EUROPEAN
COMMISSION

Brussels, 28.11.2012
COM(2012) 750 final

COMMUNICATION FROM THE COMMISSION

Annual Growth Survey 2013

INTRODUCTION

The on-going economic and financial crisis in the EU has been a catalyst for deep change. Its impact can be seen in the profound restructuring of our economies which is currently taking place. This process is disruptive, politically challenging and socially difficult – but it is necessary to lay the foundations for future growth and competitiveness that will be smart, sustainable and inclusive.

In order to continue with the necessary reforms, the EU needs to be able to show that our policies are working, that they will deliver results over time and that they will be implemented fairly in terms of the impact on our societies. Correcting the problems of the past and putting the EU on a more sustainable development path for the future is a shared responsibility of the Member States and the EU Institutions. Recognising that our economies are closely intertwined, the EU is now reshaping its economic governance to ensure better policy responses to current and future challenges.

This Annual Growth Survey launches the European Semester for 2013 and sets out how this shared responsibility can be used to drive change across the EU, laying the foundations for a return to growth and job creation.

The context

The economic situation in the EU remained fragile in 2012. For the year as a whole, GDP is now expected to contract by 0.3% in the EU and 0.4% in the euro area. It will take time to move towards a sustainable recovery.[1] After several years of weak growth, the crisis is having severe social consequences. Welfare systems cushioned some of the effects at first but the impact is now being felt across the board. Unemployment has increased substantially and hardship and poverty are on the rise. These difficulties are particularly visible in the euro area, but also extend beyond it.

The duration of the crisis has not helped Member States to press ahead with meeting their Europe 2020 targets on employment, R&D, climate/energy, education and the fight against poverty, and overall Europe is lagging behind its objectives.[2] Yet, progress in all of these areas is needed to move towards a smart, sustainable and inclusive European economy.

While challenges vary significantly across countries and inside the euro area, the prospect of a slow recovery makes the situation difficult for the EU as a whole. The levels of debt accumulated by public and private actors restrict the scope for new activities and investments. Fiscal and monetary policy instruments have been heavily mobilised and room for manoeuvre is now limited. Structural reforms are an essential part of restoring Europe's competitiveness but these decisions are often difficult to take. Transparency about the objectives of current policies and attention to fairness in terms of impact on society will be very important in sustaining the momentum for reforms.

[1] More information on the economic and employment situation can be found in the Commission autumn economic forecasts published on 7 November 2012 and in the documents accompanying this Survey.

[2] For an overview of progress towards the Europe 2020 targets, see: "Europe 2020 Strategy – towards a smarter, greener and more inclusive EU economy?", Eurostat, Statistics in focus, 39/2012.

The short-term outlook is still precarious but there are also more positive trends at play. Macro-economic imbalances, which have accumulated over a long time, are now being corrected, and parts of Europe are regaining competitiveness, even if there is still a long way to go to eliminate divergences in performance.[3] Progress is being made in consolidating public finances, and important steps have been taken to reduce tensions in the financial markets. Importantly, for those countries which have engaged in deep reforms, there are initial signs that they are beginning to work, with indebtedness reducing in the public and private sector in a number of Member States and exports increasing in several countries with previously large trade deficits.

Much has already been done at the EU level in 2012 to break the vicious cycle between the weaknesses of our financial systems, tensions on the sovereign debt market and low economic growth, in order to create the conditions for a sustainable recovery:

- The establishment of the European Stability Mechanism provides a credible backstop to assist euro area countries whose access to finance is curtailed.
- The adoption of a Compact for Growth and Jobs by the Heads of State or Government at the June 2012 European Council should galvanise the efforts of the EU legislator and administrations at all levels to mobilise the growth levers they have at hand - from the implementation of the Single Market Acts to the more targeted use of EU Structural Funds. The Commission has also recently proposed a strategy to improve the functioning of energy markets, as well as measures for a reinforced industrial policy.
- New rules to strengthen economic governance, notably within the euro area, are being implemented ("six pack" legislation), agreed (Treaty on Stability, Coordination and Governance) or should be agreed soon ("two pack" legislation).
- The European Central Bank has taken important measures to safeguard financial stability in the euro area.

Other key decisions are being discussed, which will influence Europe's future:

- We still need to find an overall agreement on the EU's multi-annual financial framework for 2014-2020. This will be essential in restoring growth and competitiveness across Europe and in achieving our Europe 2020 goals.
- Important steps are being considered to reinforce the Economic and Monetary Union (EMU). In parallel to this Survey, the Commission is presenting a blueprint for a genuine EMU. The 2012 December European Council will also discuss these issues.

The annual country-specific recommendations adopted in July 2012[4] should be the basis for action by the Member States. Implementation is the subject of a continuous dialogue between the Member States and the Commission and progress will be assessed next spring. As shown by the report from the European Parliament on the European Semester[5], monitoring at the EU level plays an important role in coordinating and supplementing Member States' own efforts.

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[3] The second annual Alert Mechanism Report (COM(2012)751) to identify macro-economic imbalances is adopted by the Commission alongside this Survey.

[4] The country-specific recommendations can be found at: http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm

[5] European Parliament, "Report on the European Semester for economic policy coordination: implementation of 2012 priorities [2012/2150(INI)], October 2012.

The priorities

The purpose of this Annual Growth Survey is to set out the economic and social priorities for the EU in 2013, by providing overall guidance to the Member States and the EU in conducting their policies. It launches the third European Semester of policy coordination, through which national performances and priorities are reviewed collectively at the EU level in the first half of each year. The European Council will issue guidance in March 2013 and Member States are due to present updated national programmes by mid-April 2013, following which the Commission will present its country-specific recommendations.

The short-term challenge is to restore confidence and stabilise the economic and financial situation, while carrying out structural reforms which will lay the foundations for a sustainable job-rich recovery and will allow the economy to transform itself in the medium-term. Such an adjustment will take time, so action is needed now.

Building on positive signs that the reforms already initiated are having an impact, the Commission considers that the priorities identified in last year's Survey remain broadly valid and that efforts at national and EU level in 2013 should again be concentrated on the following five priorities:

- Pursuing differentiated, growth-friendly fiscal consolidation
- Restoring normal lending to the economy
- Promoting growth and competitiveness for today and tomorrow
- Tackling unemployment and the social consequences of the crisis
- Modernising public administration

1. PURSUING DIFFERENTIATED, GROWTH-FRIENDLY FISCAL CONSOLIDATION

As a result of the crisis, the sovereign debt ratio has increased in just a few years from 60% to 90% of GDP on average in the euro area. Public finances urgently need to be overhauled to sustain welfare systems and public services, to limit the costs of re-financing for the State and other public authorities, and to avoid negative spill-overs for the rest of the economy, including possible contagion effects on other countries. Demographic developments will also continue to add pressure on age-related expenditure. Particular attention needs to be paid to fiscal policy in the euro area, where the impact of unsustainable national fiscal policies on other Member States is much stronger than elsewhere.

The overall trend of fiscal consolidation currently taking place indicates that progress is being made: government deficits in the euro area are expected to fall from an average of over 6% of GDP in 2010 to just over 3% in 2012. Public debt is expected to peak at about 94.5% next year in the euro area and in 2014 across the EU, and should then to start to decline as a percentage of GDP.

Fiscal consolidation may have a negative impact on growth in the short term. This effect is likely to be stronger during financial crises when financing conditions for other economic actors are also tight. However, this is not the only factor which matters for growth: depending on the choices made about the composition of the adjustment, the "multiplier effect" of fiscal policy will be different. For instance, experience has shown that in countries with relatively high shares of public expenditure in GDP, and relatively high tax rates, fiscal consolidation achieved through a reduction of expenditure rather than a further increase in taxation revenue is more supportive to growth in the long run. Between 2009 and 2012 fiscal consolidation was achieved by using both expenditure and revenue measures to a broadly similar extent: expenditure is forecast to have diminished by 2 percentage points of GDP and revenue to have increased by 1.3 percentage points.

Moreover, the alternative scenario of postponing fiscal adjustment would prove much more costly. Several Member States are unable to finance their needs by going to the markets or are struggling to contain rising spreads on their bonds because of doubts about the sustainability of their public finances. To restore the confidence of investors, reduce the costs of debt repayment and create fiscal room for manoeuvre, what is needed in these countries is a determined effort, at an appropriate pace, to put public finances on a sustainable path. The negative impact on growth can be largely mitigated, provided fiscal adjustment is well designed. Regaining fiscal sustainability will benefit both public and private actors in these countries and will contribute to the overall financial stability of the EU.

Each Member State is in a different fiscal and economic position and this is why the Commission advocates a differentiated fiscal consolidation effort, appropriate for each country. In line with the Stability and Growth Pact, these strategies should focus on progress achieved in structural rather than purely nominal terms, and include a composition of adjustment which supports both growth and social fairness. Such a differentiated approach also helps in readjusting current account imbalances.

The Stability and Growth Pact provides the appropriate framework for a flexible and efficient fiscal adjustment. The fiscal targets are expressed in nominal terms, and this is what often dominates the headlines. However, the Pact puts emphasis on the underlying budgetary position and the consolidation effort recommended by the Council is therefore expressed in structural terms.[6] Accordingly, if these conditions are met, a Member State may be given a longer time to correct its excessive deficit if a worse-than-expected economic situation prevents it from reaching its agreed objective. For example, during 2012, the deadlines set for Spain and Portugal to bring their government deficits back below 3% of GDP were extended by one year, giving them until 2014 to achieve this goal. Once excessive deficit situations are corrected, Member States should reach their medium-term budgetary objective, which will ensure that public finances are maintained at sustainable levels.

For those Member States which have lost market access for the refinancing of their debt, a rapid pace of fiscal adjustment is required to urgently restore investors' confidence. A concentrated effort, as agreed under the economic adjustment programmes, will also facilitate the necessary correction of macro-economic imbalances. This evidence is supported by the positive adjustment taking place in Ireland, Portugal and Romania. In Greece, however, the process has been longer and more costly due to a combination of factors, including the recurrent uncertainty regarding the implementation of the programme.

For Member States with greater fiscal room for manoeuvre, automatic stabilisers can play their role fully, in line with the Pact. The pace of consolidation can support growth, but Member States should bear in mind possible fiscal risks arising from delaying consolidation in view of the challenges of high debt levels, the prospect of an ageing population and the relatively low growth potential in some countries, as well as the negative consequences that a change in market sentiment would create.

[6] Fiscal balance is expressed in structural terms when it is corrected for the impact of the economic cycle and one-off and temporary measures.

The Commission will continue to be attentive to developments in the real economy. In particular, the forthcoming Commission winter forecasts, scheduled for early next year, will show whether Member States are respecting the agreed path for the reduction of their structural deficit and whether adjustments in the deadline for the correction of the excessive deficits would be justified, in full respect of the spirit and the letter of the Stability and Growth Pact.

Restoring sound public finances is a long process. Strong EU governance rules and national fiscal frameworks, as foreseen in EU legislation, will help to anchor these efforts over time. Such rules include the setting of numerical fiscal rules, the recourse to independent fiscal institutions and medium-term planning, with multi-lateral surveillance of progress.

On the expenditure side of government budgets, it is essential to look at the overall efficiency and effectiveness of spending. While the situation differs across countries, the Commission has recommended being selective where cuts are envisaged so as to preserve future growth potential and essential social safety nets. In particular, the Commission considers that:

- Investments in education, research, innovation and energy should be prioritised and strengthened where possible, while ensuring the efficiency of such expenditure. Particular attention should also be paid to maintaining or reinforcing the coverage and effectiveness of employment services and active labour market policies, such as training for the unemployed and youth guarantee schemes.
- The modernisation of social protection systems should be pursued to ensure their effectiveness, adequacy and sustainability. Reforms of pension systems should be stepped up to align retirement age with life expectancy, restrict access to early retirement schemes, and enable longer working lives. Also in the context of the demographic challenges and the pressure on age-related expenditure, reforms of healthcare systems should be undertaken to ensure cost-effectiveness and sustainability, assessing the performance of these systems against the twin aim of a more efficient use of public resources and access to high quality healthcare.

On the revenue side of government budgets, recent trends show that many Member States have increased personal income taxes and/or VAT rates.[7] There is, however, still scope to shift the overall tax burden towards tax bases that are less detrimental to growth and job creation, and to make tax systems more efficient, competitive and fairer. Such a shift requires a package approach which ensures equitable redistribution and is adapted to the circumstances of individual Member States. This is why the Commission recommends that:

- The tax burden on labour should be substantially reduced in countries where it is comparatively high and hampers job creation. To ensure that reforms are revenue-neutral, taxes such as consumption tax, recurrent property tax and environmental taxes could be increased.
- Additional revenue should be raised preferably by broadening tax bases rather than by increasing tax rates or creating new taxes. Tax exemptions, reduced VAT rates or exemptions on excise duties should be reduced or eliminated. Environmentally harmful subsidies should be phased out.[8] Tax compliance should be improved

7 European Commission, "Tax reforms in EU Member States 2012", European Economy, 6/2012.

8 In 2013 Member States will also start receiving new revenues from the emission allowances auctions under the third phase of the EU Emissions Trading Scheme.

through systematic action to reduce the shadow economy, combat tax evasion[9] and ensure greater efficiency of tax administration.

- The corporate tax bias towards debt-financing should be reduced.
- Real estate and housing taxation should be reformed to prevent the recurrence of financial risks in the housing sector. In particular, aspects of tax schemes which increase the debt bias of households, typically through tax relief for mortgages, should be reviewed.

On most of these measures, detailed country-specific recommendations have been issued and peer review activities are organised at the EU level to review progress and best practice. Implementation is now the major challenge.

2. RESTORING LENDING TO THE ECONOMY

The crisis has had a lasting impact on the financial situation of many public and private actors, affecting the confidence of investors and lenders and the effectiveness of the financial sector. The tensions in sovereign debt markets and within the banking sector have fed each other, creating severe funding problems for many borrowers. These developments have also led to the fragmentation of the financial system along national borders, with a retrenchment of financial activities to national domestic markets. The resulting limited or costly access to funding for many businesses and households wishing to invest has been a major obstacle to recovery across Europe to date. At the same time, high levels of indebtedness mean that many economic actors need to reduce their financial exposure or increase their savings. Such "deleveraging" can also hamper recovery in the short term. The problems are particularly acute in the vulnerable euro area Member States.

Action is under way at the EU level to address risks to the financial sector and correct the former weaknesses of our regulation and supervision systems:

- A coordinated effort has been made to assess the risks of the banking sector and to recapitalise the banks. Recognition of losses and the cleaning-up of banks' balance sheets are crucial to improving confidence in the markets and must be completed without delay.
- New EU supervisory authorities have been in place since January 2011 and are working to develop a single rulebook for strengthening the legal framework applicable to financial institutions. A swift agreement on the Commission's proposals on bank capital and liquidity, deposit guarantee schemes and bank resolution is needed to provide a more coherent framework for the prevention and management of financial crises.
- Closer monitoring of the levels of private debt and associated financial risks, such as real estate bubbles, is now taking place through the European Systemic Risk Board (ESRB) and the new EU procedure to tackle macro-economic imbalances.
- As one of the building blocks to strengthen Economic and Monetary Union, the Commission has proposed a banking union, including a Single Supervisory Mechanism, under the authority of the European Central Bank, to further integrate arrangements for the supervision of banks at EU level. The establishment of such a

[9] The Commission will shortly present an action plan to strengthen the fight against tax fraud and tax evasion, together with guidance to ensure good governance in the tax area.

mechanism will also create the conditions for the European Stability Mechanism to directly recapitalise banks that fail to raise capital on the markets.

At the national level, Member States can do more to promote alternative sources of financing, increase liquidity and reduce companies' traditional dependence on bank financing, for instance by:

- Promoting new sources of capital, including business-to-business lending, providing more possibilities to issue corporate bonds and facilitating access to venture capital.
- Reducing late payments by public authorities, since their average duration has further deteriorated in the crisis and this creates particular burdens for SMEs in an already difficult business environment. The EU late payment directive which must be transposed by March 2013 will reduce delay to 30 days and improve compensation in case of late payment.
- Developing the role of public banks and guarantee institutions in the financing of SMEs. This can cover some of the risks taken by private investors and can compensate for the lack of equity or for the small size of the company to be financed, including through new forms of securitisation.
- Supporting innovative schemes such as public schemes, which allow banks to borrow at a lower rate if they increase their long-term lending to businesses or provide cheaper and more accessible loans to SMEs.
- Ensuring a balanced approach to foreclosures in case of mortgage lending, protecting vulnerable households while avoiding banks' balance sheets from becoming overburdened. This includes measures to introduce personal insolvency regimes allowing modifications of the terms of mortgages to avoid foreclosures.

Moreover, it is important to make full use of existing or new EU financial instruments to act as a catalyst for targeted investment, in particular for key infrastructures:

- The provision of an extra EUR 10 billion to the European Investment Bank (EIB) will enable it to provide EUR 60 billion of additional financing over the next three to four years and will unlock up to three times this amount from other providers of finance.
- The deployment of project bonds represents an important new risk-sharing instrument to unlock private funding, for example from insurance companies and pension funds, thus complementing traditional bank lending. Several projects are now at an advanced stage of preparation by the EIB.
- As part of the Compact for Growth and Jobs, the Commission continues to work with Member States to re-programme and accelerate the use of EU structural funds to support growth, notably for SMEs. Moreover, Member States are invited to indicate in their National Reform Programmes how they intend to use Structural Funds to promote growth enhancing priorities for the next round of programmes (2014-2020). Full use should also be made of the Competitiveness and Innovation Programme facilities which have already mobilised EUR 2.1 billion in venture capital funds and provided EUR 11.6 billion of loans to SMEs.

3. PROMOTING GROWTH AND COMPETITIVENESS FOR TODAY AND TOMORROW

The crisis is accelerating shifts in the economy with some more traditional sectors particularly hard hit and newer ones finding it difficult to thrive. The rapid pace of the restructuring is challenging but also presents an opportunity to tap potential new sources of growth and jobs.[10] Such adjustments come on top of, and often serve to correct, longer-term competitiveness challenges faced by many of our economies. The Alert Mechanism Report adopted alongside this Survey shows that developments in price and non-price competiveness are contributing positively to improving external imbalances, although with some time lags. Those Member States under intense market pressure have undertaken significant reforms but more needs to be done to improve internal and external competiveness across a wide range of Member States.

As illustrated in the country-specific recommendations, there is no "one-size-fits-all" agenda but there are common goals, a range of reforms to consider and many examples of best practice – including examples of European world leaders – to draw from. While some reforms may take time to show their effects, others can offer more immediate results.

Some framework conditions need to be in place at the national level and priorities include:

- Driving innovation, new technologies and raising levels of public and private R&D investment. Targeted support by public authorities and greater competition for research grants will play an important role in this.
- Raising the performance of education and training systems and overall skill levels, linking the worlds of work and education more closely together.
- Improving the business environment, by relaxing the formalities required to start a business, simplifying authorisation, licensing and tax compliance procedures, and lowering the overall administrative burden on enterprises. Particular obstacles to activities in job-rich sectors such as construction, business services, logistics, tourism and wholesale trade should be overcome.
- Tapping the potential of the green economy by setting a predictable regulatory framework and promoting the emergence of new markets and technologies. In particular, more ambitious energy efficiency renovation programmes – including, but not limited to, the requirements of the EU energy efficiency directive – can bring important savings and job creation, in addition to environmental benefits. Improved waste management, water management and recycling also have strong potential to create new jobs, while helping to secure the supply of scarce resources and materials.

The European single market offers many opportunities for businesses to develop and for consumers to benefit from better services and products. In the field of services, many gains can be reaped if Member States improve implementation of the services directive by:

- Complying with their obligations to eliminate restrictions based on nationality or residence of the service provider.

[10] The first edition of the Single Market Integration Report (COM(2012)752) accompanying this Survey presents cases of untapped sources of growth. More information can also be found in the forthcoming Commission's study on "The cost of non-Europe: the untapped potential of the Single Market".

- Reviewing the necessity and proportionality of regulation of professional services, in particular fixed tariffs, and limitations on company structures and capital ownership.
- Reviewing the application of the clause on the freedom to provide services in order to remove unjustified double regulation in sectors such as construction, business services and tourism, and ensuring transparent pricing in healthcare services
- Strengthening competition in the retail sector by reducing operational restrictions, in particular by eliminating economic needs tests.

The performance of network industries across Europe also has a critical knock-on effect on the rest of the economy and can be significantly improved by:

- Developing the right incentives for the rapid country-wide roll-out of high-speed internet infrastructure and the development of mobile data traffic. Frequency bands for wireless broadband need to be freed up by governments.
- Ensuring the full transposition and implementation of the third energy package, in particular unbundling networks, securing the independence and necessary powers of national regulators and phasing out gradually regulated energy prices, while protecting vulnerable consumers.
- Accelerating the implementation of the Single European Sky by reducing the fragmentation of air traffic management and improving the organisation of airspace.
- Opening up domestic rail passenger services to competition, in particular through equal access to infrastructure.
- Integrating ports better into the logistic chain, by removing entry barriers to port services.
- Removing remaining cabotage restrictions to improve the matching of supply and demand in international transport.
- In line with the e-commerce directive, applying harmonised rules on transparency and information requirements for businesses and consumers.

The performance of product markets would also be greatly improved if national standardisation bodies deliver the objectives set at the EU level, in particular to move from national to European-level standards. Full use should be made of the notification of technical rules for ICT products and services to facilitate their circulation in the single market.

4. TACKLING UNEMPLOYMENT AND THE SOCIAL CONSEQUENCES OF THE CRISIS

Over the last twelve months, the number of unemployed people has increased by 2 million, to reach more than 25 million. The unemployment rate is up to 10.6% in the EU and 11.6% in the euro area. Long-term unemployment is increasing and nearly one in two unemployed people have been without a job for more than a year. The situation varies very significantly across Europe, with national unemployment rates ranging on average from less than 5% to more than 25%. Young people have been particularly badly hit, with youth unemployment rates reaching more than 50% in certain countries,[11] but other age groups are also affected.

[11] Over the last year, the Commission has set up action teams to assist countries with the highest rates of youth unemployment in the re-programming of EU funds to support training and job opportunities for

Given the length of unemployment periods, the rapid restructuring of the economy and the difficulties of finding a job, there is a risk that unemployment will become increasingly structural and that a growing number of people withdraw from the labour market.[12] There are also clear indications that risks of poverty and social exclusion are increasing in many Member States.[13] Additional pressures on social protection systems also affect their capacity to perform their welfare functions.

The weak growth prospects and the time lag between economic recovery and recovery in the labour market means that there is no prospect of immediate or automatic improvement in the employment situation. This poses a major challenge for the EU as a whole, as well as for those countries most affected, and calls for more determined action by the public authorities and the social partners.

In addition to the impact of the current crisis, the structural trend towards an ageing and, before long, a shrinking working-age population in parts of Europe creates particular challenges. Encouraging the early retirement of older workers in the hope that young people will be recruited in their place is a policy that has proven largely ineffective and very costly in the past, and should not be repeated.

In spite of the high levels of unemployment, there is also evidence of skills bottlenecks and mismatches, with certain regions or sectors lacking employees who fit their needs. Raising participation in the labour market, improving skill levels and facilitating mobility remain urgent priorities.

Several ambitious reforms are being implemented across Europe. In countries under financial pressure, measures have been taken to facilitate flexible working arrangements within firms, reduce severance pay for standard contracts and simplify individual or collective dismissal procedures. Steps have also been taken to enhance flexibility in wage determination, such as easing the conditions for firms to opt out of higher-level collective bargaining agreements and the review of sectoral wage agreements.

Preparing for a job-rich recovery

Further efforts to improve the resilience of the labour market and invest in human capital are essential to help companies to recruit and adapt, and to allow more people to remain active and take up opportunities. Social partners have a key role to play alongside public authorities. This is why the Commission recommends, in particular:

- To limit the tax burden on labour, notably for the low-paid, as part of broader efforts to shift tax burden away from labour. Temporary reductions in social security contributions or job subsidy schemes for new recruits, notably the low-skilled and long-term unemployed, could also be considered to promote job creation, provided they are well targeted.
- To continue modernising labour markets by simplifying employment legislation and developing flexible working arrangements, including short-time working arrangements and work environments conducive to longer working lives. Reducing the gaps in employment protection between different types of work contracts should also help to reduce labour market segmentation, as well as

young people. See first results at: http://ec.europa.eu/commission_2010-2014/president/pdf/council_dinner/youth_action_team_en.pdf

12 The Draft Joint Employment Report annexed to this Survey provides more detailed information.

13 The number of people at risk of poverty and social exclusion has increased since 2008 in 13 out of the 23 Member States for which data are available in 2011.

undeclared work, in several countries. The impact of unemployment benefits should be monitored to ensure appropriate eligibility and effective jobseeking requirements.

- To monitor the effect of wage-setting systems, in particular indexation mechanisms, and if necessary to amend them, respecting national consultation practices, in order to better reflect productivity developments and support job creation. It is important that minimum wage levels strike the right balance between employment creation and adequate income.
- To tap the job potential of expanding sectors, such as the green economy, healthcare and ICT, through a future-oriented and reliable legal framework, the development of adequate skills and targeted public support.[14]

Improving employability levels, in particular of young people

At the same time, Member States should do more to fight unemployment, improve employability and support access to jobs or a return to the world of work, in particular for the long-term unemployed and young people. This includes measures:

- To boost public employment services and step up active labour market measures, including skills upgrading, individualised jobseeking assistance, support for entrepreneurship and self-employment, and mobility support schemes. Despite some additional resources devoted to these activities or efforts to improve their efficiency, the support provided hardly matches the surge in the number of registered jobseekers experienced in several countries.
- To reduce early school-leaving and facilitate the transition from school to work by developing quality traineeships, apprenticeships and dual learning models - classroom-based education combined with hands-on experience in the work place. Efforts to develop entrepreneurial skills are needed to support new business creation and improve employability levels of the young[15].
- To develop and implement "youth guarantee" schemes whereby every young person under the age of 25 receives an offer of employment, continued education, an apprenticeship or a traineeship within four months of leaving formal education or becoming unemployed. Such schemes can be co-financed by the European Social Fund.[16]
- To facilitate labour market participation and access to jobs for second earners through adequate tax-benefit incentives and the provision of quality affordable childcare.
- To improve access to lifelong-learning systems throughout working life, including for older workers, by strengthening partnerships of public and private institutions involved in the provision, application and updating of specific skills.
- To improve the connection between education and lifelong-learning systems and labour market needs. Short-cycle tertiary qualifications of two years, focused on areas where a skills shortage has been identified, as well as targeted mobility schemes, can prove particularly effective in current circumstances.

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14 The Commission spelled out ways to tap this potential in its Communication "Towards a job-rich recovery" (COM(2012)173) of 18 April 2012.

15 The Commission adopted on 20 November 2012 a "rethinking education" communication (COM (2012) 669)

16 The Commission will shortly present a "youth employment package".

- To encourage cross-border labour mobility by removing legal obstacles and facilitating the recognition of professional qualifications and experience. Cooperation between employment services should be reinforced, and the EURES platform can provide the basis for a more integrated European labour market.

Promoting social inclusion and tackling poverty

In addition to these measures, additional efforts are needed to ensure the effectiveness of social protection systems in countering the effects of the crisis, to promote social inclusion and to prevent poverty:

- Active inclusion strategies should be developed, encompassing efficient and adequate income support, measures to tackle poverty, including child poverty, as well as broad access to affordable and high-quality services, such as social and health services, childcare, housing and energy supply.
- The link between social assistance and activation measures should be strengthened through more personalised services ("one-stop shop") and efforts to improve the take-up of measures by vulnerable groups. Once the labour market recovers, it will be important to phase out crisis-related measures, while ensuring that essential safety nets are preserved.

5. MODERNISING PUBLIC ADMINISTRATION

The squeeze on public finances has created renewed momentum for the modernisation of public administration. In the EU, public expenditure accounts for almost 50% of GDP and the public sector represents about 17% of total employment.

Over the years, many Member States have undertaken measures to increase the efficiency of their public services as well as the transparency and quality of their public administration and judiciary. Such reforms have been particularly far-reaching in countries in financial distress. Examples include reorganising local and central government, the rationalisation of the public sector pay system and of the governance of state-owned enterprises, reform of public procurement processes, regular comprehensive expenditure reviews and the promotion of efficiency measures across the public sector, such as a greater use of shared services and information technology solutions. In several instances, Member States and the Commission have cooperated through the provision or exchange of technical assistance.

Various measures already outlined above – such as the full and correct transposition of EU law, the efficiency of the tax collection and healthcare systems, the need to reduce delays in payments and the role of public employment services – can have a significant positive impact and should be pursued. In addition, the Commission considers the following to be particular contributors to growth:

- Employing sound financial management by making full use of public procurement opportunities in support of market competition and developing e-procurement capacities across the single market. Such actions not only contribute to greater efficiency and fairness but also help to combat corruption.
- Simplifying the regulatory framework for businesses and reducing the administrative burden and red tape, particularly at national level.
- Ensuring the widespread, interoperable digitalisation of public administration, aimed at fostering user-friendly procedures for service providers and recipients, as

well as administrative simplification and transparency. Cross-border interoperability of online services and research centres throughout the EU is particularly important.

- Improving the quality, independence and efficiency of judicial systems as well as ensuring that claims can be settled in a reasonable time frame and promoting the use of alternative dispute mechanisms. This should reduce costs for businesses and increase the attractiveness of the country to foreign investors.
- Making better use of EU structural funds by stepping up administrative capacity efforts this year to ensure speedier distribution of unused funds.

CONCLUSION

The EU economy is slowly emerging from the deepest financial and economic crisis in decades. Member States are starting from different positions, the nature and size of the challenges they face are not the same and the pace of reforms varies. The situation remains fragile. The implementation of reforms is underway and important adjustments are still taking place, but there are signs that in the course of next year we will begin to see a recovery. In those Member States which have undertaken deep reforms, efforts are starting to bear fruit: imbalances are being reduced and competitiveness is improving.

This process is not only about a return to growth but is also about building the basis for a different quality of growth following the crisis. Structural reforms at national and EU level must strengthen the EU's ability to compete globally, generating growth at home through activities which are sustainable and which equip the EU with the policies and instruments needed to secure a prosperous, inclusive and resource efficient future. Solidarity and fairness – within countries but also across Europe – will be essential elements in ensuring that the efforts undertaken will be politically and socially acceptable and of benefit to all.

Many important decisions have already been taken in the Member States and at the EU level. Now is the time to hold the course and implement what has been agreed. To restore confidence and return to growth, it is also crucial to maintain the pace of reforms, particularly in the following areas:

- Public finances must be brought back on track to restore their sustainability. This is important not only for the confidence of investors in the short term but also to meet the needs of an ageing society and preserve the prospects of future generations. The pace and nature of fiscal consolidation may vary: while some Member States need to reduce deficits rapidly, others have more room for manoeuvre. Any negative impact on growth in the short term can be mitigated by appropriate measures on the expenditure and revenue sides of government budgets.

- Efforts to repair the financial sector must continue to restore financial stability and deliver better financing conditions for the economy, including through alternative sources of finance. Further progress at the EU level is necessary to build an integrated supervision framework and to reinforce the legal framework applicable to financial institutions.

- Structural reforms must be reinforced to promote growth and boost competitiveness. There is still a wide range of measures to be considered at the national level, with EU legislation in place to serve as catalyst for change. A lot can be learned from best practices in Member States and third countries.

- The labour market situation and social situation call for an urgent response. Stepping up active labour market policies, reinforcing and improving public employment services, simplifying employment legislation and making sure that wage developments support job creation are essential elements of such a strategy. The situation of young people requires particular attention. Furthermore, efforts should be stepped up to promote social inclusion and prevent poverty by reinforcing essential safety nets.

- National and EU level growth strategies can only be implemented with the help of effective public administrations. More can done to modernise, for instance in the fields of public procurement, the digitalisation of public administration, improving the quality and independence of judicial systems and the effective and efficient deployment of EU structural funds.

The guidance provided in this Annual Growth Survey will be discussed at the EU level to prepare for the spring European Council next March and to help in the preparation of the updated sets of national programmes and country-specific recommendations. The Commission will work closely with national authorities, including national parliaments, EU Institutions and other stakeholders to create a shared sense of ownership and steer progress as part of wider EU efforts to exit from the crisis and to lay the foundations for smart, sustainable and inclusive growth across the EU.