COUNCIL OF
THE EUROPEAN UNION

Brussels, 3 December 2009

16917/09
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LIMITE

CO EUR-PREP 1
POLGEN 228

ADDENDUM TO NOTE

from:	General Secretariat of the Council
to:	COREPER/Council
Subject:	*European Council (10 and 11 December 2009)* – *Draft conclusions*

Delegations will find attached an addendum to the draft conclusions of the European Council.

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II. The economic, financial and employment situation

1. The economic and financial crisis posed severe challenges to the world economy and resulted in the most difficult economic downturn since the 1930s. To tackle the crisis, the EU and its Member States implemented a wide range of extraordinary measures including the European Economic Recovery Plan from December 2008. The support measures have been crucial in order to restore confidence in financial markets and assure their proper functioning as well as to dampen the impact of the crisis on growth and employment.

2. The economic situation has stabilised and confidence is increasing. Forecasts suggest a weak recovery in 2010, followed by a return to stronger growth in 2011. But uncertainties and fragilities remain. Policies in support of the economy should therefore remain in place and only be withdrawn when recovery is fully secured. In order to anchor expectations and reinforce confidence, the European Council reconfirms the importance of developing and communicating credible and coordinated strategies for exiting from the broad-based stimulus policies.

Exit strategies

3. The European Council emphasises that the fiscal exit strategy will be implemented within the framework of the Stability and Growth Pact, which remains the cornerstone of the EU's budgetary framework. The recommendations to the countries in Excessive Deficit Procedure, adopted by the Council on 2 December, are an important tool for restoring sound public finances. In this context, the European Council reiterates its conclusions from 30 October on fiscal exit strategy and recalls that the strategy will include a consolidation of well beyond the benchmark of 0.5% of GDP per year combined with structural reforms underpinning long-term fiscal sustainability. Fiscal consolidation should start in 2011 at the latest, earlier in some Member States where economic circumstances make this appropriate, provided that the Commission forecasts continue to indicate that the recovery is strengthening and becoming self-sustaining.

4. There is a need for more broad-based exit strategies, also taking into account the need to wind down financial support schemes. The principles for withdrawal of support to the financial sector, as set out by the Council on 2 December 2009, must guide further work. It is crucial to develop a coordinated approach, taking account of financial stability, that introduces progressive incentives for financial institutions to cease to depend on public financial support.

5. The European Council underlined that the phasing out of public support measures should be duly coordinated among Member States to avoid negative spill-over effects, the timing of exit should take into account a broad range of elements and that phasing out of support should start with government guarantees.

6. The European Council encourages the Council to continue their work on exit strategies and to report back by June 2010, both in the fiscal area and in the financial sector.

Financial supervision

7. The financial crisis has clearly demonstrated the weaknesses of the current regulatory framework and supervisory arrangements for financial institutions. The European Council welcomes the rapid and determined action taken by the Council who has agreed a fundamentally new structure for financial supervision in Europe. This new structure is set up to prevent future bubbles and crises in the economy and re-establish confidence of consumers and investors in the markets.

8. The European Council welcomes the agreement on a complete package for a new supervisory framework in the European Union. A new European Systemic Risk Board will provide the European Union with a system for monitoring macro-economic risks and issue risk warnings and recommendations. The three new supervisory authorities for banks, insurance and securities markets will develop common technical standards have a strong co-ordinating role in supervisory colleges and will ensure the consistent application of Community law. The European Council looks forward to a swift adoption by the European Parliament so that the new system can be up and running during the course of 2010.

Capital requirements and remuneration policies

9. The adoption by the Council of a general approach regarding amendments to the Capital Requirements Directive is a further step to strengthen the financial regulation in light of the financial crisis. It enhances the capital requirements for certain banking activities and introduces clear and binding rules on remuneration consistent with those endorsed by G 20 leaders. Remuneration policies within the financial sector must promote sound and effective risk management and should contribute to preventing future crises in the economy. The European Council is now looking to the European Parliament for a rapid final adoption of the amendments. The European Council invites the financial sector to immediately implement sound compensation practices and welcomes the Commission's intention to closely monitor the implementation of sound remuneration principles.