Implementation of the European Semester in new EU member states

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As a response to the economic and financial crisis, the EU has introduced new tools and legal instruments to strengthen its economic governance. The European Semester is established as a key coordination and monitoring tool within the new EU economic governance framework, which sets is designed to provide a coherent and focused approach to the efforts of Member States fiscal, macroeconomic and structural reforms. By providing three main EU mechanisms – the Stability and Growth Pact (SGP), the Europe 2020 and the Macroeconomic Imbalance Procedure (MIP), the European Semester is intended to ensure compliance and implementation of the EU's economic rules by the Member States and, at the same time, to support their efforts in reaching the Europe 2020 targets. Within the European Semester, the Country-Specific Recommendations (CSRs) represent the most important component for delivering reforms at the national and the EU level, as they provide the Member States with guidance in budgetary and macro-structural measures. This paper briefly provides some insights into the experiences of a number of new EU Member States in implementing the European Semester[1].

How efficient is the European Semester?

The European Semester plays an important role in strengthening cooperation and improving policy coordination between the EU Member States, especially within the euro area. The chief accomplishment of this new process is its role in helping to make the economic policies of the Member States more predictable and transparent, thus reducing the potential for national policies at EU level having negative cross-country implications. The European Semester cycle allows a better detection of the strengths and weaknesses of individual Member States as well as providing an insight into the socio-economic state of the EU as a whole. In so doing, the European Semester is useful policy guiding and monitoring instrument that reveals the direction that the EU as a whole is taking so as to achieve commonly agreed goals.

However, there is also a downside to all this. The mechanism has shown to have some weaknesses, reflected primarily in a poor implementation of CSRs and delivery of proposed structural reforms by the Member States. The implementation of the European Semester-related recommendations has been modest since the beginning and has shown a decreasing trend over the years. In 2011 the implementation rate of the CSRs was 40% and later dropped to 29% by 2014[i]. In addition, over the 2012-2015 period the proportion of 'fully' implemented CSRs decreased from 11% in 2012 to 4% in 2015, while the share of CSRs with 'limited' or 'no progress' in implementation increased from 29% to 52% respectively[ii]. These weak implementation rates indicate the somewhat limited impact of the European Semester on reform implementation.

The views expressed in the European Parliament's Report on the European Semester for economic policy coordination may be helpful when rethinking the role of European Semester in achieving a more robust recovery and sustainable prosperity. With regard to improving (the currently poor) implementation of the CSRs, there is a need to better identify articulated priorities at European level(s) as well as to increase genuine public debate, political willingness and commitment at national level, leading to greater relevance and national ownership. The right balance should be found, making CSR focus on key priorities and challenges, including the need to overcome the sovereign debt crisis, increase competitiveness, growth and employment and taking into account the Europe 2020 Strategy targets[iii].

For its part, the Commission made significant modifications to the process in 2015 in order to better support the implementation of the CSRs and to make the European Semester efficient, inclusive and transparent. The most important changes include publishing recommendations (for the euro area) already at the beginning of the Semester's cycle, reducing the scope and number of recommendations issued as well as giving a stronger focus on social and employment performance. In addition, greater support for the implementation of reforms has been made available through EU Funds as well as technical assistance. The Commission is developing more country-comparison tools in order to make better use of best practices and results in different policy areas and to facilitate discussion and common understanding of challenges and policy responses between Member States. Last but not least, a special emphasis was put on including the relevant national stakeholders and the European Parliament in order to strengthen democratic legitimacy and accountability within the European Semester process.

But what about the Member States? How are they progressing with the implementation of the process? To give an overall picture, it should be mentioned that since the introduction of the European Semester in 2011, the Excessive Deficit Procedure – EDP (a corrective phase of the SGP) was closed for 20 Member States. The most recent abrogation of the procedure was for Slovenia, Ireland and Cyprus (in June 2016). Currently, there is an ongoing EDP for only six Member States, namely Croatia, Portugal, France, Greece, Spain and the UK. Estonia and Sweden have not been covered by EDP at all. This shows that majority of Member States succeeded in achieving the budget deficit target in line with the Maastricht margin.

On the other hand, as a part of the Macroeconomic Imbalance Procedure (MIP), the 2016 in-depth reviews (IDRs) were conducted for 18 Member States. This refers to an in-depth analysis of a country's macroeconomic situation, checking the acuteness of detected imbalances. The IDRs results found 12 Member States to be experiencing macroeconomic imbalances. To be precise, 7 were found to be experiencing imbalances (Finland, Germany, Ireland, the Netherlands, Spain, Sweden and Slovenia), while the other 5 (Bulgaria, Croatia, France, Italy and Portugal) were experiencing excessive imbalances but without the Commission triggering the corrective phase of the procedure (Excessive imbalance procedure – EIP). It should be highlighted that the EIP has not yet been initiated for any EU Member State.

The implementation record of CSRs remains below expectations. The most recent data show that the EU-28 Member States fully/substantially implemented only 4 out of 102 (equating to about 4%) of the 2015 recommendations. Some progress was registered for approximately 41% of the CSRs, while nearly half of the recommendations have not been implemented at all, or only in a limited manner. It should be underlined that the euro area members, taken together, had a stronger implementation record than non-euro area members (the above mentioned full/substantial progress recorded for only 4 CSRs was achieved exclusively by euro area countries)[iv].

Implementation of the European Semester: the case of five new EU Member States

The exercise of the European Semester (especially the CSRs issued to the Member States) is a good opportunity for new EU Members to improve their public policies and implement reforms which are necessary to foster economic growth and employment, thus contributing to citizens' prosperity. In this section the experiences of Croatia, the Czech Republic, Hungary, Slovakia and Slovenia are comparatively observed. The selection of the countries was based on the criteria of being new or relatively new EU Member States (all acceded the EU in the 5th and 6th enlargement), facing similar economic and social challenges (in spite of their different economic performances) and being geographically located close to each other in Central and South-Eastern Europe. Moreover, the intention was to cover both representatives of the Eurozone (Slovakia, Slovenia) and countries which were Eurozone candidates (Czech Republic, Croatia, Hungary).

The Czech Republic, Hungary, Slovakia and Slovenia have been implementing the European Semester since the first cycle took place in 2011. From 2013 to its accession to the EU, Croatia was informally included in the European Semester on a voluntary basis. Fully fledged EU membership has required that Croatia participate in the European Semester regularly, so the country formally participated in the process for the first time in 2014, taking on the responsibilities that membership entails.

All five selected EU Member States were under the Excessive Deficit Procedure (EDP) although the duration of the procedure was different, depending on the specific situation in each particular country. Having been under the EDP since 2009, the Czech Republic and Slovakia successfully and relatively quickly exited the corrective phase of the SGP in 2014. Hungary had been in the EDP for nine years (2004-2013). For Slovenia, the EDP was launched in 2009 and the country had been constantly under the corrective procedure until 2016. The EDP was opened for Croatia in 2014 and it is still ongoing. When it comes to the Macroeconomic Imbalance Procedure (MIP), the Czech Republic and Slovakia did not face macroeconomic imbalances at all during the entire 2012-2016 period. Imbalances were identified for Hungary throughout the 2012-2015 time frame, while in 2016 no imbalances were found.

For Slovenia, the situation of imbalance was identified in 2012, while 2013 and 2014 In-Depth Reviews showed that this country was experiencing excessive imbalances but in 2015 and 2016 imbalances in Slovenia were no longer considered excessive. Still, Croatia has been considered to be in a situation of excessive imbalances since its formal participation in the European Semester[v].

During the 2011-2014 period, the Czech Republic, Slovakia and Hungary received, on average, six or seven CSRs, while Slovenia received an increasing number of CSRs each year (from 6 up to 9). Croatia was issued with a first set of recommendations in 2014, amounting 8 CSRs in total. In line with the streamlined process of the European Semester, all selected Member States already received fewer CSRs in the 2015 cycle, even though only a limited progress was assessed in most of the areas. A number of CSRs for all observed countries saw a further decline in the 2016 cycle except Slovenia, which received a stable number of 4 CSRs. As with the implementation of issued recommendations, the examples of the selected countries tend to follow the general pattern of modest or even distinctly low implementation of CSRs. According to the latest assessment of implementation of CSRs by the Commission, in 2015 the Czech Republic made some progress in 3 areas (public finances and health care sector; taxation; education) and limited progress regarding 1 CSR relating to the reduction of the high level of taxation levied on low-income earners and the availability of affordable childcare. The overall implementation of 5 CSRs from 2015 issued to Hungary resulted in some progress being made in 1 recommendation, due to the fact that the authorities started to implement the MuO with EBRD, including the considerable tax reduction on financial institutions. The Commission assessed that in 2015 Slovakia made some progress in addressing 1 CSR by increasing the cost-effectiveness of the healthcare sector. In the remaining 3 areas (employment, training of teachers, investment) only limited progress was made. Furthermore, according to the Commission's assessment, Slovenia is the only country among those selected for this paper that has fully implemented 1 CSR (related to the financial sector). Some progress has been made in addressing 2 more CSRs, one relating to unemployment and wage-setting and the other to the efficiency of the civil justice system. Limited progress has been achieved regarding the recommendation covering public finances. Among 6 CSRs dating from 2015, Croatia was only able to make some progress with regard to 1 recommendation on reducing the administrative burden of business and on removing parafiscal charges. In general, in spite of the fact that some measures were well designed, Croatia needs to speed up the structural reforms needed to strengthen growth, jobs and investment.

An overview of issues covered in the CSRs for 2016-2017 shows that all selected countries received a recommendation in the area of fiscal governance and public finances and were advised to improve their public administration and reduce the administrative and regulatory barriers to business and investment. Other issues stressed in the new set of CSRs are related to the employability of low-skilled, older workers and women and to the improvement of activation measures for the long-term unemployed. In addition, the majority of selected Member States are advised to enhance their educational and training systems, with a special emphasis on the inclusion of disadvantaged groups.

Conclusions

Overall, the implementation of the European Semester in the past five years has achieved certain amount of success but it has also highlighted some shortcomings. This EU policy framework contributed to better coordination and stronger cooperation between Member States in numerous socio-economic areas. However, it is still difficult to identify the real impact of the European Semester's recent modifications. In spite of the progress made by the Member States, the process of EU economic recovery is both slow and fragile. Reforms were undertaken in a number of policy areas, but the results are uneven. This holds true also in the case of new EU Member States. There is a distinct need to identify and articulate more clearly the priorities at European level, to raise awareness through public information and debate and to strengthen political commitment at national levels. In the absence of this, it would seem impossible for the European Semester to gain greater relevance l and to achieve (a) true national ownership, taking into account the Europe 2020 targets.

What kind of recommendations could be gleaned from the above analysis, bearing in mind the challenges that new Member States are facing in implementing the European Semester?

- The political commitment and responsibility of Member States in the implementation of reforms in the framework of the European Semester is a vital requirement, in spite of their short-term unfavourable consequences. In this regard, the Council's recommendations should be responsibly considered by national governments.

- Member States, especially new ones, should make use of the available options provided by the new Structural Reform Support Service established by the Commission. The Service coordinates and provides tailor-made technical support to EU Member States at their request and offers financial support for reform implementation in the context of the European Semester.
- It is highly advisable to use the knowledge and experiences of other EU Member States in implementing the European Semester as far as possible. The exchange of experiences could contribute to a more efficient implementation of recommendations and help to avoid negative consequences or could offer a more insightful consideration of the impact of implemented measures.
- There is a need to raise awareness amongst the wider public that the implementation of reforms (especially structural reforms) is not just an obligation related to participation in the European Semester, but rather a necessary prerequisite for strengthening the potential for economic growth, which is also in the interest of citizens. Unpopular measures should not be exclusively seen in the context of the European Semester.

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