BRIEFING

Country-specific recommendations: An overview - September 2020

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 presents how these recommendations evolved over time (2012-2020), including from the legal base perspective. Finally, it gives insights on the level of implementation of recommendations issued under the 2012-2019 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 strengthening 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 general economic priorities for the EU as set out in the Annual Sustainable Growth Survey, (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 national 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, if judged 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 and latest euro area recommendations as adopted by the Council).

Forward looking, the Annual Sustainable Growth Survey published by the COM in September 2020 states that the European Semester and the new Recovery and Resilience Facility are intrinsically linked. The assessment of the recovery and resilience plans will be checked against CSRs, especially

Economic Governance Support Unit (EGOV)
Authors: Jost Angerer, Kristina Grigaitė and Ovidiu Turcu
Directorate-General for Internal Policies
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those of 2019 and 2020. Given the overlap of the deadlines within the European Semester and the Recovery and Resilience Facility (RRF), the COM announced that it will temporarily adapt the European Semester to the launch of the RRF. It will consider the recovery and resilience plans as main reference documents on the Member States' forward-looking policy initiatives. Given the complementarities with the Semester and in order to streamline the content and the number of documents requested, Member States are encouraged to submit the National Reform Programme and their Recovery and Resilience Plan (RRP) in a single integrated document. This document is expected to provide an overview of the reforms and investments that the Member State will undertake in the next years, in line with the objectives of the RRF (once adopted by the European Parliament and the Council).

For the Member States submitting their RRPs in 2021, the COM suggest to produce an analytical documents assessing the substance of the plans that would replace the European Semester country reports in 2021. These would be published in staggered batches, depending on the respective delivery of the RRPs and the finalisation of the COM's assessments. In addition, the COM proposed that given the need of comprehensive and forward-looking recovery and resilience plans, there will be no need for the COM to propose CSRs in 2021 for those Member States that will have submitted such a Plan. The COM will nevertheless propose recommendations on the budgetary situation of the Member States in 2021 as envisaged under the SGP.

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 [1]; an earlier publication of the proposed recommendations on the economic policy of the euro area (i.e. at the very beginning of the cycle, along the publication of the Annual Growth Survey, since 2019 called the Annual Sustainable Growth Survey); 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, including the European Parliament.

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 rate of implementation (see next Section).

While there has been a tendency over the years to streamline the recommendations, 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 CSRs and the programming related EU funds in 2021-2027.

More recently, the 2020 CSRs (adopted by the Council in July 2020) target to mitigate the consequences of the COVID-19 pandemic, inter alia by prioritising access, effectiveness and resilience of health care or preserving employment and addressing the social impact of the crisis. A particularity of the 2020 CSRs is also that they take into account the activation on 20 March 2020 of the general escape clause under the Stability and Growth Pact. The clause allows departing from the

[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).

budgetary requirements that would normally apply, with the aim at ensuring the needed temporary flexibility to take all necessary measures for supporting the Member States' health and civil protection systems and to protect the Member States' economies.

Table 1: CSRs - some stylized facts

European Semester Cycle	Total number of CSRs	Number of Member States	Minimum number of CSRs per Member State		Maximum number of CSRs per Member State	
2012	138	23	4	DE, SE	8	ES
2013	141	23	3	DK	9	ES, SI
2014	157	26	3	DK	8	ES, HR, IT, PT, RO, SI
2015	102	26	1	SE	6	FR, HR, IT
2016	89	27	1	SE	5	FR, HR, IT, CY, PT
2017	78	27	1	DK, SE	5	HR, CY
2018	73	27	1	DK, SE	5	CY
2019	97	28	2	DK, DE, EL, UK	5	CY, IT, RO
2020	104	28	2	DE	5	HU

Source: EGOV based on CSRs as adopted by the Council.

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: all Member States are now fully included into the European Semester (Greece has CSRs since July 2019[2]).
2. The **total number of CSRs issued** to Member States significantly decreased under the streamlined Semester (from a peak of 157 recommendations in 2014 to a low of 73 in 2018 and to 104 in 2020). The overall reduction after 2014 largely reflects 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 cycle, 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 (so in this respect this does not represent a decrease in terms of content).

   On the other hand, in its first Communication on the Annual Sustainable Growth Strategy (in November 2019), the COM recommended to broaden the scope of the Semester, notably by broadening the environmental sustainability and social fairness aspects, which may again contribute as from 2020 to an increasing number of CSRs.

[2] See for more information on the post-programme countries a separate EGOV briefing and a dedicated section on the ESM webpage

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 before increasing to two and five since the 2019 cycle.

Box 1: Legal bases

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 preventive arm of Stability and Growth Pact** (SGP);
2. Regulation (EU) 1176/2011 on the prevention and correction of macroeconomic imbalances for **CSRs referring to the preventive arm of 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 (latest issuance in 2015) and (2) a Council decision on guidelines for the employment policies of the Member States (latest COM proposal from February 2020). The content and the way how the existing set of guidelines will be continued is currently unclear, given that the Europe 2020 strategy is coming to its term and that the European Semester is announced (in the Annual Sustainable Growth Survey of September 2020) to focus for some time on the Recovery and Resilience Facility.

Furthermore, the CSRs are politically binding insofar 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 European Funds.

Table 2 disentangles CSRs in relation to the EU legal base, showing that: each CSR is underpinned by the Integrated Guidelines; in addition, it is in many cases underpinned by the SGP and/or MIP. For example, a CSR related to public finances (normally the first CSR per Member State) is typically based on both the integrated guidelines and the SGP, but it can also be founded on all three legal bases: the integrated guidelines, the SGP and the MIP; this distinction is in particular of relevance when assessing the compliance with the CSR.

Table 2: Distribution of CSRs from a legal perspective

European Semester	SGP + Integrated Guidelines		MIP + Integrated Guidelines		SGP + MIP + Integrated Guidelines		Exclusively 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%)
2018	11	(15%)	27	(37%)	5	(7%)	30	(41%)	73	(100%)
2019	9	(9%)	35	(36%)	5	(5%)	48	(50%)	97	(100%)
2020	20	(19%)	23	(22%)	8	(8%)	53	(51%)	104	(100%)

Source: EGOV calculations based on the European Commission. See also EGOV database on CSRs.
Note: Share of CSRs by secondary legal base for a given Semester cycle in brackets.

In every year since 2013, about half or more of the recommendations have been underpinned by the SGP and/or MIP legal bases. The introduction of the streamlined Semester from the 2015 cycle, with fewer recommendations, has temporarily contributed to an increase in the proportion of recommendations based on SGP and/or MIP legal bases.

Also during the 2020 Semester cycle, about half of the recommendations were underpinned by the SGP or MIP legal bases, or both. Out of 11 Member States that are considered as experiencing either macroeconomic "imbalances" or "excessive imbalances", 4 received all their recommendations based on the MIP or MIP/SGP (EL, HR, IT and PT). For more details on the state of play of the MIP, see separate EGOV briefing.

A particularity of 2020 is that all countries received recommendations based on the SGP: 27 countries have a CSR relating to the general escape clause under the preventive arm of the SGP and 1 country (Romania) under the Excessive Deficit Procedure.

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 (51.6%) were implemented, on average, with at least some progress over the period 2012-2019.

The CSRs annual implementation rate followed a downward trend over the period 2012-2016, before showing first signs of improvement in 2017 and then following a new downward trend in the period 2017-2019[3]: 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, 39% in 2018 and 39.8% in 2019 (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, about 3% in 2018 and only about 1% in 2019. 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[4]) and exclude the compliance with the provisions of SGP[5]. 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.

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*"[6]. Overall, Member States made most progress in the area of financial sector reform and public finances in response to the

[3] As Deroose and Griesse (2014) 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 COM 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.

[4] One recommendation often tackles policy challenges in several areas (sub-recommendations).

[5] 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 pubic 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.

[6] The COM Communication on the 2018 European Semester: Country-specific recommendations of 23 May 2018, p.3.

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 *"progress has been particularly slow on broadening the tax base, as well as on health and long-term care, with the healthcare systems being further challenged because of the COVID-19." (*see Chapeau Communication on the 2020 European Semester).

Recognising that a number of CSRs relate to long-term structural issues, the COM presents in its Chapeau Communication on the 2020 European Semester **an assessment of CSRs implementation from both yearly and multiannual perspectives** (including progress on compliance with the SGP). This approach was introduced in 2017 by the COM and according to this yardstick *"Since the start of the European Semester in 2011, some implementation progress has been achieved for more than two-thirds of the country-specific recommendations."*, 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 and European Semester country reports even include for each country, the overall multiannual implementation of 2011-2018 CSRs (excluding progress on compliance with the SGP).

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 only eight months. This is one of the factors that currently generates, *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.

Despite this increasing focus on multiannual assessments (compared to assessment of progress since the adoption of the CSRs of the 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[7]. In line with this, the **European Court of auditors** identified in its report of September 2020 incomplete information in the non-public database of the COM assessing implementation progress regarding the CSRs of the previous year (this database, called Cesar, is accessible to Member States' administrations but not to the services of the European Parliament) and the Court also **recommends to "set up a publicly available multi-annual database of all CSRs and their implementation status".**

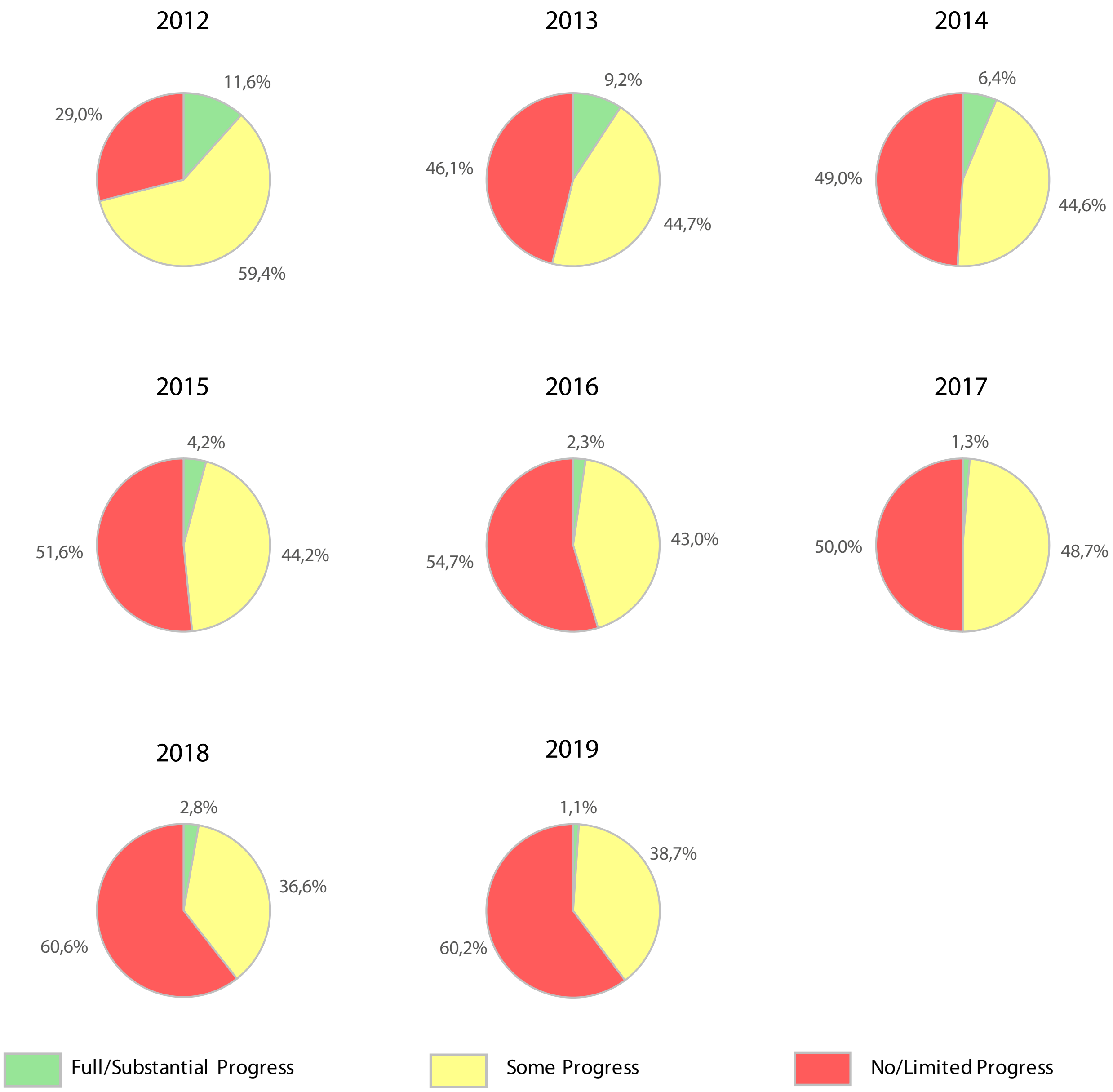
Box 2: EGOV public database on CSRs

The Economic Governance Support Unit (EGOV) at the EP has compiled and is constantly updating a public excel database on CSRs. The database contains annual information for each Member State on CSRs, their legal basis, implementation level and implementation score. The database is compiled to help MEPs in scrutinizing EU economic governance.

The most up to date version of the database can be found on EP ECON Committee website.

[7] 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 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?).

Figure 1: CSRs implementation rate per year in 2012-2019 (“an annual perspective of progress”)



Source: EGOV calculations based on the European Commission assessment provided in Country Reports. All data is available in an EGOV database on CSRs. 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. (2) Data exclude the COM assessment of the progress made as regards the compliance with the SGP (these SGP-related recommendations are either part of CSR1 or the single element that is reflected in the CSR1). The COM makes annually a separate assessment of these specific SGP-related recommendations as part of its opinions on the SCPs.

Contact: egov@ep.europa.eu

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