European Semester Autumn Package: Striving for sustainable and inclusive growth

The **2018 European Semester cycle of economic, fiscal and social policy coordination** starts against the backdrop of robust economic activity in the euro area and the EU, record high employment levels and unemployment rates declining towards pre-crisis levels. As all Member States contribute to this **strong growth momentum**, the priority now is to make sure that this lasts and brings benefits to all members of our societies. Alongside **responsible fiscal policies**, the pursuit of **structural reforms** should focus on creating the conditions to **boost investment** further and to increase real wage growth to support domestic demand. Today's package is based on the Commission's Autumn 2017 Economic Forecast and builds on the priorities of President Juncker's 2017 State of the Union address. It also reflects the recent proclamation of the European Pillar of Social Rights at the Gothenburg Social Summit.

Valdis **Dombrovskis**, Vice-President for the Euro and Social Dialogue said: *"For all the reforms of the past years, Europe's Economic and Monetary Union (EMU) remains uncompleted. This is why we need to use good times now to further strengthen our EMU and make our economies more resilient and inclusive. Next month we will come forward with proposals to reinforce the EMU further. However, strengthening EMU architecture does not replace the need for sound budgetary, economic and social policies at national level. This is the main aim of the European Semester. Today we provide the Opinions on Draft Budgetary Plans and call on Member States that are at risk of non-compliance with the Stability and Growth Pact to take the necessary measures to adjust their budgetary path."*

Commissioner Marianne **Thyssen**, in charge of Employment, Social Affairs, Skills and Labour Mobility, welcomed today's agreement and said: *"Only days after the Social Summit and the proclamation of the European Pillar of Social Rights, we are presenting a European Semester that puts the Pillar into practice, for a renewed convergence towards better working and living conditions between and within Member States."*

Pierre **Moscovici**, Commissioner for Economic and Financial Affairs, Taxation and Customs said: *"The euro area economy is growing at its fastest pace in ten years and its average deficit is set to fall below 1% of GDP next year, from over 6% in 2010. Yet several Member States continue to shoulder high levels of public debt, which constrain their ability to invest for the future. These countries should use this opportunity to further strengthen their public finances, also in structural terms, while those with fiscal space should use it to support investment for the benefit of their citizens."*

Economic growth is accelerating strongly, with the euro area economy on track to grow at its fastest pace in a decade this year. The good performance is propelled by resilient private consumption, robust growth around the world and falling unemployment rates. **The economies of all Member States are expanding** and their labour markets improving, but wages are rising only slowly. Investment is also picking up on the back of favourable financing conditions and considerably brightened economic sentiment as uncertainty has faded. The public finances of the euro area countries have improved considerably. With Member States in different stages of the economic cycle, today's guidance stresses the need to strike the right balance between supporting the economic expansion and ensuring the sustainability of public finances, in particularly through reducing high debt levels.

2018 Annual Growth Survey

Building on previous guidance, and taking account of Member States' different situations in the economic cycle, the **Annual Growth Survey** (AGS) calls on Member States to **boost investment** as a way to support the expansion and to **increase productivity** and **long-term growth**. The Commission also recommends further **structural reforms** that are needed to make Europe's economy more stable, inclusive, productive and resilient. Fiscal policies should strike the appropriate balance between ensuring the sustainability of public finances and supporting the economic expansion. Reducing high levels of debt and re-building fiscal buffers must continue to be a priority. Closing tax loopholes, improving the quality of the composition of public finances and better targeted spending can help in this effort. Social fairness remains a crosscutting priority and the principles and rights of the European Pillar of Social Rights will be mainstreamed in the European Semester from now on.

2018 Alert Mechanism Report

The **Alert Mechanism Report** (AMR) is an integral tool of the European Semester, which aims to prevent or address imbalances that hinder the smooth functioning of Member States' economies, of the euro area or of the EU as a whole. On the basis of the analyses in the Alert Mechanism Report, **12 countries** have been proposed to be covered by an **in-depth review** in 2018. These are the same countries identified as having imbalances in the previous round of the **Macroeconomic Imbalances Procedure** (MIP), i.e. **Bulgaria, Croatia, Cyprus, France, Germany, Ireland, Italy, the Netherlands, Portugal, Slovenia, Spain and Sweden**. The Commission will present the in-depth reviews as part of its Country Reports in February 2018.

Draft Joint Employment Report

This year's draft Joint Employment Report is the first edition to bring into practice the Social Scoreboard, launched as one of the tools to implement the **European Pillar of Social Rights**. The performance of Member States is assessed on the basis of 14 headline indicators. The **Joint Employment Report** (JER) also takes into account the national policy reforms vis-à-vis the ambitions set by the Pillar.

The **JER** points to **continued improvements in the labour market**: around 8 million additional jobs have been created since the current Commission took office. The unemployment rate continues to fall and stood at 7.5% (8.9% in the euro area) in September 2017, the lowest level since 2008. However, the labour market recovery is not reflected in wage growth. In a number of Member States disposable incomes are still below pre-crisis levels.

Proposal for employment guidelines

The **employment guidelines present common priorities and targets** for the national employment policies and provide the basis for **country-specific recommendations** (CSRs). This year's proposal aligns the text with the principles of the European Pillar of Social Rights, with a view to improving Europe's competitiveness and making it a better place to invest, create quality jobs and foster social cohesion.

Recommendation on the economic policy of the euro area

The Commission recommends a **broadly neutral fiscal stance** and a **balanced policy mix for the euro area as a whole.** This should contribute to supporting investment and improving the quality and composition of public finances. In line with the Commission's priorities, Member States are also asked to step up their efforts to implement measures to **fight aggressive tax planning.**

The recommendation also calls for **policies that support sustainable and inclusive growth, and improve resilience, rebalancing and convergence**. Priority should be given to reforms that increase productivity, improve the institutional and business environment, facilitate investment, support the creation of quality jobs and reduce inequality. The Commission urges Member States to achieve significant progress towards **completing the Single Market**, particularly in services. Member States with current account deficits or high external debt should seek to raise productivity, while Member States with current account surpluses should promote wage growth and foster investment and domestic demand.

The Commission advocates the implementation of **reforms that promote equal opportunities and access to the labour market,** fair working conditions, social protection and inclusion. It also calls on euro area Member States to shift taxes away from labour, in particular for low-income and second earners.

The recommendation calls for continued work to **complete the Banking Union,** with regard to risk reduction and risk sharing, including a European Deposit Insurance Scheme and making the common backstop for the Single Resolution Fund operational. European supervision of financial institutions should be strengthened to prevent the accumulation of risks. The reduction of the levels of non-performing loans should also be accelerated and EU **capital markets further integrated and developed** to facilitate access to finance, especially for small and medium sized-enterprises (SMEs).

Finally, the Commission recommends swift progress on **completing the Economic and Monetary Union** in full respect of the Union's internal market and in an open and transparent manner towards non-euro area Member States.

Opinions on the euro area Draft Budgetary Plans

The Commission has also completed its assessment of whether the 2018 Draft

Budgetary Plans (DBP) of euro area Member States comply with the provisions of the Stability and Growth Pact (SGP). It adopted 18 Opinions for all euro area Member States except Greece.

Regarding the sixteen countries in the preventive arm of the Stability and Growth Pact:

For six countries (**Germany, Lithuania, Latvia, Luxembourg, Finland and the Netherlands**), the DBPs are found to **be compliant** with the requirements for 2018 under the SGP.

For five countries (**Estonia, Ireland, Cyprus, Malta, and Slovakia**), the DBPs are found to be **broadly compliant** with the requirements for 2018 under the SGP. For these countries, the plans might result in some deviation from each country's medium-term objective (MTO) or the adjustment path towards it.

For five countries (**Belgium, Italy, Austria, Portugal, and Slovenia**), the DBPs pose a **risk of non-compliance** with the requirements for 2018 under the SGP. The DBPs of these Member States might result in a significant deviation from the adjustment paths towards the respective MTO. For Belgium and Italy, non-compliance with the debt reduction benchmark is also projected.

In the case of **Italy**, the **persisting high government debt** is a reason of concern. In a letter to the Italian authorities, Vice-President **Dombrovskis** and Commissioner **Moscovici** informed that the Commission intends to reassess Italy's compliance with the debt reduction benchmark in spring 2018.

Regarding the two countries remaining in the corrective arm of the Stability and Growth Pact (i.e. subject to the Excessive Deficit Procedure):

For **France**, which could become subject to the preventive arm from 2018 onwards if a timely and sustainable correction of the excessive deficit is achieved, the DBP is found to be at **risk of a non-compliance** with the requirements for 2018 under the SGP, as the Commission Autumn 2017 Economic Forecast projects a significant deviation from the required adjustment path towards the MTO and non-compliance with the debt reduction benchmark in 2018.

For **Spain**, the DBP is found to be **broadly compliant** with the requirements for 2018 under the SGP, as the Commission Autumn 2017 Economic Forecast projects that the headline deficit will be below the Treaty reference value of 3% of GDP in 2018, although the headline deficit target is not projected to be met and there is a significant shortfall in fiscal effort compared to the recommended level.

The Commission has also taken a number of steps under the Stability and Growth Pact:

UK

The Commission recommends that **the Excessive Deficit Procedure (EDP) be closed for the United Kingdom**. The Commission forecast confirms the timely and durable nature of the correction by the United Kingdom of its excessive deficit during the fiscal year 2016-2017.

ROMANIA

For **Romania**, the Commission established that no effective action was taken in response to the Council recommendation of June and proposes that the Council **adopts a revised recommendation to Romania to correct its significant deviation from the adjustment path towards the medium-term budgetary objective**. In June 2017, the Council had issued a recommendation of an annual structural adjustment of 0.5% of GDP to Romania under the **Significant Deviation Procedure (SDP)**. On the back of developments since and following the lack of effective action by Romania to correct its significant deviation, the Commission now proposes a revised recommendation of an annual structural adjustment of at least 0.8% of GDP in 2018.

What next?

The Commission invites the Council to discuss the package and endorse the guidance offered today and it looks forward to a fruitful debate with the European Parliament on the policy priorities for the EU and euro area.

For More Information

Annual Growth Survey 2018

Alert Mechanism Report 2018

Euro area recommendation 2018

Draft Joint Employment Report 2018

Proposal for the Amendment of Employment Guidelines

Communication on the Draft Budgetary Plans of the euro area

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