**European Commission - Press release**

# European Semester Autumn Package: Working for a stronger and more inclusive economic recovery

Brussels, 16 November 2016

**Commission sets EU's economic and social priorities for the year ahead, confirms the need to move towards a more positive fiscal stance for the euro area, and completes assessment of euro area Member States' Draft Budgetary Plans**

The Commission today sets out its views on the EU's economic and social priorities for the year ahead, building on the guidance from President Juncker's 2016 State of the Union address and on the latest economic data from the Commission's Autumn 2016 Forecast. Today's package starts the 2017 cycle of economic governance, the so-called European Semester.

President Jean-Claude **Juncker** said: *"The 2017 European Semester we start today will be decisive for Europe to manage its economic and social turn-around. I believe we can do it. This is why today the Commission is recommending a positive fiscal stance to support the recovery and the monetary policy of the European Central Bank, which should not bear the burden alone. Every Member State should play its part: those that can afford it need to invest more, while those which have less fiscal space should pursue reforms and growth-friendly fiscal consolidation."*

Europe is experiencing a fragile but relatively resilient and job-intensive recovery. Its GDP is now higher than before the crisis. Unemployment is decreasing and investment is growing again. However, there is no room for complacency. Some of the tailwinds that have supported the recovery so far are fading. The legacies of the crisis, notably the social impact, high levels of public and private debt, and the share of non-performing loans, are still far-reaching.

The Commission therefore calls on Member States to redouble their efforts along the principles of the "virtuous triangle" of boosting investment, pursuing structural reforms and ensuring responsible fiscal policies, and in doing so, to put the focus on social fairness and delivering more inclusive growth. The Commission recently presented its priorities for action at EU level in its Work Programme for 2017, including the strengthening of the Investment Plan for Europe. Today's package provides further guidance for the economic and social policies of the Member States.

Looking at the euro area in particular, the Commission is calling for a significantly more positive fiscal stance for the currency area as a whole to overcome the risk of "low growth, low inflation", and to support the monetary policy of the European Central Bank.

The policy guidance in the **Annual Growth Survey** is accompanied by a Communication on the euro area's fiscal stance, a recommendation on the economic policy of the euro area, as well as a thorough analysis of economic, labour market and social conditions. The Commission is also issuing its Opinions on the Draft Budgetary Plans of euro area Member States for 2017.

## A positive fiscal stance for the euro area

In the letter of intent accompanying his 2016 State of the Union address, President Juncker announced the Commission's intention to promote "a positive fiscal stance for the euro area, in support of the monetary policy of the European Central Bank". The discussion on the appropriate fiscal stance for the euro area is a key aspect of the Commission's efforts to complete Europe's Economic and Monetary Union, as part of Stage 1 of the follow-up to the Five Presidents' Report of June 2015 ("deepening by doing").

Both monetary and fiscal policies play a key role in macroeconomic stabilisation. In the euro area, *monetary* policy has been conceived and designed as a single instrument. By contrast, in the absence of a centralised budget or stabilisation function, euro area *fiscal* policy is the result of the aggregation of 19 individual fiscal policies. In fact, on the basis of the latest data, and without taking account of the flexibility foreseen within the rules, a full delivery of the fiscal requirements contained in the Country-Specific Recommendations (CSRs) adopted by the Council in July 2016 would imply, on aggregate, a moderately restrictive fiscal stance for the euro area as a whole in 2017 and 2018. Given the need to sustain the recovery and in view of the broader uncertainty at this point in time, such a fiscal stance would not seem appropriate.

In its Communication, the Commission stresses the need for a more positive fiscal stance and that there is now a window of opportunity to achieve it. A positive fiscal stance refers both to the supportive, i.e. expansionary, direction that fiscal policy should take overall, and to the composition of the fiscal adjustment, in terms of the distribution of efforts across countries and of the types of expenditure and/or taxes behind it.

To deliver such a fiscal stance, the euro area must adopt a more collective approach which takes account of the differences in situations across countries: (i) for Member States which are over-achieving their fiscal objectives, use their fiscal space to support domestic demand and quality investments, including cross-border ones, as part of the Investment Plan for Europe; (ii) for Member States that need further fiscal adjustments under the preventive arm of the Pact, make sure to be broadly compliant with the requirements of the Stability and Growth Pact; (iii) for Member States under the corrective arm, ensure a timely correction of their excessive deficits, including by providing fiscal buffers against unforeseen circumstances.

**A recommendation on the economic policy of the euro area**

In line with the Communication on the euro area fiscal stance, the Commission recommends a fiscal expansion of up to 0.5% of GDP in 2017 for the euro area as a whole. This should contribute to a balanced policy mix, to support reforms and to strengthen the recovery. The recommendation also highlights the need to pursue structural reforms and improve the quality of public finances.

Since last year the Commission has put forward this recommendation earlier in the annual cycle, so that euro area and national dimensions can be better integrated in national budget planning and so Member States can take account of the potential spill-over effects and joint responsibilities. The recommendation provides guidance for the euro area as a whole and aims to promote policies that enhance job creation, social fairness and convergence as well as boost investment in order to support growth.

**The Alert Mechanism Report (AMR)**

The 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, and to prompt the right policy responses (so-called Macroeconomic Imbalances Procedure - MIP). The AMR identifies Member States for which the Commission should undertake further in-depth reviews to assess whether they may be experiencing imbalances. It is based on the economic reading of a scoreboard of agreed indicators.

For 2017, 13 countries will be covered by an In-Depth Review because imbalances were identified in the analysis emerging from this reading of the scoreboard. These are the same 13 countries identified as having imbalances in the previous round of in-depth-reviews (Bulgaria, Croatia, Cyprus, Finland, France, Germany, Ireland, Italy, the Netherlands, Portugal, Slovenia, Spain and Sweden). The Commission will present its conclusions of the in-depth reviews as part of its annual Country Reports in early 2017.

This year's AMR reviews progress with the correction of macroeconomic imbalances, in particular in the euro area, in the light of the ongoing paying down of domestic and external debt, some persisting challenges in the banking sector, and the dynamics in house prices and labour market developments, while taking account of the social situation.

At the aggregate level, the euro area continues to have the world's largest current account surplus. It expanded to further in 2015 and is expected to rise again this year. The euro area surplus is symptomatic of weak domestic demand dynamics in the past few years and of debt reduction efforts across sectors and Member States.

**Draft Joint Employment Report**

This year's draft report provides a summary of the performance of the Member States according to the unemployment rate; youth unemployment rate; the number of those not in employment, education or training; gross disposable household income; the rate of those at risk of poverty; and the inequality level.

The report confirms that the recovery is increasingly job-intensive, also thanks to recent structural reforms in a number of Member States. Eight million new jobs have been created since 2013, out of which almost 5 million have come since the beginning of the mandate of this Commission. The EU unemployment rate kept falling and stood at 8.5% in September 2016 (10% in the euro area), reaching its lowest level since 2009 (since 2011 in the euro area). At the same time, the employment rate in the age group 20-64 is above that observed in 2008 for the first time, at 71.1% (second quarter of 2016). This means that the 75% employment rate target set by the Europe 2020 strategy for 2020 could be within reach, if the current trend continues. Despite first signals of convergence among Member States, employment and social outcomes continue to vary significantly across countries. Unemployment levels as well as poverty remain far too high in many regions of Europe. High inequality levels reduce economic output and the potential for sustainable growth.

The report also highlights the extent of reforms carried out in the Member States. It will be jointly adopted with the Council.

**Assessment of Draft Budgetary Plans**

The Commission has also completed its assessment of whether the euro area Member States' Draft Budgetary Plans (DBP) for 2017 comply with the provisions of the Stability and Growth Pact. In several cases, the Commission finds that the planned fiscal adjustments fall short, or risk doing so, of what is required by the Stability and Growth Pact.

Specifically:

**Regarding the fifteen countries in the preventive arm of the SGP:**

- for five countries (**Germany, Estonia, Luxembourg, Slovakia and the Netherlands**), the DBPs are found to be **compliant** with the requirements for 2017 under the SGP.

- for four countries (**Ireland, Latvia, Malta, Austria**), the DBPs are found to be **broadly compliant** with the requirements for 2017 under the SGP. For these countries, the plans might result in some deviation from the adjustment paths towards each country's medium-term budgetary objective.

**-** for six countries (**Belgium, Italy, Cyprus, Lithuania, Slovenia, Finland**), the DBPs pose a **risk of non-compliance** with the requirements for 2017 under the SGP. The DBPs of these Member States might result in a significant deviation from the adjustment paths towards the respective medium-term objective. However, **Finland** has applied for use of the structural reform clause and investment clause. The Commission will take account of the uncertainty surrounding the output gap estimates when considering Finland's eligibility for the clause, which may in turn impact upon the assessment of compliance. In the case of **Lithuania**, the no-policy-change DBP included an application for use of the structural reform clause. The complete assessment of both Finland and Lithuania's possible eligibility for flexibility will take place within the normal European Semester cycle in the context of the assessment of the 2017 Stability Programme.

**Regarding the three countries currently in the corrective arm of the SGP (i.e. in Excessive Deficit Procedure):**

- for **France**, the DBP is found to be **broadly compliant** with the requirements for 2017 under the SGP, as the Commission 2016 autumn forecast projects that the headline deficit will be slightly below the Treaty reference value of 3% of GDP in 2017, although there is a significant shortfall in fiscal effort compared to the recommended level and the correction would not be durable in 2018 on the basis of unchanged policies.

- for **Spain**, the DBP is found to be at **risk of non-compliance** with the requirements for 2017 under the SGP. While acknowledging the no-policy-change nature of these projections, the Commission's forecast for 2017 projects that neither the intermediate headline deficit target, nor the recommended fiscal effort will be achieved.

- for **Portugal**, the DBP is found to pose a risk of non-compliance with the requirements for 2017 under the SGP, although the projected deviation exceeds the threshold for a significant deviation by a very narrow margin. The risks seem therefore contained provided the necessary fiscal measures are delivered. Portugal, which is currently under the corrective arm, is projected to respect the Treaty reference value of 3% of GDP this year, as recommended. It could become subject to the preventive arm from 2017, if a timely and sustainable correction of the excessive deficit is achieved.

**Portugal** and **Spain** submitted their DBPs by mid-October, as well as reports on action taken in response to the Council decisions to give notice, adopted on 8 August 2016 in accordance with Article 126(9) of the Treaty. The Commission has in the meantime assessed such documents and engaged in a structured dialogue with the European Parliament. The Commission has come to the conclusion that the Excessive Deficit Procedures of both Member States should be held in abeyance. Accordingly, the event that required a proposal by the Commissionto suspend parts of the European Structural and Investment Funds is no longer present and there will be no such proposal.

**Next steps**

The Commission invites the Council, notably the Eurogroup, and the European Council to discuss and endorse the guidance presented here. It looks forward to further discussion with the European Parliament on the priorities for the EU and euro area.

In the run up to the issuing of Country Reports early in 2017, to receiving national programmes and to publishing the Country-Specific Recommendations next Spring, the Commission intends to intensify the dialogue with the Member States to develop a common understanding of shared priorities and successful reform implementation and sequencing. Political-level missions will take place under the steer of the responsible Vice-President. Member States will also have the possibility to provide their feedback on the Commission's analysis during bilateral meetings.

The Communication also calls for the close involvement of national Parliaments, as well as of social partners, in the elaboration and implementation of national programmes.

**For more information:**

Start of the 2017 European Semester: Autumn Package Questions and Answers

Fiscal Stance Communication

Annual Growth Survey 2017

Alert Mechanism Report 2017

Euro Area Recommendation 2017

Draft Joint Employment Report 2017

Communication on Draft Budgetary Plans of the euro area

Annex to the Communication on Draft Budgetary Plans

Draft Budgetary Plans, Commission Opinions and Staff Working Documents

Assessment of action taken by Portugal and Spain

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Press contacts:

Annika BREIDTHARDT (+ 32 2 295 61 53)
Christian WIGAND (+32 2 296 22 53)
Annikky LAMP (+32 2 295 61 51)
Audrey AUGIER (+32 2 297 16 07)
Sara SOUMILLION (+32 2 296 70 94)

General public inquiries: Europe Direct by phone 00 800 67 89 10 11 or by email

Attachments

European Semester - Euro Area Recommendation.pdf
European Semester - Employment and Social Situation.pdf
European Semester - Overview Table.pdf