IN-DEPTH ANALYSIS

European Parliament

Economic Dialogue with the European Commission on the 2019 European Semester Cycle

ECON on 10 December 2018

Vice-President Dombrovskis and Commissioner Moscovici have been invited to an Economic Dialogue and Exchange of Views on the launch of the 2019 European Semester and the Commission opinions on the 2019 Draft Budgetary Plans of the Euro Area Member States, in line with the relevant EU law. This briefing note covers the main elements of the 2019 European Semester Package, proposed by the Commission, and the 2019 Draft Budgetary Plans of the Euro Area Member States, including the specific situation of Italy. It gives an overview of the implementation of the previous Semester Cycles and of the on-going work to strengthen the governance and the resilience of EMU.

Table of contents

On 1 January 1999, 11 countries of the European Union (EU) adopted fixed exchange rates, adopted a shared monetary policy under the European Central Bank and launched a new common currency: the euro. It was initially a currency used in financial markets and for cashless payments. Three years later, euro banknotes and coins entered into circulation. Today, the euro is the currency of 19 EU countries and over 340 million Europeans. It is one of the most important currencies in the world. On 1 January 2019, the Euro will celebrate its 20th anniversary. In the spirit of Euro at 20 years, a selection of indicators on developments in Euro Area Member States are included in this briefing as well as a short summary of the Commission's communication addressing the international role of the euro (See Box 1).

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1. The main element of the 2019 Semester Package

On 21 November 2018, the Commission (COM) published its **European Semester Autumn 2019 Package**.

According to the **2019 Annual Growth Survey (AGS),** the EU needs to take a long-term view and increase its socio-economic resilience, in order to reinforce its ability to weather shocks and grasp new opportunities. The steady growth that the EU is experiencing today provides the right environment to tackle the pending and urgent reforms needed to confront the challenges.

Making the appropriate policy choices today is key to delivering higher and fairer growth, better jobs and a stronger capacity to smoothen the impacts of global economic cycles. A consistent set of priorities is essential to guide national reform plans and complement efforts made at EU level. According to the COM, the key to a prosperous future remain the 3 following priorities:

(1) *Delivering high-quality investment* (e.g. in research and innovation, including in digital infrastructure and intangible assets, in education, training and skills, in modernisation and decarbonisation of Europe's industry, transport and energy systems).

Box: Main risks and challenges as identified in the 2019 AGS

Persisting vulnerabilities:

Low productivity growth; persisting income inequality and slow reduction in poverty; regional and territorial disparities; high public and private debt and other remaining macroeconomic imbalances, notably within the euro area.

Short-term challenges:

Rising protectionism and geo-political tensions affecting trade relations; instability on emerging markets; skills mismatches and emerging labour shortages in some countries and sectors; migration; slow diffusion of new digital technologies; gradual withdrawal of central bank stimulus; loss of reform momentum/risks of reform reversals and aggravation of fiscal imbalances.

*Medium/long-term challenges***:**

Tapping the growth potential of digitisation; the impacts of technological transformations on workers and specific sectors; the impacts of demographic changes and the role of migration; mitigation of and adaptation to climate change; sustainable use of natural resources.

(2) *Focusing on reforms that increase productivity growth, inclusiveness and institutional quality* (e.g. right balance between flexibility and security on the labour market, inclusive and efficient tax-benefit systems, activation and social inclusion policies and universal access to affordable and quality care services, well-performing public institutions, rule of law, effective justice systems and robust anti-corruption frameworks) and

(3) *Continuing to ensure macro-financial stability and sound public finances* (e.g. actions to achieve agreed fiscal objectives, in line with the common European rules and improving the quality and composition of public finances).

In parallel with the 2019 AGS, the COM made the following proposals:

- 2019 Recommendation on the economic policy of the euro area (see Section 2)
- Opinions on the 2019 Draft Budgetary Plans of euro area Member States and some further

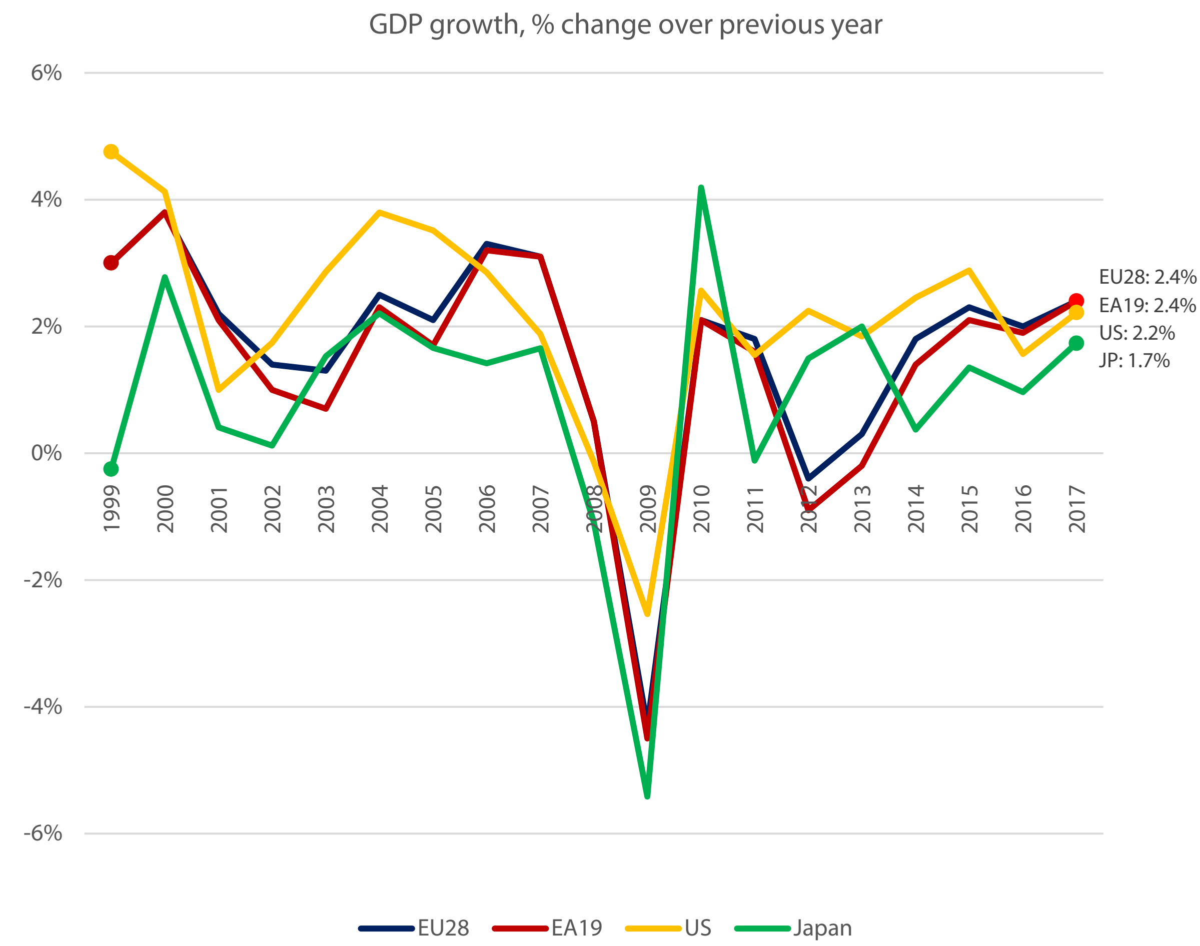
steps under the SGP (see Section 4)

- 2019 Alert Mechanism Report (see Section 5 of this briefing)
- 2019 Draft Joint Employment Report (see Section 6 of this briefing)
- Enhanced Surveillance Report for Greece (see Section 7 of this briefing).

The COM will continue the dialogue established with Member States under the European Semester along the lines described in the Council roadmap for the 2019 European Semester. The aim is to reach a common understanding of the most pressing challenges in the forthcoming country reports and identify areas for priority action to be included in the next round of country specific recommendations. The COM highlights that the establishment of National Productivity Boards could benefit national debates on how to boost productivity, by providing high-quality and independent analysis and enhancing national ownership of reforms. Member States should ensure that social partners and national parliaments are fully involved in the reform process. Their involvement, along with a broader engagement with civil society, is fundamental to improving ownership and legitimacy of reforms and bringing about better socio-economic outcomes.

The Rapporteur (Tom Vandenkendelaere) of the ECON Committee on the 2019 AGS tabled his draft report, which will be discussed in the ECON Committee on 10 December 2018.

Chart 1: GDP growth in the EU and the Euro Area in 1999-2017



Source: Eurostat

2. The euro area recommendations

The Draft 2019 Euro Area Recommendations

The 2019 Euro Area Recommendations (EAR) were adopted by the COM on 21 November 2018. They will be discussed in the appropriate committees, for adoption on 21-22 January 2019 in the Eurogroup and Ecofin and on 21-22 March 2019 in European Council meetings, in accordance with the Council roadmap for the 2019 European Semester.

Similarly to the 2018 EAR, the 2019 COM's draft recommendations cover four key policy areas, namely: (1) implementing structural reforms (supporting investment and boosting productivity); (2) rebuilding fiscal buffers and improving quality of public finances; (3) completing the Banking Union and further developing the Capital Markets Union; and finally (4) making progress on completing the EMU. While these priorities were also covered during the previous cycle, emphasis placed on some of the elements that were maintained has somehow changed, as shown in Table 1. The 2019 draft recommendations are also shorter and more sharply focused on the areas that the COM envisages as priority.

One can note from the recitals accompanying the COM proposals that the COM is envisaging (a) reinforcing the successful rebalancing of the euro area by an appropriate deleveraging pace, supportive of growth and reforms to increase productivity: (b) focus on structural reforms, to underpin the gradual normalisation of monetary policy; (c) differentiated national fiscal policies, properly coordinated, aiming at strengthening the overall fiscal sustainability of the euro area; (d) as such, reinforcing the build-up of fiscal buffers for Member States with high levels of public debt, whilst member states with fiscal space would contribute by increasing public investment.

The recitals also highlight the COM's ambitions in relation to reinforcing supervisory cooperation and the European Banking Authority, aiming at better tackling money laundering, as a new priority in face of the recent scandals. On the other hand, deepening the EMU and completing the Banking Union remain priorities (as already set out in the 2018 EAR), although the COM now frames these reforms in the context of a strengthened international role of the euro.

Table 1: Comparison of the 2018 and 2019 euro area recommendations

2018 Council Recommendations (21 March 2018)	2019 Draft Recommendations (Commission, 21 November 2018)
Euro Area Recommendation 1 (Structural policy)	
2019 EA recommendation 1 - Broadly unchanged emphasis, but somehow less prescriptive policy indications	
2018 EAR 1: **Pursue policies that support sustainable and inclusive growth and improve *resilience*, rebalancing and convergence. *Make significant progress towards completing the Single Market*,** particularly in services, including financial, digital, energy and transport, and by implementing relevant product market reforms at national level. ***Given the positive cyclical conditions, all Member States should prioritise reforms*** that increase productivity and growth potential, improve the institutional and business environment, remove bottlenecks to investment and foster innovation, support the creation of quality jobs and reduce	**2019 EAR 1:** **Deepen the Single Market, improve the business environment,** and **pursue resilience enhancing product and services market reforms**. **Reduce external debt** and pursue reforms to **boost productivity** in euro area Member States with **current account deficits** and **strengthen the conditions that support wage growth** respecting the role of social partners and implement measures that **foster investment** in euro area Member States with **large current account surpluses**.

inequality. **Member States with current account deficits or high external debt** should additionally aim at ***containing growth in unit labour costs and seek to improve their competitiveness*. Member States with large current account surpluses** should additionally ***create the conditions to promote wage growth*** **r**especting the role of social partners and implement as a priority measures that foster investment, support domestic demand and growth potential, thereby also facilitating rebalancing.	

Euro Area Recommendation 2 (Fiscal policy)	
2019 Euro Area Recommendation 2 - Broadly unchanged emphasis with new elements, such as a reference to: • Rebuilding fiscal buffers in ***euro area countries with high levels of public debt***	
2018 EAR 2 **Deliver the planned, *broadly neutral overall fiscal stance for the Euro Area*, contributing to a balanced policy mix. Strike an appropriate balance between ensuring the sustainability of public finances**, in particular where debt ratios are high, **and supporting the economy**, in full respect of the Stability and Growth Pact ***and taking into account fiscal space and spill overs across Member States***. Use the improving economic conditions to ***rebuild fiscal buffers***, while continuing to strengthen economic growth potential. Ensure the effective functioning of national fiscal frameworks. Member States should ***pursue policies which support investment and improve the quality and composition of public finances***, also by making use of spending reviews and adopting growth-friendly and fair tax structures. ***Member States should take and implement measures to reduce debt bias in taxation and fight aggressive tax planning*** to ensure a level playing field, provide fair treatment of taxpayers and safeguard public finances and stability within the euro area. This includes continuing work on ***the Common Consolidated Corporate Tax Base (CCCTB)*****.**	**2019 EAR 2** **Rebuild fiscal buffers *in euro area countries with high levels of public debt*, support public and private investment** and **improve the quality and composition of public finances** in all countries.

Euro Area Recommendation 3 (Structural policy)	
2019 Euro Area Recommendation 3 - Broadly unchanged emphasis, but sharper policy recommendations	
2018 EAR 3: **Implement reforms that promote *quality job creation*, *equal opportunities* and *access to labour market*, *fair working conditions*, and support *social protection and inclusion*.** Reforms should aim at: (i) **reliable labour contracts,** which provide flexibility and security for employees and employers, combined with adequate support during transitions and avoiding labour market segmentation; (ii) **quality, efficient and inclusive life-long education and training systems,** which aim at matching skills with labour market needs; (iii) **effective active labour market policies** that foster labour market participation; (iv) **sustainable and adequate social protection systems** that contribute throughout the life cycle to social inclusion and labour market integration and are responsive to new types of employment and employment relationships; (v) ***smooth labour mobility across jobs, sectors and locations***; (vi) ***effective social dialogue and wage bargaining*** at the appropriate level according to national specificities; (vii) **shifting taxes away from labour,** particularly for low-income and second earners**.**	**2019 EAR 3:** **Shift taxes away from labour** and **strengthen education systems** and **investment in skills**, as well as the effectiveness of **active labour market policies that support transitions**. **Address labour market segmentation** and ensure adequate **social protection systems** across the euro area**.**

Euro Area recommendation 4 (Financial sector reform)	
2019 Euro Area Recommendation 4 - Broadly unchanged emphasis, with new elements, such as a reference to: • Swiftly reducing the level of non-performing loans, including by removing ***debt bias in taxation***	
2018 EAR 4: In line with the Council (ECOFIN) roadmap of June 2016, **continue work to complete the Banking Union with regard to risk reduction and risk sharing,** including a European Deposit Insurance Scheme, making the common backstop for the Single Resolution Fund operational as agreed. Further ***strengthen the European regulatory and supervisory framework*** to prevent the accumulation of risks. Take measures to ***tangibly accelerate reduction of the levels of non-performing loans*** on the basis of the agreed Council (ECOFIN) Action Plan and **promote orderly deleveraging** in Member States with large stocks of private debt. ***Further develop the Capital Markets Union*** to support growth in the real economy while safeguarding financial market stability.	**2019 EAR 4:** **Make the backstop for the Single Resolution Fund operational, set up a European Deposit Insurance Scheme** and **strengthen the European regulatory and supervisory framework. Promote orderly deleveraging of large stocks of private debt. Swiftly reduce the level of non-performing loans in the euro area** and prevent their build up**,** including by ***removing debt bias in taxation.***

Euro Area Recommendation 5 (EMU institutional reform)	
2019 EA Recommendation 5 - Main changes include reference to: • Completing the EMU with the perspective to ***strengthen the international role of the euro*** • Taking into account the Commission's proposal concerning the ***Reform Support Programme and the European Investment Stabilisation Function under the proposal for the 2021-2027 Multiannual Financial Framework.***	
2018 EAR 5: **Make *swift* progress on completing the economic and monetary union, *taking into account the Commission initiatives launched in autumn 2017***, in full respect of the Union's internal market and in an open and transparent manner towards non-euro area Member States.	**2019 EAR 5:** Make swift progress on completing the Economic and Monetary Union**,** also ***with the perspective to strengthen the international role of the euro***, taking into account the Commission proposals, including those concerning the financial sector as well as ***the Reform Support Programme and the European Investment Stabilisation Function under the proposal for the 2021-2027 Multiannual Financial Framework.***

Source: EGOV based on the 2018 Council recommendations and the draft 2019 Council recommendations.

Eurogroup's implementation of the 2018 Euro Area Recommendations

At the euro area level, there is (1) no institutional body that bears formal responsibility for the implementation of EAR and (2) no formal mechanism to ensure implementation of these recommendations. Nevertheless, the Eurogroup takes into account the euro area recommendations when drawing up its work programme and undertakes "thematic discussions" on issues raised therein. The Council considers the Eurogroup as the appropriate forum for Member States to "take action", individually and collectively, to implement euro area recommendations. The Council and the Commission monitor and take further actions as appropriate. The European Parliament oversees the Semester.

As requested by the Euro Summits of December 2017 and June 2018, the subjects discussed in the Euro Group meetings during 2018 are concentrated on moving forward issues as the deepening of the EMU and the Banking Union. In particular, one can note that:

- Banking Union and deepening of the EMU were discussed in all Eurogroup meetings and led to the setting up of a Eurogroup in inclusive format to involve non euro area Member States;
- Euro Area fiscal stance is often discussed and referred to in Eurogroup;
- Effectiveness and usefulness of spending reviews remain high on Eurogroup agenda, and follow the principles for improving expenditure allocation set out in September 2016;
- Ministers discussed automatic stabilisers (essentially unemployment benefits and taxation schemes) and how to reinforce their effectiveness, concluding that they should be combined with buffers built up in good times;
- On structural reforms, the Eurogroup held discussions on wage dynamics and taxation, as well on efficient allocation in labour and product markets;
- The Eurogroup discussed possible instruments for convergence and stabilisation of the EMU.

For a more detailed overview, please see a separate EGOV briefing.

Focus on: Eurogroup discussions on deepening of the EMU

In January 2018, the Eurogroup agreed on focusing discussions on two priority areas addressed in the EA recommendations: the completion of the Banking Union (including adherence to the Council 2016 roadmap, developing more specified steps of risk reduction and risk sharing) and the reform of the ESM (at this point focusing mainly on its functions). It was concluded that sequencing and holding stable and inclusive discussions would be essential for bringing all views on board. Since then, the Eurogroup, in its both restricted (19 Member States) and inclusive (27 Member States) formats, had advanced discussions on both issues, throughout each meeting in 2018 (22 January, 19 February, 12 March, 24 May, 21 June, 12 July, 7 September, 1 October, 5 November, 19 November, and 3 December).

In the meantime, several Member States have issued specific statements addressing their priorities. The Meseberg Declaration by **France and Germany** outlined a roadmap for the Euro Area and was complemented by a statement issued on the 19 November, setting out the design of a Eurozone budget as an instrument to promote competitiveness, convergence and stabilisation of the euro area. Furthermore, **the Finance Ministers of Czech Republic, Denmark, Estonia, Finland, Ireland, Latvia, Lithuania, the Netherlands, Sweden and Slovakia** published on 1 November 2018 statement following an earlier position paper from February 2018.

The 3 December Eurogroup delivered political agreement on a ''*comprehensive plan to strengthen the Euro*'' which will be reported to the 14 December Euro summit. This agreement materialises in a report to the Euro Leaders and 3 annexes, dealing with (a) the terms of reference for the Single Resolution Fund backstop, (b) the ESM Term sheet and (c) the ESM-COM cooperation agreement.

The report outlines the main conclusions reached on the issues above. It further shapes Ministers' commitment to establishing a **High Level Group** to continue technical work on the **European Insurance Deposit Scheme** (EDIS), an agreement which failed to be achieved on, with a report on next steps expected by **June 2019**. There will be an additional report by June as well on further work on **liquidity provision in banks' resolution**, with input from the relevant institutions. Lastly, the report mentions discussions on an **instrument for competiveness, convergence and stabilisation of the euro area**. Ministers agreed that, subject to a mandate by Euro Leaders, further work on the design, implementation and timing for an **instrument for convergence and competitiveness** could proceed, bearing in mind the Franco-German proposals. No agreement was reached regarding a **stabilisation function** (including an unemployment insurance scheme) and technical discussions will continue. Ministers expect to be able to put forward **ESM Treaty amendments** by **June 2019** as well.

The ESM term sheet summarises the contours of the **backstop to the SRF** (further detailed in the terms of reference). Of most relevance, one can mention (a) the backstop will take the form of a **revolving credit line**, with a nominal cap to be set by the Board of Governors of ESM, but adjustable by the Board of Directors, and aligned with the size of the SRF by end 2023; (b) backstop to be available for **all current possible uses of the SRF**; (c) possibility for non-euro area member states participating with **equal rights and obligations**; (d) the loans under the credit line would have a maturity of 3 years and a murk-up pricing of 35bp, with a step up of 15bp after 3 years. The governance arrangements foresee a **special committee** to deal with backstop usage and disbursements decided by the Board of Directors within 12 hours (extendable to 24) upon request. All decisions will be subject to national constitutional requirements and taken in accordance with a **set of criteria** that include the availability of funds, an assessment of the repayment capacity, fiscal neutrality, no defaults, and permanence of BRRD rules, as detailed in the Intergovernmental Agreement on the use of the SRF (which include, inter alia, the principles of bail in). The term sheet conditions the early introduction of the backstop to sufficient progress in risk reduction by 2020, to be assessed with the threshold of **5% of gross NPLs** and **2,5% net NPL** on **all banks in the BU**, and on adequate build-up of bail-inable liabilities.

The term sheet also covers the **ESM toolkit**, detailing the conditions of the precautionary conditioned credit line (PCCL). It will be available for Member States with sound fundamentals (assessed on the basis of compliance with the debt benchmark, a minimum benchmark and a deficit below 3%, not being in EDP nor experiencing excessive imbalances) underpinned by a **specific commitment** to continuously adhering to these. The Member State debt must be sustainable and its repayment capacity assessed. If requested by the Member State, the ESM may **facilitate agreement with creditors** (on a voluntary, informal, non-binding, temporary and confidential basis). The facility will be agreed by the ESM Board of Governors. In addition, on the front of debt sustainability, **single-limb CACs** are scheduled to enter in force within the next 3 years.

The term sheet mentions also the agreement setting out the modalities of cooperation between the ESM and the Commission, underlining that the ECB role is preserved.

Box 1: Benefits of an increased international use of the euro

Following President Juncker state of the union address 2018 and in the preparation of the upcoming European Council and Euro Summit in December, the Commission presented on the 5 December 2018 a general communication "Towards a stronger international role of the euro" and a specific recommendation on energy with a view to strengthening the role of the euro on the international stage.

Almost twenty years after the introduction of the single currency, the Commission aims to make the euro more attractive. The Euro is now the second most used currency in the world with 60 countries linking their currencies to the euro in one way or another.

According to the Commission, a wider global use of the euro can be beneficial in several ways:

- Lower cost and lower risk of trading internationally for European businesses. Trading in euro rather than in a foreign currency will remove the exchange risk and other currency related costs especially for small and medium-sized European businesses.
- Additional choice for market operators across the globe.
- Lower interest rates paid by European households, businesses and Member States. A more attractive euro as a safe store of value reduces the interest rate (or return) demanded by investors.
- More reliable access to finance for European businesses and governments, even in periods of external financial instability, as European financial markets would become deeper, more liquid and integrated.
- Stronger autonomy of European consumers and businesses, allowing them to pay or receive payments for their international trade, and finance themselves with reduced exposure to legal actions taken by third country jurisdictions, like extraterritorial sanctions.
- Improved resilience of the international financial system and economy, making them less vulnerable to exchange rate shocks. The benefits attached to a wider use of an international currency come with increased global responsibilities, in line with central banks' respective mandates. Although the benefits of a stronger international role of the euro outweigh the possible challenges, its consequences would have to be carefully calibrated, for example in relation to the balance of payments for the euro area vis-à-vis the rest of the world.

The Commission communication recommends the wider use of the euro in international energy markets. It notes the fact that in the energy sector, over 80 % of Europe's energy imports are priced and paid for in US dollar, despite supplies coming mainly from Russia, the Middle East and Africa and the EU being the world's largest energy importer. The EU's annual energy import bill averaged EUR 300 billion over the last 5 years. More than 93 % of the traded volumes in the domain of energy are accounted for by oil, where currently all contracts are dollar denominated. For natural gas, about 70 % of EU imports are referenced in US dollar. Gas contracts traded on the EU gas hubs are denominated in euro.

3. The Country Specific Recommendations

How have Country Specific Recommendations evolved over time?

Since the 2015 Semester cycle, Country Specific recommendations (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]; by 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); by an earlier assessment of the implementation of CSRs adopted under the previous cycle; by the inclusion of in-depth reviews under the Macroeconomic Imbalances Procedure (MIP) into the Country Reports (where applicable); and finally by 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 objectives to achieve, while largely leaving definition of the measures needed to attain them to the discretion of national authorities. The intended goal of all these refinements was to increase the political ownership of CSRs and accountability, and thereby improve their unsatisfactory and declining rate of implementation.

Table 2: CSRs - some stylized facts

European Semester	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

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

Table 2 depicts some stylized facts on CSRs:

- 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 the related programmes (Ireland, Portugal and Cyprus)[2]. Greece will also be fully integrated to the 2019 Semester cycle.
- 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 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. 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

[1] 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).

[2] See a dedicated ESM webpage for more information: https://www.esm.europa.eu/financial-assistance.

become the predominant explanatory factor in the observed decline of the number of CSRs between the 2017 and 2018 Semesters (see Annex)[3]. In this context, 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'.

- 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.

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 2012-2017.

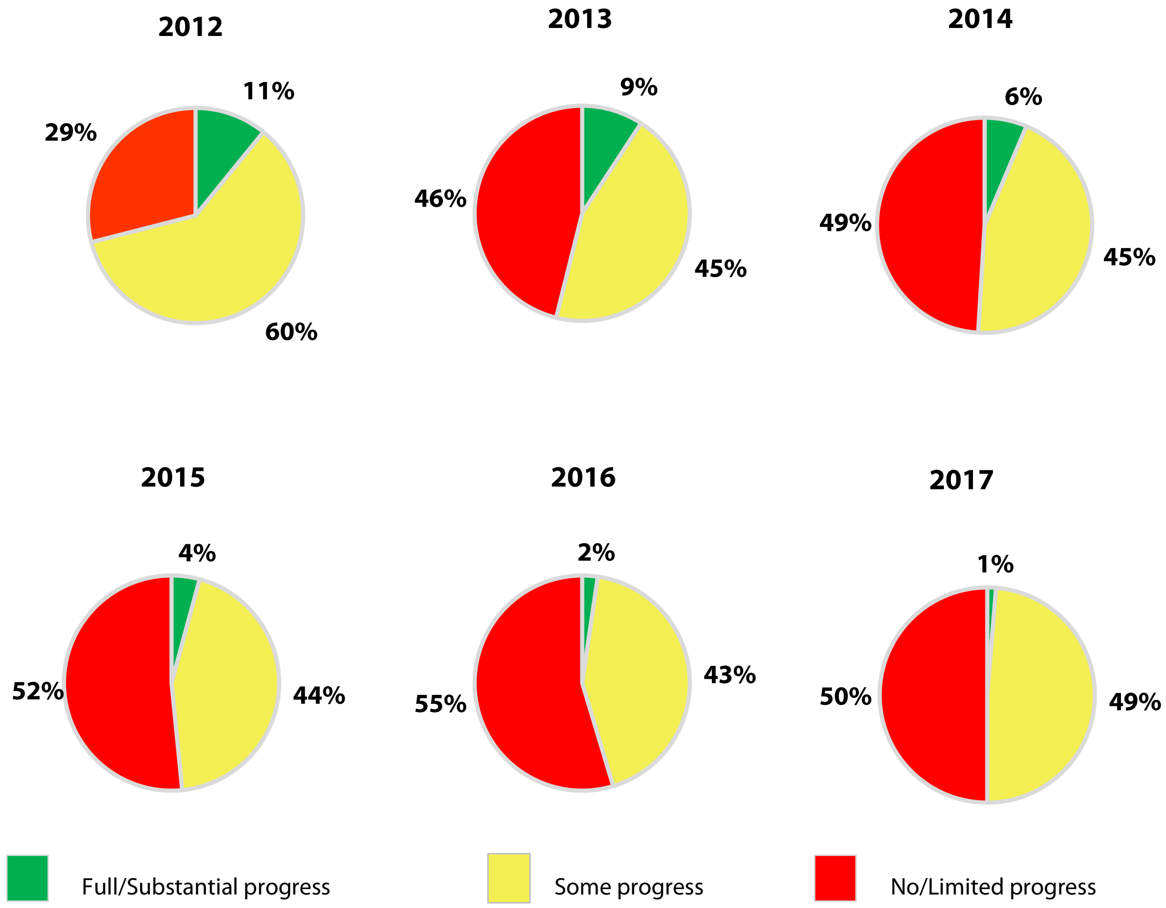
The CSRs implementation record followed a downward trend over the period 2012-2016 before showing first signs of improvement in 2017[4]: the proportion of recommendations on which Member States made *at least some progress* declined from 71% in 2012 (the highest value on record) to 45% in 2016 (the lowest value on record) before rising to 50% in 2017 (see Figure 1). At the same time, the part of recommendations with full/substantial progress has gradually decreased from 11% in 2012 to mere 1% in 2017[5].

3 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.

4 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.

5 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) and exclude the compliance with the provisions of SGP. 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 over the period 2012-2017 (annual perspective)



Source: EGOV calculations based on the European Commission assessment provided in Country Reports. All data is available in an EGOV database.
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 exclude the COM assessment of the progress made as regards the Council recommendations related to 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 Stability and Convergence Programmes.

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 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 relates 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 perspective**. The latter approach has been introduced in 2017 and, according to this yardstick, '*more than two thirds of CSRs have been*

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

implemented with at least 'some progress'' over the period 2011-2017, leading therefore to somewhat more favourable picture of CSRs implementation record 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'*. However, it may be noticed that the COM has not published nor explained the methodology underlying its multiannual assessment[7].

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. 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 multiannual approach may introduce an upward bias in the results (i.e. reforms are assessed over variable time periods[8]).

7 In June 2018 Bruegel also published a Policy contribution "Is the European Semester effective and useful?" covering CSRs implementation from various perspectives, including assessment based on a multiannual approach.

8 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.

4. Public finances: recent developments

Assessments of 2019 Draft Budgetary Plans of Euro Area Member States

On **4 December 2018**, the Eurogroup issued a statement on the 2019 DBPs, in which it:

- supported the COM assessment of 21 November 2018 that the (revised) 2019 **DBP of Italy** is a particularly **serious case of non-compliance** with the Country-Specific Recommendations (CSRs) of July 2018 and recommended Italy to take the necessary measures to be compliant with the SGP;
- noted that Belgium, France, Portugal and Spain are **not expected to comply prima facie with the debt reduction benchmark in 2019**;
- invited all countries identified - on 21 November 2018 - by the COM to be **at "risk of non-compliance" with their obligations under the SGP** (i.e. Belgium, France, Portugal, Spain and Slovenia) to address in a timely manner the risks identified by the COM and to ensure that their 2019 budget will be compliant with SGP provisions. The assessed risks of non-compliance with the SGP in 2019 mean that they might lead - for all the before mentioned five Member States - to a significant deviation - in 2018 and/or 2019 - from the adjustment paths towards the respective Medium-Term budgetary Objective (MTO). The required adjustment paths have been set in the 2017 and 2018 fiscal CSRs in terms of ceilings for the "*nominal growth rate of net primary government expenditure*" and in terms of minimum fiscal annual structural adjustments. Further risks of non-compliance are related to the debt reduction benchmark, as defined in **Council Regulation 1467/97;** they have been identified by the COM and the Eurogroup for Belgium, France, Portugal and Spain.
- noted that Luxembourg, Latvia and Slovenia submitted DBPs on a **no-policy-change basis** and invited them to submit the **updates of their DBPs** as soon as possible;
- stated that "*current economic conditions call for the urgent need to* ***rebuild fiscal buffers****, notably in Member States that have not reached their MTO*".

In connection with the opinion on the Italian DBP, the COM published **on 21 November 2018** a report under Art. 126 (3) TFEU (see below a section for more information on the Italian case).

Significant Deviation Procedures (SDPs) for Hungary and Romania

On **4 December 2018**, the ECOFIN Council issued to Hungary and Romania, on the basis of COM proposals of 21 November 2018 (a) decisions confirming that effective actions have not been taken; and (b) new recommendations on measures to take to correct the deviations from the adjustment path towards the MTO. The revised annual structural adjustments amount to at least 1% of GDP in 2019 for both Hungary and Romania.

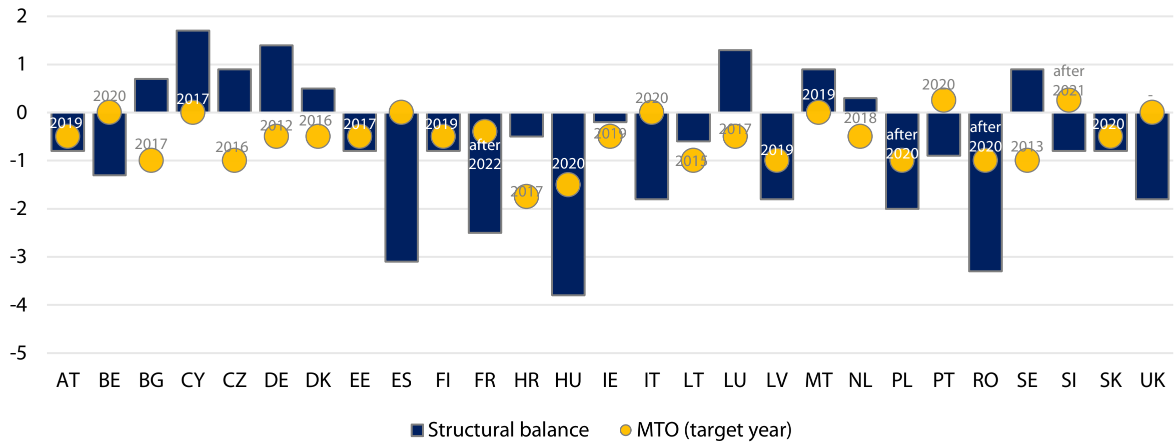
Budgetary developments based on the COM autumn 2018 economic forecast

On 8 November 2018, the COM published its **autumn 2018 forecasts** for all Member States. The general government deficit in the EU28 is expected to decrease from 1.0% of GDP in 2017 to 0.7% in 2018 and to increase to 0.8% in 2019. Like in the earlier COM spring 2018 forecast, 2018 is still expected to be the first year in the Economic and Monetary Union in which all Member States achieve **nominal budget deficits lower than 3% of GDP**.

When **comparing the figures included in the 2019 DBPs and the COM autumn 2018** forecast, one notes that Member States are in general more optimistic than the COM; please see separate EGOV note for more information.

While in 2017 the **structural budget position** improved in 20 Member States, it is expected to improve in only 9 Member States in 2018; therefore, less Member States might be close or at their MTO in 2018 (see below Figure 2 and corresponding indicators in Annex 2).

Figure 2: Comparison of structural balances in 2018 with the MTOs and their target years



Note: Sources: Table 41 of the statistical annex to the COM autumn 2018 forecast (structural balances) and Country Specific Recommendations 2012, 2013, 2014, 2015, 2016, 2017, 2018 and Stability and Convergence Programmes 2012-2018 (levels and target years of the MTOs).

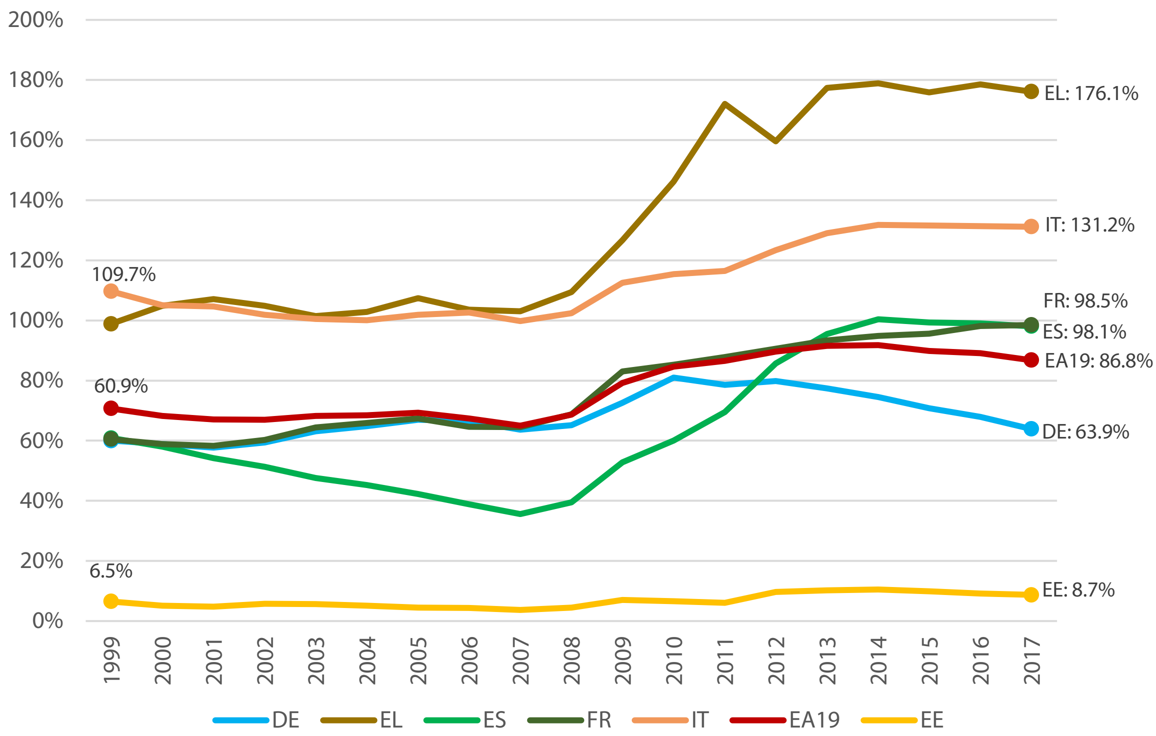
Annex 2 shows the **structural budget balances forecast by the COM for 2018 and 2019**, compared to the structural efforts recommended by the Council under the preventive arm of SGP and the level and target years of the country specific MTOs. While these comparisons indicate for the euro area that Germany, Estonia, Ireland, Cyprus, Lithuania, Luxembourg, Malta, the Netherlands and Austria are in line with the effort recommended by the Council, the other countries are not necessarily in breach of the respective Council recommendations[9].

Assessments on the application and reform proposals on the SGP

In July 2018, the European Court of Auditors (ECA) has issued a report assessing whether the main objective of the preventive arm of the SGP has been delivered. The ECA concluded: "*We consider that the combination of the current matrix parameters, allowed deviations and flexibility clauses cumulatively erode the target set in the Regulation which is to achieve an average annual adjustment of 0.5 % of GDP over the cycle. This prevents that the MTOs of member states are reached within a reasonable period. Particularly worrisome is very slow, or even absent adjustment in several member states with high public debt ratio*". Also the annual report 2018 of the European Fiscal Board, issued in October 2018, identifies a number of structural weaknesses in the implementation of the SGP and puts forward reform proposals (see Box 2).

[9] The assessment of compliance includes other aspects than the change in the structural balance, such as: the magnitude of deviations, bottom-up assessments of individual measures, compliance with expenditure benchmarks, change in the primary structural balance (=structural balances adjusted by interest payments) and relevant factors such as the implementation of reforms with a positive impact on the growth potential. See code of conduct on the implementation of the SGP .

Chart 2: Public debt % of GDP in 1999-2017 in a selection of EU Member States



Source: Eurostat

Box 2: Main messages of the annual report 2018 of the European Fiscal Board (EFB)

The main messages can be summarised as follows:

- **Macro-economy of euro area and EU in 2017 markedly better than expected** in terms of real GDP growth; inflation also slightly higher
- **SGP not adjusted to better economic conditions** due to
  (i) asymmetry of rules and (ii) discretion applied to soften requirements
- **Use of windfalls lopsided:**
  (i) countries with favourable public finances took advantage;
  (ii) high-debt countries spent important part of higher revenues
- **On aggregate, marginal fiscal consolidation** was appropriate.
  But at country level, missed opportunity to secure a faster reduction of high debt and build fiscal buffers where needed.
- **Some national independent fiscal institutions successful in strengthening public scrutiny**, others faced issues of information and coordination
- Recent attempts to simplify SGP not effective or not followed through with consistently.
  Overhaul of SGP needed: EFB proposes simplification of the framework coupled with review of governance. The proposed features include notably: (1) **ONE FISCAL ANCHOR (**reduce debt to 60%), (2) **ONE FISCAL REQUIREMENT (**Net expenditure growth), (3) **ONE ESCAPE CLAUSE (**covering different contingencies such as economic downturn and unusual events).

Focus on: Italy's 2019 DBP

The 2018 fiscal CSR for Italy adopted by the Council in July 2018 reads:
"Ensure that the nominal growth rate of ***net primary government expenditure does not exceed 0.1 % in 2019****, corresponding to an* ***annual structural adjustment of 0.6 % of GDP****. Use windfall gains to accelerate the reduction of the general government debt ratio. Shift taxation away from labour, including by reducing tax expenditure and reforming the outdated cadastral values. Step up efforts to tackle the shadow economy, including by strengthening the compulsory use of e-payments through lower legal thresholds for cash payments. Reduce the share of old-age pensions in public spending to create space for other social spending."*

The Italian Government submitted its [2019 Draft Budgetary Plan] to the COM on 16 October[10]. As shown in Table 3, the DBP set fiscal objectives that differ from those required under the SGP; furthermore, it was based on macroeconomic assumptions much more optimistic than those forecast by the Commission and not produced nor endorsed by the national fiscal council. The Government emphasised that the projected deficit ratios were well below the 3% limit set in the Treaty, and that the Parliament had given its approval for these figures[11].

The COM identified serious non-compliance of the DBP with the fiscal recommendations to Italy, and requested the Italian Government to submit a revised DBP budgetary plan.

On 13 November 2018, Italy submitted the revised plan with very limited changes, mainly consisting in higher privatisations revenues for 2019 (from 0.3% to 1% of GDP). Annex 3 presents the main steps related to the Italian budget since October, including the recent exchanges between the COM and Italy.

Table 3: Fiscal and macroeconomic figures for Italy

	2017	2018			2019		
Indicator	**Estimates**	**Required**	**DBP**	**COM forecast**	**Required**	**DBP**	**COM forecast**
Nominal Deficit/GDP	2.4%		1.8%	1.9%		2.4%	2.9%
Structural deficit/GDP	1.8%	1.2%	1.6%	1.8%	1.2%	2.6%	3%
Net Expenditure growth/GDP		-0.2%		0.8%	0.1%	2.7%	
Debt/GDP	131.2%		130.9%	131.1		129.2%	131.0%
Gap to Debt reduction benchmark/GDP	6.6%		3.7%	6.6%		3.6	6.7
Real GDP growth	1.6%		1.2	1.1		1.5	1.2

Sources: European Commission, Draft Budget Plan 2019 of Italy

[10] In accordance with EU economic governance rules (Regulation 473/2013).
[11] In accordance to the constitutional provision introduced in 2013.

The COM then:

- adopted an opinion on Italy's revised budgetary plan, confirming the particularly serious non-compliance with the fiscal recommendation of the Council for 2019. The Eurogroup discussed this opinion at its meeting of 3 December, supporting again the Commission's assessment and recommending Italy to take measures in line with the SGP.
- issued a report under art 126(3) of the TFEU, establishing that Italy was not compliant with the debt reduction benchmark in 2017. Such assessment took into account both the non-compliance of the 2019 DBP with the SGP and the "relevant factors" presented by the Italian authorities. This report is the first step in view of opening an Excessive Deficit Procedure (see Box 3). The Economic and Financial Committee formulated its opinion on the report of the Commission, agreeing with the Commission (based on public sources, as opinions by the Economic and Financial Committee are not published).

These two procedures are very different: the first is a simple "warning procedure" (a separate EGOV briefing provides information on the surveillance of DBPs), while the second may eventually lead to fines of appropriate size (see Box 3).

After the downgrading by Moody's of the Italian sovereign bonds on 18 October, the negative outlook by S&P on 26 October, the raise of the spreads (that peaked to 327 bps on 20 November) and a sale of bonds much less successful than expected on 26/27 November, the Italian government and parliament are still discussing some elements of the draft budget, which should be finalised by the end of the year.

As for the next steps, the COM may address to Italy an opinion on the excessive deficit, and inform the Council, which decides if an excessive deficit exists and, if so, open an excessive deficit procedure (see box below).

Box 3: The Excessive Deficit Procedure (EDP)

The EDP is governed by Article 126 of the TFEU, by the Protocol No 12 annexed to the Treaty and by the amended Regulation (EC) No 1467/97. The most relevant provisions are set out below.

An EDP may be triggered by the deficit criterion or by the debt criterion:

- *Deficit criterion: The government deficit is considered to be excessive if it is higher than the reference value of 3% of GDP;*
- *Debt criterion: The debt criterion is not respected if the debt is higher than 60% of GDP and the annual debt reduction target of 1/20 of the debt in excess of the 60% threshold has not been achieved - on average - for the last three years. The debt level is still considered within the Treaty limits if the budgetary forecasts of the Commission indicate that the required reduction in the differential will occur over the next three-year period. The influence of the cycle in the pace of reduction must be taken into account.*

Articles 126(3) to 126(6) of the TFEU lay down the procedure, and Regulation 1467/97 specifies some deadlines.

- *The Commission prepares a report if a Member State does not comply with, or if there is a risk that it will not comply with, at least one of the two criteria (Art 123(3)).*
- *The Economic and Financial Committee formulates an opinion on this report (Art. 126(4)).*
- *If the Commission sees an excessive deficit as a given (or as a possible occurrence), it addresses an opinion to the Member State concerned and informs the Council (Art 126(5)) and the European Parliament (Art. 3/2 of Regulation 1467/97).*
- *The Council decides whether an excessive deficit exists, after considering the observations the Member State decides to make (Art. 126(6))*
- *The Council decision shall be made, as a rule, within four months after the reporting dates for government fiscal data, established in Art. 3(2) and (3) of Regulation 479/09 (i.e. 1 October and 1 April).*
- *If the Council decides that the excessive deficit exists, it adopts a recommendation (proposed by the Commission) to the Member State, with a deadline to take action (which may span from 3 to 6 months in accordance with Article 3 of Regulation 1467/97).*
- *If the Council establishes that there has not been effective action by the set deadline, the recommendation may be public (Art. 126(8)).*
- *The subsequent paragraphs of Art. 126 specify the provisions for the coercive means of remedying and for the procedures to follow when taking decisions on EDP, including its abrogation.*

5. Macro-economic imbalances

The 2019 Alert Mechanism Report, published in November 2018, initiates the annual round of the Macroeconomic Imbalance Procedure (MIP).

On the basis of an economic reading of the "MIP scoreboard" (presented in Annex 4) and its auxiliary indicators, the COM identified 13 Member States for which it will undertake in-depth reviews, namely:

- **Croatia, Cyprus and Italy** (that were experiencing excessive macroeconomic imbalances during the 2018 cycle);
- **Bulgaria, France, Germany, Ireland, the Netherlands, Portugal, Spain and Sweden** (that were experiencing macroeconomic imbalances during the 2018 cycle);
- **Greece** (that concluded the financial assistance programme in August 2018, and is for the first time involved in the MIP exercise) and **Romania**.[12]

The COM identified **several challenges** that may pose risks to the recovery and the correction of macroeconomic imbalances, including a decrease of net exports, in a context of uncertainty in the trade policy environment, and the recent appreciation of the euro.

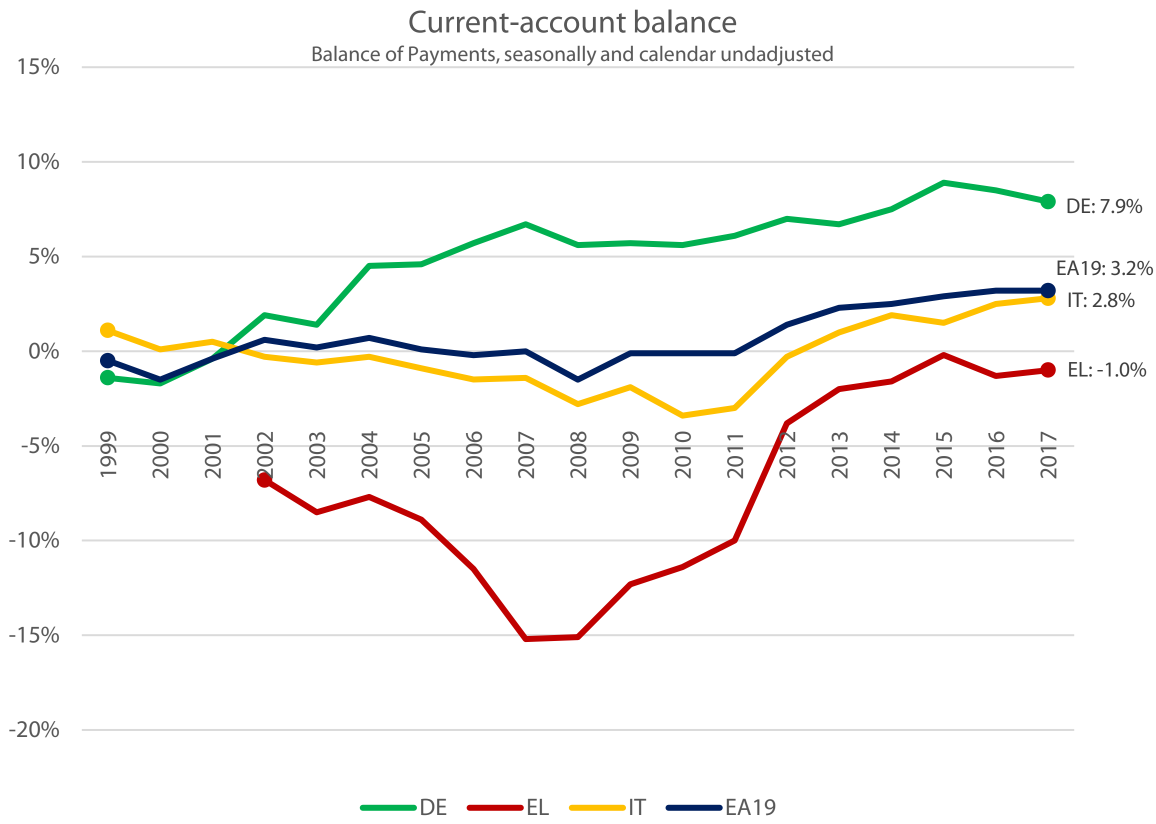
The MIP scoreboard and the COM analysis particularly show that:

- **There is still need to rebalance current accounts and external positions.** Only two countries (Cyprus and the UK) have external deficits beyond the MIP threshold; few countries should make further efforts to reduce the stock of net foreign liabilities. In contrast, elevated current accounts surpluses continue in some countries: Denmark, Germany, Malta and the Netherlands (with some figures possibly affected by cross-border activities of multinational companies).
- **Cost competitiveness conditions are becoming less favourable for several Member States:** Labour cost is growing at a fast rate in a majority of countries (especially in central and Eastern Europe), with risk of losses in cost competitiveness.
- The private sector is deleveraging**,** and the **private debt-to-GDP ratio is decreasing**, mainly due to high nominal GDP growth. Active deleveraging is mostly visible in the business sector, as households are increasing borrowing. **Public debt** is declining in most, not all, high-debt countries: despite positive nominal growth and low interest rates, a growing number of Member States are undertaking pro-cyclical fiscal measures. In eight Member States, the combination of high debt, both in the public and private sector, calls for general deleveraging needs.
- **House prices** are accelerating in most Member States, with several cases pointing at over-evaluation.
- Conditions in the EU **banking sector** are improving, including profitability. Non-Performing-Loans ratio are declining, notably in those Member States with high stocks.
- **Unemployment indicators** and activity rates are showing a general improvement, but there are differences among Member States. **Wage growth** is gradually resuming.

For the **euro area, the COM notes that it continues to have the world's largest current account surplus,** as shown in Chart 3. It is expected to be 3.8% of GDP in 2018, above the level that is consistent with economic fundamentals. The euro area surplus should be reduced by adjustments in the net-creditor countries, while net-debtor countries are required to reduce their large stocks of external liabilities.

[12] All Member States experiencing macroeconomic imbalances (excessive or not) are submitted to specific monitoring; in addition, their CSRs may be underpinned by the MIP procedure.

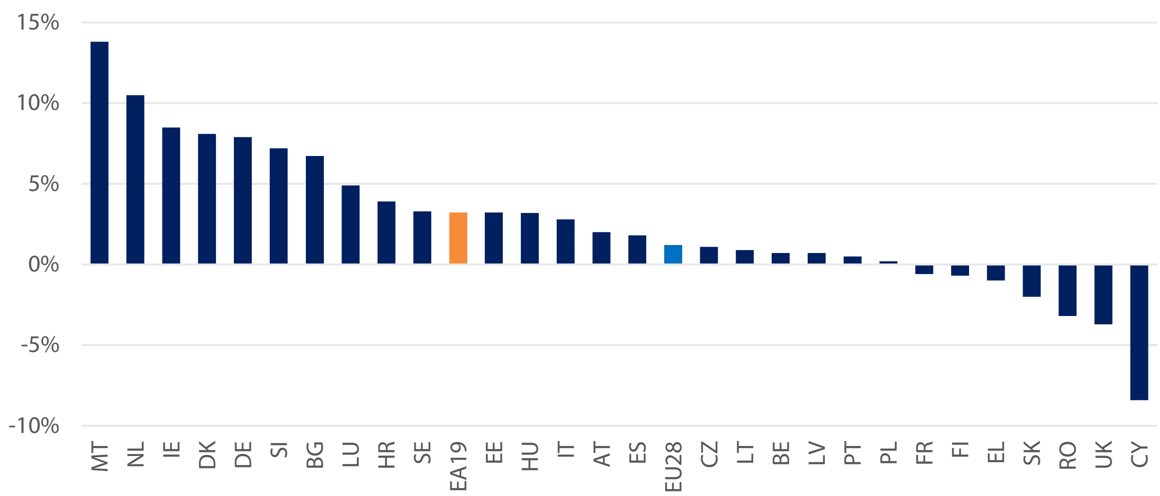
Chart 3: Current-account developments 1999-2017 in a selected EU Member States



Source: Eurostat, Balance of payment data.

In the past few years, more and more Member States have contributed to the euro area's current account surplus. Figure 4 below shows that 15 euro area Member States posted positive balances in 2017 (the countries with negative current accounts are Cyprus, France, Greece and Slovakia). The main contributors to the euro area surplus remain the Netherlands and Germany, which together account for about 80% of the euro area's overall current account surplus (data for Malta and Ireland are affected by the activities of multinational corporations).

Figure 4: Current-account balances % of GDP in EU Member States in 2017



Source: Eurostat

Table 4 shows the situation of Member States experiencing macroeconomic imbalances since the first European Semester, in 2012. Italy is experiencing excessive macroeconomic imbalances since 2014, while Cyprus is in this situation since 2016, when it exited the financial assistance programme. Nevertheless, **the COM did not propose the opening of the Excessive Imbalance Procedure,** despite being advocated by many (for further information, see separate EGOV document).

Table 4: Member States experiencing excessive macroeconomic imbalances, 2012-2018

2012	2013	2014	2015	2016	2017	2018
-	ES	HR	BG	BG	BG	HR
	SI	IT	FR	FR	FR	IT
		SI	HR	HR	HR	CY
			IT	IT	IT	
			PT	PT	PT	
				CY	CY	

Source: EGOV based on European Commission assessments.

Further reading:

- An EGOV briefing that presents the Member States' situation with respect to the Macroeconomic Imbalance Procedure, taking into account recent assessments and decisions by the COM and the Council. It also gives an overview of relevant comments on the MIP published by EU institutions.
- An EGOV briefing that provides an overview on the state-of-play of the surveillance of the three Member States that have been assessed as part of the 2018 European Semester cycle as experiencing excessive macroeconomic imbalances in the context of the MIP.
- An EGOV briefing that provides an overview of some elements related to the implementation of Country-Specific Recommendations (CSRs) issued under the MIP.
- An EGOV short document that describes the MIP.

Section 6: The Draft Employment Guidelines

The European employment policy is mandated by Article 148 of the Treaty on the Functioning of the European Union (TFEU). It aims to establish common sets of objectives and targets, agreed by all EU Member States to promote a comprehensive employment strategy at European level, as a part of the EU 2020 growth strategy implemented through the annual European Semester cycle.

The annual starting point each November is to take stock of the main employment and social developments in Europe in the draft Joint Employment Report (JER), which includes (i) the assessment of the employment situation in Europe (ii) the implementation of the Employment Guidelines and (iii) a Scoreboard of key employment and social indicators to monitor Member States' performance. The current draft version, presented by the European Commission, will be discussed with the Employment Committee and the Social Protection Committee, with a view to final adoption by the Employment, Social Policy, Health and Consumer Affairs Council (EPSCO) in March 2019.

The economic recovery of recent years has been particularly job intensive. The EU and the Euro area are enjoying record levels of employment and strong job creation. The 2020 target of a 75% employment rate is likely to be reached. While unemployment stands at its lowest level in ten years, unemployment remains disproportionately high in some Member States, including Greece, Spain, Italy, Croatia and Cyprus. Job growth in 2017 has been mainly driven by women, older workers and high-skilled people. Low-skilled workers remain at pre-crisis employment levels, almost 30% behind high-skilled workers. The gap between native and non-EU born people is 10pps, and particularly pronounced among migrant women.

Youth unemployment has been on a downward trend and is back at pre-crisis levels. However, there are large disparities between countries, with rates above 30% in Spain, Italy and Greece. Overall in the EU, almost 6 million people aged 15-24 were neither in employment, education or training (NEET) in 2017.

Household income has been increasing in almost all Member States, notably among the most recent joiners of the Union. However, income is increasing at a slower pace than GDP, suggesting that the gains from recovery have only partly reached households.

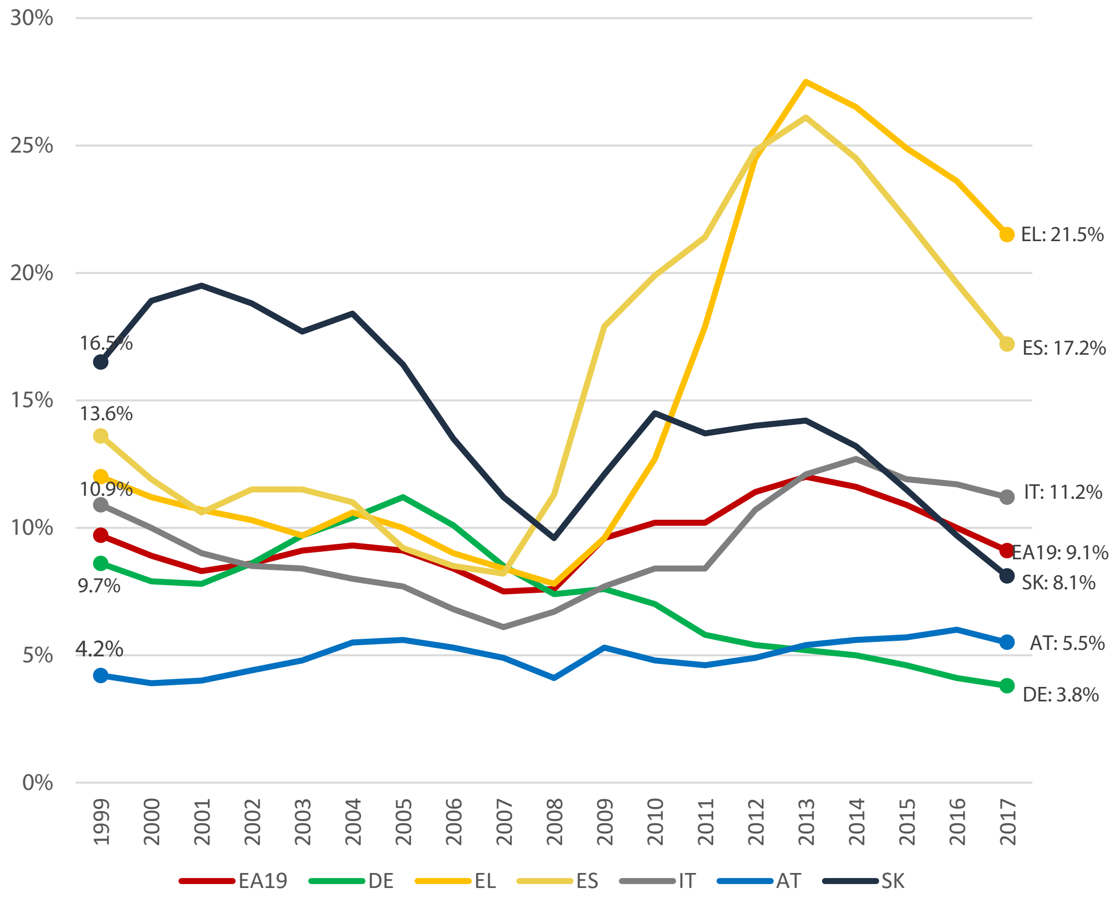
The draft Joint Employment Report places emphasis on the significance of high quality and inclusive education, pointing out the strong correlation of educational outcomes with socio-economic status and labour market outcomes. Europe is progressing towards reaching the 2020 targets of 10% early school leaving rate and 40% tertiary education attainment. Member States have been undertaking steps to improve their education systems, notably reducing dropout rates, fostering equal access to education, and improving outcomes among disadvantaged learners, as well as promoting more efficient investment in education and training systems. Such measures are particularly important in view of technological changes, which stand to transform labour markets over the next years. Up-skilling and re-skilling of the working age population will be crucial for adapting to the imminent challenges. To support jobseekers during transitions, unemployment benefits of adequate amount, duration and accessibility play an important part. The design of these systems varies greatly between Member States, and concerns regarding coverage of atypical workers and the self-employed is also included in the Commission's proposal for a Council recommendation for the Euro Area. Work on modernising social protection systems, strengthening coverage and increasing access are ongoing in Member States. Demographic changes and rising life expectancy will further require pension and health systems to adapt. Over the next five decades, the number of Europeans aged 80+ is set to double.

The report also stresses a well-functioning social dialogue as a key element of the European social market economy. The involvement of social partners in the preparation of reforms has large benefits in terms of design, implementation, and socio-economic outcomes. The degree of involvement currently varies greatly across Member States and is only weak in some countries. One issue is insufficient capacity to actively participate in the policy debate.

Net earnings are converging in Europe, with fast growth in Central and Eastern Europe and slow growth in Western and Southern Europe, especially in those countries most affected by the crisis. Over the last three years, real wage growth exceeded productivity growth in the Baltic Member States, Bulgaria, and Slovakia, as a part of the catching-up process towards higher income countries.

According to the Commissions annual review 2018 on employment and social development in Europe, quantitative labour shortages - as a result of low levels of unemployment - are facing countries such as the Czech Republic, which has seen the biggest increase in job vacancies since 2013 and has one of the lowest unemployment rates. Non-quantitative labour shortages, are observed, for instance, in Belgium and can be explained by high labour cost, a high tax wedge, low mobility and skills mismatches. In central and eastern European countries, labour shortages, as a factor limiting production, are even higher than in the pre-crisis period. Migration from these countries could have played an important role in the sharp rise of shortages there. At the same time, this migration may have mitigated the shortages in some northern and western European Member States where, nevertheless, shortages are also rising.

Chart 4: Unemployment % of labour force in selected EU Member States 1999-2017



Source: Eurostat.

7. Ex-post surveillance of macro-economic adjustment programmes

The enhanced role of ESM

Following the President of the Eurogroup letter of the 25 June 2018 to the President of the European Council, the ESM and the COM discussed ESM involvement in programme design and monitoring.

This was first addressed in a Memorandum of Understanding (MoU) agreed between the two institutions and signed in Sofia on the 27 of April 2018. The MoU is a non-legally binding document, but frames the cooperation between ESM and the COM in respect, inter alia, Regulation 472/2013 and the ESM Treaty. In a press release issued on the 19 November 2018, the ESM outlines the broad terms of an agreement with the COM (dated of 14 November) to further improve their relationship, in light of the existing EU legislation.

The agreement refers to (a) informal meetings between the two institutions to share assessments and analysis and discuss and assess macro-financial risks; (b) the possibility of the ESM joining the COM missions related to economic policy coordination and budgetary monitoring; (c) the ESM evaluating the Member State market access and the underlying risks; (d) ESM working closely with the Commission to prepare a decision in principle to grant financial assistance including the assessment of debt sustainability; (e) the ESM contribution to the debt sustainability analysis (specifically, the "Member State's funding plans and cost of funding, assessment of the liquidity position, sovereign bond market and potential risks stemming therefrom, size and structure of outstanding debt, debt issuance plans of the MS (flows), interest rate developments, refinancing capacity/market access" and in "medium- and long-term debt redemption, size of cash buffers for short-term liquidity purposes and for easing market re-entry or maintaining market access at reasonable rates, risks to market funding and any technical liability management exercises planned or being conducted by the DMO"); (f) the ESM cooperating with the COM in assessing the financing gap and the financing needs of the requesting Member State; (g) the ESM contributing for the assessment of financial stability risks (from the perspective of sovereign debt markets and sovereign financing); (h) to the ESM collaboration in policy underpinning the financial assistance (addressing, in particular, Member State's financing needs and ability to repay, organisation and operational aspects of the funding, including "operational/practical/institutional organization of the debt management office (DMO), debt management strategy, technical assistance in relation to debt management when insufficient administrative capacity is identified"); (i) the ESM director co-signing the MoU on policy conditionality and the ESM views being "taken into account" by the COM in forming its views on the issue; (j) the ESM being involved in the Commissions' assessment of compliance with the conditionality; (l) in combining post programme monitoring missions with the ESM early warning system ones; (m) on reciprocal sharing on information.

The agreement further refers to the need for amendments in case the European legislation is changed or ESM incorporated into the EU framework; to a later agreement, in time for the December Euro Summit on transparency and accountability and on an agreement in relation the backstop for the Single Resolution Mechanism. Eurogroup reached policy agreement on the 3 December on the ESM acting as a backstop to the Single Resolution Fund.

Latest state-of-play post-programme surveillance

Greece: The country is subject to enhanced surveillance and Post Programme Surveillance (PPS) since 21 August 2018. Article 2(1) of Regulation 472/2013 states that the COM may decide to subject to enhanced surveillance a Member State experiencing or threatened with serious difficulties with respect to its financial stability which are likely to have adverse spill-over effects on other Member States in the euro area. On 11 July 2018, the COM decided that Greece shall be subject to enhanced surveillance for a period of six months, commencing on 21 August 2018. In accordance with this decision, Greece is expected to continue and complete key reforms set out in the annex of the Eurogroup statement of 22 June 2018: they relate to fiscal and fiscal structural issues, social welfare (incl. pensions, healthcare and social safety nets), financial stability and labour and product markets.

First post-programme mission*:* The **first quarterly enhanced surveillance report** was issued in November 2018, together with the COM's Autumn Package. The report **concluded**:

- The 2019 **DBP of Greece complies**, on the basis of current projections, with the commitment to achieve a primary surplus of 3.5% of GDP.

- **Progress with reforms in other areas is mixed** and the authorities will need to accelerate implementation to meet their end-2018 objectives. Concerning the 16 specific reform commitments annexed to the Eurogroup statement of 21 June 2018 to be achieved by end-2018: the pace of implementation is assessed to be broadly on track or subject to only short delays on commitments such as adopting a budget in line with agreed fiscal targets, the relaxation of capital controls, the completion of the first phase of the e-justice reform, the privatisation targets. "*However, there are delays for several specific reform commitments that would need to be addressed with urgency so as to ensure that all are completed (...) well before the issuance of the second enhanced surveillance report towards end February 2019.*" Those commitments include inter alia the staffing of the Independent Authority for Public Revenue, arrears clearance, the roll-out of the primary health care system and centralised health-care procurement and the legal framework of the NPE resolution tools (and in particular the household insolvency law).

The enhanced surveillance report also notes that the activation of some of the debt relief measures, agreed as part of the significant package of debt measures agreed at the Eurogroup meeting of June 2018, "*will be made available to Greece on a semi-annual basis up to mid-2022, subject to compliance with its commitments regarding reform continuity and completion and based on positive reports under enhanced surveillance. They include (i) the return of income equivalent amounts stemming from central banks' holdings of Greek bonds under the Securities Markets Programme (SMP) and the Agreement on Net Financial Assets (ANFA), and (ii) a waiver of the step-up interest rate margin for part of the loans provided by the European Financial Stability Facility (EFSF). The two measures amount to EUR 1.3 billion and EUR 0.2 billion per year respectively.*" It is furthermore noted that the step-up interest rate margin, for part of the EFSF loans, would be waived permanently after 2022. In the fact-sheet on the European Semester autumn package, the COM added that the activation of these debt measures will be contingent on "*a positive assessment in* ***the second report under the enhanced surveillance framework***".

Ireland: The latest PPS was conducted in May 2018. The COM and ECB staff concluded after the mission (see also PPS report of July 2018 for further information) that: (a) domestic economic activity is expected to stay robust in the short term, but risks remain (to a big extent linked to the unknown terms of the UK's withdrawal from the EU as well as changes to the international taxation and trade environment); (b) the shortage of housing supply and continued significant increases in residential property prices and rents remain a major domestic challenge; (c) Standard public finance indicators have further improved, underpinned by robust output growth; the favorable cyclical situation combined with strong tax receipts implies a strong case for accelerating deficit and debt reduction or creating the envisaged Rainy Day Fund; (c) the current benign economic environment provides a window of opportunity to continue to reduce legacy NPLs in a decisive manner. **The next PPS mission is planned to take place in autumn 2018** (no report published yet).

Portugal: Portugal has been subject to PPS following the government's decision of June 2014 to exit the programme before its expiration. The latest PPS mission took place in June 2018. The COM staff concluded that economic growth moderated in the first semester of 2018, although domestic demand remains robust. The current account retains a small surplus that is projected to remain throughout 2018 and 2019. Risks to the outlook have increased due to the more uncertain external environment. House prices and transactions accelerated, on the back of booming tourism in particular in the areas of Lisbon, Porto and Algarve. The COM staff consider that budget execution appear to be broadly in line with full-year targets up to June, with risks to the cash based execution broadly balanced. Public sector arrears continue on a rising trend, mainly due to state-owned hospitals. Although NPL levels are still very high, banks appear to have adequate liquidity and their returns have turned positive. Yields remain vulnerable to external events, due to the interlinkages with other economies, and the high levels of debt. The Staff of the COM and ECB recommended implementing the necessary structural reforms on the back of the benign conditions. On the 30 November the IMF staff issued its Statement following completion of the seventh post programme monitoring mission. The Staff underlines the intention of Portugal repaying the full amount of funds lent by the end of the current year amid continued economy deceleration towards its medium-term potential. The Staff also underlines that the so far robust growth, careful expenditure execution, and a falling interest bill put within reach the 2018 fiscal deficit target. The Staff further projects a downward trajectory of public debt, although still remaining a major vulnerability and requiring continuing fiscal consolidation efforts. It is recommended to continue reducing the still high levels of NPLs.

Spain: The ESM programme for the recapitalisation of the Spanish banking sector expired on 31 December 2013. Spain is since then subject to PPS, with the latest visit taking place in October 2018. COM staff concluded that the Spanish banking sector retains comfortable levels of solvency and liquidity and profitability has increased on the back of the decline of loan-loss provisions related to the reduction in non-performing loans. NPLs ratios continued to decline to just above the EU average. The Staff encourages further divestment of banking foundations in savings banks and praises the implementation of the January 2018 merger of BMN with Bankia, which should progress. The Staff notes that SAREB, although still recording negative financial results, is preparing a new management strategy for its assets and is assessing how this might improve its profitability and effectiveness. The Staff further points out that Spanish economic growth, underpinned by strong domestic demand, continues to outperform the euro area average and macroeconomic rebalancing has progressed; the Staff recommends policy efforts to ensure a more durable growth path and achieve higher productivity growth, in line with its country-specific recommendations (continue reducing unemployment, make the labor market more inclusive, improve the business environment and enhance the innovation capacity of the economy, pursue fiscal consolidation). The IMF Executive Board, in turn, concluded the Article IV consultation last 19 November. On the back of continued strong growth, the Board encouraged Spain to persevere with policies and reforms aimed at further enhancing economic resilience, reducing public debt, improving productivity, reducing inequality and increasing employment and called for rebuilding fiscal buffers. The IMF welcomed the measures taken to strengthen the banking system and the authorities' plan to create a macroprudential authority and to swiftly expand the Bank of Spain's macroprudential toolkit.

Cyprus: In March 2016, Cyprus successfully exited from the ESM and IMF financial assistance programme. Cyprus used about €7.3 billion out of €10.0 billion available under the programme. The latest PPS mission, including an assessment of macroeconomic imbalances, took place in September 2018 and was coordinated with the IMF Article IV surveillance mission. The COM staff concluded that the ongoing strong recovery creates favorable conditions for tackling the vulnerabilities of the country, namely improving the payment culture and pursuing the structural reform agenda (judicial system, enforcement of commercial claims, issuance and transfer of title deeds, strategic investment law, opening the electricity market, advancing privatisations, local government reform and integration of pensions and insurance supervision). The sale of Cyprus Cooperative Bank (CCB) reduced uncertainty and reinforced depositor confidence, but its fiscal and budgetary impacts are yet to be fully seen. Persistently high levels of NPL, high private and public debt and the impact of external events may affect the outlook. On the other hand, inflation remains subdued, unemployment is falling (youth unemployment is still at high levels) and growth should remain solid although might decelerate over the medium term. Strong tax revenues and prudent expenditure management resulted in an impressive fiscal performance. The IMF Executive Board concluded last 3 December their Article IV assessment and stressed the need to continue reducing the levels of NPLs, strengthening banks' balance sheets and of undertaking institutional reforms to further enhance the investment climate and raise medium-term growth potential. They also welcomed

Cyprus's robust fiscal performance and emphasized that strict spending discipline should be maintained.

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Annex 1: Progress on 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	2015	2016	2017	Target	2015	2016	2017	Target	2014	2015	2016	Target	2014	2015	2016	Target
EU (28 Countries)	70.1	71.1	72.2	**75**	2.04	2.04	2.07	**3**	77.4	78.0	77.6	**80**	16.1	16.7	17.0	**20**
Belgium	67.2	67.7	68.5	**73.2**	2.46	2.55	2.58	**3**	78.8	81.5	81.5	**85**	8.0	7.9	8.7	**13**
Bulgaria	67.1	67.7	71.3	**76**	0.96	0.78	0.75	**1.5**	56.4	59.5	57.0	**120**	18.0	18.2	18.8	**16**
Czech Republic	74.8	76.7	78.5	**75**	1.93	1.68	1.79	**1**	64.1	64.6	65.6	**109**	15.0	15.0	14.9	**13**
Denmark	76.5	77.4	76.9	**80**	3.06	3.12	3.06	**3**	74.4	70.9	73.9	**80**	29.6	31.0	32.2	**30**
Germany	78.0	78.6	79.2	**77**	2.91	2.92	3.02	**3**	73.4	73.7	74.1	**86**	13.8	14.6	14.8	**18**
Estonia	76.5	76.6	78.7	**76**	1.47	1.25	n.a.	**3**	52.3	44.7	48.6	**111**	26.3	28.6	28.8	**25**
Ireland	69.9	71.4	73.0	**69**	1.19	1.19	1.05	**2**	105.3	109.6	113.4	**80**	8.7	9.2	9.5	**16**
Greece	54.9	56.2	57.8	**70**	0.96	0.99	1.13	**1.2**	96.5	93.0	89.7	**96**	15.3	15.3	15.2	**18**
Spain	62.0	63.9	65.5	**74**	1.22	1.19	n.a.	**2**	115.6	119.7	116.4	**90**	16.1	16.2	17.3	**20**
France	69.5	70.0	70.6	**75**	2.27	2.25	n.a.	**3**	84.8	85.7	85.6	**86**	14.7	15.1	16.0	**23**
Croatia	60.6	61.4	63.6	**65.2**	0.84	0.84	0.86	**1.4**	74.3	75.8	76.2	**111**	27.8	29.0	28.3	**20**
Italy	60.5	61.6	62.3	**67**	1.34	1.37	1.35	**1.53**	83.1	84.7	83.9	**87**	17.1	17.5	17.4	**17**
Cyprus	67.9	68.7	70.8	**75**	0.48	0.53	0.56	**0.5**	143.4	143.9	152.9	**95**	8.9	9.4	9.3	**13**
Latvia	72.5	73.2	74.8	**73**	0.63	0.44	0.51	**1.5**	43.4	43.7	43.8	**117**	38.7	37.6	37.2	**40**
Lithuania	73.3	75.2	76.0	**72.8**	1.04	0.84	0.88	**1.9**	41.5	42.1	42.0	**115**	23.6	25.8	25.6	**23**
Luxembourg	70.9	70.7	71.5	**73**	1.28	1.30	1.26	**2.3**	90.8	88.3	87.5	**80**	4.5	5.0	5.4	**11**
Hungary	68.9	71.5	73.3	**75**	1.36	1.20	1.35	**1.8**	62.0	65.3	65.8	**110**	14.6	14.4	14.2	**13**
Malta	69.0	71.1	73.0	**70**	0.75	0.58	0.55	**2**	141.0	112.0	99.4	**105**	4.7	5.0	6.0	**10**
Netherlands	76.4	77.1	78.0	**80**	1.98	2.00	1.99	**2.5**	87.4	91.3	91.6	**84**	5.5	5.8	6.0	**14**
Austria	74.3	74.8	75.4	**77**	3.05	3.13	3.16	**3.76**	98.6	101.8	103.1	**84**	33.0	32.8	33.5	**34**
Poland	67.8	69.3	70.9	**71**	1.00	0.96	1.03	**1.7**	82.0	82.7	85.0	**114**	11.5	11.7	11.3	**15**
Portugal	69.1	70.6	73.4	**75**	1.24	1.28	1.32	**2.7**	111.1	118.3	115.8	**101**	27.0	28.0	28.5	**31**
Romania	66.0	66.3	68.8	**70**	0.49	0.48	0.50	**2**	46.9	47.2	45.8	**119**	24.8	24.8	25.0	**24**
Slovenia	69.1	70.1	73.4	**75**	2.20	2.01	1.86	**3**	89.6	90.7	95.2	**104**	21.5	21.9	21.3	**25**
Slovakia	67.7	69.8	71.1	**72**	1.17	0.79	0.88	**1.2**	54.8	55.4	55.6	**113**	11.7	12.9	12.0	**14**
Finland	72.9	73.4	74.2	**78**	2.90	2.74	2.76	**4**	84.1	79.3	84.0	**84**	38.7	39.2	38.7	**38**
Sweden	80.5	81.2	81.8	**80**	3.26	3.27	3.33	**4**	77.1	76.8	76.1	**83**	52.5	53.8	53.8	**49**
United Kingdom	76.8	77.5	78.2	**n.n.t.**	1.67	1.68	1.67	**n.n.t.**	68.8	66.7	63.6	**84**	7.0	8.5	9.3	**15**

	Energy Efficiency[2] (Primary energy consumption - in Mtoe)				Early School Leaving (% pop aged 18-24 with at most lower secondary)				Tertiary Education (% of pop aged 30-34 with tertiary educ. attainment)				Poverty/Social exclusion[3] (people at risk of poverty or social exclusion, in thousands)			
Member states	2014	2015	2016	Target	2015	2016	2017	Target	2015	2016	2017	Target	2015	2016	2017	Target
EU (28 Countries)	1508.6	1531.9	1542.7	**1483**	11.0	10.7	10.6	**10**	38.7	39.1	39.9	**40**	119049	118040	112917	**-20,000**
Belgium	45.2	45.7	49.0	**43.7**	10.1	8.8	8.9	**9.5**	42.7	45.6	45.9	**47**	2336	2335	2296	**-380**
Bulgaria	17.2	17.9	17.6	**16.9**	13.4	13.8	12.7	**11**	32.1	33.8	32.8	**36**	2982	2890	2767	**-260**
Czech Republic	39.3	40.0	39.9	**39.6**	6.2	6.6	6.7	**5.5**	30.1	32.8	34.2	**32**	1444	1375	1267	**-100**
Denmark	16.6	16.6	17.2	**17.4**	7.8	7.2	8.8	**10**	47.6	47.7	48.8	**40**	999	951	980	**-22**
Germany	291.1	292.7	295.8	**276.6**	10.1	10.3	10.1	**10**	32.3	33.2	34.0	**42**	16083	16035	15516	**:**
Estonia	6.4	6.2	6.1	**6.5**	12.2	10.9	10.8	**9.5**	45.3	45.4	48.4	**40**	315	318	305	**-36**
Ireland	13.3	14.0	14.6	**13.9**	7.0	6.2	5.1	**8**	51.9	52.5	53.5	**60**	1207	1135	n.a.	**-200**
Greece	23.7	23.7	23.5	**24.7**	7.9	6.2	6.0	**10**	40.4	42.7	43.7	**32**	3829	3789	3702	**-450**
Spain	112.6	117.1	117.2	**119.8**	20.0	19.0	18.3	**15**	40.9	40.1	41.2	**44**	13175	12827	12236	**-1,400**
France	234.5	239.2	235.4	**219.9**	9.2	8.8	8.9	**9.5**	45.0	43.6	44.3	**50**	11048	11463	10771	**-2,000**
Croatia	7.7	8.0	8.1	**11.15**	2.8	2.8	3.1	**4**	30.8	29.3	28.7	**35**	1216	1159	1085	**-150**
Italy	143.8	149.6	148.4	**158**	14.7	13.8	14.0	**16**	25.3	26.2	26.9	**26**	17469	18137	17407	**-2,200**
Cyprus	2.2	2.2	2.4	**2.2**	5.2	7.6	8.5	**10**	54.5	53.4	55.9	**46**	244	234	215	**-27**
Latvia	4.4	4.3	4.3	**5.4**	9.9	10.0	8.6	**10**	41.3	42.8	43.8	**34**	606	554	544	**-121**
Lithuania	5.7	5.8	6.0	**6.5**	5.5	4.8	5.4	**9**	57.6	58.7	58.0	**48.7**	857	871	843	**:**
Luxembourg	4.2	4.1	4.2	**4.5**	9.3	5.5	7.3	**10**	52.3	54.6	52.7	**66**	95	114	126	**-6**
Hungary	22.0	23.3	23.9	**24.1**	11.6	12.4	12.5	**10**	34.3	33.0	32.1	**34**	2735	2541	2465	**-450**
Malta	0.9	0.8	0.7	**0.7**	20.2	19.2	17.7	**10**	29.1	32.0	33.5	**33**	94	85	83	**-7**
Netherlands	62.4	64.4	64.8	**60.7**	8.2	8.0	7.1	**8**	46.3	45.7	47.9	**40**	2744	2797	2864	**-100**
Austria	30.6	31.5	31.8	**31.5**	7.3	6.9	7.4	**9.5**	38.7	40.1	40.8	**38**	1551	1542	1563	**-235**
Poland	89.2	90.0	94.3	**96.4**	5.3	5.2	5.0	**4.5**	43.4	44.6	45.7	**45**	8761	8221	7273	**-1,500**
Portugal	20.6	21.7	22.1	**22.5**	13.7	14.0	12.6	**10**	31.9	34.6	33.5	**40**	2765	2595	2399	**-200**
Romania	30.6	31.3	31.3	**43**	19.1	18.5	18.1	**11.3**	25.6	25.6	26.3	**26.7**	7435	7694	7040	**-580**
Slovenia	6.5	6.4	6.7	**7.3**	5.0	4.9	4.3	**5**	43.4	44.2	46.4	**40**	385	371	345	**-40**
Slovakia	15.3	15.4	15.5	**16.4**	6.9	7.4	9.3	**6**	28.4	31.5	34.3	**40**	963	950	856	**-170**
Finland	33.6	31.8	33.1	**35.9**	9.2	7.9	8.2	**8**	45.5	46.1	44.6	**42**	904	896	849	**-140**
Sweden	46.2	43.8	47.1	**43.4**	7.0	7.4	7.7	**7**	50.2	51.0	51.3	**45**	1813	1799	1765	**:**
United Kingdom	183.0	184.5	181.7	**177.6**	10.8	11.2	10.6	**n.n.t.**	47.9	48.2	48.3	**n.n.t.**	14997	14359	n.a.	**:**

Sources: Eurostat 2020 indicators (Extraction date: 05/12/2018), Europe 2020 Targets by the Commission, 2016 Country Reports; 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] Most of the 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).

Annex 2: Structural budgetary efforts as requested by the Council and projected by the COM's autumn 2018 forecast

Member State	MTO (structural budget position = sbp)	Recommended annual structural effort (percentage points=pp) (to adjust towards or remain at the MTO)		Projections on the structural budget balance (COM autumn 2018 forecast)			
		In 2018 (2017/2018 CSRs)	In 2019 (2018 CSRs)	In 2018		In 2019	
				pp	sbp	pp	sbp
BE	0.0 sbp	0.6 pp	0.6 pp	0.1 pp	-1.3 sbp	0.0 pp	-1.3 sbp
DE	-0.5 sbp	In line with its MTO	In line with its MTO	0.6 pp	1.4 sbp	-0.4 pp	1.0 sbp
EE	-0.5 sbp	-0.2 pp	0.6 pp	0.8 pp	-0.8 sbp	0.1 pp	-0.7 sbp
IE	-0.5 sbp	0.6 pp	0.1 pp	0.0 pp	-0.2 sbp	-0.3 pp	-0.5 sbp
FR	-0.4 sbp	0.6 pp	0.6 pp	-0.1 pp	-2.5 sbp	0.2 pp	-2.3 sbp
IT	0.0 sbp	0.6 pp	0.6 pp	0.0 pp	- 1.8 sbp	-1.2 pp	-3.0 sbp
CY	0.0 sbp	-0.4 pp	In line with its MTO	0.2 pp	1.7 sbp	-0.5 pp	1.2 sbp
LV	-1.0 sbp	-0.3 pp	0.4 pp	-0.6 pp	-1.8 sbp	0.1 pp	-1.7 sbp
LT	-1.0 sbp	-0.6	In line with its MTO	0.1 pp	-0.6 sbp	0.1 pp	-0.5 sbp
LU	-0.5 sbp	In line with its MTO	In line with its MTO	-0.3 pp	1.3 sbp	-0.2 pp	1.1 sbp
MT	0.0 sbp	In line with its MTO	In line with its MTO	-2.2 pp	0.9 sbp	0.0 pp	0.9 sbp
NL	-0.5 sbp	In line with its MTO	In line with its MTO	-0.4 pp	0.3 sbp	-0.6 pp	-0.3 sbp
AT	-0.5 sbp	-0.2 pp	0.3 pp	0.0 pp	-0.8 sbp	0.4 pp	-0.4 sbp
PT	0.25 sbp	0.6 pp	0.6 pp	0.4 pp	-0.9 sbp	0.0 pp	-0.9 sbp
SI[1]	0.25 sbp	1.0 pp	0.65 pp	-0.4 pp	-0.8 sbp	-0.2 pp	-1.0 sbp
SK	-0.5 sbp	0.5 pp	0.5 pp	0.1 pp	-0.8 sbp	0.0 pp	-0.8 sbp
FI	-0.5 sbp	-0.1 pp	-0.2 pp	-0.6 pp	-0.8 sbp	0.2 pp	-0.6 sbp
BG	-1.0 sbp	In line with its MTO	In line with its MTO	-0.4 pp	0.7 sbp	-0.3 pp	0.4 sbp
CZ	-1.0 sbp	In line with its MTO	In line with its MTO	-0.2 pp	0.9 sbp	-0.7 pp	0.2 sbp
DK	-0.5 sbp	In line with its MTO	In line with its MTO	-0.7 pp	0.5 sbp	0.4 pp	0.9 sbp
HR	-1.75 sbp	In line with its MTO	In line with its MTO	-1.2 pp	-0.5 sbp	-0.2 pp	-0.7 sbp
HU[2]	-1.5 sbp	1.0 pp	1.0 pp	-0.4 pp	-3.8 sbp	0.5 pp	-3.3 sbp
PL	-1.0 sbp	0.5 pp	0.6 pp	-0.1 pp	-2.0 sbp	0.0 pp	-2.0 sbp
RO[2]	-1.0 sbp	0.8 pp	1.0 pp	0.1 pp	-3.3 sbp	-0.1 pp	-3.4 sbp
SE	-1.0 sbp	In line with its MTO	In line with its MTO	-0.5 pp	0.9 sbp	0.0 pp	0.9 sbp
UK	-	0.6	0.6	0.5 pp	-1.8 sbp	0.5 pp	-1.3 sbp

Sources: COM autumn 2018 forecast for the projected structural budget balances; CSRs, including their recitals, adopted by the Council in July 2017 and 2018 under the preventive arm of the SGP (the country specific sources are presented in the a separate SGP implementation table); Significant Deviation Pocedures for Hungary and Romania. Notes: In the case a Member State does not have a quantitative fiscal effort request for 2018 and/or 2019, it is indicated in the table as being "in line with its MTO" (this may cover cases (1) where the actual structural budget balance is above the target or (2) below the target due to temporarily flexibility or (3) only with a minor deviation below the target). This table does not prejudge the assessment of "effective action" by the COM, which follows an EU methodology that takes into account more aspects than the change in the structural balance; [1]The MTO of 0,0 sbp proposed by Slovenia in its SP does not respect the requirements of the SGP, therefore the MTO of 0,25 has been included based on COM assessment; [2] In December 2018, the Council adopted specific revised recommendations to Hungary and Romania with a view to correcting the significant observed deviation from the adjustment path toward the MTO (see box 3 of this briefing).

Annex 3: The main steps related to the Italian budget since October 2018, including the recent exchanges between the COM and Italy

Date	Doc	Sender	Recipient	Main topics	Spread Bund/BTP
Oct-16	Draft DBP	Italian Government	European Commission	Draft Budgetary Plan for 2019	295
Oct-18	Letter	European Commission	Italian Government	-Request clarifications on planned deviation from 2018 CSR; -Note that the forecast underpinning the plans are not produced nor endorsed by the Parliamentary Budget Office -Mention of possible revision of the report (under Art. 126(3) TFEU) on compliance with the debt rule.	319
Oct-19	*Moody's downgraded Italy's rating from Baa2 to Baa3*				312
Oct-22	Letter	Italian authorities	European Commission	-Acknowledgment that budget not in line with SGP line -Necessary for growth and citizens' economic conditions -Possible correction if deviations	301
Oct-23	Opinion on the draft DBP	European Commission	Italian Government	Request for a revised DBP.	313
Oct-26	*Standard and Poor's downgraded Italy's outlook from stable to negative*				310
Oct-29	Letter	Director General of ECFIN	Director General IT Finance Ministry	Request for "any relevant factor" to take into account for the preparation of a report under 126(3) TFEU.	290
Nov-05	Conclusions of meeting	Eurogroup		-Agrees with EC assessment on the draft DBP -Call for a constructive dialogue between the IT Government and the Commission	287
Nov-08	Autumn 2018 Forecast	European Commission		Forecasts for IT growth and fiscal indicators less optimistic than IT Government	293
Nov-08	Declaration	IT Finance Minister		Comment on the EC Forecast: "*partial and superficial analysis of the DBP and public finances*"	293
Nov-13	Staff's conclusions	IMF		Publication of conclusions after the annual visit to Italy (Art. IV IMF)	303
Nov-13	Revised DBP	IT Minister of Finance	European Commission	Revised DBP and accompanying letter.	303
Nov-21	Report under Art. 126(3)	European Commission	Council	- Assesses that Italy does not comply with the debt criterion defined in the SGP - Considers that a debt-based EDP is warranted	312
Nov-24	Informal Meeting	European Commission	Italian Government	Reiterated mutual willingness to continue a *healthy dialogue*	290
Nob-29	Meeting	EFC		Non published opinion on the Commission Report under 126(3)	
Dec-03	Conclusions of meeting	Eurogroup		-Recommendation to Italy to be compliant with SGP -Support ongoing dialogue between Italy and the Commission	282

Annex 4: The 2017 MIP-scoreboard

	External imbalances and competitiveness					Internal imbalances						Employment Indicators		
Year 2017	**Current Account Balance** % of GDP 3 year average	**Net International Investment Position** % of GDP	**Real Effective Exchange Rate with HICP deflator,** 3 year % change	**Export Market Shares** 5 year % change	**Nominal ULC (2010=100)** 3 year % change	**House Prices index deflated** 1 year % change	**Private Sector Credit Flow** % of GDP	**Private Sector Debt,** consolidated % of GDP	**General Government Gross Debt** % of GDP	**Unemployment rate** 3 year average	**Total Financial Sector Liabilities, non-consolidated** 1 year % change	**Activity rate** % of total pop. aged 15-64 3 year change	**Long term unemployment rate** % of active pop. aged 15-74 3 year change	**Youth unemployment rate** % of active pop. aged 15-24 3 year change
Thresholds	**-4/+6%**	**-35%**	**±5% EA ±11% non-EA**	**-6%**	**+9% EA 12% non-EA**	**+6%**	**14%**	**133%**	**60%**	**10%**	**16.5%**	**-0.2 pp**	**0.5 pp**	**2 pp**
BE	-0.3	52.6	0.9	3.9	1.1	1.5	-1.5	187.0	103.4	7.8	0.7	0.3	-0.8	-3.9
BG	3.1	-42.8	-3.3	19.4	13.6	6.2	6.2	100.1	25.6	7.7	1.1	2.3	-3.5	-10.9
CZ	1.0	-26.5	5.4	8.2	5.9	9.1	4.1	67.4	34.7	4.0	22.9	2.4	-1.7	-8.0
DK	8.1	56.3	-2.1	0.5	3.0	3.2	-1.4	204.0	36.1	6.0	4.1	0.7	-0.4	-1.6
DE	8.4	54.0	-2.5	6.5	5.1	2.9	4.9	100.1	63.9	4.2	4.0	0.5	-0.6	-0.9
EE	2.3	-31.4	2.9	2.6	12.4	1.8	3.6	106.4	8.7	6.3	9.7	3.6	-1.4	-2.9
IE	2.9	-149.3	-6.2	64.4	-17.2	9.5	-7.5	243.6	68.4	8.4	4.3	0.9	-3.6	-9.0
EL	-0.8	-142.5	-2.8	-10.0	-1.0	-2.2	-0.8	116.4	176.1	23.3	-12.9	0.9	-3.9	-8.8
ES	1.8	-83.8	-2.5	9.8	0.0	4.5	0.2	138.8	98.1	19.6	4.0	-0.3	-5.2	-14.6
FR	-0.6	-20.1	-2.9	2.7	1.3	1.8	7.0	148.2	98.5	10.0	4.3	0.5	-0.3	-1.9
HR	3.6	-62.4	0.0	20.0	-4.3	2.8	1.2	98.4	77.5	13.5	3.9	0.3	-5.5	-17.7
IT	2.3	-5.3	-3.1	2.0	1.1	-2.0	2.1	110.5	131.2	11.6	4.3	1.5	-1.2	-8.0
CY	-5.0	-121.5	-6.6	6.9	-2.7	1.3	8.7	316.3	96.1	13.0	-2.3	-0.4	-3.2	-11.3
LV	0.6	-56.3	1.7	7.8	14.7	5.5	0.3	83.5	40.0	9.4	6.1	2.4	-1.3	-2.6
LT	-0.7	-35.9	2.3	9.7	16.0	5.4	3.7	56.1	39.4	8.0	14.0	2.2	-2.1	-6.0
LU	5.0	47.0	-0.9	25.2	7.1	4.1	-15.5	322.9	23.0	6.1	-1.7	-0.6	0.5	-6.9
HU	4.0	-52.9	0.1	11.3	6.7	3.3	0.9	71.4	73.3	5.4	-8.0	4.2	-2.0	-9.7
MT	8.4	62.6	-2.3	11.2	1.7	4.1	2.9	120.2	50.9	5.2	4.7	4.4	-1.1	-1.2
NL	8.3	59.7	-1.6	1.2	-0.2	6.0	3.0	252.1	57.0	5.9	2.0	0.7	-1.0	-3.8
AT	2.1	3.7	0.3	2.3	3.7	3.5	4.3	122.5	78.3	5.7	1.8	1.0	0.3	-0.5
PL	-0.3	-61.2	-3.4	28.4	4.5	1.7	2.7	76.4	50.6	6.2	6.3	1.7	-2.3	-9.1
PT	0.4	-104.9	-0.7	14.6	3.5	7.9	1.3	162.2	124.8	10.9	1.8	1.5	-3.9	-10.9
RO	-2.2	-47.7	-5.5	37.0	11.9	4.0	1.7	50.8	35.1	5.9	8.1	1.6	-0.8	-5.7
SI	5.7	-32.3	-2.0	18.6	3.4	6.2	0.8	75.6	74.1	7.9	5.1	3.3	-2.2	-9.0
SK	-2.0	-65.6	-1.9	6.7	6.9	4.4	5.9	96.1	50.9	9.8	17.9	1.8	-4.2	-10.8
FI	-0.7	2.4	-2.6	-4.3	-2.5	0.5	8.2	146.4	61.3	8.9	-3.8	1.3	0.2	-0.4
SE	4.0	1.8	-5.4	-4.3	3.7	4.6	13.1	194.4	40.8	7.0	6.8	1.0	-0.2	-5.1
UK	-4.6	-8.6	-10.7	-1.0	5.4	2.4	8.4	169.0	87.4	4.8	-1.6	0.9	-1.1	-4.9

Source: 2019 Alert Mechanism Report. Boxes shaded in grey indicate values outside the threshold.

Annex 5: The Social Indicators Scoreboard

	Equal opportunities and access to the labour market					Dynamic labour markets and fair working conditions					Public support / Social protection and inclusion			
	Early leavers from education and training	Gender employment gap	Income quintile ratio	At risk of poverty or social exclusion	Youth NEET rate	Employment rate	Unemployment rate	Long-term unemployment rate	Real GDHI per capita (2008 = 100)	Net earnings of a full-time single worker earning AW	Impact of social transfers on poverty reduction	Children aged less than 3 years in formal childcare	Self-reported unmet need for medical care	Individuals' level of digital skills
Year	2017	2017	2017	2017	2017	2017	2017	2017	2016	2016	2017	2016	2017	2017
Best performers	HR, IE, PL, SI	FI, LT, SE	CZ, FI, SI, SK	CZ, FI	AT, CZ, DE, NL, SE, SI	CZ, DE, EE, NL, SE, UK	CZ		BG, PL	UK, NL, LU, AT, DE	DK, FI, HU, SE	FR, LU, NL, PT		FI, LU, NL, SE
Better than average	AT, CZ, EL, LT, LV, NL	DK, EE, LU, PT, SI, SK	BE, DK, HU, MT, NL, SE	CY, DE, FR, MT, PL, SE, SI, SK	IE	AT, BG, LT, PT, SI	AT, DE, HU, LU, MT, NL, PL, PT, RO, UK	AT, DE, CY, CZ, DK, EE, HR, HU, MT, NL, PL, PT, SE, UK	DK, LT, RO, SE	BE, FR, SE, DK, IE, FI	BE, CZ, FR, NL, PL, SI	EE, ES, MT, SI	AT, CZ, DE, DK, ES, FR, HU, IT, LU, MT, NL, PL	AT, CZ, DE, MT, UK
On average	BE, DE, EE, FI, FR, SE, UK	AT, BE, BG, CY, DE, ES, FR, IE, NL, UK	CY, DE, EE, FR, HR, LU, PL	BE, EE, HU, PT	BE, FI, FR, HU, LT, LV, MT, PL, PT, SK, UK	CY, FI, FR, HU, IE, LU, LV, MT, PL, SK	BE, BG, DK, EE, FI, FR, IE, LT, LV, SE, SI, SK	BE, BG, FI, FR, IE, LT, LU, LV, RO, SI	CZ, EE, DE, FR, FI, HU, LV, NL, SI, SK	MT, IT, EL, ES	CY, DE, MT, SK	CY, DE, FI, IE, IT, LV, UK	BE, BG, FI, HR, LT, PT, SE, SK	BE, EE, ES, FR, LT, SI, SK
Good but to monitor	LU	LV	AT	AT, DK, NL	DK, LU	DK					AT	BE, DK, SE		DK
Weak but improving	BG, MT, PT	MT	EL, IT, RO	RO	BG, RO	RO	CY, EL, ES, HR	EL, ES		LT, EE, RO, BG, LV		RO	EE, EL	CY
To watch	CY, DK, HU, SK	CZ, HR, HU, PL	PT	ES, HR, IT, LT, LU, LV	EE, ES	BE	IT	SK	AT, BE, ES, IE, IT, LU, PT, UK	PT, PL, CZ, HR, SI	EE, ES, HR, LT, LU, PT	AT, HR, HU, LT	CY, RO, SI	EL, HU, IE, LV, PL, PT
Critical situations	ES, IT, RO	EL, IT, RO	BG, ES, LT, LV	BG, EL	CY, EL, HR, IT	EL, ES, HR, IT		IT	CY, EL	HU, SK	BG, EL, IT, LV, RO	BG, CZ, EL, PL, SK	LV	BG, HR, RO

Source: 2019 Joint Employment Report, European Commission.