**Follow up to the European Parliament non-legislative resolution on the European Semester for economic policy coordination: Annual Growth Survey 2019**

(European semester for economic policy coordination: annual growth survey 2019)

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**2. Reference numbers**: 2018/2119 (INI) / A8-0159/2019 / P8\_TA-PROV(2019)0201

**3. Date of adoption of the resolution**: 13 March 2019

**4. Competent Parliamentary Committee:** Committee on Economic and Monetary Affairs (ECON)

**5.** **Brief analysis/ assessment of the resolution and of requests made in it**:

The resolution welcomes the Annual Growth Survey 2019, highlighting its focus on increasing investments, productivity-enhancing reforms, macro-financial stability and sound public finances. The resolution calls for a deepening of the Economic and Monetary Union (EMU), in accordance with the agreed roadmap, and for enhanced attention to the completion of the single market.

Regarding investment, attention is drawn to intergenerational fairness and productivity growth. The resolution welcomes the positive contribution of the Investment Plan for Europe to economic growth and job creation, but points to the investment gap in the euro area and the risk of an economic slowdown. Productivity growth requires investment in skills, education, innovation, automation, digitalisation, research & development, sustainable mobility and infrastructure, in line with the targets of the Europe 2020 strategy. A fully-fledged capital markets union would increase private risk-sharing and risk-reduction, facilitate cross-border investments and access to finance for economic agents.

The resolution notes that increasing the labour force participation rate would contribute to the sustainability of social security systems, and highlights the need for targeted measures towards young people not in education, employment or training (NEETs) and refugees. As excessive taxation can be a hindrance to investments and jobs, the resolution calls for a tax shift away from the high tax burden on labour in Europe. As regards the challenges of a diminishing working age population, active labour market policies, lifelong learning and training are key to ensuring inclusive and well-functioning labour markets as outlined in the European Pillar of Social Rights.

Regarding businesses, tackling unfair competition with multinational corporations by fighting tax evasion can help small and medium-sized enterprises (SMEs). A business-friendly administrative and regulatory environment should provide sufficient consumer protection and help companies access finance and raise funds across borders. The resolution welcomes the Annual Growth Survey’s emphasis on the need to improve the effectiveness of public administration at all levels of government.

Noting the demographic evolution and ageing of Europe’s population, the resolution calls on the Member States to adequately prepare through structural reforms and by creating fiscal buffers. Similarly, efforts are still needed from Member Stateswith high levels of deficits and public debt. The resolution highlights the importance of coherent implementation of and compliance with the Stability and Growth Pact for both responsible public finances and to ensure the trust of financial markets.

The resolution regrets the low degree of implementation of the country-specific recommendations, emphasising the need to increase national ownership by *inter alia* better engaging with the relevant actors and streamlining the process.

**6. Response to requests and overview of action taken, or intended to be taken, by the Commission:**

**Paragraph 6:**

Deepening the Economic and Monetary Union (EMU) has been a key concern for the past few years, as illustrated by the Four and Five Presidents’ reports. In 2017, the Commission presented a reflection paper on the deepening of the EMU, following which a number of concrete proposals were put forward by the Commission in 2017 and 2018.

The Euro Summit of December 2018 agreed on a number of steps paving the way towards a stronger Economic and Monetary Union. Concrete progress and swift implementation of these initiatives must now follow.

The Commission believes it is necessary to complete the Banking and Capital Markets Unions, by including a European Deposit Insurance Scheme and making the common backstop for the Single Resolution Fund operational.

In line with the Euro Summit guidance, work has started on the design, modalities of implementation, and timing of a euro area budgetary instrument, starting from the Commission proposal for a Reform Support Programme.

The Commission has also launched consultations following the December 2018 Communication “*Towards a stronger international role of the euro*”. The Commission is fully committed to delivering the complete vision presented in the 2017 Reflection paper for completing the EMU.

**Paragraph 7:**

As pointed out by the Commission in its Annual Growth Survey, the architecture of the EU economy needs strengthening. In particular, a fully integrated and well-functioning Single Market will help make the economy more resilient to future shocks and crises. Therefore, and in order to mitigate growing threats of protectionism and global trade tensions, it is important that pending reforms of capital and energy markets and the digital economy are carried out, enforcement actions undertaken, and national product and service market reforms implemented.

In order to complete the Single Market and unleash its full potential, the Member States need to take ownership, collectively as well as individually. Alongside innovation and technology diffusion, well-functioning product and services markets are key drivers of productivity growth as they enable a more efficient allocation of resources. The need for reform by the Member States is especially urgent in energy, telecommunications, transports, business services and retail trade. There are still protected areas where rent-seeking delays the introduction of innovations and new business models, including the collaborative and circular economy.

In its recent communication "The Single Market in a changing world: a unique asset in need of renewed political commitment" (COM(2018) 772 final), the Commission underscored the need to complete the Single Market, outlined the potential benefits thereof, and called on the Member States to renew their commitment. On 21 and 22 March 2019, the European Council held a debate on the basis of the Commission communication and called on the EU and its Member States to deepen and strengthen the Single Market, with particular emphasis on the development of a service economy and on mainstreaming digital services, remove unjustified barriers and not create any new barriers.

**Paragraph 23:** *“Highlights the fact that small and medium-sized enterprises (SMEs), which are an important driver of employment, are unable to fully harness the potential of the European single market on account of legislative and administrative barriers; urges the Commission to reduce these barriers…”*

Country reports regularly analyse the size, structure and importance of SMEs to the European economy along with an overview of their past and forecasted performance. The analysis of business environment and national policy developments is built on indicators that are monitored and assessed in the yearly SME Performance Reviews, along the 10 policy dimensions set out in the Small Business Act, ranging from conditions of business creation to insolvency frameworks and second chances.

Regulatory policy and governance are especially relevant given their impact on investment and productivity. Fitness of regulation is assessed against the perception of SMEs of fast-changing legislation and policies as well as the complexity of administrative procedures. Adequacy of institutional frameworks for the development of policy and rule-making and their implementation on the ground are also analysed from the perspective of the SME Test and impact assessment regulation.

In the 2018 cycle, a number of recitals to country specific recommendations specifically referred to SMEs. In three cases (Ireland, Italy and Slovakia), measures aimed at improving the perspectives for SMEs have been explicitly targeted by a country specific recommendation.

**Paragraph 23:** *“…urges the Commission, moreover, to tackle unfair competition and taxation among SMEs and multinational corporations; emphasises the importance of continuing the fight against tax fraud, evasion and avoidance;”*

The Commission is committed to ensuring a level playing field between all businesses in the single market and is making progress in ensuring fairer and more efficient taxation. The first provisions of the Anti-Tax Avoidance Directives entered into force on 1 January 2019, providing key anti-avoidance measures in Member States’ legislation. In addition, Member States have been required to automatically exchange information on tax rulings since 2017. The exchange of information on country-by-country reports by multinationals has also started. In 2018, the Member States adopted new transparency rules for intermediaries that design or sell potential harmful tax schemes. The Common EU list of non-cooperative tax jurisdictions is contributing to improvements in global good governance, with many jurisdictions taking concrete action during the last year to address deficiencies in their tax systems, including the elimination of over 100 harmful regimes across the world. The Commission has proposed a Common Consolidated Corporate Tax Base, which would be mandatory for large multinationals, and is also working with Member States to contribute to and shape progress at global level on the tax challenges of digitalisation, including through the Organisation for Economic Co-operation and Development (OECD).

Furthermore, through the European Semester, the Commission continues to monitor taxation developments in the Member States, in particular with regard to the priorities of stimulating investment, boosting employment, reducing inequalities, and fighting tax fraud, evasion and avoidance. In 2018, the Commission issued country-specific recommendations related to tax compliance for five Member States. The 2019 Annual Growth Survey highlights the importance of combating tax fraud, evasion and avoidance, which is reflected in the analysis made in a number of country reports for the 2019 European Semester cycle.

**Paragraph 31**. *“…calls on the Commission to take all country-specific factors into account for the purposes of its debt sustainability analyses;”*

The resolution welcomes the European Fiscal Board’s proposal for a radical simplification of the budgetary rules to further improve the current EU fiscal framework. It stresses that flexibility, as built into the rules of the Stability and Growth Pact, allows Member States to strike a good balance between the objective of ensuring prudent fiscal policy and facilitating productive investments and it calls on the Commission to take all country-specific factors into account for the purposes of its debt sustainability analyses.

A review of the Six-Pack and Two-Pack Regulations is foreseen by the end of the year, which will provide the opportunity for a comprehensive assessment of the economic and fiscal rules. Reforming the surveillance framework must be part of a broader agenda to complete the EMU. The completion of the banking union and the creation of a euro area budget could pave the way to a significant simplification of the Stability and Growth Pact and of the Macroeconomic Imbalance Procedure.As a contribution to the reviews foreseen in the legislation, the Commission President has asked the European Fiscal Board to provide its own assessment of the fiscal rules by the end of July 2019. The input of the Board will be made public and will contribute to shaping, alongside the views expressed by stakeholders, the broader exercise.

The Commission will continue to make use of the flexibility embedded in the Stability and Growth Pact and detailed in the common position endorsed by the Council in February 2016. As emerged from the review of flexibility issued by the Commission in May 2018, making use of the flexibility within the Pact has allowed striking a good balance between the objectives of ensuring prudent fiscal policy and stabilising the economy.

Together with the Member States, the Commission evaluates fiscal sustainability challenges faced by Member States according to a comprehensive and horizontally consistent assessment framework that brings together results on debt sustainability analysis and fiscal sustainability indicators. The quantitative results and ensuing risk assessments are duly complemented with a broader reading and interpretation of results to take into account country-specific contexts.