European semester for economic policy coordination: annual growth survey 2014

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The Council adopted **conclusions** on the Commission's annual growth survey, confirming the broad priorities outlined for 2014, which are the same as those identified last year. It noted that despite recent improvements, the **recovery remains fragile**. The legacy of the crisis, high unemployment and persisting fragmentation in the financial industry are likely to continue weighing on economic growth.

In this context, the Council underlined the need to **preserve the competitiveness of the EU economies vis-à-vis the rest of the world**. Efforts should be focused on the following objectives:

1) Pursuing differentiated growth-friendly fiscal consolidation and ensuring long-term sustainability of public finances: the Council emphasised that Member States should continue to implement their fiscal policies in line with the Stability and Growth Pact. It stressed that more attention should be paid to the quality and composition of fiscal adjustment as well as to the influence of fiscal policy on growth:

- by ensuring an appropriate mix of revenue and expenditure measures, including ensuring that tax systems support competitiveness, business, job creation and employability through tax shifts away from labour;
- better and more efficient public spending and modernisation of public administrations;
- and giving priority to public spending aimed at increasing the growth potential.

2) Restoring lending to the economy: the signs of improvement in financial conditions detected last year have become more solid and financial markets more robust, however, risks remain, lending conditions for businesses are not yet normalised, financial market fragmentation remains high, and SMEs in particular – continue to face financing constraints in some parts of the EU.

While significant progress has been achieved with banking restructuring as well as with improving bank regulation and supervision, further efforts are needed to complete the balance sheet repair of the banking sector, where necessary as soon as possible and to ensure that the banking sector, which plays a prominent role in financial intermediation in Europe, functions correctly in providing finance for productive activity and effectively sustains the economic recovery.

The Council stated that priority should be given to **developing alternatives to bank funding in Europe** . It noted that specific (legislative and structural funds) measures have been and are being taken at the EU level to **facilitate access to finance for SMEs** in addition to a great number of national measures.

3) Promoting sustainable growth, competitiveness, and tackling unemployment: the Council stressed the need:

- to give priority to the implementation of **structural reforms** that can encourage much needed sustainable investment and to the strengthening of the internal market, notably through competitiveness- and competition-enhancing reforms in product and services markets;
- to support and **simplify the overall business environment**, removing unwarranted regulatory and administrative burden on companies and improving the quality of legislation at all levels of government;

- to continue efforts to **modernise public administration** and to ensure interoperable, user-friendly provision of services, including through eGovernment tools and to reinforce the quality of the judicial system in playing an important role for investment decisions. Improving administrative capacity should also ensure a better use and speedier deployment of EU Structural funds;
- to **strength the digital single market**, focusing on conditions driving innovation, including entrepreneurship which raise performance in education and training systems and tapping the potential of a sustainable economy, so as to increase both overall resource efficiency and environmental protection;
- to monitor the role of social partners and **wage-setting frameworks** and where appropriate reformed to increase flexibility. Indexation mechanisms should be reconsidered and minimum wage levels, where
- applicable, should strike an appropriate balance between fostering employment creation and sufficient income;
- to foresee **well-targeted and cost-effective measures to promote the hiring of hard-hit groups** should be considered to reduce the risk of persistence of unemployment and dropping out from the labour force. Priority should also be given to early intervention to reduce **youth unemployment**, including through the full implementation of youth guarantee schemes.

Lastly, the Council underlined that, despite recent progress, current account deficit countries, and countries with high external debt, should continue their efforts to improve competitiveness and reduce current account deficits in a durable manner. It reiterated that addressing market failures and structural reform needs in surplus countries would contribute to rebalancing within the euro area and support aggregate demand.