European Commission - Fact Sheet

European Semester 2017 Spring Package explained

Brussels, 22 May 2017

European Semester 2017 Spring Package explained

What did the Commission decide today?

The European Commission has taken the next steps in the 2017 cycle of the European Semester of economic policy coordination. The package includes:

- country-specific recommendations (CSRs) for 27 Member States (all Member States except Greece, which is currently under a stability support programme). The recommendations require Member States' action on the implementation of reforms in order to boost investment, pursue structural reforms and ensure responsible fiscal policies;
- recommendations to the Council to abrogate the Excessive Deficit Procedures (EDP) (under Article 126(12) of the Treaty on the Functioning of the European Union (TFEU)) for Croatia and Portugal as these countries have brought their deficits below the 3% of GDP Treaty reference value;
- reports on Belgium and Finland under Article 126(3) TFEU, reviewing their compliance with the debt criterion of the Treaty in 2016;
- a confirmation concerning Italy that the requested additional fiscal measures for 2017 have been delivered and that therefore no further steps are deemed to be necessary for compliance with the debt criterion at this stage;
- a recommendation to the Council with a view to giving a warning to Romania on the existence of a significant observed deviation from the adjustment path toward the medium-term objective in 2016, as well as a recommendation to the Council with a view to correcting the significant observed deviation from the adjustment path toward the medium-term objective (under Article 121(4) TFEU and Article 10(2) of Regulation (EC) No 1466/97);
- the conclusion that, based on the assessment of reform policy commitments of Cyprus, Italy and Portugal, there is no need at this stage to step up the macroeconomic imbalance procedure, provided that the countries swiftly and fully implement the reforms set out in their country-specific recommendations.

Country-specific recommendations

What are the country-specific recommendations?

Country-specific recommendations provide tailored guidance to individual Member States on how to boost jobs, growth and investment, while maintaining sound public finances. The Commission publishes them every spring, as part of the European Semester, the EU's annual cycle for economic policy coordination. The recommendations adapt priorities identified at EU level in the Annual Growth Survey and at the euro area level in the recommendation for the economic policy of the euro area to the national level. They give guidance on what can realistically be achieved in the next 12-18 months to make growth stronger, more sustainable and more inclusive, in line with the EU's long-term jobs and growth plan, the Europe 2020 strategy.

(For more details on the European Semester process and the country-specific recommendations, see the new European Semester website)

What is new in the 2017 European Semester and country-specific recommendations?

The European Semester has been significantly streamlined over time to improve dialogue, ownership and delivery at all levels. In this year's edition, the Commission is now putting increased emphasis on the **multiannual dimension of the European Semester**. A multiannual perspective on the implementation of past country-specific recommendations provides a clearer picture of the evolution of progress since each recommendation was first adopted. This is because implementing reforms takes time, often more than the one year that can be monitored in a single-year perspective.

What progress have Member States made on the country-specific recommendations?

The implementation of reforms naturally takes time. Looking back several years the commitment of

Member States to actively pursue structural reforms is confirmed. Seen from the perspective of today, two out of three recommended reform steps have seen at least some progress, confirming that reforms are being implemented. Substantive progress is recorded for the large majority of reforms, but the pace and depth of reform implementation by Member States varies. In particular, reform progress has been the highest in the policy areas that concern "fiscal policy and fiscal governance" as well as in "financial services".

Since the adoption of last year's country-specific recommendations, Member States made most significant progress in the areas of fiscal policy and fiscal governance, as well as in active labour market policies. Steps have been taken in taxation policies (such as to reduce the tax burden on labour), labour market and social policies (notably social inclusion and childcare) and financial services. The areas showing least progress include competition in services and the business environment. The overall picture that emerges is that Member States continue to make efforts to implement reforms, but so far the degree of progress ranges between 'limited' and 'some' for most policy areas identified in the 2016 country-specific recommendations.

Figure 1: Multiannual perspective of CSR implementation: yearly assessment (left) versus multiannual assessment (right)

* 2011-2012 CSRs: Different assessment categories
** The overall assessment of the country-specific recommendations related to fiscal policy includes compliance with the Stability and Growth Pact.

What should Member States do to boost financing, investment, productivity, competitiveness and long-term growth?

Economic stability and the implementation of reforms have contributed to strong job creation and the recovery of investment that has exceeded pre-crisis levels in some Member States. However, longer-term, sustainable growth is dependent on productivity and competitiveness developments that are driven in turn by structural reforms. Further efforts are therefore needed to increase the stocks of capital equipment, intangible capital and infrastructures and compensate for the investment gap accumulated since the outbreak of the crisis, bring about a more efficient allocation of resources and facilitate the adoption of new technologies and innovative business models, in a more business- and employment-friendly regulatory environment with closer cooperation between business and academia. This would in particular strengthen the digitisation and internationalisation of European companies, notably SMEs. It would also help reduce the disparities in economic performance and productivity across regions, sectors and firms and thereby support dynamic wage developments. This also requires a focus on reforms facilitating investment in social infrastructure and in education and training.

Addressing the continued shortfall in investment requires a mix of demand and supply policies. Member States with fiscal space should accelerate the upward trend in public investment and ensure an environment that is conducive to productive investment. The assessment by the Commission of progress made in addressing national barriers to investment and the priority reforms underway, notably in areas related to the business environment such as the role of public administration, public procurement, access to finance and product market regulation, confirms that a significant proportion of country-specific recommendations in these areas are not fully implemented. Member States should take advantage of the favourable macroeconomic conditions that are now in place for a pick-up in investment to accelerate the pace of reforms and create opportunities for private investment in these areas, where budgetary implications are generally limited.

The implementation of the European Fund for Strategic Investments is acting as a catalyser of private investments. Structural reforms are contributing to creating a business environment conducive to encourage private sector investments in Member States and promote the integration of companies in

European and global value chains. The Investment Plan for Europe, also known as the Juncker Plan, is already strongly delivering concrete results. So far, the European Investment Bank (EIB) has approved projects for financing under the European Fund for Strategic Investments (EFSI) for financing volume of just under EUR 37 billion. The European Investment Fund (EIF) has approved SME financing agreements with total financing under the EFSI of just under EUR 9 billion. Some 416,000 SMEs are expected to benefit across all 28 Member States. Together, these operations are expected to trigger total investment of EUR 194.5 billion.

Of which EUR 24.2bn signed

EIB Group figures

As of 16/05/2017

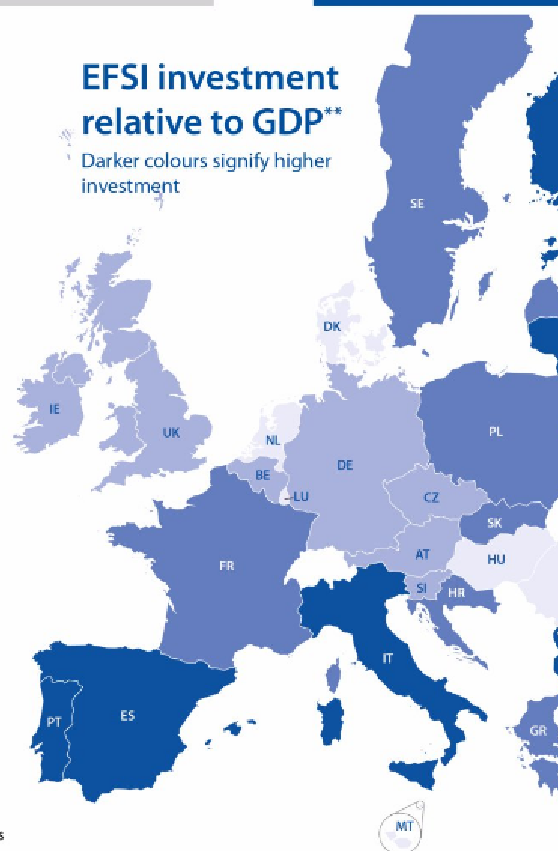
EUR 36.9bn

* EIB-approved: EUR 27.9bn
EIF-approved: EUR 9bn

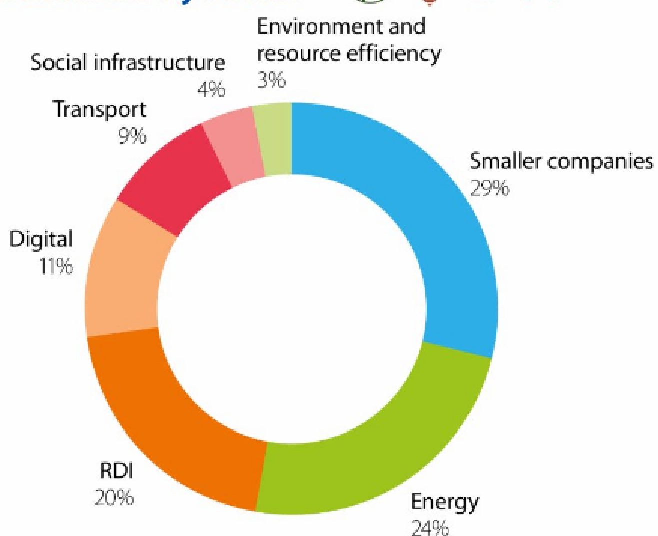
EUR 194bn

EFSI investment relative to GDP**

Darker colours signify higher investment



EFSI investment by sector**



**based on approved operations

What should Member States do to make public finances more supportive of growth?

Fiscal policy remains important in strengthening the recovery. Public finances are expected to continue improving in the euro area and the EU as a whole. Benefiting from the ongoing moderate economic expansion and exceptionally low interest rates, the general government deficit and debt continued to decline in 2016 in the euro area and the EU. The general government deficit in the euro area is expected at 1.4% this year and the debt-to-GDP ratio to go just below 90% next year.

What are the main social challenges for Member States in 2016-2017?

The EU is in the process of overcoming the effects of the financial and economic crisis. Employment is at a peak of nearly 233 million employed Europeans and growth is picking up. However, the recovery is still unevenly distributed across European regions and Member States. High unemployment, poverty and inequality remain key concerns in some countries. Moreover, EU economies and the social model are under pressure in the wake of globalisation, digitisation, and ageing societies. This requires further reforms in a number of areas:

1. Job creation and labour market conditions are improving but youth and long-term unemployment remain high. More efforts are needed to promote resilient and inclusive labour markets.
2. The labour market participation of older workers has increased but in many countries their employment rates remain low. This puts pressure on the sustainability and adequacy of social

protection systems.

3. Low skilled workers have low employment rates and make up a large share of the long-term unemployed. The skills gap on the labour market puts a brake on growth and productivity. Investing in skills is crucial to reduce inequalities, ensure social inclusion, fight poverty and boost our competitiveness. Access and quality of education and training should therefore be improved.
4. Despite the overall relatively equal income distribution in the EU, compared to other economies, income inequality is a growing concern. This is often reflected by high poverty rates. In the last few years, significant labour market reforms have been adopted, notably in the countries hardest hit by the crisis. Further efforts have to be made in product markets, financial sector, educational and R&D reforms, which would contribute to this process and facilitate investment and boost productivity.
5. A close involvement of social partners in the process of design and implementation of structural reforms is also essential to increase their ownership and ensure they are balanced and effective.

What should Member States do to improve social inclusion and protection and how do you tackle inequalities?

Social protection systems must provide adequate income support and services to all people. In a number of Member States tax progressivity is relatively low, tax collection poor and social safety nets weak. In this context, a number of recommendations have been made to improve the adequacy and coverage of safety nets (e.g. regarding minimum income) and improving the transparency and coordination of social benefits.

Economic reforms can only bear fruit if social challenges are also addressed. High inequality puts a brake on growth, its sustainability and inclusiveness. Tackling income inequality and poverty requires a comprehensive set of policies This includes equal access to education and health care, good labour market opportunities and earnings prospects, affordable quality services and well-designed tax and benefit systems.

How does the Social Scoreboard for the European Pillar of Social Rights feed into the Semester?

The Pillar and its twenty principles are intended as a reference framework to screen the employment and social performance of Member States, to drive the process of reforms at national level and, more specifically, to serve as a compass for the renewed process of both economic and social upward convergence. To put the principles of the Pillar into action, the Commission will also make full use of the European Semester.

In order to monitor progress, the Commission has proposed a Social Scoreboard that maps indicators over twelve economic and social areas. Examples are the share of early school leavers, the youth unemployment rate and the impact of social transfers on poverty reduction.

What about policy areas not targeted in this year's recommendations?

The country-specific recommendations focus on a selected number of key priority issues of macroeconomic and social relevance that require Member States' immediate attention.

However, this does not mean that those areas covered by the more extensive scope of country-specific recommendations in previous years have lost importance. The Commission will continue to monitor them in its country reports and various EU policy processes and will continue to encourage Member States to take a holistic approach in their National Reform Programmes.

What is the Commission doing to help Member States implement these recommendations?

The country-specific recommendations provide a policy framework for action at national level. The Commission supports dialogue with Member States, social partners and stakeholders at all levels to support exchange of experience, facilitate the follow-up, ensure close monitoring and review performance.

The Commission is also making sure that EU funding is steered towards EU and national priorities. The EU's Structural and Investment Funds are the principal investment tools for delivering on the Europe 2020 goals. There is a need to use this funding in conjunction with financial engineering techniques, loans and schemes to facilitate SME financing, to enhance the impact on the EU economy. The Investment Plan for Europe and the European Fund for Strategic Investments also serve this purpose.

Effective implementation of structural reforms requires both political will and adequate administrative capacity. The Structural Reform Support Service is already helping with effective reform implementation. The Commission proposed a dedicated EU instrument – Structural Reform Support Programme (SRSP) – to provide targeted reform assistance to the Member States, at their request, to assist them with the design and implementation of institutional, structural and administrative reforms

Why do some countries have more detailed recommendations?

The level of detail and specificity of an individual country-specific recommendation depends on the specific economic situation of the country concerned. In general, Member States which face more urgent and/or encompassing challenges, such as, for example, those experiencing excessive imbalances (Bulgaria, Croatia, Cyprus, France, Italy and Portugal), receive more detailed and comprehensive recommendations than other Member States.

For Member States where economic performance is overall satisfactory and challenges are more specific, the recommendations are less comprehensive and detailed.

Budgetary decisions and macroeconomic surveillance: what has the Commission decided today?

Fiscal decisions:

The Commission recommends to the Council to close the Excessive Deficit Procedures for **Croatia** and **Portugal**. These countries have brought their deficits below the 3% of GDP Treaty reference value. If the Council follows the Commission's recommendation, this would leave only four Member States (France, Spain, Greece and the United Kingdom) under the corrective arm of the Pact, down from 24 countries in 2011.

- The Commission has adopted reports for **Belgium** and **Finland** under Article 126(3) of the Treaty, in which it reviewed their compliance with the debt criterion. In both cases, the conclusion is that the debt criterion should be considered as currently complied with, in the case of Belgium, provided that additional fiscal measures are taken in 2017 to ensure broad compliance with the adjustment path towards the MTO in 2016-2017 together.In the case of Finland swift adoption and implementation of structural reforms increasing productivity and the supply of labour are key to enhance Finland's growth prospects in the medium term, which would contribute to improve fiscal sustainability
- The Commission addresses a warning to **Romania** on the existence of a significant deviation from the adjustment path towards the medium-term objective in 2016 based on outturn data. It also recommends to the Council to adopt a recommendation for Romania to take appropriate measures in 2017 with a view to correcting this deviation. It is the first time that the Commission applies the significant deviation procedure of the EU economic governance framework. It is an early warning and gives the authorities the opportunity to take corrective action in order to avoid the opening of an excessive deficit procedure
- Based on the assessment of the 2017 Stability Programmes, the Commission proposes to grant the requested flexibility to **Lithuania and Finland**. In the case of Finland, flexibility is granted in view of the planned implementation of major structural reforms, notably the Competitiveness Pact and the pension reform, and investment.In the case of Lithuania, flexibility is granted in view of the planned implementation of reforms raising the sustainability of the pension system through a reinforced indexation and a gradual increase of the pensionable service.
- Concerning **Italy**, the Commission confirms that the requested additional consolidation measures for 2017 have been delivered and that therefore no further steps are deemed to be necessary for compliance with the debt criterion at this stage.

Macroeconomic decisions:

In February, the Commission announced that **Cyprus, Italy and Portugal** were experiencing excessive imbalances and that, in light of persistent structural weaknesses, it would review its assessment in May. The Commission has found that the reform commitments outlined in the National Reform Programmes of these three countries appear sufficiently ambitious, but the absence of details on the adoption and implementation timeframe limits their credibility. As a result, the Commission concluded that there is no ground to step up the macroeconomic imbalances procedure, provided that there is swift and full implementation of the reforms set out in their country-specific recommendations.

Why is the Commission recommending that the Council closes the Excessive Deficit Procedures (EDPs) for Croatia and Portugal?

Croatia has brought its headline deficit down to 0.8% of GDP in 2016 - i.e. the deadline to correct its excessive deficit. This is below the Treaty reference value of 3% of GDP and the recommended headline deficit target of 2.7% of GDP for that year. The deficit is projected to be brought durably below 3% of GDP, since the headline deficit is projected at 1.1% and 0.9% of GDP in 2017 and 2018, respectively.

Given that Croatia's general government gross debt-to-GDP ratio is projected to remain above the Treaty reference value of 60%, the EDP can only be abrogated if the Commission forecast indicates that the debt ratio fulfils the forward-looking element of the debt reduction benchmark. Compliance

with such a forward-looking element of the debt reduction benchmark was ensured for 2016.

Portugal has brought its headline deficit to 2.0% of GDP in 2016. This is below the Treaty reference value of 3% of GDP. The Commission 2017 Spring Forecast projects a deficit of 1.8% of GDP in 2017 and 1.9% of GDP in 2018, thus remaining below the 3%-of-GDP Treaty reference value over the forecast horizon.

When will Croatia and Portugal move to the preventive arm of the Stability and Growth Pact?

EU economy and finance ministers will discuss the Commission's recommendations in the Economic and Financial Affairs Council (ECOFIN). If and when the ECOFIN Council decides to abrogate the EDPs for Croatia and Portugal, the two countries will move from the corrective to the preventive arm of the Stability and Growth Pact (SGP).

Under the preventive arm of the SGP, Croatia and Portugal should progress towards their medium-term budgetary objectives at an appropriate pace, including respecting the expenditure benchmark, while complying with the deficit and debt criteria.

If the Council follows the Commission recommendation, these countries would have to comply with the rules of the SGP's 'preventive arm' as of this year.

How many Member States are currently in an Excessive Deficit Procedure?

If the Council follows the Commission's Recommendations for closing the EDPs for Croatia and Portugal, the overall number of countries in EDP will drop to four: France, Spain, Greece and the United Kingdom. This is down from spring 2011, when 24 Member States were in the corrective arm of the Pact.

What is a report under Article 126(3) of the Treaty?

The Article 126(3) report represents the first step in assessing the case for launching a possible Excessive Deficit Procedure. It assesses the Member State's deficit and/or debt position. A Member State is non-compliant with the deficit requirement if its general government deficit is above 3% of GDP, unless the excess over the reference value is only exceptional and temporary and the deficit ratio remains close to the reference value. As regards debt, the criterion for non-compliance is a general government debt level greater than 60% of GDP and not declining at a satisfactory pace.

The Stability and Growth Pact defines a satisfactory pace as a reduction of the gap between a country's debt ratio and the 60% of GDP reference value of the Treaty by 1/20th annually on average over three years. If a Member State does not meet one or both of the criteria, the Commission prepares a report under Article 126(3) of the Treaty, which considers in detail a series of factors and assesses the case for opening an EDP.

What are the implications of the reports under Article 126(3) of the Treaty?

The Economic and Financial Committee has two weeks following the Commission's adoption of the Article 126(3) reports to formulate an opinion (under Article 126(4)).

Why is the Commission recommending that the Council opens the Significant Deviation Procedure for Romania?

Based on 2016 outturn data validated by Eurostat and the Commission 2017 Spring Forecast, in 2016 Romania's structural balance deteriorated from a deficit of 0.6% of GDP (i.e. above the medium-term budgetary objective (MTO) of a structural deficit of 1 % of GDP) to a deficit of 2.6% of GDP, pointing to a significant deviation from the MTO. The growth of government expenditure, net of discretionary revenue measures and one-off measures, was well above the expenditure benchmark, also pointing to a significant deviation. The Commission's overall assessment confirmed the significant deviation from the requirements of the preventive arm of the SGP in 2016. Moreover, based on the 2017 Commission spring forecast, Romania's headline general government balance is projected to reach a deficit of 3.5% of GDP in 2017 and deteriorate further to 3.7% of GDP in 2018, thereby breaching the Treaty reference value of 3% of GDP.

The Commission recommended to the Council that Romania implement the necessary measures to ensure that the nominal growth rate of net primary government expenditure does not exceed 3.3% in 2017, corresponding to an annual structural adjustment of 0.5% of GDP.

It is the first time that this procedure of the EU economic governance framework is applied. It provides the authorities the opportunity to take corrective action in order to avoid the opening of an Excessive Deficit Procedure.

What is the procedural follow-up if a significant deviation is confirmed for 2016 based on outturn data?

In the event of a significant observed deviation from the adjustment path towards the MTO in a Member State, a warning is addressed to that Member State. Within one month of the date of the adoption of the warning, the Council should address a recommendation to the Member State concerned to take the necessary policy measures to correct the significant observed deviation. The regulation foresees that the recommendation will set a deadline of no more than five months for the Member State to address the deviation. Within that deadline, the Member State should report to the Council on action taken in response to this recommendation.

What are the next steps in the implementation of the budgetary decisions?

The Council will decide on the Commission's Recommendations:

- on closing the Excessive Deficit Procedure (EDP) for Croatia and Portugal.
- on opening a Significant Deviation Procedure for Romania and recommending a minimum structural improvement of 0.5% of GDP in 2017.

The Economic and Financial Committee (EFC) will provide its opinion on the Article 126(3) reports for Belgium and Finland, assessing a potential breach of the debt criterion by these countries, within two weeks.

The Commission assesses compliance with the SGP continuously throughout the year as part of the European Semester of economic policy coordination.

For further information:

Press release

Overview of countries' situation under the Macroeconomic Imbalances Procedure and the Stability and Growth Pact

Overview of issues covered in the 2017 country-specific recommendations

Chapeau Communication

Country-specific recommendations 2017

Spring 2017 Economic Forecast (11 May 2017)

Country Reports Communication (22 February 2017)

Country Reports (22 February 2017)

Start of the 2017 European Semester: Autumn Package (16 November 2016)

Alert Mechanism Report 2017 (16 November 2016)

The EU Economic Governance Explained

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