[Rule of Law: Commission launches infringement procedure to protect the independence of the Polish Supreme Court]

On 3 July, 27 out of 72 Supreme Court judges face the risk of being forced to retire – more than one in every three judges – due to the fact that the new Polish law on the Supreme Court lowers the retirement age of Supreme Court judges from 70 to 65. This measure also applies to the First President of the Supreme Court, whose 6-year mandate would be prematurely terminated. According to the law, current judges are given the possibility to declare their will to have their mandate prolonged by the President of the Republic, which can be granted for a period of three years and renewed once. There are no criteria established for the President's decision and there is no possibility for a judicial review of this decision.

The Commission is of the opinion that these measures undermine the principle of judicial independence, including the irremovability of judges, and thereby Poland fails to fulfil its obligations under Article 19(1) of the Treaty on European Union read in connection with Article 47 of the Charter of Fundamental Rights of the European Union.

While the Polish Supreme Court law has already been discussed in the Rule of Law dialogue between the Commission and the Polish authorities, it has not been satisfactorily addressed through this process. The Commission believes that the introduction of a consultation of the National Council for the Judiciary (NCJ) does not constitute an effective safeguard, as argued by the Polish authorities. The NCJ's opinion is not binding and is based on vague criteria. Moreover, following the reform of 8 December 2017, the NCJ is now composed of judges-members appointed by the Polish Parliament – which is not in line with European standards on judicial independence.

Given the lack of progress through the Rule of Law dialogue, and the imminent implementation of the new retirement regime for Supreme Court judges, the Commission decided to launch this infringement procedure as a matter of urgency. The Polish government will have one month to reply to the Commission's Letter of Formal Notice. At the same time, the Commission stands ready to continue the ongoing rule of law dialogue with Poland, which remains the Commission's preferred channel for resolving the systemic threat to the rule of law in Poland.

Background

The rule of law is one of the common values upon which the European Union is founded. It is enshrined in Article 2 of the Treaty on European Union. The European Commission, together with the European Parliament and the Council, is responsible under the Treaties for guaranteeing the respect of the rule of law as a fundamental value of our Union and making sure that EU law, values and principles are respected.

Events in Poland led the European Commission to open a dialogue with the Polish Government in January 2016 under the Rule of Law Framework. The Commission keeps the European Parliament and Council regularly and closely informed.

On 29 July 2017* the Commission launched an infringement procedure on the Polish Law on Ordinary Courts, also on the grounds of its retirement previsions and their impact on the independence of the judiciary. The Commission referred this case to the Court of Justice on 20 December 2017.

Also on 20 December 2017, the Commission invoked the Article 7(1) procedure for the first time, by submitting a Reasoned Proposal for a Decision of the Council on the determination of a clear risk of a serious breach of the rule of law by Poland[1].

At the General Affairs Council hearing on Poland on 26 June, in the context of the Article 7(1) procedure, no indication was given by the Polish authorities of forthcoming measures to address the Commission's outstanding concerns. The College of Commissioners therefore decided on 27 June 2018 to empower **First Vice-President Frans Timmermans** to launch this infringement procedure. The Commission stands ready to continue the ongoing rule of law dialogue with Poland, which remains the Commission's preferred channel for resolving the systemic threat to the rule of law in Poland.

For more information

On the general infringements procedure, see MEMO/12/12.

[1] Article 7.1 of the Treaty on European Union provides for the Council, acting by a majority of four fifths of its members, to determine that there is a clear risk of a serious breach by a Member State of the common values referred to in Article 2 of the Treaty. The Commission can trigger this process by a reasoned proposal.

*: updated on 2nd July – 18:00

May 2018 – Euro area unemployment at 8.4% – EU28 at 7.0%

The **euro area** (EA19) seasonally-adjusted unemployment rate was 8.4% in May 2018, stable compared with April 2018 and down from 9.2% in May 2017. This remains the lowest rate recorded in the **euro area** since December 2008. The **EU28** unemployment rate was 7.0% in May 2018, stable compared with April 2018 and down from 7.7% in May 2017. This is the lowest rate recorded in the **EU28** since August 2008. These figures are published by **Eurostat, the statistical office of the European Union**.

Full text available on EUROSTAT website

The EIB reinforces its support to the Mediterranean region

- **EUR 1.8 billion investments approved for 19 projects in Egypt, Jordan, Lebanon, Morocco and Tunisia under the Economic Resilience Initiative**
- **EUR 130 million grants from EU member states to create jobs and improve education, transport, water and energy.**
- **EUR 90 million grants to help get good projects off the ground with vital technical assistance and advisory services**

The European Investment Bank (EIB) has today underlined its commitment to building economic resilience and supporting growth and job-creation in the EU Southern Neighbourhood. This was the key message of the Bank's 18th edition of the EIB-Med conference "Improving Lives and Creating New Opportunities" held today in Amman in partnership with the Jordanian Ministry of Planning and International Cooperation and the European Union Delegation to Jordan.

The conference discussed key economic developments in the region and explored successful projects that help to tackle different challenges in the context of the EIB's Economic Resilience Initiative (ERI) including in Egypt, Jordan, Lebanon, Morocco and Tunisia. Government officials and key economists presented and evaluated the macroeconomic performance of the Southern Mediterranean Countries. Experts described the ongoing developments in the water sector with a focus on current projects to help tackle the water scarcity challenge. In addition, entrepreneurs and other business representatives highlighted the key role of the private sector development for job-creation and for reinvigorating the economy.

Under the Economic Resilience Initiative, and with support from the European Commission and EU member states, the EIB has scaled up its financing activities in the EU neighbourhood considerably . New financing worth EUR 1.8 billion for 19 projects covering in Egypt, Jordan, Lebanon, Palestine, Morocco and Tunisia has been approved by the EU Bank. This includes projects in the education, industry, water and sewerage, solid waste, energy, transport and SMEs sectors thanks to EUR 130 million donor funds raised from EU Member States, including Croatia, Italy, Lithuania, Luxembourg, Poland, Slovakia, Slovenia and the UK.

In addition, EUR 90m for technical assistance and advisory services has been agreed as part of EIB's own contribution.

“The EIB has been operating in the Southern Mediterranean region for several decades. This is a region facing real economic challenges as well as being full of potential and dynamism. At the EIB, the bank of the European Union, we are ready to do more, providing more finance, more technical assistance and reinforce our commitment to support the investment plans of governments in the region. The EIB has scaled up its financing under the Economic Resilience Initiative and is now ready to provide additional resources thanks to contributions from the European Commission and EU member states amounting to of EUR 130 million. In addition, the EIB will provide EUR 90 million for technical assistance and capacity building under ERI. This, in addition to the government’s efforts will contribute to creating more jobs and economic growth, crucially providing new opportunities and improved services for people in the region”, said Dario Scannapieco, Vice president of the EIB.

Michael Kohler, Director Southern Neighborhood, European Commission said: *“This conference marks the EU support to the private sector in the Southern Neighbourhood, as the core actor to bring about economic growth and jobs for the region’s young population. We need to make full use of the potential of young entrepreneurs for them to invest in the economies of the Mediterranean, creating jobs and perspectives. The EU is already providing support at several levels, from the improvement of the investment climate to business development. The recently launched European External Investment Plan (EIP) is the next step: it draws on the successful experience of blending under the Neighbourhood Investment Platform. Through the EFSD Guarantee, the EIP will steer the attraction of private investments to a higher gear. The EIB’s Economic Resilience Initiative is a very welcome complement in this regard*.”

Ambassador Andrea Fontana, Head of the European Union Delegation to Jordan said*: “Since the beginning of the Syria crisis, the EU responded to the increasing challenges faced by Jordan by supporting the socio economic development of the Kingdom and its resilience to continue hosting the refugees. The EU provided more than EUR 1.8 billion support in different areas with economic development, social aspects, good governance and crisis response, while the EU Syria Trust Fund was instrumental and mobilised more than EUR 215 million to Jordan. The EU overall support covered a variety of sectors in close partnership with EIB, including green energy, solid waste management, water and private sector development”.*

The EIB’s 18th edition of its regional conference comes as the EU bank is stepping up its investments in the region under the Economic Resilience Initiative (ERI), which is complementary to the European External Investment Plan and part of the European Union’s response to the challenge of irregular migration. The Economic Resilience Initiative for the Southern Neighbourhood and Western Balkans involves a step change in EIB support for these regions, helping economies to absorb and respond to crises and shocks, such as the Syrian refugee crisis, while maintaining growth. By stimulating investment in the private sector and vital infrastructure, it aims to create opportunities for employment and improve both the daily living and business environment.

Yves Mersch: Are the economy and monetary policy at a turning point – and where are the European and US economies headed?

Speech by Yves Mersch, Member of the Executive Board of the ECB, Panel at the Petersberger Sommerdialog, Königswinter, 30 June 2018

Economic outlook

The euro area economy is still growing, albeit at a slightly slower pace.

Euro area growth stood at 0.4% in the first quarter, following growth of 0.7% in the previous four quarters. This moderation reflects some pull-back from last year’s exceptionally strong growth as well as some temporary and supply side factors. At the same time, concerns about increasing trade protectionism may have dampened business sentiment and expectations.

Nevertheless, the underlying strength of the euro area economy persists. It has now been growing above potential for 21 quarters. Both the non-accelerating inflation rate of unemployment (NAIRU) and the output gap are in positive territory and sentiment indicators – while weaker – are still above long-term averages for most sectors and countries.

The monetary policy measures introduced since 2014 have played a central role in supporting euro area growth and employment.

In the euro area, there are now around 8.4 million more people employed than during the trough in mid-2013, which implies that all of the jobs lost during the crisis have been recovered. Furthermore, unemployment is at its lowest level since December 2008, despite an increase in the labour force of more than 2%.

Private consumption continues to be supported by these favourable labour market developments as well as by the solid growth in households’ disposable incomes, higher asset values and an accommodative monetary policy that has contributed to a lower debt burden for borrowers. Looking ahead, private consumption growth is expected to remain favourable as anticipated improvements in the labour market should support consumer confidence.

The business investment outlook continues to strengthen and is supported by the favourable financing conditions, an improvement in profitability and solid demand.

The euro area fiscal stance is expected to be expansionary in 2018 and should be broadly neutral in 2019-20, in order to avoid procyclicality.

In addition the broad-based expansion in global demand is expected to continue, which should support euro area exports.

More specifically, in the United States growth remained robust, expanding at an annual rate of 2.0% in the first quarter of 2018, having increased by 2.9% in the fourth quarter of 2017. Growth in 2017 marked the eighth successive year of positive growth in the United States, compared with four consecutive years of positive growth in the euro area. Looking ahead, growth in the United States is expected to accelerate on the back of solid growth in investment and consumption and significant fiscal stimulus. At the same time, we have to keep an eye on a gradual increase in long-term interest rates in the United States, given the robust economic growth, an expansive deficit funded fiscal policy, and the Federal Reserve’s exit from the securities markets.

This ongoing broad-based economic growth is largely echoed in the June 2018 Eurosystem staff macroeconomic projections for the euro area. Real GDP is projected to increase by 2.1% in 2018, 1.9% in 2019 and 1.7% in 2020.

While risks to growth remain broadly balanced, those related to global factors, including the threat of increased protectionism have become more prominent. Moreover, the risk of persistently high financial market volatility warrants monitoring.

Turning to the nominal side, euro area annual inflation, as measured by the Harmonised Index of Consumer Prices (HICP), increased to an estimated 2% in June, from 1.9% in May. On the basis of current futures prices for oil, headline inflation is expected to remain around the current level for the remainder of the year.

Measures of underlying inflation remain generally muted, but are higher than the low range that prevailed between mid-2014 and mid-2016. Developments in domestic pipeline inflation and wages suggest strengthening price pressures. A continued strengthening in domestic cost pressures is expected to be the main driver behind the expected pick-up in underlying inflation towards the end of this year and the further gradual increase over the medium term.

This assessment of inflation is broadly in line with the June 2018 Eurosystem staff macroeconomic projections for the euro area, which project annual HICP inflation of 1.7% in 2018, 2019 and 2020.

This outlook depends on keeping the ample degree of monetary policy stimulus in place, as this remains necessary for underlying inflation pressures to continue to build up and be maintained over the medium term.

In October 2017, the ECB Governing Council announced the reduction of its asset purchase programme by half, having announced in December 2016 that it would be scaled back from €80 billion to €60 billion. We gave up our easing bias in the spring and at the June meeting the Governing Council concluded that progress towards a sustained adjustment in inflation had been substantial and decided to halve net purchases again and to end them completely in December 2018.

With longer-term inflation expectations well anchored, the underlying strength of the euro area economy and the continuing ample degree of monetary accommodation provide grounds to be confident that the sustained convergence of inflation towards our aim will continue in the period ahead, and will be maintained even after a gradual winding-down of our net asset purchases. Yet, an ample degree of monetary stimulus remains necessary for underlying inflation pressures to continue to build up and support headline inflation developments over the medium term.

Looking ahead, monetary policy will be firmly guided by the outlook for price stability and our stance will evolve in a data-dependent and time consistent manner. Step-by-step normalisation means that we anticipate the end of the net purchase programme in the short term, while only announcing our expectations with regard to interest rates over the medium term. The difference gives us an appropriate flexibility for our medium-term reaction function, i.e. we do not make any unconditional commitments regarding the long-term future due to the many unknowns and uncertain developments.

Yves Mersch: Are the economy and monetary policy at a turning point – and where are the European and US economies headed?

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