

How to further strengthen the European Semester

This note provides a summary of two external papers requested by the ECON Committee in advance of an Economic Dialogue with the President of the Eurogroup Jeroen Dijsselbloem of 7 December 2017. The main objective of these papers was to assess achievements under the European Semester and suggest possible ways forward for its improvement.

Xavier Ragot (*OFCE and SciencesPo-CNRS*) acknowledges in his [paper](#) that the improvement of the European Semester is an on-going process. However, this process of annual coordination should focus more on macro-economic policies with potentially strong spill-overs, which can only be addressed at the European level. Among these, one can identify diverging nominal trends and deflationary pressures at the euro area level, an inadequate fiscal stance, and unsustainable current account imbalances. To address these issues, he puts forward seven specific suggestions on how to further improve the current economic coordination and surveillance process:

1. Request National Productivity Boards (NPBs) to focus more on nominal trends across tradable and non-tradable sectors and on the labour markets;
2. Based on the inputs of NPBs and the Commission, define a nominal wage stance in the euro area consistent with the European Central Bank inflation target. Use this nominal stance to provide relevant Country Specific Recommendations (CSRs);
3. Provide a hierarchy of CSRs based on a degree of spill-overs the requested reforms have onto other Member States;
4. Systematically add CSRs about environmental issues and possibly energy policy, as these recommendations tackle issues with clear externalities;
5. Add a temporal dimension to recommendations, with a possible medium-run time horizon, distinguishing between intermediate steps and final goals;
6. Start the European Semester with an assessment of the European economic situation on key aspects: Fiscal aspects (fiscal sustainability and fiscal stance), social aspects, financial aspects (based on current account imbalances) and nominal aspects (nominal and wage stance);
7. To improve democratic debate, a systematic communication on CSRs with externalities would considerably ease national ownership. The Commission has to be heard by national parliaments to discuss potential European externalities, while the European parliament should scrutinize the assessment by the Commission of these policies with strong externalities.

Cinzia Alcidi and Daniel Gros (*Centre for European Policy Studies*) argue in their [paper](#) that the emphasis of the European Semester should shift from economic policy coordination – intended as the process through which Member States commit to common rules and recommendations adopted by the Council of the European Union under the surveillance of the Commission – to a stronger national ownership. Coordination of national policies may be essential at times of crisis, when cross-country spillover effects tend to be large, but it may not be very effective when economic conditions return to normal, as spillovers tend to be small and the incentives for governments to coordinate lessen.



Stronger national ownership should lead to better enforcement of commonly agreed rules, regardless of economic conditions and should take away the perception that rules are hierarchically imposed. National ownership could be improved by involving the national fiscal councils and the national productivity boards explicitly in the elaboration of EU recommendations for national governments. This should be done without increasing the complexity of an already complicated EU governance system of governance or damaging their reputation as independent bodies.

Reforms aiming to improve the structural functioning of the EU's economies are of critical importance for Member States, yet the reasons why specific reforms should be embedded in the Semester are not always clear. Moreover, strengthening the Semester by further linking the EU budget to reforms undertaken in the Member States appears to be an appealing idea in theory but is very difficult to put into practice. Reforms cannot be 'bought' as such and it would be extremely difficult to measure the implementation of the CSRs precisely enough to make implementation a condition for funds.

The role of the Commission should remain predominant in fostering coordination in case of economic crisis and in providing technical support for reforms whenever needed.

Institutional background

The European Parliament's [report on the economic policies of the euro area](#) of 18 October 2017 (Rapporteur Hökmark):

- *considers that the uneven growth and employment situation in the euro area requires better coordination of economic policies, in particular through improved and consistent national ownership and sound implementation of the CSRs;*
- *invites the Commission and the Council to formulate the CSRs in a way that makes progress measurable, in particular for cases where the recommendation repeatedly targets the same policy area and/or where the nature of the reform requires implementation beyond one Semester cycle;*
- *urges the Commission to launch negotiations on an interinstitutional agreement on economic governance; insists that this IIA should ensure that, within the framework of the Treaties, the structure of the European Semester allows for meaningful and regular parliamentary scrutiny of the process, in particular as regards the Annual Growth Survey priorities and the euro area recommendations;*
- *considers that the European Semester should also incorporate reporting on energy efficiency and interconnectivity on the basis of targets set at EU level.*

According the Commission [reflection paper on the Deepening of the EMU](#), 'Before 2019, the European Semester could be reinforced further. In particular, the Commission will look into ways to:

- *foster further the cooperation and dialogue with Member States,(...), to ensure stronger domestic ownership and encourage better reform implementation;*
- *increase further the focus on the aggregate euro area dimension, with a stronger role for the euro area recommendations;*
- *make a closer link between the yearly process of the European Semester and a more multi-annual approach to reforms of national governments. '*

The Commission paper also proposes to reinforce links between national reforms and existing EU funding, by making their disbursement, in part or in full, conditional on reform implementation.

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