



EUROPEAN COMMISSION

PRESS RELEASE

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European Semester 2014: strengthening the recovery

The biggest challenge now facing Europe's economy is how to sustain the recovery that is now underway. This is the main message of this year's Annual Growth Survey (AGS), adopted today by the Commission. Its adoption kicks off the fourth European Semester of economic policy coordination in an environment where growth is beginning to return and Member States are making progress on correcting the imbalances that developed before the crisis.

That is why the Commission maintains its balanced strategy for growth and jobs, and its focus on **five main priorities over the coming year**:

- Pursuing differentiated, growth-friendly fiscal consolidation
- Restoring bank lending to the economy
- Promoting growth and competitiveness for today and tomorrow
- Tackling unemployment and the social consequences of the crisis
- Modernising public administration

President Barroso said: *"This is a turning point for the EU economy. The EU's hard work is starting to pay off and growth is slowly coming back. The 2014 Annual Growth Survey points out where we need to be bolder to tackle reforms that are needed to build a lasting and job-rich recovery."*

The AGS shows how Member States are adjusting to the recently reinforced economic policy-coordination process under the European Semester, and are working better together according to common rules.

Budgetary coordination in the euro area has reached an unprecedented level this year: for the first time, the Commission will assess euro area draft budgetary plans for 2014 before the budgets are adopted by national parliaments, and will present an overview of the fiscal stance in the euro area as a whole. The results of this assessment will be published on 15 November.

Annual Growth Survey: A progress report

Member States have made progress on each of the five priorities identified by the Commission in 2013. The same priorities are proposed for 2014, although with different areas highlighted for attention to reflect the changing EU and international economic environment:

- **Fiscal consolidation:** Substantial progress has been made and the average budget deficit in the EU has been reduced by around half since a peak of almost 7% of GDP in 2009. However, debt levels are still high and set to peak at almost 90% of GDP in 2014 before starting to decline. Early action has created room for Member States to slow the pace of consolidation and to focus more on improving the quality of public expenditure and modernising public administration at all levels. Countries with more fiscal room for manoeuvre should stimulate private investment and consumption while long-term investment in education, research and innovation, energy and climate protection should be protected from budget cuts. Taxes should be shifted from labour to consumption, property or pollution.
- **Restoring lending:** Some progress has been made to repair the financial sector and market tensions have eased considerably since mid-2012. The EU's efforts to build a Banking Union will strengthen banks' ability to manage risks in the future. However, more needs to be done in the short-term to reduce high private debt (for instance, by introducing or improving corporate and personal insolvency regimes), prepare banks for new capital requirements and stress tests and ease companies' access to finance.
- **Growth and competitiveness:** A significant rebalancing is taking place across Europe as a result of the crisis, with a shift towards more export-led growth. However, progress is insufficient when it comes to opening up product and services markets to competition, particularly when it comes to the energy market and regulated professions. Research systems also need to be modernised.
- **Unemployment and social developments:** Progress has been made by Member States to modernise their labour markets and over time this should help to integrate more people into the workforce. The focus should now be on stepping up active support and training for the unemployed – including by improving public employment services and introducing Youth Guarantees – as well as modernising education systems. Member States should also monitor wages so that they support both competitiveness and domestic demand, and should ensure that social protection systems reach the most vulnerable.
- **Public administration:** Several Member States are looking to make their public sectors more efficient, including by improving cooperation between different layers of government. The focus should be on shifting public services online and reducing red tape.

The AGS also makes recommendations on how to deepen the European Semester. National ownership of EU level country specific recommendations needs to be strengthened so Member States should involve national parliaments, social partners and citizens more in the process to ensure key reforms are understood and accepted. Euro area Member States should devote more time to coordinating major reforms - particularly in labour and product markets - before they are adopted at national level. And Member States need to better implement the country-specific recommendations they receive each spring. The Commission will provide input on these issues for the European Council in December.

Alert Mechanism Report: Towards a balanced recovery

The 2014 Alert Mechanism Report (AMR), which launches the next annual cycle of the Macroeconomic Imbalances Procedure, provides an objective analysis of Member States' economies based on a scoreboard of indicators that measure internal and external competitiveness.

This year the AMR has found that several Member States are making progress in reducing their current account deficits and reversing losses in competitiveness. However, the AMR shows that further progress is needed to address high debt and the net international investment position of the most indebted economies, while high current account surpluses persist in some countries, suggesting possibly inefficient levels of saving and investment and the need to strengthen domestic demand.

The AMR recommends an in-depth review of economic developments in 16 Member States, which have different challenges and potential risks that could spill over to the rest of the euro area and wider EU. The AMR does not prejudge the results of these reviews, which aim to assess whether imbalances exist, and whether previously identified imbalances persist or are being unwound.

- **Spain and Slovenia** were found to be experiencing excessive imbalances in the previous round of in-depth reviews published last April. Therefore, the upcoming in-depth reviews will assess the persistence or unwinding of the excessive imbalances, and the contribution of the policies implemented by these Member States to overcome these imbalances.
- **France, Italy and Hungary** were found in the previous round of in-depth reviews to be experiencing imbalances requiring decisive policy actions. The upcoming in-depth review will assess the persistence of imbalances.
- For the other Member States previously identified as experiencing imbalances (**Belgium, Bulgaria, Denmark, Malta, the Netherlands, Finland, Sweden and the United Kingdom**), the in-depth review will help to assess the extent to which imbalances persist or have been overcome. In the same way that imbalances are identified after the detailed analyses in the in-depth reviews, the conclusion that an imbalance has been overcome should also take place after duly considering all relevant factors in another in-depth review.
- In-depth reviews will also be prepared for **Germany and Luxembourg** in order to better scrutinise their external positions and analyse internal developments, and conclude whether either of these countries is experiencing imbalances.
- Finally, an in-depth review is also warranted for **Croatia**, a new member of the EU, given the need to understand the nature and potential risks related to the external position, trade performance and competitiveness, as well as internal developments.

Draft Joint Employment Report: Focus on jobs and social developments

The draft Joint Employment Report, annexed to the AGS, shows that there are some encouraging signs that unemployment has stopped rising, and that Member States have made progress in the last year on labour market reforms. However unemployment is still unacceptably high - especially youth and long-term unemployment - and, according to data presented in a new scoreboard of employment and social indicators included in the report for the first time, persistent divergences in unemployment, youth unemployment, household income, inequality and poverty rates have built up across Member States, particularly within the euro area.

It is therefore crucial to keep up efforts to improve the resilience of labour markets. It will also be important to boost job creation in fast-growing sectors, contributing to reducing inequalities and poverty over time while strengthening social protection and making targeted social investments.

Single Market Integration Report: Making the single market work better

The Commission's second annual report on Single Market integration presents an analysis of the state of Single Market integration in areas with the highest growth potential. This year's report finds that while progress has been made in reforming the financial, digital and transport sectors, there is still work to be done to get investment flowing, create jobs and improve consumer satisfaction in these areas. The report highlights a particular lack of progress in opening up energy markets, where 14 Member States have yet to properly transpose the EU's third energy package into national law - two years after the deadline. It also shows that Member States have yet to fully implement the EU's Services Directive, which could boost overall growth by up to 2.6% of GDP in the next 5-10 years.

Next steps

On Friday 15 November the Commission will adopt opinions on the draft budgetary plans submitted by 13 euro area Member States (not including the 4 countries under macroeconomic assistance programmes) and propose Council opinions on the Economic Partnership Programmes submitted by 5 euro area Member States under the Excessive Deficit Procedure. The Commission will also provide an overview of the budgetary outlook of the euro area as a whole, and will report on action taken by non-euro area countries in the Excessive Deficit Procedure.

The Annual Growth Survey will be discussed by national ministers (in the Council) and endorsed by EU leaders at their March 2014 summit. The Commission is also looking forward to the contribution of the European Parliament.

The Alert Mechanism Report will be discussed by finance ministers and EU leaders in December, who will agree on the main areas for further coordination of economic policies and reforms. In the meantime, the Commission will prepare in-depth reviews for the 16 countries identified in the Alert Mechanism Report, which will be published in spring 2014.

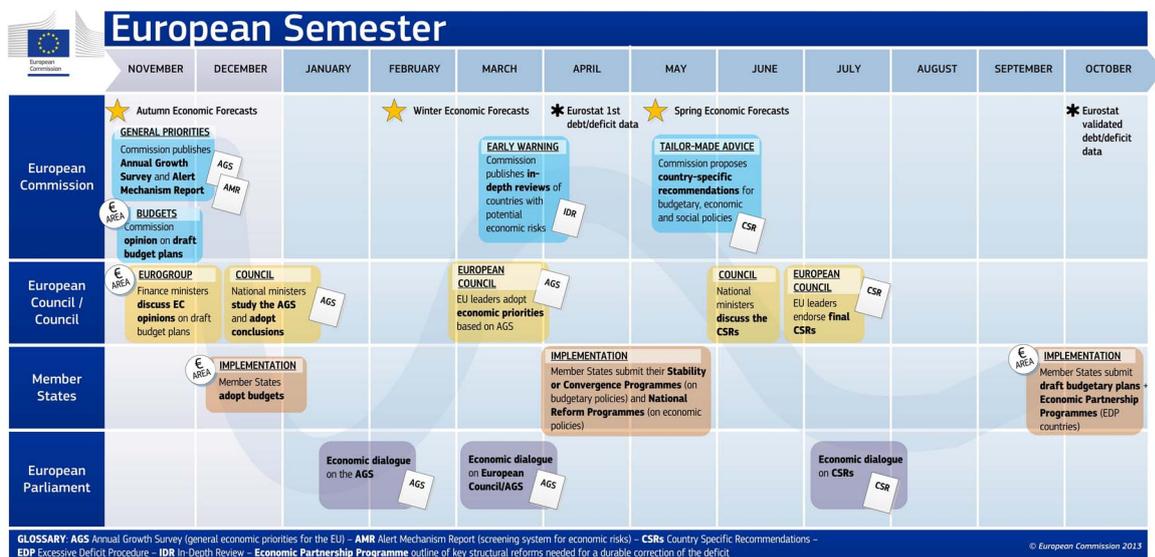
Background

The **European Semester**, introduced in 2010, ensures that Member States discuss their budgetary and economic plans with their EU partners at specific times throughout the year. This allows them to comment on each other's plans and enables the Commission to give policy guidance in good time, before decisions are made at national level. The Commission also monitors whether Member States are working towards the employment, education, innovation, climate and poverty reduction targets in the EU's long-term growth strategy, **Europe 2020**.

The cycle starts in November each year (see graphic below) with the Commission's **Annual Growth Survey** (general economic priorities for the EU), which provides Member States with policy guidance for the following year. **Country-specific recommendations** published in the spring offer Member States tailored advice on deeper structural reforms, which often take more than one year to complete.

Euro area budgetary surveillance intensifies towards the end of the year, with Member States submitting draft budgetary plans, which are assessed by the Commission and discussed by euro area finance ministers. The Commission also reviews the fiscal stance in the euro area as a whole.

The Commission monitors implementation of priorities and reforms throughout the year, with a focus on the euro area and Member States with fiscal or financial problems. For more detail see MEMO/13/979



For further information

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

[MEMO/13/970](#) Third Alert Mechanism Report on macroeconomic imbalances in EU Member States

[MEMO/13/976](#) Draft Joint Employment Report – frequently asked questions

[MEMO/13/979](#) The EU's economic governance explained

Contacts :

[Pia Ahrenkilde Hansen](#) (+32 2 295 30 70)

[Sarah Collins](#) (+32 2 296 80 76)

[Simon O'Connor](#) (+32 2 296 73 59)

[Jonathan Todd](#) (+32 2 299 41 07)

[Chantal Hughes](#) (+32 2 296 44 50)

[Emer Traynor](#) (+32 2 292 15 48)