



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

The Rt Hon. Lord Boswell  
Chairman  
European Union Committee  
Committee Office  
House of Lords  
London SW1A 0PW

15 February 2013

**EM 16671/12 & 16513/12: 2013 European Semester: Alert  
Mechanism Report**

**EM 16669/12: 2013 European Semester: Annual Growth Survey**

Thank you for your letters, dated 22 January 2013, on Explanatory Memorandums 16671/12 and 16513/12 covering the Alert Mechanism Report and on Explanatory Memorandum 16669/12 covering the Annual Growth Survey. Since both of these letters relate to the European Semester process, I shall address both sets of questions below.

**Annual Growth Survey**

You asked whether the Government shares the optimism of the European Commission that the worst of the crisis is over. The Government recognises that Member States and the EU Institutions have already taken unprecedented steps to tackle the crisis. However, much more remains to be done to restore public finances and market confidence and to put the EU back on a sustainable growth path. The 0.6% contraction in euro area GDP in 2012Q4 demonstrates the continued chilling effect the crisis is having on the European economy, including the UK.

You asked for the Government's assessment of whether it is a cause for concern that the priority areas identified by the Annual Growth Survey (AGS) are the same as last year, and whether this points to a lack of progress. You also asked how the Commission's aspirations could be translated into actions to bring about growth.



The Government welcomes the five priority areas set out in the AGS, and considers that a focus on continuity of reform messages and implementation of existing commitments is paramount. In terms of achieving the Commission's objectives on growth and competitiveness across the EU, it should be pointed out that the Commission already holds many of the policy levers required to achieve this. Achieving a genuine European Single Market in services and digital content could add up to €800bn to the EU economy, while completing the EU Free Trade Agreement deals that are underway or in the pipeline could add €250bn to the EU economy.

Regarding your request for specific examples of where "growth-friendly fiscal consolidation" had been achieved in practice, for the UK there are strong commonalities between the policy reform priorities set out in the AGS and domestic reforms to promote growth. As the Commission point out, "sound and sustainable public finances are an essential prerequisite for macroeconomic stability and hence growth". The Government is therefore equipping the UK to compete in the global race by switching current spending to capital investment in science, roads and education, offering support for business and enterprise, as well as reforming the civil service and clamping down on wasteful expenditure.

### **Macroeconomic Imbalances Procedure**

You asked about the Government's general assessment of the Macroeconomic Imbalances Procedure (MIP) one year after its inception. You also asked specifically about the design of the scoreboard, potential improvements, and what tangible benefits the MIP had brought about.

The Government continues to support the MIP as a necessary means to strengthen European economic governance. With the inclusion of a new financial sector indicator for 2013, the Government considers that the scoreboard now broadly captures the potential imbalances that need to be monitored.

Despite being a relatively new procedure, the MIP has proved a useful addition to the European Semester, by highlighting economic policy challenges that Member States across Europe need to address. For instance, it highlights that a majority of Member States are experiencing



high levels of private sector indebtedness, while the 2012 procedure identified both Spain and Cyprus as being Member States in need of particularly urgent reforms.

### **In Depth Review of the UK**

You asked whether the Government is concerned about the UK being subject to an in-depth review (IDR) for the second year running and what steps have been taken following the 2012 IDR. You also asked whether the UK would continue to exceed threshold values in the future and what steps need to be taken to rebalance the economy.

The Government has always been clear that rebalancing the economy is a priority. The Government recognises that the imbalances inherited from the pre-crisis period take time to unwind and is therefore not concerned at being subject to an IDR in 2013. However, it is important to recall that the Alert Mechanism Report (AMR) is a screening device and that being placed in an IDR should not be taken to mean that the UK will be found to have an imbalance. The Government awaits the Commission's assessment, which is due to issue in March.

In terms of specific steps taken to address these issues, the Government has clear and credible fiscal consolidation plans which are essential for maintaining stability in the face of an uncertain global outlook. The plan is working: the deficit is down, private sector jobs are up by over a million and debt interest payments have fallen relative to previous forecasts, while a radical programme of supply-side reforms is expected to rebalance the economy towards investment and exports in the medium term.

The Government's plans for rebalancing are reflected in the independent Office for Budget Responsibility's forecasts, which are forecasting private and government consumption to decline as a share of GDP through the forecast period.

### **European Semester**

You asked about the Government's broad assessment of the effectiveness of the European Semester process, and its impact on policy-making in the UK. The Government considers that the European Semester is an effective means for aligning reporting cycles of EU-level economic instruments, and for providing mechanisms to ensure



adequate surveillance of Member States' macro-economic, micro-economic and employment reforms.

The reforms envisaged under the European Semester are broadly in line with the Government's own efforts to rebalance the economy and create the conditions for employment and growth.

You asked about other Member States' attitude towards the AMR and the European Semester more broadly. The Government considers that other Member States take their responsibilities under the European Semester process seriously. A number of other Member States, particularly Germany and Sweden, support the UK's position that national ownership and the involvement of national parliaments are crucial to ensuring a successful process.

We will of course consider further parliamentary steps in due course, as the Commission's timing becomes clear.

#### **Update on discussions at ECOFIN**

ECOFIN agreed conclusions on the AMR and the AGS on 12 February. The AGS conclusions will serve to prepare discussions of Heads of State or Government at the European Council on 14-15 March.

I am copying this letter to William Cash MP, Chairman of the House of Commons European Scrutiny Committee; Sarah Davies, Clerk to the Commons Committee; Paul Hardy, Legal Adviser to the Commons Committee; Les Saunders, Cabinet Office; Laura Hanoman, Robert Douglas, Thomas Kenny and Gary McMillan, HM Treasury.

A handwritten signature in dark ink, appearing to read "Greg Clark", with a large, stylized flourish below it.

**GREG CLARK MP**  
**FINANCIAL SECRETARY TO THE TREASURY**