European Commission - Press release

European Semester 2018 Spring Package: Commission issues recommendations for Member States to achieve sustainable, inclusive and long-term growth

Brussels, 23 May 2018

The European Commission presents today the 2018 country-specific recommendations (CSRs), setting out its economic policy guidance for Member States for the next 12 to 18 months.

Europe's economy is growing at its fastest pace in a decade, with record employment, recovering investment and improved public finances. According to the Commission's 2018 Spring forecast, growth in the next two years will slow slightly but remain robust. The current favourable conditions should be used to make Europe's economies and societies stronger and more resilient. The country-specific recommendations proposed today build on the progress already made in recent years and aim to capitalise on the positive economic outlook to guide Member States to take further action.

Valdis Dombrovskis, Vice-President for the Euro and Social Dialogue, also in charge of Financial Stability, Financial Services and Capital Markets Union, said: *"Europe experiences the strongest growth in a decade and it is set to continue this year and next. However, new risks are emerging such as volatility in global financial markets and trade protectionism. We should use the current good times to strengthen the resilience of our economies. This means building fiscal buffers, which would give countries more manoeuvring space in the next downturn. This also means structural reforms to promote productivity, investment, innovation and inclusive growth.*"

Marianne Thyssen, Commissioner for Employment, Social Affairs, Skills and Labour Mobility, said: *"This year's recommendations have a greater than ever focus on employment, education and social issues. This shows the Commission's determination to focus on the implementation of the European Pillar of Social Rights in all the Member States and improve working and living conditions for all European citizens."*

Pierre Moscovici, Commissioner for Economic and Financial Affairs, Taxation and Customs, said: *"Today we move a step closer to leaving behind us the legacy of the crisis, as France exits the Excessive Deficit Procedure after nine years. For the first time since the creation of the single currency, all euro area countries will have a deficit below 3% of GDP in 2018. It has taken years of responsible fiscal policies to bring EU countries to this point, and we must ensure that responsibility remains the name of the game in the future too. That's why we address a strong message to Hungary and Romania that they should take action to this year and next to correct a significant deviation from their fiscal targets. Prevention is better than cure, and the time to prevent serious problems from emerging is now that the economy is strong."*

The 2018 country-specific recommendations

The recommendations focus on strengthening the foundations for sustainable and inclusive growth in the long term. They build on the comprehensive analysis carried out by the Commission in the latest Country Reports, which highlighted legacy issues in certain Member States arising from the financial crisis and challenges for the future.

The improved economic context allows to focus on a renewed set of priorities, and this window of opportunity should be used to do what is necessary in a domestic context, bearing in mind the close interdependence of the EU economies, notably those of the euro area.

In particular, the Commission calls on Member States to pursue structural reforms that improve the business environment and conditions for investment, especially through product and service market reforms, supporting innovation, improving small- and medium-sized enterprises' access to finance and fighting corruption.

Member States should also strengthen economic resilience in the context of long-term challenges, such as demographic trends, migration and climate change. Only resilient economies can ensure long-term economic convergence and the reduction of disparities.

This year, the recommendations dedicate special attention to social challenges, guided by the European

Pillar of Social Rightsproclaimed in November 2017. There is a particular focus on ensuring the provision of adequate skills, the effectiveness and adequacy of social safety nets and improving social dialogue.

Countries are also recommended to carry out reforms that prepare their workforces for the future, including future forms of work and increasing digitalisation; reduce income inequalities; and create employment opportunities, for young people in particular.

Progress on implementation of recommendations

Since the start of the European Semester in 2011, Member States have either implemented fully or made some or substantial progress on more than two-thirds of the country-specific recommendations.They have made most headway in financial services, reflecting the priority given to the stabilisation of the financial sector in response to the economic and financial crisis. There has also been a high implementation rate of reforms to promote job creation on permanent contracts and address labour market segmentation. On the other hand, recommendations in the area of health and long-term care and broadening the tax base have not yet been addressed to the same extent. More efforts are also needed to improve the inclusiveness and quality of education.

Under the mandate of this Commission, the European Semester has become increasingly streamlined and inclusive, but Member States' track record in the implementation of the recommendations still falls short of expectations. To further support Member States in the implementation of agreed reforms, the Commission is proposing an enhanced set of budgetary tools.

Macroeconomic imbalances continue to be corrected

The correction of macroeconomic imbalances continues, but some sources of imbalances remain unaddressed and new risks have emerged. While current account deficits have been corrected in several countries, persistent surpluses in other Member States remain broadly unchanged. Deleveraging is taking place at an uneven pace, with private, public and external debt levels remaining high in some Member States. Keeping debt on a solid declining path is crucial to reduce vulnerabilities in these countries. In a growing number of Member States, challenges linked to strong house price increases require close monitoring.

In March 2018, the Commission concluded that eight Member States were experiencing imbalances (Bulgaria, France, Germany, Ireland, Spain, Netherlands, Portugal and Sweden) and that three countries were experiencing excessive imbalances (Croatia, Italy and Cyprus). As in previous years, specific monitoring will take place for all of these Member States. This will enable the Commission to follow policy action closely in the context of the Macroeconomic Imbalances Procedure, with the depth of this monitoring process reflecting the scope of the challenges and the severity of the imbalances.

Review of the flexibility under existing rules of the Stability and Growth Pact

In 2015, the Commission issued guidance on the best use of flexibility under the existing rules of the Stability and Growth Pact. Based on this guidance, a Commonly Agreed Position on Flexibility was endorsed by the ECOFIN Council in 2016. This required the Commission to review the application of the so-called "structural reform clause" and "investment clause" by the end of June 2018.

The review concludes that the key objectives of the Commission guidance and of the Commonly Agreed Position on Flexibility have been met to a large extent.Experience shows that the practice of this flexibility allowed the right balance to be struck between ensuring prudent fiscal policy and stabilising the economy.The aggregate deficit level in the euro area is set to fall to 0.7% of GDP this year, down from a peak of 6.3% of GDP in 2009. The debt-to-GDP ratio is expected to fall from 94.2% in 2014 to 86.5% in 2018.

For the future, this approach encourages Member States to increase their fiscal effort in good times to make EU's economies more resilient. With the economic expansion in Europe in its fifth year, the time is ripe to build up fiscal buffers.

Guidance and decisions under the Stability and Growth Pact

Based on the assessment of the 2018 Stability and Convergence Programmes, the country-specific recommendations provide fiscal policy guidance for Member States in 2019.

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 France. This would leave only one Member State (Spain) in the corrective arm of the Pact, down from 24 countries in 2011.

The Commission also adopted reports for Belgium and Italy under Article 126(3) TFEU, in which it reviews their compliance with the debt criterion of the Treaty. In the case of Italy, the analysis suggests that the debt criterion should be considered as currently complied with, notably as Italy was found broadly compliant with the preventive arm of the Pact in 2017. For Belgium, as there is no sufficiently robust evidence to conclude that Belgium did not comply with the preventive arm requirements, the report could not fully conclude as to whether the debt criterion is or is not complied with. The Commission will reassess next year the two countries' compliance with the Stability and Growth Pact on the basis of the ex-post data for 2018, to be notified in spring 2019.

The Commission addressed a warning to Hungary and Romania on the existence of a significant deviation from the adjustment path toward the medium-term budgetary objective (MTO) in 2017. The Commission proposes that the Council adopt a recommendation for Hungary to take appropriate measures in 2018 with a view to correcting this significant deviation. For Romania, which is already subject to a significant deviation procedure, the Commission recommends that the Council issue a decision on non-effective action and a recommendation to take measures in 2018 and 2019 to correct the significant deviation.

The Commission also publishes today its Opinion of the updated Draft Budgetary Plan (DBP) for Spain, as the one submitted last October was based on a "no policy change" scenario. The Commission considers the updated Draft Budgetary Plan is broadly compliant with the requirements under the Stability and Growth Pact, since the Commission's Spring 2018 forecast projects that Spain's headline deficit will be below the Treaty reference value of 3% of GDP in 2018. Nonetheless, the Opinion notes that neither the headline deficit target nor the fiscal effort called for in the 2016 Council notice are projected to be met this year.

Background

The country-specific recommendations to the Member States are adjusted every year, to reflect the progress made and the changing environment. Their content reflects the wider priorities outlined in the President's State of the Union Address and the Annual Growth Survey. For euro area Member States, they also reflect the recommendation for the economic policy of the euro area. The analysis and guidance under the European Semester are coherent with the longer-term vision of the Europe 2020 strategy.

In March 2018, the Commission presented its detailed analysis of the economic and social situation of each Member State, in the form of a Country Report, as part of the European Semester Winter Package 2018. The Commission engaged in intensive dialogue with Member States both at political and technical levels to build a shared understanding of findings in the reports.

In April, Member States presented their National Reform Programmes, as well as an update of their fiscal strategies in the form of Stability Programmes (for euro area Member States) or Convergence Programmes (for non-euro area Member States).

Today's recommendations are based on the dialogues with Member States, the programmes submitted last month, data by Eurostat and the recently published Commission 2018 Spring Economic Forecast.

The Commission has also published today the 2018 Convergence Report that assesses Member States' progress towards joining the euro area and covers the seven non-euro area countries that are legally committed to adopting the euro: Bulgaria, the Czech Republic, Croatia, Hungary, Poland, Romania and Sweden.

Next steps

The Commission calls on the Council to adopt the country-specific recommendations, and on Member States to implement them fully and in a timely manner. EU ministers are expected to discuss the country-specific recommendations before EU Heads of State and Government are due to endorse them. It is then up to Member States to implement the recommendations by addressing them through their national economic and budgetary policies in 2018-2019.

Further information

Memo on the European Semester 2018 Spring Package

Chapeau Communication on the country-specific recommendations 2018

Country-specific recommendations 2018

Excessive Deficit Procedure for France

Significant Deviation Procedure for Hungary

Significant Deviation Procedure for Romania

Article 126.3 report for Belgium

Article 126.3 report for Italy

Opinion on the updated Spanish Draft Budgetary Plan

Key employment and social figures factsheet

2018 Convergence Report press release

European Economic Forecast Spring 2018

European Semester timeline

Recommendation for the Euro Area 2018

European Semester Winter Package 2018

Communication on Country Reports 2018

Country Reports 2018

European Semester Autumn 2017 Package: Striving for sustainable and inclusive growth

Alert Mechanism Report 2018

Annual Growth Survey 2018

European Pillar of Social Rights

The EU Economic Governance Explained

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Attachments

MIP SGP Infographic.pdf
Key Social Figures.pdf
CSRs by policy area.pdf