EUROPEAN COMMISSION

MEMO

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Country-specific recommendations 2013: frequently asked questions

What are country-specific recommendations (CSRs)?

The CSRs offer advice to guide national policies every year. This is done on the basis of a review of each Member State's economic and social performance in the previous year, and the EU-wide priorities for jobs and growth set out in the Commission's Annual Growth Survey (MEMO/12/910). In March, Member States agreed on five priorities for 2013: pursuing differentiated growth-friendly fiscal consolidation, restoring normal lending to the economy, promoting growth and competitiveness, tackling unemployment and the social consequences of the crisis and modernising public administrations.

The recommendations are concrete, targeted and measurable, and concentrate on what can realistically be achieved in the next 12-18 months. As countries face different challenges, the recommendations tailor the AGS priorities to the situation in each Member State. The programme countries - i.e. Greece, Portugal, Ireland and Cyprus - do not receive recommendations, as they are subject to more intensive monitoring under programmes that aim to restore macro-financial stability, growth and competitiveness.

The CSRs cover a broad range of issues, but focus on structural reforms. While there are recommendations on public finances, the CSRs, particularly in 2013, focus on reforms of taxation, pension and health systems, and the labour market, all of which can improve competitiveness and address high unemployment. For some countries, the recommendations also address the issues identified by the Commission in its in-depth reviews under the Macroeconomic Imbalance Procedure (IP/13/313).

The CSRs provide a comprehensive response to the challenges the EU is facing. Through the CSRs, the Commission brings together EU and national policy-making. This is a major objective of the European Semester[1] process. The CSRs also make sure growth is more strong, sustainable and inclusive, in line with the Europe 2020 strategy[2].

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[1] The EU's yearly calendar for integrated economic and budgetary policy-making.

[2] Europe 2020 is Europe's strategy for long-term growth, and sets 5 headline targets on employment, education, research, energy efficiency and poverty reduction for the EU as a whole to meet by 2020.

What progress have Member States made since the 2012 CSRs?

The Commission's analysis shows that the EU is making lasting changes and is tackling the serious structural problems that built up over the last decade. The pace and impact of these efforts varies across countries, and adjustment is particularly noticeable in the more vulnerable Member States. The analysis shows that:

- **A rebalancing of the EU economy is taking place as reforms to increase competitiveness take hold**, particularly in more vulnerable countries, while wages and domestic demand are being allowed to rise in stronger economies. While some of these reforms will take time to produce their full effects, improvements are already visible across Europe, for instance in terms of export performance (particularly in Greece, Ireland, Spain and Portugal) or sovereign borrowing costs.
- **Reforms have been undertaken to improve the resilience and flexibility of the labour market.** For example, major changes in employment law have been enacted in Spain and Italy, while France has introduced measures to reduce taxes on labour. However, unemployment has reached unacceptably high levels and is likely to remain high in the near future, calling for determined and urgent action.
- **Fiscal consolidation has taken place and public finances are being brought back under control.** Public deficits have fallen by almost half since their 2009 peak but population ageing represents a challenge for financial sustainability in certain Member States, as the costs of pensions and healthcare are set to rise substantially over the next decades. Action is needed now so that Europeans can continue to enjoy high standards of living in the future.

What are the challenges still facing Member States?

In the current circumstances, the most pressing reforms are structural. These are the kinds of fundamental economic reforms – to pension and tax systems, labour law, or product and service markets – that change the way our economies function, grow and create jobs.

- **Member States with high levels of unemployment need to step up active labour market measures,** such as training for the unemployed and individualised job-search advice. Youth unemployment, which tops 23% in the EU, is particularly worrying and action is recommended along the lines of the agreed EU Youth Guarantee (in 17 Member States). Labour costs play an important role and must be kept in line with productivity growth (in 7 Member States). Women and disadvantaged groups should be assisted and encouraged to stay in or return to the labour market (in all 23 Member States).
- **Member States need to do more to create the conditions for businesses to invest and create jobs.** The lack of the right skills, products and services poses a serious threat to Europe's future growth. Rapid, remedial action is needed to: improve competition in network industries such as transport, energy and broadband (in 16 Member States); remove restrictions in service markets (in 16 Member States); promote investment in education and skills (22 Member States) and research and innovation (9 Member States); and measures need to be taken to improve resource efficiency (11 Member States). Increased competitiveness will also allow the EU to tap trade opportunities abroad.

- **Remaining pockets of vulnerability in the banking sector must be tackled** so that banks can start to channel funding back into the economy, in particular to SMEs (especially in 10 Member States). Promoting alternative sources of financing and reducing companies' traditional dependence on bank financing is also essential.
- **Fairness is crucial for the sustainability and effectiveness of reforms.** The crisis has already had a lasting impact on the most disadvantaged people in society, and more attention should be paid to how reforms affect the least well-off: Member States need to invest in people and provide adequate services to their citizens. The Commission's Social Investment Package, adopted in February 2013, offers guidance (IP/13/125) on how to make social welfare and health systems more efficient and effective, in the context of tighter budgets. The 2013 recommendations on healthcare reform are there to ensure cost-effectiveness and sustainability, so that there is a more efficient use of public resources to deliver high-quality healthcare. Separately, we make recommendations to 9 Member States who need to pay attention to combating different forms of poverty – child poverty, homelessness, in-work poverty and the over-indebtedness of households – and to ensure social welfare systems are focused on helping the most needy.

Are efforts being asked only from “deficit” countries, or are "surplus" countries also being asked to contribute to the recovery?

Efforts are being asked from all Member States, though “deficit” countries have necessarily had to frontload fiscal consolidation and reform;in the case of Greece, Ireland, Portugal and now, Cyprus, because of a loss of market access. The challenge in these Member States, and many others, remains to reduce high debts, clean up the banking sector and increase competitiveness to boost export growth.

However, Member States with current account surpluses and sufficient fiscal space could do more to reduce high taxes and social security contributions on low wages. They could also take measures to boost domestic demand by allowing for more competition in product markets and the services sector, thereby lowering costs for consumers and creating new investment opportunities.

What is being done at the EU level to aid the recovery?

Decisions already taken at EU level have contributed to Member States' reform efforts.

- **The creation of important financial backstops** such as the European Stability Mechanism, the European Financial Stability Facility and the European Financial Stabilisation Mechanism, have aided certain Member States who have lost market access. Meanwhile, economic governance has been strengthened through recent legislation, enhancing the credibility of the reform process and adding to financial stability.
- **Several pending proposals for EU legislation have the potential to unlock growth and job opportunities**. The Single Market Acts I and II propose a series of actions that support four drivers for new growth: fully integrated networks, the mobility of citizens and businesses across borders, the digital economy and social entrepreneurship. The Commission will report on progress made on these at the June 2013 European Council, as part of the Compact for Growth and Jobs.
- **Greater targeting of existing and future EU structural funds on growth and competitiveness**, and notably on the implementation of the reforms called for in the country specific recommendations, can produce a powerful stimulus in several Member States, where a large part of public investment is co-financed by the EU budget.
- **A new generation of EU financial instruments** (Horizon 2020 for research and the Connecting Europe Facility for infrastructure) will soon be launched, once an agreement is reached on the EU's next seven-year budget.
- **Speedy progress towards a Banking Union** with a toolbox of financial backstops provided by the European Stability Mechanism will further strengthen the recovery.

Is the EU changing course on fiscal consolidation?

Thanks to action taken at EU level and the efforts of a number of Member States, budget deficits have come down by almost half since their peak in 2009, allowing for some room to adjust the pace of fiscal consolidation.

However, backtracking on necessary consolidation is not an option and some Member States still face significant challenges. For a number of them, the Commission is proposing extra time to correct their excessive deficits. This is not a chance to relax reform efforts – on the contrary, this breathing space should be used to intensify reforms, continue reducing debt and pave the way for a sustainable recovery.

Fiscal consolidation and growth are not mutually exclusive, and the EU has been consistently recommending fiscal ways to boost growth, including by improving the efficiency of public expenditure and increasing the fairness and effectiveness of tax systems. In many Member States, taxes have been raised instead of expenditure being reduced, which is, generally, more damaging to growth.

Will the CSRs help to boost growth?

Implementation of the recommendations will bring tangible benefits for Member States. In the short term, putting public finances in order will help to reduce borrowing costs, which frees up extra spending for growth-boosting policies, such as innovation, education and infrastructure.

Opening up markets and reducing restrictions in regulated professions, such as doctors and lawyers, can bring immediate benefits to SMEs, workers and consumers. The Commission estimates that removing the obstacles in service markets alone - by fully implementing the EU's Services Directive - could boost growth by between 0.8% and 2.6% over 10 years.

Significant jobs and growth can be gained from the switch to a "greener" economy, which is why the Commission is recommending a reduction in CO2 emissions from the transport and construction sectors and a stepping up of work on waste and recycling policies.

All of these measures serve to restore competitiveness in Europe, which is key to seizing growth opportunities worldwide. The Commission estimates that concluding our ambitious trade agenda – including free trade agreements with countries such as the US, Japan and Canada – could boost EU GDP by more than 2% (or €250 billion) and create more than 2 million jobs across the EU.

How do the CSRs tackle the problem of high unemployment?

Unemployment rates differ greatly across Member States, with youth unemployment in Spain and Greece rising well above 50% (compared to an EU average of 23.4%), while overall unemployment in Austria remains the lowest in the EU at 4.7% (compared to the EU average of 10.9%).

Major reforms to improve the resilience of the labour market have been introduced in several Member States, but it will take time before Europe will feel the effects of these reforms. More focus needs to be put on encouraging women, older workers and other disadvantaged groups to take up work. This can be done by making sure tax and benefit systems provide the right incentives to return to and stay in work, and by providing quality and affordable childcare and education.

In the short term, the capacity of public employment services to cope with the rising number of unemployed people is being heavily tested. More effective job-search assistance and training opportunities are needed in several countries, particularly for young people, and education systems should be overhauled to reduce early school leaving and ensure students get the skills they need to succeed in today's jobs market.

The Commission has made recommendations to 17 Member States on youth unemployment, emphasising the importance of putting in place a Youth Guarantee along the lines of the Council Recommendation adopted formally in April 2013. This will address the increasing problem of youth unemployment and inactivity, giving every young person an opportunity to contribute to the economy. This improves future productivity, growth and competitiveness and strongly contributes to the Europe 2020 Strategy.

The EU's €6 billion Youth Employment Initiative under the future seven-year budget can play a key role in supporting the implementation of the Youth Guarantee, as can the European Social Fund.

Do the CSRs address the issue of rising poverty in the EU?

Reducing poverty is one of the headline targets of the Europe 2020 strategy[3]. However, the current economic and social crisis, combined with the limited ambitions of Member States to reduce poverty, puts realising this target under threat.

The Commission is very concerned by the rise in poverty, particularly child poverty (see IP/13/125), and has highlighted this in recommendations to a number of Member States. Focusing on children is vital for a sustainable, efficient and competitive knowledge economy, and a fair society. There is broad consensus that good-quality early childhood education and care are essential to prevent early school leaving, and better health, future employment outcomes and social mobility. Various recommendations also address the specific inclusion needs of the Roma population.

What do the CSRs say about taxation?

The 2013 CSRs show that there is room to shift the tax base from labour to other sources, for example, to consumption, recurrent property or environmental taxation, which are more growth-friendly. This would increase incentives to work and hire, reduce the relatively high cost of labour, deter housing bubbles and stimulate the development of new green technologies.

Tax systems could be made more efficient by eliminating tax exemptions, allowances, reduced rates and loopholes. For example, Member States are collecting only half the VAT revenue they are due through full application of the rates. In some cases, poor tax administration also reduces the effectiveness of the VAT system, which is an issue that should also be tackled.

The CSRs also recommend stepping up actions to improve tax compliance and fight fraud, in coordination with other EU Member States and at international level, in line with the recent commitments made by Member States at the European Council and the Commission's December 2012 action plan on fraud and evasion.

What do the CSRs say about the financial sector?

Recovery is being partly hampered by the fact that the repair of the banking sector is slow to bear fruit. The transmission of lower interest rates and the restoration of normal lending to the economy, especially in the periphery of the EU, is still impaired. Promoting alternative sources of financing and reducing companies' traditional dependence on bank financing is also essential to restore normal lending to the economy.

In this context, a recommendation has been addressed to the Eurogroup to assess the reasons behind the differences in lending rates, especially to SMEs, and explore ways to overcome this. The Commission's Green Paper on long-term investment (see IP/13/274) also offers solutions on how to ensure banks, insurers and pension funds are capable of funding long-term investments. Swift progress towards a Banking Union would help to restore confidence and speed up the recovery.

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[3] With a goal of at least 20 million fewer people in or at risk of poverty and social exclusion by 2020

Are Member States on course to hit the Europe 2020 targets?

The Commission is concerned that the level of commitments so far taken by the Member States will not allow the EU to meet its headline targets for 2020 in essential areas such as employment, research, education and the fight against poverty. There has been progress in many Member States and detailed information on this can be found in each staff working document.

Did the Commission discuss the recommendations with Member States before adopting them?

The recommendations are based on the Commission's assessment of progress made on last year's recommendations, as well as the new national reform programmes and stability or convergence programmes[4] submitted by Member States.

However, informal discussions took place between the Commission and the Member States before the submission of the programmes. These discussions are enriched by a constant policy dialogue in the various sector-specific Councils and the many Council working groups.

Can Member States rewrite or soften the recommendations before they are formally approved?

The recommendations will be debated in the Council before being discussed and endorsed by Heads of State or Government at the European Council. During that process, Member States at the Council are free to amend the recommendations. However, if the recommendations were to be substantially softened, the process would lose credibility. The value of these recommendations is that they are the product of extensive and objective technical analysis, validated by thorough discussion in the Council.

Will the European Parliament have a say on the recommendations?

Although the Treaty does not require a specific role for the European Parliament under Articles 121 and 148, it remains fully involved in the policy discussions under the European Semester, and presents opinions on both the AGS and the CSRs.

What about national parliaments?

National parliaments retain their right to debate and vote on national budgets and other economic policies. Collectively, national authorities are now expected to take up the country-specific recommendations made to them in order to prepare their budgets and reform plans for 2014-15. In most Member States, draft budget and reform programmes were discussed by national parliaments before being sent to the Commission.

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4 Stability programmes are submitted by euro area Member States, convergence programmes by non-euro area Member States. They set out the plans for sustainable public finances. National reform programmes present key policy measures to enhance growth and job creation and reach the Europe 2020 targets.

So is the Commission now dictating national economic policy?

No. National governments retain responsibility for the implementation of economic policies. But all 27 Member States have signed up to coordinate their policies under the European Semester, and have adopted common – legally binding - rules on public finances (as set out in the Stability and Growth Pact) and macroeconomic imbalances (as introduced by the six pack legislation). They have also committed themselves repeatedly to work towards the targets set out in the Europe 2020 strategy.

The Commission has been given the mandate to check whether Member States maintain and act on the commitments they have made within this framework, before their peers and before their citizens. The Commission is the only EU institution with the political autonomy, the technical expertise and the pan-European perspective to be able to oversee this process.

What is the legal basis for the CSRs and who prepares them?

The recommendations relating to economic policy and employment are adopted on the basis of Articles 121 and 148 of the EU Treaty, respectively. Those referring to the Stability and Growth Pact are based on Council Regulation 1466/97 and those referring to the Macroeconomic Imbalance Procedure on Council Regulation 1176/2011.

The recommendations are drafted by the Commission services and adopted by the College of Commissioners after a thorough assessment of progress since the previous year's CSRs and a detailed analysis of the national reform programmes and stability or convergence programmes submitted by Member States in April.

Why should Member States follow the recommendations?

There are four reasons why Member States should follow the recommendations:

National interest: It is primarily in the Member States' own interests to implement economic and social reforms, as political answers to the economic crisis and the rise in unemployment. Ownership is crucial to maximise the positive impact of those reforms.

Peer pressure: Member States will endorse the recommendations at the highest political level and are expected to reflect them in their national decision-making processes, including in the preparation of their annual budgets. They will track each other's progress through a process of peer monitoring, with input from the Commission, throughout the year.

Market pressure: The sovereign debt crisis has dramatically increased the scrutiny to which EU Member States are subjected on the financial markets. This is clearly a strong incentive for governments to pursue policies aimed at bringing down debt and deficits, while boosting their economies' growth potential and capacity to generate jobs, in line with the country-specific recommendations.

Possible sanctions: Since the new rules for economic governance entered into force in December 2011, euro area Member States have had a further incentive to adopt policies in line with the recommendations: the prospect of sanctions under the Excessive Deficit Procedure or the Excessive Imbalance Procedure.

How will the Commission monitor the implementation of the recommendations?

Implementation of the recommendations will be monitored closely and on an ongoing basis by the Commission services. The Commission will keep the Council informed of its findings throughout the coming year. A formal assessment of each Member State's performance will take place in May/June 2014, when the Commission presents next year's country-specific recommendations and accompanying analysis.

How do the recommendations fit into the European Semester?

The Semester begins with the presentation of the Annual Growth Survey in November (see MEMO/12/910). This is where the Commission sets out priority actions for the EU as a whole. Subsequently Member States submit their national reform programmes and stability or convergence programmes to the Commission for assessment. The results of that assessment, taking into account the priorities defined in the Annual Growth Survey, form the basis for the country-specific recommendations, which round off the semester of EU-level policy coordination in June. After the CSRs are endorsed, the implementation phase in the Member States begins.

The European Semester has been strengthened by the introduction of the six pack and two pack legislation. The six pack[5], which strengthens the enforcement mechanisms for public finances and macroeconomic imbalances, will further increase the incentives for Member States to properly implement the country-specific recommendations.

The two-pack6 introduces a common budgetary timeline and common budgetary rules for euro area Member States, which ensures consistency between the budgetary and other processes under the Semester.

5 The six pack came into force in December 2011, and includes six new laws to strengthen budgetary surveillance at EU level. It also introduced a system for monitoring and correcting macroeconomic imbalances.

6 The two pack will enter into force on 30 May 2013.

What happens next?

The recommendations will be discussed by the Council of Ministers and endorsed by EU Heads of State or Government at the European Council in June. They will be formally adopted by the Council of Ministers in July. It will then be up to Member States to implement the recommendations by taking them up when drafting their national budgets and other relevant policies.

For more information:

Europe 2020 website (for the Country-Specific Recommendations):

http://ec.europa.eu/europe2020/index_en.htm

For the Excessive Deficit Procedure

http://ec.europa.eu/economy_finance/economic_governance/sgp/corrective_arm/index_en.htm

IP/13/463 Moving Europe beyond the crisis: country-specific recommendations 2013

MEMO/13/463 Commission takes steps under the Excessive Deficit Procedure