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The 2013 Annual Growth Survey: Frequently Asked Questions

What is the Annual Growth Survey (AGS)?

The AGS sets out what the Commission believes should be the overall budgetary, economic and social priorities for the coming year. It provides Member States with policy guidance to boost growth and employment in line with the EU's long-term growth strategy, Europe 2020. And it kick-starts the European Semester, the calendar for economic policy coordination, where national policies are reviewed collectively and guidance is and endorsed at the EU level to ensure Member States are moving in the same direction. The AGS applies to the EU as a whole, and its main messages will form the basis for the Country-Specific Recommendations next spring.

What are the key messages in the 2013 AGS?

According to the Commission's Autumn Economic Forecast (see MEMO/12/1178), the short-term outlook for the EU remains fragile, with a contraction of GDP expected for 2012 but a gradual return to growth predicted for 2013. Unemployment is still rising, and will peak next year at just below 11% in the EU. Given the need to sustain recovery and restore confidence, the Commission concludes that the five priorities identified in 2012 (see MEMO/11/821) remain valid for 2013. They are:

Pursuing differentiated, growth-friendly fiscal consolidation: Each Member State is in a different fiscal and economic position and this is why the Commission advocates a differentiated pace of fiscal consolidation, appropriate for each country. The composition of spending and revenue is just as important: On the spending side, investments in education, research, innovation and energy should be preserved and strengthened where possible, while ensuring the efficiency of such expenditure. Particular attention should also be paid to maintaining or reinforcing the coverage and effectiveness of employment services and active labour market policies, such as training for the unemployed and youth guarantee schemes. On the revenue side, tax reforms can help raise extra revenue without harming growth, for example, by shifting taxes away from labour to consumption and property taxes, by broadening tax bases rather than arbitrarily raising rates, by improving tax collection and compliance and by discouraging household and corporate indebtedness.

- **Restoring normal lending to the economy:** The crisis has had a major impact on bank solvency, confidence and therefore lending. Progress needs to be made at EU level on the different elements of a banking union, particularly on proposals to set up a Single Supervisory Mechanism, a bank resolution framework and a single rulebook on capital requirements. At national level Member States should promote new sources of capital, such as corporate bonds or venture capital, speed up payments by public authorities, develop the role of public banks in guaranteeing SME finance and make better use of EU and European Investment Bank funding – for example, the provision of €10 billion in extra EIB capital to be used to leverage private investment, or the re-programming of EU structural funds.
- **Promoting growth and competitiveness for today and tomorrow:** Priorities at the national level should include improving education systems and overall skill levels and simplifying legislation on starting up a business. Member States should also explore the untapped jobs potential in the green economy, improve implementation of the Services Directive and modernise energy, broadband and transport networks.
- **Tackling unemployment and the social consequences of the crisis:** The weak growth prospects and the time lag between economic and employment recovery means that there is no prospect of immediate or automatic improvement in the labour market situation. However, developing flexible working arrangements, aligning wages with productivity, and stepping up "active labour market policies" such as support for job-seekers and entrepreneurs and quality traineeships should help to improve the situation. Additional efforts are needed to ensure the effectiveness of social protection systems and to tackle poverty, including child poverty, and to ensure broad access to affordable and high-quality services, such as social services, childcare, housing and energy supply.
- **Modernising public administration:** Member States should consider reorganising local and central government, reforming public sector pay and the governance of state-owned enterprises, modernising public procurement systems and increasing online government services. It is also important to reform the tax collection and healthcare systems, reduce delays in payments to suppliers, speed up the payment of EU structural funds and improve the quality, independence and efficiency of judicial systems.

What progress has been made since the 2012 AGS?

The last AGS was published on 23 November 2011 (see MEMO/11/821). Since then, some progress has been made on advancing the five priorities, particularly in terms of fiscal consolidation, limiting tensions on financial markets and improved competitiveness in certain parts of Europe. However, the overall economic situation remains fragile and the Commission is calling on Member States to maintain the pace of reforms in all areas to restore confidence and enable a return to growth.

- According to the Commission's latest economic forecast (see MEMO/12/1178), fiscal consolidation is progressing. Government deficits are expected to fall to 3.6% of GDP in the EU and 3.3% in the euro area in 2012, and data for 2013 shows deficits in the euro area falling to below the Stability and Growth Pact limits of 3%. The Alert Mechanism Report (published alongside the AGS this year) shows that high unit labour costs are being reduced and export performance has slightly improved, boosting competitiveness.
- Action is underway to stabilise financial markets, which have recovered since July on the back of announcements by the European Central Bank and important policy decisions by the EU – for instance, the proposal to create a Single Supervisory Mechanism. However, uncertainties about the capital positions of banks remain and more needs to be done to restore lending.
- On growth-enhancing measures, progress takes time but is crucially needed. Reforms in the areas of services, network industries and the digital economy remain essential, particularly as these are where there is the most potential for job creation.
- On the labour market, the employment situation has deteriorated and unemployment is expected to remain at very high levels in several Member States in the near future. There has been some progress in facilitating flexible working arrangements, reducing severance pay for standard contracts and simplifying dismissal procedures. However, more needs to be done to reduce the tax burden on labour, simplify employment legislation and ensure wages support job creation. The situation of young people requires particular attention and essential safety nets should be stepped up to prevent poverty.
- On public sector reform, some countries have undertaken important measures to reorganise local and central government, rationalise public sector pay and reform tax and healthcare systems, but more needs to be done to increase online government services, improve the quality and independence of the judiciary and step up the distribution of EU structural funds.

What has the EU done to solve the crisis?

At EU level, deep reforms have been undertaken to stabilise the financial sector, stem the spread of the crisis and coordinate recovery efforts – some of which were unthinkable until very recently. A European Stability Mechanism has been set up to assist euro area countries with limited access to financial markets; a Compact for Growth and Jobs – including a €120 billion investment package – was adopted by the European Council in June; new rules to strengthen economic governance, notably within the euro area, are being implemented (the "six pack" legislation), have been agreed (the Treaty on Stability, Coordination and Governance) or are almost agreed (the "two pack"); the European Central Bank has taken important measures to safeguard financial stability in the euro area; and ambitious steps are being considered to reinforce the Economic and Monetary Union (EMU), which are set out in the Blueprint for a deep and genuine EMU.

Why have the AGS priorities not changed since last year, given the deteriorating economic situation?

Given a situation where economic growth is subdued, unemployment is increasing, debt levels are rising, consumer, business and investor confidence is dwindling, and economic imbalances are still apparent, it is more important than ever to stick to our reform agenda. These reforms take time to take effect, which is why the Commission believes that the five priorities identified last year continue to hold true.

Meanwhile, the Commission has published a Blueprint for a deep and genuine economic and monetary union (see IP/12/1272), outlining a comprehensive vision for the EMU built on a strong and stable architecture in the financial, fiscal, economic and political domains to underpin stability and prosperity in the future. Attaining a deep and genuine EMU involves incremental measures, and the Blueprint provides a step-by-step, policy-by-policy guide to how this can be achieved.

What does the AGS say about growth?

The crisis has accelerated shifts in the economy and some traditional sectors are particularly hard hit. Restructuring the economy is challenging but it also presents an opportunity to tap new sources of growth and competitiveness.

Fiscal consolidation is an essential precondition for growth. While it may have a negative impact on growth in the short term, the alternative scenario of postponing the adjustment would prove much more costly. The negative impact on growth can be largely mitigated, provided fiscal adjustment is well designed. The Stability and Growth Pact provides the appropriate framework for a flexible and efficient fiscal adjustment.

As illustrated in the country-specific recommendations, there is no "one-size-fits-all" agenda but there are common goals and a range of reforms to consider. Targeted support for research in the public and private sector, better performing education and training systems to raise overall skill levels, and a simpler legal regime for business start-ups – all of these measures can help to boost competitiveness and therefore growth. The Single Market and the further development of network industries (transport, energy and internet infrastructures) also offer opportunities for businesses to develop and for consumers to benefit from better services and products.

The adoption of a Compact for Growth and Jobs by the Heads of State or Government at the June 2012 European Council should galvanise the efforts of the EU and Member States to mobilise the growth levers they have at hand - from the implementation of the Single Market Acts to the more targeted use of EU Structural Funds. The Commission has also recently proposed a strategy to improve the functioning of energy markets, as well as measures for a reinforced industrial policy.

Moreover, finding an overall agreement on the EU's multi-annual financial framework for 2014-2020 will be essential in restoring growth and competitiveness across Europe and in achieving our Europe 2020 goals.

Does the AGS address unemployment and the social consequences of the crisis?

Yes. The AGS underlines that the labour market situation calls for an urgent response. Over the last 12 months, the number of unemployed has increased by 2 million and there are now more than 25 million people without a job. Long-term unemployment has reached alarming highs and the situation of young people has dramatically deteriorated in many countries.

The AGS outlines priorities to prepare for a job-rich recovery, to improve employability levels and to promote social inclusion. Faced with a rise in the number of jobseekers, Member States should boost public employment services and step up "active labour market policies", including jobseekers' assistance, apprenticeships, support for entrepreneurs and quality traineeships.

Income taxes and social security contributions should be reduced, particularly for the lower paid, and reforms should be stepped up to simplify employment legislation and develop flexible working arrangements, as well as to make sure wage developments support job creation. Additional efforts are also needed to ensure the effectiveness of social protection systems and develop active inclusion strategies to counter the effects of the crisis.

The situation of young people is particularly worrying, with youth unemployment hitting 50% in many countries. The Commission has set up action teams to assist them in redirecting EU funds for job training and support programmes (see MEMO/12/100). The AGS also invites Member States to develop a "youth guarantee", whereby every person under the age of 25 receives an offer of a job, further study or a traineeship within four months of leaving formal education or becoming unemployed. The Commission will present a full proposal on youth guarantees in its Youth Employment Package on 5 December.

Why is the Single Market important?

A well-functioning Single Market can improve the growth potential of the EU and contribute to the unwinding of imbalances. The AGS calls on Member States to fully implement Single Market legislation in the services, energy, transport and digital markets, which have been identified as the markets with the greatest growth potential.

The Single Market Integration Report, published in tandem with the AGS, shows that fully implementing the Services Directive – for example, by lifting operating restrictions based on the nationality of service providers or removing fixed tariffs for regulated professions, among other things – could lead to a 2.6% increase in GDP growth. The report also shows that putting the emphasis on the internet economy could boost growth exponentially: a 10% increase in high-speed internet is estimated to increase GDP growth by up to 1.5%; exploiting cross-border internet trade could earn companies an extra €26 billion a year; and governments could save up to €100 billion a year by simply switching to online public procurement methods.

What about tackling economic imbalances?

The Alert Mechanism Report, which is published alongside the AGS this year (see IP/12/1275), provides an initial reading of Member States' economic policies against a scoreboard of 11 indicators that focus on developments in competitiveness, indebtedness, asset prices, adjustment and links with the financial sector. This is a key step in the European Semester. The AMR does not include Member States subject to surveillance under EU-IMF programmes (Romania, Greece, Ireland and Portugal).

The 2013 AMR presents evidence that the adjustment of macroeconomic imbalances is progressing. Current account deficits are narrowing in the countries with the largest external imbalances, supported by gradually improving export performance and competitiveness gains, and the correction in the housing market is on-going. The AMR calls for in-depth reviews of developments related to the accumulation and unwinding of macroeconomic imbalances in 14 EU Member States: Belgium, Bulgaria, Denmark, Spain, France, Italy, Cyprus, Hungary, Malta, the Netherlands, Slovenia, Finland, Sweden and the United Kingdom. Only after the in-depth reviews are completed next spring will the Commission conclude whether imbalances or excessive imbalances exist, and propose appropriate policy recommendations. The information gleaned from these reviews will feed in to the Country–Specific Recommendations issued under the European Semester in the spring.

What are the next steps in the European Semester?

In the coming weeks and months, the different Council formations will discuss the AGS and report to the March European Council so that it can adopt appropriate policy guidance for the Member States. This guidance should be incorporated into Member States’ National Reform Programmes (on economic and social policies, in line with the Europe 2020 strategy) and Stability or Convergence Programmes (on budgetary policy, in line with the Stability and Growth Pact), which are sent to the Commission in April. Having analysed these programmes, the Commission will issue Country-Specific Recommendations (CSRs) in May, in time for these to be endorsed by the June European Council. Member States should then incorporate this policy guidance into their annual budgets and other legislation. Progress on implementing the CSRs is monitored throughout the year, beginning with a first round of bilateral contacts in October, ensuring EU-level and national policies are sufficiently aligned.

What is Europe 2020?

Europe 2020 is the European Union's 10-year growth strategy. It is about more than just overcoming the current crisis, which continues to afflict many of our economies. It is also about building a smart, sustainable and inclusive economy by addressing problems with our economic model that existed long before the current crisis broke. It sets out a new growth path, based on five targets – on education, employment, R&D spending, the environment and poverty reduction – to be achieved at European level but translated into national targets by Member States. Progress on meeting the targets is monitored in the context of the European Semester.

For further information:

Europe 2020 website: http://ec.europa.eu/europe2020/index_en.htm

IP/12/1274 Annual Growth Survey 2013: Charting the course to recovery