European semester for economic policy coordination: annual growth survey 2014

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The Committee on Economic and Monetary Affairs adopted the own-initiative report by Philippe DE BACKER (ALDE, BE) on the European Semester for economic policy coordination: Annual Growth Survey 2014.

The Committee on Budgets, exercising its prerogatives as an associated committee under Parliament's Rule 50 of the Rules of Procedure, also gave an opinion on the report.

The report noted that the latest Autumn Commission forecast shows that real GDP growth in the euro area is slowly returning and is expected to be reach 1.1% in 2014, unemployment is expected to fall and inflation is expected to remain well below 2%.

Growth in emerging markets is stagnating, while it remains robust in the US and positive in Japan. The Commission acknowledged that **most of the Europe 2020 objectives will not be met** even in the most optimistic of scenarios. Members noted that economic recovery in the EU is under way but is still fragile and that the EU economy as a whole needs to further boost its cost and non-cost competitiveness in the global economy.

The report underlined the importance of **launching or continuing the process of coherent and sustainable structural reforms for stability** in the medium and long term and stressed that the EU cannot compete on general or labour costs alone, but needs to invest more in research, innovation and development, education and skills, and resource efficiency, at both national and European level.

Members reiterated their demand for a **legal act** on 'convergence guidelines' to be adopted under the ordinary legislative procedure, laying down, for a set period, a very limited number of targets for the most urgent reform measures and its request that the Member States ensure that the national reform programmes should be established on the basis of the aforementioned convergence guidelines and verified by the Commission.

Member States are called upon to:

- commit themselves to fully implementing their national reform programmes;
- enter into a 'convergence partnership' with the EU institutions, with the possibility of conditional funding for reform activities;
- simplify tax systems, reduce taxes and social security contributions, especially for low and medium incomes, and shift taxes away from labour to consumption and environmentally damaging activities in order to stimulate growth, private investment and job creation, to make consolidation efforts more efficient, and to enhance investments in education, R&D, and active labour market policies;
- continue implementing or implement growth-friendly and sustainable structural reforms while enhancing the efforts for the achievement of the Europe 2020 objectives.

The report acknowledged the achievements of new and revised EU financial regulations in overcoming the financial crisis and noted that the **completion of the three pillars of the Banking Union** and the implementation of the new rules on capital requirements for banks contribute to re-establishing confidence in the resilience of the European banking sector.

As regards **SMEs**, the report stressed that access to finance is one of the biggest obstacles to growth in the EU. More alternatives to bank financing are needed by improving the efficient allocation of capital through capital markets, stimulating long-term investment and making full use of the EU's new innovative financial instruments designed to support access to capital markets for SMEs. The administrative burden for SMEs should be lightened.

In addition, Members stated that the main problem in a number of Member States is that the fragmentation of financial markets results in a shortage of funding and increased funding costs, especially for SMEs; considers that the ECB should maintain its pro-active role in favour of defragmentation and considers that the EIB can further promote funding for SMEs, entrepreneurship, exports and innovation, which are vital for economic recovery.

The report stressed that the European Semester must in no way jeopardise the prerogatives of the European Parliament and those of the national parliaments. There should be a clear division between EU and national competences. The Commission should ensure Parliament's proper, formal involvement in all steps of the European semester process in order to increase the democratic legitimacy of the decisions taken.

EU Budget: the report noted that the AGS 2014 differs only marginally from the 2013 edition. Members regretted, once again, the **absence of new proposals** from the Commission on the role which the EU budget can play in stimulating growth and job creation in order to achieve the Europe 2020 goals. They also regretted that the Commission has failed to provide Parliament with an exhaustive report on the implementation of the growth and jobs pact agreed in June 2012.

Members underlined the fact that the **low level of payment appropriations** and the tight ceiling on payments remain a crucial problem for the EU budget which has a particularly **negative effect on economic recovery**, as late payments are harmful primarily to the direct beneficiaries. This low level of payments in the 2014 EU budget is in total contradiction with the measures agreed by the co-legislators to increase temporarily EU co-financing rates for EU programmes under shared management in Member States experiencing or threatened with serious difficulties with respect to their financial stability. They recalled the need to ensure, in the light of implementation, an orderly progression of payments so as to avoid any abnormal shift of outstanding commitments ('RAL') onto the 2015 budget and, in this connection, to make use, where appropriate, of the various flexibility mechanisms included in the MFF Regulation.

Members regretted that **Member States persist in considering their contribution to the EU budget as an adjustment variable to their consolidation efforts**, which in turn leads to artificial reductions in the volume of payments available in the EU budget. The Commission is called upon to take full account of this recurring and dangerous trend when assessing the budgetary plans of the Member States and to propose concrete actions to reverse it. They considered that the fiscal situation of Member States can be eased through a **new system of own resources** to finance the Union budget that will reduce gross national income contributions, thus enabling Member States to meet their consolidation efforts without jeopardising EU funding to support investment in economic recovery and reform measures. The welcomed the new high-level group on own resources, which should lead to a true reform of EU financing.

Lastly, they reiterated that stronger economic cooperation should go hand in hand with an **incentive based mechanism** and that any additional funding or instruments, such as a solidarity mechanism, must be an integral part of the EU budget, but outside the agreed MFF envelope.