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IN-DEPTH ANALYSIS

Economic Dialogue with the European Commission on the European Semester Spring 2017 Package

ECON and EMPL on 30 May 2017

Vice-President Dombrovskis, Commissioner Moscovici and Commissioner Thyssen have been invited to an Economic Dialogue in line with the relevant EU law on the European Semester Spring 2017package. This briefing note covers the draft 2017 CSRs, the implementation of CSRs over the period 2012-2016 and recent decisions related to the implementation of the Stability and Growth Pact and the Macro-economic Imbalance Procedure.

Summary

On 22 May 2017, the Commission (COM) presented its "European Semester Spring 2017 Package" which includes the following elements:

1. **Draft 2017 Country Specific Recommendations (CSRs)** for 27 EU Member States (all Member States except Greece, which is currently under a third financial assistance programme). The recommendations proposed by the COM provide guidance on "*a selected number of priority issues of macroeconomic and social relevance*" that "*can realistically be achieved in the next 12-18 months to make growth stronger, more sustainable and more inclusive*".

   In the context of the 2017 European Semester, the COM:

   a) **Further reduced the number of CSRs** (from 89 under the previous cycle to 78 at present). This reduction has been achieved almost entirely by merging policy areas that were previously addressed separately into a single recommendation (see a separate EGOV note comparing the 2016 and 2017 CSRs);

   b) **Put increased emphasis on the multiannual perspective** as regards implementation of past CSRs. In particular, the COM argues that, seen from such a perspective, "*two out of three recommended reform steps have seen at least some progress*". Note that the COM did not made public the underlying methodology and data sample.

2. **Recommendations to the Council to close the Excessive Deficit Procedures (EDP) for Croatia and Portugal** as these countries have brought their deficits below the Treaty reference value of 3% of GDP. If the Council follows the COM recommendation, only four Member States (EL, ES, FR and UK) would still remain under the corrective arm of the Stability and Growth Pact (SGP), compared with 24 countries in 2011;

3. **Reports on Belgium and Finland reviewing their compliance with the debt criterion in 2016**. In both cases, the COM concluded that this criterion should be considered as currently complied with;

4. **A confirmation that Italy has delivered the requested additional fiscal measures for 2017** and that therefore no further steps are deemed to be necessary for compliance with the debt criterion at this stage;

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5. **A recommendation to the Council with a view to giving a warning to Romania on the existence of a significant observed deviation from the adjustment path toward the medium-term objective (MTO) in 2016**, as well as a recommendation to the Council with a view to correcting this significant observed deviation from the adjustment path toward the MTO;
6. **A proposal to grant the requested flexibility to Lithuania and Finland under the SGP**, based on the assessment of the 2017 Stability Programmes;
7. **A conclusion there is no need, at this stage, to step up the Macroeconomic Imbalance Procedure (MIP) for Cyprus, Italy and Portugal**, based on the assessment of the 2017 National Reform Programmes. While the reform commitments outlined therein "*appear sufficiently ambitious*", the COM highlights that "*the absence of details on the adoption and implementation timeframe limits their credibility*".

This note provides an overview of the 2017 Spring package and presents the next steps under the European Semester. The Annexes include the latest Scoreboard for the identification of macro-economic imbalances and a table depicting Member States' progress towards the EU 2020 targets.

1. The 2017 European Semester: Country Specific Recommendations

On 22 May 2017, the COM proposed the 2017 Country Specific Recommendations[1] (CSRs) to 27 EU Member States[2], along with the underlying Communication. The COM proposals build on several elements, notably: (1) the three main pillars identified in the 2017 Annual Growth Survey[3], (2) the longer-term vision outlined in the Europe 2020 Strategy, (3) the COM's 2017 Country Reports, (4) the COM's assessment of the 2017 Stability/Convergence Programmes and National Reform Programmes, and (5) the outcome of dialogues with national authorities and stakeholders as well as the European Parliament.

The 2017 CSRs were devised under the so-called streamlined Semester that is characterised, in particular, by: fewer and refocused CSRs[4]; 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.

Table 1: CSRs - some stylized facts

European Semester	Total number of CSRs	Number of Member States	Average number of CSRs per Member State	Minimum number of CSRs per Member State	Maximum number of CSRs per Member State
2012	138	23	6.0	4 (DE, SE)	8 (ES)
2013	141	23	6.1	3 (DK)	9 (ES, SI)
2014	157	26	6.0	3 (DK)	8 (ES, HR, IT, PT, RO, SI)
2015	102	26	3.9	1 (SE)	6 (FR, HR, IT)
2016	89	27	3.3	1 (SE)	5 (FR, HR, IT, CY, PT)
2017	78	27	2.9	1 (DK,SE)	5 (HR, CY)

Source: EGOV calculations based on the European Commission.
Note: The 2017 CSRs are yet to be approved and formally adopted by the Council.

Table 1 depicts some stylized facts on CSRs:

- The total number of CSRs has been further reduced from 89 in 2016 to 78 in 2017 (or equivalently a reduction of about 12%), while the number of participating Member States remained unchanged;
- As a consequence, the average number of CSRs per Member State slightly decreased to about three recommendations during the 2017 cycle;
- The minimum and maximum numbers of CSRs addressed to Member States have remained unchanged between the 2016 and 2017 cycles (at one and five respectively).

A more detailed analysis of the 2017 CSRs proposed by the COM (draft CSRs) shows that[5]:

- The **decline in the number of policy recommendations** observed under the 2017 cycle predominantly reflects the fact that some policy areas that were covered separately in 2016 have been merged during the current Semester[6];

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[1] The CSRs provide guidance to EU Member States on key fiscal and macro-structural issues over the next 12 18 months.
[2] The COM does not propose CSRs to Member States receiving financial assistance to avoid duplication with measures set out in the economic adjustment programme.
[3] The three elements of the 'virtuous triangle of economic policy' are the following: (1) boosting investment, (2) pursuing structural reforms and (3) ensuring responsible fiscal policies.
[4] In this regard, the COM indicated that that it will continue to monitor policy areas not covered directly by CSRs in the Country reports and take them up via other policy processes, e.g. Energy Union, Single Market, European Research Area and the Innovation Union (the COM Communication of 13 May 2015, p. 10).
[5] See a separate EGOV note "Country Specific Recommendations (CSRs) for 2016 and 2017 - A comparison and an overview of implementation" for an overview of recommendations.
[6] The decrease in number of CSRs observed between 2016 and 2017 is a result of two opposing trends. On the one hand, out of 89 CSRs adopted under the 2016 European Semester, 13 were dropped this year (either by being fully discontinued - on two occasions, or

- **Out of 78 draft 2017 CSRs, 76 recommendations are linked to policy areas that were already covered during the previous cycle (about 97%)**. Two Member States received a new policy recommendation each in 2017, namely HR (CSR 3 - reform of the education system) and MT (CSR 2 - supervision of internationally oriented business by financial institutions, licensed in MT).

Table 2: Distribution of CSRs from legal perspective

European Semester	Exclusively SGP		Exclusively MIP		Jointly SGP and MIP		Integrated Guidelines		Total	
2012	18	(13%)	31	(22%)	5	(4%)	84	(61%)	138	(100%)
2013	18	(13%)	50	(35%)	6	(4%)	67	(48%)	141	(100%)
2014	19	(12%)	58	(37%)	8	(5%)	72	(46%)	157	(100%)
2015	11	(11%)	48	(47%)	10	(10%)	33	(32%)	102	(100%)
2016	13	(15%)	36	(40%)	9	(10%)	31	(35%)	89	(100%)
2017	12	(15%)	27	(35%)	8	(10%)	31	(40%)	78	(100%)

Source: EGOV calculations based on the European Commission.
Note: Share of CSRs by secondary legal base for a given Semester cycle in brackets. The 2017 CSRs are yet to be approved and formally adopted by the Council.

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

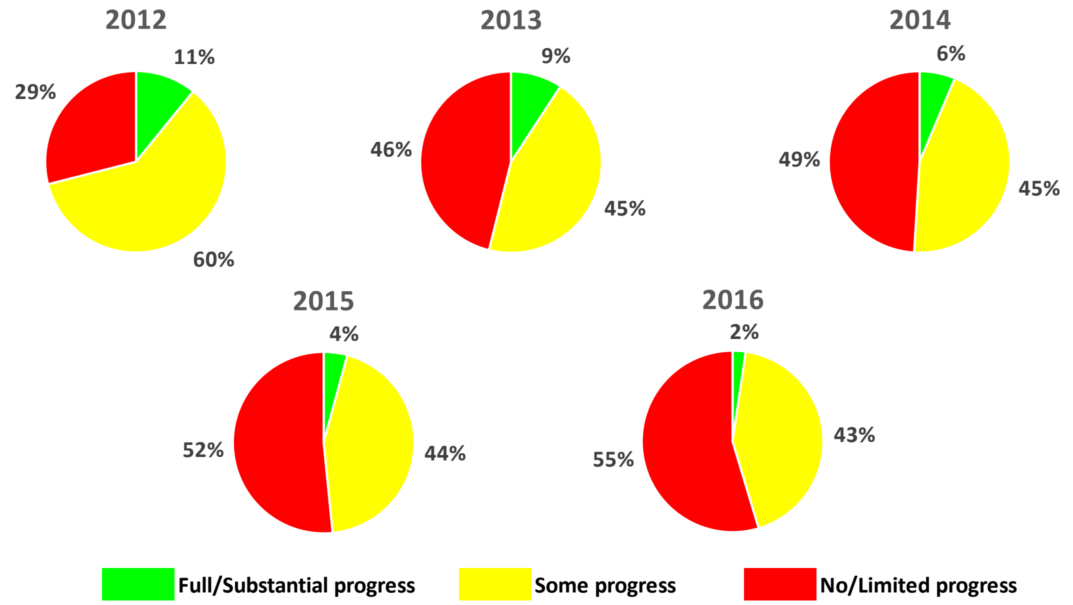
- The draft 2017 CSRs underpinned exclusively by the **MIP legal base** noticeably declined (from 45% in 2016 to 35% in 2017). On the other hand, the proportion of recommendations underpinned 1) exclusively by the SGP and 2) jointly by the SGP and MIP remained unchanged over the last two cycles (at 15% and 10% respectively);
- Three Member States received all their respective CSRs based solely on **Integrated guidelines**: CZ (2 CSRs), DK (1 CSR) and LU (2 CSRs) - i.e. countries that are under the preventive arm of the SGP and for which no imbalances were identified under the MIP;
- Three Member States received all their respective **CSRs based exclusively on the MIP (**DE, NL and SE) - all these three countries have been classified as experiencing "imbalances" based on the in-depth reviews published at the beginning of 2017. Similarly, four Member States (FR HR, IT and PT) received also all their respective **CSRs based on the MI**P (but one recommendation was also underpinned by the SGP). Note these four countries have been classified as experiencing "excessive imbalances". Finally, the two remaining Member States which were also classified as experiencing "excessive imbalances", namely BG and CY, received recommendations based on several legal basis, including MIP.

2. Implementation of the 2012-2016 CSRs

Based on the yearly assessments published by the COM in its Country Reports, the proportion of fully/substantially implemented CSRs considerably declined over the 2012-2016 Semester cycles, from 11% in 2012 to 2% in 2016 (see Figure 1 overleaf**)**. At the same time, the part of recommendations with limited/no progress has progressively increased from nearly 30% in 2012 to 55% in 2016. Consequently, these results would, *prima facie*, point to a falling reform implementation resolve on the Member States' side. 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-recommendation level[7]). 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.

merged into other CSRs - on 11 occasions). On the other hand, two new CSRs were proposed under the 2017 vintage (HR and MT). Consequently, the total number of CSRs declined to 78 in 2017 (11 fewer compared to the previous cycle).
[7] Many CSRs include more than one challenge to address (sub-recommendations).

Figure 1: CSRs implementation over the period 2012-2016 (annual perspective)



Source: EGOV calculations based on the European Commission assessment provided in Country Reports.

Notes: (1) Based on the COM assessment of actions taken (rather than outcomes that may materialise with a lag), assigning identical weights to all recommendations, within and across Member States, irrespective of their institutional and political sensitivities.

(2) Data for 2015 exclude CSRs related to the compliance with the SGP for seven Member States (DK, EE, LV, HU, MT, FI and UK). These recommendations were assessed by the COM separately in its assessments of the 2016 Stability and Convergence Programmes of 26 May 2016 yet without explicitly providing the assessment grid/commentary used for other CSRs.

(3) Data for 2016 exclude CSRs related to the compliance with the SGP for three Member States (DK, HU and UK). These recommendations are to be assessed by the COM separately in its assessments of the 2017 Stability and Convergence Programmes.

However, 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*** but in the long run, Member States will have some 'low-hanging fruit' to harvest some time down the road again.

The COM presents in its Chapeau Communication on the 2017 European Semester an assessment of CSRs implementation from both yearly and multiannual perspective. The latter approach has been brought in for the very first time on the grounds that "*implementing reforms takes time*". Therefore, the COM argues "*it is important to assess the process over the medium term and not only* [from] *the short term perspective*." According to this newly introduced yardstick, "*around two thirds of CSRs issued until 2016 have been implemented with at least 'some progress'*." In fact, the multiannual assessment leads to a more favourable picture regarding Member States' pursuit of structural reforms than the yearly assessment. However, it may be noticed that:

1) The COM did not published, as part of its Communication of 22 May 2017, the methodology and sample underlying its multiannual assessment;
2) The COM has repeatedly 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 eight

months only[8]. This is one of the factors that currently generates, *ceteris paribus*, a downward bias in the yearly assessment of CSRs implementation and is a reason why the multiannual approach might seem more appropriate. Yet on the other hand, the mutliannual approach may introduce an upward bias in the results (i.e. reforms are assessed over variable time periods[9]).

Finally, note that the shares of fully and substantially implemented recommendations in the yearly assessment presented by the COM (in its Communication on the 2017 European Semester, Figure 1, p. 6) appear to be somewhat higher than what a simple screening of the information provided in the Country Reports would indicate[10]. In particular, the screening of the 2013-2016 COM Country Reports shows that there was only one fully implemented recommendation over this period, namely 2013 CSR 3 for Spain. Looking at the sub-CSRs level, full progress was noted on only one sub-recommendation, namely 2015 CSR 2 for Romania (as regards the MTO).

Box 1: Committee of Regions - Territorial analysis of the 2017 Country Reports

The Committee of Regions shows in its analysis of the 2017 COM Country Reports from territorial perspective that 57% of all 2016 CSRs deal with regionally-differentiated challenges, and their implementation relies (directly or indirectly) on sub-national levels of government. Many CSRs include more than one challenge to address (sub-recommendations).

Half of all territory-related 2016 sub-recommendations concern administrative capacity. Territory-related obstacles to investment in all Member States concern mainly the public administration, the regulatory environment, skilled labour, education/vocational training and transport infrastructure.

In particular, the report finds that implementation of territory-related 2016 CSRs outperform that of all CSRs taken together: the territory-related 2016 CSRs showed "some progress" in 53% of cases (as compared to 43% of all 2016 CSRs) and "no/limited progress" in 43% of cases (as compared to 55% of all CSRs). From the policy area perspective, progress was faster in the fields of employment, labour market and social policies, in which the local and regional authorities play a primary role. However, the slowest progress was realised in the area of public administration whose improvement remains, according to the Committee of Regions, "*the biggest challenge of the European Semester*", not least to successfully implement investments funded by the ESI funds as well as by the EFSI, and to use both funds in combination in the context of cohesion policy programmes.

Finally, at the Plenary Session of 11 May 2017, the Committee of Regions issued its opinion on improving the governance of the European Semester, proposing a Code of Conduct on the involvement of the local and regional authorities in the European Semester.

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[8] Therefore, it is hardly surprising to observe that "*progress in implementing the recommendations from the previous years is considerably greater than for those made less than one year ago*" (the COM Communication on the 2017 European Semester, p.5). Note as well, that the COM occasionally drops some 'unsuccessful' (sub-) recommendations, i.e. those that were not implemented at all or only to a limited extent: e.g. reform of the unemployment benefit system in France, which was part of the 2016 CSR 3 and on which no progress was made, was no longer included in the draft 2017 recommendations. This was also the case for the reforms of the retail sector and professional services in Spain (part of the 2016 CSR 4, with limited and no progress respectively, and no longer included in the draft 2017 CSRs).

[9] One would expect that some action is taken on a majority of recommendations over a sufficiently long period - the rationale behind the coordination of macroeconomic policies under the European Semester. Furthermore, it remains unclear whether recommendations that were given during only one Semester Cycle and subsequently dropped despite no or limited progress are included in this multiannual analysis or not.

[10] Note that the observed gap, but only in 2015 and 2016, could be partly explained by the fact that the compliance with the SGP was assessed separately for seven and three Member States respectively. See note under Figure 1 of this briefing.

Box 2: ECOFIN conclusions on in-depth reviews and implementation of the 2016 CSRs

At its meeting of 23 May 2017, the Council discussed, among others, (i) in-depth reviews of macroeconomic imbalances in 13 Member States and (ii) implementation of the 2016 CSRs.

As to **the in-depth reviews**, the Council:

- Agreed with the COM assessment in the context of the MIP, while underlining that this procedure should be used to its full potential, with the corrective arm applied where appropriate;
- Recognised the progress achieved by many Member States in correcting their external and internal imbalances. However, despite these improvements, the challenges and risks remain broadly unchanged and further progress on policy action is needed to address imbalances, in particular elevated levels of indebtedness. At the same time, elevated current account surpluses in some euro area Member States with relatively low deleveraging needs persist and could under some circumstances indicate large savings and investment imbalances deserving progress on policy actions;
- Noted that the rebalancing of deficits to surplus positions in many euro area countries, coupled with persistent and high surpluses in others, has implied an asymmetric adjustment leading to a large and increasing surplus position of the euro area as a whole whose consequences deserve further attention.

Regarding **the implementation of the 2016 CSRs**, the Council:

- Noted the progress made, although reform implementation has been uneven across policy areas and countries;
- Welcomed the COM new multiannual assessment of CSR implementation, recalling that a number of CSRs relate to long-term structural issues that take time to be addressed and that tangible results may take time to show;
- Stressed that in the currently relatively favourable macroeconomic environment, reform implementation needs to continue and be stepped up to address the identified policy challenges, guarding against reform fatigue and overcoming political economy challenges.

3. Implementation of the SGP: Latest developments

Member States submitted in April/May the 2017 Stability and Convergence Programmes (SCPs), detailing the national fiscal plans for the next three years. The COM recommendations for Council opinions on the SCPs were published on **22 May 2017**; they were based on COM economic policy assessments using data from the COM spring 2017 economic forecast of **3 May 2017**. The Council is expected to discuss and adopt the COM recommendations by July 2017.

Latest economic and public finance forecasts

- According the COM spring economic forecast (of 3 May 2017), the economy of the EU is expected to grow at 1.9% in both 2017 and 2018, which is marginally higher than in the previous COM forecast (winter forecast: 1.8% in both years). While the spring forecast foresees (like the earlier winter forecast) that all EU Member States will grow throughout the entire forecasting period (2017 and 2018), the uncertainty surrounding the economic outlook remains elevated.

- As regards the situation of public finances, the COM spring 2017 forecast predicts (similarly to the winter forecast) a further fall of public deficit and debt ratios in 2017 and 2018. The euro area public deficit is forecast to decline from 1.5% of GDP last year to 1.4% in 2017 and 1.3% in 2018, reflecting lower interest spending due to historically low interest rates. It also reflects further improvements in the labour market. The debt-to-GDP ratio of the euro area is projected to decline from 91.3% in 2016 to 90.3% in 2017 and 89.0% in 2018.

- There are sometimes significant forecast differences between the SCPs and the COM forecast of spring 2017 (notably on the structural balances and the debt; details for euro area countries are in a separate EGOV table).

Latest COM assessments on compliance with the SGP

- The 2017 COM recommendations for Council opinions on the SCPs form part of the draft 2017 CSRs and cover countries subject to both the preventive and corrective arms of the SGP.
- For countries under the preventive arm, the CSRs specify the adjustment path towards the Medium Term Objective (MTO), if the countries that have not reached the latter. In the draft 2017 CSRs, no specific recommendation on achieving/maintaining the MTO were issued to those Member States which were considered by the COM to be in line with the current commitments under the preventive arm of the SGP or which have only limited risks of deviation from their requirements (**Bulgaria, Czech Republic, Denmark, Germany, Malta, the Netherlands, Luxembourg and Sweden**).
- The 2017 SCPs of many countries under the preventive and corrective arms of the SGP (**Belgium, Spain, France, Ireland, Italy, Hungary, Latvia, Poland, Portugal, Slovakia, Slovenia, the UK and Romania**) were assessed to be at risk of some or significant deviation (see box 1) with their obligations under the SGP. For seven euro area Member States (**Portugal, Belgium, Italy, Cyprus, Lithuania, Slovenia, Finland)** the COM, in its opinions on the 2017 Draft Budgetary Plans (DBPs), did already in the beginning of the 2017 Semester Cycle highlight "*risks of non-compliance*" with the current obligations under the SGP; the current COM opinions on the SCPs are notably more positive for **Lithuania and Finland**, which are now assessed to be compliant; on the other hand, **Belgium, Portugal and Slovenia** are still assessed to have risks of significant deviations from the recommended adjustment towards the MTO (see a separate EGOV note). **Ireland** and **Slovakia** are now assessed to have a risk of a significant deviation from the recommended fiscal adjustments, while the COM opinion on the 2017 DBP mentioned only risks of some deviation from the required adjustments towards the MTO.
- The COM proposes to grant the flexibility requested by **Lithuania and Finland** on the basis of their labour market and pension reforms estimated to have a positive impact on the sustainability of public finances. It would allow a temporary deviation from the MTO adjustment path of 0.5% of GDP for each of these countries (and additional 0.1% for Finland for projects co-financed by the EU under the European Structural and Investment Funds).
- On **Italy**, the COM assesses in its proposal for 2017 CSRs on the basis of the Spring Forecast and the 2017 Stability Programme that there a risk of a significant deviation from the recommended annual fiscal adjustment of 0.6 % or more of GDP towards the MTO. However, if the temporary allowance for the unusual event clause related to the exceptional inflow of refugees and to the preventive investment plan for the protection of the national territory against seismic risks (preliminarily estimated at 0.34% of GDP, overall) is deducted from the requirement in 2017, the COM identifies only the risk of some deviation from the recommended adjustment. Given these risks, Italy "*needs to stand ready to take further measures to ensure compliance in 2017 and that further measures will be needed in 2018 to comply with the provisions of the SGP*". As regards the debt criterion, Italy is assessed to have adopted the additional consolidation measures (requested by the COM in its 22 February 2017 and already promised by Italy on 2 February 2017) of at least 0.2% of GDP.
- Also on 22 May 2017, the COM adopted reports for **Belgium and Finland** under Art. 126 (3) of the Treaty, in which it reviewed their compliance with the debt criterion of the Treaty. An assessment of non-compliance would imply that the country moves to the corrective arm of the SGP, i.e. that an EDP is opened. However, the conclusion of the reports for Belgium and Finland is that the debt criterion should be considered as currently complied with by both countries. For more information on the debt criterion (see Box 3 overleaf)
- In addition, the COM published on 22 May 2017 separate recommendations for Council Decisions abrogating the EDP for Croatia and Portugal; these two countries are assessed to have corrected their excessive deficit. If the Council follows the COM recommendation, only four Member States would remain in the corrective arm of the SGP, compared to 24 countries in 2011.

More information on the state of play of the implementation of the SGP based on the spring forecast figures is available is available in a separate EGOV note.

Box 3: Significant deviation

Regulation 1466/97 stipulates that in the event of a 'significant deviation' (= 0.5% of GDP in 1 year or cumulatively over 2 years) from the MTO or from its adjustment path, the COM can give an 'early warning'. While many countries are currently assessed to be at risk of such a deviation, Romania has been assessed by the COM on 22 May 2017 to have had a significant deviation from the MTO in 2016 (the deviation amounted according to COM spring forecast to 1.6% of GDP), so that the COM addressed a warning to Romania and proposed a Council recommendation for Romania to take appropriate corrective measures in 2017, in order to avoid the opening of an EDP.

The Council shall, within 1 month of the date of adoption of the warning adopt a recommendation for the necessary policy measures, on the basis of a COM recommendation. The recommendation shall set a deadline of no more than 5 months for addressing the deviation. The deadline shall be reduced to 3 months if the Commission, in its warning, considers that the situation is particularly serious and warrants urgent action. The Council, on a proposal from the COM, shall make the recommendation public.

Within the deadline set by the Council in the recommendation under Article 121(4) TFEU, the Member State concerned shall report to the Council on action taken in response to the recommendation.

Regulation 1173/2011, Art 4, stipulates for euro area Member States that if a Member State fails to take action in response to the Council recommendation based on an early warning of the COM, the COM shall, within 20 days of adoption of the Council's decision, recommend that the Council, by a further decision, require the Member State to lodge with the COM an interest-bearing deposit amounting to 0.2% of its GDP in the preceding year.

4. Implementation of MIP: Latest developments

In February 2017, the COM published the Communication on the "*2017 European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews*..."[11] and the related "Country reports", which analyse the economic, fiscal and social situation in each Member State.

Based on the "In-depth-reviews", included in the Country reports for those Member States considered at risk of macroeconomic imbalances, the Commission concluded that:

- **6** Member States are considered being in a situation of **"excessive macroeconomic imbalances":** Bulgaria, France, Croatia, Italy, Cyprus and Portugal;
- **6** Member States are considered being in a situation of "**macroeconomic imbalances**": Germany, Ireland, Spain, the Netherland, Slovenia and Sweden**;**
- **Greece** is under surveillance in the context of a macroeconomic adjustment programme
- the other **15** Member States are not considered at risk of **"macroeconomic imbalances**".

All countries with imbalances are subject to specific monitoring, which is tighter for countries with excessive imbalances, and consists in dialogues with the national authorities, expert missions and regular progress reports, which should also help monitoring of the implementation of the CSRs in the Member States concerned.

Table 3 depicts the situation of Member States with respect to MIP since its inception in 2012. Croatia and Italy have experienced *excessive imbalances* for four consecutive years, and *excessive imbalances*

[11] The document Implementation of MIP provides more detail on the state of play in 2017.

have been identified in Bulgaria, France and Portugal for a third year in a row. It can also be noted that one Member States (Sweden) has been experiencing *imbalances* since 2012.

However, the COM has not recommended opening the **excessive imbalance procedure** for any country. The COM was expected to take a decision on France (to revise its status from excessive imbalances to imbalances) and on Italy, Cyprus and Portugal (opening the excessive imbalance procedure, based on the level of ambition of their National reform Programmes) in May 2017. On 22 May 2017, the COM concluded that there is no need, at this stage, to step up the MIP for these three countries. While the reform commitments outlined in their NRP "*appear sufficiently ambitious*", the COM highlights that "*the absence of details on the adoption and implementation timeframe limits their credibility*".

The Council, in its conclusions of May 2017, underlined that the "*MIP procedure should be used to its full potential, with the corrective arm applied where appropriate.*"

Table 3: Commission's conclusions under MIP

No Imbalances						Imbalances						Excessive imbalances					
2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
CZ*	CZ*	CZ*	CZ*	BE	BE*	BE	BE	BE	BE	DE	DE		ES	**HR**	**BG**	**BG**	**BG**
DE*	DE*	DK	DK*	CZ*	CZ*	BG	BG	BG	DE	IE	IE		SI	**IT**	**FR**	**FR**	**FR**
EE*	EE*	EE*	EE*	DK*	DK*	DK	DK	DE	IE	ES	ES			SI	**HR**	**HR**	**HR**
LV*	LV*	LV*	LV*	EE	EE*	ES	FR	IE	ES	NL	NL				**IT**	**IT**	**IT**
LT*	LT*	LT*	LT*	LV*	LV*	FR	IT	ES	HU	SI	SI				**PT**	**PT**	**PT**
LU*	LU*	LU	LU*	LT*	LT*	IT	HU	FR	NL	FI	**SE**					**CY**	**CY**
MT*	AT*	MT	MT*	LU*	LU*	CY	MT	HU	RO	**SE**							
NL*	PL*	AT*	AT*	HU	HU*	HU	NL	NL	SI								
AT*	SK*	PL*	PL*	MT*	MT*	SI	FI	FI	FI								
PL*		SK*	SK*	AT	AT*	FI	**SE**	**SE**	**SE**								
SK*				PL*	PL*	**SE**	UK	UK	UK								
				RO	RO*	UK											
				SK*	SK*												
				UK	UK*												
					FI												

Source: European Commission, ECB and EGOV.

Note: The table refers only to the streamlined categories applied from the 2016 cycle onwards.
(*) Countries not considered at risk of macroeconomic imbalances, therefore not subject to in-depth reviews according to the Alert Mechanism Report.

In May 2017, the COM published its **draft 2017 Country Specific Recommendations,** and for Member States considered at risk of macroeconomic imbalances the CSRs are in most of the cases underpinned by the MIP (see a separate EGOV note on the MIP procedure). Among the 40 draft CSRs targeting the twelve Member States with macroeconomic imbalances, 35 have the MIP as a legal basis.

So far, the **implementation of the CSRs based on MIP** appears to be rather weak: in fact, **only 2%** of the MIP-related 2016 CSRs have been **fully implemented**, the worst performance in the MIP history. Among the countries experiencing excessive macroeconomic imbalances, only France implemented one CSRs substantially; among the remaining 28 CSRs addressed to MS with excessive imbalances, 18 registered limited or no progress in their implementation.

5. Adoption of the 2017 CSRs: Next steps

- **The EPSCO Council** is to assess the draft 2017 CSRs and the implementation of the 2016 CSRs on 15 June 2017. It is also to endorse the related opinions of the Employment Committee (EMCO) and the Social Protection Committee (SCP);
- **The ECOFIN Council** is to approve the draft 2017 CSRs on 16 June 2017;
- **The General Affairs Council** is to approve the integrated 2017 CSRs and their transmission to the European Council on 20 June 2017;
- **The European Council** is to endorse the Council 2017 CSRs on 22-23 June 2017; and finally
- **The ECOFIN Council** is to adopt the 2017 CSRs on 11 July 2017.

Annex 1: The scoreboard for the identification of possible macro-economic imbalances

	External imbalances and competitiveness					Internal imbalances						Employment Indicators		
	3 year average of **Current Account Balance** as % of GDP	**Net International Investment Position** as % of GDP	% Change (3 years) of **Real Effective Exchange Rate with HICP deflators**	% Change (5 years) in **Export Market Shares**	% Change (3 years) in **Nominal ULC**	% y-o-y Change in deflated **House Prices**	**Private Sector Credit Flow** as % of GDP	**Private Sector Debt** as % of GDP	**General Government Debt** as % of GDP	**Unemployment rate** (3-year average)	% y-o-y Change in **Total Financial Sector Liabilities,** non-consolidated	**Activity rate % of total pop. aged 15-64 -** 3 years change	**Long term unemployment rate % of active pop. aged 15-74** 3 years change	**Youth unemployment rate % of active pop. aged 15-24 -** 3 years change
Thresholds	**-4/+6%**	**-35%**	**±5% (EA) ± 11%**	**-6%**	**+9% (EA) + 12%**	**+6%**	**14%**	**133%**	**60%**	**10%**	**16.5%**	**-0.2%**	**0.5%**	**0.2%**
BE	-0.2	61.2	-1.3	-11.18	1.5	1.3	6.2	175.0	106.0	8.5	0.6	0.7	1.0	2.3
BG	0.4	-63.5	-4.1	12.5	14.9	1.6	-0.3	123.6	26.0	11.2	7.0	2.2	-1.2	-6.5
CZ	0.0	-33.2	-8.0	-1.55	0.5	3.9	0.9	68.6	40.3	6.1	7.7	2.4	-0.6	-6.9
DK	8.6	34.0	-1.5	-8.6	2.6	6.3	-1.2	210.0	39.6	6.6	-1.1	-0.1	-0.4	-3.3
DE	7.6	49.7	-1.5	-2.2	5.7	4.1	2.9	98.5	71.2	4.9	2.8	0.4	-0.4	-0.8
EE	0.9	-40.9	6.4	8.6	14.4	6.8	3.3	116.6	10.1	7.4	8.1	1.9	-3.1	-7.8
IE	4.7	-208.0	-6.0	37.2	-18.1	8.3	-6.7	303.4	78.7	11.3	9.5	0.8	-3.7	-9.5
EL	-1.2	-134.6	-5.5	-20.5	-11.1	-3.5	-3.1	126.4	177.4	26.3	15.7	0.3	3.7	-5.5
ES	1.3	-91.3	-2.9	-3.4	-0.7	3.8	-1.9	155.5	99.8	24.2	-1.0	0.0	0.4	-4.6
FR	-0.7	-16.4	-2.7	-5.3	2.5	-1.3	4.4	144.3	95.6	10.3	1.8	n.a.	0.6	0.3
HR	2.7	-77.7	0.1	-3.4	-5.0	-2.4	-1.5	115.0	86.7	16.9	2.1	3.0	0.0	0.1
IT	1.4	-23.5	-2.2	-8.8	1.7	-2.6	-1.7	116.8	132.1	12.2	1.7	0.5	1.3	5.0
CY	-4.1	-130.3	-6.2	-16.7	-10.0	0.2	4.4	353.7	107.5	15.7	2.8	0.4	3.2	5.1
LV	-1.8	-62.5	3.0	10.6	16.3	-2.7	0.7	88.7	36.5	10.9	12.2	1.3	-3.3	-12.2
LT	0.9	-44.7	3.9	15.6	11.6	4.6	2.2	55.0	42.7	10.5	6.7	2.3	-2.7	-10.4
LU	5.2	35.0	-0.5	23.1	0.0	5.9	23.7	335.8	21.6	6.1	15.5	1.5	0.3	-1.4
HU	3.0	-64.0	-6.9	-7.5	3.4	11.6	-2.8	84.7	74.7	8.2	1.2	4.9	-1.9	-10.9
MT	5.9	49.8	-0.2	-1.3	-0.4	4.6	5.1	131.8	60.6	5.9	1.3	4.5	-0.7	-2.3
NL	9.2	64.7	-0.6	-8.2	0.2	3.6	-1.6	228.8	65.2	7.2	3.2	0.6	1.1	-0.4
AT	2.1	2.9	1.8	-9.5	6.1	3.5	2.1	126.4	85.5	5.6	0.6	0.4	0.5	1.2
PL	-1.3	-62.5	-1.1	9.9	0.3	2.9	3.3	78.7	51.1	8.9	2.5	1.6	-1.1	-5.7
PT	0.6	-112.0	-2.9	2.6	0.0	2.3	-1.9	180.3	129.0	14.4	-1.8	0.0	-0.5	-6.0
RO	-1.0	-52.0	2.7	21.2	-0.2	1.9	0.2	59.3	38.0	6.9	4.1	1.3	0.0	-0.9
SI	5.4	-38.7	0.5	-3.5	-0.6	1.5	-5.1	87.3	83.1	9.6	-3.4	1.4	0.4	-4.3
SK	1.1	-61.0	-0.7	6.9	2.2	5.5	8.2	81.4	52.5	13.0	4.5	1.5	-1.8	-7.5
FI	-1.2	0.5	2.2	-20.4	3.5	-0.4	8.8	154.8	63.7	8.8	1.3	0.6	0.7	3.4
SE	4.9	3.3	-8.0	-8.8	3.7	12.0	6.7	187.5	43.9	7.8	3.2	1.4	0.0	-3.3
UK	-4.4	-4.6	11.1	2.8	2.1	5.6	0.8	157.7	89.0	6.3	-9.2	0.8	-1.1	-6.6

Source: [Eurostat](), data extracted on 17 May 2017. The shaded cells indicate values outside the thresholds (see [AMR]()).

Annex 2: EU28 Member States' progress towards the EU2020 targets

	Employment rate (% of population aged 20 to 64)				R&D Target (% of GDP)				Greenhouse Gas Emissions[1] (For EU28 index 1990 = 100 For Member States index 2005=100)				Renewable Energy (% of final energy consumption)			
Member states	**2014**	**2015**	**2016**	**Target**	**2013**	**2014**	**2015**	**Target**	**2013**	**2014**	**2015**	**Target**	**2013**	**2014**	**2015**	**Target**
EU (28 Countries)	69.2	70.1	71.1	**75**	2.03	2.04	2.03	**3**	80.3	77.1	n.a.	**80**	15.2	16.1	16.7	**20**
Belgium	67.3	67.2	67.7	**73.2**	2.44	2.46	2.45	**3**	93.3	88.0	91.7	**85**	7.5	8.0	7.9	**13**
Bulgaria	65.1	67.1	67.7	**76**	0.63	0.79	0.96	**1.5**	92.7	95.4	97.1	**120**	19.0	18.0	18.2	**16**
Czech Republic	73.5	74.8	76.7	**75**	1.90	1.97	1.95	**1**	99.0	92.8	91.2	**109**	13.8	15.1	15.1	**13**
Denmark	75.9	76.5	77.4	**80**	3.01	3.02	3.03	**3**	88.4	85.6	85.0	**80**	27.4	29.3	30.8	**30**
Germany	77.7	78.0	78.7	**77**	2.82	2.89	2.87	**3**	93.0	88.3	90.7	**86**	12.4	13.8	14.6	**18**
Estonia	74.3	76.5	76.6	**76**	1.73	1.45	1.50	**3**	98.7	104.4	97.5	**111**	25.6	26.3	28.6	**25**
Ireland	67.0	68.7	70.3	**69**	1.56	1.51	n.a.	**2**	86.6	85.5	89.5	**80**	7.7	8.7	9.2	**16**
Greece	53.3	54.9	56.2	**70**	0.81	0.84	0.96	**1.21**	69.3	69.6	69.8	**96**	15.0	15.3	15.4	**18**
Spain	59.9	62.0	63.9	**74**	1.27	1.24	1.22	**2**	84.2	84.0	83.8	**90**	15.3	16.1	16.2	**20**
France	69.3	69.5	70.0	**75**	2.24	2.24	2.23	**3**	87.6	84.6	87.4	**86**	14.1	14.7	15.2	**23**
Croatia	59.2	60.6	61.4	**65.2**	0.82	0.79	0.85	**1.4**	80.1	77.7	74.7	**111**	28.0	27.9	29.0	**20**
Italy	59.9	60.5	61.6	**67**	1.31	1.38	1.33	**1.53**	80.8	78.4	80.5	**87**	16.7	17.1	17.5	**17**
Cyprus	67.6	67.9	68.8	**75**	0.46	0.48	0.46	**0.5**	63.0	62.7	69.4	**95**	8.1	8.9	9.4	**13**
Latvia	70.7	72.5	73.2	**73**	0.61	0.69	0.63	**1.5**	103.7	106.6	109.1	**117**	37.1	38.7	37.6	**40**
Lithuania	71.8	73.3	75.2	**72.8**	0.95	1.03	1.04	**1.9**	92.6	96.1	90.1	**115**	22.7	23.6	25.8	**23**
Luxembourg	72.1	70.9	70.7	**73**	1.31	1.28	1.31	**2.3**	92.0	87.0	86.4	**80**	3.5	4.5	5.0	**11**
Hungary	66.7	68.9	71.5	**75**	1.39	1.36	1.38	**1.8**	72.6	72.6	77.5	**110**	16.2	14.6	14.5	**13**
Malta	66.4	67.8	69.6	**70**	0.77	0.75	0.77	**2**	113.6	117.3	125.1	**105**	3.7	4.7	5.0	**10**
Netherlands	75.4	76.4	77.1	**80**	1.95	2.00	2.01	**2.5**	85.0	76.8	80.1	**84**	4.8	5.5	5.8	**14**
Austria	74.2	74.3	74.8	**77**	2.97	3.06	3.07	**3.76**	86.2	83.0	84.8	**84**	32.3	32.8	33.0	**34**
Poland	66.5	67.8	69.3	**71**	0.87	0.94	1.00	**1.7**	104.9	102.3	102.3	**114**	11.4	11.5	11.8	**15**
Portugal	67.6	69.1	70.6	**75**	1.33	1.29	1.28	**2.7**	76.1	76.6	76.1	**101**	25.7	27.0	28.0	**31**
Romania	65.7	66.0	66.3	**70**	0.39	0.38	0.49	**2**	97.9	97.7	94.2	**119**	23.9	24.8	24.8	**24**
Slovenia	67.7	69.1	70.1	**75**	2.60	2.38	2.21	**3**	90.7	86.9	88.4	**104**	22.4	21.5	22.0	**25**
Slovakia	65.9	67.7	69.8	**72**	0.82	0.88	1.18	**1.2**	89.7	84.2	86.0	**113**	10.1	11.7	12.9	**14**
Finland	73.1	72.9	73.4	**78**	3.29	3.17	2.90	**4**	93.6	89.3	88.8	**84**	36.7	38.7	39.3	**38**
Sweden	80.0	80.5	81.2	**80**	3.31	3.15	3.26	**4**	78.7	77.0	75.8	**83**	52.0	52.5	53.9	**49**
United Kingdom	76.2	76.8	77.6	**n.n.t.**	1.66	1.68	1.70	**n.n.t.**	87.2	83.3	84.4	**84**	5.7	7.1	8.2	**15**

	Energy Efficiency[2] *(Primary energy consumption - in Mtoe)*				Early School Leaving[3] *(% pop aged 18-24 with at most lower secondary)*				Tertiary Education[3] *(% of pop aged 30-34 with tertiary educ. attainment)*				Poverty/Social exclusion[4] *(people at risk of poverty or social exclusion, in thousands)*			
Member states	**2013**	**2014**	**2015**	**Target**	**2014**	**2015**	**2016**	**Target**	**2014**	**2015**	**2016**	**Target**	**2014**	**2015**	**2016**	**Target**
EU (28 Countries)	1569.9	1508.3	1529.6	**1483**	11.2	11.0	10.7	**10**	37.9	38.7	39.1	**40**	121,897	118,823	n.a.	**-20,000**
Belgium	48.7	45.2	45.7	**43.7**	9.8	10.1	8.8	**9.5**	43.8	42.7	45.6	**47**	2,339	2,336	2,335	**-380**
Bulgaria	16.3	17.2	17.9	**16**	12.9	13.4	13.8	**11**	30.9	32.1	33.8	**36**	2,909	2,982	2,890	**-260**
Czech Republic	40.8	39.3	39.9	**39.6**	5.5	6.2	6.6	**5.5**	28.2	30.1	32.8	**32**	1,532	1,444	n.a.	**-100**
Denmark	17.5	16.6	16.5	**17.8**	7.8	7.8	7.2	**10**	44.9	47.6	47.7	**40**	1,006	999	n.a.	**-22**
Germany	302.8	291.1	292.9	**276.6**	9.5	10.1	10.2	**10**	31.4	32.3	33.2	**42**	16,508	16,083	n.a.	**:**
Estonia	6.5	6.6	6.2	**6.5**	12.0	12.2	10.9	**9.5**	43.2	45.3	45.4	**40**	338	315	n.a.	**-36**
Ireland	13.4	13.4	14.0	**13.9**	6.9	6.9	6.3	**8**	52.2	52.3	52.9	**60**	1,267	1,207	n.a.	**-200**
Greece	23.6	23.7	23.7	**27.1**	9.0	7.9	6.2	**9.7**	37.2	40.4	42.7	**32**	3,885	3,829	n.a.	**-450**
Spain	114.3	112.6	117.1	**119.8**	21.9	20.0	19.0	**15**	42.3	40.9	40.1	**44**	13,402	13,175	12,827	**-1,400**
France	246.0	234.8	239.4	**236.3**	9.0	9.2	8.8	**9.5**	43.7	45.0	43.6	**50**	11,540	11,048	n.a.	**-2,000**
Croatia	8.0	7.7	8.0	**9.2**	2.7	2.7	2.8	**4**	32.2	30.8	29.5	**35**	1,243	1,216	n.a.	**-150**
Italy	153.2	143.8	149.6	**158**	15.0	14.7	13.8	**16**	23.9	25.3	26.2	**26**	17,146	17,469	n.a.	**-2,200**
Cyprus	2.2	2.2	2.2	**2.2**	6.8	5.2	7.7	**10**	52.5	54.5	53.4	**46**	234	244	n.a.	**-27**
Latvia	4.4	4.4	4.3	**5.4**	8.5	9.9	10.0	**10.4**	39.9	41.3	42.8	**34**	645	606	554	**-121**
Lithuania	5.7	5.7	5.8	**6.5**	5.9	5.5	4.8	**9**	53.3	57.6	58.7	**48.7**	804	857	n.a.	**:**
Luxembourg	4.3	4.2	4.1	**4.5**	6.1	9.3	5.5	**10**	52.7	52.3	54.6	**66**	96	95	n.a.	**-6**
Hungary	21.2	21.0	22.3	**24.1**	11.4	11.6	12.4	**10**	34.1	34.3	33.0	**34**	3,097	2,735	2,541	**-450**
Malta	0.9	0.9	0.8	**0.7**	20.3	19.8	19.6	**10**	26.5	27.8	29.8	**33**	99	94	n.a.	**-7**
Netherlands	66.1	62.7	64.3	**60.7**	8.7	8.2	8.0	**8**	44.8	46.3	45.7	**40**	2,751	2,744	n.a.	**-100**
Austria	31.9	30.4	31.3	**31.5**	7.0	7.3	6.9	**9.5**	40.0	38.7	40.1	**38**	1,609	1,551	1,542	**-235**
Poland	93.0	89.2	90.0	**96.4**	5.4	5.3	5.2	**4.5**	42.1	43.4	44.6	**45**	9,337	8,761	n.a.	**-1,500**
Portugal	21.0	20.6	21.7	**22.5**	17.4	13.7	14.0	**10**	31.3	31.9	34.6	**40**	2,863	2,765	n.a.	**-200**
Romania	31.0	30.6	31.3	**43**	18.1	19.1	18.5	**11.3**	25.0	25.6	25.6	**26.7**	8,043	7,435	7,694	**-580**
Slovenia	6.7	6.5	6.5	**7.3**	4.4	5.0	4.9	**5**	41.0	43.4	44.2	**40**	410	385	n.a.	**-40**
Slovakia	15.9	15.3	15.4	**16.4**	6.7	6.9	7.4	**6**	26.9	28.4	31.5	**40**	960	963	n.a.	**-170**
Finland	33.0	33.6	32.0	**35.9**	9.5	9.2	7.9	**8**	45.3	45.5	46.1	**42**	927	904	896	**-140**
Sweden	47.1	46.2	43.7	**43.4**	6.7	7.0	7.4	**7**	49.9	50.2	51.0	**45**	1,636	1,555	n.a.	**:**
United Kingdom	194.4	183.1	183.0	**177.6**	11.8	10.8	11.2	**n.n.t.**	47.7	47.9	48.1	**n.n.t.**	15,271	15,028	n.a.	**:**

Sources: Eurostat 2020 indicators (Extraction date: 18/05/2017), Europe 2020 Targets by the Commission, 2016 Country Reports. This table includes all the newest available figures.n.n.t. = no national target.

[1] The EU as a whole aims to reduce GHG emissions by 20 % **compared to 1990 levels**; hence the index for EU28 uses 1990 as its base year. The Member State targets, set out in the Commission Decision 406/2009, covering only sectors *not included in the EU Emissions Trading System* (EU ETS), are **relative to 2005 levels.** Thus the index for emissions from these sectors uses 2005 as its base year. Moreover, these national targets are presented in terms of an index rather than percentage deviation from the 2005 target as specified in the above-mentioned Commission Decision. By 2020, the national targets will collectively deliver a reduction of around 10 % in total EU emissions from the non-EU ETS sectors and a 21 % reduction in emissions for the sectors covered by the EU ETS (both compared to 2005 levels). This will accomplish the overall emission reduction goal of a 20 % cut below 1990 levels by 2020.

[2] Member States have set indicative national targets based on different indicators translated into absolute levels of primary energy consumption in million tonnes of oil equivalent (Mtoe).

[3] Note that there is a break in the time series in 2014.

[4] Most Member States have set national targets based on a reduction in the number of people living in poverty or social exclusions, in most cases compared to 2008 levels; some Member States, whose target is not included in this column, have set national targets based on different indicators related to the reduction in poverty/social exclusion (e.g. reduction in long-term unemployment for Germany, reduction in the at risk poverty rate after social transfers for Estonia).