MEMO/11/382

Brussels, 7 June 2011

2011 Country-Specific Recommendations in the context of the European Semester: Frequently Asked Questions

- **GENERAL**

1. What has been adopted today?

The Commission has adopted a Communication and 27 sets of "Recommendations for a Council Recommendation" to Member States in relation to their economic programmes and plans for sound public finances. In addition, staff working papers analysing in detail the economic situation and the policy responses put forward in each Member State have been published. A staff working paper and a set of recommendations have also been published for the euro area as a whole.

The adoption of these recommendations will enable the June European Council to conclude the first European Semester of economic policy coordination. It will then be up to each Member State to implement this country-specific guidance through their national policies and budgets for 2011-2012.

Finally, in a separate communication, the Commission provides a summary of its assessment of the national programmes, drawing conclusions for the whole EU economy.

2. What are the country-specific recommendations about?

Tailored measures to be implemented at national level: Earlier this year, Member States and the Commission agreed on 10 key priorities to face the current crisis while paving the way for a more sustainable economy. As situations vary from one country to another, the Commission is focussing today on the most important issues and the most pressing measures to be adopted in each Member State. The recommendations, which are concrete, targeted and measurable, concentrate on what can realistically be achieved in the next 12-18 months in each Member State.

Culmination of the European Semester: The recommendations are a key element in the EU’s new economic governance. Their adoption marks the penultimate step in a six-month period of intensive economic policy coordination between the EU and its Member States (the final step will be the endorsement of the recommendations by the European Council on 23-24 June).

Addressing a broad range of policy areas: The recommendations cover a broad range of issues including the state of public finances, the ability of the banking sector to sustain the economy, reforms of pension systems, measures to support job creation and help the unemployed return to work, education and innovation challenges.

The result of extensive and objective analysis: The recommendations are based on an in-depth technical assessment by the Commission of: (1) the economic and budgetary situation in each Member State and (2) whether the measures proposed by the Member States in their National Reform Programmes, Stability or Convergence Programmes, as well as Euro+ Pact commitments for those concerned, match their specific challenges. This assessment was made against the backdrop of priorities identified by the Commission in the Annual Growth Survey in January 2011 and endorsed at EU level by the European Council in its conclusions of March 2011.

- **EUROPEAN SEMESTER**

3. What is new about the European Semester?

The economic context: The adoption of these recommendations takes place at a critical juncture for the EU economy. As shown by the Commission's 2011 Spring Economic Forecasts, the recovery is gaining ground, but it is very uneven and subject to uncertainties.

Strengthened coordination: Drawing on the lessons of the crisis, which showed the extent to which our economies are now interdependent, the EU is implementing a new working method – the European Semester – to ensure that coordinated action on key policy priorities is taken at EU level, before and not after decisions are taken at national level.

Addressing public finances and economic reform together: Starting this year, Member States present their Stability or Convergence Programmes (SCPs, which set out their plans for sustainable public finances)[1] and their National Reform Programmes (NRPs, which present key policy measures to sustain growth and jobs and reach the Europe 2020 targets) – simultaneously. This enables the EU to assess national growth/employment and budgetary plans together, enabling it to identify possible risks or imbalances that would not otherwise be picked up and address recommendations to Member States in a much more integrated, transparent and timely way.

Coherent and predictable annual policy coordination: The combination of EU-level guidance and country-specific recommendations in the first half of each year allows governments to draw up budgets and other economic policies with the agreed EU priorities in mind. It also allows the EU to monitor national efforts and decide on complementary actions to be taken at EU level.

4. What is the link between the County-Specific Recommendations, the Annual Growth Survey and the European Semester?

Both the Annual Growth Survey and the Country-Specific Recommendations are part of the European Semester. One comes at the beginning of the process in January and one rounds it off in June.

- The Semester begins with the presentation of the Annual Growth Survey. This is where the Commission sets out the priority actions for the EU in terms of public finances, structural reforms and growth-enhancing measures. The Annual Growth Survey forms the basis for discussions at the Spring European Council in March, which sets the economic policy framework for the EU for the coming year.

[1] Plans related to public finances are called Stability Programmes for euro area countries and Convergence Programmes for other Member States.

- Subsequently, in April/May, the Member States submit their Stability or Convergence Programmes – and, where relevant, their Euro+ Pact commitments – to the Commission for assessment.
- The results of that assessment, against the priority areas defined in the Annual Growth Survey, are the June country-specific recommendations.

5. How are these recommendations linked to the "6-pack" (legislative package presented by the Commission in September 2010)?

In September 2010, the Commission adopted six legislative proposals aimed at further strengthening the EU's economic governance. These proposals are distinct from the European Semester, though both are means to achieve the same end – a more effective, coordinated management of economic policy in the EU. The six proposals are in the final stages of the legislative process, with discussions ongoing between the Council and the European Parliament. The Commission expects that a final agreement will be reached by the summer. Once this has happened, the last building blocks of the EU's new economic governance will be in place.

The proposals are about strengthening the EU's capacity to take preventive and, where necessary, corrective action when a Member State does not respect its obligations on budgetary or economic policy. They also broaden the focus of the Stability and Growth Pact so that it pays the same attention to a Member State's public debt as to its deficit, and create a mechanism to address macroeconomic imbalances to prevent these from becoming problematic.

This legislative package dovetails with the country-specific recommendations (and the European Semester more broadly) in particular when it comes to the preventive arm of the Stability and Growth Pact, which is about taking early action on deficits and debt before they become unsustainable. In case this action should fail to achieve the desired effect, the legislative package also strengthens the enforcement arm of the Pact with a reformed Excessive Deficit Procedure.

Similarly, the country-specific recommendations address macroeconomic imbalances with the aim of preventing these from becoming problematic. The legislative package foresees that macroeconomic imbalances will be monitored – on the basis of a scoreboard still to be finalised at EU level – and where necessary addressed using a new Excessive Imbalance Procedure if prevention should fail.

The legislative package with its strengthened enforcement mechanisms for both public finances and macroeconomic imbalances will further increase the incentives for Member States to implement the country-specific recommendations. Ultimately though, the most compelling reason for Member States to follow the recommendations is that they will help to improve their economic performance.

6. How do these recommendations link to the Euro+ Pact?

The recommendations also cover the commitments made by Member States that have signed up to the Euro+ Pact, as foreseen in the Pact itself.

Twenty-three countries have signed up to the Pact, which was agreed in March 2011: the 17 euro area countries plus Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania. It remains open to other Member States to join if they wish. The Euro+ Pact signatories agreed to make supplementary short-term commitments reform commitments in four areas: competitiveness, employment, sustainability of public finances and reinforcing the stability of the financial sector.

- **ROLE OF THE COMMISSION**

7. Who produces the recommendations?

The recommendations are drafted by the Commission and adopted by the College of Commissioners. The extensive and objective technical analysis that forms the basis for the recommendations is published in staff working papers prepared by experts inside the Commission.

In terms of the methodology used, macro-economic assumptions made by Member States are compared with those in the Commission's 2011 Spring Economic Forecasts, while policy responses set out in the programmes are analysed in order to assess their adequacy for achieving the commitments made and responding to the challenges faced, in the light of priorities agreed at EU level by the Commission and the Spring European Council.

8. Did the Commission discuss these recommendations with Member States before adopting them?

The recommendations themselves are not discussed with Member States before the Commission adopts them. The recommendations and the underpinning analysis are produced in an objective and independent way. However, informal discussions took place between the Commission and the Member States before the submission of the programmes. These discussions are enriched by a constant policy dialogue in the various sectoral Councils and the many Council working groups.

9. So is the Commission now dictating national economic policy?

No. This is not about dictating policy. It is about sticking to commitments already made, by implementing and following up on decisions taken by the European Council. All Member States have agreed both to the rules governing public finances as set out in the Stability and Growth Pact and to work towards the targets set out in the Europe 2020 strategy.

Member States at the level of Heads of States and Governments also endorsed at the March European Council the EU's economic priorities for the coming year, based on the Annual Growth Survey which the Commission presented in January.

The recommendations are a tool for ensuring that Member States maintain and act on the commitments they have made, within this agreed framework, before their peers and before their public opinions.

National governments retain responsibility for economic policies implemented in Member States. But the impact of those policies no longer stops at national borders. The crisis has made abundantly clear the extent to which the economies of the EU in general – and the euro area in particular – are interdependent. That is why all 27 Member States have signed up to a streamlined and strengthened process of economic policy coordination in the EU, which we call the European Semester.

The Commission is the only EU institution with the political autonomy, the technical expertise and the pan-European perspective to be able to oversee this process.

10. What is the legal basis for the recommendations?

The recommendations relating to economic policy and employment are adopted on the basis of Articles 121 and 148 respectively. Those referring to the Stability and Growth Pact are based on Council Regulations 1466/97 and 1467/97.

- **POLICY CONTENT**

11. Do the recommendations address the same issues in each Member State?

No. Each Member State is committed to the Europe 2020 targets and to achieving sound public finances in the context of the Stability and Growth Pact. But countries face different challenges, so it is normal that they should not all have the same policy priorities. That is why the recommendations are *country-specific.* They are tailored to the particular issues facing the Member State in question.

That is why not all Member States have received the same number of recommendations.

Moreover, the scale of the challenge faced by each Member State is reflected in the content rather than the number of recommendations it receives.

12. Why have five countries only received one recommendation each?

Specific recommendations have not been addressed to the five Member States in receipt of financial assistance from the EU and IMF: euro area countries Greece, Ireland and Portugal and non-euro area countries Latvia and Romania. The assistance these countries are receiving is tied to the fulfilment of ambitious, tailored policy programmes focused on fiscal consolidation and structural economic reforms. The priority for these five Member States is to implement the programme as agreed, hence the single recommendation for each of them to do so.

For the same reason, Portugal and Greece have not submitted Stability Programmes this year.

13. How will the stress tests for banks currently underway relate to the recommendations on the financial sector?

The recommendations on the financial sector take full account of the fact that bank stress tests are ongoing. They do not in any way prejudge the outcome of these tests.

14. Will these recommendations mean another round of austerity for Europeans?

The Commission has no desire to impose austerity on Europeans.

But the fact is that unsustainable public finances are limiting our growth potential. Every euro spent on interest payments is one euro less to spend education, research and infrastructure. That is why a lasting reduction in public debt and deficits is essential. Of course, decisions on spending reductions should be guided by the principles of fairness and the need to maintain investment in areas that are essential for future growth – such as education and research.

The country-specific recommendations are part of that process of putting Europe back on a path of sustainable growth and rising employment, based on sound public finances.

15. What general conclusions have been drawn from this process?

The following overall conclusions can be drawn from the Commission's assessment of the programmes Member States have submitted:

- The policy guidance offered in the Annual Growth Survey in January 2011 has been taken up to a large extent.
- The macro-economic assumptions made by Member States are, broadly speaking, realistic – especially as concerns those for 2011 and 2012.
- National plans are often lacking in ambition. Further efforts will need to be made to ensure that the Europe 2020 targets are reached.
- Programmes vary significantly in terms of the specificity of the actions referred to.
- Many of the proposed measures are vague, lacking sufficient focus.

16. Although the recommendations are country-specific, are there top-line messages for the EU as a whole on public finances, labour market issues and structural reforms?

<u>On public finances:</u>

- A greater degree of ambition is needed when it comes to fiscal measures aimed at ensuring the sustainability of public finances.
- More needs to be done to reform the structure of tax systems and to protect growth-enhancing expenditure items.
- Greater specificity is needed as regards the fiscal measures that will lead to a reduction in budget deficits.

<u>On labour markets, more efforts are needed to:</u>

- Boost labour force participation by increasing the retirement age, reducing early retirement schemes and improving accessibility of childcare.
- Combat structural unemployment and integrate vulnerable groups by reducing payroll taxes and better targeting active labour-market policies.
- Reduce youth unemployment and early school leaving by reforming labour contracts where necessary and improving the links between education and employment.
- Ensure that wages correspond to productivity.

<u>On structural reforms, more efforts are needed to:</u>

- Improve the business environment by reducing excessive regulatory constraints, making it easier to start a business and facilitating access to finance, especially for SMEs.
- Foster competition in the services sector by fully implementing the Services Directive and enhancing competition and regulatory frameworks in network industries.
- Promote R&D and innovation by providing incentives for private R&D investments and better matching R&D and innovation with business needs.

17. Are the Member States on course to hit the Europe 2020 targets?

Further efforts will be needed by Member States in order to meet the Europe 2020 targets, though good progress has been made in many cases.

- ## NEXT STEPS

18. What happens next?

The recommendations will be discussed by the Council of Ministers on 17 June (Employment & Social Affairs) and 20 June (Economy and Finance), and endorsed by EU Heads of State and Government at the European Council on 23-24 June. They will be formally adopted by the Council in July.

It will then be up to Member States to implement the recommendations by taking them on board as they draft their national budgets and other relevant policies.

19. Can Member States rewrite or soften the recommendations before they are formally approved?

The recommendations will be debated by employment and finance ministers in the Council before being discussed and endorsed by Heads of State and Government at the 23-24 June European Council. During that process, Member States at the Council level can make their views known on the recommendations and suggest amendments to parts of them. However, if the recommendations were to be substantially ‘softened’, the process would lose credibility. The value of these recommendations is that they are the product of extensive and objective technical analysis – rather than being the outcome of a political compromise.

20. Will the European Parliament have a say on these recommendations?

The Treaty does not require a specific role for the European Parliament under Articles 121 and 148. It remains of course fully involved in the policy discussion on the economic governance, both on the design of the new mechanisms and on the EU priorities.

- ## IMPLEMENTATION BY MEMBER STATES

21. Why should Member States follow the recommendations?

There are three key reasons why Member States should follow the recommendations:

Peer pressure: Member States will endorse the recommendations at the highest political level and are expected to reflect them in their national decision-making processes, including in the preparation of their annual budgets. They will track each other’s progress through a process of peer monitoring, with input from the Commission, throughout the year. They will have an opportunity to examine whether there is progress made at EU level when the Commission presents the next Annual Growth Survey in January 2012, and what each of them has achieved when they debate the Commission’s next set of recommendations in June 2012.

Market pressure: The sovereign debt crisis has dramatically increased the scrutiny to which EU Member States are subjected on the bond markets. This is clearly a strong incentive for governments to pursue policies aimed at bringing down debt and deficits while boosting their economies' growth potential and capacity to generate jobs, in line with the country-specific recommendations.

Possible sanctions: Once the economic governance package is finalised by the European Parliament and the Council, euro area Member States will have a further incentive to adopt policies in line with the recommendations: the prospect of sanctions. This is explained in the answer to Question 5.

22. How will the Commission monitor the implementation of the recommendations? Will there be regular review missions and reports?

Implementation of the recommendations will be monitored closely and on an ongoing basis by the Commission services. The Commission will keep the Council informed of its findings throughout the coming year. A formal assessment of each Member State's performance will take place in June 2012, when the Commission presents next year's country-specific recommendations and accompanying analysis. There will not be formal review missions as such.

23. What about national parliaments?

National parliaments retain their prerogatives in debating and voting on Member States' budgets and other economic legislation. National authorities, collectively, are now expected to take up the country-specific recommendations made to them in the definition of priorities and measures, notably in view of the preparation of the next round of programmes foreseen for Spring 2012.

24. So are the country-specific recommendations the ones that will decide whether fines are imposed on Member States?

No. Member States placed in the reformed Excessive Deficit Procedure or the new Excessive Imbalance Procedure would receive a distinct set of recommendations, compliance with which would be enforced as described above.

However, the country-specific recommendations issued today address issues of budgetary sustainability and macro-economic imbalances in an effective way at an earlier stage, with the aim of avoiding that Member States find themselves placed in Excessive Deficit Procedure or Excessive Imbalance Procedure.

25. Can Member States be fined or taken to court if they do not implement the recommendations?

No. Implementation of the country-specific recommendations will be driven primarily by peer pressure, though market pressure will also play an important role.

See also IP/11/685