Introduction to the European Semester

Coordinating and monitoring economic and fiscal policies in the EU

IN-DEPTH ANALYSIS

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Author: Angelos Delivorias and Christian Scheinert
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The European Semester provides a framework for the coordination of economic policies across the European Union. This publication aims to provide readers with a comprehensive introduction to the Semester, by setting out its history, its milestones, its stakeholders, and also criticisms that have been voiced regarding elements of the Semester over its brief period of existence.

AUTHORS

Angelos Delivorias and Christian Scheinert

This paper has been drawn up by the Members' Research Service, within the Directorate-General for Parliamentary Research Services (EPRS) of the Secretariat of the European Parliament.

To contact the authors, please email: eprs@ep.europa.eu

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eprs@ep.europa.eu
http://www.eprs.ep.parl.union.eu (intranet)
http://www.europarl.europa.eu/thinktank (internet)
http://epthinktank.eu (blog)

Executive summary

In response to the financial and economic crisis, the European Union introduced a series of changes to its institutional architecture for economic and social governance, with the aim of achieving more integrated fiscal and economic coordination. At the heart of this new architecture is the 'European Semester', a process of socio-economic policy coordination that lasts from November until July each year, in which Member States discuss their economic reform and budget plans before adopting them, while the European institutions monitor progress and address recommendations at specific times throughout the year.

At the centre of the European Semester are three separate processes that work in parallel: fiscal surveillance based mainly on the stability and growth pact (SGP); surveillance of macroeconomic policies, under the macroeconomic imbalance procedure (MIP); and coordination of EU countries' economic and employment policies, based on the integrated guidelines (in other words, the broad economic policy guidelines (BEPGs), together with the employment guidelines).

The Semester officially starts every November with the publication of the Annual Growth Survey and the Alert Mechanism Report (along with other documents) by the European Commission. Another 'milestone' is in February, when the country reports and (when required) in-depth reviews are published for Member States. In April, the Member States publish their stability or convergence programmes. In May comes another milestone, with the publication of the country-specific recommendations.

After July, the 'European' Semester, is followed by a 'National' Semester, where Member States incorporate what has been discussed and recommended at European level into their national draft budgets, which are then debated and adopted during the autumn.

During its limited existence, the Semester has been debated and examined by academics and institutions alike. The main points of discussion relate to parliamentary involvement in the Semester (notably linked to broader issues of legitimacy and accountability of the wider framework of economic governance), the country-specific recommendations and their declining level of implementation, as well as the role that the regions could play in the context of the Semester.

This overview touches on the latest factors that could have an impact on the process: the priorities that the new European Commission President, Ursula von der Leyen, has addressed to Commissioners Paolo Gentiloni and Valdis Dombrovskis in her mission letters. While those priorities were articulated very succinctly, they could provide a useful idea of how the Semester might evolve over the new Commission’s term.

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1. What is the European Semester?

1.1. Introduction

Before the financial and economic crisis, economic and budgetary policy planning took place essentially at national level, with only a limited coordinated overview at EU level of national efforts.[1] In that context, economic surveillance consisted mainly of an 'ex-post assessment of the appropriateness of economic policies with the rules of the stability and growth pact and the broad economic policy guidelines'[2] and the rather toothless peer pressure between Member States.

In response to the financial and economic crisis, the EU introduced a series of changes to its institutional architecture for economic and social governance, in order to secure more integrated fiscal and economic coordination. At the heart of this new architecture is the 'European Semester', a yearly cycle of socio-economic policy coordination.[3] The Semester aims to 'ensure sound public finances, prevent and correct excessive macroeconomic imbalances, foster structural reforms and boost jobs, growth and investment'.[4]

At its centre is an information-driven surveillance process, focused on an improved stability and growth pact that relies heavily upon fiscal and economic information, collected from the Member States and analysed by the European Commission *ex ante*.[5] Through the Semester, EU countries discuss their economic reform and budget plans before they adopt them, and the European Commission monitors progress at specific times throughout the year.

The European Semester brings together within a single annual policy coordination cycle a wide range of EU governance instruments with different legal bases. It involves three separate processes that work in parallel: fiscal surveillance based on the stability and growth pact (SGP);[6] the macroeconomic imbalance procedure (MIP);[7] coordination of EU countries' economic and employment policies, based on the integrated guidelines (see textbox next page), and a loose form of policy coordination.[8] While it contains elements of 'hard' coordination in the SGP and MIP procedures, which can lead to sanctions, substantial parts are no more than a 'soft governance' tool.[9]

The European Semester represents an important innovation in EU governance, in that 'EU policy guidelines and recommendations are adopted before the national budgets are debated' in national

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1 European Commission website: The EU's economic governance explained.

2 Commission communication on Reinforcing economic policy coordination, COM (2010) 250, May 2010.

3 Z. Darvas and Á. Leandro, The limitations of policy coordination in the euro area under the European Semester, Bruegel Policy Contribution, November 2015.

4 K. Efstathiou and G. Wolff, Is the European Semester effective and useful?, Bruegel Policy Contribution, June 2018.

5 J. Savage and D. Howarth, 'Enforcing the European Semester: the politics of asymmetric information in the excessive deficit and macroeconomic imbalance procedures', *Journal of European Public Policy*, 2018.

6 See Jost Angerer, 'An overview of the Stability and Growth Pact', September 2019, and 'Implementation of the Stability and Growth Pact', November 2019, EGOV Unit, Directorate-General for Internal Policies, European Parliament. See also, Angelos Delivorias 'The Stability and Growth Pact', EPRS in-depth analysis, forthcoming.

7 See A. Zoppè, 'Macroeconomic Surveillance', European Parliament Fact Sheets on the European Union, May 2019. See also A. Delivorias, 'The Macroeconomic Imbalance Procedure', EPRS in-depth analysis, forthcoming.

8 J. Zeitlin and B. Vanhercke, 'Economic governance in Europe 2020: socialising the European Semester against the odds?' in D. Natali and B. Vanhercke (eds.), *Social policy in the European Union: state of play 2015*, ETUI, 2015.

9 A. Maatsch, 'Effectiveness of the European Semester: Explaining Domestic Consent and Contestation' *Parliamentary Affairs*, October 2017.

parliaments.[10] In addition, while it involves no legal transfer of sovereignty from the Member States to the EU level, it has given the EU institutions a more visible and in some respects also more authoritative role than ever before in monitoring, scrutinising and guiding national economic, fiscal and social policies, especially within the euro area.

1.2. Brief history and legal framework of the Semester

The alignment of the timing of the submission and assessment of national stability/convergence programmes and national reform programmes was first mentioned in the European Council meeting on 25 and 26 March 2010.[11]

The first reference to the European Semester was made in May 2010 in the Commission communication, 'Reinforcing economic policy coordination'. In this communication, the Commission sketched out in broad lines what would then become the Semester, noting that:

> *A European Semester should encapsulate the surveillance cycle of budgetary and structural policies. It would start early in the year with a horizontal review under which the European Council, based on analytical input from the Commission, would identify the main economic challenges facing the EU and the euro area and give strategic guidance on policies. Member States would take conclusions of this horizontal discussion into account when preparing their Stability and Convergence Programmes (SCPs) and National Reform Programmes (NRPs). SCPs and NRPs would be issued simultaneously, allowing the growth and fiscal impact of reforms to be reflected in the budgetary strategy and targets. [...]. The Council, based on the Commission's assessment, would subsequently provide its assessment and guidance at a time when important budgetary decisions were still in a preparatory phase at the national level. In this context, the European Parliament should be appropriately engaged.*[12]

For the first cycle, the Semester took place in the form of a code of conduct on the implementation of the stability and growth pact.[13]

The European Semester was then codified in EU regulation under Article 2a of SGP Regulation (EU) No 1175/2011.[14] The stated aim being to 'ensure closer coordination of economic policies and sustained convergence of the economic performance of the Member States' through multilateral surveillance conducted by the Council.

The article further lists what the Semester includes, i.e.

1. the formulation, and surveillance of the implementation, of the broad economic policy guidelines;
2. the formulation, and examination of the implementation, of the employment guidelines (see below, textbox under Point 2.2.3);

[10] M. B. Rasmussen, 'Accountability challenges in EU economic governance? Parliamentary scrutiny of the European Semester', *Journal of European Integration*, 2018.

[11] In its conclusions, the European Council notes that 'The timing of the reporting and assessment of the National Reform Programmes and Stability and Convergence Programmes should be better aligned, in order to enhance the overall consistency of policy advice to Member States'.

[12] Commission communication 'Reinforcing economic policy coordination' COM(2010) 250, May 2010.

[13] Revised code of conduct 'Specifications on the implementation of the Stability and Growth Pact and Guidelines on the format and content of Stability and Convergence Programmes'. More details under section II of the Code 'Guidelines on the format and content of Stability and Convergence Programmes' endorsed during the 3030th meeting of the Council of the European Union held in Brussels on 7 September 2010.

[14] Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies.

3. the submission and assessment of Member States' stability or convergence programmes under this regulation;
4. the submission and assessment of Member States' national reform programmes;
5. the surveillance to prevent and correct macroeconomic imbalances (the macroeconomic imbalance procedure).

The broad economic policy guidelines – integrated guidelines

The broad economic policy guidelines deal with macroeconomic and structural policies for both the EU as a whole and for individual EU countries. They are subject to a multilateral surveillance mechanism that aims to ensure that EU countries comply with them. The Council may make public recommendations where a country's economic policies are not consistent with the broad economic policy guidelines.

The broad economic policy guidelines, together with the employment guidelines, were part of the Lisbon strategy for growth and jobs. The two sets of guidelines were brought together under the single heading of the **integrated guidelines** (IGs) and revised in July 2010 as part of the adoption of the Europe 2020 strategy. National reform programmes are adopted on the basis of the IGs.

Source: Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011.

As a rule, the Commission publishes recommendations, based on which – and following the assessment of the aforementioned programmes – the Council addresses guidance to the Member States.[15]

Member States must take account of the guidance addressed to them in the development of their economic, employment and budgetary policies before taking decisions relative to their national budgets for the successive years. Member States' progress with the guidance is monitored by the Commission. Should a Member State not act upon the guidance received, it may receive more recommendations or a warning, or else further measures might even be taken under the stability and growth pact or the macroeconomic imbalance procedure. This can include the Commission carrying out missions to assess the Member State's economic situation and identifying any risks or difficulties in complying.

[15] To do so, the Council can use the legal instruments provided in Articles 121 and 148 of the Treaty on the Functioning of the European Union, as well as Regulations (EU) No 1175/2011 and (EU) No 1176/2011.

According to the Regulation, the European Parliament is to be duly involved in the European Semester – in particular through the economic dialogue[16] – in order to increase the transparency and accountability of the decisions taken (see textbox).

The economic dialogue

The aim of the economic dialogue is twofold: (i) to enhance the dialogue between the institutions of the Union, (ii) to ensure greater transparency and accountability.

In the context of the dialogue, the competent committee of the European Parliament may invite the Presidents of the Council, the European Commission, the European Council or the Eurogroup to appear before the committee to discuss:

1) information on the broad economic policy guidelines;
2) general guidance to Member States issued by the Commission at the beginning of the annual cycle of surveillance;
3) any conclusions drawn by the European Council
   a. on orientations for economic policies in the context of the European Semester; or
   b. on the orientations for and results of multilateral surveillance;
4) the results of multilateral surveillance carried out under this regulation;
5) any review of the conduct of multilateral surveillance at the end of the European Semester; and
6) Council recommendations addressed to Member States in the event of significant deviation.

The European Parliament committee may also offer a Member State with a significiant deviation from its MTOs, and which is the subject of a Council recommendation, an opportunity to participate in an exchange of views.

Source: Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011.

1.3. Who is involved?

In their study 'An assessment of the European Semester',[17] Hallerberg *et al.* provide a useful summary of the involvement of the various actors in the context of the European Semester.[18]

1.3.1. The European Commission

The European Commission is involved at several stages in the European Semester. Its main tasks are (i) to select the priorities to be included in the annual growth survey; (ii) to make the assessment of national fiscal and reform plans; (iii) to issue recommendations to the Council for its country-specific policy recommendations; and (iv) to monitor progress under the provisions of the stability and growth pact and under the macroeconomic imbalance procedure.

16 For more information on the Economic Dialogues, please see the relevant pages on the European Parliament website.

17 M. Hallerberg, B. Marzinotto and G. Wolff, 'An Assessment of the European Semester', study requested by the European Parliament's Committee on Economic and Monetary Affairs, Policy Department for Economic and Scientific Policies, European Parliament, September 2012.

18 For a broader overview of the main institutions and bodies in charge of economic governance, see A. Zoppe, 'Institutions and Bodies in the Economic and Monetary Union', Economic Governance Support Unit, February 2016.

In addition, the Commission can, should a Member State not comply (i) propose that the Council deliver further recommendations;[19] (ii) issue a warning,[20] and (iii) propose that the Council start an excessive deficit procedure or an excessive imbalance procedure.

The Commission also intervenes in the national semester, as it collects and assesses the national draft budgetary plans; and delivers country-specific assessments of the draft budgetary plans.

1.3.2. The Council of the European Union

The Council has an important role during the European Semester, as it takes most of the formal decisions. It (i) approves by qualified majority country-specific and euro-area recommendations on the basis of a proposal by the Commission; and (ii) discusses and monitors national fiscal and structural reform plans in the relevant Council formations. Council is free to deviate from the Commission's suggestions, provided it publicly gives a reason for doing so (under the 'comply or explain' principle).

It can further adopt a decision to launch both the excessive deficit procedure and the excessive imbalance procedure and remains in command of further steps in these procedures.

1.3.3. The European Council

The European Council is responsible for (i) assessing annual progress towards the agreed fiscal and structural reform targets for the EU as a whole and individual Member States; (ii) providing horizontal policy guidance for the EU and the euro area specifically on the basis of the Commission's annual growth survey; (iii) discussing economic policy priorities and necessary actions; and (iv) endorsing policy priorities, country-specific and euro area recommendations on a proposal by the European Commission.

1.3.4. The European Parliament

The European Parliament is involved in the European Semester mainly through the economic dialogue. In the context of the dialogue, Parliament may invite the Presidents of the Council, the Commission, the European Council or the Eurogroup, to discuss documents and procedures relating to the European Semester.[21] In addition, in the specific case where a Member State is subject to recommendations under the preventive and/or the corrective arm of the Stability Pact and the macroeconomic imbalance procedure, Parliament may invite a national representative from that Member State for an exchange of views.

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[19] Under Article 121 TFEU and 148 TFEU, and under Regulation 1466/97 and 1176/2011.

[20] Under Article 121(4).

[21] According to Hallerberg *et al.* the discussion in the context of the economic dialogue may concern (i) the annual growth survey, (ii) the Spring European Council's conclusions regarding economic policy orientations, (iii) the results of the surveillance exercise regarding both fiscal and other macroeconomic imbalances, (iv) the June European Council's conclusions regarding the results of surveillance of fiscal and other macroeconomic imbalances, (v) the reviews of surveillance of fiscal and other macroeconomic imbalances at the end of the European Semester, (vi) the Council recommendations in the presence of deviations from the BEPGs and from rules included in the preventive arm of the Stability Pact and those pertaining to the prevention of macroeconomic imbalances, as well as (vii) all Council positions, opinions and recommendations, especially where these diverge from the Commission's recommendations and proposals.

1.3.5. The Member States

Member States are responsible for the timely submission of stability and convergence programmes and national reform programmes, also abiding by a given model structure that would allow the EU to conduct cross-country comparisons. They are also responsible for the implementation of reforms at national level in line with the guidance received and the successive recommendations.

Adina Maricut and Uwe Puetter[22] conducted further research into the lower levels of Commission and Council committees, to see which of them participate in the Semester, looking at the economic and social dimensions separately.

They found, on the economic side, that the European Semester is discussed in (i) the Economic Policy Committee (EPC),[23] (ii) the Eurogroup Working Group (EWG)[24] with regard to euro-area recommendations and in (iii) the alternates meeting of the Economic and Financial Committee.[25]

According to the authors, the Economic and Financial Committee and the Eurogroup Working Group are the lead preparatory bodies for the Economic and Financial Affairs Council[26] and the Eurogroup respectively, and their members usually sit next to their finance ministers in the relevant meetings.[27]

On the social side, the authors identified the Employment Committee[28] and the Social Protection Committee[29] as the main actors within the process. Similarly to what happens with the economic affairs committees mentioned above, these two committees prepare portfolios for the Employment, Social Policy, Health and Consumer Affairs Council configuration (EPSCO).[30]

22 Adina Maricut and Uwe Puetter 'Deciding on the European Semester: the European Council, the Council and the enduring asymmetry between economic and social policy issues', *Journal of European Public Policy*, 2018

23 According to the relevant Council webpage, the Economic Policy Committee is an advisory body to the Commission and the Council. It contributes to the Council's work of coordinating Member States' economic policies.

24 According to the relevant Council webpage, the Eurogroup Working Group is a preparatory body composed of representatives of the eurozone Member States of the Economic and Financial Committee, the European Commission and the European Central Bank. It meets once a month ahead of Eurogroup meetings and provides both the Eurogroup and its President with assistance in preparing ministers' discussions.

25 See Commission webpage on the Economic and Financial Committee.

26 According to the relevant Council webpage, the Economic and Financial Affairs Council (ECOFIN) is responsible for EU policy in three main areas: economic policy, taxation issues and the regulation of financial services.

27 The authors note that the Economic Policy Committee is a less senior expert committee, which concentrates on policy guidelines, peer review and analysis. It deals with the macroeconomic imbalance procedure (MIP) and follows up on the CSRs drafted by the Commission.

28 According to the relevant Commission webpage, the Employment Committee is the main advisory committee for Employment and Social Affairs Ministers in the Employment and Social Affairs Council (EPSCO) in the employment field.

29 According to the relevant Commission webpage, the Social Protection Committee (SPC) is an advisory policy committee connected to the Ministers in the Employment and Social Affairs Council (EPSCO).

30 According to the relevant Council webpage, the EPSCO Council works to increase employment levels and improve living and working conditions, ensuring a high level of human health and consumer protection in the EU.

2. How does the Semester work in practice?

As its name implies, the Semester operates during a six-month period. Its start coincides with Member States passing their previous yearly budgets, and stretches roughly until summer of the next year. It is followed by a 'national' Semester, where Member States incorporate what has been discussed, including the binding parts linked to the SGP and MIP. For the non-binding parts, they are expected only to incorporate them into their economic and fiscal policies.

2.1. September: the State of the Union address

Every year the President of the European Commission outlines the political, economic and social priorities in a State of the Union speech to the European Parliament, after which Parliament expresses its opinion by voting a resolution destined to be taken into account when the annual growth survey is being formulated.

2.2. November: the autumn package

The European Semester cycle starts in November with the publication of the Commission's

1. annual growth survey (AGS),
2. alert mechanism report (AMR),
3. draft joint employment report,
4. recommendations for the euro area, accompanied by a staff working document, and
5. opinion on draft budget plans for euro area countries.

2.2.1. The annual growth survey

The annual growth survey is the Commission's main tool for expressing which, in its view, should be the economic and social priorities for the EU for the following year.[31] The survey, which takes the form of a Commission communication, sets out general economic and social priorities for the EU and provides Member States with generic policy guidance for the following year.

After its publication, the annual growth survey is debated at EU and national levels. Taking into account these inputs, the Spring European Council provides guidance on reform priorities, which should then be reflected in the Member States' programmes and plans.

The 2019 annual growth survey

The communication[32] is presented in three parts. Part 1 takes stock of what has happened over the recent past (2015-2019 period). Part 2 focuses on key vulnerabilities and challenges for the future (e.g. persisting income inequality and slow reduction in poverty, rising protectionism and geopolitical tensions, the impact of technological transformations on workers and specific sectors). Part 3 identifies specific priorities (delivering high-quality investment, focusing reforms efforts on

[31] For more information, see Commission webpage 'The autumn package explained'.

[32] Communication from the Commission 'Annual Growth Survey 2019: For a stronger Europe in the face of global uncertainty' COM(2018) 770 final, November 2018.

productivity growth, inclusiveness and institutional quality, ensuring macroeconomic stability and sound public finances) to face the aforementioned challenges.

2.2.2. The alert mechanism report

The alert mechanism report is a screening device. It is issued the same day as the annual growth survey and constitutes the starting point of the annual macroeconomic imbalance procedure (MIP). The macroeconomic imbalance procedure aims to identify potential risks early on, prevent the emergence of harmful macroeconomic imbalances and correct the imbalances already in place in the economies of Member States.[33]

The alert mechanism report uses a scoreboard of selected indicators (see textbox),[34] plus a wider set of auxiliary indicators and additional relevant information, to screen Member States for signs of potential economic imbalances. It identifies Member States for which an analysis in the form of an in-depth review may be useful to assess how the macroeconomic risks are accumulating or winding down, and to conclude whether an imbalance or an excessive imbalance exists. After publication by the Commission, the alert mechanism report is discussed in the Economic and Financial Affairs Council (ECOFIN), or the Eurogroup if it concerns euro-area Member States. Moreover, the European Council holds a discussion following the publication of the annual growth survey and the alert mechanism report in order to agree on the main areas for coordination of economic policies and reforms.[35]

33 For more information, see A. Zoppè, 'Implementation of the Macroeconomic Imbalance Procedure', in-depth analysis, September 2019, 'Member States with Excessive Macroeconomic Imbalances', Briefing, November 2019, and 'External Imbalances in the Euro Area', November 2019, Economic Governance Support Unit, European Parliament.

34 For more information on these indicators, see A. Delivorias 'The Macroeconomic Imbalance Procedure', EPRS in-depth analysis, forthcoming.

35 For more information, see Commission webpage 'The autumn package explained'.

Taking feedback into account, the Commission prepares country-specific in-depth reviews in the following months and presents them in February. Following established practice, an in-depth review is always prepared for Member States for which imbalances were identified in the previous round of in-depth reviews. In-depth review findings feed into the country-specific recommendations (see below, Point 2.6).

The macroeconomic imbalance procedure scoreboard indicators

There are 14 headline indicators on the macroeconomic imbalance procedure scoreboard. They cover the major potential signs of macroeconomic imbalances. The indicators are the following:

1) 3-year backward moving average of the current account balance as a percentage of GDP, with thresholds of +6 % and -4 %
2) Net international investment position as a percentage of gross domestic product (GDP), with a threshold of -35 %
3) 5-year percentage change of export market shares measured in values, with a threshold of -6 %
4) 3-year percentage change in nominal unit labour cost, with thresholds of +9 % for euro area countries and +12 % for non-euro area countries
5) 3-year percentage change of the real effective exchange rates based on Harmonised Index of Consumer Prices/ Consumer Price Index deflators, relative to 41 other industrial countries, with thresholds of -/+5 % for euro area countries and -/+11 % for non-euro area countries
6) Private sector debt (consolidated) as a percentage of GDP with a threshold of 133 %
7) private sector credit flow as a percentage of GDP with a threshold of 14 %
8) Year-on-year changes in house prices relative to a Eurostat consumption deflator, with a threshold of 6 %
9) General government sector debt in percentage of GDP with a threshold of 60 %
10) 3-year backward moving average of unemployment rate, with a threshold of 10 %
11) Year-on-year changes in total financial sector liabilities, with a threshold of 16.5 %
12) 3-year change in percentage points (p.p.) of the activity rate, with a threshold of -0.2 %
13) 3-year change in p.p. of the long-term unemployment rate, with a threshold of +0.5 %
14) 3-year change in p.p. of the youth unemployment rate, with a threshold of +2 %

Sources: European Commission, Information on headline and auxiliary indicators included in the macroeconomic imbalance procedure scoreboard.

The 2019 alert mechanism report

The report[36] starts by presenting the main developments across Member States with regard to imbalances, risks and adjustment. In this context, it identifies certain conclusions from a horizontal perspective (e.g. the rebalancing of current account positions needs to continue, cost competitiveness conditions are worsening for some Member States, the conditions in the EU

[36] Report from the Commission to the European Parliament, the Council, the European Central Bank and the European Economic and Social Committee – Alert Mechanism Report 2019 (prepared in accordance with Articles 3 and 4 of Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances) COM(2018) 758 final.

banking sector are improving but low levels of profitability and large stocks of non-performing loans (NPLs) persist).

It continues by presenting the main challenges across Member States – grouping Member States facing similar challenges –[37] and the implications for surveillance: it suggests in-depth reviews for 13 Member States.

It closes by presenting commentaries relative to the imbalances, risks and adjustment that are specific to particular Member States.

2.2.3. The draft joint employment report

The draft joint employment report (JER) is mandated by Article 148 TFEU and is a key element in EU economic governance. It provides an annual overview of the main employment and social developments in the EU as a whole, as well as of Member States' reform actions. In addition, the joint employment report monitors Member States' performance in relation to the European Pillar of Social Rights.

The social scoreboard

The social scoreboard is a central tool for monitoring performance in the employment and social domains, and convergence towards better living and working conditions. It helps to monitor the situation of Member States in terms of measurable dimensions of the Social Pillar, complementing the existing monitoring tools, especially the employment performance monitor and the social protection performance monitor. Contrary to the MIP indicators' scoreboard, the social scoreboard performs cross-country comparisons.
It includes 14 headline indicators that assess employment and social trends at large:

1) Share of early leavers from education and training, ages 18-24
2) Gender gap in employment rate, ages 20-64
3) Income inequality measured as quintile share ratio – S80/S20
4) At-risk-of-poverty or social exclusion rate (AROPE)
5) Young people neither in employment nor in education or training (NEET rate), ages 15-24
6) Employment rate, ages 20-64
7) Unemployment rate, ages 15-74
8) Long-term unemployment rate, ages 15-74
9) Gross disposable income of households in real terms, per capita
10) Net earnings of a full-time single worker without children earning an average wage
11) Impact of social transfers (other than pensions) on poverty reduction
12) Children under 3 years of age in formal childcare
13) Self-reported unmet need for medical care
14) Share of population with basic overall digital skills or above.

Sources: European Commission, Draft joint employment report from the Commission and the Council accompanying the Communication from the Commission on the Annual Growth Survey 2019, COM(2018) 761 final.

[37] For example 'In a few Member States, vulnerabilities are mainly linked to large stocks of general government debt coupled with concerns relating to potential output growth and competitiveness'.

The 2019 draft joint employment report

The 2019 draft joint employment report[38] starts by providing an EU overview of the labour market (labour market conditions are continuing to improve, unemployment and youth unemployment are falling, certain sectoral developments are described) and the social trends (there has been a drop in number of people at risk of poverty or social exclusion and in the number of people suffering from severe material deprivation) and challenges (in-work poverty remains high, risk of poverty or social exclusion facing children remains high, household incomes are continuing to grow, but at a slower rate than the economy as a whole). It is followed by a chapter presenting the main results of an analysis of the social scoreboard associated to the European Pillar of Social Rights (see textbox).

What is the European Pillar of Social Rights?

The European Pillar of Social Rights is a recent European Commission initiative in the field of employment and social affairs. It was proclaimed and signed jointly by the Commission, Council and European Parliament, on 17 November 2017 at the Gothenburg Social Summit.

The pillar builds on the existing EU social acquis and addresses three main topics: equal opportunities and access to the labour market; fair working conditions; and social protection and inclusion. It is intended to serve as a reference framework for the future development of EU labour markets and welfare states.

Sources: Nora Milotay, European Pillar of Social Rights for a more social Europe, EPRS briefing, September 2016 and Implementation of the Social Pillar, EPRS 'At a glance' note, December 2017.

Lastly, it presents an overview of recent key employment and social indicators and measures taken by the Member States in priority areas identified by the EU employment guidelines (see textbox),[39] as adopted by the Council in 2018. For each guideline, recent developments on a selection of key indicators are presented, as well as policy measures taken by Member States.

Concerning the latter, the section draws on the Member States' 2018 national reform programmes and on European Commission sources.

Guidelines for employment policies?

The European employment strategy provides a framework for EU countries to share information, and discuss and coordinate their employment policies. In this framework, the employment guidelines provide common priorities and targets for employment policies.

The guidelines for the employment policies of the Member States are intrinsically linked with the guidelines for the economic policies of the Member States and of the EU. Together, they form the integrated guidelines that since 2010 have underpinned the Europe 2020 strategy for smart, sustainable and inclusive growth. The integrated guidelines include four broad economic policy guidelines (Numbers 1 to 4) and four employment guidelines (Numbers 5 to 8).

Source: Eurostat, Employment and social inclusion indicators.

The reporting on these reforms follows the structure of the employment guidelines: Guideline 5, which recommends that Member States create the conditions to promote labour demand and job creation; Guideline 6, which recommends that Member States create the conditions to promote labour supply, skills and competences; Guideline 7, which recommends that Member States enhance the functioning of the labour market and the effectiveness of social dialogue; and

38 European Commission, Draft Joint Employment Report from the Commission and the Council, accompanying the Communication from the Commission on the Annual Growth Survey 2019, COM(2018) 761 final, November 2018.

39 See Council Decision (EU) 2018/1215 of 16 July 2018 on guidelines for the employment policies of the Member States.

Guideline 8, which recommends that Member States modernise their social protection systems, in order to promote equal opportunities, and combat poverty and social exclusion.

2.2.4. The recommendation for the economic policies of the euro area

The euro area recommendation relating to economic policy[40] is adopted on the basis of Articles 136 and 121 of the Treaty on the Functioning of the European Union. It is a recommendation for a Council recommendation. It is not binding, i.e. individual Member States are invited – but not obliged – to follow suit.

The recommendation addresses key issues for the functioning of the euro area and provides guidance on concrete actions for their implementation, which are reflected in the country-specific recommendations where appropriate. They are published alongside the annual growth survey to allow for better integration of the euro area and national dimensions of EU economic governance and therefore strengthen the surveillance process. They are accompanied by a staff working document, the report on the euro area.

The Commission makes proposals for the fiscal stance of the euro area as a whole and, in 2016, it set out specific fiscal recommendations. However, the Eurogroup has made it clear that while guidance may be provided, it is up to the Member States to decide what action to take, especially if the guidance is about increasing national expenditure, pointing out that the use of fiscal space is up to the countries themselves.[41]

The 2019 recommendation for the euro area

The 2019 recommendation focuses on many points. They fall into five broad areas:

1. deepening the single market, pursuing reforms to increase productivity for Member States with current account deficits and strengthening conditions that support wage growth in Member States with current account surpluses;
2. strengthening the Member States' public finances, rebuilding fiscal buffers in high-debt Member States and supporting public and private investment;
3. addressing social and labour challenges, including by shifting taxes away from labour, strengthening education systems and increasing the effectiveness of transition-supporting labour market policies;
4. completing EU-wide regulation for credit institutions, reducing the level of non-performing loans in Member States' credit institutions, setting up a European deposit insurance scheme and strengthening the European regulatory and supervisory framework;
5. completing EMU, also with a view to strengthening the international role of the euro.

2.2.5. Commission opinion on the draft budget plans for euro area countries

The opinion on the draft budgetary plan of each euro area Member State[42] is required by the stability and growth pact (SGP).

[40] The most recent is the recommendation for a Council recommendation on the economic policy of the euro area COM(2018) 759 final, November 2018

[41] For more information on the concept of 'Euro area fiscal stance', see A. Zoppe, 'The Euro area fiscal stance', briefing, Economic Governance Support Unit, European Parliament, September 2019.

[42] The Commission webpage with the relevant Commission opinions can be found here.

For Member States under the preventive arm[43] of the pact, it considers the extent to which Member States are compliant with the country-specific recommendations (CSRs) adopted for them by the Council; and in particular their compliance with medium-term objectives or the adjustment path towards those objectives.

For Member States under the excessive deficit procedure (EDP), compliance with the EDP recommendation is a central aspect of the assessment.

If the Commission finds that a Member State's draft budgetary plan is in particularly serious non-compliance with its obligations under the SGP, it can ask for the submission of a revised draft.

According to the Commission, for euro-area Member States this exercise complements the assessment of stability programmes that takes place each spring, but is focused on concrete control of the budget for the year ahead, rather than on medium-term fiscal plans.

A sample 2019 opinion on a Member State's draft budgetary plan – Belgium

The opinion starts with some general considerations relative to its legal base, before moving on to specific considerations considering the Member State. First of all, it is reminded that the Member State is subject to the preventive arm of the stability and growth pact and data is provided concerning its progress towards the medium-term budgetary objective of a balanced budget in structural terms (0.6 % of gross domestic product – GDP), as well as its public debt (103.4 % of GDP in 2017).

The opinion then assesses[44] (i) the growth forecast of the Member State and compares the Commission's previous (2018) autumn forecast with the Member State's draft budgetary plan; (ii) the headline deficit forecast; (iii) measures to be adopted by the Member State on the revenue side.[45]

Lastly, the Commission assesses the progress of the Member State with regard to the required adjustment towards the medium-term budgetary objective for 2018 and 2019 and the debt reduction benchmark and invites the national authorities to take the necessary measures for the Member State to comply with the stability and growth pact.

2.3. December to January

Activities during this period are set against the backdrop of the autumn package and in preparation for the winter package: the European Commission holds bilateral meetings with the Member States; the European Parliament drafts a resolution on the annual growth survey; and the Council discusses the Commission opinions on the draft budgetary plans of the Member States and adopts a

43 The stability and growth pact was originally composed of two regulations. Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies was dubbed the '**preventive arm'** and was designed to ensure that Member States don't run excessive budget deficits. Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure was to be used if a Member State recorded an excessive deficit, and thus was called the **'corrective arm'**. For more information, see Angelos Delivorias, The stability and growth pact, in depth analysis, EPRS, forthcoming.

44 It notes whether it finds those forecasts plausible or not.

45 Measures such as labour market reforms or measures aiming at tackling fiscal fraud.

recommendation on the economic policy of the euro area, as well as conclusions on the annual growth survey and on the alert mechanism report.[46]

The 2019 Council conclusions on the annual growth survey

The Council conclusions are organised along five main themes. With regard to the European Semester, the Council welcomes the annual growth survey and broadly shares the Commission's analysis and assessments. It stresses that reform implementation remains uneven and calls on Member States to implement structural reforms.

With regard to fiscal and macroeconomic policy orientations, the Council recognises the importance of investment for moving towards a circular economy and agrees that the current economic environment should be used to frontload investment for environmental goals. It also stresses however the need to pair investment with structural reforms.

When it comes to focusing reform efforts on productivity growth, inclusiveness and institutional quality, the Council emphasises that productivity performance is uneven across sectors and regions and stresses the need for reforms to strengthen productivity growth. It also notes the challenge that the ageing population poses for future pension systems and the sustainability of public finances.

In the context of ensuring macroeconomic stability and sound public finances, it welcomes the fact that some Member States have reduced their debt and/or reduced their medium-term budgetary objective, but notes that many others have not and underlines that this is a critical area of vulnerability.

The 2019 Council conclusions on the alert mechanism report

The Council stresses that progress with external rebalancing needs to continue, as external stock positions remain unbalanced, adjustment is taking place gradually and competitiveness conditions are becoming less supportive of more symmetric rebalancing. It also stresses that reform efforts should be stepped up to raise the growth potential with a view to tackling imbalances on a sustainable basis, while preventing the risk of pro-cyclical deleveraging in bad times.

It further notes that vulnerabilities exist in some Member States for which in-depth reviews are not necessary at this stage based on the reading of the indicators, but where the build-up of new possible sources of macroeconomic risks need to be closely monitored. It also underlines the need for the in-depth reviews to concentrate on Member State's key challenges and risks and report on the gravity of the challenges identified, the evolution of risks, the policy response taken, and any policy gaps in order to highlight clear priorities for correction and ensure swift action.

Lastly, it welcomes the technical revisions made by the Commission to the scoreboard's auxiliary indicators and highlights the need to continue technical work. In the context of the review of the application of the MIP, meanwhile, it invites the Commission to involve the economic policy committee in the review process and to take into account the recommendations of the European Court of Auditors.

The 2019 Council recommendation on the economic policy of the euro area

The Council document[47] (which is based on the Commission's relevant recommendation – see above, Point 2.2.4) focuses on four main axes, three of them addressed principally to the Member States and one to the EU institutions. The actions to be taken by Member States include (i) pursuing

[46] The Council webpage with the relevant Council conclusions can be found here.

[47] See Council Recommendation on the economic policy of the euro area, 11 January 2019.

reforms to boost competitiveness; (ii) supporting wage growth, shifting taxes away from labour and strengthening education and training systems; (iii) and improving the quality and compositions of public finances.

The actions to be taken at the European level are: deepening the single market, operationalising the backstop for the single resolution fund and pursuing work on a European deposit insurance scheme.

2.4. February to March: the winter Package – country reports and in-depth reviews

In February, the Commission publishes a communication on the assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews.[48]

Country reports for each Member State accompany this communication.[49] The reports cover all areas of macroeconomic or social importance and take stock of each country's budgetary situation. They assess the progress made by each EU country in addressing the issues identified in the previous year's EU country-specific recommendations.[50]

Any country selected in the alert mechanism report is also addressed its in-depth review, which is incorporated into the country report.

The reviews assess whether imbalances or excessive imbalances exist in the country, by looking at factors such as: sustainability of external accounts, savings and investment balances, effective exchange rates, export market shares, cost and non-cost competitiveness, productivity, private and public debt, housing prices, credit flows, financial systems and unemployment.

The reviews also take account of the euro area dimension and the possible impact on the euro area as a whole.

On the basis of this review, the Commission will propose an updated status for the country in the macroeconomic imbalance procedure.

The 2019 communication on assessment, prevention and results of in-depth reviews

In its introduction, the Commission document notes that the EU is enjoying its seventh year of economic growth, which has helped to boost employment and improve public finances. Meanwhile, growth has started showing signs of a slow down, which is partly due to the deterioration of the global economy, but also to looming trade wars and uncertainty linked to Brexit. This implies that growth will (have to) be supported by drivers proper to the EU rather than external ones, and that

48 The most recent is the communication from the Commission to the European Parliament, the European Council, the Council, the European Central bank and the Eurogroup, 2019 European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176/2011, COM(2019) 150 final.

49 The webpage of the 2019 European Semester country reports can be found here.

50 For more information, see Commission webpage 'European Semester Timeline – The analysis phase'.

policy actions inside the EU will influence the degree and impact of the expected slowdown. In this context, the Commission will try to link the Semester more closely with EU funding within the next multiannual financial framework.

The next part of the communication focuses on Member States' progress with their CSRs. It notes that all Member States have made progress with the implementation of the country-specific recommendations albeit to varying degrees. It stresses that, in view of the mounting economic risks, stronger reform implementation – in line with the recommendations addressed to them by the Council in 2018 – is crucial to strengthen the resilience of EU economies.

The communication then turns to macroeconomic imbalances. It notes that their correction is progressing[51] thanks to resumed growth and policy efforts, but vulnerabilities (such as high debt stocks) persist. Then it examines the implementation of the macroeconomic imbalances procedure in certain Member States.

The last part of the report consists of an analysis of three broad areas: (i) responsible fiscal policies and financial stability, (ii) labour market, education and social policies and (iii) competitiveness and productivity. The Commission identifies policies to be adopted by the different Member States in each area selected.

A sample 2019 country report which includes an in-depth review – Germany

The report starts by examining the Member State's economic situation and outlook from the point of view of GDP growth, investment, inflation, labour market and social developments, regional disparities in GDP per head, sectoral balances, external position and public finances.

There then follows a section on the progress the Member State has made in responding to the previous year's country-specific recommendations.

The next point discusses the overall findings regarding imbalances –their gravity, evolution, prospects, as well as the policy responses – while the report makes a point that, given the size of the Member State's economy, not correcting those imbalances could have potentially strong spillover effects on other EU Member States.

The last point assesses the reform priorities in four areas, namely:

1. public finances and taxation, which includes also investment in health, the challenges relative to the pension system (and relevant reform options) and aspects of the fiscal framework;
2. the financial sector, from the view of macro-financial stability and access to finance;
3. labour market, education and skills and social policies (including investment needs in education, training and active inclusion);
4. competitiveness, reforms and investment, examined from the point of view of productivity and investment needs (including research and innovation, digitalisation, energy, the environment and the circular economy), regional disparities, single market integration, and lastly governance and quality of institutions.

[51] Bank conditions are improving, debt reduction is continuing, labour market numbers are better than in previous years.

European Parliament adopts a resolution on the annual growth survey

On its side, the European Parliament adopts a resolution on the annual growth survey.[52] It should be noted that Parliament's resolutions are not a formal part of the European Semester's decision-making procedures. In its latest resolution, Parliament concentrates on three main areas: first of all, the need to focus on quality investment in (i) growth-enhancing sustainable infrastructure projects, consistent with the UN Sustainable Development Goals and (ii) skills, innovation, automation, digitalisation, and R&D; secondly – and in the context of the ageing European workforce – it urges Member States to focus on productivity growth[53] and on inclusiveness;[54] third, it calls for efforts to secure macroeconomic stability and sound public finances, through measures directed towards reducing Member States' deficits and debt and improving compliance with the stability and growth pact.

2.5. March to April: the stability and convergence programmes

In April, Member States present their national reform programmes and their stability or convergence programmes[55] (three-year budget plans, the former for euro area countries, the latter for other EU Member States) to the Commission. The programmes detail the specific policies each country will implement to boost jobs and growth and prevent/correct imbalances, and their concrete plans to ensure compliance with the EU's outstanding country-specific – and where applicable euro area – recommendations and fiscal rules.

A sample 2019 national reform programme – France

The reform programme examines the highlighted macroeconomic imbalances. It provides specific macroeconomic data to explain the current macroeconomic climate in various areas and refers to particular measures or reforms initiated in other areas found wanting. On the following point, it provides selected economic data for the years 2019 and 2020 (e.g. household consumption and purchasing power, market job creation, inflation) but notes that these projections are subject to uncertainties at international level (growth slowdown in China, protectionism in the US or the impact of the exit of the United Kingdom from the EU).

Following that, a table details the main measures contained in the French government's economic strategy (e.g. the measures to be taken to increase labour remuneration, to support people and reduce inequality, to contribute to stronger regional cohesion), the timetable for their implementation, their expected macroeconomic impact and the economic mechanisms that are expected to bring about that impact.

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[52] European Parliament resolution on the European Semester for economic policy coordination: annual growth survey 2019 (2018/2119(INI)), March 2019.

[53] Such as reform efforts on reviewing the adequacy and sustainability of national public pension schemes.

[54] In this context, it proposes measures that support inclusive and well-functioning labour markets and promote job quality, as well as measures reducing the various barriers to growth faced by SMEs.

[55] The relevant Commission webpage for the national reform programmes and the stability/convergence programmes can be found here.

Lastly, a significant part of the report is devoted to the follow-up (i.e. the list of measures taken) in the context of the implementation of the Council's country-specific recommendations to France for the previous year.

A sample 2019 convergence programme – Poland

The convergence programme of Poland presents the Member State's medium-term forecast for the economic situation and public finances up to 2022.

The programme contains five points and three annexes. It starts with an economic outlook discussing current prospects for the main aggregates of the Polish economy (in the context of the prospects for the EU as a whole), as well as providing a medium-term scenario. The next point in the programme relates to the general government fiscal balance and debt. In it are provided (i) the country's policy strategy and medium-term objectives, (ii) its actual balances (government revenue and expenditures, as well as their main elements), (iii) a medium-term outlook, which includes the factors determining general government revenues and expenditures, (iv) the Member State's structural balance and (v) government debt. The point is followed by a sensitivity analysis based on identified risk factors, as well as by a comparison with the previous update.

Point 4 of the programme deals with the sustainability of Poland's public finances. It presents the country's long-term budgetary prospects – including the implications of ageing population – and its contingent liabilities and discusses whether they pose any significant risk to its public finances. The last point discusses institutional features of public finances, such as reforms introduced in the country's budgetary and accounting frameworks.

The programme also contains three annexes, i.e. (i) key actions in the area of taxes for the period 2019-2020 (e.g. measures to reduce tax fraud), (ii) measures strengthening the system of social security contributions in the 2018-2020 period (e.g. measures to recover outstanding contributions and reduce avoidance of contributions), and finally (iii) one-off measures in the 2019-2021 period (such as auctions for greenhouse gas emission allowances).

2.6. May to July: the country-specific recommendations

Having assessed the EU national governments' plans, the Commission presents each country – except those under a macroeconomic assistance programme – with a set of country-specific recommendations (CSRs),[56] along with an overarching communication.[57]

[56] The Commission webpage of the various country specific recommendation is here. The Council webpage can be found here.

[57] The most recent one is the communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank – 2019 European Semester: country-specific recommendations COM(2019) 500 final.

The recommendations cover a wide range of policy fields, including issues such as wage determination, education and health care.[58] They focus on what can realistically be achieved over the next 12 to 18 months. They adapt priorities identified at EU level (in the Commission's annual growth survey) to the national level.

In May, the Commission informs the European Parliament's Committee for Economic and Monetary Affairs (ECON) about the proposals for country-specific recommendations during an economic dialogue on the 'spring package'.[59]

The recommendations are discussed among the governments in the Council, which is not obliged to follow the Commission's suggestions, but can amend the recommendations before adopting them, after what they are endorsed by EU leaders at a European Council summit in June and formally adopted by the national finance ministers in a Council meeting in July.

The 2019 Commission communication

The Commission communication[60] contains five points. Its introduction focuses on the importance of investment and of tackling the structural challenges of the EU economies.

The following point provides a summarised economic outlook for the EU's economy and follows the progress the Member States have achieved in implementing reforms and correcting imbalances. In this context, it provides a multiannual assessment of the implementation of the country-specific recommendations published in the 2011-2018 period.

Point 3 discusses the key objectives of the 2019-2020 CSRs. The Commission notes that the overall objective of the recommendations is 'to encourage the Member States to increase their growth potential by modernising their economies and further strengthen their resilience'. Then, it briefly discusses the state of play with regard to the Member States' macroeconomic imbalances, and elaborates on the topics of public finances, taxation, labour market, education, social policies, investment and competitiveness policies. For each of those topics, it provides examples of relevant recommendations the Council addressed to the various Member States.

In the following point, the Commission points out that, while it has developed tools to help Member States with the implementation of the country-specific recommendations (for example, the Structural Reform Support Service, in the context of the structural reform support programme),[61] the ultimate responsibility for the implementation of the recommendations lies with the Member States.

58 A. Verdun and J. Zeitlin, 'Introduction: the European Semester as a new architecture of EU socioeconomic governance in theory and practice', *Journal of European Public Policy*, 2018.

59 Given that this year there were elections to the European Parliament in May, there was no dialogue on the country-specific recommendations. The latest, which took place in 2018, was the subject of an analysis by the Economic Governance Unit of the European Parliament.

60 Communication from the Commission – 2019 European Semester: country-specific recommendations, COM(2019) 500 final, Brussels, June 2019.

61 According to the Commission, the structural reform support programme (SRSP) is 'an EU programme that provides tailor-made support to all EU countries for their institutional, administrative and growth-enhancing reforms'. The programme support 'covers the entire reform process, from preparation and design to implementation of the reforms. It is demand driven and does not require co-financing from EU countries'. It is being redesigned and financed in the 2021-2027 MFF.

In its last point, the Commission calls on the Member States to implement the recommendations fully and in a timely manner, associating stakeholders to them.[62]

A sample 2019 country-specific recommendation – Ireland

In its recommendation,[63] the Commission recommends that Ireland take action in the years 2019 to 2020, to achieve four main goals: (i) achieve its medium-term budgetary objective in 2020 and accelerate the reduction of its government debt ratio, while addressing the expected increase in age-related expenditure; (ii) provide active integration support for vulnerable groups and people living in households with low work intensity; (iii) focus investment on low carbon and energy transition and on other measures enhancing environmental sustainability; and (iv) implement measures to improve the productivity of Irish firms in general and SMEs in particular.

The Council – in its July recommendation– broadly endorsed those recommendations, with minor revisions.

2.7. Summer: from European to 'National' Semester

Following the CSRs, Member States' governments incorporate the recommendations into their reform plans and national budgets for the following year.

Budgetary monitoring intensifies in the autumn for euro area Member States: they must submit to the Commission draft budgetary plans for the following year by 15 October.

The Commission then assesses the plans against the requirements of the stability and growth pact and the relevant country-specific recommendations and issues an opinion on each of them in November, so that this guidance is taken into account when the national budgets are finalised.

Euro area finance and/or economy ministers then discuss the Commission's assessment of the draft budgetary plans in the Eurogroup and issue a statement on them.

Meanwhile, in October, a debate on the European Semester is held in the European Parliament, traditionally followed by the adoption of a resolution, as well as a dialogue on the annual growth survey held in the ECON committee and with the participation of represenative from national Parliaments.

3. How the debate around the Semester might evolve

The European Semester has been debated extensively since its inception. The main debates until now have focused on (i) the accountability and legitimacy of the mechanism; (ii) the effectiveness of the Semester; (iii) issues surrounding the country-specific recommendations; and (iv) the role of Parliaments within the Semester. More recently, a new perspective has been under examination, namely (v) the role of regions in the Semester.

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[62] As their name implies, the country-specific recommendations, as adopted by the Council, are recommendations, i.e. most of them (except those in the corrective arm of the stability and growth pact) are not obligatory. This implies that the Commission can do little more than encourage the Member States to implement them, as finalised by Council. This may partly account for their low level of implementation. On this point, please see below, Point 3.2.

[63] Recommendation for a Council recommendation on the 2019 National Reform Programme of Ireland and delivering a Council opinion on the 2019 Stability Programme of Ireland, COM(2019) 507 final, Brussels, June 2019.

3.1. Parliamentary involvement in the European Semester – legitimacy and accountability

While the European Semester process has evolved over the years, political ownership at both EU and national levels of the decisions taken in common under the Semester cycles has been highlighted as indispensable for the effectiveness of the current economic governance framework.[64]

The issue of parliamentary involvement in the European Semester (and the related issues of legitimacy and accountability of the process) have been investigated – among others and in chronological order – by Mark Hallerberg *et al.*,[65] Cristina Fasone,[66] Mark Dawson,[67] Valentin Kreilinger,[68] Ben Crum[69] and Mette Buskjær Rasmussen.[70]

Writing before the entry into force of the six-pack and examining the first cycle of the Semester, Hallerberg *et al.* noted that there are three main issues related to its legitimacy. They identified (i) the minor role of the European Parliament in the process; (ii) the limited capacity of national parliaments to be involved in the discussion and finalisation of stability/convergence plans and national reform programmes; and (iii) the fact that the Council's country-specific recommendations water down many of the Commission's recommendations and thus undermine their credibility.[71] In this last point, they proposed that – after Council has issued the country-specific recommendations – the European Parliament should use Article 121(5) TFEU to hold the Council and Commission to account, by verifying whether the Commission issued pertinent and stringent recommendations and whether the Council followed those recommendations or deviated (and the possible reasons why it did so).

Fasone notes that 'The EP is involved too late; it neither receives the national reform programmes, the stability and convergence programmes and the draft budgetary plans directly, nor can it concur in fixing the strategic priorities of the fiscal year and the European Semester or review the country-specific recommendations once adopted by the Council. In contrast, the strategic priorities are defined by the European Council, an institution which is not democratically accountable to the EP and only accountable in a limited way to the national parliaments.' She further notes that 'the procedures of the European Semester are so complicated, between the national and the European

64 For more, but from the perspective of national parliaments, see K. Hagelstam, W. Lehofer and M. Ciucci, 'The role of national parliaments in the European Semester for economic policy coordination', Economic Governance Support Unit, European Parliament, April 2018.

65 M. Hallerberg, B. Marzinotto and G. Wolff (with research assistance of L. Granelli and S. Merler), 'How effective and legitimate is the European Semester? Increasing the role of the European Parliament', briefing paper requested by the European Parliament's Committee on Economic and Monetary Affairs, August 2011. The same authors published another article recently: 'Explaining the evolving role of national parliaments under the European Semester', *Journal of European Public Policy*, August 2017. See below, after Rasmussen.

66 See, among others, C. Fasone, 'European economic governance and parliamentary representation. What place for the European Parliament?', *European Law Journal*, March 2014.

67 M. Dawson, 'The Legal and Political Accountability Structure of 'Post-Crisis' EU Economic Governance', *Journal of Common Market Studies*, April 2015.

68 V. Kreilinger, 'National Parliaments, Surveillance Mechanisms and ownership in the euro area', Jacques Delors Institut, March 2016.

69 B. Crum, 'Parliamentary accountability in multilevel governance: what role for parliaments in post-crisis EU economic governance?', *Journal of European Public Policy*, August 2017.

70 M. B. Rasmussen, 'Accountability challenges in EU economic governance? Parliamentary scrutiny of the European Semester', *Journal of European Integration*, May 2018.

71 As well as the credibility of the annual growth survey, on which those recommendations are based.

levels and between different institutions at the same level, that at least two disturbing consequences can be envisaged if parliamentary actors are not properly involved: the first is that parliamentary scrutiny is ineffective if it is not carried out as multilevel parliamentary scrutiny, based upon strong coordination between the EP and national parliaments. The second consequence is that, in the EU economic governance, there is confusion about who decides what on behalf of whom: the 'chain of responsibility' is quite clearly depicted within the Member States, becomes less precise in the EU institutional framework, and almost non-understandable in the relations settled between national and EU institutions on budgetary and economic policy'.

Kreilinger examines the scrutiny of stability/convergence programmes and national reform programmes by national parliaments and finds that the participation of national parliaments has been unequal and that these asymmetries might create tensions going forward.[72] With regard to the mode of scrutiny, the author finds a tendency towards ex-ante scrutiny (two thirds of national parliaments) on stability/convergence programmes and national reform programmes, especially among euro area members, showing that parliaments strive to act as 'policy shapers' more than as 'traditional controllers'.

Crum notes that 'budgetary powers remain formally at the national level, governments' decisions have become constrained and national parliaments find themselves on the losing side of a reinforced two-level game.[73] This loss in parliamentary powers is not compensated at the European level, as at that level political authority is effectively left suspended between the national governments, who are unaccountable as a collective, and the European Commission, which lacks a political mandate of its own'.[74] The author then suggests, among other things, steps to increase the role of the European Parliament and strengthen the capacities of national parliaments, in order to '(re)parliamentarise' economic governance.

Rasmussen is of the view that the policy-making mode of the European Semester can be best described as 'a mixture of enhanced policy coordination[75] and intensive transgovernmentalism[76] where the Commission takes the lead in defining the direction of economic policy, but where the final say is in the hands of national policy-makers'. This disembodiment of political authority inherent in the iterative process of the European Semester brings accountability challenges to national parliaments that are difficult to counteract.

72 According to the author, this is due to the fact that, 'Citizens in Member States, in which national parliaments do not scrutinise (or only to a limited extent), lack the "public forum" for debates, their governments' reports are not under "expert scrutiny" and Members of Parliament do not even try to shape fiscal and economic policy coordination'.

73 Crum notes that the metaphor was originally adopted by Robert Putnam to analyse how governments in international negotiations navigate between the international negotiation table and their domestic constituencies. While Putnam originally examined how governments can maximise their standing in international negotiations while, at the same time, gaining autonomy from their national parliaments, Crum notes that the European Semester 'has certainly not strengthened governments' powers' but instead has 'tilted the balance of the fiscal two-level game to the supranational level. As governments find their economic policies conditioned by supranational targets and recommendations, their ability to respond to any wishes from their national parliament has become constrained'.

74 The author notes that while the European Parliament has had an important role in the legal establishment of the European Semester, it plays a marginal role in its actual execution.

75 In that the European Commission has a strong surveillance role, as well as the possibility of proposing sanctions through the excessive deficit procedure if recommendations provided under the Semester framework are not followed.

76 A mode of cooperation characterised by the low involvement of the Commission, the European Parliament and national parliaments, combined with a leading role for the European Council. Rasmussen notes that such cooperation has usually taken place in politically sensitive policy areas such as justice and home affairs, and common foreign and security policy but is extended to areas of economic governance.

Coming back to the issue of parliamentary involvement, Hallerberg, Marzinotto and Wolff begin their paper by providing a useful review of the studies on the impact of EU politics on domestic parliaments. They proceed by examining whether (and how) national parliaments in the EU are involved in the discussion of reform plans and of the feedback they receive from Brussels. They find, among other things, that there is a significant variation between Member States in whether the debate is taking place at the parliamentary level and which committee(s) is/are involved (whether it is the European affairs or the finance committee(s). They also find that, whether or not Member States belong to the euro area is the strongest predictor of whether there is an ex post evaluation – of the country-specific recommendations: while in the early years of the Semester, euro area Member States were the most active in this respect, the trend has changed over time towards Member States outside the euro area.

3.2. Country-specific recommendations

Country-specific recommendations provide Member States with guidance on macro-economic, budgetary and structural policies in accordance with Articles 121 and 148 of the Treaty on the Functioning of the European Union (TFEU).[77] They provide guidance for national reforms over the following 12 to 18 months.

Research in this area tends to concentrate on implementation of the CSRs. Insightful papers in this topic have been published, among others, by Hallerberg *et al.*,[78] Z. Darvas and Á. Leandro,[79] V. Kreilinger,[80] K. Efstathiou and G. Wolff,[81] I. Tkalec[82] and V. D'Erman *et al.*[83]

According to Kreilinger 'all lower chambers of national parliaments scrutinise country-specific recommendations, but there is room for improvement' as their implementation record is poor and they do not engage extensively with the European Commission. He further finds that the majority of parliaments perform ex-ante, instead of ex-post scrutiny. Basing himself on data by Deroose and Griesse[84] for measuring progress on the implementation of country-specific recommendations, he groups Member States into three categories –low progress (8 out of 23 Member States), medium (10 out of 23 Member States) and high (5 out of 23 Member States). He further finds that all the Member States with the highest progress in implementation, conducted ex-ante scrutiny.

Darvas and Leandro investigate the 2011-2015 period and find that the implementation of recommendations given under the European Semester was already modest at inception in 2011,

77 J. Angerer, K. Hagelstam and M. Ciucci, Country-specific recommendations: An overview, briefing, Economic Governance Support Unit, European Parliament, September 2019.

78 M. Hallerberg, B. Marzinotto and G. Wolff 'An Assessment of the European Semester', study requested by the European Parliament's Committee on Economic and Monetary Affairs, Policy Department for Economic and Scientific Affairs, European Parliament, September 2012.

79 Z. Darvas and Á. Leandro 'The limitations of policy coordination in the euro area under the European Semester', Bruegel Policy Contribution, November 2015.

80 V. Kreilinger 'National Parliaments, Surveillance Mechanisms and ownership in the euro area', Jacques Delors Institut, March 2016

81 K. Efstathiou and G. Wolff, 'Is the European Semester effective and useful?', Bruegel Policy Contribution Issue, No 9, June 2018.

82 I. Tkalec, 'The Council's Amendments to the Country-Specific Recommendations: More than just Cosmetics?', *Journal of Contemporary European Research*, March 2019

83 V. D'Erman, J. Haas, D. Schulz and A. Verdun, 'Measuring Economic Reform Recommendations under the European Semester: 'One Size Fits All' or Tailoring to Member States?', *Journal of Contemporary European Research*, May 2019

84 S. Deroose and J. Griesse, 'Implementing economic reforms – are EU Member States responding to European Semester recommendations?', European Commission, ECFIN Economic Brief, October 2014.

but declined even further thereafter. In addition, in the general context of falling implementation rates, euro-area countries, for which policy coordination should be stronger, implemented their recommendations only marginally better than non-euro area countries. Lastly, the authors find that the rate of implementation of recommendations relating to the stability and growth pact was higher than the implementation of macroeconomic imbalance procedure recommendations, but – given the strong legal bases for both – they were not high enough.

According to Efstathiou and Wolff, during the 2013 to 2017 period, country-specific recommendations mainly encompassed recommendations relating to fiscal policy and governance (14 %), incentives to work, job creation and labour market participation (11 %), the long-term sustainability of public finances including pensions (9 %) and education (8 %). Recommendations on poverty reduction and social inclusion, active labour market policies and energy, resources and climate change are also very frequently addressed to Member States. Similar to Darvas and Leandro for the 2011-2015 period, the authors find that in the 2013-2017 period, the implementation by EU countries of country-specific recommendations worsened. They note that, counter-intuitively, the deterioration in implementation coincided with the streamlining of the country-specific recommendations introduced by the Juncker Commission, which reduced their number and length.

Another interesting perspective comes from Tkalec who studies the reasoning behind the Council's amendments to the Commission's initial proposals of country-specific recommendations. Using quantitative sentiment analysis and qualitative case studies, the author investigates whether the Council's amendments are of any substantive relevance or merely cosmetic, and concludes that they tend to have substantive relevance. The main topics of disagreement between the Commission and the Council concern fiscal and social policy issues. The author further notes that 'Overall, the Council endeavours to ensure national ownership of policy recommendations by emphasising the importance of national traditions and specificities in policymaking practice'.

Lastly, Valerie D'Erman *et al.* investigate country-specific recommendations in the context of the general debate on whether the European Union is pursuing a 'one size fits all' approach to economic policy making in the euro area that might be detrimental to certain Member States. The authors initially find that most reforms contained in the country-specific recommendations concern budgetary policies, employment and wages and social policy, but that a more nuanced picture emerges when they take into account the relative importance of policy areas within the recommendations.[85] They further find that the country-specific recommendations that the various euro area Member States have received over time vary according to the Member State, its economic model and the year when the recommendation was given.

3.3. The role of the regions in the Semester

Local and regional authorities are not mentioned in the diverse legal bases underpinning the Semester, although the European Committee of the Regions (CoR) is directly concerned in one specific case: Article 148 TFEU provides for the CoR to be consulted on the employment guidelines. For the rest, the participation of local and regional authorities in the Semester is carried out through their contacts with their respective national governments, although the level and quality of their

[85] Namely they find that the highest priority is given to areas clearly related to the debt and deficit rules (e.g. budgetary policies), followed by policy areas frequently mentioned, but as a secondary or third priority (e.g. social policy). There are also meanwhile some areas that 'are not very common, but when CSRs address them, they typically focus on them', such as competition policy.

participation and influence varies from one Member State to another.[86] In view of the high proportion of country-specific recommendations that are addressed directly to the local and regional levels, and the importance of these levels in carrying out the structural reforms and investment envisaged by the recommendations, the CoR has demanded a more formal role for itself and for the local and regional authorities in the Semester proceedings. The CoR expects that this would help to foster better ownership of the country-specific recommendations among the sub-central levels of national government, and thus increase the extent to which the recommendations are carried out with success. To create a better system of multilevel governance, the CoR advocates the establishment of a code of conduct, to be developed by the European Commission, the Council and the European Parliament, in consultation with the CoR.

The code of conduct is intended to provide the Semester with a territorial dimension. At the analytical level, the annual growth survey, national reform programmes and country-specific recommendations would be enriched with analyses and territorial trends, also looking at the territorial impact of EU policies. At the operational level, stronger and systematic involvement of the local and regional authorities in all steps of the Semester should be attained. The code of conduct should fully respect the principles of subsidiarity and complementarity, and should leave the implementation of the country-level provisions to the Member States.

However, the code of conduct project has not yet been taken up by the institutions concerned, which may cast some doubt on its future. With a greater link between the Semester and the cohesion funds being announced by the Commission, the CoR adopted an opinion in April 2019 that draws attention to the immediate importance of involving the local and regional authorities in the Semester. To this end, it proposes to extend an existing instrument to cover the Semester: the European Code of Conduct on Partnership. It is based on Article 5 of the Common Provisions Regulation, which requires a partnership to be organised at all programming stages and at all levels for each European structural and investment fund programme.

In the meantime, the Commission has now started to include analysis of regional aspects in the country reports, to which it also adds a chapter on regional disparites, reflecting the CoR's request to enrich the analytical level with a territorial dimension.

3.4. The priorities of the von der Leyen Commission

In her mission letter to Paolo Gentiloni, Commissioner for the Economy, the Commission President, Ursula von der Leyen, stressed that:

> *Inclusive growth and environmental sustainability must go hand in hand. You will contribute to turning the European Semester cycle of economic governance into an instrument that integrates the United Nations Sustainable Development Goals.*[87]

[86] See Committee of the Regions report, Improving the European Semester by involving local and regional authorities: Overview of good practice.

[87] Ursula von der Leyen, President of the European Commission, Mission letter to Paolo Gentiloni, Commissioner-designate for Economy, Brussels, 1 December 2019.

Sustainable development goals?

In September 2015, the 193 UN member states unanimously adopted the 2030 Agenda for sustainable development. Contrary to their predecessor, the five millennium development goals, which focused primarily on health and poverty issues in developing countries, the 17 interconnected and indivisible sustainable development goals, and their 192 specific targets at the heart of the 2030 Agenda, have broad scope and universal application. Aimed at helping humanity undergo a transformative shift, they recognise environmental sustainability concerns as an essential and necessary dimension of human development, alongside the social, economic and political dimensions. Going far beyond the traditional recipient-donor approach, the 2030 Agenda offers a common ambitious path of development for all humanity, and an incentive to rethink development cooperation.

Source: Marta Latek, Understanding Sustainable Development Goals, EPRS, November 2017.

In the broader context of the monitoring of fiscal rules, von der Leyen also stated that the Commissioner for the economy should *ensure the application of the stability and growth pact, using the full flexibility allowed in the rules*.

With regard to the general issue of strengthening the democratic accountability of European economic governance, the Commission President tasked Executive Vice-President Valdis Dombrovskis with ensuring that *the Commission comes to the European Parliament before each key stage of the European Semester cycle.*[88]

[88] Ursula von der Leyen, President of the European Commission, 'Mission letter to Valdis Dombrovskis, Executive Vice-President-designate for An Economy that Works for People' Brussels, 1 December 2019.

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The European Semester is a framework for the coordination of economic policies across the European Union that was established after the European sovereign debt crisis. This paper aims to provide a simple but comprehensive introduction, explaining the main steps of the Semester from November to July each year. It also provides a short review of the academic and institutional debates around the Semester, before closing with the priorities in the relevant areas identified by the new European Commission President, Ursula von der Leyen.

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