



Republic of Bulgaria  
ECONOMIC  
AND SOCIAL COUNCIL

**RESOLUTION**  
**on**  
**COMMUNICATION FROM THE COMMISSION**  
**The Annual Growth Survey (AGS)**  
**2014**

(own-initiative resolution)

Sofia, 2014

The 2014 action plan of the Economic and Social Council envisions the elaboration of a resolution on:

**COMMUNICATION FROM THE COMMISSION on the Annual Growth Survey  
(AGS) 2014**

ESC President – Prof. Lalko Dulevski submitted the draft resolution for discussion to the Plenary Session

At its meeting, held on 27 March 2014, the Plenary Session adopted the resolution.

## 1. GENERAL CONCLUSIONS AND RECOMMENDATIONS

- 1.1. The Economic and Social Council (ESC) congratulates the European Commission (EC) for the presented Annual Growth Survey (AGS) 2014 and for the Alert Mechanism Report (AMR). ESC shares the main message of the EC that the biggest challenge facing the economy of the European Union (EU) is "how to continue the recovery reported at the moment and how to achieve smart, sustainable and inclusive growth and competitiveness, leading to the creation of new jobs in 2014."
- 1.2. ESC is pleased to report that in the working document accompanying AGS the European Commission pays greater attention to the implementation of specific recommendations by the Member States, making mid-term review of the progress and implementation of country-specific recommendations (CSRs) in individual Member States and the Euro Area as a whole. With this preliminary technical analysis the Commission reports the progress in the key reforms undertaken during the last three years after the launch of the European Semester process. Recommendation to the same effect was expressed in ESC's 2013 AGS resolution.
- 1.3. ESC supports the approach of the European Commission to ensure the continuity of the main priorities in the fourth European semester based on the priorities of the Annual Growth Survey 2014 and the Europe 2020 Strategy. At the same time, ESC insists that in country-specific recommendations the Commission should focus on the issues that will have greatest direct impact on economic growth and job creation both in the EU and at the national level.
- 1.4. The most important policies for recovering from the crisis, besides fiscal consolidation, are those for supporting employment and promoting innovation and productivity. According to ESC, the analysis of the real reasons for the further deterioration of the situation on European labour markets does not go into sufficient depth. The current situation on the labour market is mostly caused by the lack of growth and insufficient implementation of EU commitments to structural reforms of the labour market as well as education and training. ESC calls on the EC to make more concrete country-specific recommendations and also require Member States to implement them more effectively.
- 1.5. ESC notes that in general AGS 2014 is not sufficiently detailed and only a little different from the 2013 one. In this regard, ESC again points out that there are no new policy proposals which might use the EU budget to stimulate growth and job creation in order to achieve the objectives of the strategy "Europe 2020".
- 1.6. ESC regrets that the Commission did not provide data on the implementation of the Pact for Growth and Jobs agreed in June 2012. According to ESC the lack of ambitious reforms to improve the competitiveness of European economies and to ensure the financial

sustainability of social security and health insurance systems is a prerequisite for increasing the financial burden on future generations.

- 1.7. ESC welcomes the first consideration of Eurozone Member States' draft budgetary plans and their evaluation at the end of the year by the European Commission, which helps to improve the multilateral surveillance and monitoring of the budgetary situation in individual countries.
- 1.8. ESC is concerned about the observed lack of progress in reducing excessive levels of private debt, which is not only a problem related to financial stability, but also limits the growth potential of the EU. At the same time the reported extremely low rates of profitability in the Euro Area raise concern for European citizens' private savings and the stability of pension systems.
- 1.9. The European Semester, including country-specific recommendations for stability and convergence and the macroeconomic imbalances procedure do not provide the necessary coordination mechanisms in the field of fiscal policy, structural reforms of labour markets and wages. Although the European Semester should support Member States in implementing their commitments under the Europe 2020 Strategy, including those for higher employment and poverty reduction, some of these objectives are becoming more difficult to achieve. Therefore, according to ESC, in the further development of economic governance in the EU there is a much greater need for considering and strengthening its social aspects.
- 1.14. ESC welcomes the efforts of the Commission to address better the social consequences of the crisis, in particular the proposal for a new table of indicators for employment and social indicators presented in the Communication on the Economic and Monetary Union.<sup>1</sup> At the same time, ESC recommends social indicators to be integrated into a single framework for supervision, which puts economic and social dimensions on an equal footing, alongside the reference values for deficit and debt.
- 1.15. ESC supports the recommendation of the Commission 'National Reform Programmes (NRPs) and security and convergence programmes (SCPs) will be discussed with national parliaments and all stakeholders, in particular the social partners and sub-national actors'<sup>2</sup>. In this regard, ESC emphasizes that the social partners and civil society, incl. ESCs, can provide significant support through expertise to support the processes of consultation and documentation of strategic national importance.
- 1.16. According to ESC, all stakeholders should be more actively involved in the formation and implementation of active policies concerning the labour market and they should not be carried out primarily by the relevant public authorities of the Member States.

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<sup>1</sup> Communication from the Commission to the European Parliament and the Council "STRENGTHENING THE SOCIAL DIMENSION OF ECONOMIC AND MONETARY UNION" COM (2013) 690 FINAL

<sup>2</sup> Communication from the Commission. Annual Growth Survey 2014 COM(2013) 800 final, c. 7.

- 1.17. ESC is concerned by the reports of the European Commission addressing the gap between professional and educational standards, which leads to a gap between the needs and requirements of the labour market and employability of graduates. Reforms in the labour market and education systems nationally are and must continue to be the main means of improving labour productivity, job creation and better matching of jobs and skills. In this regard, ESC considers that in the context of the AGS the Commission can provide an analysis of the results of the reforms in the labour markets at the national level during the last year.
- 1.18. ESC reaffirms that an essential factor for economic growth in the European Union is the completion of the process of building the Single Market. ESC believes that the Commission should make more efforts in this direction particularly in relation to the rapid adoption of the remaining legislation within the Single Market Acts I and II, and the application of the measures contained therein as well as reaching agreement on the last two remaining legislative proposals in the Single Market Act I ("posting of workers" and "electronic ID").
- 1.19. ESC supports the position that "the absence of a well-functioning internal labour market and a sustainable approach to immigration impede growth in the EU, and emphasizes the macroeconomic benefits that Member States will derive from modernizing their labour markets"<sup>3</sup>. According to ESC, the European Commission and individual Member States should consider "specific measures to strengthen successfully the common labour market based on the free movement of workers, effective level playing field as well as increasing social cohesion and modern, relevant and inclusive immigration policy at both national and European levels "<sup>4</sup>.
- 1.20. ESC emphasizes its position that the lack of effective e-government in all European Union Member States, and the fragmentation of online services is a major challenge to the development of the digital economy in Europe and the slow process of reducing the administrative burden on businesses<sup>5</sup>.
- 1.21. ESC joins the call of the European Parliament "to take more stringent and consistent action based on a comprehensive action plan to the Commission to improve the fight against tax evasion"<sup>6</sup>.
- 1.22. ESC supports the change concerning the financing of the EU budget through a new system of own resources to reduce contributions based on gross national income and to enable Member States to realize their objectives in support of investment in economic

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<sup>3</sup> EP Report concerning the European Semester for Economic Policy Coordination: Annual Growth Survey for 2014 (2013/2157(INI))

<sup>4</sup> EP Report concerning the European Semester for Economic Policy Coordination: Annual Growth Survey 2014 (2013/2157(INI))

<sup>5</sup> Resolution ESC "Single Market Act II - Together for new growth" - Communication from the European Commission, COM (2012) 573

<sup>6</sup> EP Report concerning the European Semester for Economic Policy Coordination: Annual Growth Survey 2014 (2013/2157(INI))

recovery and reform measures without jeopardizing EU funding. ESC believes that the actions of the new high-level group on own resources, which should lead to genuine reform of EU funding, are essential for its future.

- 1.23. Within the framework of the European semester in 2013 ESC adopted acts on specific problems in key areas where there are still significant challenges identified by the Commission in this year's AGS – namely the problems of children, education and early school leaving; social economy and social entrepreneurship; support young people and combating youth unemployment; guidelines in the implementation of the single market as a prerequisite for sustainable growth in the EU; improving the business environment in Bulgaria as a condition to increase its competitiveness; Partnership Agreement (SA) Bulgaria (2014 – 2020) priorities and policies absorption of EU funds in Bulgaria in the period 2014-2020.
- 1.24. Once again ESC expresses its support for the Commission's actions leading towards "more Europe, not less Europe" and calls EU institutions and Member States to promote greater integration direct their efforts to supporting the economy and investment, which is currently the only solution to the crisis, as well as restoring the trust of investors, businesses and consumers.
- 1.25. ESC welcomes the clear link established between the Tripartite Social Summit for Growth and Employment and the European Semester process, which provides conditions for the regular exchange of views with the leaders of the EU Economic and Social Affairs. Therefore, ESC appreciates the initiative of the European Commission this year to publish the position of the European social partners on their participation in European economic governance.
  - 1.25.1. ESC supports the proposal of the social partners expressed in a declaration adopted by them that the preparation of all documents in the context of the European Semester – AGS, the Alert Mechanism Report, CSRs and the National Reform Programmes, should be based on consultations with the social partners, both at the national and the European level.
  - 1.25.2. ESC also recommends that national social partners should be involved in the macroeconomic imbalances procedure, as well as more in-depth country reviews, and their positions should be recorded and submitted within the Annual Growth Survey, the National Reform Programmes and the country-specific recommendations.

## **2. INTRODUCTION AND GENERAL BACKGROUND**

- 2.1. The adoption of AGS 2014 marks the beginning of the fourth European Semester for coordination of economic policy at a time when re-growth is observed and the Member States are progressing in the removal of imbalances arising from the crisis. The European Commission retains its balanced strategy for growth and jobs, and just in 2014 will continue to focus on five key priorities: promotion of a differentiated and growth-friendly budgetary consolidation; restoration of normal lending activity directed at the economy;

promotion of growth and competitiveness for today and tomorrow; tackling unemployment and the social consequences of the crisis; modernisation of public administration.

- 2.2. The European Semester of 2014 will be the first to coincide with the assessment of the European Commission on the implementation of country-specific recommendations as part of the new process in connection with the second package of economic governance. ESC agrees with the recommendation of the Commission to deepen this process, which should lead to strengthening the sense of national commitment to the country-specific recommendations to greater involvement of national parliaments, social partners and citizens to ensure understanding and adoption of the most important reforms.
- 2.3. Considering the adoption at the end of 2013 the new Multiannual Financial Framework 2014-2020, this semester 2014 will be the first to apply the macroeconomic conditions for provide structural funds and investment funds. The new approach of the Common Strategic Framework, which is to be applied through partnership agreements between the European Commission and Member States, aims at achieving better targeted and more simplified policies, as well as more synergies between them.
- 2.4. In accordance with the recently published EC Communication,<sup>7</sup> this year's Alert Mechanism Report<sup>8</sup> for the first time includes a range of social indicators that are useful for the interpretation of the table as more detailed analysis will be conducted in the upcoming in-depth country reviews. ESC supports the position of the EESC for social indicators "to be integrated into a single framework for supervision that puts on equal footing economic and social dimensions, along with the reference values for deficit and debt. There must be measurable targets for employment and social performance, to implement similar mechanisms for adaptation and solidarity to correct social inequalities and promote social investments that would create jobs, reduce poverty and help the fight against social exclusion."<sup>9</sup>
- 2.5. ESC appreciates the recently adopted Commission documents -Communication from the Commission to the EP and the Council on "Strengthening the Social Dimension of the Economic and Monetary Union" of 2 October 2013, the Communication on the evaluation of the access to regulated professions on 2 October 2013 and the Commission Communication on "Social Investment for Growth and Cohesion, Including the Implementation of the European Social Fund for the Period 2014-2020" as an important step in the development of tools for the implementation of the objectives of the Europe 2020 Strategy.
- 2.6. ESC notes that the schedule of the European Semester includes a wide range of instruments: Pact for Stability and Growth, Treaty on Stability, Coordination and

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<sup>7</sup> Communication from the Commission to the European Parliament and the Council "STRENGTHENING THE SOCIAL DIMENSION OF ECONOMIC AND MONETARY UNION" COM (2013) 690 FINAL

<sup>8</sup> Report from the Commission "Alert Mechanism Report 2014" COM (2013) 790 final

<sup>9</sup> EESC - EUR/006 - EESC-2013-07466-00-00-AC-TRA

Governance (TSCG), the "six-pack," the "two-pack," etc. While various tools for analysing and coordinating economic policies are in fact a complex mechanism which unfortunately can be used by very few European and national experts. In this regard, ESC supports the view that it would be expedient if the evaluation of the new economic governance of the European Union includes steps for simplifying these processes.

### **3. THE ANNUAL GROWTH SURVEY AND THE SOCIAL CONSEQUENCES OF THE CRISIS**

3.1. In its analysis of 2011 – "Challenges to Labour Markets within the Europe 2020 Strategy" ESC warned that the ongoing EU policy focused on "macroeconomic stabilisation through stringent fiscal constraints and provides little support to the basic idea of the Europe 2020 Strategy<sup>10</sup> growth through employment." Two years later, in the Annual Growth Survey 2014, namely job creation and reducing unemployment are presented as the main challenges facing the EU.

- 3.1.1. Europe pays too high a price for austerity: more than 26 million people are unemployed, youth and long term unemployment are still on the rise, one million jobs have been lost in the Euro Area over the past six months, poverty is increasing and the disparities between Member States and socio-economic groups are worsening.
- 3.1.2. "There is a decrease in employment and worsening social situation of citizens in the European Union"<sup>11</sup>. During the crisis, employment insecurity has increased, while the standard employment (permanent and full-time) has decreased. On the one hand, the number of workers forced to work part-time or by the hour continues to grow, and on the other, many employees receive wages that are not sufficient to ensure their normal standard of living. At the same time, the social and employment picture in the EU is characterized by large differences between Member States as young people, migrants and low-skilled are hit particularly hard. According to ESC, there is a risk that these trends will continue in 2014 and after that.
- 3.1.3. Cyclical unemployment in the EU, which was caused by the crisis, actually uncovered far deeper problems of labour markets in many Member States. It threw light on clear inconsistencies between the qualities of the labour force and the requirements of employers, as even newly created jobs (e.g. in the sector of information and communication technologies) remain unfilled for long periods.
- 3.1.4. Statistics show that in many EU Member States there are signs of structural (technological) unemployment, which are particularly noticeable in the so called "unreformed" labour markets. Examples of such signs are the increasing the long-term and youth unemployment. While the former phenomenon is associated with obsolete or lacking basic knowledge, skills and qualifications,

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<sup>10</sup> Opinion of ESC "Challenges to Labour Markets Within the Europe 2020 Strategy

<sup>11</sup> EU Employment and Social Situation. Quarterly Review, October 2013.

the latter one – youth unemployment is associated with inadequate educational initiatives. Therefore, the trends of increasing youth unemployment cannot be explained only by the lack of work experience and economic conditions – the reasons are more complicated and multifaceted.

- 3.1.5. ESC notes with concern that in many Member States subsidized employment fails to create sustainable and long-term employment and reduce unemployment effectively. Monitoring and control on spending European funds for subsidized employment have crucial importance for avoiding the irrational and inefficient use of these resources.
  - 3.1.6. The overarching priority in the field of employment policy is and continues to be the fight against unemployment, in particular the reduction of long-term unemployment and youth unemployment, which is a sign of structural weaknesses in labour markets. ESC believes that it is possible to undertake measures to alleviate the administrative requirements for hiring employees, incl. those coming from other Member States. Such measures will facilitate the access to the labour market for many students and young migrants.
  - 3.1.7. ESC supports the newly adopted initiative to use an information table in the Joint Employment Report. For the moment, however there is a clear indication of the incorporation of the results and conclusions of the table in corrective measures.
- 3.2. The problem of youth unemployment (15-24) in the EU is particularly serious. The finding in the draft Joint Employment Report that youth unemployment "remains stable", confirms the low success of the efforts to combat it. In a separate resolution<sup>12</sup> ESC recommended and shared its expectations concerning the "Youth Guarantee", emphasizing the need for a proper plan for the implementation of the planned activities and measures.
- 3.2.1. A top priority of the "Youth Guarantee" appears to be the "activation" of the so-called NEET youths – not in employment, education or training. The working document of the European Commission (Accompanying the proposal to adopt the "Youth Guarantee") noted that the costs of the successful implementation of "safeguards" will be larger in the Member States in which the NEET rate is higher. In this regard, the ESC considers that it would be logical if the resource allocation policies and measures in the initiative are proportional or otherwise linked to the extent of this nation-specific phenomenon.
  - 3.2.2. In connection with the preparation and implementation of national plans for implementing the "Youth Guarantee," ESC recommends that the focus is not primarily on subsidized employment and also to place greater emphasis on measures such as counselling and career guidance.
  - 3.2.3. ESC notes that there is a difference in the scope of the employment rate among young people (15-24) and the other age groups. In the case of the former the base is much narrower, as many young people are still in education and

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<sup>12</sup> ESC Resolution "Actions to Support Young People and Tackling Youth Unemployment in Bulgaria," 2013.

training. ESC welcomes the proposal of Eurostat that youth unemployment should be analysed by the so-called Youth Unemployment Ratio. The difference in the calculation is that the base is not confined within the active labour force, but also covers other individuals in the age group. Using such a measurement approach will enable us to make more precise comparisons between countries.

3.2.4. ESC calls for more publicity and recognition of the achievements of organisations, initiatives and projects with good results concerning measures for tackling youth unemployment, prevention and reverse integration of young dropouts, activation of young NEETs, etc. The dissemination of best practices and examples achieved at the regional and the national level can have a beneficial influence on the current participants in youth initiatives and attract future ones.

3.3. According to the Organization for Economic Development and Cooperation (OECD), 20% of the EU workforce is still experiencing a serious shortage of skills, including poor literacy and low numeracy. This creates a number of difficulties and inconsistencies in the labour market and is one of the prerequisites for the large number of vacancies in the EU<sup>13</sup>. Against the backdrop of these trends, ESC stresses the important role of investment in the modernization of education and training, including lifelong learning.

3.3.1. To better quality education, it is necessary to improve the relationship between the labour market and the education system. ESC notes with concern that despite the high levels of unemployment, there is evidence of a shortage of workers in the labour market and a mismatch between the demand and supply of specialists.

3.3.2. Education systems must provide effective and modern education with life-long prospects, stimulating the individual's potential. Young people should be prepared when entering the labour market to adapt to changing professional requirements. According to the ESC, opportunity for better transition can be achieved by increasing both the number and quality of internships.

3.3.3. Another disturbing fact is that education budgets in some Member States still do not reach the absolute size of the pre-crisis levels (2008)<sup>14</sup>. ESC notes the cost-effectiveness of education must be improved and more attention should be paid to the increased use of new technologies in the educational processes.

3.4. In the context of the analysis included in the draft Joint Employment Report,<sup>15</sup> ESC believes that the increase in economic activity is one of the best ways to overcome the imbalances caused by the ageing population in Europe. At the same time, ensuring a sustainable level of employment, contributing to the financing of social security systems is one of the most sensible ways to offset negative demographic trends and the age dependency ratio.

3.4.1. With regard to the adequacy and sustainability of social systems, ESC repeats

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<sup>13</sup> According to the Commission, in the EU currently there are about 1.9 million vacancies.

<sup>14</sup> European Commission. Education and Training Monitor 2013, p 13.

<sup>15</sup> Draft Joint Employment Report Accompanying the Communication from the Commission on the Annual Growth Survey 2014 COM(2013) 801 final.

its belief in the need for pension reforms in order to bind the retirement age to life expectancy.

3.4.2. ESC joins the European Parliament call to "European Commission and Member States to take into account the relevant gender objectives in national employment programmes, paying special attention to women caring for elderly dependents, single mothers and women with children suffering from disabilities"<sup>16</sup>.

3.4.3. ESC is concerned by the fact that many of the specific recommendations in 2013, incl. those concerning pension reforms, reconciliation of work and family life, the promotion of SMEs, etc., have already been made in 2012, which indicates a lack of consensus and political will to implement the recommendations in certain Member States.

3.4.4. According to ESC, by focusing primarily on national engagement, the European Commission is not paying enough attention to the actual participation of the social partners and civil society in the preparation of guidelines and the implementation of policies. The reliability and the social acceptability of reforms depend on the close cooperation and consultation with the social partners – a guarantee for the success of their implementation.

3.5. ESC pays serious attention to the data showing increase in poverty and social polarization within the EU exported in the draft Joint Employment Report.<sup>17</sup> In particular the fact that "the percentage of those at risk of poverty has increased significantly, and the disparities between Member States are also becoming greatly." It appears that we hear less and less about convergence and the European Union finds it more and more difficult to find a single answer to the problems of poverty. ESC expresses concern that in 2013 EU set aside tens of billions to bail out banks, while the disparities in standards of living and poverty risk among EU citizens that have fallen victim of the crisis are issues that have not been addressed by a unified commitment at the community level.

3.5.1. Social tensions within and between Member States, generated by this polarization can lead to irreversible degenerative processes that threaten the existence of the EU-28 in its current format.

3.5.2. ESC emphasizes that structural unemployment and increasing poverty can be defined as major challenges to the internal market (domestic demand) as the main generator of growth in the EU. If in the shortest possible time these challenges are overcome, the polarization of society will be strengthened even more, and the European Union will become not just a "Union of two speeds", but also a community of the (very) poor and (very) rich.

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<sup>16</sup> EP Report concerning the European Semester for Economic Policy Coordination: Annual Growth Survey 2014 (2013/2157(INI)).

<sup>17</sup> Draft Joint Employment Report Accompanying the Communication from the Commission on the Annual Growth Survey 2014 COM(2013) 801 final.

- 3.5.3. An interesting object of analysis is the so called "social dumping", which is mostly associated with workers of Member States in the "periphery" of the EU, who provide cheap, often illegal or even forced labour in more developed EU countries. Social dumping has good reasons its existence and leads to consequences for both the "foreign" and local actors in the labour market. The working conditions and social protection for citizens working in another Member State also deserve attention. They are often placed in a disadvantaged (unequal) position with respect to wages, working conditions and safety, etc.
- 3.5.4. ESC defines "social dumping" as one of the reasons for the aggravation of social tensions with respect to nationals of different Member States, and for the noticeable support for the emerging nationalist movements.
- 3.5.5. According to ESC, the analysis of the social environment in the EU should pay serious attention to the growing phenomenon of populism, nationalism and xenophobia, which are observed more often in several Member States. There are frequent acts of obstruction of the right of free movement within the EU and acts to abuse this right.
- 3.5.6. ESC considers these circumstances as one of the reasons that lead to straying away from the "European idea", as a result of which the poverty-stricken, small individual does not feel part of the European family. On the contrary, he or she blames the EU for some of the problems he or she is facing as well as for the lack of solutions to other problems. ESC believes that within the European Year of Citizens (2013) positive results were achieved in this regard through the successful implementation of awareness-raising campaigns and educational initiatives defending the benefits of EU membership and the role of the citizens in it.

#### **4. STRONGER SUPPORT IS NEEDED FOR RESTORING THE RATE OF EMPLOYMENT AND GROWTH**

- 4.1. The overall priority of the EU is and continues to be to improve its competitiveness on a global scale. Fiscal consolidation, structural reforms and growth-enhancing measures in the labour market aimed at recovery and job creation continue to be critical everywhere in Europe.
- 4.2. ESC believes that there is a need to stimulate the emerging growth by measures for increasing competitiveness. Reforms of labour markets and systems of education and training at the national level have become an essential tool for achieving a better match between the available jobs and the skills of jobseekers as well as for increasing productivity.
- 4.3. ESC agrees with the Commission that in order to stimulate job creation, it is necessary to take action to reduce the tax burden on labour, pre-emptively in the case of low paid and younger workers.

- 4.3.1. In order to guarantee the efficiency of measures for limiting and reducing unemployment, the EU should focus its efforts on reducing the burden on private businesses. It is necessary for Member States to reduce the administrative burdens on the process of subsidizing employers to hire young people and trainees, which will achieve the desired sustainable positive effect on employment.
  - 4.3.2. In the implementation of active youth policies, public services should be involved not so much as "employer" of young people, but rather as a facilitator and mediator in the relationship between unemployed young people, training institutions and employers in the real economy.
  - 4.3.3. In this regard, ESC emphasizes that the ongoing tax reforms should promote employment; to promote and support self-employment and business start-ups; to improve the regulatory framework for doing business and facilitate the access of small and medium-sized enterprises (SMEs) to funding and public procurement; to convert informal employment and undeclared work into regular employment.
- 4.4. ESC notes with concern the trend towards increasing disparities in the development between Member States and especially in the results relating to employment, unemployment and insecurity. The EU should work to prevent growing economic and social differences not only in the Eurozone but also in the Single Market. ESC joins the EESC in calling for a Framework Directive aimed at fighting poverty by facilitating integration into the labour market.
- 4.5. The disparity at the level of unemployment in Member States depends mainly on the adoption and implementation of structural reforms at the national level that will boost competitiveness, growth and create more jobs.
- 4.6. Among initiatives to promote employment, particular attention should be paid to stimuli for the creation of green and white jobs, as these types of enterprises have proven their potential for employment. In this regard, ESC welcomes further action in support of the framework conditions for realizing the full potential for growth in these sectors.
- 4.7. The level of cross-border mobility of workforce within the EU is still low. Only 2.6% of the EU population lives in a Member State other than their state of origin<sup>18</sup>. The reasons for this are both cultural and social, as well as the inadequate support of mobility within the EU.
- 4.7.1. ESC supports the Commission for the measures taken to reinforce the recognition of professional qualifications and the creation of an EU-wide system for the coordination of social security benefits, to ensure that if you

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<sup>18</sup> Communication from the Commission on "Strengthening the Social Dimension of the Economic and Monetary Union", COM (2013) 690 final.

want to work or live abroad mobile workers do not lose their acquired social rights.

4.7.2. ESC believes that it is particularly important for the European Commission to continue working on issues related to regulated professions<sup>19</sup>. According to ESC, the creation of regulated professions in all EU Member States would increase the level of cross-border mobility.

4.8. ESC notes some progress in the recovery of the financial sector, and from mid-2012 onwards also a significant drop in the tension on the financial markets. EU efforts to build a banking union will improve the ability of banks to manage risks in the future. However, in the short term, ESC believes that we must do much more to reduce the high level of private debt (e.g. by introducing or improving insolvency regimes of companies and individuals) to prepare banks for new capital requirements and stress tests and to facilitate companies' access to finance.

4.9. ESC emphasizes the importance of entrepreneurship and the creation of enterprises, in particular SMEs, in the process of recovery from the crisis. However, the EU lags behind in terms of entrepreneurial mind set – entrepreneurs make up only 11% of all Europeans<sup>20</sup>.

4.10. ESC emphasizes the need to stimulate the emergence of new entrepreneurial businesses and the implementation of innovative business ideas that would lead to the creation of new jobs. To achieve these goals it is necessary to undertake a wide range of actions at the national and the European level.

4.11. Statistics report the existence of significant differences in terms of the support for entrepreneurs in the various EU countries. In this regard, ESC believes that the exchange of best practices and the coordination of efforts can be more effective than independent measures of individual Member States.

4.12. In AGS 2014 the Commission notes the obvious signs of improvement in financing conditions reported last year, and relatively calm financial markets. However, there are still risks and the credit conditions for businesses are far from normal.

4.13. According to a survey of the European Central Bank (ECB) on SMEs' access to finance – 85% of German SMEs that requested credit in the second half of 2012, received it in full, while the average for the countries of Southern Europe was over 40%, and in Greece only 25%. These differences in access to credit, however, can hardly be explained only by differences in the economic conditions.

4.14. ESC appreciates the specific measures adopted at the EU level to facilitate access to finance for SMEs. The expected result is that the European Structural and Investment Funds

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<sup>19</sup> Communication from the Commission on the evaluation of access to regulated professions of 2 October 2013.

<sup>20</sup> EC Communication on "Plan to support European Entrepreneurs" 2013

(ESIF) can be used to double the average available funding for SMEs by means of financial instruments during the period 2014-2020 as compared to the previous programming period, which will help countries where financing conditions remain difficult. Of particular importance are the actions of the European Commission and the European Investment Bank (EIB) concerning the expansion of the joint financial instruments for risk sharing, designed to attract funds from the private sector and capital market investments to SMEs, which should become operational by early 2014.

4.15. AGS 2014 reports a decrease in the excessive indebtedness of enterprises and households as well as a shift towards more productive sectors of the economy, while the engine of growth is now internal rather than external demand. According to ESC, it is extremely important that the recovery in Europe appears to be reverting to the status quo, and is oriented to finding new sources of growth, to strengthening the competitiveness of the European economy in the long run, to high productivity and knowledge-intensive economic activities.

4.16. It is necessary to underline the fact that Europe is lagging behind in terms of infrastructure due to cuts in public budgets, but also because of the lack of a clear European industrial, transport and energy policies. Action is needed to boost investment in network industries, not prevent the EU from losing its competitiveness as compared to other regions in terms of lower productivity growth and job creation.

4.17. According to ESC, supporting the real economy in all sectors, including the traditional ones, to create more jobs is to be carried out with measures to boost growth through private sector demand and support for private investment related to the green economy, such as investment in energy efficiency.

4.18. ESC recommends that AGS, more specifically the section for "Tackling unemployment and the social consequences of the crisis," should be given room for progress and achievements in the field of the social economy. It is namely social economy enterprises, including various cooperatives that have remained stable sources of employment and security even in the midst of the crisis. In this regard, ESC again declares its support for the initiative of the European Commission to "develop a methodology to measure the socio-economic benefits of social enterprises," taking into account the important role they play in social development and cohesion.

4.19. ESC again draws attention to its already stated position (presented in the resolution on the Single Market Act II) that SMEs are the backbone of the EU economy and should not be discriminated against in terms of access to finance as a result of stricter rules for bank reserves. ESC recommends the creation of revolving instruments to provide such loans to enable SMEs to get access to finance without having to provide excessive securities. Guarantees for these loans should be provided by national and European resources.

4.20. The issue of creating the right enabling environment that combines national measures with specific European funds and financial instruments becomes extremely important. ESC

proposes to take serious measures and actions to prevent abuse, which can lead to the distortion of competition.

4.21. ESC also believes that the implementation of the new EU programs for research and innovation, including "Horizon 2020", the Programme for the Competitiveness of Enterprises and SMEs, will help to build public-private partnerships in the EU in the area of scientific research, development and innovation (RDI) for the modernization of national systems for scientific research and innovation.

## **5. THE PLACE OF EUROPE 2020 TARGETS IN THE ANNUAL GROWTH SURVEY**

5.1. ESC is concerned by the finding of the Commission that most of the targets of the Europe 2020 Strategy will not be achieved even under the most optimistic scenarios. ESC again points out that the AGS does not pay sufficient attention and does not provide for the necessary resources for the progress in achieving the quantitative goals of the Strategy. Data show lack of progress, even lagging behind in achieving the main targets (such as the targets on poverty and other social targets), which according to the ESC, creates the need for coherent integrated strategies at the European level.

5.2. The European Semester sets a clear direction for policy coordination in fiscal policy, structural reforms of labour markets and wages. Although it is aimed at supporting Member States in meeting their national targets in the context of the Europe 2020 Strategy, it appears more and more difficult to achieve. ESC believes that there is a need to rethink economic governance by strengthening the social environment in the EU.

5.3. In AGS 2014 and 2013 the Commission correctly determined dealing with the consequences of unemployment and the social crisis as a key priority for economic policy coordination. However, in the past two years, another 4 million Europeans have become unemployed, the poverty and social exclusion have continued to increase. The continued deterioration of employment and social situation shows that although the social targets are properly defined, this policy approach is not sufficiently effective.

5.4. Eurostat data clearly show that the EU is still far from achieving the target of 75% employment rate of people aged 20-64, since in 2013 reported employment in the EU-28 was 68.4%. By the end of 2014 EU is unlikely to even reach the employment values of 2009 (69%).

5.5. At the level of Member States it is not difficult to identify those that meet the most serious difficulties to get closer to the national target of employment in the context of Europe 2020. In 2013 Greece (with target 70%), Spain (with target 74%), Bulgaria (with target 76%) and Hungary (with target 75%) are located far away from the targets – by contrast, 16.8 percentage points, 15.4 percentage points, 12.5 percentage points and 11.8 percentage points, respectively. According to data for 2013 the only country to exceed the national

- employment target is Germany with employment rate for the age group 20-64 years – 77.1% against a target of 77.0%. Other good performer in this respect is Sweden (79,8% against national target of 80%), Austria (75,5% against national target of 77%) and Luxembourg (71,1% against national goal of 73%).
- 5.6. ESC agrees that the Europe 2020 Strategy needs rethinking and analysis of the experience gained from its implementation so far. ESC proposes that AGS should be supplemented with a report on the progress of the Europe 2020 Strategy. This is necessary in order to prepare the mid-term review of the Strategy in 2014.
- 5.7. If this review had to be made today, the most disturbing implications of the data will be those concerning the progress in achieving the target of reducing people at risk of poverty by 20 million. In fact, it is not possible to speak about "progress." The lack of sufficient explicit responses to the crisis and the subsequent downturn in employment led to increased risk of poverty in the EU. The actual achievement of this target at the EU level is difficult to track due to the different national definitions of poverty. Nevertheless, Eurostat data on the number of people at risk of poverty and social exclusion show that from 2010 to 2012 they have increased by 6,4 million at the EU level (28). Expressed as a percentage of the overall population, their number is the highest in Bulgaria (49.3%), Romania (41.7%) and Latvia (36.2%).
- 5.8. ESC welcomes the efforts of the European Commission for increased attention to the social consequences of the crisis, in particular to the proposal for a new table of indicators for employment and social indicators presented in the Communication on European Monetary Union<sup>21</sup>. Using this larger set of indicators will enable a broader understanding of trends in the social field. At the same time, the measures envisaged to strengthen the social dimension of the Eurozone are voluntary for countries outside the Euro Zone and are compatible with the Single European Market.
- 5.9. ESC believes that reforms in the labour market and education systems at the national level should continue to form the basis of targeted initiatives to improve labour productivity, job creation and better matching of jobs and skills. In this regard, the ESC considers that in the context of AGS the Commission may conduct a more detailed analysis of the results from the national labour market reforms implemented in recent years.
- 5.10. ESC stresses the need for Member States to work towards the inclusion of children and young people in education systems and focus on the problem of early school leaving by collecting information about the underlying causes of this phenomenon in order to implement more adequate policies to prevent it. On this topic ESC developed several own-initiative acts.
- 5.11. According to Eurostat data the target to reduce the share of early school leavers can actually be achieved if we take into account the progress that Member States have made.

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<sup>21</sup> Communication from the Commission to the European Parliament and the Council "STRENGTHENING THE SOCIAL DIMENSION OF THE ECONOMIC AND MONETARY UNION" COM (2013) 690 FINAL.

For 2013 eleven of them have achieved and exceeded their national targets. The best performance (against the pre-determined targets) is that of Luxembourg (share of leavers 6.1% against a target of 10%). Significant progress has been made in Latvia, Sweden and Lithuania. The two countries that are still far from achieving their national targets are Malta and Portugal – by proportion of leavers higher by 10.8 percentage points and 9.2 percentage points than their national targets. The changing at the EU-28 level for the period 2008-2013 is 2.7 percentage points, and to achieve the target set out in the Strategy, it is necessary to achieve a reduction in the proportion of early school leaving by additional 2.0 percentage points.

- 5.12. In 2011 after the share of early school leavers in Bulgaria was as close as 0.8 percentage points of the target (under 11%), in 2012 it marked a new increase to 12.5%. The share of leavers remained the same in 2013. Nevertheless, ESC is satisfied that the Bulgarian government adopted a "Strategy for reducing the share of early school leavers (2013-2020)"<sup>22</sup> and believes that the country has the potential to achieve more ambitious targets in this regard.
- 5.13. The progress of the EU on achieving the second education target – at least 40% of people aged 30-34 to have completed higher education – is progressing slowly. In the starting year – 2010 the average percentage for the European Union was 33.6%, by 2013 it increased by 3.3 percentage points. In some Member States the percentage of higher education graduates of this age group exceeds 50 percent – Ireland, Lithuania and Luxembourg (where the most ambitious EU goal is to achieve 66%). At the other extreme are countries where the share of graduates does not even reach 25%. These are Italy (22.4%) and Romania (22.8%). In total the differences between Member States are large both in terms of the actual progress, and in terms of targets.
- 5.14. Bulgaria remains relatively far from its national target (36% of the population aged 30-34 to have higher education). According to data for 2013 the value according to this indicator is for the first time higher than in 2010 – 29.4% against 27.7% (in 2010). ESC saluted the draft "Strategy for Development of Higher Education in the Republic of Bulgaria for the period 2014-2020" and adopted an opinion on the subject<sup>23</sup>.
- 5.15. It is important to note that to achieve the goals of education in the EU, and to a greater extent that of reducing early school leaving, of particular importance are the age cohorts who "come and go" through the age range of monitored indicators. The number and level of education of these cohorts depends on the success of the targets that the EU has set itself.
- 5.16. In this regard, ESC notes that the progress on Europe 2020 education targets (reducing early school leaving and increasing the share of university graduates) made in early 2013 does not guarantee that progress will continue automatically. ESC considers that Member

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<sup>22</sup> In 2013 ESC developed a special resolution on the draft strategy.

<sup>23</sup> ESC Opinion on the "Draft Strategy for Development of Higher Education in the Republic of Bulgaria for the period 2014 - 2020," February 2014

- States must demonstrate perseverance and consistency in their efforts, as only in this way it is possible to achieve the desired change at the national and the European level.
- 5.17. ESC is concerned about the forecast that the EU is unlikely to meet its target of investing 3% of GDP in Research and Development (R&D) since from 2.00% in 2010 this indicator has reached only 2.07% in 2012.
- 5.18. Development of the green economy requires an initial investment, which usually has a high price. In order to improve the investment environment in this respect, it is necessary to work for a sustainable and predictable legal environment. One solution is shifting the security burden to "green" taxes (on emissions), which would lead to encouraging restructuring the business environment and the labour market. The application of such a measure, however, can seriously affect the competitiveness of the national economy and lead to slow growth in the medium term. ESC believes that the imposition of such measures should be adequately secured by preliminary analysis and public discussion in order to avoid or to limit the maximum possible negative consequences.
- 5.19. ESC supports the Commission's proposal to strengthen national stakeholder participation within the Semester. In its resolution of 2013 ESC urged European politicians to structurally provide for consultations with the social partners and public participation in different political mechanisms of coordination of the Europe 2020 Strategy, and that the Commission should ensure the democratic legitimacy of the process. In this regard, ESC is satisfied that in the process of multilateral surveillance and the country specific recommendations the Commission relies on comments from the European Parliament, the Council, the Eurogroup countries and stakeholders.
- 5.20. ESC expresses its satisfaction that European politicians were able to accept the new Multiannual Financial Framework 2014-2020. Albeit in reduced form, the budgetary framework for the new programming period launched the European Structural and Investment Funds in support of the reforms that would help achieve the targets of the Europe 2020 Strategy.

(signed)

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**PRESIDENT OF THE ECONOMIC AND SOCIAL COUNCIL**

