil, the slowdown in the US and continued high oil and commodity prices have sharpened downside risks and external imbalances are emerging in some Member States. However, despite a less favourable environment and increasing uncertainty, the EU has solid fundamentals which underpin growth. In 2007, the overall budgetary situation improved markedly also due to cyclical conditions. Despite a temporary hump in inflation largely owing to oil and food price increases, it is important that inflation expectations remain well anchored and broad-based second-round effects should be avoided. Employment has continued to increase considerably, with the employment rate forecast to move from 64.4% in 2006 to 66.2% by 2009. Labour productivity has improved somewhat but remains a challenge for the EU.

In the current context, it is key to avoid complacency and sustain reform efforts through the full implementation of the National Reform Programmes and the Integrated Guidelines for Growth and Jobs. EU economic and financial policies should be geared towards ensuring macro-economic stability, taking up the opportunities of globalisation and addressing the longer-term challenges ahead including ageing populations and climate change. The EU budgetary framework, as defined by the revised Stability and Growth Pact, gives the appropriate tools to cope with the current situation.

The overall budgetary situation in the EU has improved as a number of Member States have consolidated in good times. In these cases, there is the necessary room for manoeuvre for automatic stabilisers which are large in Europe to play, if downside risks were to materialise. At the same time, action has been reinforced to ensure the stability of financial markets in the context of recent financial turbulence. A more challenging economic environment reinforces the case for reform as

set out in the Integrated Guidelines for Growth and Jobs so as to sustain solid economic growth. Structural reforms and appropriate co-ordination of policies play an essential role in helping economies to withstand possible adverse developments in the global economy and to adjust to and cope with the shocks and pressures of the recent financial turbulence and heightened economic uncertainty.

## **2. Structural reforms for Growth and Jobs: focusing on implementation in Member States and at the Community level**

The Council (Economic and Financial) welcomes the presentation by the Commission of the Strategic Report on the Lisbon Strategy for Growth and Jobs, and the Single Market Review. It broadly shares the Commission's assessment that, although further reforms are needed, the progress made in the implementation of structural reforms and in completing the Single Market is encouraging. The main focus of the new 2008-2010 cycle of the Strategy should continue to be on implementation rather than setting new targets. The four priority areas for reform agreed by the European Council - knowledge and innovation; unlocking the business potential; investing in people and modernising labour markets; and energy and climate change - continue to provide the right framework for reform. The Integrated Guidelines remain valid and should not be changed. Their implementation can help improve the ability of Member States to adapt to rapid changes, and prioritise and integrate policies. National ownership of the Strategy, which lies at the core of its existing governance, should be further enhanced. The Union's external policies, together with each Member States' policies, also need to be harnessed to respond to the evolutions of the global economy and contribute to stability based open markets and competition.

As the second cycle of the re-launched Lisbon Strategy for Growth and Jobs begins, it is now of key importance to maintain the momentum and step up reform efforts to further increase productivity growth and employment by strengthening Europe's human capital, improving the functioning of labour markets and migration policies, as well as promoting innovation, competition and business-friendly regulation especially by further progress towards the EU administrative burdens reduction target. Continued labour market reforms are needed to make work pay and increase labour participation and incentives to work as well as labour mobility and implement the agreed common principles on flexicurity. To further enhance multilateral surveillance, Member States are invited to update their National Reform Programmes with detailed and concrete actions addressing their specific policy response to the Integrated Guidelines and Country-Specific Recommendations. Similarly important is to develop a clear methodology for the monitoring and evaluation of reforms.

Action at the Community level should complement, facilitate and strengthen policy action at Member State level in the four priority areas. The Council therefore welcomes the launch of a new Community Lisbon Programme. Also the forthcoming full, wide-ranging review of the Community budget, in line with the Conclusions of the European Council of December 2005, will offer an important opportunity to make progress towards our common goals. In response to the Strategic Report by the Commission, and the Single Market Review, the following priorities appear of particular relevance to maximise the impact on growth and jobs – in annex to this contribution, the Council sets out in more detail its views on the Commission's proposal for the updated Community Lisbon Programme.

- **Investing in people, knowledge and innovation is a key priority for the European Union and its Member States.** Investing more effectively in human capital and providing favourable and efficient framework conditions for innovation can bridge and facilitate the movement towards a "knowledge-based economy", create more and better jobs and contribute to sound fiscal positions. The best way to address the challenges of globalisation and reap the opportunities it provides is by helping people into work and enhancing their productive

potential by investing in human capital in a life-cycle perspective, and facilitating the mobility of students, researchers and university teaching staff, which puts the quality of education and skills centre stage.

- **The Single Market is a crucial driver for enhancing living standards of European citizens and Europe's competitiveness in the globalised economy.** Making further progress by targeting action where it will have maximum impact, particularly in network industries, services and innovation, is a key priority also to support a business-friendly single market. A better monitoring of market developments could help prioritise action in markets where there are genuine and significant barriers to market functioning and competition. Rapid and effective transposition and implementation of the Services Directive is crucial. The Council broadly supports the initiatives identified by the Commission in the area of retail financial services which are important to promote growth and benefit consumers. Due attention needs to be paid to achieving well-functioning integrated product and labour markets by ensuring the five freedoms. Reforms of taxes and benefits affecting the labour supply are of high priority. The Council also stresses the importance of making full use of competition policy at EU and Member State level to enhance the effectiveness of the Single Market. European electricity and gas markets remain far from functioning well or being integrated fully. Their efficient operation is essential to the wider economy, and further market integration and security of energy supply including the external dimension, adequate interconnections in particular for isolated energy markets and increased effective competition should help deliver significant economic benefits and contribute to achieve climate policy objectives. In line with the calls of the March 2007 European Council, more effective separation of supply and production activities from network operations (unbundling) and providing fair network access should be ensured. The necessary directives should be adopted swiftly. National rules on taxation differ between Member States. The functioning of the Single Market may be improved through continuing efforts to tackle tax fraud, eliminate harmful tax competition and through strengthened co-operation on taxation between Member States and, where appropriate, at European level, while respecting national competences. The Council will continue to work in this area, including addressing obstacles to the Single Market.
- In the context of transforming Europe into a sustainable and energy-efficient low carbon economy, progress towards reaching agreed policy objectives of promoting environmental sustainability and increasing the security of supply and the availability of reliable and affordable energy is essential. It is important to develop market-based instruments to reach energy and climate policy objectives in a cost-effective and flexible way. The sooner the EU acts to reach agreed targets, the easier it will be to avoid adverse impacts on economic growth over the long term. It is critical to the delivery and credibility of those targets to ensure that the transition to a low-carbon economy is handled in a way that ensures sound and sustainable public finances, economic growth and competitiveness and is subject to rigorous post-implementation evaluation. Market-based instruments, such as the EU Emissions Trading Scheme or taxation, together with the promotion of safe and new clean technologies, should be more broadly applied to remain the centrepiece of Europe's efforts to reduce its greenhouse gas emissions. The Council reaffirms the Manchester agreement that distortionary fiscal and other policy interventions that prevent the necessary adjustments should be avoided as responses to oil price hikes. Transparency on European oil stocks should be improved.

### 3. Public finances should contribute to macro-economic stability

The budgetary situation has improved significantly in most EU Member States underpinned also by favourable cyclical conditions. Now there is a need to make sure that the positive momentum of fiscal adjustment towards achieving the medium-term objectives and overall sustainability is maintained. The Council is committed to ensuring full implementation of the Stability and Growth Pact. Against this background:

- Member States not yet at their **medium-term objective** (MTO) should reduce their deficits and debt in line with the requirements of the Stability and Growth Pact. Countries that have reached their MTO should maintain their structural position and all countries not yet at their medium-term objective (MTO), should speed up the pace of deficit and debt reduction and allocate possible higher-than-expected revenues to this objective. National fiscal rules and institutions, including multi-annual fiscal frameworks, can play an important role in the attainment of sound budgetary positions.
- The **long-term sustainability of public finances** should be safeguarded in line with the three-pronged EU Strategy of (i) reducing public debt; (ii) raising employment rates and productivity; and (iii) reforming pension- and health and long-term care systems. Long-term fiscal sustainability, should be taken into account in the MTOs on the basis of the new long-term budgetary projections in 2009, to be established and agreed by the Council, paying due attention to both budgetary and structural reform efforts.
- The **quality of public finances** needs to be improved by raising efficiency and effectiveness of public expenditures and revenues and favouring measures in public budgets that promote productivity, employment and innovation. Raising the efficiency and effectiveness of spending including on social protection, health and education is essential to create room to cope with the pressures on sustainability and the transition to the knowledge-based economy. Progress should be made on the measurement and evaluation of the quality of public finances including in the area of public administration modernisation.

### 4. Improving the efficiency and stability of financial markets

Improved efficiency and stability of the EU financial system are needed to ensure sustainable economic growth. The recent financial market turbulence highlights the importance of effective supervision as well as appropriate regulatory and financial stability arrangements and their implementation, which is crucial for supporting investors' confidence. The Council therefore stresses the need to:

- **improve the efficiency of EU arrangements for financial stability** in line with the agreed roadmaps, including by enhancing co-operation between authorities in different Member States. Also, the underlying causes of the recent market turbulence should be identified with a view to preventing the possibility of its recurrence in the future. It is important to improve risk management, in particular regarding liquidity issues, market transparency, and valuation standards of complex financial instruments and vehicles, examine the role of credit rating agencies, consider possible improvements to Deposit Guarantee Schemes in the EU, and enhance the co-operation with international partners;

- **improve the prudential and supervisory framework** for financial institutions and markets by clarifying the role of level 3 supervisory Committees, and enhancing the supervisory co-operation and the efficiency of the supervision of large financial groups. This includes making swift progress in developing risk-oriented capital requirements frameworks for insurers and re-insurers (adoption of Solvency II Directive), taking into account established business models where appropriate, and further improving the prudential framework for credit institutions (enhancement of the Capital Requirements Directive);
- **further integrate financial infrastructure across the EU**, by making progress on clearing and settlement, including the full implementation of the Code of Conduct, and introducing further measures where necessary to ensure consistency in the requirements for prudential safety and soundness of the post-trading sector, and progress on the removal of the barriers identified in the Giovannini Report; as well as implementing the Payment Services Directive, which aims to harmonise the framework for payment service providers and should also provide the legal underpinning for a Single-Euro-Payment-Area (SEPA);
- **Co-operate at international level to enhance the efficiency and stability of international financial markets, enhancing convergence towards sound prudential frameworks and transparency standards;**
- **remove barriers to the further development of European risk capital markets**, and improve the access for SMEs to micro-credit and mezzanine finance including through the European Investment Bank Group (EIB and EIF).

## 5. Fostering the success of the European Economic and Monetary Union (EMU)

Ten years after the decision to move to the third stage of EMU marks a good opportunity to assess its achievements and reflect on its future functioning. EMU has played a key role in accelerating economic integration in Europe and making Euro area countries more resilient to shocks. Macroeconomic stability has improved markedly, and the Euro has become one of the leading global currencies. However, Euro area Member States need to continue to adapt their economies and to further increase their adjustment capacity to shocks with a view to avoiding diverging trends in competitiveness. Tackling the Euro area's common challenges in a co-ordinated manner will provide further benefits, given the spill-overs and interactions across euro area Member States.

In some Member States, the response of prices and costs to economic developments and disturbances is slow or very limited. This can be explained by excessive price and wage rigidities and insufficient labour mobility, reflecting inter alia an insufficient degree of competition in the non-tradable sector.

The implementation of further structural reforms as well as sound budgetary policies are all the more important for euro-area Member States. In particular, euro-area Member States that have not yet reached their MTO should ensure an annual improvement of their structural balance of at least 0.5 % of GDP as a benchmark. In April 2007, the Eurogroup agreed that "taking advantage of the favourable cyclical conditions, most euro-area members would achieve their MTOs in 2008 or 2009 and all of them should aim for 2010 at the latest." It is also necessary to continue improving the quality of public finances by reviewing public expenditures and revenues and by modernising public administration. Euro area countries also need to pursue labour market reforms and to increase productivity and competition in product and services markets, in particular in financial services.

*Ecofin Council views  
on the Commission's proposal for a Community Lisbon Programme*

The EU Strategy for Growth and Jobs bears a strong Community dimension as it can complement and strengthen actions taken at a national level, while respecting the principle of subsidiarity. Based on the Commission's proposal for the next Community Lisbon Programme (CLP), the Council (Economic and Financial Affairs) has identified the objectives and actions which it considers to be of the highest priority. Naturally, as and when individual actions are tabled, the EU Institutions should examine them in detail and in line with the appropriate procedures. The Institutions should annually assess the implementation of the Community Lisbon Programme.

In particular the Ecofin agrees:

- that the Community needs to renew its Social Agenda, and to improve its capacity to anticipate EU-wide labour market trends and skills requirements by conducting a European review of skills. The Ecofin also agrees that it is important to effectively implement the European Qualifications Framework to enhance the transparency, recognition and comparability of qualifications, as well as implement appropriate measures to increase the portability of pensions and other social rights across the EU. *(CLP Objective 1)*
- that when designing migration policies and cooperation among Member States, for both legal and illegal migration, cross-country spill over effects and important economic and fiscal dimensions need to be considered, as well as skills-related labour market requirements and trends, whilst fully respecting Member States' competences in this field. *(CLP Objective 2)*
- that the Community should continue to pursue an integrated policy approach geared towards the life-cycle of SMEs. On the proposal to adopt a European Small Business Act initiative, setting out the principles and concrete measures, underpinned by a strong evidence base, to support SMEs throughout their life-cycle, actions should focus on developing the right framework conditions, including ensuring better access to public procurement, furthering better regulation principles and identifying barriers to SME growth and participation in the Single Market and internationally. The Ecofin agrees with undertaking a screening of the *acquis communautaire* from an SME perspective and introducing exemptions, where justified, from administrative requirements of EU legislation. *(CLP Objective 3)*
- with the objective to move towards the target to reduce EU administrative burdens by 25% by 2012, to work towards improved impact assessment and implement an ambitious simplification programme. The Ecofin also agrees that it is important to ensure the full implementation of the rolling simplification programme for existing Community legislation to remove unnecessary burdens on business, and to ensure the full implementation of the Action Programme for reducing administrative burdens related to EU legislation. All Fast Track Actions scheduled for 2007 should be finalised by the 2008 Spring European Council. In addition, the Ecofin supports the identification of further fast track measures and priority being placed on making concrete burden-reducing proposals in the thirteen priority areas and setting an ambitious timetable for delivery. Impact assessment should be improved at all stages of new Community legislation. *(CLP Objective 4)*

- that a competitive Single Market is a key driver of economic welfare for citizens and a means to increase the economic adjustment capacity of European countries as well as their resilience to shocks, especially within EMU. The Community should strengthen the single market and competition, using more flexible policy instruments, and improving implementation and enforcement. The Ecofin calls for effective follow-up to the Commission's Single Market Review with a focus on actions needed to boost growth and jobs by removing remaining barriers to the four freedoms, increase competition in services and network industries, allow SMEs to grow and operate cross-border as they do on their domestic market, and take further steps to improve financial integration in the retail financial services market. Sector and market monitoring should be enhanced to identify significant barriers to competition. A further strengthening of the Single Market should be a key element of the next Lisbon cycle in order to allow consumers and SMEs in particular to take full advantage of the opportunities of the Single Market. In this context it is crucial to improve the independence of market regulators. The Services Directive should be comprehensively, timely and effectively implemented. The achievement of the Single Euro Payment Area (SEPA) should be ensured in line with the Council conclusions of 22 January, and competition in retail financial services increased. Improving cross-border supervisory and crisis management arrangements are of key importance. The Ecofin has identified a list of priorities with central banks and national supervisory authorities to achieve this; however, this important agenda should not be directly included in the Lisbon Strategy. *(CLP Objective 5)*
- that innovation is a major source of economic growth in knowledge-based economies. Community action in this field can add value by achieving economies of scale, internalising externalities and creating networks and systems. In this context, the creation of a genuine European Research Area and facilitating the mobility of students, researchers and university teaching staff can help. Above all, private sector involvement and framework conditions for innovation should be improved, including the quality of tertiary education, the removal of barriers to the development of European risk capital markets and the improvement of investment readiness and access to finance for SMEs. The Ecofin also support enhanced intellectual property rights, in particular the improvement of the patent litigation system and overcoming the remaining obstacles to the creation of a Community patent with a view to reducing the cost of patents in Europe. *(CLP Objective 6 and 7)*
- that it is important to achieve a fully functioning, competitive and interconnected internal market for electricity and gas, whilst ensuring security of energy supply. The EU Energy and Climate Change package must be delivered in a cost effective way, in terms of both budgetary and socio-economic costs, enabling European industry to remain competitive. In particular the impact on energy intensive industries exposed to international competition should be addressed and examined further. The EU ETS should remain the centrepiece of Europe's efforts to reduce its Greenhouse Gas emissions alongside other market-based instruments. The Ecofin supports the promotion of an industrial policy geared towards removing barriers to more sustainable production and consumption, focusing on renewable energies and low-carbon and resource-efficient products, services and technologies. *(CLP Objective 8 and 9)*
- that in the light of both the opportunities and challenges of increasing globalization, the EU should continue to press for increasingly open markets, which would lead to reciprocal benefits. The EU should strive for the successful conclusion of the Doha multilateral trade negotiations, while negotiating bilaterally with key trading partners to open up new opportunities for international trade and investment, promote integration with neighbouring and candidate countries, improve market access focussing on countries and sectors where significant barriers remain, and create a common space of regulatory provisions and standards. The Ecofin also agrees with the following actions:

- Potential use of Community trade instruments, where appropriate and justified, as follow up to the Commission’s annual reporting on market access.
  - To fully develop the potential of the Transatlantic Economic Council and work with other key trading partners to create common space of compatible regulatory provisions and standards.
  - To improve the effectiveness of the IPR enforcement system against counterfeiting, including through a multiparty Anti-counterfeiting Agreement (ACTA).
- (CLP Objective 10)*
-