# [European Semester 2019 Spring Package explained]

**The European Commission has taken the next steps in the 2019 cycle of the European Semester of economic policy coordination.**

The package includes:

**Country-specific recommendations**

**What are the country-specific recommendations?**

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

**What is new in the 2019 European Semester and country-specific recommendations?**

In line with the Commission's analysis on Member States' investment needs and bottlenecks in the country reports, the 2019 country-specific recommendations include a stronger focus on investments.

Building on the findings of the 2019 country reports, this year there is also an investment-related recommendation for each Member State. These recommendations refer to regional and territorial disparities and aim to identify specific investment needs to ensure a more even economic and social development. This guidance is set to inform the programming of the EU Cohesion Policy Funds in the period 2021-2027.

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

Since the start of the European Semester in 2011, Member States have made at least 'some progress' with more than two thirds of the country-specific recommendations and the progress continues at a steady pace.

Regarding the recommendations addressed to them in July 2018, Member States have made at least 'some progress' with 4 in 10 CSRs. Reform implementation continues to be strong on financial services, even if progress is somewhat slower than the bold steps taken in the immediate aftermath of the crisis. On the other hand, progress remains limited in addressing recommendations about broadening the tax base and strengthening competition in services. In view of the remaining economic and social challenges and prominent downside risks to the economic outlook, stronger reform implementation is crucial to strengthen the resilience of EU economies.

The progress with the correction of macroeconomic imbalances continues, but further policy action is needed. The large euro area current account surplus remains broadly unchanged, reflecting on the one hand aggregate domestic demand lagging behind economic activity, and improved competitive position with sustained exports on the other. Further rebalancing requires differentiated responses. Member States with current account deficits or high external debt need to sustain improvements in competitiveness, while Member States with large current account surpluses should strengthen the conditions that support higher wage growth and investment. For all Member States, measures to enhance productivity and investment are key to promoting growth.

**What are the key objectives of these recommendations?**

The overall objective is to encourage the Member States to increase their growth potential by modernising their economies and further strengthening their resilience. Given the current slowdown, all Member States should prioritise reforms aiming at sustainable and inclusive growth. Moreover, our increasingly digitalised and globalised economies require smarter investments in relevant infrastructure, innovation, education and skills. Furthermore, the changing labour market and ageing population require additional measures to ensuring sustainable and inclusive social welfare systems.

**How is the Commission helping Member States to implement recommendations?**

The Commission promotes reform implementation by engaging in an open dialogue with Member States, by using the available tools to identify opportunities and vulnerabilities and by providing support to Member States.

The continuous policy dialogue with Member States has intensified over the past few years as part of the Commission's overhaul of the Semester. Like last year, the Commission consulted Member States on the analytical parts of their country reports prior to their publication.

The Commission is also making sure that EU funding is steered towards EU and national priorities. The European Structural and Investment Funds and the European Fund for Strategic Investments – the heart of the Juncker Plan – are two of the Commission's most important financing programmes, providing grants and loans to projects across a range of strategically important sectors in the EU.

In addition, the Commission provides technical support to Member States through the Structural Reform Support Service (SRSS). Countries can request tailor-made technical support to prepare, design, and implement growth-enhancing reforms. This covers strategic and legal advice, studies, training and in-country missions by experts. Since it was created in 2015, the service has provided support to more than 760 reform projects, in 26 Member States.

**What are the priorities for public finances?**

Public debt is declining, but progress is uneven among Member States, with some having insufficient fiscal buffers while others have reached sound budgetary positions. Government debt remains high in several Member States. The impact of an ageing population poses additional challenges for the sustainability of public finances in the EU, and calls for reforms of the pension, healthcare and long-term care systems.

The strengthening of fiscal sustainability of the euro area and its Member States requires differentiated national fiscal policies. The country-specific recommendations set a required fiscal adjustment effort consistent with the Stability and Growth Pact for Member States that have not yet reached their medium-term budgetary objective. Member States with adequate scope are also recommended to use fiscal and structural policies within the rules of the Stability and Growth Pact to increase public investment to support growth and facilitate economic rebalancing.

Improving the quality of public spending could enhance the ability of public finances to support growth. Fiscal policy that favours investment in education and skills, quality infrastructure and innovation is a means to increase growth potential.

**How is Aggressive Tax Planning addressed?**

This year, several country-specific recommendations directly address the topic of Aggressive Tax Planning. Tax avoidance reduces national revenues, disrupts fair competition and negatively impacts growth.As the European Semester is about coordinating national policies to ensure convergence and a strong, competitive and social Europe, fighting Aggressive Tax Planning and working towards tax coordination is an essential step to protect Europe's citizens and competitiveness. This is also reflected in the euro area recommendation issued by the Council on 22 January.

**What should Member States do to improve the labour market?**

Labour market conditions keep improving. Employment is at a record high in the EU, and unemployment is at a record low. At the same time, there are still considerable divergences between countries, regions and population groups. In order to improve the functioning of the labour market, targeted investment is needed to strengthen the effectiveness of active labour market policies and/or to reinforce the capacity of employment services.

Although employment is at a record high in Europe, there are significant differences between countries, regions and population groups, ranging from almost 93% employment for the high-skilled in the capital region of Lithuania to below 30% for the low-skilled in north east Bulgaria. In particular, Member States should choose policies to empower disadvantaged groups such as low-skilled workers, the young, older people, people with disabilities and people with a migrant background so that they can better grasp labour market opportunities.

To increase overall participation in the labour market, it is also important to provide better care services (childcare as well as healthcare and long-term care services), facilitate work-life balance and remove disincentives to work.

**What should Member States do to improve the education system?**

Investing in education and skills is essential to sustain innovation and productivity growth, especially in a rapidly changing world of work with rising skills shortages. Inequality in education represents a threat to social cohesion and the long-term prosperity of European societies. Equal access to quality education is also essential for disadvantaged groups. In some cases this may require to pay teachers more. And since the world of work changes fast, stronger investments in lifelong learning are needed – currently only 10% of the European population participates in adult learning.

**What should Member States do to improve social inclusion and to tackle inequalities?**

The social situation continues to improve, but gaps in coverage of social protection systems and access to services persist. Poverty and income inequality are declining, but they remain high in some Member States. In-work poverty is also a challenge in several Member States.

To address this, policy measures should promote and facilitate high-quality permanent jobs. This would contribute to reducing inequalities and poverty risks. Access for all to high-quality education and training is particularly important in this respect. Raising skill levels and preparing people for the jobs of tomorrow best address inequalities – enshrined in the first principle of the European Pillar of Social Rights.

In addition, the tax and benefit systems need to be examined. Tax reforms are needed to protect the revenue for adequate social protection and to improve the capacity of the welfare system to reduce poverty and inequalities. The main competence in this area lies with the Member States.

**What should Member States do to improve healthcare?**

Reforms of the health systems are ongoing in several countries to ensure the accessibility of healthcare for all, while enhancing their cost effectiveness and sustainability. Member States should continue their efforts, giving priority to the careful design of comprehensive measures and to stepping up the adoption and implementation of health service delivery reforms. Further investment is often necessary to support and implement reforms in the health systems.

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

The Commission attaches great importance to employment and social priorities. This is reflected in the increasing focus on these issues in the European Semester. In 2019, almost half of the country-specific recommendations address employment, education and social issues.

This trend has been reinforced through the European Pillar of Social Rights proclaimed at the Social Summit for Fair Jobs and Growth in Gothenburg on 17 November 2017 by the European Parliament, the Council and the European Commission. This set of country-specific recommendations puts a renewed emphasis on the three areas of the Pillar:

1) equal opportunities and access to the labour market;

2) fair working conditions; and

3) social protection and inclusion.

The Social Scoreboard is used as a 'screening device' that allows for a wider and careful assessment of the situation in each Member State.

**What should Member States do to boost investment?**

Developing a comprehensive EU investment policy agenda remains crucial to address current and future growth. The Commission has made boosting investment its top priority already since President Jean-Claude Juncker's Political Guidelines.

Since the launch of the Investment Plan for Europe, substantial private and public funds have been and continue to be mobilised for investments across strategic sectors of the EU economy, which gave a substantial boost to growth and job creation. As of May 2019, the Juncker Plan is set to mobilise almost €400 billion in investments and to create around 750 000 jobs. In addition to unlocking investments, the Juncker Plan created relevant project pipelines and focused on measures making the business environment more conducive to investment. The Commission has addressed and will continue to address regulatory and administrative barriers, at national and at EU level, together with initiatives from Member States.

Member States should also use EU Cohesion Policy Funds in an optimal way to enhance investments in the relevant policy areas and this year's European Semester cycle puts particular emphasis on this element.

The country-specific recommendations build and expand on the emphasis given to investment needs in the country reports of February: first, the recommendations refer to the investment needs of the whole economy, irrespective of how they will be addressed (private funding, national public funding, or EU co-financed public funding). Second, they include non-financial policies for improving the general business climate in their approach to investment-related economic policy. This focus should help the discussion on how the EU Cohesion Policy Funds under the next programming period 2021-2027 can address investment priorities in the Member States.

**How are the country-specific recommendations linked to EU funding?**

Country-specific recommendations provide guidance to EU Member States to pursue a policy mix of effective reforms, well-targeted investment strategies and responsible fiscal policies While EU funds cannot address all investment needs, they provide considerable opportunities to address the concrete investment gaps identified in the country-specific recommendations. The

Commission is making strong efforts to better align EU funds with the European Semester recommendations to improve results and strengthen the European added value of EU funds like InvestEU, Connecting Europe Facility, Horizon Europe and the Cohesion Policy Funds, including the European Social Fund Plus (ESF+).

The Commission has just started the dialogue with national authorities on how better to target Cohesion Policy Funds at national level for the period 2021-2027. The country reports and country-specific recommendations provide the analytical and policy framework for successful programming.

**What is the difference between the investment-related country-specific recommendations (CSRs) and the investment guidance annexes to the country reports?**

The country reports, published as part of the Winter Package on 27 February, analysed each country's investment needs based on an expert reading of the latest socio-economic trends, with a focus on sectoral competitiveness. Regional and territorial disparities were taken into account where relevant. Detailed annexes (one per Member State) offered guidance on the best use of Cohesion Policy Funds. Together with the other analytical findings of the country reports, the annexes have already been presented to Member States at formal events that kick-started the informal dialogue with Member States on programming Cohesion Policy Funds for 2021-2027.

The investment-related CSRs of the Spring Package refer to the investment needs of the whole economy, irrespective of where they arise or how they will be addressed (private funding, national public funding, or EU co-financed public funding). They are not only broader than the guidance and findings of the country reports but they include non-financial policies to improve the general business climate. They may therefore differ, in scope and detail, from the respective investment guidance annexes, which focus exclusively on that part of the investment needs that the EU Cohesion Policy Funds can co-finance.

**What is the European Public Sector Accounting Standards (EPSAS) report published by Eurostat today?**

Eurostat has today also published a report on the progress made as regards European Public Sector Accounting Standards (EPSAS). The EPSAS initiative aims to provide harmonised accruals-based public sector accounting and a firmer basis for understanding the financial position and performance of the public sector. The report shows that the use of accrual accounting for the public sector has increased in the EU and this trend is expected to continue at global level.

**Fiscal development and decisions: what has the Commission decided today?**

Based on the assessment of the 2019 Stability and Convergence Programmes, the Commission has also taken a number of steps under the Stability and Growth Pact:

- The Commission recommends that the Excessive Deficit Procedure be closed for Spain. As a result, from the peak of 24 countries under EDP in 2011, no EU Member State is left under the Procedure.
- The Commission has also adopted reports under Article 126(3) TFEU for Belgium, France, Italy and Cyprus, in which it reviews their compliance with the debt criterion of the Treaty. For Italy, the report concludes that a debt-based Excessive Deficit Procedure is warranted.
- The Commission has addressed a warning to Hungary and Romania on the existence of a significant deviation from the adjustment path toward the medium-term budgetary objective in 2017. The Commission recommends to the Council to recommend the two Member States correct the significant observed deviation.

**When will Spain move to the preventive arm of the Stability and Growth Pact?**

EU economic and finance ministers will discuss the Commission's recommendations in the Economic and Financial Affairs Council (ECOFIN). If and when the ECOFIN Council decides to abrogate the EDP, Spain will move from the corrective to the preventive arm of the Stability and Growth Pact as from this year.

Under the preventive arm of the Stability and Growth Pact, Spain should progress towards its medium-term budgetary objective at an appropriate pace, including respecting the expenditure benchmark, while complying with the deficit and debt criteria. Spain would have to comply with the rules of the preventive arm of the Stability and Growth Pact as of this year.

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

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

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

**What is a Significant Deviation Procedure and how does it differ from the Excessive Deficit Procedure?**

The Significant Deviation Procedure is part of the preventive arm of the Stability and Growth Pact. Under the preventive arm, all EU countries are expected to reach a predefined medium-term budgetary objective (MTO) or to be heading towards it by adjusting their structural budgetary position at a rate of 0.5% of GDP per year as a benchmark. These medium-term budgetary objectives are set to ensure sound fiscal health.

If the fiscal policies of a Member State result in a significant deviation from their MTO or the adjustment path towards it, the Stability and Growth Pact foresees that the Commission shall recommend the Council to open a so-called Significant Deviation Procedure.

The excessive deficit procedure is part of the corrective arm of the Stability and Growth Pact. It aims to ensure that Member States adopt appropriate policy responses to correct excessive deficits and/or debts. Following Article 126 of the Treaty and the Stability and Growth Pact, Member States are required to limit the general government deficit to at most 3% of GDP and public debt to at most 60% of GDP (or to ensure that it sufficiently decreases towards 60%). In case any one or both of these conditions is breached, the Commission assesses the case for launching an excessive deficit procedure based on all relevant factors.

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

Today, the Commission has adopted reports under Article 126(3) for 4 Member States (Belgium, Italy, France and Cyprus), in which the Commission assesses their compliance with the debt or deficit criterion of the Treaty. As an immediate next step, the Economic and Financial Committee is expected to formulate its opinion on the reports within two weeks. The various procedural steps are described in Article 126 of the Treaty.

**Third Enhanced Surveillance Report for Greece**

The Commission adopted the third Enhanced Surveillance Report for Greece.

The Commission activated the Enhanced Surveillance framework for Greece, effective as of the conclusion of the European Stability Mechanism stability support programme on 20 August 2018. The Enhanced Surveillance framework facilitates continued support for the completion, delivery and implementation of reforms agreed under Greece's stability support programme, in line with the commitments made by the Greek authorities.

**What are the conclusions of the Report?**

The report notes that Greece has made a reasonable start to the post programme environment since August 2018, but finds that reform implementation in Greece has slowed in recent months, and that the consistency of some measures with commitments given to European partners is not assured and may pose risks to agreed fiscal targets.

**For further information:**

Press release on the European Semester 2019 Spring package

Chapeau Communication on the country-specific recommendations 2019

Country-specific recommendations 2019

Abrogation of the Excessive Deficit Procedure for Spain

Reports under Article 126(3) TFEU for Belgium, France, Italy, Cyprus

Significant Deviation Procedure for Hungary and Romania

Factsheet: Situation under the Macroeconomic Imbalances Procedure and the Stability and Growth Pact

Factsheet: Overview of policy areas covered in the country-specific recommendations 2018

Factsheet: Key employment and social figures

European Economic Forecast Spring 2019

European Semester timeline

Recommendation for the Euro Area 2019

European Semester Winter Package 2019

European Semester Autumn 2018 Package

European Pillar of Social Rights

The EU Economic Governance Explained

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