Council recommendation on the economic policy of the euro area

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 136 in conjunction with Article 121(2) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies [1], and in particular Article 5(2) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances [2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) The economic expansion in the euro area continues and has become increasingly broad-based across countries. The recovery is increasingly driven by domestic demand, with private consumption as the key driver of growth and investment picking up. Employment continued to increase throughout 2016 and the first half of 2017. The unemployment rate has seen a significant reduction, though it is still higher than in 2008. The recovery in the euro area is nonetheless characterised by subdued core inflation and wage growth a large current account surplus and persistently low though improving investment ratios. In particular, subdued wage growth appears to be due to remaining labour market slack in some economies, low inflation expectations feeding in wage negotiations and low productivity growth. Real household income has increased but remains below 2008 levels in many countries. Divergences across euro area countries in terms of GDP per capita and unemployment rates persist. The rates of long-term unemployment and youth

unemployment are still high while poverty, social exclusion and inequality remain a serious concern in several Member States.

(2) Overall, on the basis of the reading of the economic indicators for the euro area, there appears to be a case for further supporting demand, investment and wage growth without incurring the risk of triggering inflationary pressures, while fostering internal and external rebalancing and economic and social convergence and increasing potential growth. At the same time, signs of newly emerging imbalances, e.g. in the housing market in some Member States, need to be closely monitored [3].

(3) Significant imbalances persist in the euro area. While much progress has been achieved among net debtor countries in correcting their external imbalances, large current account surpluses remain in some creditor countries, reflecting an overall shortfall in aggregate demand. These generate a surplus for the euro area of 3.3% of GDP in 2016, projected to decline to 2.9% of GDP in 2019. The net international investment positions of the most indebted Member States have been improving at a slow pace and sustained rebalancing efforts are still needed. Countries that had large current account deficits for a long time still have large negative net international investment positions that are generally coupled with large stocks of private or government debt and constitute a vulnerability. At the same time, efforts are also needed in large current account surplus countries to support domestic demand and potential growth and thereby the rebalancing of the euro area.

(4) Wage growth and job creation contribute to the economic recovery in the euro area by supporting aggregate demand, reduce inequalities and help to ensure high standards of living in the area. Efficient wage setting mechanisms should ensure that wages are differentiated depending on country, sector specific conditions and taking due account of changes in productivity. Implementing structural reforms that increase productivity and improving the quality and composition of public expenditure with a view to supporting investments in all countries, promoting wage growth respecting the role of social partners, and stronger demand dynamics in net creditor countries and implementing measures that contain growth in unit labour costs and aim to improve their competitiveness in net debtor countries would help accelerate the rebalancing process in the euro area.

(5) Consistency and balance in the overall macroeconomic policy mix of the euro area, including monetary, fiscal and structural policies, is crucial to ensure robust and sustainable economic growth. In recent years, monetary policy which resorted to new unconventional tools to achieve the ECB’s medium-term inflation objective, thereby also supporting growth and job creation. The monetary policy stance and economic developments call for a focus on fiscal and structural policies. To support the growth potential of our economies, appropriate fiscal policies and focus on structural reforms are needed.

(6) A strong coordination of national fiscal policies, based on common rules, is essential to arrive at an appropriate aggregate fiscal stance for the euro area and for the proper functioning of the monetary union. The

common fiscal rules are geared towards pursuing debt sustainability at the national level, while providing room for macroeconomic stabilisation. The fiscal stances for the Member States and at aggregate level for the euro area have hence to balance the objectives of ensuring the long-term sustainability of national public finances and the short-term macroeconomic stabilisation at country and euro area level. In the light of the current, broad-based economic growth in the euro area, albeit with the persistence of crisis legacies in some areas, a broadly neutral fiscal stance at aggregate level for the euro area in 2018 appears still appropriate. An appropriate differentiation of fiscal efforts across euro area Member States, taking into account fiscal space and spillovers across countries, is required. At the same time, the improving economic conditions call for the need to rebuild fiscal buffers, while continuing to strengthen the growth potential of our economies.

(7) A decisive improvement in the composition and management of national budgets, on both the revenue and expenditure sides, including by shifting resources towards tangible and intangible investment, would increase the growth impact of public budgets and raise productivity in the longer term. Improvements in the functioning of national fiscal frameworks and well-managed spending reviews support the pursuit of credible and growth-friendly fiscal policies.

(8) A well-designed structure of taxation is key to promote growth and employment, as well as to contribute to reduce inequalities. Simplifying and modernizing tax systems and addressing tax fraud, evasion and avoidance are essential to make tax systems more efficient and fairer. This can free resources for public investment and, *inter alia*, education and healthcare and contributes to supporting overall investment, quality employment and economic and social convergence. In particular, measures against Aggressive Tax Planning (ATP) are essential to secure government revenues, impede distortions of competition between firms, preserve social cohesion and fight increasing inequalities. The Common Consolidated Corporate Tax Base (CCCTB) would contribute to the fight against tax avoidance, while improving the Single Market for businesses.

(9) Structural and institutional features of labour and product markets and well-functioning public administrations are important determinants of economic resilience as well as cyclical, real and social convergence across euro area Member States. Resilient economic structures prevent shocks from having significant and long-lasting effects on income and employment within Member States and across the euro area. In this way, they reduce economic fluctuations and provide a favourable environment for sustainable and inclusive growth. Better coordination of the implementation of structural reforms, in particular those prescribed in the country-specific recommendations, can create positive spillovers in the Member States and strengthen their positive effects.

(10) Well-functioning labour markets and social protection systems are important foundations for inclusive economic growth, for reduced inequality and for the resilience of national economies and the euro area as a whole. With the aim to achieve upward convergence in this domain, the *European*

Pillar of Social Rights which was proclaimed by the European Parliament, Council, and the Commission on 17 November 2017 sets out 20 key principles, falling into three broad chapters: (i) equal opportunities and access to the labour market; (ii) fair working conditions; and (iii) social protection and inclusion.

(11) Despite progress with reforms to improve the adjustment capacity of labour markets, significant differences persist across the euro area, which continue to challenge its smooth functioning. Well-designed labour market policies that are fully integrated with social protection systems can support labour market transitions and reintegration , reduce labour market segmentation, provide effective automatic stabilisation and promote equal opportunities for all and economic and social convergence. Well-designed working-time arrangements can help mitigate shocks. Effective and timely activation of jobless people who can participate in the labour market can be achieved by providing individualised support for job search, training and re-qualification, while protecting those unable to participate. Emerging new forms of employment and new types of contracts bring along challenges related to job security and social protection. Against this background, employment protection legislation needs to provide for fair and decent working conditions for all workers.

(12) Effective social protection systems are crucial to promote inclusive labour markets, ensure adequate income support and appropriate social support through access to quality services. Pension reforms and work-life balance policies are also key to foster labour market participation. Unnecessary restrictions to job, sectoral and geographical mobility of workers in employment and social protection systems should be lifted.

(13) Access to high quality education and training is vital to ensure equal opportunities and address skills mismatches. Adequate investments in human capital through education and training systems that improve lifelong learning and ensure that skills levels match present and future labour market needs play a key role in improving the economy’s adjustment capacity and real convergence in the longer run. Investment in skills can also drive innovation and increase productivity and competitiveness, in addition to ensuring social inclusion and mobility.

(14) Product market reforms that increase competition and reforms that improve the business environment and the quality of institutions (including an effective justice system that facilitates contract enforcements) foster economic resilience in Member States and the euro area as a whole. Further integration in the Single Market has proven to be the major engine of growth and convergence between Member States. The Single Market still holds considerable unexploited potential and significant progress is needed to complete it. Timely implementation and better enforcement of existing legislation are also key to reaping the benefits of the Single Market.The Single Market for services (including financial, digital , energy and transport) is the pending challenge. Attention should nonetheless also be focused on the goods markets to avoid potential market segmentation. The Digital Single Market should contribute to completing the legal environment to speed up the digitalisation of economic activities as a necessary step to

improving the performance of product markets and global competitiveness. Completing and implementing the various Single Market strategies by 2018 therefore remains the shared objective.

(15) While the overall robustness of the euro area banking sector has increased since the crisis and bank lending started to rise again, vulnerabilities remain and need to be addressed. Banks are confronted with low profitability. The need to adapt banks' business models, the low interest rate environment and increasing competition from other forms of finance continue to exert pressure on banks' profitability. Further efforts are therefore needed to ensure their long term sustainability. NPL ratios have stabilised in nearly all more affected euro area Member States or are on a declining trend, but progress remains slow and uneven across banks. High NPL ratios hinder banks' ability to lend, transmission of monetary policy and economic adjustment capacity. They are also a source of vulnerability for the banking system as a whole and need to be addressed at both EU and national levels, as set out in Action Plan that was agreed by the Council in July 2017. As announced in its Communication on Banking Union of 11 October 2017, the Commission is currently working to deliver a comprehensive package of measures to reduce the current stock of NPLs as well as to reduce the risk of future build-up of NPLs.

(16) Strengthening the institutional architecture of EMU requires, as a matter of priority, completing the Banking Union and further progressing on the Capital Markets Union. The establishment of the Banking Union has made significant advances, but it remains unfinished. In line with the roadmap of June 2016, as set out in the Council Conclusions of 16 June 2016, work is set to continue to complete the Banking Union with regard to risk reduction and risk sharing, including a European Deposit Insurance Scheme and making the common backstop for the Single Resolution Fund operational at the latest by the end of the Fund's transitional period as defined in Regulation (EU) No 806/2014 of the European Parliament and of the Council. The Commission's recent Communication on completing the Banking Union attempts to set out a path on how an agreement on completing the Banking Union can be achieved. The lack of a common deposit insurance scheme and of a common backstop for the Single Resolution Fund hamper the ability of the Banking Union to sever the link from banks to sovereigns. Efforts to further reduce risk and improve risk management in banks must continue. In this context, swift work towards agreement on the regulatory package proposed by the Commission in November 2016 is crucial, as well as further advances in reducing non-performing loans and working towards progress in risk sharing in line with the Ecofin roadmap from June 2016.

(17) The Commission's White Paper on the future of Europe outlined possible scenarios for the future of the Union. The Commission further contributed with a series of reflection papers, among which the Reflection Paper on the Deepening of EMU, building on the Five Presidents' Report, which proposed an overall vision and sequencing of steps for the completion of the EMU architecture. The Commission made additional proposals in autumn 2017.

(18) The Employment Committee and the Social Protection Committee have been consulted on the employment and social aspects of this recommendation.

HEREBY RECOMMENDS that euro area Member States take action, individually and collectively, within the Eurogroup in the period 2018–2019 to:

1. Pursue policies that support sustainable and inclusive growth and improve resilience, rebalancing and convergence. Make significant progress towards completing the Single Market, particularly in services, including financial, digital, energy and transport, and by implementing relevant product market reforms at national level. Given the positive cyclical conditions, all Member States should prioritise reforms that increase productivity and growth potential, improve the institutional and business environment, remove bottlenecks to investment and foster innovation, support the creation of quality jobs and reduce inequality. Member States with current account deficits or high external debt should additionally aim at containing growth in unit labour costs and seek to improve their competitiveness. Member States with large current account surpluses should additionally create the conditions to promote wage growth respecting the role of social partners and implement as a priority measures that foster investment, support domestic demand and growth potential, thereby also facilitating rebalancing.
2. Deliver the planned, broadly neutral overall fiscal stance for the Euro Area, contributing to a balanced policy mix. Strike an appropriate balance between ensuring the sustainability of public finances, in particular where debt ratios are high, and supporting the economy, in full respect of the Stability and Growth Pact and taking into account fiscal space and spillovers across Member States. Use the improving economic conditions to rebuild fiscal buffers, while continuing to strengthen economic growth potential. Ensure the effective functioning of national fiscal frameworks. Member States should pursue policies which support investment and improve the quality and composition of public finances, also by making use of spending reviews and adopting growth-friendly and fair tax structures. Member States should take and implement measures to reduce debt bias in taxation and fight aggressive tax planning to ensure a level playing field, provide fair treatment of taxpayers and safeguard public finances and stability within the euro area. This includes continuing work on the Common Consolidated Corporate Tax Base (CCCTB).
3. Implement reforms that promote quality job creation, equal opportunities and access to labour market, fair working conditions, and support social protection and inclusion. Reforms should aim at: (i) reliable labour contracts, which provide flexibility and security for employees and employers, combined with adequate support during transitions and avoiding labour market segmentation; (ii) quality, efficient and inclusive life-long education and training systems, which aim at matching skills with labour market needs; (iii) effective active labour market policies that foster labour market participation; (iv) sustainable and adequate social protection systems that contribute throughout the life cycle to social inclusion and labour market integration and are responsiveto new types of employment and employment relationships; (v) smooth labour mobility across jobs, sectors and locations; (vi) effective social dialogue and wage bargaining at the appropriate level according to national specificities; (vii) shifting

taxes away from labour, particularly for low-income and second earners.

4. In line with the Council (ECOFIN) roadmap of June 2016, continue work to complete the Banking Union with regard to risk reduction and risk sharing, including a European Deposit Insurance Scheme, making the common backstop for the Single Resolution Fund operational as agreed. Further strengthen the European regulatory and supervisory framework to prevent the accumulation of risks. Take measures to tangibly accelerate reduction of the levels of non-performing loans on the basis of the agreed Council (ECOFIN) Action Plan and promote orderly deleveraging in Member States with large stocks of private debt. Further develop the Capital Markets Union to support growth in the real economy while safeguarding financial market stability.
5. Make swift progress on completing the economic and monetary union, taking into account the Commission initiatives launched in autumn 2017, in full respect of the Union's internal market and in an open and transparent manner towards non-euro area Member States.

[1] OJ L 209, 2.8.1997, p. 1.
[2] OJ L 306, 23.11.2011, p. 25.
[3] See Alert Mechanism Report 2018.

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EU modernises its trade defence instruments

Together with the new anti-dumping methodology, this is the first major overhaul of the EUs anti-dumping and anti-subsidy instruments since 1995.

The changes to the EU's anti-dumping and anti-subsidy regulations represent a balanced result, taking into account the interests of EU producers, users and importers alike. They will make the EU's trade defence instruments faster, more effective and more transparent. They make the EU better equipped to deal with the challenges of the global economy and unfair competition from imports. At the same time, they bring the EU trade defence system closer to the needs of smaller companies. Finally, trade unions that represent workers whose jobs are at stake due to unfair competition from abroad can now fully participate in these investigations.

The overhaul covers a broad range of aspects relating to the way the Commission carries out trade defence investigations for the benefit of EU producers and other businesses, including importers and downstream industries that depend on imports.

Why is the EU modernising its trade defence instruments (TDI)?

The EU's trade defence instruments have remained largely the same since the creation of the World Trade Organisation (WTO) in the mid-nineties. They have proven effective but needed an update. The aim of this modernisation is to ensure the continued effectiveness of the EU's TDI in the face of new global challenges, for instance various global overcapacities in products like steel and aluminium.

The agreement builds on the proposal presented by the Commission in 2013 aiming at providing Europe's trade defence instruments with more transparency, faster procedures and more effective enforcement.

When will the new rules apply?

The European Parliament's international trade committee endorsed this agreement on 23 January 2018. The new rules will enter into force once the respective approval procedures within the European Parliament and the Council are finalised. This is foreseen for end of May 2018.

What will be the benefits of the reform?

Amongst the most important changes to the EU's anti-dumping and anti-subsidy legislation are:

- **Faster and more efficient investigations**: provisional measures will be imposed within 7 to 8 months, in comparison to the current 9 months.
- **Possibility to impose higher duties:** this will apply to anti-subsidy cases, as well as anti-dumping cases concerning imports produced using raw materials and energy provided at an artificially low price. This means the rule known as "lesser duty rule" will be adapted. In such cases, the EU will be able to apply the duty rates at the full dumping margin level, provided this is in the interest of the EU as a whole, taking into account the interest of consumers, as much as upstream and downstream industries.
- **Improved injury calculation**: the new rules concerning calculation of the 'non-injurious price', i.e. the price that the industry is expected to have charged under normal circumstances, now better reflect economic reality. They may now take into account the cost of necessary investments, such as in infrastructure or research and development, but also future expenses related to social and environmental standards, for example under the Emission Trading System. Also, the 'non-injurious price' will now assume a minimum profit of 6% that will be included in the calculation, with a higher profit margin possible on a case-to-case basis.
- **Inclusion of social and environmental considerations:** Trade has to be open but also fair. The new rules ensure that our high standards in the EU do not disadvantage European industry in application of trade defence measures. The EU will now for instance take into account the cost of compliance by EU industry with higher social and environmental standards. Furthermore, the EU will normally not accept price undertakings from third countries that have a bad record on core

International Labour Organisation conventions and multilateral environmental agreements. The Commission also intends to review the measures in place in case of changed circumstances concerning social and environmental standards. The Commission’s annual report on trade defence instruments will also include now a section dedicated to sustainability issues.
- **Increased transparency and predictability**: An advance warning of 3 weeks will now be given to companies before duties start being collected. This will allow all companies to adapt to the new situation.
- **Support for EU smaller companies**: EU small and medium-sized companies will now be able to benefit fromstreamlined procedures and support of an SME Helpdesk to make it easier for them to participate in trade defence investigations.The helpdesk for small and medium-sized enterprises (SMEs) will be boosted significantly so that smaller businesses can get practical help and advice from the Commission’s trade defence experts, for example on the requirements for bringing a trade defence complaint. There are also practical changes that will make it easier for SMEs to participate in trade defence investigations. For instance the Commission will release a guide in all EU languages on its trade defence instruments.
- **Closing the loophole related to dumped products shipped offshore:** Trade defencemeasures will now also apply to dumped or subsidised products shipped offshore in the Continental Shelf / Exclusive Economic Zone of the Member States when the consumption of the product is significant. This closes an important loophole in the legislation. The Commission will adopt a technical tool to fully implement this legislative change.

Is this only going to benefit European manufacturing companies?

Trade defence measures are typically a double edged sword and this Commission initiative was designed right from the beginning for the benefit of all types of businesses including importers and downstream users. Their benefits include:

- More transparency in particular with regard to provisional anti-dumping duties: they will get an advance warning of at least three weeks. This is subject to a review after two years which can adjust the advance warning to two or four weeks.

- The Commission will also reimburse duties that have been collected during an expiry review, in cases where such review concludes with the termination of measures.

How does this TDI modernisation package relate to the new anti-dumping methodology that the EU has recently introduced?

Both reforms have aimed at maintaining and improving the effectiveness of the EU’s trade defence instruments in light of the changes in the global economy but cover different aspects. The present trade modernisation package is distinct from the new methodology for calculating the dumping margin.

The changes agreed in TDI modernisation cover a variety of issues relating to

how trade defence investigations are conducted, including the duration of the investigations, better rules concerning the calculation of the non-injurious price and hence the duty levels, increased transparency in particular about provisional duties, as well as help for SMEs.

The new methodology to calculate the dumping margin concerns cases where the exporting country engages in distortive practices in its economy.

This being said, both reforms are equally important in order to ensure the continued effectiveness of the EU's trade defence and preserve a level playing field for EU industry.

Will the lesser duty rule continue to apply?

The lesser duty rule has proven to be effective in the past and it will remain part of the EU's trade defence instruments. However, the rule has been adapted to deal with raw material distortions in anti-dumping cases. In anti-subsidy cases the European Parliament and the Council followed the Commission's proposal to impose the measures at the level of the subsidy margin. Subsidies are particularly distortive of trade. It is not acceptable that exporters benefit from subsidies that are against WTO rules, at the expense of European industry.

More information

Press release on modernisation of EU trade defence of 5 December

New antidumping methodology

EU Trade Defence