Country-specific recommendations: An overview

This note provides an overview of the country-specific recommendations issued under the European Semester to EU Member States. It looks how these recommendations evolved over time, including from the legal base perspective. Finally, it discusses how recommendations were implemented over the 2012-2017 European Semester cycles.

Country-specific recommendations (CSRs) provide guidance to EU Member States on macro-economic, budgetary and structural policies in accordance with Articles 121 and 148 of the Treaty on the Functioning of the European Union (TFEU). These recommendations, issued within the framework of the European Semester since 2011, are aimed at boosting economic growth and job creation, while maintaining sound public finances and preventing excessive macroeconomic imbalances. They provide guidance for national reforms over the next 12-18 months. As to the process, they are proposed by the Commission (COM) and discussed by the various Council formations. As a rule, the Council is expected to follow the Commission proposal or explain its position publicly ("comply or explain" principle). After being endorsed by the European Council and formally adopted by the ECOFIN Council, CSRs are to be taken into account by Member States in the process of national decision making. The COM also proposes policy recommendations on the economic policy of the euro area based on Article 136 of the TFEU[1]. The Council and the COM closely monitor the implementation of CSRs and take further actions as appropriate.

1. How have country-specific recommendations evolved over time?

CSRs, typically proposed by the COM in May, build, *inter alia*, on (1) the COM´s Country Reports which include, where applicable, In-Depth Reviews under the Macroeconomic Imbalance Procedure (MIP)[2], (2) the longer-term vision outlined in the Europe 2020 Strategy, (3) an assessment of Member States' Stability or Convergence Programmes (SCPs) and National Reform Programmes (NRPs) and (4) the outcome of dialogues with Member States and other key stakeholders.

Since the 2015 Semester cycle, CSRs have been prepared in line with the so-called streamlined Semester - an approach that is characterised, in particular, by fewer and refocused CSRs[3]; an earlier publication of the recommendations on the economic policy of the euro area (i.e. at the very beginning of the cycle, along the publication of the AGS); an earlier assessment of the implementation of CSRs adopted under the previous cycle; inclusion of in-depth reviews under the MIP into the Country Reports (where

[1] Since the 2016 European Semester, the Commission proposes its recommendations on the economic policy of the euro area at the start of the cycle (in November) to better integrate the euro area dimension into CSRs (issued in May) - see a separate EGOV note for more details.

[2] The European Semester was introduced in 2010 and first ever recommendations were issued in spring 2011 (2011 cycle). The MIP has been part of the Semester from the 2012 cycle onwards.

[3] In this regard, the COM indicated that that it will continue to monitor policy areas not covered directly by CSRs in the Country reports and take them up via other policy processes, e.g. Energy Union, Single Market, European Research Area and the Innovation Union (the COM Communication of 13 May 2015, p. 10).

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applicable); and finally an intensified dialogue between the COM and Member States as well as other European institutions. Under the streamlined Semester, the recommendations also put greater emphasis on the objective to achieve, while largely leaving definition of the measures needed to attain it to the discretion of national authorities. The intended goal of all these refinements was to increase the political ownership of CSRs and accountability, and thereby improve their unsatisfactory and declining rate of implementation (see Section 3).

Table 1: CSRs - some stylized facts

European Semester	Total number of CSRs	Number of Member States	Minimum number of CSRs per Member State		Maximum number of CSRs per Member State	
2012	138	23	4	DE, SE	8	ES
2013	141	23	3	DK	9	ES, SI
2014	157	26	3	DK	8	ES, HR, IT, PT, RO, SI
2015	102	26	1	SE	6	FR, HR, IT
2016	89	27	1	SE	5	FR, HR, IT, CY, PT
2017	78	27	1	DK, SE	5	HR, CY
2018	73	27	1	DK, SE	5	CY

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

Table 1 depicts some stylized facts on CSRs:

1. The **number of Member States taking part** in the twelve-monthly cycle of economic and fiscal policy coordination in the framework of the European Semester has gradually increased as Member States receiving financial assistance successfully exited from the related programmes (Ireland, Portugal and Cyprus)[4].
2. The **total number of CSRs issued** to Member States was more than halved under the streamlined Semester (from a peak of 157 recommendations in 2014 to 73 in 2018). This reduction largely reflect two elements: 1) new focus and prioritisation of the Semester - i.e. the fact that some policy area are no longer covered as from the 2015 Semester cycle[5] and 2) the fact that some policy areas that were covered separately in one Semester cycle have been merged during the next cycle - as a result, one recommendation may cover several policy areas that were previously addressed in separate recommendations. While the first phenomenon has been the main driving force behind the drop in the number of CSRs between the 2014 and 2015 cycles, the relative importance of the second approach has gradually increased to the point that it has become the predominant explanatory factor in the observed decline of the number of CSRs between the 2017 and 2018 Semesters (see Annex)[6]. In this context, the ECB pointed out in its Economic Bulletin (issue 5/2018, p. 41) that '*...efforts made in recent years to contain the number of CSRs which have streamlined the process, are by no means a reflection of improved or strong structural reform momentum*'.

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

[5] The COM indicated in its Chapeau Communication for the 2015 European Semester (p. 10) that it will continue to monitor the areas that are no longer covered in CSRs in its country reports and/or take them up via other policy processes, e.g. Energy Union, Single Market, European Research Area and the Innovation Union.

[6] The decrease in number of CSRs observed between 2017 and 2018 is predominantly due to changes in presentation rather than substance. Out of the five recommendations that were discontinued, one was fully dropped (BG 2017 CSR 4), while the other four were included in other CSRs during the 2018 Semester cycle (FR 2017 CSR 3 is now part of FR 2018 CSR 2; HR 2017 CSR 3 of HR 2018 CSR 2; PT 2017 CSR 4 of PT 2018 CSR 3; and finally, SI 2017 CSR 2 of SI 2018 CSR 1.

3. The **minimum and maximum numbers of CSRs** addressed to Member States were gradually reduced to stabilise at one and five, respectively, over the 2016-2018 cycles.

Note that in its ***Communication on the 2018 European Semester: Country-specific recommendations***, against the backdrop of the improved economic and social climate, the COM called on Member States to '*step up efforts in the pursuit of greater macro-economic resilience and growth-enhancing reforms*' - a call made in line with President Juncker's appeal during his 2017 State of the Union Address: "*Europe needs to fix its roof while the sun is shining*".

2. What is the legal basis for country-specific recommendations?

From the legal perspective, the CSRs are underpinned by the EU primary legislation (Articles 121 and 148 of the TFEU) as well as the EU secondary legislation, namely:

1) Council Regulation (EC) 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies for CSRs referring to the Stability and Growth Pact (SGP);
2) Regulation (EU) 1176/2011 on the prevention and correction of macroeconomic imbalances for CSRs referring to the Macroeconomic Imbalance procedure (MIP);
3) Integrated guidelines for implementing the Europe 2020 strategy – these guidelines consist of two legislative documents: (1) a Council recommendation on broad guidelines for the economic policies of the Member States and of the Union and (2) a Council decision on guidelines for the employment policies of the Member States.

Furthermore, the CSRs are politically binding insofar they are endorsed by the European Council and formally adopted by the Council. The Council is expected to, as a rule, adopt the recommendations proposed by the Commission or publicly explain its position.

A failure to implement the recommendations might result in further procedural steps under the relevant EU law and ultimately in sanctions under the SGP and the MIP. These sanctions might include fines and/or suspension of up to five European Funds, namely the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime & Fisheries Fund (EMFF).

Table 2: Distribution of CSRs from legal perspective

European Semester	Exclusively SGP		Exclusively MIP		Jointly SGP and MIP		Integrated Guidelines		Total	
2012	18	(13%)	31	(22%)	5	(4%)	84	(61%)	138	(100%)
2013	18	(13%)	50	(35%)	6	(4%)	67	(48%)	141	(100%)
2014	19	(12%)	58	(37%)	8	(5%)	72	(46%)	157	(100%)
2015	11	(11%)	48	(47%)	10	(10%)	33	(32%)	102	(100%)
2016	13	(15%)	36	(40%)	9	(10%)	31	(35%)	89	(100%)
2017	12	(15%)	27	(35%)	8	(10%)	31	(40%)	78	(100%)
2018	11	(15%)	27	(37%)	5	(7%)	30	(41%)	73	(100%)

Source: EGOV calculations based on the European Commission. All data is available in an EGOV database.
Note: Share of CSRs by secondary legal base for a given Semester cycle in brackets. The 2018 CSRs are yet to be adopted by the Council.

Table 2 disentangles CSRs according to the EU legal base, showing that:

1. A single recommendation is typically underpinned by a single instrument of the EU secondary law. However, CSRs related to public finances might be devised based on both the SGP and the MIP.
2. Most of the recommendations have been underpinned by **the SGP and/or MIP legal bases** (with the exception of the 2012 cycle). Changes in relative proportions reflect shifts in policy challenges over time, noting that the introduction of streamlined Semester as from the 2015 cycle, with fewer recommendations, has led to an increase in the proportion of recommendations based on SGP and/or MIP legal bases.
3. While during the 2014 Semester all 26 MS received a fiscal recommendation based either on SGP or joint SGP/MIP legal bases, no specific recommendation on public finances was addressed in 2015 to some MS which were considered by the COM to be in line with the commitments under the preventive arm of the SGP at that time (DE, LU, NL, SK and SE). The COM has broadly maintained this approach since then. It is also interesting to point out that SI (which was at that time under the corrective arm of the SGP) received in 2015 a recommendation on public finances based solely on the MIP legal basis (not on the SGP or joint SGP/MIP legal bases[7]);
4. As to the 2018 Semester cycle, nearly 6 out of 10 recommendations were underpinned either by the SGP or MIP legal bases or both. Out of 11 countries that are considered as experiencing either "imbalances" or "excessive imbalances" following the in-depth reviews published within the 2018 Country Reports in March 2018, ten received all of their recommendations underpinned by either exclusively MIP legal basis (DE, HR, CY, NL and SE) or MIP/SGP legal bases (IE, ES, FR, IT and PT). The remaining Member State (BG) received most of its 2018 CSRs based on the MIP legal basis. Finally, five Member States received all of their respective draft 2018 CSRs based solely on Integrated guidelines: CZ (2 CSRs), DK (1 CSR), LT (3 CSRs), LU (2 CSRs) and MT (2 CSRs) - i.e. countries under the preventive arm of the SGP and for which no imbalances were identified under the MIP[8].

3. How has CSRs Implementation evolved over time?

Based on the regular annual assessment published by the COM in its Country Reports, more than half of CSRs (53%) were implemented, on average, with at least some progress over the period 2012-2017.

The CSRs implementation record followed a downward trend over the period 2012-2016 before showing first signs of improvement in 2017[9]: the proportion of recommendations on which Member States made *at least some progress* declined from 71% in 2012 (the highest value on record) to 45% in 2016 (the lowest value on record) before rising to 50% in 2017 (see Figure 1). At the same time, the part of recommendations with full/substantial progress has gradually decreased from 11% in 2012 to mere

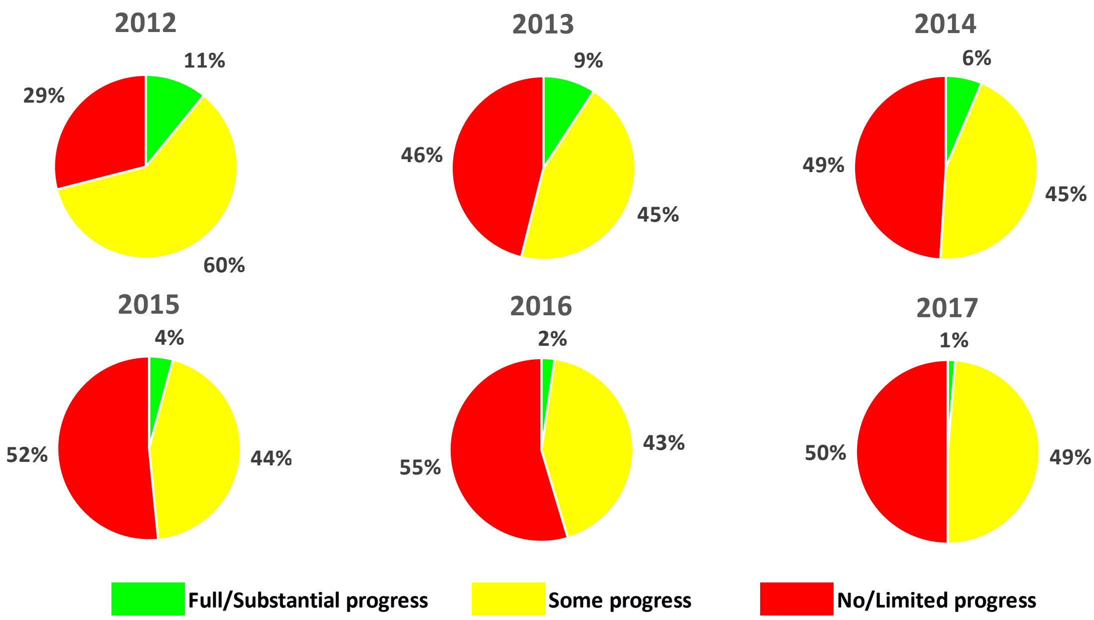
[7] The particular case of SI mentioned in the previous paragraph illustrates the following observation: there are cases where similar recommendations, in terms of policy area and wording, are given to countries under different legal bases. For example, during the 2015 cycle, the recommendation to broaden the tax base on consumption is underpinned by the Integrated Guidelines in the case of LU (CSR1). However, it is based on the MIP in the case of FR (CSR5).

[8] The reverse is not necessarily true: a country that is under the preventive arm of SGP and not at risk of imbalances, in the sense of the MIP, will not automatically receive all its recommendations based on "Integrated guidelines".

[9] As Deroose and Griesse (2014) already pointed out, the observed downward trend in CSRs implementation is partly embedded in the European Semester process to the extent that "*recommendations implemented during the previous round will not be repeated in the next vintage of CSRs. Thus, Member States that have 'picked the low-hanging fruit' first may effectively be facing a more challenging set of CSRs in subsequent rounds of the European Semester, even without an active intention by the Commission or the Council to 'get tougher'*." This line of reasoning seems to be valid, in particular, from a medium-term perspective. Yet, in the long run, Member States will have some new 'low-hanging fruit' to harvest again. It remains to be seen to what extent this particular factor might explain the slight improvement in CSRs implementation record during the 2017 Semester cycle.

1% in 2017. Note that these results are based on the assessment provided at the level of CSRs as a whole (and not on the assessment at sub-recommendations level[10]) and exclude the compliance with the provisions of SGP[11]. Furthermore, the analysis assigns identical weights to each and every CSR within and across Member States as well as across time. It also abstracts from difficulties linked to implementation of various types of reforms, including the electoral cycle.

Figure 1: CSRs implementation over the period 2012-2017 (annual perspective)



Source: EGOV calculations based on the European Commission assessment provided in Country Reports. All data is available in an EGOV database.
Notes: (1) Based on the COM assessment of actions taken (rather than outcomes that may materialise with a lag), assigning identical weights to all recommendations, within and across Member States, irrespective of their institutional and political sensitivities. (2) Data exclude the COM assessment of the progress made as regards the Council recommendations related to the compliance with the SGP (these SGP-related recommendations are either part of CSR1 or the single element that is reflected in the CSR1). The COM makes annually a separate assessment of these specific SGP-related recommendations as part of its opinions on the Stability and Convergence Programmes.

Implementation record has been uneven across policy areas and countries. This unequal CSRs implementation '*often reflects the urgency of progress in specific areas, but also reveals the need for consensus building, notably where reform benefits are not uniformly spread*'[12]. Overall, Member States made most progress in the area of financial sector reform and public finances in response to the economic and financial crisis (see a separate EGOV thematic briefing on CSRs in the area of banking). However, only a limited progress has been made on reforms of tax regimes. The COM observes that '*the current economic environment provides a favourable window of opportunity to step up reform implementation*'.

Recognising that a number of CSRs relate to long-term structural issues, the **COM presents in its Chapeau Communication on the 2018 European Semester an assessment of CSRs implementation from both yearly and multiannual perspective**. The latter approach has been introduced in 2017 and according to this yardstick '*more two thirds of CSRs have been implemented with at least 'some progress''* over the period

[10] One recommendation often tackles policy challenges in several areas (sub-recommendations).

[11] This has been the case since 2015 (assessment of the 2014 CSRs) due to an earlier publication of Country Reports (February/March) - that is before pubic finance data (for the preceding year) become available in April (see EDP notification). The compliance with the provisions of the SGP is assessed separately in the COM Assessment of Convergence and Stability Programmes published in May. However, the COM does not subsequently present an overview table with updated summary assessment for each and every Member State despite the fact that the outcome of assessment of compliance with the SGP feeds, in an un-transparent manner, into its multiannual assessment of CSRs implementation.

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

2011-2017, leading therefore to somewhat more favourable picture of CSRs implementation record compared with year-by-year assessment. This element confirms, according to the COM, that '*important reforms are eventually being carried out, though in many cases the process takes time*'. However, it may be noticed that the COM has not published the methodology underlying its multiannual assessment[13].

The COM has repeatedly stressed that CSRs are focused on reform steps that can be implemented within 12-18 months. Under the current setup of the European Semester, they are proposed by the COM in May, before being adopted by the Council in July (of year t). However, their implementation is assessed already in February (of year t+1), namely after a period of eight months only. This is one of the factors that currently generates, *ceteris paribus*, a downward bias in the yearly assessment of CSRs implementation and is a reason why the multiannual approach might seem more appropriate. Yet on the other hand, the multiannual approach may introduce an upward bias in the results (i.e. reforms are assessed over variable time periods[14]).

Box 1: Committee of Regions - Territorial analysis of the 2018 Country Reports

The Committee of Regions shows in its analysis of the 2018 COM Country Reports that the number of recommendations that involve and address directly local and regional authorities (LRAs) has further increased from 24% in 2017 to 36% in 2018. However, viewed from a larger perspective (i.e. taking into account all CSR involving LRAs directly or indirectly as well as those CSRs not involving LRAs but having a territorial impact), the **territory-related recommendations accounted for 83% of all CSRs in 2018** (as compared with 76% a year earlier).

These **2018 territory-related recommendations predominantly address three policy challenges**, namely:
(1) *Building administrative capacity* (17 EU Member States);
(2*) Removing obstacles to investment at local and regional level* (24 EU Member States); and
(3) *Implementing the European Pillar of Social Rights* (24 EU Member States).

This analysis suggests that - given the differentiated territorial impacts of such reforms and the current division of powers and competences across levels of government - involving the LRAs as partners since the beginning of the Semester is crucial to ensure ownership of structural reforms.

To this end, at the Plenary Session of 11 May 2017, the Committee of Regions issued its opinion on improving the governance of the European Semester, proposing a Code of Conduct on the involvement of the local and regional authorities in the European Semester.

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

14 One would expect that some action is taken on a majority of recommendations over a sufficiently long period - the rationale behind the coordination of macroeconomic policies under the European Semester. Furthermore, it remains unclear whether recommendations that were given during only one Semester Cycle and subsequently dropped despite no or limited progress are included in this multiannual analysis or not.

Box 2: ECOFIN conclusions on in-depth reviews and implementation of the 2017 CSRs

At its meeting of 23 May 2018, the Council discussed, among others, (i) in-depth reviews of macroeconomic imbalances in 12 Member States and (ii) implementation of the 2017 CSRs.

Regarding **the implementation of the 2017 CSRs**, inter alia, the Council:

- NOTES the similar implementation record of the 2017 CSRs compared to previous years with at least some progress recorded for around half of the CSRs. TAKES NOTE that reform implementation continue to be uneven across policy areas and countries;
- WELCOMES the results in the Commission`s multiannual assessment of CSR implementation that show at least 'some progress' with regard to more than two-thirds of the recommendations since the start of the European Semester in 2011, but NOTES this has been uneven across policy areas, countries and over time. RECALLS that the multiannual assessment by the Commission illustrates that a number of CSRs relate to long-term structural issues that take time to be addressed and that tangible results take time to materialise;
- STRESSES that in the current favourable macroeconomic environment, reform implementation needs to be stepped up significantly to address the pending reform challenges outlined below, guarding against reform fatigue and overcoming political economy challenges;
- WELCOMES how the Commission has incorporated the European Pillar of Social Rights within the country reports to keep track of employment and social performances, which allowed for the focus on macroeconomic imbalances and the main economic reform priorities to be maintained.

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This document is available on the internet at: www.europarl.europa.eu/supporting-analyses

Annex: Where does the reduction in the number of CSRs between the 2017 and 2018 cycles come from?

Member State	2017 Country-specific Recommendations not continued as independent recommendations in 2018 (Total number of 2017 CSRs = 78)		2018 Country-specific Recommendations (Total number of draft 2018 CSRs = 73)	
	Legal Base	CSR	Legal Base	CSR
BG	Integrated Guidelines	**CSR 4:** Ensure efficient implementation of the 2014-2020 National Public Procurement Strategy.		**Fully dropped**
FR	MIP	**CSR 3:** **Improve access to the labour market for jobseekers, in particular less-qualified workers and people with a migrant background**, including by revising the system of vocational education and training. **Ensure that minimum wage developments are consistent with job creation and competitiveness.**	MIP	**Included in CSR 2:** Pursue the reforms of the vocational education and training system, to strengthen its labour market relevance and improve access to training, in particular for low qualified workers and jobseekers. **Foster equal opportunities and access to the labour market, including for people with a migrant background** and people living in deprived areas. **Ensure that minimum wage developments are consistent with job creation and competitiveness.**
HR	MIP	**CSR 3:** **Improve adult education,** in particular for older workers, the low-skilled and the long-term unemployed. **Accelerate the reform of the education system.**	MIP	**Included in CSR 2:** Discourage early retirement, accelerate the transition to a higher statutory retirement age and align pension provisions for specific categories with the rules of the general scheme. **Deliver on the reform of the education and training system** to improve its quality and labour market relevance for both young people and adults. Consolidate social benefits and improve their poverty reduction capacity.
PT	MIP	**CSR 4:** **Implement a roadmap to further reduce the administrative burden and tackle regulatory barriers** in construction and business services by the end of 2017. **Increase the efficiency of insolvency and tax proceedings.**	MIP	**Included in CSR 3:** Increase the efficiency of insolvency and recovery proceedings and reduce impediments to the secondary market for non-performing loans. Improve access to finance for businesses. **Reduce the administrative burden** by shortening procedural deadlines, using more tacit approval and reducing document submission requirements. **Remove persistent regulatory restrictions** by ensuring a proper implementation of the framework law for highly regulated professions. **Increase the efficiency of administrative courts, inter alia by decreasing the length of proceedings.**
SI	Integrated Guidelines	**CSR 2:** Intensify efforts to **increase the employability of low-skilled and older workers,** particularly through targeted lifelong learning and activation measures.	SGP	**Included in CSR 1:** Ensure that the nominal growth rate of net primary government expenditure does not exceed 3.1 % in 2019, corresponding to an annual structural adjustment of 0.65 % of GDP. Adopt and implement the healthcare and health insurance act and the planned reform of long-term care. Ensure the long-term sustainability and adequacy of the pension system, including by increasing the statutory retirement age and by restricting early retirement**. Increase the employability of low-skilled and older** workers through lifelong learning and activation measures.

Source: EGOV note "Country-Specific Recommendations for 2017 and 2018: A tabular comparison and an overview of implementation".