Contribution to the annual growth survey 2012

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PURPOSE: to present the Annual Growth Survey 2012.

CONTENT: the annual growth survey is the starting point for the European Semester, which involves simultaneous monitoring of the member states' fiscal policies and structural reforms, in accordance with common rules, during a six-month period every year.

The European Semester was implemented for the first time in 2011 as part of a reform of EU economic governance. The 2012 European Semester will be the second such exercise, but the first since the establishment of a new procedure for excessive economic imbalances in the framework of the "**six pack**" on the reform of economic governance.

The Autumn forecasts for 2011-2013 published by the Commission show that **economic recovery has come to a standstill** and that low levels of confidence are adversely affecting investment and consumption. The impact has been particularly acute in the Euro area. As a result, **GDP is likely to stagnate in the coming year and overall growth in the EU is forecast to be as low as 0.6% for 2012. Unemployment levels are likely to remain high at around 10% in 2012** and into 2013, exacerbating the social impact of the crisis.

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The annual growth review fir this year has a strong emphasis on the need to implement the agreed measures. Now that the parties reached agreement on a new form of economic governance that recognises the greater interdependence of economies of Member States, the priority must be to implement what was agreed but with a clear focus on measures conducive to growth.

CONTENT: the Commission's annual review presents a **series of priority actions** to be undertaken by Member States to ensure a better coordination and greater effectiveness of policies so that the European economy may lead the way in terms of sustainable growth. For 2012, is suggested that efforts at national and EU level should focus on the following priorities:

(1) Pursuing differentiated growth-friendly fiscal consolidation: government debt levels have increased markedly – by 20 percentage points on average over 2007-2010 as a result of the crisis – and are **expected to reach 85% of GDP in the EU and 90% in the Euro area by 2012**. Member States are not all in the same situation so differentiated strategies should be pursued within the common framework, taking account of country-specific fiscal and macro-financial risks. In particular:

- Member States benefitting from financial assistance programmes and those under close market scrutiny should continue to meet agreed budgetary targets in spite of possibly changing macro-economic conditions;

- Member States with a significant adjustment gap under excessive deficit procedure, or a high deficit should step up their consolidation efforts. Possible limited downwards revisions of the main macro-economic scenario should not result in delays in the correction of excessive deficits;
- in Member States which do not have an excessive deficit, and that are on an appropriate adjustment path towards their medium-term objectives, budgetary policy can play its counter-cyclical and stabilising role, as long as medium-term fiscal sustainability is not put at risk.

On the expenditure side, Member States should keep public expenditure growth below the rate of medium-term trend GDP growth. The Commission considers that Member States should give particular attention to the following:

- prioritising growth-friendly expenditure, such as education, research, innovation and energy which are an investment in future growth;
- pursuing the reform and modernisation of pension systems.

To take better account of the need to **integrate tax policy** this year's Annual Growth Survey contains a new annex on growth-friendly tax policies in Member States and better tax coordination in the EU.

(2) Restoring normal lending to the economy: the bank excesses leading up to the crisis have resulted in a widespread fragility in the sector and now risk acting as a brake on economic recovery. Restoring investor confidence will require a strengthening of banks capital positions and measures to support banks access to funding, and will help to sever the link between the sovereign crisis and the financial sector. The objective is to address the weakness in the current regulatory and supervisory framework.

In a short-term perspective, the Commission considers that priority should be given to:

- strengthening of the capital positions of systemic banks;
- facilitating bank access to term funding by implementing temporary measures (e.g. public guarantees) so as to limit the impact of banking sector reform on the flow of credit to the real economy, avoiding the risk of further tightening credit conditions;
- creating a specific regime adapted for SME growth markets allowing them to be more visible to investors and subjecting SMEs to proportionate listing requirements;
- developing a new European venture capital regime that will enable EU venture capital funds to market their funds and raise capital on a pan-European basis across the Single Market;
- completing the implementation of a new regulatory framework for EU financial markets in accordance with G20 commitments and strengthening the new EU-level arrangements for financial supervision.

(3) Promoting growth and competitiveness: by putting particular emphasis on the **digital economy**, the internal market for services and external trade as well as better use of EU budget (including the potential of structural funds) in favour of growth and competitiveness.

Putting emphasis on efficient use of resources, for example, in areas such as energy efficiency and waste reduction can improve competitiveness, create new jobs and help preserve the environment. Priority should also be given to reforms to improve the business environment.

A targeted programme to accelerate growth is also necessary. To support these efforts, the Commission has identified a series of EU-level decisions which, if taken quickly, could give an immediate boost to growth. These include the 12 proposals of the "Small Business Act", which the European Parliament and the Council have already agreed to adopt by using the accelerated procedure.

(4) Tackling unemployment and the social consequences of the crisis: unemployment has increased significantly as a result, with **23 million people unemployed** in the EU today. Between 2008 and 2010, the total number of young (under 25) unemployed in the EU increased by one million – making it one of the groups that have been worst affected by the crisis. Moreover, one out of seven (14.4%) currently leaves the education system with no more than lower secondary education and participates in no further education and training.

To **create jobs and ensure a job-rich recovery**, the Commission considers that Member States should give particular priority to the following: (i) enhancing labour mobility; (ii) facilitating the recognition of professional qualifications and experience ; (iii) strengthening cooperation between public employment services; (iv) supporting employment especially of young people; (v) protecting the vulnerable.

(5) Modernising public administration: the quality of public administration at EU, national, regional and local level is a determining element of competitiveness, and an important productivity factor. The on-going pressure on public finances is driving major changes and restructuring of the public sector.

The Commission considers that Member States should give priority to: (i) improving their business environments by minimising administrative burdens, including by avoiding "gold plating" when transposing EU legislation and by reducing unnecessary regulations and permits, and introducing simpler and quicker procedures, in particular in their judicial systems; (ii) ensuring that exchanges between administrations and enterprises as well as citizens can be done digitally; (iii) facilitating the creation of new businesses by implementing the commitment in the Small Business Act to reduce the time for starting up of a company to 3 days; (iv) where absorption rates of EU structural funds is low, building administrative capacity, including the necessary expertise and continuity of management, to ensure speedier disbursement of unused funds on growth-enhancing projects.

In conclusion, the Commission invites:

- the European Council to take note of this Annual Growth Survey and to task Council formations to consider it and report to the Spring European Council so that the March European Council can adopt appropriate guidance for the 2012 European semester;
- the Member States to reflect the guidance agreed by the Spring European Council in their next Stability and Convergence Programmes and their National Reform Programmes in the spring 2012.