

European Semester: 2015 priorities and beyond

The European Semester is a key monitoring element of the EU's economic governance framework which aims to detect, prevent, and correct problematic economic trends such as excessive government deficits or public debt levels. As part of the annual evaluation cycle, the European Parliament's Economic and Monetary Affairs (ECON) Committee notes insufficient implementation of country-specific recommendations in some Member States, and expresses concerns that economic recovery may be threatened by the EU's underlying structural weaknesses and regional differences. On 21 October 2015, the European Commission proposed to 'revamp' the European Semester process and to better align recommendations for the overall EU/euro area with those for individual Member States.

Monitoring and coordinating European economies – the European Semester cycle

The [European Semester](#) (ES) synchronises the timing of economic and fiscal policy reporting and evaluation at EU level, and introduces ex-ante coordination of national economic policies over a six-month period every year. Introduced in 2010 as part of [economic-governance](#) reform in response to the euro crisis, it has [evolved](#) substantially since then. The cycle starts every November with two major reports by the European Commission: the Annual Growth Survey ([AGS](#)) (listing policy priorities regarding economic, budgetary and labour policies), and the Alert Mechanism Report ([AMR](#)) (identifying risks of macro-economic imbalances in Member States). The following [main step](#) is policy guidance from the [European Council in March](#) (Spring Council). Then the Member States present a) National Reform Programmes (NRPs) (on economic and employment policies) and b) Stability/Convergence Programmes ([SCP](#)) (on budgetary policies). The ES concludes in July with the adoption of country-specific recommendations ([CSRs](#)) to the Member States. The European Parliament (EP) monitors the assessment twice: in late autumn, it expresses its opinion on the ongoing ES cycle and in February on the AGS and the AMR. In addition, the EP holds several [Economic Dialogues](#) with other EU institutions and representatives from Member States subject to CSRs (e.g. European Parliamentary Week). The next dialogue (with Eurogroup) takes place on 10 November 2015.

Key outcomes 2015

Presented by the Commission on [13 May 2015](#), endorsed by the European Council on [25-26 June](#) and formally adopted by the ECOFIN Council on [14 July](#), the [2015 CSRs](#) focused on four areas relevant for economic growth: boosting investment, implementation of structural reforms (in product, service and labour markets), fiscal responsibility and improving employment policy. The CSRs addressed 26 Member States (all but Greece and Cyprus, undergoing economic adjustment programmes) and the euro area as a whole. For the [previous cycle](#), the [Commission](#) finds that 47% of the [key issues addressed in the CSRs](#) showed only limited or no progress.

European Parliament report on the implementation of 2015 priorities

In its [report](#) on the 2015 European Semester (rapporteur Dariusz Rosati, EPP, Poland), the Economic and Monetary Affairs (ECON) Committee welcomed the Commission's focus on investment, structural reforms, fiscal responsibility, and improving employment policy. Adopted on 20 October 2015, the report also expressed concerns that economic recovery may be threatened by the EU's underlying structural weaknesses and regional differences, and noted a 'generally poor implementation record' of the CSRs.

Economic prospects and challenges for the EU

- The report took note of the Commission's efforts to streamline the ES process, i.e. through placing stronger focus on a limited number of most important priorities and challenges. It called on Member

States to better involve [national parliaments](#) as well as local and regional authorities (reaffirming EP resolutions of [22 October 2014](#) and [23 May 2013](#)). MEPs held an exchange with national parliaments on 15 September 2015. The report also recommended that major structural reforms advocated by the CSRs should be accompanied by a social impact assessment regarding their short- and long-term effects.

- It noted with concern the insufficient implementation of last year's CSRs as this in some Member States presented an obstacle to creating a growth- and investment-friendly environment. Therefore, in line with the EP's [review on the economic governance framework](#) of 17 June 2015, it called on the Commission not only to provide a 'comprehensive assessment of the state of implementation of CSRs in every Member State' but also to consider instruments to encourage more effective and consistent implementation.
- MEPs stressed that widening economic divergences within the EU and euro area threaten the coherence of sectorial policies, and that poverty and widening income inequality are a threat to sustainable growth.

CSRs – priorities and objectives

- Regarding the investment priority, the report stressed the importance of access to finance, especially for SMEs. It underlined the need to improve the EU's business environment and productivity levels, given the fact that the EU's single market 'is still fragmented and that the Union economy is suffering from a lack of innovation'. The ITRE Committee considered the links between CSRs and the Single Market 'insufficient'.
- Regarding structural reforms and employment, MEPs called for more ambition in 'implementing socially sustainable structural reforms'. Thus, improving competitiveness and efficiency in product and services markets needs to take into account the associated employment impacts as well. In the same vein, more investment should be allocated to regions suffering from 'natural or demographic handicaps'.
- Regarding fiscal responsibility, the report stressed the need for Member States to adapt their public finances by conducting a counter-cyclical policy when necessary. In particular Member States with high debt levels should pursue growth-friendly fiscal consolidation, implement the recommended structural reforms and take into account social aspects, stipulated the ECON report.

Recommendations

- MEPs urged better alignment of CSRs with recommendations from the Excessive Deficit Procedure (EDP). They also underlined the role of social and employment indicators in the ES and requested that all related analysis regarding the implementation of the Stability and Growth Pact (SGP) and the Macro-Economic Imbalance Procedure (MIP) should be made public.
- ECON Members acknowledged the role of flexible labour markets in fighting unemployment, but called for a shift away from labour taxes to other sources of taxation, as well as for [wage levels](#) to be in line with productivity developments. Referring to OECD findings on in-work poverty, the report encouraged Member States to set minimum wages in accordance with national legislation.
- Reaffirming point 40 of the EP's [review of the economic governance framework](#), the report urged further development of the Commission's Chief Economic Analyst Unit, to provide 'objective, independent and transparent analysis of the relevant data'; in addition, it encourages a European network of independent national fiscal councils.
- The report recalled the importance of better economic governance in the euro area, welcomed the [Five Presidents' Report's](#) roadmap towards 'A More Integrated European Semester' (pp. 9, 17, Annex 2) and recognised the increasing interdependence among euro area Member States (see box).

In line with the Five President's report on ['Completing Europe's Economic and Monetary Union'](#) (stage 1) of 22 June 2015, the Commission presented, on [21 October](#), concrete [steps to complete EMU](#), including proposals for a 'revamped European Semester'. The document proposes to better integrate the euro area and national dimensions in addressing EMU issues prior to CSRs. To better grasp the [social consequences](#) of economic adjustments, the future ES will: encourage 'stronger involvement of social partners' while drafting NRPs; develop common benchmarks for upward convergence, e.g. measuring the quality of labour contracts; make use of social impact assessments for Member States subject to a bail-out programme, as with [Greece](#). The Commission intends to improve [implementation quality](#) of CSRs twofold: Through the increased use of benchmarking as well as 'cross-examination exercises', and through EU funds 'in support of key priorities highlighted' in the CSRs. Overall, the package aims to improve [economic governance](#) tools with a [system of national Competitiveness Boards](#) and a new advisory [European Fiscal Board](#). This Board shall focus on 'the horizontal consistency of the decisions and implementation of budgetary surveillance', and advise on the 'fiscal stance appropriate for the euro area'.