European Commission - Press release

EU Annual Growth Survey 2015: A new Momentum for Jobs, Growth and Investment

Brussels, 28 November 2014

The 2015 Annual Growth Survey (AGS) published by the European Commission today focuses on putting Europe firmly back on a path of sustainable job creation and economic growth. The arrival of the new Commission, with an ambitious agenda for Jobs, Growth, Fairness and Democratic Change, is the right moment to generate a new momentum. By proposing an ambitious Investment Plan to mobilise at least € 315 billion of additional public and private investment over the next three years, Europe is turning a page (Investment Plan press material). This is part of the European Commission's overall approach to support job creation and get Europe growing. As part of this approach, the Commission, in its Annual Growth Survey 2015, recommends pursuing an economic and social policy based on **three main pillars**: (1) a boost to investment, (2) a renewed commitment to structural reforms and (3) the pursuit of fiscal responsibility.

Vice-President Valdis Dombrovskis, responsible for the Euro and Social Dialogue said: "*The European Union is facing a risk of prolonged low economic growth, which would aggravate the already serious social problems in parts of the Union. This is why today we propose a strategic policy mix based on investment, structural reforms and fiscal responsibility. We call for urgent action involving governments, parliaments and social partners at EU level and in each Member State. By acting together now, we can make sure that the conditions for sound and sustainable growth in the future are met and that our citizens have more opportunities for employment."*

Marianne Thyssen, EU Commissioner for Employment, Social Affairs, Skills and Labour Mobility, commented: *"Job creation, social policies are at the heart of our agenda and feature prominently in the Annual Growth Survey. We should all take ownership of this. Member States that courageously reformed their labour markets have proven that reforms really pay off. This should inspire other Member States to follow suit. The € 315 billion Investment Plan that the Commission presented can boost the results to even higher levels."*

The AGS launches the annual cycle of economic governance, sets out general economic priorities for the EU and provides Member States with policy guidance for the following year. Despite the efforts made at national and EU level, the recovery of the European economy is still weak and fragile. This in turn is hampering progress in reducing the high level of unemployment and poverty. Restoring confidence and getting the entire EU to grow again can only be done by working together: it requires a determined commitment from Member States to do things differently at national level. Given the important differences between the economic situation in the Member States, the right approach will inevitably vary from country to country. To give a common direction and steer national approaches, the Commission recommends **three main pillars** for the EU's economic and social policy in 2015:

1. A boost to investment

Since the global economic and financial crisis, the EU has been suffering from low levels of investment. Collective and coordinated efforts at European level are needed to reverse this downward trend and put Europe firmly on the path of economic recovery. Investments are needed to modernise welfare systems, fund education, research and innovation; to make energy greener and more efficient; to modernise transport infrastructure and to roll-out far-reaching and faster broadband.

The European Commission is ready to do its share: just two days ago, the Commission launched a **€ 315 billion Investment Plan** for the next three years (see IP/14/2128). This "Investment Offensive" is based on **three strands**, which are mutually reinforcing: (1) mobilising investment finance without creating new debt; (2) supporting projects and investments in key areas such as infrastructure, education, research and innovation and (3) removing sector-specific and other financial and non-financial barriers to investment. The European Commission calls on the European Parliament and Member States to support the Investment Plan and take the necessary action swiftly so that there is a decisive effect on the European economy.

2. A renewed commitment to structural reforms

As the focus shifts from tackling emergencies stemming from the crisis to building solid foundations for jobs and growth, a renewed commitment to structural reforms is needed. At **EU level**, deepening the Single Market is a structural reform "par excellence", helping our economies to modernise and to make Europe more competitive, as well as attractive for investors. Priorities include removing remaining regulatory and non-regulatory barriers across sectors such as energy, telecoms, transport and the Single Market for goods and services.

At **Member State level**, the Commission recommends focusing on a number of key reforms: making labour markets more dynamic and tackling the high level of unemployment; ensuring the efficiency and adequacy of pension and social protection systems; creating more flexible product and services markets; improving business investment conditions and the quality of research and innovation (R&I) investment; and making public administrations across Europe more efficient.

3. Pursuing fiscal responsibility

Progress in achieving fiscal consolidation has been significant: average fiscal deficits in the EU have been cut in just three years from 4.5% of GDP in 2011 to around 3.0% of GDP in 2014. The decrease in the number of countries under an excessive deficit procedure – down to 11 in 2014 from 24 in 2011 – reflects these fiscal improvements, which were instrumental in restoring confidence in the soundness of our public finances and stabilising the financial situation. Securing long-term control over deficit and reducing high debt levels remains a key building block towards sustainable growth. We need **responsible and growth-friendly fiscal policies**, in line with the Stability and Growth Pact, taking into account the particular national situation. Countries with more fiscal space have more scope to encourage domestic demand and investment. Tax systems need to become fairer and more efficient and tax fraud and evasion must be tackled decisively.

Streamlining European Economic Governance

The European Commission also **proposes to streamline and reinforce the European Semester** by giving it a sharper focus and a more political role based on the three pillars of the Annual Growth Survey. A more focused European Semester should strengthen the social market economy and increase the effectiveness of economic policy coordination at the EU level through an increased accountability and an improved ownership by all actors, including social partners. The new economic policy cycle will also simplify Commission outputs and reduce reporting requirements of Member States, while making the process more open and multilateral (see Annex 1 and MEMO/14/2180).

The Alert Mechanism Report

The Annual Growth Survey is accompanied by the **Alert Mechanism Report (AMR)**, which is part of the regular surveillance under the Macroeconomic Imbalances Procedure, and aims to identify and address imbalances that may hinder the performance of national economies, the euro area, or the EU as a whole. Employment and social indicators are being introduced into the macroeconomic imbalances procedure and should be used to gain a better understanding of the labour market and social developments and risks.

This AMR shows that even though EU Member States have made progress towards correcting some of their imbalances and competitiveness has improved in several economies, macroeconomic imbalances and their major social consequences remain a serious concern. The slow recovery and the very low inflation have been an obstacle to a more pronounced reduction of the imbalances and related macroeconomic risks.

Moreover, the rebalancing of current accounts remains asymmetric. Although deficits have been reduced in a number of countries, the process has been largely driven by falling demand and more particularly, falling investment. This could have negative implications for medium-term growth potential if not corrected. Meanwhile, Germany and the Netherlands have continued to record very high current account surpluses, which reflect weak domestic demand and investment.

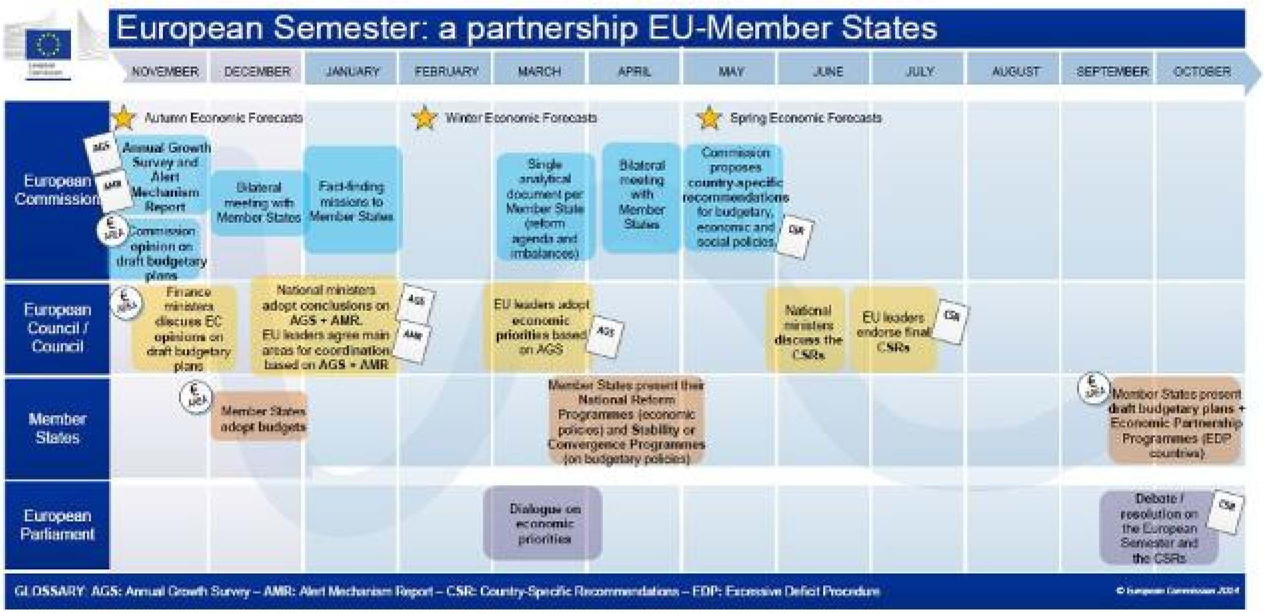
As regards individual countries, the Commission finds that **further analyses (in-depth reviews)** are warranted to examine in detail the accumulation and unwinding of imbalances and their related risks in **16 Member States**: Belgium, Bulgaria, Germany, Ireland, Spain, France, Croatia, Italy, Hungary, the Netherlands, Portugal, Romania Slovenia, Finland, Sweden and the United Kingdom (for more details, see MEMO/14/2231).

Joint Employment Report

The Annual Growth Survey 2015 is also accompanied by the publication of the Commission proposal for the **Joint Employment Report.** It analyses the employment situation in Europe and the policy responses by Member States. The report shows that substantial structural reforms pay off. It also analyses the potential for improving the employment and social performance of the EU as a whole (for more details, see MEMO/14/2234).

Annex

1. Timeline of the streamlined European Semester



2. Key findings of the Commission's autumn 2014 forecast

Real **GDP growth is expected to reach 1.3%** in the EU and 0.8% in the euro area for 2014 as a whole. This should rise slowly in 2015, to 1.5 % and 1.1% respectively, as foreign and domestic demand improve. For 2016, an acceleration of economic activity to 2.0% and 1.7% respectively is expected.

Unemployment reached 24.6 million people in August 2014 – 5 million are aged between 15 and 24. Long-term unemployment is very high. Unemployment rates strongly vary across Member States, from 5.1% in Germany and 5.3% in Austria to 24.8% in Spain and 26.8% in Greece in 2014.

The **low inflation trend is expected to continue this year**, with lower commodity prices, in particular for energy and food, and the weaker-than-expected economic outlook. The gradual recovery of economic activity over the forecast horizon is expected to lead to an increase in inflation in the EU, from 0.6% in 2014 to 1.0% in 2015 and 1.6% in 2016.

The deficit-to-GDP ratios are set to decrease further this year, albeit more slowly than in 2013, from 4.5% in 2011 to respectively 3.0% for the EU and 2.6% for the euro area. Government deficits are forecast to continue falling over the next two years, driven by strengthening economic activity. The debt-to-GDP ratios of the EU and the euro area are expected to peak next year at 88.3% and 94.8% respectively and remain high in a number of countries.

3. Examples of effective structural reforms in the Member States

In **Spain**, in December 2013, the government approved a Law guaranteeing market unity in the interest of the freedom of movement and establishment of persons and the free movement of goods. The law is an ambitious rationalisation of overlapping legislation in Spain, addressing the fragmentation of the domestic market and increasing competition in product markets. According to the Spanish Authorities, the reform is estimated to raise GDP by more than 1.5% over time.

Portugal enacted a number of labour market reforms between 2011 and 2013. The protection of workers under permanent and fixed-term contracts was aligned. Working time legislation was made more flexible, and measures were taken to better adapt wages to productivity at the firm level. Unemployment benefits were reformed and eligibility was extended. The Public Employment Service was reformed, existing Active Labour Market Policies were reviewed and new programmes introduced, including targeted to the youth. The unemployment rate declined by about 2 percentage points between 2013 and 2014.

Poland initiated an ambitious reform facilitating access to regulated professions. Access to 50 professions – including lawyers, notaries, real estate agents and taxi drivers – has been liberalised in the first wave of reform in 2013. Decisions covering a further 91 professions were adopted by the Polish Parliament in April 2014 and deregulation of 101 additional professions is planned for early 2015.

Italy implemented a set of measures in 2013 aimed at increasing competition and transparency in the gas and electricity markets. The initiatives taken by the Italian government have helped to address the long-standing issue of high energy prices in Italy and, according to estimates from the energy regulator, have helped to reduce end-users prices.

For more information:

Annual Growth Survey 2015

Fourth Alert Mechanism Report on macroeconomic imbalances in EU Member States

2015 Draft joint Employment Report

The EU's economic governance explained

Europe 2020

Draft Budgetary Plans

IP/14/2235

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