European Commission - Press release

European Semester Autumn Package: Bolstering inclusive and sustainable growth

Brussels, 21 November 2018

Commission sets out EU's economic and social priorities for 2019, presents Opinions on Draft Budgetary Plans and confirms the existence of particularly serious non-compliance with the Stability and Growth Pact in the case of Italy; Greece is integrated into the European Semester for the first time.

The 2019 European Semester cycle of economic and social policy coordination begins against a backdrop of sustained but less dynamic growth in a climate of high uncertainty. A lot has been achieved since 2014 but more must be done to support inclusive and sustainable growth and job creation while enhancing the resilience of Member States' economies. At EU level, this demands taking the decisions required to further strengthen the Economic and Monetary Union. At national level, there is a pressing need to use the current growth momentum to build up fiscal buffers and reduce debt. Investment and structural reforms need to focus even more on boosting productivity and growth potential. These actions will provide the conditions for sustained macro-financial stability and serve EU's long-term competitiveness. This will, in turn, create the conditions for more and better jobs, greater social fairness and better living standards for Europeans.

Today's package is based on the Autumn 2018 Economic Forecast and builds on the priorities set out in President Juncker's 2018 State of the Union address.

Valdis **Dombrovskis**, Vice-President for the Euro and Social Dialogue, also in charge of Financial Stability, Financial Services and Capital Markets Union said: *"Europe is in good economic times, but rising risks indicate that this will not last forever. EU countries need well-targeted investments and renewed reform efforts to strengthen their growth fundamentals and increase productivity. On the budgetary policy side, it is time to reduce public debt levels and rebuild fiscal buffers. This will give us the room for manoeuver we'll need when the next downturn comes. Now is also the time to make progress on deepening Europe's Economic and Monetary Union."*

Marianne **Thyssen**, Commissioner for Employment, Social Affairs, Skills and Labour Mobility, said: "*The economic recovery of recent years has been particularly job-intensive and unemployment is reaching record lows. At the same time, more and more people are participating in the labour market. The activity rate has reached a record high and has even surpassed that of the USA. The conditions are now in place for us to invest more in our societies, in our people, so that this recovery becomes permanent and benefits everyone, including the generations to come*."

Pierre **Moscovici**, Commissioner for Economic and Financial Affairs, Taxation and Customs said: *"The EU economy continues to grow at a healthy clip. Today's policy advice from the Commission is about ensuring it stays strong and becomes more resilient – because in an increasingly uncertain global context, we cannot take anything for granted. A sustainably prosperous euro area needs not only sound public finances but also competitive economies and inclusive societies."*

Last year's exceptionally favourable global economic situation and low interest rate environment helped to support growth, employment, debt reduction and investment in the EU and euro area. All Member States are forecast to continue growing, though at a slower pace, thanks to the strength of domestic consumption and investment. Barring major shocks, Europe should be able to sustain above-potential economic growth, robust job creation and falling unemployment. The public finances of euro area Member States have improved considerably and the aggregate euro area public deficit is now below 1%. However debt remains high in several countries. As the economy continues to grow, it is time to build up the fiscal buffers needed to cope with the next downturn and mitigate potential employment and social impacts.

2019 Annual Growth Survey

The Annual Growth Survey (AGS), which sets the general economic and social priorities for the upcoming year, calls on the EU and its Member States to take decisive and concerted policy action to deliver inclusive and sustainable growth. At national level, policy efforts should focus on delivering high-quality investment, and reforms that increase productivity growth, inclusiveness and institutional capacity, while continuing to ensure macro-financial stability and sound public finances. At EU level, the priorities are deepening the Single Market, completing the architecture of the Economic and Monetary Union (EMU) and advancing the principles set out in the European Pillar of Social Rights.

2019 Alert Mechanism Report

The Alert Mechanism Report (AMR), which serves as a screening device designed to detect the existence of macroeconomic imbalances, has identified 13 Member States to be subject to an in-depth review in 2019. These reviews will assess whether they are in fact experiencing macroeconomic imbalances. The Member States which were found to be experiencing imbalances in the previous round of the Macroeconomic Imbalances Procedure (MIP) will, by default, be covered by an in-depth review in 2019. These are: Bulgaria, Croatia, Cyprus, France, Germany, Ireland, Italy, the Netherlands, Portugal, Spain, and Sweden. Greece and Romania will also be subject to an in-depth review.

2019 Draft Joint Employment Report

The draft Joint Employment Report, which analyses the employment and social situation in Europe,shows continued job creation, decreasing unemployment and an improving social situation across the EU. The Report also includes the findings of the Social Scoreboard, which analyses the performances of the Member States in light of the principles of the European Pillar of Social Rights.

In the second quarter of 2018, 239 million people were in employment in the EU, the highest number that has ever been recorded. Around 12 million jobs have been created since the start of the Juncker Commission. The share of people at risk of poverty or social exclusion decreased markedly in 2017, with more than five million people exiting from poverty or social exclusion compared to the previous year. The total number of people at risk of poverty or social exclusion has fallen below pre-crisis levels.

However, the economic recovery is yet to reach all groups of society. The employment rate of older workers increased substantially over the last decade, but for the young, low-skilled and people with a migrant background, employability remains difficult in a number of Member States. The participation of women in the labour market continues to grow at a fast pace, but this has not yet been translated into a significant decrease in the gender pay gap and pension gap.

Household incomes are growing but are still below pre-crisis levels in some Member States. Real wage growth picked up in 2018, but it remains below productivity growth and below what could be expected given the positive labour market and economic performance. More generally, inequality and poverty remain sources of concern.

Recommendation on the economic policy of the euro area

The recommendation on the economic policy of the euro area, which sets out concrete measures which are critical to the functioning of the euro area, has been streamlined to have a stronger focus on key challenges. The recommendation calls for policies that support inclusive and sustainable growth, and improve resilience, rebalancing and convergence within the euro area. It recommends that reforms that increase productivity and growth potential, deepen the Single Market, improve the business environment, promote investment and improve the labour market should be prioritised.

The Commission recommends improving the quality and composition of public finances and the rebuilding of fiscal buffers to have more room for manoeuvre during the next downturn. Member States with current account deficits should seek to raise productivity and reduce external debt. Member States with current account surpluses should strengthen the conditions that support investment and wage growth.

The Commission recommends shifting taxes away from labour and strengthening education systems, investment in skills and the effectiveness and adequacy of active labour market policies and social protection systems. This is in line with the principles of the European Pillar of Social Rights.

The Commission also calls for swift progress on completing Europe's Economic and Monetary Union in line with the Commission proposals, including the Reform Support Programme and the European Investment Stabilisation Function under the proposal for the 2021-2027 Multiannual Financial Framework.

The recommendation also calls for continued work on the Banking Union by making the backstop for the Single Resolution Fund operational and setting up a European Deposit Insurance Scheme. Financial integration should also be pursued by strengthening the European regulatory and supervisory architecture. Efforts to reduce non-performing loans should be continued and their build-up in the future prevented. Adoption of the November 2016 Banking Package by the end of 2018 remains crucial for the completion of the Banking Union. A more integrated financial sector – a completed Banking Union and a genuine Capital markets Union – will help strengthen the international role of the euro, making it more commensurate to the weight of the euro area in the world.

Opinions on the Draft Budgetary Plans of euro area Member States

The Commission has also adopted Opinions on whether the 2019 Draft Budgetary Plans (DBPs) of euro area Member States comply with the Stability and Growth Pact.

Preventive arm of the Stability and Growth Pact

In the case of Italy, having assessed the revised DBP presented on 13 November, the Commission confirms the existence of a particularly serious case of non-compliance with the Recommendation addressed to Italy by the Council on 13 July 2018. The Commission had already adopted an Opinion on 23 October 2018 identifying a particularly serious non-compliance in the initial DBP presented by Italy on 16 October 2018.

For ten Member States – Germany, Ireland, Greece, Cyprus, Lithuania, Luxembourg, Malta, Netherlands, Austria, and Finland –, the DBPs are found to be compliant with the Stability and Growth Pact in 2019.

For three Member States – Estonia, Latvia and Slovakia –, the DBPs are found to be broadly compliant with the Stability and Growth Pact in 2019. For these countries, the plans might result in some deviation from the country's medium-term budgetary objective (MTO) or the adjustment path towards it.

For four Member States – Belgium, France, Portugal and Slovenia – , the DBPs pose a risk of non-compliance with the Stability and Growth Pact in 2019. The DBPs of these Member States might result in a significant deviation from the adjustment paths towards the respective medium-term budgetary objective.

Corrective arm of the Stability and Growth Pact (Excessive Deficit Procedure)

Spain's headline deficit is projected to fall below 3% next year and the country is set to exit the Excessive Deficit Procedure, which means that Spain would become subject to the preventive arm of the Pact as of next year. In this context, the DBP presented by Spain is found to be at risk of non-compliance with the Stability and Growth Pact in 2019. This is based on the Autumn 2018 Economic Forecast's projection of a significant deviation from the required adjustment path towards the medium-term budgetary objective and non-compliance with the transitional debt reduction benchmark in 2019.

Steps under the Stability and Growth Pact

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

For Italy, the Commission has carried out a new assessment of the *prima facie* lack of compliance with the debt criterion. At 131.2% of GDP in 2017, the equivalent of €37,000 per inhabitant, Italy's public debt exceeds the 60% of GDP reference value of the Treaty. This new assessment was necessary because Italy's fiscal plans for 2019 represent a material change in the relevant factors analysed by the Commission last May. The analysis presented in this new report under Article 126(3) of the Treaty on the Functioning of the European Union includes the assessment of all relevant factors and notably: (i) the fact that macroeconomic conditions, despite recently intensified downside risks, cannot be argued to explain Italy's large gaps to compliance with the debt reduction benchmark, given nominal GDP growth above 2% since 2016; (ii) the fact that the government plans imply a marked backtracking on past growth-enhancing structural reforms, in particular the past pension reforms; and above all (iii) the identified risk of significant deviation from the recommended adjustment path towards the medium-term budgetary objective in 2018 and the particularly serious non-compliance for 2019 with the recommendation addressed to Italy by the Council on 13 July 2018, based on both the government plans and the Commission 2018 autumn forecast. Overall, the analysis suggests that the debt criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 should be considered as not complied with, and that a debt-based Excessive Deficit Procedure is thus warranted.

For Hungary, the Commission has established that no effective action was taken in response to the Council recommendation of June 2018 and proposes that the Council adopts a revised recommendation to Hungary to correct its significant deviation from the adjustment path towards the medium-term budgetary objective. In June 2018, the Council issued a recommendation of an annual structural adjustment of 1% of GDP in 2018 to Hungary under the Significant Deviation Procedure (SDP). In light of developments since and following the lack of effective action by Hungary to correct its significant deviation, the Commission now proposes a revised recommendation of an annual structural adjustment of at least 1% of GDP in 2019. The public deficit has increased in Hungary from -1.6% in 2016 to -2.4% in 2018, and is forecast to remain slightly below -2% in the coming two years.

For Romania, the Commission has 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 2018, the Council issued a recommendation of an annual structural adjustment of 0.8% of GDP in both 2018 and 2019 to Romania under the Significant Deviation

Procedure (SDP). In light 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 1% of GDP in 2019. The public deficit has increased in Romania from -0.5% in 2015 to -2.9% in 2016 and is forecast to reach -3.3% in 2018, -3.4% in 2019 and -4.7% in 2020: this is the highest deficit in the EU.

Enhanced Surveillance Report for Greece

The Commission has adopted the first report for Greece under the enhanced surveillance framework that was put in place following the conclusion of the European Stability Mechanism stability support programme on 20 August 2018. The report concludes that the DBP for 2019 Greece has presented ensures compliance with its commitment to achieve a primary surplus of 3.5% of GDP. Progress with reforms in other areas is found to be mixed and the authorities will need to accelerate implementation to meet their objectives. The activation of policy-contingent debt measures, agreed as part of the significant package of debt measures agreed at the Eurogroup meeting of 22 June 2018, will be contingent on a positive assessment in the second report under the enhanced surveillance framework. This report will be published early next year.

What are the next steps?

The Commission invites the Council to discuss the package and endorse the guidance offered today. It looks forward to a fruitful debate with the European Parliament on the policy priorities for the EU and euro area, as well as to further engagement with social partners and stakeholders at all levels in the context of the European Semester.

FURTHER INFORMATION

Memo on the European Semester Autumn Package

Annual Growth Survey 2019

Alert Mechanism Report 2019

Euro area recommendation 2019

Draft Joint Employment Report 2019

Communication on the 2019 Draft Budgetary Plans of the euro area

2019 Draft Budgetary Plans

Article 126(3) report on Italy

Enhanced Surveillance Report for Greece

Autumn 2018 Economic Forecast

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Attachments

European Semester - Euro Area Recommendation.pdf
European Semester - Overview Table.pdf
European Semester Key Social Figures.pdf
European Semester Social Scoreboard.pdf