IN-DEPTH ANALYSIS

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What role for the European Semester in the recovery plan?

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Abstract

The paper assesses the institutional interactions between the Recovery and Resilience Facility (RRF) and the European Semester, with the view to establish whether and how the Semester can constitute a governance framework for the RRF. It argues that the RRF and the Semester are mutually beneficial: the EU Semester offers important informational and signaling advantages for the preparation of recovery and resilience plans. The RRF, in turn, offers important implementation benefits for the policy advice issued under the European Semester. Yet, potential synergies are not fully exploited on implementation, ownership, and accountability towards the European Parliament.

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LIST OF ABBREVIATIONS

AMR	Alert Mechanism Report
ASGS	Annual Sustainable Growth Strategy
BICC	Budgetary Instrument for Convergence and Competitiveness
CCI	Competitiveness and Convergence Instrument
CSR	Country-Specific Recommendations
EP	European Parliament
EU	European Union
GDP	Gross Domestic Product
GNI	Gross National Income
IDRs	In-Depth Reviews
IMF	International Monetary Fund
MFF	Multiannual Financial Framework
MIP	Macroeconomic Imbalance Procedure
NGEU	Next Generation EU
NRP	National Reform Program
NRRP	National Recovery and Resilience Plans
RRF	Recovery and Resilience Facility
SCPs	Stability and Convergence Programs
SDGs	Sustainable Development Goals
SGP	Stability and Growth Pact
SURE	Support to mitigate unemployment risks in an emergency

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EXECUTIVE SUMMARY

The study examines the interactions between the design of the Recovery and Resilience Facility (RRF) and the European Semester (ES, or Semester going forward), with the view to establishing whether and how the Semester can constitute a governance framework for the RRF.

Main findings

The study argues that the incorporation of the RRF and the Semester gives rise to important synergies between the new Facility and the established economic governance framework. In particular:

- The EU Semester provides important informational and signalling advantages to Member States for the formulation of national recovery and resilience plans (NRRPs);
- The RRF can potentially reinforce the EU Semester by enhancing domestic ownership and providing the financial incentives for reforms.

Although the interactions between the RRF and the European Semester are generally positive, a number of issues require further attention. In particular:

- The informational and signalling advantages that the Semester brings to the RRF mostly apply to the formulation stage of NRRPs and less to the subsequent stage of their implementation;
- The frequency of Member States' reporting requirements are not clearly incorporated into the Semester cycle;
- The potential advantages of the RRF for domestic ownership requires more grounding to ensure that domestic stakeholders can effectively engage with the design of the NRRPs;
- The incorporation of the RRF into the European Semester requires rethinking how to integrate fiscal and structural advice;
- The economic advice provided under the European Semester to the RRF process is extensive and not sufficiently prioritized;
- The European Parliament's role in fostering transparency and accountability of the RRF is not sufficiently in line with its role in the European Semester.

Recommendations

- The European Commission might use Country Reports to provide an interim assessment of the implementation efforts of NRRPs in 2022, with the view to provide guidance to Member States as well as to signal areas that would need amendments or urgent actions.
- The reporting requirements for Member States under the RRF could be reduced from a quarterly to a biannual basis, in order to make the reporting 'windows' compatible with Member States requirements within the Semester cycle.
- The template for the submission of NRRPs could include an *ad hoc* section dedicated to provide information on the input of domestic stakeholders to the identification of the reforms and investments included in the national recovery and resilience plan.
- The complementarities and spill-over effects of the policies supported by the RRF could be fully incorporated in the future fiscal advice issued in the Semester cycle.
- Official visits of Commission officials to national capitals could be set up in the run-up to the April 2021 deadline for submitting NRRPs in order foster a frank exchange of views between the Commission and Member States on the content of NRRPs and between the Commission and domestic stakeholders;
- The practice of the European Semester economic dialogues could be extended to the RRF, and the Commission's reporting requirements to the European Parliament could be scaled up.

1. INTRODUCTION

On 27 May 2020, the Commission proposed a Regulation on a Recovery and Resilience Facility (RRF), in the context of the "European Union Recovery Plan", a wide package of initiatives aimed at meeting the calls by the European Parliament and by the European Council for coordinated and decisive action at EU level to cater for the negative economic, financial and social consequences of the COVID-19 pandemic crisis.

The general objective of the RRF is to promote the Union's economic, social and territorial cohesion by improving the resilience and adjustment capacity of the Member States, mitigating the social and economic impact of the crisis, and supporting the green and digital transitions, thereby contributing to restoring the growth potential of the economies of the Union, fostering employment creation in the aftermath of the COVID-19 crisis, and promoting sustainable growth.

The specific objective of the RRF is to provide financial support (through grants and loans) to achieve reforms and investments as set out in national recovery and resilience plans (NRRPs).

To achieve these goals, the RRF will be embedded in the European Semester. In particular, it may provide the framework to identify national reform and investment priorities and monitor their implementation.

The aim of this paper is to assess the interactions between the design of the RRF and the European Semester, with the view to establish whether and how the Semester can constitute a governance framework for the RRF, notably where:

- the priority areas are identified and agreed;
- the national recovery plans are adopted and monitored; and
- the European Parliament can effectively perform its scrutiny and accountability role.

The paper argues that the incorporation of the RRF and the Semester can be conceived as a two-way street: the EU Semester is beneficial for the RRF and the RRF is beneficial to the Semester. In particular, the EU Semester offers important informational and signaling advantages for the identification of the priority areas in the preparation of recovery and resilience plans. The RRF, in turn, offers important implementation benefits for the policy advice issued in the context of the European Semester. In particular, the RRF has the potential to increase domestic ownership of national recovery and resilience plans, by allowing Member States to set out their own targets and milestones, against which implementation efforts will be assessed. The RRF also has the potential to increase the implementation of the country-specific recommendations (CSRs) issued during the Semester cycle by offering financial incentives for reforms.

Although the interactions between the RRF and the European Semester are generally positive, new and old challenges remain. In particular: (i) the informational advantages that the Semester brings to the RRF mostly apply to the preparation stage of national recovery and resilience plans and less to the subsequent stage of implementation of NRRPs; (ii) Member States' monitoring requirements under the RRF are not sufficiently incorporated into the Semester timeline; (iii) the domestic ownership potential of the RRF needs to be translated into operational practice; (iv) the incorporation of the RRF into the ES opens up new questions regarding the integration between fiscal and structural advice, especially with regard to Euro area countries; (v) the policy advice provided under the ES process is extensive and not sufficiently prioritized; and (vi) the European Parliament's role in fostering transparency and accountability of the RRF is not sufficiently in line with its role in the ES.

The analysis that follows is mainly based on the content of the Commission's legislative proposal issued on 28 May 2020, as well as the subsequent strategic guidance for the implementation of the Recovery and Resilience Facility that the Commission provided in its 2021 Annual Sustainable Growth Strategy (ASGS).[1] The paper also takes into consideration the Conclusions the European Council reached on 21 July 2020 and the ongoing legislative work in the European Parliament.[2] As for the scope of the analysis, the paper focuses on the challenges that stem from the interactions between the RRF and the Semester that mostly pertain to the EU-level. That is to say, the paper investigates the consequences of embedding the RRF into the ES for the effective working of European economic governance and the relationship among European institutions. The implications for Member States at the national level are not fully examined.

The paper is organized as follows. Section 2 examines the background conditions that have led to the RRF proposal as well as the main design features of the RRF. Section 3 discusses the tenets of the European Semester and reviews the major implementation and accountability issues that have characterized its operation over the past decade. Section 4 assesses the interactions between the RRF and the ES. In particular, the paper identifies both the benefits and the implementation and accountability challenges that stem from integrating the RRF into the Semester. Section 5 presents the conclusions of the analysis.

2. THE RECOVERY AND RESILIENCE FACILITY

2.1. Background

«*The Covid-19 pandemic is the most devastating shock to hit the global economy since the Second World War*». With these words, the Bank for International Settlements clearly captures the magnitude of the crisis unleashed by the spread of coronavirus at the beginning of 2020.[3]

As contagions rose, countries around the world were forced to shut down large part of their economies. With population in a lockdown, however, the economic system came to a halt: production and supply chains went disrupted, while households and firms struggled to cope with the resulting loss of income and spending power. Already last April, IMF forecasts certified that the world was experiencing the worst economic crisis since the 1930, a crisis far deeper than the preceding 2008 crisis: world output is expected to decline by 3 per cent in 2020, 6.3 percentage points down from the growth forecast that the IMF released at the beginning of the year (IMF 2020). To give a measure of the economic dislocations, in 2009, the worst year of the financial crisis, global output dipped by "only" 0.1 per cent. Although significant uncertainty persists about the evolution of the pandemic, the large fall in output experienced thus far is expected to translate in rising unemployment and income losses, even in the developed world where virtually all governments have set up job protection schemes.

[1] Specifically, the analysis is based on the following documents: Proposal for establishing a Recovery and Resilience Facility, Brussels, 28.5.2020 COM(2020) 408 final; Communication from the Commission: 2021 Annual Sustainable Growth Strategy COM/2020/575 final; Commission staff working document - Guidance to Member States Recovery and Resilience Plans - Part 1 and Part 2 Brussels, 17.9.2020 SWD(2020) 205 final

[2] Conclusions of the European Council, 21 July 2020; Committee on Budgets and Committee on Economic and Monetary Affairs, Draft report on the proposal for a regulation of the European Parliament and of the Council establishing a Recovery and Resilience Facility, 2020/0104(COD)

[3] Bank for International Settlements (2020). Annual Economic Report, 30 June.

In Europe, the need to support jobs, businesses and the economy at the EU-level has also been identified. On 23 April 2020, EU leaders endorsed a €540 billion package of three safety nets for workers, businesses and Member States.[4] The package consists of:

1. €100 billion - Support to mitigate unemployment risks in an emergency (SURE)
2. €200 billion - Pan-European guarantee fund for loans to companies (European Investment Bank)
3. €240 billion - Pandemic crisis support for euro area Member States (European Stability Mechanism)

The EU has also increased flexibility in the use of structural funds, which allows Member States to transfer money between different funds and regions to address the social and economic damage of the pandemic.

The general escape clause for fiscal rules under the Stability and Growth Pact has been activated in order to provide Member States the flexibility to support healthcare systems and continuing supporting employment and economic activity. EU state aid rules have also been relaxed so that governments can provide liquidity to the economy.

In addition to these measures, on July 21, EU leaders reached an agreement on new tools to boost post-pandemic economic recovery in the EU, namely the Recovery Fund 'Next Generation EU' (NGEU) and the updated proposal for the next long-term EU budget or Multiannual Financial Framework (MFF).[5]

Under Next Generation EU, the European Commission will be able to find resources on the capital markets for €750 billion; the resulting debt will have to be repaid by 2058. The resources raised will be distributed in the form of transfers (€390 billion) and loans (€360 billion) to Member States[6].

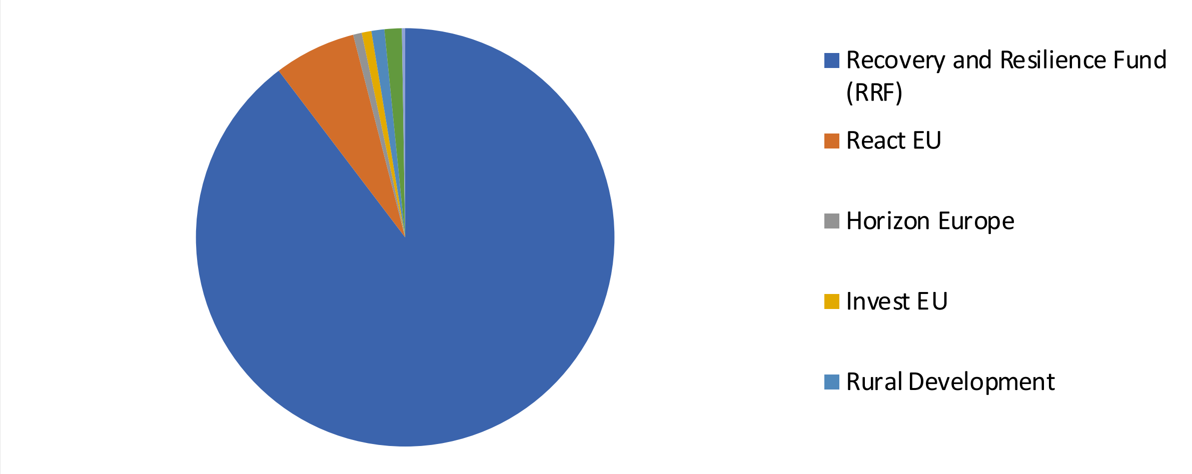
Almost 90 per cent of the Next Generation EU programme's resources will be channeled through the Resilience and Recovery Facility (RRF), specifically €312.5 billion in transfers and all €360 in loans. The remaining resources will finance various Union programmes as part of the EU general budget.

[4] Video conference of the members of the European Council, 23 April 2020. Available at https://www.consilium.europa.eu/en/meetings/european-council/2020/04/23/ (accessed on September 21, 2020).

[5] Conclusions of the European Council, 21 July 2020.

[6] The allocation endorsed by the European Council in its 17-21 July meeting is different from the original Commission's plan to devote €500 bn for grants and €250 bn for loans. Values in the text are in 2018 prices.

Figure 1: Next Generation EU financial allocations



Source: Author's representation based on the Conclusions of the European Council, 21 July 2020

EU leaders agreed that, following the presentation of national recovery plans, 70% of the grants provided by the RRF has to be committed in the years 2021 and 2022. The remaining 30% shall be fully committed by the end of 2023. For the period 2021 and 2022, the maximum amount of grants per Member State will be determined based on population size, the inverse of the per capita Gross Domestic Product (GDP) and the relative unemployment rate of each Member State. For the allocation in 2023, the unemployment criterion is replaced, in equal proportion, by the loss in real GDP observed over 2020 and by the cumulative loss in real GDP observed over the period 2020-2021. The maximum volume of the loans for each Member State will not exceed 6.8% of its GNI.

2.2. Aims and timeline

The general objective of the Recovery and Resilience Facility, as set out in the Commission proposal, is "*to promote the Union's economic, social and territorial cohesion by improving the resilience and adjustment capacity of the Member States, mitigating the social and economic impact of the crisis, and supporting the green and digital transitions, thereby contributing to restoring the growth potential of the economies of the Union, fostering employment creation in the aftermath of the COVID-19 crisis, and promoting sustainable growth.*"[7]

To achieve the general objective, the specific objective of the Recovery and Resilience Facility is to provide Member States with financial support (grants or loans) with a view to implement the reforms and investments set out in their national recovery and resilience plans (NRRP).

National Recovery and Resilience Plans are expected to set out the reform and investment agenda that Member States commit to undertake. In preparing the NRRPs, Member States are expected to identify reform and investment projects consistent with the relevant country-specific challenges and priorities identified in the context of the European Semester, in particular those relevant for or resulting from the green and digital transition. The NRRPs shall also be consistent with the information included by the Member States in the national reform programs (NRPs) under the European Semester, in their national energy and climate plans, in the territorial just transition plans under the Just Transition Fund, and in the partnership agreements and operational programs under the Union funds.

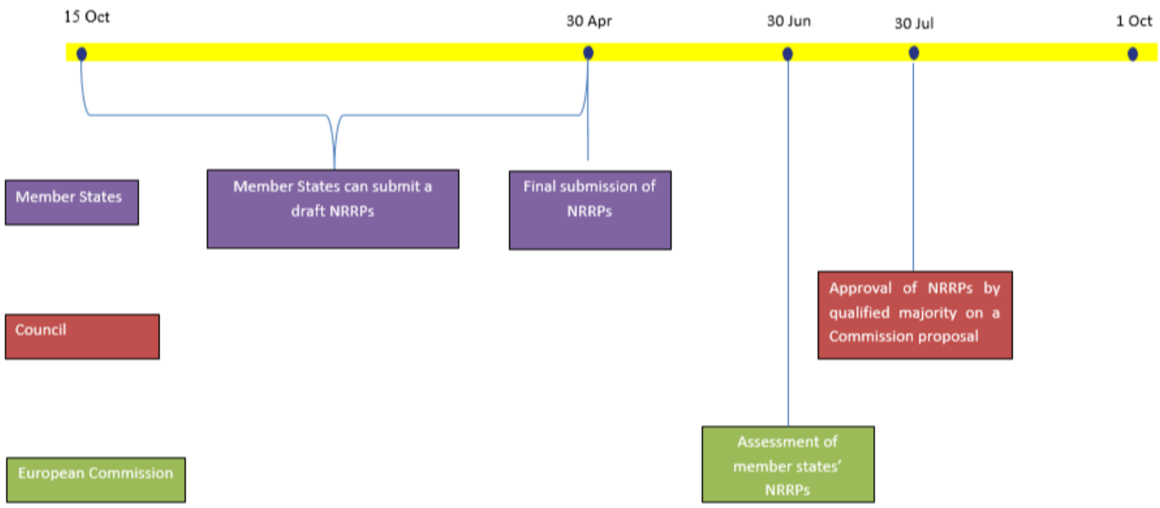
[7] Proposal for establishing a Recovery and Resilience Facility, Brussels, 28.5.2020 COM(2020) 408 final, Article 4.

According to the Commission's proposal, NRRPs are to be officially submitted at the latest by 30 April.[8] A draft plan may be submitted by Member States starting from 15 October, together with the draft budget for the following year. The Commission's proposal also suggests that recovery and resilience plans will be presented as an annex to Member States' National Reform Programmes. However, in order to streamline the content and the number of documents requested, the Commission has later encouraged Member States to submit the National Reform Programme and their recovery and resilience plan *"in a single integrated document."*[9]

The European Commission will assess the NRRPs within two months of their submission[10] taking into account their consistency with the country specific recommendations, their contribution to the green and digital transitions, their effectiveness in strengthening the growth potential, the employment and the social and economic resilience of the countries that present them. Following the publication of the 2021 ASGS, the Commission also invites Member States to provide information on which reforms and investments included in the NRRPs contribute to addressing common, European challenges that need to be overcome to achieve the digital and green transition.[11]

The assessment of the NRRPs shall be approved by the Council, on the Commission proposal, by qualified majority, through an implementing act which the Council shall endeavor to adopt within 4 weeks of the proposal.[12]

Figure 2: Submission and assessment of national recovery and resilience plans

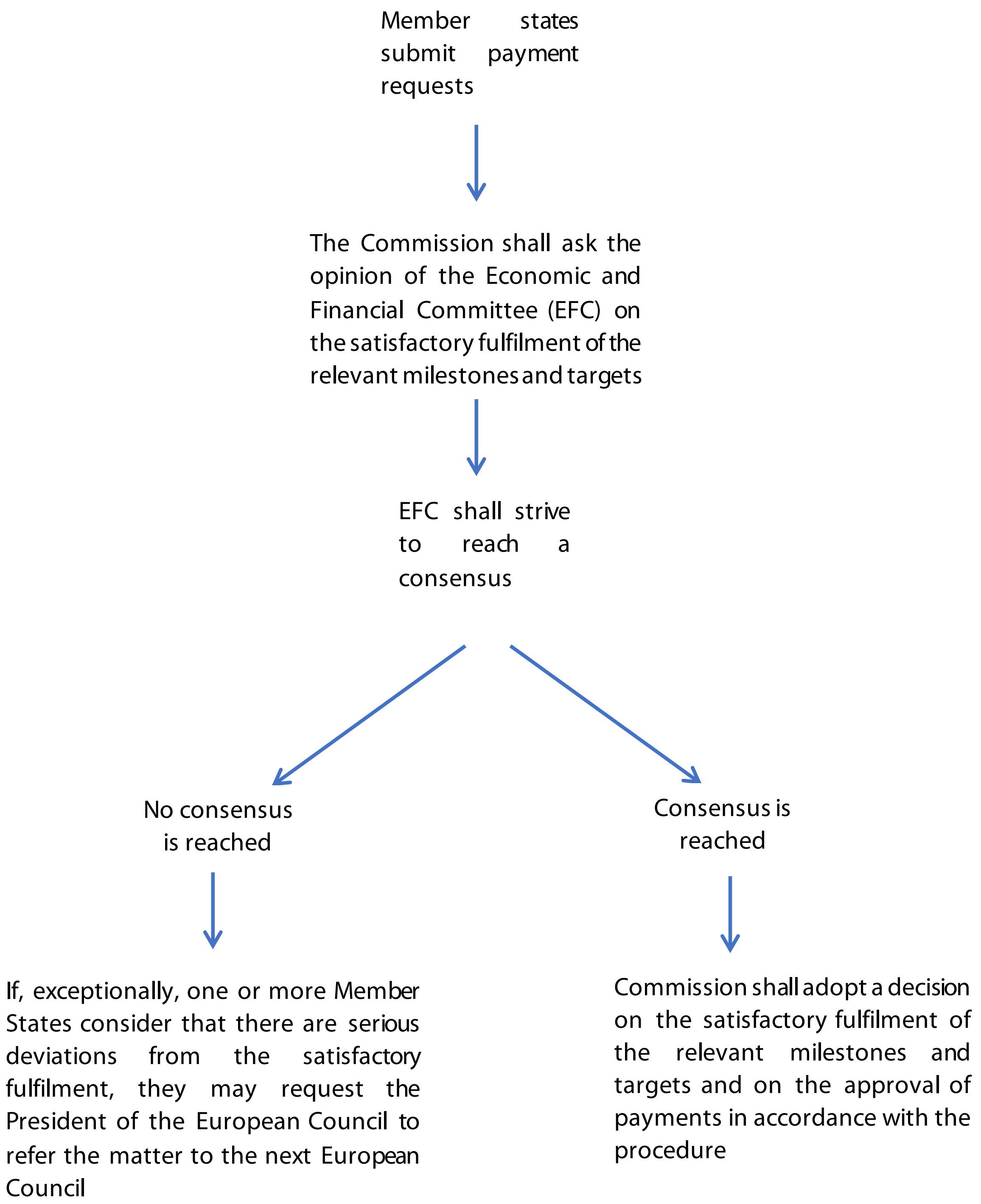


Source: Author's representation based on the Commission's proposal for establishing a Recovery and Resilience Facility and on the Conclusions of the European Council, 21 July 2020

[8] Proposal for establishing a Recovery and Resilience Facility, Brussels, 28.5.2020 COM(2020) 408 final, Article 15.
[9] Communication from the Commission: 2021 Annual Sustainable Growth Strategy COM/2020/575 final, p. 12.
[10] The original Commission's proposal stated that decisions on national recovery plans would have been adopted within four months after their submission. The European Council Conclusions on July 21, 2020, reduced the time needed for the assessment from 4 to 2 months.
[11] Communication from the Commission: 2021 Annual Sustainable Growth Strategy 202COM/2020/575 final; Commission staff working document - Guidance to Member States Recovery and Resilience Plans - Part 1 and Part 2 Brussels, 17.9.2020 SWD(2020) 205 final
[12] It should be noted that no procedure is envisaged, should the Council not approve the recovery and resilience plans See also European Court of Auditors (2020). Opinion No 6/2020 concerning the proposal for a regulation of the European Parliament and of the Council establishing a Recovery and Resilience Facility (COM(2020) 408).

Payment requests will be subject to the satisfactory fulfilment of the relevant milestones and targets specified in the NRRPs. The Commission shall ask the opinion of the Economic and Financial Committee on the satisfactory fulfilment of the relevant milestones and targets, as decided by EU leaders. If one or more Member States consider that the milestones and targets have not been adequately achieved, they may request the President of the European Council to refer the matter to the next European Council to discuss it exhaustively. Normally, this examination should not take more than three months; during the examination, the disbursement of funds will be suspended.

Figure 3: Assessment of payment requests under the RRF



Source: Author's representation based on the Conclusions of the European Council, 21 July 2020

2.3. Policy issues

The political negotiations surrounding Next Generation EU and the design of the RRF have attracted significant scholars and practitioners' attention. Touted by some as a 'Hamiltonian moment' for the development of the EU integration project, NGEU is instead regarded by others as an inadequate response to the challenges brought upon Europe by the pandemic (Jones and Zielonka 2020).

At a more policy-oriented level, the implementation of the RRF has also attracted significant attention. Among others, questions have been raised about the speed of EU financing, especially in light of the deterioration of economic activity (Lipold 2020, Pisani-Ferry 2020), the governance and monitoring mechanisms through which to ensure that EU financing can achieve its objectives, particularly in the area of structural reforms (Gros 2020).

The implementation of the RRF also raises the question of how to connect and adapt it to the existing economic governance framework. Indeed, as the above description of the workings of the RRF indicates, the actions requested by Member States and EU institutions intersect with established economic governance practices and especially with the activities that take place within the European Semester. The analysis that follows zooms on these interactions, with the view to examine to what extent the RRF is effectively incorporated into the European Semester and with what consequences.

3. THE EUROPEAN SEMESTER

3.1. Background

The European Semester (ES) is a cycle for policy coordination of economic and employment policies of EU Member States. Introduced in 2011, it was designed to strengthen economic policy coordination, help enforce the revamped Stability and Growth Pact (SGP) and the new Macroeconomic Imbalance Procedure (MIP),[13] and to achieve Europe 2020 targets. In addition to the core fiscal and socio-economic focus, the ES has progressively been oriented towards a greater focus on sustainable growth. Following the 2020 Annual Sustainable Growth Strategy, the United Nations Sustainable Development Goals (SDGs) have been identified as core priorities and the European Green Deal has been elevated as the new EU growth strategy.

3.2. Aims and timeline

The European Semester objective is "to ensure closer coordination of economic policies and sustained convergence of the economic performance of the Member States".[14]

To achieve these objectives, the Semester brings together into a single policy cycle a variety of policy instruments aiming at strengthening coordination among Member States and between macroeconomic and structural issues, including the Stability and Growth Pact, the Macroeconomic Imbalance Procedure, and the Integrated Guidelines for Growth and Jobs.[15]

The policy coordination cycle is broadly articulated around four, inter-related activities: priorities-setting, policy guidance, monitoring and implementation.

3.2.1. Priorities setting

The cycle of policy coordination starts in the autumn, when the European Commission sets out the economic and social priorities for the coming year in the Annual Sustainable Growth Strategy (ASGS). In setting out the EU's policy priorities, the ASGS takes account of the findings of the draft Joint Employment Report and the Alert Mechanism Report (AMR) for macroeconomic imbalances that accompany the publication of the ASGS.[16]

In this stage of the process, the Commission also publishes the draft recommendation on the economic policy of the euro area, which focuses on the actions that euro area Member States are invited to implement to achieve a better and balanced integration of the monetary union. As part of the Semester's 'autumn package', the European Commission also publishes its opinions on the draft budgetary plans that euro area Member States submit to the Commission by October 15.

The priorities identified by the Commission are then discussed, and amended if necessary, by Council. In particular, between January and March, the Council of the EU debates the ASGS and discusses, amends and approves the draft Council recommendations on the economic policy of the euro area. Based on the Council analysis and conclusions, the European Council endorses the policy orientations of the ASGS in March.

[13] On the incorporation of the MIP into the Semester Moschella, M. (2014). "Monitoring Macroeconomic Imbalances: Is EU Surveillance More Effective than IMF surveillance?" JCMS: Journal of Common Market Studies 52(6): 1273–1289.

[14] Regulation 1175/2011 Section 1-A, Article 2a

[15] Jost Angerer, Kristina Grigaite, The legal nature of Country-Specific Recommendations, Economic Governance Support Unit (EGOV), September 2020

[16] The draft Joint Employment Report reviews the key employment and social developments in Europe as well as Member States' reform actions, in line with the Guidelines for the Employment Policies. The AMR reviews macroeconomic development in individual Member States on the basis of which countries can be identified for In-Depth Reviews (IDRs) under the Macroeconomic Imbalance Procedure.

The European Parliament also discusses the ASGS and may publish its own report. As part of the economic dialogue, the European Parliament may invite the President of the Council, the Commission, the President of the European Council or the President of the Eurogroup to discuss Semester-related issues.

3.2.2. Policy advice and monitoring

In March, the Semester enters into its specific policy advice stage, with the publication of individual Country Reports by the European Commission. The Reports analyse the economic policies of each EU Member States and include an assessment of progress made in addressing the Country-Specific Recommendations issued in the preceding year and present the in-depth reviews (IDRs) of the EU Member States identified in the AMR, in accordance with the Macroeconomic Imbalance Procedure.

In April, Member States present their Stability (euro area countries) and Convergence (non-euro area countries) Programs, as well National Reform Programs (NRPs). The former outline Member States' budgetary policies, the latter the policies that they intend to pursue for promoting growth and competitiveness.

In May, the European Commission assesses the programs and proposes its CSRs on fiscal, macroeconomic and structural issues. CSRs are endorsed by the European Council and adopted by the Council between June and July.

3.2.3. Implementation

From August to November, the so called 'national semester' starts: national governments are expected to incorporate the recommendations into the reform plans and national budgets for the following year.

3.3. Policy issues

The ES offers a predictable and encompassing procedure for fostering policy coordination among Member States on fiscal, macroeconomic and structural issues. However, several analyses have identified important weaknesses in the workings of the Semester since its launch. These weaknesses broadly map into one of two categories: implementation and accountability issues.

First, a number of studies have drawn attention to the Semester's limited capacity to induce Member States to implement the policy advice agreed at the EU-level. For instance, a number of studies have shed light on the varying implementation rate of country-specific recommendations (European Commission 2017, European Court of Auditors 2020).[17] The limited take-up of CSRs applies to both EU and euro area Member States and pertains to both macroeconomic and structural issues (Darvas and Leandro 2015, Bénassy-Quéré and Wolff 2020). The lack of focus of EU policy advice, incomplete domestic ownership, and the soft legal nature of most recommendations are among the factors that have often been identified as hindering the effectiveness of European Semester (Hallerberg, Marzinotto et al. 2011, Darvas and Leandro 2015, Hallerberg, Marzinotto et al. 2018).[18] Political-economy considerations have also been found as variables that intervene in the implementation of

[17] The European Parliament services have regularly provided an overview on the implementation rate per year as assessed by the Commission services. The latest overview is available at https://www.europarl.europa.eu/RegData/etudes/BRIE/2018/624404/IPOL_BRI(2018)624404_EN.pdf

[18] With the exception of the preventive and corrective arm of the SGP and Excessive Imbalance Procedure (EIP) under the MIP, whose recommendations may ultimately include sanctions, the implementation of the broader policy advice issued during the Semester lies solely on dialogue and persuasion. Regulation 1175/2011 Section 1-A reads, "Member States shall take due account of the guidance addressed to them in the development of their economic, employment and budgetary policies before taking key decisions on their national budgets for the succeeding years."

EU-level policy advice, especially when the Council waters down the Commissions' assessments to accommodate political pressures in individual Member States (Baerg and Hallerberg 2016).

The second set of issues pertains to accountability. "*Although the Semester involves no legal transfer of sovereignty from the Member States to the EU level, it has given the EU institutions a more visible and authoritative role than ever before in monitoring, scrutinizing and guiding national economic, fiscal and social policies, especially within the euro area*" (Verdun and Zeitlin 2018, 138). This increased visibility has often been taken as indication of the marginalization of democratically elected institutions like national parliaments in favor of unelected EU institutions (Crum and Curtin 2015, Crum 2017, for a different view see Moschella 2017). The limited involvement of the European Parliament in the actual execution of the Semester process also figures in the list of accountability concerns that have been leveled at the European Semester (Schmidt 2015; for a full literature review Verdun and Zeitlin 2018).

4. EMBEDDING THE RECOVERY AND RESILIENCE FACILITY INTO THE EUROPEAN SEMESTER

4.1. Interactions between the Recovery and Resilience Facility and the European Semester

According to the Commissions' proposal, the RRF will be closely aligned with the policy guidance and monitoring framework provided under the European Semester in a number of major respects. First, the recovery and resilience plans are to be consistent with the challenges and priorities identified in the European Semester. Second, the timing of the submission of the recovery and resilience plans is aligned with the timing of the European Semester, with Member States invited to submit their plans by 30 April along with National Reform Programmes. Finally, after submission of the recovery and resilience plans, Member States will report on a quarterly basis within the European Semester on the progress made in the achievement of the reform commitments, with such reports being appropriately reflected in the National Reform Programmes.

Box 1: Interactions between the RRF and the European Semester

Article 14 (2), *Eligibility*

The recovery and resilience plans shall be consistent with the relevant country-specific challenges and priorities identified in the context of the **European Semester**, in particular those relevant for or resulting from the green and digital transition. The recovery and resilience plans shall also be consistent with the information included by the Member States in the national reform programmes under the **European Semester**.

Article 15 (3a), *Recovery and Resilience Plan*

The recovery and resilience plan shall set out an explanation of the way the relevant country-specific challenges and priorities identified in the context of the **European Semester** are expected to be addressed.

Article 16 (2), *Commission assessment*

When assessing the recovery and resilience plan and in the determination of the amount to be allocated to the Member State concerned, the Commission shall take into account the analytical information on the Member State concerned available in the context of the **European Semester.**

Article 16 (3a), *Commission assessment*

The Commission shall assess the importance and coherence of the recovery and resilience plan and its contribution to the green and digital transitions, and for that purpose, shall take into account the following criteria: whether the recovery and resilience plan is expected to contribute to effectively address challenges identified in the relevant country-specific recommendations addressed to the Member State concerned or in other relevant documents officially adopted by the Commission in the **European Semester**.

Article 20, *Reporting*

The Member State concerned shall report on a quarterly basis within the European **Semester** process on the progress made in the achievement of the recovery and resilience plans.

Article 24, *Annual report*

The Commission shall provide an annual report to the European Parliament and the Council on the implementation of the RRF. For the purpose of the reporting, the Commission may use the content of the relevant documents officially adopted by the Commission under the **European Semester** as appropriate.

Source: Author's elaboration based on the European Commission proposal establishing a Recovery and Resilient Facility, COM (2020) 408 final.

Connecting the RRF with the European Semester framework is a positive design feature because it allows minimizing duplication of policy advice and monitoring efforts by EU institutions. The incorporation of the RRF into the Semester also helps foster synergies and reduce the administrative burden placed on both EU institutions and Member States.[19] There are also wider potential benefits of connecting the RRF and the European Semester, though. These benefits pertain to the identification of national reform priorities and investments and to the implementation of national agendas, as discussed in the next section.

4.2. The RRF and European Semester are mutually reinforcing

There are important informational and signalling advantages in incorporating the RRF into the EU Semester for the identification of the priority areas in recovery and resilience plans. NRRPs will be highly elaborated documents that require the identification of reform and projects with maximum growth potential across a variety of policy areas, including measures aimed at improving economic, social and territorial cohesion, mitigating the social impact of the crisis, supporting green and digital transitions, fostering employment creation and promoting sustainable growth.[20] The timeframe for identifying the relevant reforms and projects is also tight: for instance, 70% of the grants provided by the RRF has to be committed in the years 2021 and 2022 with the first recovery and resilience plans expected to be ready by April 2021. Furthermore, NRRPs are to be prepared once and then possibly amended. This means that Member States need to get the reform and investment priorities 'right' since the very beginning. Given the challenges associated with the drafting of the NRRPs, the policy advice provided under the European Semester can prove highly useful: the policy advice channeled through the Semester, and distilled in the 2019 and 2020 CSRs, can indeed provide information on the potentially optimum of policies to be included in national recovery and resilience plans and signal the policy priorities. The long-standing dialogue and monitoring that takes place within the Semester can also be of help for EU institutions and Member States to identify the areas were implementation challenges are more likely to emerge in the near future and thus to account for them since the stage of preparation of recovery plans. Furthermore, by requiring Member States to present their recovery and resilience plans along with NRPs increase information about the synergies between the reforms and investments that will be financed under the RRF and those that fall within the pre-existing domestic reform and investment agenda. Such information advantage will also help minimize the concern that the RRF financing is going to be used for projects that would be ordinarily financed from national budgets.

The benefits of integrating the RRF into the EU Semester also work in the opposite direction. That is to say, there are important benefits that the RRF can bring to the European Semester. In particular, the RRF can potentially reinforce the EU Semester by addressing at least two of the implementation problems that scholars and practitioners have identified as bedeviling its functioning.

First, the process of formulation of recovery plans *potentially* support domestic ownership. Under the RRF, Member States can submit a draft of their recovery plans already in October 2020 for dialogue with EU institutions before official submission in April 2021. The time span between the first formulation of NRRPs and their official submission offers a potentially useful window of

[19] European Court of Auditors (2020). Opinion No 6/2020 concerning the proposal for a regulation of the European Parliament and of the Council establishing a Recovery and Resilience Facility (COM(2020) 408).

[20] For the template of NRRPs and their content see Commission staff working document - Guidance to Member States Recovery and Resilience Plans - Part 1 and Part 2 Brussels, 17.9.2020 SWD(2020) 205 final

opportunity for social and economic actors to engage with the content of the proposed national recovery plans. While the conditions for involvement of domestic stakeholders are present in principle, however, more work is needed to guarantee that such an involvement is translated into operational practice, as will be discussed in the next section. Going back to the potential benefits of the RRF to the European Semester, however, another potential advantage that the RRF entails for increasing domestic ownership lies in the possibility for Member States to plan the pace of implementation progress in the formulation stage of NRRPs. Indeed, the national recovery and resilience plans will contain Member States' own identification of the relevant targets, milestones and timetable for implementation, which, after approval, will provide the benchmarks against which the positive assessment of payment requests by EU institutions will be based on. This can potentially increase the level of commitment required from Member States in following through the proposed reforms and investments, by reducing the impression that targets are imposed from outside. This, in turn, should also help increase the perception of ownership - among EU citizens and governments - of the RRF and the European Semester at large.

Second, the design of NRRPs potentially enhances the incentives for reforms. As already pointed out, one concern regarding the implementation of EU advice within the Semester, especially with regard to advice relating to growth enhancing structural reforms, is that it does not offer sufficient incentives for Member States to accept the (short term) political costs of implementing economic reforms. Hence, a number of proposals have been advanced to strengthen the incentives (Banerji, Barkbu et al. 2015, IMF 2015), including via direct financial transfers from the EU to cover reform cost and sustain implementation. This insight also lies behind the proposal to set up a competitiveness and convergence instrument (CCI), which was taken up by the Commission in its blueprint for a deep and genuine economic and monetary union and in the Four Presidents' Report in 2012, as well as the proposal to create a budgetary instrument for convergence and competitiveness (BICC) dedicated to the euro area and linked to the 2021-2027 EU budget. Neither proposals have been completed.

By directly linking reforms addressing the CSRs (or Semester guidance) to financial support, the RRF provides an instrument that can potentially enhance the implementation prospects of EU advice under the Semester. Besides, the fact that the RRF is available to all EU countries and not only to some of them may help temper some of the criticisms that have been made on the various proposals on 'contracts' for structural reforms. For instance, it has been suggested that the strategy of offering grants in exchange for reform can backfire because domestic stakeholders could interpret the grants as a not so veiled attempt by EU partners to force reforms from the outside (Pisani-Ferry 2013) or because contracts would reward bad habits by helping countries with poor implementation records (Darvas and Leandro 2015). These important criticisms are attenuated for the RRF because of the unprecedented economic situation that led to the creation of the Facility: in this context, EU financial help is more likely to be considered as a response to the devastating socio-economic consequences of the pandemic than an attempt of EU institutions and partners to force domestic adjustment. Furthermore, given the novelty and temporary nature of the RRF, the risk of reward poor implementation records will be less prominent.

4.3. New and old challenges

Although there are key benefits from the interactions between the RRF and the European Semester, new and old challenges remain. These challenges pertain to both the implementation and the accountability of EU economic advice.

4.3.1. New challenges

The informational and signaling advantages that the Semester brings to the RRF mostly apply to the formulation stage of national recovery and resilience plans and less to the subsequent stage of implementation of NRRPs.

First, while the 2019 and 2020 CSR provide a clear anchor for Member States to prepared NRRPs, the Commission's guidance is less clear-cut for the following stages of the RRF. In particular, it is still largely unspecified when and through which documents the EU institutions will provide interim information on the extent to which Member States are on track in their implementation process of NRRPs and thus (re)orient their efforts if needed. In this connection, it is also important to note that the RRF proposed Regulation foresees the amendment of Member States' recovery and resilience plans if the relevant milestones and target are no longer achievable,[21] which might be a way to adjust the NRRPs to policy advice received by the EU institutions.

However, it is not fully clear in the draft Regulation through which documents the EU institutions will channel their advice to support Member States' implementation efforts, especially because the Communication of the European Commission on the 2021 ASGS suggests not to issue CSRs (with the exception of recommendations on budgetary situation) and no Country Reports should be adopted in 2021.[22] One possible solution to this issue would be for the European Commission to continue using the Country Reports prepared within the context of the EU Semester. That is to say, the European Commission might avoid discontinuing the Country Reports and use these documents for two, related objectives: (i) to assess the substance of the recovery and resilience plans presented in 2021 and accompany the proposals for the Council implementing acts;[23] and also (ii) to provide an interim assessment of the implementation efforts of NRRPs in 2022, with the view to provide additional guidance to member states as well as to signal areas that would need amendments or urgent actions. Having a section of the Country Reports dedicated to the NRRPs can also help increase the transparency of the EU advice, which would otherwise be somehow 'hidden' in the Commission's implementing acts to the Council, and foster engagement of interested stakeholders at the national level.

The informational and signaling advantages that the European Semester brings to the RRF can also be reinforced by providing more guidance on the frequency of Member States' reporting requirements. While, according to the Commission's proposed Regulation, Member States are requested to report on a quarterly basis within the European Semester on the progress made in the achievement of the recovery and resilience plans,[24] the reporting 'windows' are still largely unspecified. For instance, in the guidelines provided to Member States, the Commission writes that "Member States will report on their progress at least biannually, when submitting payment requests" and that Member States are invited to report on the set of indicators to measure overall performance of national plans "at least once a year".[25] However, it would make sense to clarify the monitoring timetable and identify reporting 'windows' compatible with Member States requirements within the Semester cycle, especially in light of the goal of incorporating the RRF into the European Semester. In this connection, and in order to avoid an excessive burden on Member States, it is reasonable to reduce the reporting requirements from a quarterly to a biannual basis. In

[21] Proposal for establishing a Recovery and Resilience Facility, Brussels, 28.5.2020 COM(2020) 408 final, Article 18.

[22] Communication from the Commission: 2021 Annual Sustainable Growth Strategy 202COM/2020/575 final

[23] This would be in line with the European Commission's suggestion in the 2021 Annual Sustainable Growth Strategy. Communication from the Commission: 2021 Annual Sustainable Growth Strategy 202COM/2020/575 final

[24] Proposal for establishing a Recovery and Resilience Facility, Brussels, 28.5.2020 COM(2020) 408 final, Article 20

[25] Commission staff working document - Guidance to Member States Recovery and Resilience Plans - Part 1 and Part 2 Brussels, 17.9.2020 SWD(2020) 205 final, p. 35

doing so, Member States could report on the progress made in the achievement of the recovery and resilience plans in October and April, namely upon presentation of draft budgetary plans and national reform plans and stability and convergence programs. Draft budgetary plans and national reform plans could provide the documents through which Member States convey reporting information, avoiding adding layers of complexity to EU economic governance.

The potential advantages of the RRF for domestic ownership requires more grounding. While the RRF proposed Regulation sets out the conditions for involvement of domestic stakeholders in principle, especially with regard to the time-span between the initial drafting of NRRPs in October and official submission in April, more work is needed to ensure that domestic stakeholders can effectively engage in designing NRRPs between October and April. For instance, it is worth noting that the Commission guidelines to Member States on NRRPS are silent on the modalities through which to foster domestic dialogue with social and economic actors on the content of NRRPs[26] – in contrast to the EP draft report instead.[27] A possible solution could be to require Member States to provide more detailed information on the intensity and modalities of involvement of domestic stakeholders upon submitting NRRPs in April. In particular, it is possible to envisage to add a section, titled “Domestic consultation”, in the first part of the NRRPs (“General objectives and coherence of the plan” according to the Commission guidelines to Member States).[28] That is to say, after having outlined the executive summary of the NRRP, the link with the European Semester and the coherence of the plan, Members States could discuss the input of domestic stakeholders to the identification of the reforms and investments included in the recovery and resilience plan. While the extent of domestic consultations will fall short for providing a criteria against which EU institutions will decide on approval of the NRRPs, it will nonetheless provide a strong incentive to foster dialogue and ownership at the national level.

The incorporation of the RRF into the European Semester opens up new questions regarding the integration between fiscal and structural advice. One of the major institutional innovation of the creation of the European Semester was the alignment of fiscal and structural reform plans, implying that more attention should be devoted to the complementarities and spillover effects between the two policy areas (Marzinotto, Wolff et al. 2011). The RRF loosens the link between fiscal and structural interactions, albeit temporarily. That is to say, the RRF has an almost exclusive focus on structural reforms (see also Gros 2020). At the same time, however, the Commission will continue to propose recommendations on the budgetary situation of the Member States in 2021 as envisaged under the Stability and Growth Pact.[29] The question can therefore be raised of how EU institutions can steer a path towards recovery and growth while bracketing the positive complementarities and spillover effects between the measures included in recovery plans and public finances. In this connection, fiscal advice issued by EU institutions within the Semester cycle in the coming years needs to fully incorporate an assessment of the complementarity between the policies supported by RRF and the trajectory of public finances. This is particularly important for euro area countries. It is therefore a welcome suggestion the one advanced by the Eurogroup to use the Euro area

[26] Commission staff working document - Guidance to Member States Recovery and Resilience Plans - Part 1 and Part 2 Brussels, 17.9.2020 SWD(2020) 205 final

[27] Committee on Budgets and Committee on Economic and Monetary Affairs, Draft report on the proposal for a regulation of the European Parliament and of the Council establishing a Recovery and Resilience Facility, 2020/0104(COD)

[28] Commission staff working document - Guidance to Member States Recovery and Resilience Plans - Part 1 and Part 2 Brussels, 17.9.2020 SWD(2020) 205 final

[29] Communication from the Commission: 2021 Annual Sustainable Growth Strategy 202COM/2020/575 final, p. 12

recommendation, within the European Semester, to reflect on the complementarities between the national recovery and resilience plans and euro area membership.[30]

4.3.2. Long-standing challenges

The economic advice provided under the European Semester to the RRF process is extensive and not sufficiently prioritised. It has often been noted that EU recommendations do not sufficiently prioritise among the policy actions that Member States are expected to implement (Marzinotto, Wolff et al. 2011, European Court of Auditors 2020). A similar concern applies to the RRF. The recovery and resilience plans are expected to be consistent with multiple priorities, including the relevant country-specific challenges identified in the context of the European Semester, the national reform programmes, the national energy and climate plans, the just transition plans, and the partnership agreements and operational programmes adopted under the Union funds. Furthermore, some of the priorities that Member States are expected to follow in designing recovery plans have different time horizons. For instance, while the Commission assesses recovery plans' potential impact on medium to long-term growth and job creation, it also assesses national plans based on their capacity to address the short-term economic and social impact of the crisis. To address the multiple priorities problem, and given the tight schedule of the RRF, the dialogue between Member States and European Commission on draft recovery plans needs to be fully utilized also with the view to increase transparency towards domestic stakeholders. To achieve these objectives, it might be useful to set up official, well-advertised visits of Commission officials to national capitals in the period between the presentation of draft plans and the April 2021 deadline. These visits should provide the occasion for a frank exchange of views between the Commission and Member States on the content of NRRPs. These visits should also include a more participatory moment, when the Commission presents its views on draft NRRPs to domestic stakeholders along with government authorities.

The European Parliament's role in fostering transparency and accountability of the RRF is not sufficiently in line with its role in the European Semester. Under the Semester cycle, it has been recognized that, in order to ensure transparency and accountability, the competent committee of the EP may invite the President of the Council, the Commission and, where appropriate, the President of the European Council or the President of the Eurogroup to appear before the committee to discuss Semester-related issues, including the identification of priority areas and implementation. The RRF proposal does not fully leverage on the recognition of the importance of EP's involvement to increase the transparency and the accountability of the decisions taken, as attested by the limited role reserved to the Parliament, mostly limited to receiving annual reports from the Commission on the implementation of the RRF.[31] To remedy for this situation, a number of measures could be envisaged to increase the transparency of the RRF process and accountability towards the European Parliament. These measures include:

(i) extending and adapting the practice of the European Semester economic dialogues to the RRF. In particular, the competent committee of the EP could invite the President of the Council, the Commission and, where appropriate, the President of the European Council or the President of the Eurogroup to appear before the committee to discuss RRF-related issues, including the assessment of NRRPs, Member States' reporting requirements and payment requests;

[30] Mario Centeno, Eurogroup video conference 11 June 2020, Brussels, 16 June 2020 ecfin.cef.cpe(2020)3564399. Available at https://www.consilium.europa.eu/media/44454/2020-06-11-eurogroup-inclusive-summing-up-letter.pdf

[31] Proposal for establishing a Recovery and Resilience Facility, Brussels, 28.5.2020 COM(2020) 408 final, Article 24.

(ii) aligning the frequency of the Commission's reporting requirements to the European Parliament to the ones requested to Member States. As discussed above, according to the RRF proposal the Commission should report annually to the European Parliament, while Member States should report quarterly on implementation progress. The Commission guidelines to Member States suggest instead that reporting might take place on biannual or at least annual basis with reference to the indicators against which the overall performance of NRRPs is assessed. I suggested above that the biannual reporting frequency is more consistent with the European Semester cycle. In light of this proposal, and for accountability reasons to the European Parliament, the Commission should report biannually to the European Parliament on the implementation of the RRF.

(iii) involving the European Parliament in the nomination of experts that the European Commission may rely upon in order to assess the recovery and resilience plans submitted by Member States as well as the assessment of payment requests following the completion of agreed milestone and targets indicated in the recovery and resilience plans – in line with the draft ECON/BUDG report.[32]

[32] Committee on Budgets and Committee on Economic and Monetary Affairs, Draft report on the proposal for a regulation of the European Parliament and of the Council establishing a Recovery and Resilience Facility, 2020/0104(COD), Amendment 83.

5. CONCLUSIONS

This study examined the synergies and challenges associated with the incorporation of the RRF within the framework of the European Semester.

The study found that there are significant synergies between the RRF and the European Semester and that these synergies work in both directions.

The major benefit of the EU semester to the RRF lies in the economic policy guidance issued under the Semester for the formulation of NRRPs, especially given the tight time constraint for identifying a complex and multi-faceted reform and investment agenda as well as the one-off nature of the formulation of recovery plans.

The major benefit of the RRF to the European Semester lies in its potential to increase domestic ownership of EU economic advice, by allowing Member States to set up their own targets and milestones against which implementation efforts will be assessed and by providing financial incentives for structural reforms.

In spite of the synergies, this paper found that there are several areas where the positive interactions between the RRF and the Semester are not sufficiently exploited or specified. In particular, the paper argues that:

- the policy guidance issued under the Semester is mostly relevant for the formulation of the NRRPs and less to the subsequent stage of implementation of NRRPs, and especially to support and orient Member States' implementation efforts;
- the frequency of Member States reporting requirements are not clearly incorporated into the Semester cycle;
- the participation of domestic stakeholders to the design and implementation of NRRPs is not supported by operational mechanisms that incentivize such participation;
- the consequences of the implementation of the RRF-financed structural reforms are not fully accounted for in the fiscal advice that will be issued under the European Semester;
- the economic advice provided under the European Semester to the RRF process is extensive and not sufficiently prioritized, and
- the European Parliament's role in fostering transparency and accountability of the RRF is not sufficiently in line with its role in the European Semester.

Recommendations

In order to address the shortcomings summarized above, the study articulated the following recommendations:

- The European Commission might avoid discontinuing the Country Reports and use these documents to provide an interim assessment of the implementation efforts of NRRPs in 2022, with the view to provide guidance to Member States as well as to signal areas that would need amendments or urgent actions.
- The reporting requirements for Member States under the RRF could be reduced from a quarterly to a biannual basis in order to match Member States' presentation of draft budgetary plans and national reform plans and so make the RRF reporting 'windows' compatible with Member States requirements within the Semester cycle.
- The template for the submission of NRRPs could include an *ad hoc* section dedicated to provide information on the input of domestic stakeholders to the identification of the reforms and investments included in the national recovery and resilience plan and submitted for consideration to EU institutions.

- The complementarities and spillover effects of the policies supported by RRF could be fully incorporated in the future fiscal advice issued in the Semester cycle.
- Official visits of Commission officials to national capitals could be set up in the run-up to the April 2021 deadline for submitting NRRPs in order foster a frank exchange of views between the Commission and Member States on the content of NRRPs and between the Commission and domestic stakeholders.
- The practice of the European Semester economic dialogues could be extended to the RRF, and the Commission's reporting requirements to the European Parliament could be scaled up.

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The paper assesses the institutional interactions between the Recovery and Resilience Facility (RRF) and the European Semester, with the view to establish whether and how the Semester can constitute a governance framework for the RRF. It argues that the RRF and the Semester are mutually beneficial: the EU Semester offers important informational and signaling advantages for the preparation of recovery and resilience plans. The RRF, in turn, offers important implementation benefits for the policy advice issued under the European Semester. Yet, potential synergies are not fully exploited on implementation, ownership, and accountability towards the European Parliament.

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