COUNCIL OF
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Council conclusions on exit strategies for crisis-related measures in labour and product markets

3003rd ECONOMIC and FINANCIAL AFFAIRS
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The Council adopted the following conclusions:

"Member States have implemented a wide range of temporary measures to respond to the economic crisis and support the emerging recovery under the European Economic Recovery Plan (EERP). The large majority of these measures are consistent with EERP principles of being temporary, timely and targeted and have usefully supplemented the important role of the automatic stabilisers in supporting employment and economic activity during the depths of the crisis.

The Council EMPHASISES that it is important to complement existing principles for exit strategies in the areas of fiscal policy and financial markets with principles to underpin the coordinated withdrawal of short-term measures in labour and product markets. If left in place too long these measures could hinder adjustment processes within and across sectors by distorting price and cost signals and by introducing wrong incentives. The Council NOTES there have been some extensions of temporary measures beyond 2010 and calls for Member States to withdraw these measures as soon as possible.

A credible long-term structural reform agenda is an integral part of any comprehensive exit strategy. The Council further STRESSES that exit strategies in the area of product and labour markets should be accompanied by the phasing in of medium and long term reforms that bolster potential growth and employment, improve competitiveness and support fiscal consolidation efforts. These reforms will be further discussed as part of the Europe-2020 strategy.

The Council AGREES on the following principles for the withdrawal of temporary measures in product and labour markets, while emphasising that country-specific conditions, including the economic situation and different fiscal constraints, should be taken into account. They should also be seen as complementary to and consistent with earlier agreements on fiscal and financial sector exit strategies and the end of the temporary state aid framework in December 2010.

Regarding temporary crisis-related sectoral support measures:
- these should be phased out as quickly as possible given their relatively large budgetary costs and the risks that the continuation of supply side measures may hamper efficient resource allocation and hence distort competition and the functioning of the internal market;
- in view of recent Commission economic forecasts, no new short-term schemes should be introduced nor existing ones extended;
- where they have longer term objectives and are considered for extension, e.g., restructuring, greening or research and innovation, they should continue to be scrutinised under the relevant State Aid rules.

Regarding measures to ease financing constraints:
- withdrawal of temporary schemes to ease financing constraints should depend on the capacity of financial institutions to supply adequate credit to the credit-worthy corporate sector and should be consistent with agreed principles for exit from support schemes in the financial sector and the end of the temporary state aid framework;
- continued careful monitoring is required to prevent the recovery from being hampered by undue credit supply constraints;
- SMEs may continue to be more limited in their access to finance than larger firms even as the recovery takes hold, which should be taken into account when deciding on the withdrawal of measures to address financing constraints given the central role that SMEs play in the restructuring of the economy.

Regarding temporary labour market support measures:
- these should be gradually withdrawn when the recovery is secured. On the basis of the most recent Commission forecasts on growth this could begin with a benchmark of mid-2010 for the EU as a whole, taking into account the historic lag before employment reacts positively to an upturn in economic activity;
- the precise timing of withdrawal should depend on the country-specific situation;
- the gradual phasing out of temporary labour market support measures should be accompanied where necessary by a strengthening of activation, training and other flexicurity policies to facilitate job reallocation and workers' reskilling.

Reduced working time schemes

- the too late withdrawal of measures may carry substantial costs in terms of locking in labour to declining activities, thereby preventing the necessary reallocation of resources, damaging future growth prospects, distorting competition and interfering with the functioning of the internal market.

Temporary increases in the generosity and coverage of unemployment benefits

- temporary measures that increase the generosity and coverage of unemployment benefits and other income support should be phased out in a way fully consistent with the objective of facilitating sectoral reallocation of labour and employment creation, and taking into account the relative level of coverage and benefits in the social insurance system.

On the sequencing of exit strategies, the withdrawal of sectoral support schemes should be prioritised, followed by the withdrawal of labour market support measures when the recovery is secured, and the withdrawal of measures to ease financing constraints based on economic evidence and consistent with other agreed principles for exit strategies as noted above.

There is also a need to ensure that any permanent measures adopted during the crisis are supportive of long term growth and employment and consistent with fiscal consolidation strategies.

The Council therefore invites the Commission to conduct an assessment of the main structural reform challenges and existing bottlenecks facing Member States and report back in May in accordance with the timeline set out by the Europe 2020 strategy."