Opinion of the European Economic and Social Committee on Euro area economic policy 2019 (additional opinion

(COM(2018) 759 final)

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Preamble

This opinion is part of a package of two follow-up opinions, one on the Annual Growth Survey (COM(2018) 770 final) and one on the Recommendation on the economic policy of the euro area (COM(2018) 759 final). The aim is to update and elaborate on previous EESC proposals, ([1]) taking into account the latest developments and economic forecasts for the EU and the euro area, as well as the various reports and recommendations published within the current European semester. The package provides EU civil society's comprehensive economic, social and environmental policy input into the next cycle of the European semester, which will be launched in November 2019. The EESC calls on the European Commission and the Council to make use of this input in the upcoming Autumn Semester Package and the ensuing inter-institutional decision-making process.

1. Conclusions and recommendations

1.1. The EESC respects the positive development of the EU economy and the euro area over the last few years. At the same time, it is very well aware of the risks that could reverse this trend. The EESC notes that the EU economy and euro area economy are now more exposed than usual to risks from outside the EU. Central elements of uncertainty here are Brexit, especially a no-deal Brexit, and the escalation of trade wars.

1.2. The EESC is convinced that the current priority of EU and euro area economic policy is to reduce and mitigate the risk of recession and steer the EU's economy towards a path of sustainable growth. It is therefore essential for fiscal policy to accompany the ECB's expansionary monetary policy with a positive fiscal stance within the euro area and the EU, while respecting the principles of fiscal discipline. The EESC is convinced that the need to increase resilience and maintain potential for future growth is urgent and that it is high time to deal with this.

1.3. The EESC notes that the current investment growth rate is higher than the growth in EU and euro area GDP, thanks to which 2018 saw the highest level of investment (20,5 %) since 2008 (22,8 %). Nevertheless, it believes that the investment need is greater and that more resources are required, both in private and public investment, to overcome this investment deficit, particularly given that such investments are greater in China or the USA.

([1]) EESC opinions on the *Annual Growth Survey 2019* (OJ C 190, 5.6.2019, p. 24), and on *Euro area economic policy (2019)* (OJ C 159, 10.5.2019, p. 49).

1.4. The EESC is fully aware, however, that this economic development has not been spread evenly throughout the EU and the euro area and that the progress of convergence remains unsatisfactory. Sustainability also remains an increasingly complicated challenge for the EU.

1.5. The EESC welcomes the fact that significantly improved fiscal discipline is offering room for greater fiscal expansion – subject to compliance with all rules on fiscal prudence. This room is opening up both for individual Member States and the EU as such. The EESC welcomes the proposal for a budgetary instrument for convergence and competitiveness (BICC) – a pilot project to strengthen fiscal policy in the euro area – and its close link to the Reform Support Programme. The EESC expects the BICC and the Reform Support Programme to provide significant support for reforms and investment both within the euro area and in countries outside the euro area. Nevertheless, the EESC believes that, overall, the European Commission proposal concerning the MFF for 2021-2027 may not be sufficient to successfully implement priority programmes and reiterates its call for an increase in the amount of resources for this purpose.

1.6. At the same time, the EESC calls for the continuation of effective structural reforms with well targeted investment strategies. Here it supports and appreciates adherence to the 'virtuous triangle' of current economic policy priorities consisting in the equilibrium and mutual conditionality of investment aid, the implementation of structural reforms and the practice of fiscal responsibility and prudence. Given the limited public funds, the EESC underlines the unique importance of private investment, whose long-term growth is directly dependent on a credible economic policy and the reduction of fiscal imbalances. The Banking Union and Capital Markets Union can help accelerate the growth of investments through more efficient and flexible capital flows. The EESC is concerned about the delays in implementing the remaining elements of these unions.

1.7. The EESC notes with attention and concern the broad spectrum of macroeconomic imbalances within the EU and the euro area. It calls on both the European Commission and the Member States to unite their efforts to align the positions of the Member States when it comes to addressing external imbalances, particularly given the greater degree of external risks in the future.

1.8. The EESC fully endorses the principle that investment and reform are to go hand in hand, and the principles of responsibility and subsidiarity.

1.9. The EESC believes that the priorities of the European economy should now be more strongly geared towards supporting domestic demand. At the same time it believes that the very positive external balance of European trade in goods and services should be more evenly distributed among more Member States.

1.10. The EESC strongly supports further work to improve the functionality and homogeneity of the internal single market, especially in segments which have not yet been more substantially integrated and in those manifesting centrifugal tendencies. It also notes, with concern, the problem of the shortage of workers and skills mismatch.

2. **Context**

2.1. *Current economic development of the euro area and the EU: European Commission's forecast for spring and summer*

2.1.1. The economy of the EU and the euro area is growing for the seventh year in a row, but forecasts show signs of future deterioration in economic performance. However, this does not mean that growth has been even all across the EU and the euro area. According to the European Commission's spring and summer economic forecasts, the growth trajectory of both the EU and the euro area should continue this and next year, albeit at a slower pace. The summer forecast also sees heightened risks of a slowdown.

2.1.2. The deceleration is largely driven by the external environment and a constraint on the EU's ability to maintain a record volume of exports. Key risk factors include the impact of Brexit, particularly a no-deal Brexit, and the escalation of trade wars in the world economy – these are now more evident than, for example, a year ago.

2.1.3. The most important endogenous factors include the difficulties in achieving social and environmental sustainability and unsatisfactory progress in convergence within the EU, as well as an uneven distribution of income and wealth. Changes affecting important sectors (such as the automotive or energy sectors) can also be classified as significant. An expected downturn in credit growth from 3,7 % year-on-year to 3,0 % in the course of 2019 may be some cause for concern ([2]).

([2]) European Economic Forecast. Spring 2019, European Commission.

2.1.4. The opinion of the European Economic and Social Committee on the 'Recommendation for a Council Recommendation on the economic policy of the euro' ([3]) warned of the risks of a new economic crisis and urged European and national authorities to take a coordinated approach in identifying these and in strengthening the resilience of the European economy, especially given that two of Europe's leading economies may slip into recession in the latter half of this year.

2.1.5. While investment growth rate and volumes have approached, or already reached, pre-crisis levels, the EU and euro area's investment needs are still greater than their level at present. From this perspective, there is still an ongoing investment deficit in the EU and euro area. A sharp fall in the pace of growth in investment in the coming period is also a matter of concern. In 2018, investment in the EU grew by 3,7 % compared with the previous year; according to estimations, this year and next year it will only grow by 2,3 % for the EU and euro area. At 20,5 % of GDP, the 2018 investment level was the highest since 2008 (22,8 %) ([4]). Here, with a view to the future, Europe would need to allocate much more robust funds, particularly to strategically important activities and sectors that can provide long-term competitive advantages in the global context.

2.1.6. Employment has increased significantly, to the point where many countries are facing shortages in available workforce, thus hindering their growth potential. At the same time, this situation encourages the acceleration of innovation processes and procedures based on automation and virtualisation of economic activities that do not require physical, manual or unskilled labour (economic decoupling), more intensive preparation of the workforce for new challenges and addressing the problem of structural unemployment. We are also seeing marked differences between Member States' labour markets: some still have jobless rates topping 10 % and in many cases youth unemployment levels are alarming. Further causes for concern may be the weak or negative growth of real wages in some Member States or the problem of in-work poverty.

2.2. *Fiscal policy*

2.2.1. Improving fiscal discipline in a context of very low interest rates creates favourable conditions for financing and scope for fiscal stimulus measures in some Member States, which has a positive impact on domestic demand. The EESC adds that a responsible budgetary policy also covers the revenue side of the budget, and thus can effectively combat tax fraud, which can generate additional resources to finance public investment.

2.2.2. There is also scope to strengthen the fiscal position of the euro area; the proposal for a budgetary instrument for convergence and competitiveness (BICC) is a significant step in this direction ([5]). This aims to help improve the EMU's economic resilience through financial support for reforms and investment in each Member State. The EESC reiterates its view, which has already been published in the opinion on the Multiannual Financial Framework post-2020 ([6]), on the lack of sufficient budgetary resources within the MFF for 2021-2027, which also concerns the funds allocated to structural reforms or support for convergence and competitiveness in the euro area. Like the European Parliament and Committee of the Regions, the EESC has called for resources for the next MFF to be equal to 1,3 % of GNI.

2.2.3. Its core component is intended to be a framework for establishing reform and investment strategies which the instrument would support. On the basis of the European Commission's proposal ([7]), the Council of the EU will (after discussions within the Eurogroup) determine strategies on reform and investment priorities for the euro area as a whole. As a follow-up, the Council of the EU will adopt a recommendation which will include priority guidelines for individual Member States concerning reforms and investments which will be supported by the BICC in the form of subsidies.

2.3. *Economic and monetary policy*

2.3.1. Effective structural reforms linked to well-targeted investment strategies and accompanied by a responsible fiscal approach – both compliant with sustainable development principles – are the cornerstone of the economic policy of the EU, the euro area and individual Member States for the upcoming period, at least in the medium term.

2.3.2. A document was published for the Eurogroup summit providing a summary of the situation and prospects for the euro area ([8]). The euro area has also been discussed in the context of efforts to strengthen the international position of the euro ([9]). Euro area membership could be set to expand again as, after last year's efforts by Bulgaria to complete the necessary formalities to join the single currency, Croatia has also followed suit this year. At the same time, the EESC encourages the non-euro Member States to create and implement plans for a sustainable shift towards the euro area in the near future.

([3]) OJ C 159, 10.5.2019, p. 49.
([4]) Source: Eurostat.
([5]) Term sheet on the Budgetary Instrument for Convergence and Competitiveness, Eurogroup, 14.6.2019.
([6]) The relevant conclusions on the efficacy of budget resource use can be found in the EESC opinion on the Multiannual Financial Framework post-2020 (OJ C 440, 6.12.2018, p. 106).
([7]) COM(2019) 354 final.
([8]) COM(2019) 279 final.
([9]) EESC opinion 'Towards a stronger international role of the euro' (OJ C 282, 20.8.2019, p. 27).

2.3.3. Among the most recent steps that have helped strengthen the euro area we should not forget, for example, the implementation of the common backstop to the Single Resolution Fund (SRF), the principles of which had already been agreed upon in 2012. This has strengthened the role of the European Stability Mechanism (ESM). Steps towards establishing a European deposit insurance scheme have been defined, which is a critical step towards completing the Banking Union. An outline has been sketched of the budgetary instrument for convergence and competitiveness for the euro area as part of the future EU budget. Some progress has been made towards strengthening the international role of the euro, but much more can be done through the combined efforts of Member States and the European institutions.

2.4. *Structural policy and reforms*

2.4.1. This year's country-specific recommendations show efforts to promote the 'virtuous triangle' of support for investments, implementing structural reforms and ensuring responsible fiscal policies that address, where possible, the specific needs of individual Member States.

2.4.2. The issue of resolving structural shortcomings and problems of EU economies, increasing their resilience and fulfilling their long-term growth potential at a time of increasing global economic risks entails the need to formulate priority reforms (at Member State and EU level) and implement them faster and more intensively.

2.4.3. Achieving a more symmetrical rebalancing in the EU and the euro area is also important. The need to correct macroeconomic imbalances takes many forms. In addition to problems with their external balances, particularly their current accounts, some countries also show additional signs of macroeconomic imbalances such as high public and private sector debt, dynamic growth of property prices, increasing unit labour costs or various types of external imbalances.

2.4.4. Structural reforms also pertain to strengthening the environment and quality of the single market and improving the complementarity between single market policy and national structural reforms to achieve maximum alignment.

2.5. *Euro area governance*

2.5.1. Country-specific recommendations are instructions and guidance for strengthening the performance and governance of the EMU, the resilience of euro area economies in line with the 2019 recommendation on euro area economic policy and advancing social convergence in line with the European Pillar of Social Rights In any event, it seems that the EU is again entering a stage where economic policy measures are very much linked to the euro area environment and remaining outside it could present an increased risk of a Member State being marginalised, particularly in a situation where there seems to be increasing will for a stronger position for the euro area in the coming EU multiannual financial framework. The EESC emphasises the importance of balancing all pillars of the EMU, as discussed in the opinion on A new vision for completing the Economic and Monetary Union ([10]).

3. **General comments**

3.1. The EESC considers that in times when key positions in EU institutions are changing, the state of the European economy is in a better position than it was the last time there was a similar changeover of EU posts in 2014. At the same time, however, the EESC is very conscious of the risks (see points 2.1.1 – 2.1.3) that could reverse these developments and can see the strategic challenges that need to be met with a view to future economic developments.

3.2. However, the current downturn in growth (confirmed, for example, by low economic confidence indicators in September), which in the euro area was never that strong anyway, and the increase in crisis risk factors should now impel the European institutions and Member States to take steps to fulfil the main economic objective of European economic policy: developing effective pre-emptive measures to prevent a return to a general recession and setting the euro area and EU economies back on the path to sustainable growth. To this end, it is essential to align fiscal and monetary policy. According to the ECB, accommodative monetary policy cannot be tightened in the coming period, as this would have a negative effect on economic growth. However, space for growth-friendly fiscal policy has been created. Member States with significant current account surpluses should develop this fiscal effort on a larger scale, which, if sustainable investments are made, could bring additional benefits to their economies and societies. In the EESC's opinion, monetary and fiscal policy, supporting growth – particularly investment – and structural reforms that strengthen economic resilience should be the three axes of economic policy in response to the current situation.

([10]) OJ C 353, 18.10.2019, p. 32.

3.3. The EESC therefore supports increasing the resilience of the EU and euro area economies in the face of negative worldwide factors that threaten the conditions for seamless global trade and investment, increase uncertainty and tighten conditions on international financial markets. The EESC recommends that the priorities of the European economy should focus more closely on meeting domestic demand in the medium term. At the same time, the very positive external balance of trade in goods and services should be more evenly distributed across more Member States. Many of them will have to undergo major structural reforms, as their current performance in a number of competitiveness indicators is risky in this respect.

3.4. The EESC is convinced that the need to increase the resilience of the European economy and the potential for it to grow in the future is a matter of urgency and now is the time to tackle it. Lower economic output in the near future has the potential to amplify the prevailing structural problems and shortcomings, including the resulting social consequences. In terms of fiscal responsibility, it is essential to find the – very fine and delicate – balance between the efforts of highly indebted countries to reduce their debt rates and build their fiscal reserves, on the one hand, and the capacity of surplus or fiscally neutral countries to use their fiscal margins for investment, particularly public investment, on the other hand.

3.5. The EESC welcomes the proposal for the BICC. However, it calls for it to be given concrete form as soon as possible and for a functional link to be found between it and the newly proposed Reform Support Programme. The crucial issue here is that the programme be capable of ensuring substantial support for reforms and investment in countries outside the euro area without this jeopardising the BICC's specific goals focused on the euro area. The EESC also calls on the European Commission to put together transparent indicators to be used by the BICC to assess its performance and outcomes. In this context, the EESC calls for stronger involvement of the European Parliament, social partners and civil society in the spirit of the opinion on A new vision for completing the Economic and Monetary Union ([11]).

3.6. The EESC welcomes the fact that the BICC is also an integral part of the European Semester process, since recommendations made under the European Semester should be supported as a matter of priority.

3.7. The EESC agrees with the BICC's main goal, which is to achieve greater convergence and better competitiveness by improving the coordination of reforms and investment plans in the euro area. In order to achieve this goal, the EESC calls on the European Commission to draft a plan for allocating funds among individual countries on the basis of a transparent methodology.

3.8. The EESC welcomes the fact that this year's country-specific recommendations are very much tailored to the needs of targeted investment strategies. As of next year, the country-specific recommendations and the European Semester should start to play a greater role as the EU's strategic economic guidelines, since the Europe 2020 strategy is coming to an end and there is currently no successor to it on the horizon. In this connection, the European Semester should also respect the objectives of the European Pillar of Social Rights and the Sustainable Development Strategy 2030.

3.9. The EESC acknowledges and respects the conclusions of the Eurogroup's review summit of 21 June ([12]) which not only objectively trace the evolution of the euro area since the Five Presidents' Report of 2015, but chiefly set out new goals that in particular pertain to significantly increasing the weight of the euro area in the EU's next multiannual financial framework.

3.10. The EESC is convinced that in the autumn of 2019 the euro area is something completely different from what it was exactly 10 years ago, when it was faced, unprepared, with an unprecedented crisis which it was not equipped to deal with at the time. However, over the past four or five years, too, the euro area has shown that it has been growing stronger. It has learned from the crisis and plans to continue doing so. This should include not only the ability to plan for the next few years but also to realistically allocate the necessary resources to make the European economy more resilient (which is not always the case).

3.11. The EESC is of the opinion that this period, on the one hand, completes the era of the emergence of parts of the pool of euro area components that have been absent in times of crisis, but that at the same time the EU is ambitious in moving forward in an effort to significantly step up the fiscal position of the euro area (i.e. something that that both supporters and opponents of monetary integration in Europe are almost at one in describing as far from inadequate). The proposed reform programme, together with the European Investment Stabilisation Function, could become a pilot programme on the basis of which the euro area could have a significant and decisive influence on the form of the next European budget. If this happens, some of its chapters (if only a small minority of them for the moment) should then only be available to euro area members.

([11]) OJ C 353, 18.10.2019, p. 32.
([12]) COM(2019) 279 final.

3.12. The EESC considers that when it comes to current account balances there are still stark differences between conditions in Member States, compounded by differences of interpretation regarding economic policy instruments and objectives. While it is true that a number of countries that previously had a chronic current account deficit have significantly reduced their deficits, it is also the case that some Member States still have high current account surpluses. It is important to bridge the gap between these two groups, otherwise there is a high risk of a two-track European economy which could last for a long time. For countries in deficit, the convergence process should involve greater measures to support competitiveness and productivity (in line with the indicators used in the European Semester), while surplus countries should focus more on factors that increase aggregate demand, for example through more robust investments beneficial to the creation of high quality jobs.

3.13. The EESC endorses the general country-specific recommendations for 2019-2020 to encourage Member States to modernise their economies, thus increasing their growth potential and their resilience. The sometimes significant national socioeconomic differences that exist in some countries should not be forgotten. Their economic development is very uneven, which presents major obstacles for their future economic development. Deploying instruments to lower social inequality and bolster social cohesion is also crucial.

3.14. The EESC believes that investments and reforms must go hand in hand, which is particularly important when the EU's multiannual financial framework for 2021-2027 is finally approved. Member States should also fully respect the principles of responsibility and subsidiarity. While the EU budget is not a panacea that can resolve all identified investment needs, appropriately targeting its resources could do a great deal to tackle specifically identified investment gaps that were addressed in this year's country-specific recommendations. Here, too, a closer link can be made between the future EU budget and the European Semester, which could better connect limited funds with real needs while respecting the criteria of performance and quantified results.

3.15. Given the limited public funds, the EESC underlines the unique importance of private sector investment, whose long-term growth is directly proportional to a credible economic policy and the reduction of fiscal imbalances.

4. **Specific comments**

4.1. Given the global economic, trade and investment uncertainty, there is a growing need for self-reliance through strengthening the single market. The EESC is convinced that a well functioning and homogeneous single market could help eliminate some of the imbalances identified. The level of integration on services markets is relatively low; there is a risk that without appropriate legislation new activities based on technology will only proliferate in certain countries, i.e. that within the EU approaches taken in individual Member States will become mutually incompatible. The banking union and capital markets union should also make the free circulation of capital more efficient and flexible. The EESC expresses some concern here about the delays in implementing the remaining elements of the banking union and the capital markets union. The envisaged financial union is an important platform for promoting alternative funding options and opportunities. In terms of the need for greater integration of the internal market, the most room for manoeuvre is in the labour market and on taxation and tax rules (so far an exclusive national competence in relation to direct taxation).

4.2. The EESC acknowledges that this year the European Semester places a strong emphasis on investment, which has helped Member States to better fix their investment priorities where there is the highest rate of macroeconomic return; at the same time, regulatory and structural barriers have been identified at Member State and EU level, which are a crucial factor in the underachievement of the European economy's long-term growth potential.

4.3. The EESC believes that a climate of business confidence, predictability and legal certainty, which fully respects the rule of law and social justice, is essential for a sound and rational investment strategy.

4.4. The EESC still sees the excessive administrative burden as an unnecessary obstacle. The solution may lie in adopting systems for digitalising public services; digitalisation is seen as a key factor in productivity, competitiveness and growth. How it is implemented must respect the social consensus and the outcomes of the social dialogue engendering it.

4.5. The EESC also views the shortage of qualified workers and the skills mismatch as a barrier at this time to increasing the amount of investment.

4.6. The EESC emphasises the importance of investment being increasingly tied to intensive research and innovation; this relates not only to the amount of funds invested, but also to substantially improving the quality of the investments made. At the same time, capital investment needs vary throughout different parts of the EU; there is a great need for investment not only in regions whose development is lagging, but also in those that are undergoing significant technological change, as well as for those that are global leaders in certain sectors and seek to maintain their position.

Brussels, 30 October 2019.

The President
of the European Economic and Social Committee
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