Country-specific recommendations: An overview - April 2019

This note provides an overview of the country-specific recommendations issued annually to EU Member States under the European Semester for economic policy coordination. It looks how these recommendations evolved over time, including from the legal base perspective. Finally, it discusses how recommendations were implemented over the 2012-2018 European Semester cycles. The note is updated on a regular basis.

Country-specific recommendations (CSRs) provide guidance to EU Member States on macro-economic, budgetary and structural policies in accordance with Articles 121 and 148 of the Treaty on the Functioning of the European Union (TFEU). These recommendations, issued within the framework of the European Semester for economic policy coordination since 2011, are aimed at boosting economic growth and job creation, while achieving or maintaining sound public finances and preventing excessive macroeconomic imbalances. They provide guidance for national reforms over the following 12-18 months.

As to the process, CSRs are proposed by the European Commission (COM) and discussed by the various Council formations. The CSRs, typically proposed by the COM in May each year, build, inter alia, on (1) the COM’s Country Reports which include, where applicable, In-Depth Reviews under the Macroeconomic Imbalance Procedure (MIP), (2) the longer-term vision outlined in the Europe 2020 Strategy, (3) an assessment of Member States’ Stability or Convergence Programmes (SCPs) and National Reform Programmes (NRPs) and (4) the outcome of dialogues with Member States and other key stakeholders.

As a rule, the Council is expected to follow the COM proposal or explain its position publicly (“comply or explain” principle). Every year, after being endorsed by the European Council and formally adopted by the ECOFIN Council, CSRs are to be taken into account by Member States in the process of national decision making. The Council and the COM closely monitor the implementation of CSRs and take further actions, as appropriate.

In addition to CSRs, the COM proposes policy recommendations on the economic policy of the euro area as a whole based on Article 136 of the TFEU; since the 2016 European Semester, these proposals are published at the start of the Semester cycle (in November) to better integrate the euro area dimension into the national dimension (see a separate EGOV note for more details).
1. How have country-specific recommendations evolved over time?

Since the 2015 Semester cycle, CSRs have been prepared in line with the so-called “streamlined Semester” - an approach that is characterised, in particular, by fewer and refocused CSRs; an earlier publication of the recommendations on the economic policy of the euro area (i.e. at the very beginning of the cycle, along the publication of the AGS); an earlier assessment of the implementation of CSRs adopted under the previous cycle; inclusion of in-depth reviews under the MIP into the Country Reports (where applicable); and finally, an intensified dialogue between the COM and Member States as well as other European institutions.

Under the streamlined Semester, the recommendations also put greater emphasis on the objective to be achieved, while largely leaving the definition of the measures needed to attain it to the discretion of national authorities. The intended goal of all these refinements is to increase the political ownership of CSRs and accountability, and thereby improve their unsatisfactory and declining rate of implementation (see Section 3).

While there has been a tendency over the years to streamline the recommendations covered in the Semester, the COM has also tried to flag some topical issues in each cycle. For instance, in the 2019 Semester Cycle, each country report (published in February 2019) includes an assessment of the investment needs of the Member State in question and sets out some guidance for investment priorities. In order to ensure greater coherence between the coordination of economic policies and the use of EU funds; this guidance identifies country specific priority areas for policy action regarding public and private investment, and therefore constitutes an analytical basis both for the forthcoming CSRs and the programming related EU funds in 2021-2027.

Table 1: CSRs - some stylized facts

<table>
<thead>
<tr>
<th>European Semester</th>
<th>Total number of CSRs</th>
<th>Number of Member States</th>
<th>Minimum number of CSRs per Member State</th>
<th>Maximum number of CSRs per Member State</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>138</td>
<td>23</td>
<td>4</td>
<td>DE, SE</td>
</tr>
<tr>
<td>2013</td>
<td>141</td>
<td>23</td>
<td>3</td>
<td>DK</td>
</tr>
<tr>
<td>2014</td>
<td>157</td>
<td>26</td>
<td>3</td>
<td>DK</td>
</tr>
<tr>
<td>2015</td>
<td>102</td>
<td>26</td>
<td>1</td>
<td>SE</td>
</tr>
<tr>
<td>2016</td>
<td>89</td>
<td>27</td>
<td>1</td>
<td>SE</td>
</tr>
<tr>
<td>2017</td>
<td>78</td>
<td>27</td>
<td>1</td>
<td>DK, SE</td>
</tr>
<tr>
<td>2018</td>
<td>73</td>
<td>27</td>
<td>1</td>
<td>DK, SE</td>
</tr>
</tbody>
</table>

Source: EGOV based on the European Commission. All data is available in the EGOV database on CSRs.

Table 1 depicts some stylized facts on CSRs:

1) The number of Member States taking part in the twelve-monthly cycle of economic and fiscal policy coordination in the framework of the European Semester has gradually increased as Member States receiving financial assistance successfully exited from the related programmes: while Ireland, Portugal, and Cyprus have already been fully included into the European Semester, Greece exited its programme in August 2018 after the adoption of the

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1 Since 2015, some policy areas are not any more covered directly by CSRs, but via other policy processes, e.g. Energy Union, Single Market, European Research Area and the Innovation Union (see the COM Communication of 13 May 2015, p. 10).
2018 CSRs, so it will have CSRs as from July 2019 (the COM analysis (i.e. the country report) providing an analytical basis for the upcoming CSRs for Greece has already been published²).

2) The total number of CSRs issued to Member States was more than halved under the streamlined Semester (from a peak of 157 recommendations in 2014 to 73 in 2018). This reduction largely reflect two elements: 1) new focus and prioritisation of the Semester - i.e. the fact that some policy area are no longer covered as from the 2015 Semester cycle³, and 2) the fact that some policy areas that were covered separately in one Semester cycle have been merged during the next cycle - as a result, one recommendation may cover several policy areas that were previously addressed in separate recommendations. While the first phenomenon has been the main driving force behind the drop in the number of CSRs between the 2014 and 2015 cycles, the relative importance of the second approach has gradually increased to the point that it has become the predominant explanatory factor in the observed decline of the number of CSRs between the 2017 and 2018 Semesters (see Annex)⁴.

3) The minimum and maximum numbers of CSRs addressed to Member States were gradually reduced to stabilise at one and five, respectively, over the 2016-2018 cycles.

From a legal base perspective, the CSRs are underpinned by the EU primary legislation (Articles 121 and 148 of the TFEU) as well as the EU secondary legislation, namely:

1. **Council Regulation (EC) 1466/97** on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies for CSRs referring to the Stability and Growth Pact (SGP);

2. **Regulation (EU) 1176/2011** on the prevention and correction of macroeconomic imbalances for CSRs referring to the Macroeconomic Imbalance procedure (MIP);

3. **Integrated guidelines** for implementing the Europe 2020 strategy – these guidelines consist of two legislative documents: (1) a Council recommendation on broad guidelines for the economic policies of the Member States and of the Union and (2) a Council decision on guidelines for the employment policies of the Member States (together the so-called "integrated guidelines")⁵.

Furthermore, the CSRs are politically binding insofar as they are endorsed by the European Council and formally adopted by the Council. The Council is expected to, as a rule, adopt the recommendations proposed by the COM or publicly explain its position.

A failure to implement the recommendations might result in further procedural steps under the relevant EU law and ultimately in sanctions under the SGP and the MIP. These sanctions might include fines and/or suspension of up to five European Funds, namely the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime & Fisheries Fund (EMFF). As indicated above, the COM has proposed, as

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² See for more information on the post-programme countries a separate EGOV briefing and a dedicated ESM webpage
³ At the time the COM indicated in its **Chapeau Communication for the 2015 European Semester** (p. 10) that it will continue to monitor the areas that are no longer covered in CSRs in its country reports and/or take them up via other policy processes, e.g. Energy Union, Single Market, European Research Area and the Innovation Union.
⁴ The decrease in number of CSRs observed between 2017 and 2018 is predominantly due to changes in presentation rather than substance. Out of the five recommendations that were discontinued, one was fully dropped (BG 2017 CSR 4), while the other four were included in other CSRs during the 2018 Semester cycle (FR 2017 CSR 3 is now part of FR 2018 CSR 2; HR 2017 CSR 3 of HR 2018 CSR 2; PT 2017 CSR 4 of PT 2018 CSR 3; and finally, SI 2017 CSR 2 of SI 2018 CSR 1. On the same lines, the ECB pointed out in its Economic Bulletin (issue 5/2018, p. 41) that "...efforts made in recent years to contain the number of CSRs which have streamlined the process, are by no means a reflection of improved or strong structural reform momentum".
⁵ The TFEU provides that Member States are to regard their economic policies and promoting employment as a matter of common concern and shall coordinate their action within the Council. It provides that the Council is to adopt employment guidelines (Article 148), specifying that they must be consistent with the broad economic policy guidelines (Article 121).
part of the Multiannual Financial Framework 2021-2027, to strengthen the link between the recommendations of the Semester and the use of the EU budget.\(^6\)

### Table 2: Distribution of CSRs from a legal perspective

<table>
<thead>
<tr>
<th>European Semester</th>
<th>SGP</th>
<th>MIP</th>
<th>Jointly SGP and MIP</th>
<th>Exclusively Integrated Guidelines</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>18</td>
<td>31</td>
<td>5</td>
<td>84</td>
<td>138</td>
</tr>
<tr>
<td>2013</td>
<td>18</td>
<td>50</td>
<td>6</td>
<td>67</td>
<td>141</td>
</tr>
<tr>
<td>2014</td>
<td>19</td>
<td>58</td>
<td>8</td>
<td>72</td>
<td>157</td>
</tr>
<tr>
<td>2015</td>
<td>11</td>
<td>48</td>
<td>10</td>
<td>33</td>
<td>102</td>
</tr>
<tr>
<td>2016</td>
<td>13</td>
<td>36</td>
<td>9</td>
<td>31</td>
<td>89</td>
</tr>
<tr>
<td>2017</td>
<td>12</td>
<td>27</td>
<td>8</td>
<td>31</td>
<td>78</td>
</tr>
<tr>
<td>2018</td>
<td>11</td>
<td>27</td>
<td>5</td>
<td>30</td>
<td>73</td>
</tr>
</tbody>
</table>

Source: EGOV calculations based on the European Commission. All data is available in the EGOV database on CSRs.

Note: Share of CSRs by secondary legal base for a given Semester cycle in brackets.

Table 2 disentangles CSRs according to the EU legal base, showing that:

1) A single recommendation is typically underpinned by a single instrument of the EU secondary law (i.e. SGP or MIP). However, CSRs related to public finances might in some cases be devised based on both the SGP and the MIP. Most of the recommendations have been underpinned by the SGP and/or MIP legal bases (with the exception of the 2012 cycle). The introduction of the streamlined Semester as from the 2015 cycle, with fewer recommendations, has contributed to an increase in the proportion of recommendations based on SGP and/or MIP legal bases.

2) In many cases, a single recommendations is based on both a single EU secondary law (i.e. SGP or MIP) and the so-called “integrated guidelines”. This is particular the case in recommendations on public finances, which are in many cases based partly on the SGP and partly on the integrated guidelines.

3) While during the 2014 Semester all 26 Member States received a recommendation on public finances (based on SGP or joint SGP/MIP legal bases), no specific recommendation on public finances based on the SGP has been proposed since 2015 to Member States which were considered by the COM to be in line with the commitments under the preventive arm of the SGP at that time (DE, LU, NL, SK and SE). The COM has broadly maintained this approach since then.\(^7\)

4) As to the 2018 Semester cycle, nearly 6 out of 10 recommendations were underpinned by the SGP or MIP legal bases, or both. Out of 11 countries that are considered as experiencing either “imbalances” or “excessive imbalances” following the in-depth reviews published within the 2018 Country Reports, 10 received all the recommendations underpinned by the MIP legal bases (DE, HR, CY, NL and SE) or the MIP/SGP legal bases (IE, ES, FR, IT and PT). The remaining Member State (BG) received most of its 2018 CSRs based on the MIP legal basis. Finally, five

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\(^6\) See following Communication: Modern Budget for a Union that Protects, Empowers and Defends - The Multiannual Financial Framework for 2021-2027.

\(^7\) One may, however, make the observation that there are cases where similar recommendations, in terms of policy area and wording, are given to countries under different legal bases. For example, during the 2015 cycle, the recommendation to broaden the tax base on consumption is underpinned by the Integrated Guidelines in the case of LU (CSR1). However, it is based on the MIP in the case of FR (CSR5).
Member States received all of their respective draft 2018 CSRs based solely on Integrated guidelines: CZ (2 CSRs), DK (1 CSR), LT (3 CSRs), LU (2 CSRs) and MT (2 CSRs) - these are countries assessed to be in line with their commitments under the preventive arm of the SGP and for which no imbalances were identified under the MIP\(^8\).

3. How has CSRs Implementation evolved over time?

Based on the regular annual assessment published by the COM in its Country Reports, more than half of CSRs (53%) were implemented, on average, with at least some progress over the period 2012-2018.

The CSRs annual implementation rate followed a downward trend over the period 2012-2016 before showing first signs of improvement in 2017 and a decline again in 2018\(^9\): the proportion of recommendations on which Member States made at least some progress declined from 71% in 2012 (the highest value on record) to 45% in 2016 (the lowest value on record) before achieving 50% in 2017 and 39% in 2018 (see Figure 1). At the same time, the share of recommendations with full/substantial progress has gradually decreased from 11% in 2012 to mere 1% in 2017 and about 3% in 2018. Note that these results are based on the assessment provided at the level of CSRs as a whole (and not on the assessment at sub-recommendations level\(^10\) and exclude the compliance with the provisions of SGP\(^11\). Furthermore, the analysis assigns identical weights to each and every CSR within and across Member States as well as across time. It also abstracts from difficulties linked to implementation of various types of reforms, including the electoral cycle.

Figure 1: CSRs implementation rate per year in 2012-2018 (“an annual perspective of progress”)

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\(^8\) The reverse is not necessarily true: a country that is under the preventive arm of SGP and not at risk of imbalances, in the sense of the MIP, will not automatically receive all its recommendations based on “Integrated guidelines”.

\(^9\) As Deroose and Griesse (2014) already pointed out, the observed downward trend in CSRs implementation is partly embedded in the European Semester process to the extent that “recommendations implemented during the previous round will not be repeated in the next vintage of CSRs. Thus, Member States that have ‘picked the low-hanging fruit’ first may effectively be facing a more challenging set of CSRs in subsequent rounds of the European Semester, even without an active intention by the Commission or the Council to ‘get tougher’.” This line of reasoning seems to be valid, in particular, from a medium-term perspective. Yet, in the long run, Member States will have some new ‘low-hanging fruit’ to harvest again. It remains to be seen to what extent this particular factor might explain the slight improvement in CSRs implementation record during the 2017 Semester cycle.

\(^10\) One recommendation often tackles policy challenges in several areas (sub-recommendations).

\(^11\) This has been the case since 2015 (assessment of the 2014 CSRs) due to an earlier publication of Country Reports (February/March) that is before public finance data (for the preceding year) become available in April (see EDP notification). The compliance with the provisions of the SGP is assessed separately in the COM Assessment of Convergence and Stability Programmes published in May. However, the COM does not subsequently present an overview table with updated summary assessment for each and every Member State despite the fact that the outcome of assessment of compliance with the SGP seems to feed into the COM’s data on its multiannual assessment of CSRs implementation.
Implementation record has been uneven across policy areas and countries. This unequal CSRs implementation “often reflects the urgency of progress in specific areas, but also reveals the need for consensus building, notably where reform benefits are not uniformly spread”\(^{12}\). Overall, Member States made most progress in the area of financial sector reform and public finances in response to the economic and financial crisis (see a separate EGOV thematic briefing on CSRs in the area of banking). However, only a limited progress has been made on reforms of tax regimes. The COM observes that “the current economic environment provides a favourable window of opportunity to step up reform implementation”.

Recognising that a number of CSRs relate to long-term structural issues, the COM presents in its Chapeau Communication on the 2018 European Semester an assessment of CSRs implementation from both yearly and multiannual perspectives (including progress on compliance with the SGP). The latter approach was introduced in 2017 and according to this yardstick “more than two thirds of CSRs have been implemented with at least some progress” over the period 2011-2017, leading therefore to a somewhat more favourable picture of CSRs implementation record when compared with year-by-year assessment. This element confirms, according to the COM, that “important reforms are eventually being carried out, though in many cases the process takes time”. The 2019 European Semester country reports even include for each country, the overall multiannual implementation of 2011-2018 CSRs (excluding progress on compliance with the SGP). Despite this increasing focus on multiannual assessments (compared to assessment of progress since the adoption of the CSRs of the respectively previous year), it may be noticed that the COM has neither published the methodology underlying its multiannual assessment, nor the fully fledged country-specific multi-annual assessments themselves and their evidence bases\(^{13}\). The COM has repeatedly

\(^{12}\) The COM Communication on the 2018 European Semester: Country-specific recommendations of 23 May 2018, p.3.

\(^{13}\) In June 2018, Bruegel published a Policy contribution “Is the European Semester effective and useful?” covering CSRs implementation from various perspectives, including assessment based on a multiannual approach. In April 2019, Bruegel
stressed that CSRs are focused on reform steps that can be implemented within 12-18 months. Under the current setup of the European Semester, they are proposed by the COM in May, before being adopted by the Council in July (of year $t$). However, their implementation is assessed already in February (of year $t+1$), namely after a period of only eight months. This is one of the factors that currently generates, \textit{ceteris paribus}, a downward bias in the “yearly” assessment of implementation of CSRs as adopted in the previous year and is a reason why the multiannual approach might seem more appropriate. Yet on the other hand, the multiannual approach may introduce an upward bias in the results, since one can expect that some action is taken on a majority of recommendations over a sufficiently long period.

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\begin{itemize}
  \item expanded its analyses by making an estimation of other factors, such as the macroeconomic environment and pressure from financial markets, that could influence the implementation of CSRs (see their Working paper “What drivers national implementation of EU policy recommendations?”).
\end{itemize}
Annex: Where does the reduction in the number of CSRs between the 2017 and 2018 cycles come from?

<table>
<thead>
<tr>
<th>Member State</th>
<th>2017 Country-specific Recommendations (not continued as independent recommendations in 2018) (Total number of 2017 CSRs = 78)</th>
<th>2018 Country-specific Recommendations (Total number of draft 2018 CSRs = 73)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Legal Base</td>
<td>Legal Base</td>
</tr>
<tr>
<td>BG</td>
<td>Integrated Guidelines</td>
<td>CSR 4: Ensure efficient implementation of the 2014-2020 National Public Procurement Strategy.</td>
</tr>
<tr>
<td></td>
<td>CSR 4: Ensure efficient implementation of the 2014-2020 National Public Procurement Strategy.</td>
<td>MIP</td>
</tr>
<tr>
<td>FR</td>
<td>MIP</td>
<td>CSR 3: Improve access to the labour market for jobseekers, in particular less-qualified workers and people with a migrant background, including by revising the system of vocational education and training. Ensure that minimum wage developments are consistent with job creation and competitiveness.</td>
</tr>
<tr>
<td>HR</td>
<td>MIP</td>
<td>CSR 3: Improve adult education, in particular for older workers, the low-skilled and the long-term unemployed. Accelerate the reform of the education system.</td>
</tr>
<tr>
<td>PT</td>
<td>MIP</td>
<td>CSR 4: Implement a roadmap to further reduce the administrative burden and tackle regulatory barriers in construction and business services by the end of 2017. Increase the efficiency of insolvency and tax proceedings.</td>
</tr>
<tr>
<td>SI</td>
<td>Integrated Guidelines</td>
<td>CSR 2: Intensify efforts to increase the employability of low-skilled and older workers, particularly through targeted lifelong learning and activation measures.</td>
</tr>
</tbody>
</table>

Source: EGOV note "Country-Specific Recommendations for 2017 and 2018: A tabular comparison and an overview of implementation".