

European Semester 2018: Winter Package explained

What does today's package include?

Today, the Commission publishes:

- 27 Country Reports (for all Member States except Greece, which is subject to a stability support programme), including in-depth reviews (IDRs) for 12 countries identified in the [Alert Mechanism Report](#) of last November
- A Chapeau [Communication](#) on the main findings and results of the [Country Reports](#) and IDRs
- Special monitoring reports in the context of the macroeconomic imbalances procedure

COUNTRY REPORTS

What are Country Reports?

Country Reports are analytical documents that provide an overview of the economic and social challenges in the Member States as well as policy action taken by them. The reports are a tool under the [European Semester](#), the process of policy coordination to monitor reforms and to point to issues facing Member States. For countries for which the Commission's [Alert Mechanism Report](#) 2018 identified the need for an in-depth review in November, these Country Reports include the analyses into whether the countries are experiencing macroeconomic imbalances and to what degree. The Country Reports will serve as a basis for the continuation of the dialogue with Member States and stakeholders at all levels, ahead of the presentation of national programmes in April and of the preparation of new Country-Specific Recommendations later in spring. The Country Reports also include policy highlights for all Member States, which are important for the countries in question or can serve as inspiration for others.

Member States have been consulted on the analytical elements of the reports in advance of publication, also to give them the opportunity to check the accuracy of facts and figures. The final analysis is that of the Commission.

What are the overall findings of the Country Reports?

The Country Reports review progress by Member States in addressing the issues identified in the Country-Specific Recommendations they received over the years.

The analysis presented in today's Country Reports shows that the economic recovery, together with the reforms carried out in many parts of Europe, has contributed to improving the labour market and social context in Europe. Unemployment is at a ten-year low and almost back to pre-crisis levels, investment is picking up and public finances continue to improve. The share

of people at risk of poverty or social exclusion has decreased to pre-crisis levels. However, remaining vulnerabilities, such as the high level of public and private debt, need to be overcome to safeguard the sustainability and inclusiveness of the current economic growth.

Today's economic conditions call for further strengthening the foundations of Europe's economies. Further reforms are needed to make them more resilient to future shocks, to mitigate the costs of demographic evolutions and to adapt to technological change. With continued focus on the 'virtuous triangle' of investment, structural reforms, and responsible fiscal policies, the European Semester continues to guide Member States in implementing the necessary reforms. This year's Country Reports also look at the priorities of the European Pillar of Social Rights, which was recently proclaimed by the European Parliament, the Council and the Commission. The European Pillar of Social Rights serves as a compass towards better working and living conditions across the EU.

Have the Member States addressed the challenges identified in past Country-Specific Recommendations?

Member States continue to make progress in addressing the Country-Specific Recommendations adopted by the Council in the context of the European Semester. Reform implementation has slightly increased overall, as compared to the May 2017 stocktaking exercise. Since the start of the European Semester in 2011, Member States achieved at least 'some progress' with regard to more than two-thirds of the recommendations.

Reform implementation has been solid in some key areas. Since the outset of the European Semester, Member States have made most progress in financial services and in fiscal policy and fiscal governance. This continues to reflect the priority that was given to the stabilisation of public finances and of the financial sector, following the economic and financial crisis. Significant progress has also been made in addressing access to finance, in employment protection legislation and frameworks for labour contracts. However, more modest progress has been made in areas like the broadening tax bases or transport. In many Member States, progress towards addressing the important challenges related to long-term sustainability of public finances is slow.

Regulatory reforms have improved the business environment especially in those Member States that needed them most. These reforms have reduced administrative barriers to the creation of new business. However, entrepreneurship remains weak in many Member States. Access to bank credit and loans have improved for SMEs but venture capital is still insufficient in many parts of the Union. Significant progress can also be reported in public procurement. However, the pace of reform in services markets is slow in particular in business services, construction and real estate.

How do Country Reports help to address employment and social priorities in the context of the European Semester?

Since coming into office, the Juncker Commission has strengthened the focus

of the European Semester, the process of economic policy coordination, on employment and social priorities. Member States continue to implement a wide spectrum of employment, education and social reforms. These reforms are expected to bring the Member States closer to the Europe 2020 targets in the employment and social areas: helping people to find jobs, providing them with the right skills and reducing poverty.

Employment in the EU reached 236.3 million in the third quarter of 2017, the highest number ever recorded. EU unemployment fell to 7.3% in December 2017. The number of people at risk of poverty or social exclusion continues to decrease for the 4th year in a row. The overall income distribution is more equal than in other major economies.

However, significant challenges still persist as high unemployment, poverty and inequality in some countries remain key concerns following the economic and financial crisis. Moreover, there are still big differences between Member States. Disposable household income is not yet above pre-crisis levels in all Member States. More convergence in performance needs to be encouraged. Social dialogue is a precondition to successful reforms.

To support this much needed convergence between Member States towards better working and living conditions, the Commission proposed to establish the European Pillar of Social Rights, which was proclaimed at the Social Summit in Gothenburg by the European Parliament, the Council of the EU and the Commission. The 2018 Country Reports look notably at how Member States deliver on the dimensions of the Pillar which are most acute for their situations. Dimensions that are looked at are, for example, the low impact of social transfers on poverty reduction, the gender employment gap, high labour market segmentation and sluggish wage growth, as well as the role of social dialogue in some Member States.

How is the European Pillar of Social Rights integrated into the European Semester?

The Pillar sets out a number of key principles and rights to support better living and working conditions across the EU. It is accompanied by a [Social Scoreboard](#) which tracks trends and relative performance across Member States in the three main dimensions of the Pillar: equal opportunities and access to the labour market, fair working conditions, and social protection and inclusion. This analysis feeds into the European Semester. The [Annual Growth Survey](#) (AGS) published in November already makes clear that the Semester will be key for delivering on the Pillar. The [Joint Employment Report](#) includes most of the indicators of the Social Scoreboard to monitor areas covered by the Pillar. In addition, the Employment Guidelines, the basis for the Country-Specific Recommendations (CSRs), have been aligned with the principles of the Pillar.

The Country Reports published today use the Pillar as a compass, focusing on reforms that help increase the resilience of labour markets, the effectiveness of national welfare systems and the capacity to deal with longer-term structural drivers of change (e.g. new forms of work, demographic ageing). To achieve this, the Pillar is covered in different parts of the

report. A separate information box complements the analysis: it outlines the country's general performance and then presents a few specific examples including one particularly important challenge and one good performance or promising policy development from the country.

STEPS UNDER THE MACROECONOMIC IMBALANCES PROCEDURE (MIP)

What are in-depth reviews?

In-depth reviews are carried out in the context of the macroeconomic imbalances procedure to identify and prevent the emergence of potentially harmful macroeconomic imbalances that could damage economic stability in a single country, the euro area or the EU as a whole. First, the Alert Mechanism Review identifies, on the [basis of a reading of a scoreboard of indicators](#), released in November of each year, Member States with possible risks of economic imbalances. Then the Commission undertakes in-depth reviews to assess whether imbalances or excessive imbalances indeed exist in these countries and to assess their gravity. For those countries where an in-depth review was carried out, the results are included in the Country Reports.

The reviews examine aspects such as the sustainability of Member States' external accounts, savings and investment balances, effective exchange rates, export market shares, cost and non-cost competitiveness, productivity, private and public debt, housing prices, credit flows, financial systems, unemployment and other variables.

Since the publication of the Alert Mechanism Report, the services of the Commission have been in close contact with experts from national authorities and stakeholders to gather the latest information and undertake the analysis.

What do you mean by "macroeconomic imbalances"?

In the context of the European Semester, a macroeconomic imbalance is defined as 'any trend giving rise to macroeconomic developments which are adversely affecting, or have the potential to adversely affect, the proper functioning of the economy of a Member State or of the Economic and Monetary Union, or of the Union as a whole', while excessive imbalances are 'severe imbalances that jeopardise or risk jeopardising the proper functioning of the Economic and Monetary Union'.

The situations that fall under the definition of imbalances might be related to unsustainable trends (e.g. excessive and protracted growth in house prices) which could result in disruptive adjustment, or the presence of vulnerabilities (e.g. large stocks of debt) that weigh on the economy and amplify the impact of macroeconomic shocks.

For which countries did the Commission publish in-depth reviews?

In the 2018 Alert Mechanism Report, published in November 2017 as part of the European Semester Autumn Package which started the 2018 European Semester cycle, the Commission identified 12 Member States for in-depth reviews: **Bulgaria, Croatia, Cyprus, France, Germany, Ireland, Italy, the Netherlands, Portugal, Slovenia, Spain and Sweden**. All 12 countries were found to

experience imbalances or excessive imbalances also in 2017.

An in-depth review is needed to identify the existence of imbalances and to assess their gravity. For imbalances already identified, in-depth-reviews are needed to analyse whether imbalances are unwinding, persisting or aggravating, while paying due attention to the contribution of the policies implemented by these Member States to overcome imbalances.

In the case of Greece, the surveillance of imbalances and the monitoring of corrective measures continue to take place in the context of its stability support programme.

The Commission has concluded that 11 out of the 12 Member States examined are facing either imbalances (8) or excessive imbalances (3). The summary of the in-depth reviews outcome is as follows:

- **Croatia, Cyprus, and Italy** are experiencing excessive economic imbalances.
- **Bulgaria, France, Germany, Ireland, the Netherlands, Portugal, Spain and Sweden** are experiencing economic imbalances. For **Bulgaria, France and Portugal** this is a de-escalation from excessive imbalances last year.
- **Slovenia** is no longer experiencing economic imbalances.

The countries experiencing imbalances will continue to be subject to specific monitoring of progress in addressing their imbalances within the macroeconomic imbalance procedure (MIP) framework. For Bulgaria and Portugal the Commission underlined that further efforts remain necessary to achieve a sustainable correction of the imbalances.

The Commission does not at this stage carry out further analyses in the context of the MIP for the other Member States. However, careful surveillance and policy coordination are necessary on a continuous basis for all Member States to identify emerging risks and put forward the policies that contribute to growth and jobs.

What are the specific monitoring reports and why are they published now?

Specific monitoring is an instrument to monitor policies carried out in the context of the MIP. It allows for an intensified dialogue with the national authorities for countries identified as experiencing imbalances or excessive imbalances under the MIP. It takes place through experts' missions and through specific monitoring reports, which are progress reports focussing on policy measures. The most recent reports were discussed in the relevant Council committees in late autumn last year and the findings have fed into the country reports.

The Commission publishes today these specific monitoring reports for nine countries: Bulgaria, Croatia, France, Germany, Italy, Spain, Slovenia, Sweden and the Netherlands. The specific monitoring reports for Cyprus, Ireland and Portugal were included in their latest post-programme surveillance reports.

What are the next steps?

The Council is expected to discuss the Commission's findings emerging from the Country Reports and the in-depth reviews included in some of them. The Commission will then hold bilateral meetings with the Member States on the Country Reports. The Vice-Presidents and Commissioners will visit Member States to meet the governments, national parliaments, social partners and other stakeholders and to discuss the findings from the Country Reports.

By mid-April, Member States are expected to address the identified challenges in their National Reform Programmes and their Stability Programmes (for euro area countries) or Convergence Programmes (for non-euro area countries) related to public finances.

Member States are expected to involve national parliaments and social partners closely and ensure the ownership of the reform process by a wider range of stakeholders. Member States will also be invited to explain how regional and local authorities are involved in the preparation of the programme, as the success of implementation also relies on various levels of government.

On the basis of all these sources, the Commission will present its proposals for new Country-Specific Recommendations later in spring, targeting the key challenges each country should address.

For more information:

[Press release](#)

[Communication](#)

[Country Reports](#)

[Specific monitoring reports under the MIP](#)

[SRSP 2018 Annual work programme](#)

[Winter 2018 Economic Forecast](#)

[Start of the 2018 European Semester: Autumn Package](#)

[Visual presentation of the European Semester cycle](#)

[Alert Mechanism Report 2018](#)

[Annual Growth Survey 2018](#)

[Euro Area Recommendation 2018](#)

[Draft Joint Employment Report 2018](#)