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# **DRAFT REPORT**

on the European Semester for economic policy coordination: Annual Growth Survey 2016  
(2015/2285(INI))

Committee on Economic and Monetary Affairs

Rapporteur: Maria João Rodrigues

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## MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

### on the European Semester for economic policy coordination: Annual Growth Survey 2016

(2015/2285(INI))

*The European Parliament,*

- having regard to the Treaty on the Functioning of the European Union (TFEU), and in particular Articles 121(2), 136 and 148 thereof,
- having regard to Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies<sup>1</sup>,
- having regard to Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States<sup>2</sup>,
- having regard to Regulation (EU) No 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area<sup>3</sup>,
- having regard to Council Regulation (EU) No 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure<sup>4</sup>,
- having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances<sup>5</sup>,
- having regard to Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area<sup>6</sup>,
- having regard to Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area<sup>7</sup>,
- having regard to Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties

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<sup>1</sup> OJ L 306, 23.11.2011, p. 12.

<sup>2</sup> OJ L 306, 23.11.2011, p. 41.

<sup>3</sup> OJ L 306, 23.11.2011, p. 8.

<sup>4</sup> OJ L 306, 23.11.2011, p. 33.

<sup>5</sup> OJ L 306, 23.11.2011, p. 25.

<sup>6</sup> OJ L 306, 23.11.2011, p. 1.

<sup>7</sup> OJ L 140, 27.5.2013, p. 11.

- with respect to their financial stability<sup>1</sup>,
- having regard to Council Recommendation (EU) 2015/1184 of 14 July 2015 on broad guidelines for the economic policies of the Member States and of the European Union<sup>2</sup>,
  - having regard to Council Decision (EU) 2015/1848 of 5 October 2015 on guidelines for the employment policies of the Member States for 2015<sup>3</sup>,
  - having regard to Regulation (EU) 2015/1017 of the European Parliament and of the Council of 25 June 2015 on the European Fund for Strategic Investments, the European Investment Advisory Hub and the European Investment Project Portal and amending Regulations (EU) No 1291/2013 and (EU) No 1316/2013 – the European Fund for Strategic Investments<sup>4</sup>,
  - having regard to the Commission communication of 10 February 2015 on making the best use of the flexibility within the existing rules of the stability and growth pact (COM(2015)0012),
  - having regard to its resolution of 24 June 2015 on the review of the economic governance framework: stocktaking and challenges<sup>5</sup>,
  - having regard to the Report on completing Europe’s economic and monetary union (‘Five Presidents’ Report’),
  - having regard to the Commission communication of 21 October 2015 on steps towards Completing Economic and Monetary Union (COM(2015)0600),
  - having regard to the G20 Leaders’ communiqué from the Antalya Summit of 15-16 November 2015,
  - having regard to the International Monetary Fund’s Update of Staff Sustainability Assessments for the G-20 Mutual Assessment Process on Imbalances and Growth (October 2015),
  - having regard to the Commission’s European Economic Forecast of Autumn 2015,
  - having regard to the studies and in-depth analyses on economic policy coordination in the euro area under the European Semester prepared for the Economic and Monetary Affairs Committee (November 2015),
  - having regard to the Commission communication of 26 November 2015 on the Annual Growth Survey 2016 (COM(2015)0690), the Alert Mechanism Report 2016 (COM(2015)0691) and the draft Joint Employment Report (COM(2015)0700),
  - having regard to the proposal for a regulation of the European Parliament and of the

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<sup>1</sup> OJ L 140, 27.5.2013, p. 1.

<sup>2</sup> OJ L 192, 18.7.2015, p. 27.

<sup>3</sup> OJ L 268, 15.10.2015, p. 28.

<sup>4</sup> OJ L 169, 1.7.2015, p. 1.

<sup>5</sup> Texts adopted, P8\_TA(2015)0238.

Council on the establishment of the Structural Reform Support Programme for the period 2017 to 2020 and amending Regulations (EU) No 1303/2013 and (EU) No 1305/2013 (COM(2015)0701),

- having regard to its resolution of 25 November 2015 on tax rulings and other measures similar in nature or effect<sup>1</sup>,
  - having regard to its resolution of [xx December 2015] on completing Europe's economic and monetary union,
  - having regard to the Council recommendation of [dd mm yyyy] on the economic policy of the euro area,
  - having regard to the debate with representatives of national parliaments on the priorities of the 2016 European Semester,
  - having regard to Rule 52 of its Rules of Procedure,
  - having regard to the report of the Committee on Economic and Monetary Affairs and the opinions of the Committee on Budgets, the Committee on the Environment, Public Health and Food Safety and the Committee on Regional Development (A8-0000/2015),
- A. whereas economic recovery in the European Union is under way but remains uneven between and within Member States and is partly driven by temporary factors;
- B. whereas global economic growth is slowing down and new strategic challenges are arising;
- C. whereas the euro area's current account surplus continues to rise, while Europe still faces an important investment gap;
- D. whereas the employment rate is improving but not enough to significantly curb unemployment and poverty;

### *Policy mix*

1. Welcomes the 2016 Annual Growth Survey package and the proposed policy mix of investment, structural reform and fiscal responsibility, with increased emphasis on domestic demand and convergence, complementing accommodative monetary policies;
2. Welcomes improvements in public finances, in particular gradually declining debt/GDP ratios;
3. Notes that Europe's global competitiveness remains an important objective, while the worsening global outlook calls for strengthening domestic sources of growth;
4. Calls for further efforts to support recovery, foster convergence and correct macroeconomic imbalances, including by channelling excess savings towards the domestic economy and boosting investment;

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<sup>1</sup> Texts adopted, P8\_TA(2015)0408.

5. Is encouraged by mild improvements in labour market indicators; calls for more effort to reduce poverty, social exclusion and growing inequalities;
6. Welcomes the renewal of the Europe 2020 Integrated Guidelines, and calls for strengthening the role of the Europe 2020 Strategy in guiding the European Semester;

#### *Investment*

7. Calls for the European Fund for Strategic Investments to be used to maximum effect to support higher-risk projects not financed otherwise, and to promote growth, job creation and cohesion;
8. Calls on the Commission and the Member States to use the European Structural and Investment Funds to their full potential;
9. Is aware of the ongoing deleveraging process in the private sector; points to the importance of completing the banking union and boosting equity investments in SMEs;
10. Highlights the importance of investments in human capital and other social investments;

#### *Structural reforms*

11. Considers that, after a long period of nominal adjustment, focus should be put on structural reforms and investments aimed at strengthening growth potential, promoting fair and sustainable welfare systems and reducing social inequalities;
12. Calls for product and service market reforms and better regulation, promoting innovation and quality-based competition;
13. Highlights the importance of greater resource and energy efficiency, including through the development of the circular economy;
14. Urges that further steps be taken towards resilient labour markets with reduced segmentation and sustainable welfare systems with increased focus on social investment;
15. Emphasises the need for modern, efficient and citizen-friendly public administration;
16. Calls for a greater shift of taxation away from labour;
17. Takes note of the proposal for a Structural Reform Support Programme, to be discussed under the ordinary legislative procedure;

#### *Fiscal responsibility*

18. Reiterates the need for responsible fiscal policies, taking into account debt sustainability, the economic cycle and investment gaps;
19. Insists on implementation of the Stability and Growth Pact, while making use of available fiscal space, inter alia, to deal with security threats and refugee inflows;

20. Emphasises the need for improved tax collection, fighting tax evasion and avoidance and improved tax policy coordination;
21. Supports all efforts towards improving the quality and growth-friendly character of public expenditure;

#### ***Specific focus on the euro area***

22. Welcomes the recommendation on the economic policy of the euro area as a way to deepen policy coordination in the follow-up to the Five Presidents' Report;
23. Emphasises that, given its high level of interdependence and the singleness of its monetary policy, the euro area needs to be viewed as one macroeconomic entity where convergence must be promoted; calls therefore for an in-depth aggregate assessment of macroeconomic imbalances in the euro area to complement the assessment of country-specific vulnerabilities; insists on full coherence between the euro area recommendation and country-specific recommendations;
24. Welcomes increased attention to the euro area's aggregate fiscal stance; calls for greater discussion on whether it can be considered broadly neutral given the large investment gap;
25. Supports the recommendation to differentiate fiscal effort by individual Member States taking into account their respective positions vis-à-vis Stability and Growth Pact requirements and stabilisation needs, as well as spillover effects; notes that high-surplus countries have significant fiscal space which they could use to the benefit of their populations and the monetary union as a whole;
26. Agrees that while the euro area's high current account surplus is a welcome sign of the euro area's external competitiveness, it also implies a lack of internal investment and a risk of euro appreciation when monetary policy starts to become less accommodative, with adverse effects on growth and employment;
27. Emphasises the need to foster real economic and social convergence driven by improvements in productivity and non-cost factors; underlines the importance of all Member States having sufficient investment capacity, enabling balanced and sustainable growth;
28. Recognises the benefits of symmetrical adjustment, where regaining cost competitiveness does not require undergoing deflation which is detrimental to debt sustainability;
29. Calls for measures preventing a race to the bottom in terms of taxation and social standards, building on better use of social indicators in macroeconomic surveillance;

#### ***More effective European Semester with stronger democratic accountability***

30. Believes that better implementation of country-specific recommendations requires clearly articulated priorities at European level and genuine public debate at national level, leading to greater relevance and ownership;

31. Calls for striking the right balance between making country-specific recommendations focused on key priorities and ensuring that they address all key challenges from the perspective of Europe 2020 targets;
32. Requests that plenary debates with the Commission and the President of the Eurogroup on the draft euro area recommendation become regular features in order to strengthen democratic dialogue and accountability;
33. Underlines that the spring European Council should remain the central moment where policy priorities are defined on the basis of input from the Commission, Parliament and the Council;
34. Highlights the importance of national parliaments debating country reports and country-specific recommendations and voting on national reform programmes;
35. Urges the Commission to launch negotiations on an interinstitutional agreement on economic governance, as suggested in the Five Presidents' Report;

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36. Instructs its President to forward this resolution to the Council and the Commission, and to the governments of the Member States, the national parliaments and the European Central Bank.



## EXPLANATORY STATEMENT

This report represents the European Parliament's contribution to the definition of economic policy priorities for the 2016 European Semester process of policy coordination, responding to the Commission's Annual Growth Survey and related documents, including a draft recommendation for the economic policy of the euro area. In parallel, reports on the employment and social aspects and the single market aspects of the European Semester are also being drawn up. All three reports will be discussed with the Commission and the Council in preparation for the Spring European Council.

This discussion should be framed and conducted in such a way by the institutions as to strengthen democratic character of European economic governance, pending an Inter-Institutional Agreement called for in the Five Presidents' Report<sup>1</sup>.

The present report aims to stimulate debate at European level, also with the involvement of national parliamentarians, social partners and civil society, on three main questions:

- What combination of fiscal, monetary and structural policies should the European Union implement over the 12-18 months?
- How should policy coordination be deepened at the level of the euro area?
- How can decision-making on the European Semester's priorities and recommendations be made more democratic and how can fuller implementation of recommendations be ensured?

### *Rebalancing the policy mix for a stronger recovery*

The European Union is emerging from a long economic crisis which caused severe social hardship and eroded economic growth potential. At the same time, it is confronted with new challenges, notably the threat of terrorist attacks, geopolitical instability in the Neighbourhood and unprecedentedly large arrivals of asylum-seekers. To ensure its political legitimacy, the European Union needs to develop the means to address these challenges.

Citizens are yearning for a stronger economic recovery, creating quality jobs and bringing back equality of opportunity. We also all want to live in a clean environment and to benefit from opportunities offered by the digital revolution and other technological innovations. However, we face major longer-term challenges such as climate change, robotisation, fragmentation of work tasks, demographic changes and an on-going shift towards a multipolar world.

The economic policy mix to be implemented by the EU, the euro area and individual Member States in 2016 needs to strengthen the recent economic recovery while addressing structural challenges and contributing to a long-term strategy for sustainable growth. The Europe 2020 Strategy<sup>2</sup> has undergone mid-term review and has been re-confirmed by the European

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<sup>1</sup> Completing Europe's Economic and Monetary Union, Report by J.-C. Juncker in close cooperation with D. Tusk, J. Dijsselbloem, M. Draghi and M. Schulz, 22 June 2015.

<sup>2</sup> Conclusions of the European Council, 25-26 March 2010 and 17 June 2010.

Parliament<sup>1</sup> and the Commission<sup>2</sup> as the overall framework for building smart, sustainable and inclusive growth in Europe. Its Integrated Guidelines have also been renewed earlier this year.

In order for this Strategy to be meaningful and realistic, it is vital that the priorities agreed and recommendations issued in the framework of the European Semester are fully consistent with it and focused on its implementation.

The exact content of the economic policy mix is what the first part of this report seeks to define. The rapporteur's view is that in the current economic circumstances, the 'virtuous triangle' of investment, fiscal responsibility and structural reform, promoted by the European Commission, should be enlarged into a 'solid square', with domestic demand as the fourth component.

Strengthening domestic demand requires greater investment by both private and public sectors, over and above the Investment Plan for Europe presented by the Commission in 2014. The slow deleveraging process makes new investment difficult, as many governments, financial institutions, companies and households are largely preoccupied by reducing their old debts, which is naturally more difficult in the context of low growth and low inflation. Attention therefore needs to focus on ways in which deleveraging can be accelerated and wise new investments undertaken in support of sustainable and inclusive growth. Efficient regulatory environment and well-functioning public administration are also important in this regard.

Crucially, short-term domestic demand and longer-term growth potential could become stronger if today's level of prosperity was more widely shared, with reduced inequalities in income and wealth. The OECD, IMF and other institutions have repeatedly stated over the recent years that redistributive policies play an important role for sustainable growth, including from a purely economic point of view.

Boosting growth potential through reducing inequalities is consistent with the principle of fiscal responsibility and implies - on the revenue side - more effective tax collection and prevention of tax avoidance, as well as progressive income taxation and greater shift of taxation away from labour towards wealth, capital gains, financial transactions and pollution. This needs to be matched with efficient public expenditure, especially in high-quality social investments such as education, childcare, healthcare and adequate social protection that empowers people throughout their lives. Infrastructure development, energy efficiency investments and business start-ups also need public support.

Furthermore, our understanding of 'structural reforms' needs to evolve, reflecting past experience and challenges ahead. The concept of 'structural reforms' has long been associated mainly with reducing the state's role in the economy and making markets more flexible. Unfortunately, this has not always led to improved productivity, while contributing to deflationary pressures and rising inequalities.

It is now time to move towards a 'second generation' of structural reforms whose main

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<sup>1</sup> European Parliament resolution of 16 September 2015 on the Commission Work Programme 2016 ([2015/2729\(RSP\)](#)).

<sup>2</sup> COM(2015) 690.

objectives should be strengthening the growth potential through higher employment and productivity, promoting fair and sustainable welfare systems, and reducing social inequalities to restore equality of opportunity. The newly proposed Structural Reforms Support programme should also reflect this.

### *Deepening EMU governance for stability and convergence*

Since the euro crisis erupted in 2010, EU governments and institutions have taken important steps to preserve the integrity of the euro area, but much more remains to be done to strengthen resilience of our Economic and Monetary Union, as explained in the Five Presidents' Report. One important aspect is to deepen the coordination of economic and social policies in the euro area. This requires, first of all, in-depth understanding of the overall fiscal position of the euro area and an aggregate view of macroeconomic and macro-social imbalances. The early presentation of the draft recommendation on the economic policy of the euro area is welcome in this context.

In its overall assessment of the euro area's Draft Budgetary Plans for 2016, the Commission concluded that, balancing the objectives of debt sustainability and counter-cyclical economic stabilisation, "the largely neutral aggregate euro area fiscal stance expected for next year appears broadly appropriate, when also taking into account the historically low interest rates and the high external surplus, which would indicate the need for some degree of demand support." At the same time, it pointed at "still insufficient orientation in [certain] Member States towards making use of the available fiscal space"<sup>1</sup>.

As regards macroeconomic imbalances, the 2016 Alert Mechanism Report notes that the euro area's current account surplus is projected to reach approximately € 390 billion or 3.7% GDP in 2015. This is considered "above what fundamental economic characteristics imply", reflecting "economic inefficiencies and subdued domestic demand". While the saving-investment balance in the euro area should be broadly balanced, the Commission says, the current account surplus signifies excess savings that are not channelled to the domestic economy. The euro area investment-to-GDP ratio stood at 19.8% in 2Q 2015, which is markedly below the 1998-2007 average of 22.1%<sup>2</sup>.

In the rapporteur's view, the need for higher investment clearly emerges from this analysis, especially given the context of low interest rates. Sustainable character of this investment is crucial, given high existing levels of public and private debt. Obvious investment gaps need to be filled to prevent deterioration of useful existing capital (fixed assets as well as human capital), while new investments need to be carefully planned, with focus on innovation, resource efficiency, good-quality education and creation of quality jobs.

That said, the euro area faces a paradoxical situation: Countries with greatest available fiscal space are among the strongest performers in terms of output and employment, hence their fiscal multipliers are relatively lower, partly explaining reluctance to increase public investment. On the other hand, countries with higher fiscal multipliers (related to low growth, high unemployment and large investment gaps) have limited fiscal space in view of SGP rules and pre-existing sovereign debt. This severely limits prospects for real economic convergence and for achieving Treaty objectives of balanced and sustainable growth.

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<sup>1</sup> COM(2015) 800, pp. 13-14.

<sup>2</sup> European Commission, European Economic Forecast – Autumn 2015, p. 27.

One key to solving this paradox would probably be greater willingness of countries with available fiscal space to use it fully, taking into account positive impact on the euro area as a whole. Another key is to improve the financial conditions for the other countries to invest, reform and converge, by completing the Banking Union and developing instruments for a complementary fiscal capacity.

*Strengthening democracy for more accountability, relevance and effectiveness*

The 2016 European Semester is divided into a European part, culminating with the Spring European Council, and a national part, starting with the publication of country reports. In order for priorities and recommendations to be relevant, accepted and acted upon, deep democratic debate and close involvement of social partners are needed at both levels.

In practical terms, this calls in particular for a European Parliament debate with the Commission and the President of the Eurogroup on the draft recommendation to the euro area, as well as closer dialogue between Parliament and Council before the latter adopts this recommendation and its conclusions on the AGS package. The joint debate of European and national parliamentarians with the Commission on 16-17 February 2016 is also an important moment. The European Parliament will also participate in the Semester through debates before and after the AGS presentation, before and after the Spring European Council and through a final assessment of the European Semester's implementation.

At the national level, in-depth parliamentary debates with Members of the Commission and national governments will be crucial, based on the euro area recommendation (where relevant), European Council conclusions, the Commission's country reports and the country-specific recommendations. The good practice of national parliaments debating and voting on National Reform Programmes and Stability or Convergence Programmes should also be extended.

New bodies proposed by the Commission in follow-up to the Five Presidents' report, namely national competitiveness boards and the advisory European fiscal board, are expected to be established during 2016 and possibly to get involved already in this European Semester cycle.

It is the rapporteur's hope that all actors will actively engage in the 2016 European Semester with the objective of achieving stronger economic recovery and greater resilience of Europe's social market economy to shocks and structural challenges, proving that European democracy works and is able to deliver sustainable, widely-shared prosperity.