Q&A: Country-specific recommendations 2015
Brussels, 13 May 2015

What are country-specific recommendations (CSRs)?
Country-specific recommendations (CSRs) provide tailored advice to Member States on how to boost jobs and growth, while maintaining sound public finances. The Commission publishes them every spring, as part of the European Semester, the EU’s calendar for economic policy coordination. They focus on what can realistically be achieved in the next 12-18 months to make growth stronger, more sustainable and more inclusive, in line with the EU’s long-term jobs and growth plan, the Europe 2020 strategy.

The CSRs reflect the general priorities identified at EU level in the Commission’s Annual Growth Survey last November. They follow months of analysis and dialogue with the Member States and build on the Commission’s analysis published in February, as well as on the information Member States presented in April in their economic reform programmes and medium-term budgetary plans. They also take into account the Commission’s spring forecast published on 5 May.

Ministers and leaders will discuss and endorse the recommendations in June. EU ministers will formally adopt them in July.

What is new in the 2015 country-specific recommendations?
The Commission has made a number of changes to the 2015 European Semester of economic policy coordination. These were designed to focus on the top priority areas for action in each Member State, to promote better implementation of the recommendations and to increase ownership at national level and with social partners and stakeholders. The changes include:

- **Focusing on the priorities** in the Annual Growth Survey.

- Publishing the Commission’s country-specific analysis three months earlier than in previous years to enable discussion of the key issues in advance of the conclusions to be drawn from the analysis. For those Member States where the Macroeconomic Imbalance Procedure required an in-depth review these were integrated into a single country report.

- **More intensive outreach** through political level and deeper discussion with Members of the Commission, national authorities and social partners on implementation of past recommendations and potential areas for future recommendations.

What are the main challenges facing Member States in 2015-16?
Growth is returning to the EU, with Europe’s economies benefitting from many supporting factors at once. Oil prices are relatively low, global growth is steady, the euro has continued to depreciate and economic policies in the EU are supportive of growth. In its latest economic forecasts published on 5 May, the Commission expects GDP growth to be 1.8% in the EU (1.5% in the euro area) in 2015 and to accelerate to 2.1% in 2016 (1.9% in the euro area). All countries in the EU are expected to gain from these positive tailwinds, albeit to different degrees.

However, these positive factors are largely short-term. The EU still faces underlying weaknesses as a result of the crisis and the low longer-term growth trends already experienced pre-crisis. While the labour market situation is gradually improving, not least due to reforms implemented in several Member States in recent years, unemployment is still intolerably high (9.6%). Poverty and marginalisation have increased. Budget deficits continue to fall, but the high level of private and public debt weighs on investment and growth in a context of persistently low growth and low inflation. The share of non-performing bank loans is high and still rising in some Member States. A large investment gap accumulated over the past years has had a negative effect on domestic demand in the short term and on potential growth in the medium to long term. The trend of declining productivity growth has not yet been reversed and population ageing will have big impacts on the future labour force.

Domestic demand is the main contributor to GDP growth, with an acceleration of private consumption expected this year and a rebound of investment next year. The situation, however, still calls for greater efforts to overcome weaknesses and build a robust and balanced recovery that is sustainable beyond
the short run.

**What progress have Member States made since the 2014 CSRs?**

As indicated in the [country reports](#) published in February, all Member States have made some progress in addressing the issues identified in the country-specific recommendations for 2014-2015. However, the National Reform Programmes together with Convergence and Stability Programmes show different degrees of commitment by Member States to advancing reforms further. While it is encouraging to observe progress in some areas, it is worrying to see limited or no progress in other areas that represent important bottlenecks to investment, such as in opening up product and services markets to competition and regulatory frameworks. Structural reforms tackle structural bottlenecks. As such, they boost potential growth, typically in the medium to long run. But they can also boost confidence and credibility in the short term which is particularly relevant for investment decisions. This means that in advance of the long-run effects, structural reforms can also boost short term demand.

Although many Member States have introduced substantial reforms of their labour markets, some are too recent to show significant results and there is a time lag between the introduction of reforms and their full effect on job creation. This helps to explain why unemployment remains high, in particular among young people and the long term unemployed. This perpetuates negative social developments and contributes to rising levels of poverty and social exclusion.

**What structural reforms are you recommending to boost growth?**

Areas where structural reforms are needed include:

- **Removing barriers to financing and supporting investment**
  Credit conditions for loans to enterprises were eased further in the first quarter of 2015, thereby supporting the recovery of loan growth. Banks reported a further net easing of credit standards on loans to enterprises, both on loans to large firms and small and medium-sized enterprises. Nonetheless, the overall level of credit standards remained tight compared to pre-crisis levels. Credit standards on loans to enterprises were eased in net terms in particular in Italy and switched from a net tightening to a net easing in the Netherlands. Following the 2014 recommendations many Member States took action to address vulnerabilities in the financial sector and restore normal lending to the economy. However progress is still uneven. Member States (such as Ireland, Portugal, Spain, Slovenia or the United Kingdom) have continued to restructure the financial sector and restore normal lending to the economy, including to SMEs. In the recommendations being made today the Commission addresses a number of important remaining challenges.

- **Improving employment policy and social protection**
  There is a need to improve the dynamics of the labour market and to tackle high levels of unemployment. This is crucial to boost job creation and correct distortions such as high levels of segmentation, long-term and youth unemployment and skills mismatches. Rigid rules on dismissals and lengthy labour disputes can impede new hirings on open ended contracts, restrict professional mobility and encourage the excessive use of temporary contracts. High levels of labour taxation, particularly on low income earners, may inhibit job creation and incentives to work. The promotion of job creation also requires real wages to move in line with productivity developments and reflect differences in situations across industry and companies. These should be designed with the involvement of the social partners, in line with national practice and tradition. Efficient and effective vocational education and training programmes play a key role in improving the chances of employment. Some Member States also need to adapt the role public employment services play. Long-term unemployment needs to be tackled by combining effective social assistance with measures to enhance the chances of finding employment.

- **Improving the business environment and productivity**
  The Investment Plan for Europe and the new European Investment Fund for Strategic Investment, combined with the European Structural Investment Funds, are expected to boost investment in the EU. But for their impact to reach full potential, the regulatory and administrative environment must be modernised as part of efforts to improve the investment climate. The efficiency of administration and justice, key importance for ensuring a growth-inducive environment for small businesses, still remains a challenge. In a number of Member States there is an urgent need to improve the efficiency of the administration, shorten the length of judiciary proceedings, strengthen the independence, quality and efficiency of the justice system and to rethink the system of public procurement.

In addition, in many Member States there is the need for ambitious implementation of structural reforms to make product and services markets more flexible and competitive. Against the background of the 2015 Annual Growth Survey, the 2015 country-specific recommendations seek to further reduce anticompetitive regulations, lower barriers to entry and increase domestic and cross-border
Adapting public finances to make them more supportive to growth

Most of the Member States have successfully brought their deficit levels down to below 3% of GDP in 2014. The deficit in the euro area continued to decline to 2.4% and the general government debt ratio is expected to reduce from 2015. This provides fiscal breathing space for a number of Member States and an opportunity to accelerate the benefits of structural reforms. However, for countries with high debt and deficits further consolidation is still needed to comply with the Stability and Growth Pact, and the effectiveness, quality and growthfriendliness of public finances should be strengthened.

Moreover, there are long-term issues that require attention. A number of Member States, including Italy, Spain and Hungary, embarked on reforming their tax system and improving tax compliance. Although many Member States recognise the need to shift taxation away from labour and to eliminate distortions in the tax systems, progress has been slow. Long term challenges also exist with respect to the health and pension systems, expenditure on which constitutes a significant share of public finance. At the same time they are key for ensuring social fairness across and between generations.

Many Member States have taken steps to reform the health care and pension systems. The Commission recommends further reforms for these areas for Member States such as Bulgaria, the Czech Republic, Finland, France, Croatia, Latvia, Luxembourg, Malta, Romania, Slovenia, Spain and Poland.

What about the other policy areas not targeted in this year’s recommendations?

As a consequence of the new focus and prioritisation on the key issues of macro-economic and social relevance that require action by Member States in the near term, the number of recommendations has been reduced significantly.

However, this does not mean that those areas covered by the more extensive scope of country-specific recommendations in previous years have lost in importance. The Commission will continue to monitor them in its country reports and will continue to encourage Member States to take a holistic approach in their National Reform Programmes. Many of these issues will be taken up via other policy processes (e.g. in the context of the Energy Union, the Digital Single Market, in the monitoring and enforcement mechanisms related to the Single Market and in areas such as environment and the monitoring of the European Research Area and the Innovation Union) and/or in discussions on policy implementation with sector committees of the European Parliament, with sectoral Councils and with the relevant stakeholders. Where EU law is not being correctly implemented the Commission will use infringement proceedings to ensure the necessary compliance rather than issue recommendations.

In cases where the Commission has noted that reforms are underway but that their impact cannot yet be evaluated, it does not make a recommendation this year but signals that it will monitor implementation and outcomes to see whether the reforms deliver as expected.

What is the Commission doing to help Member States implement these recommendations?

The country-specific recommendations provide a policy framework for action at national level. The Commission supports dialogue with Member States, social partners and stakeholders at all levels to ensure close monitoring and follow-up, as well as to review performance and support exchange of experience.

The Commission is also making sure that EU funding is steered towards EU and national priorities. The EU’s Structural and Investment Funds are the principal investment tools for delivering on the Europe 2020 goals and the CSRs. There is a need to use this funding in conjunction with financial engineering techniques, loans and schemes to facilitate SME financing, to enhance the impact on the EU economy. The new Investment Plan for Europe and that the creation of a European Fund for Strategic Investments will also serve this purpose.

Do the CSRs help Member States meet their Europe 2020 targets?

The two things are linked, with the recommendations suggesting concrete steps to be taken within the next 12-18 months, while the Europe 2020 targets set out goals for the medium-term.

In March, the Commission took stock of the Europe 2020 strategy, and confirmed that progress on the 2020 targets has so far been mixed. The EU is on course to meet or to come close to its education, climate and energy targets. But given the magnitude of the crisis, we are not on track to meet our employment, research and development or poverty reduction goals, although results and forecasts vary widely across Member States.

The annual priorities need to be set in a context of a renewed long-term economic strategy. For this reason the Commission is working on the mid-term review of Europe 2020 Strategy, and intends to present it by the end of this year.
**Why do some countries have more detailed recommendations?**

The number and level of detail of the recommendations reflect the scale of the challenges each Member State faces, and the extent to which these challenges have spillover effects to other Member States.

In general terms, Member States with excessive imbalances (Bulgaria, Croatia, France, Italy, Portugal), as well as those where imbalances are found to be serious (Hungary, Germany, Ireland, Spain and Slovenia) have more numerous and/or more detailed recommendations. This also applies to Romania, which faces particular challenges and is implementing a precautionary assistance programme with the support of the EU and IMF.

The detailed recommendations and deadlines for these countries will help to effectively measure progress.

**Why did Greece and Cyprus not receive recommendations?**

Greece and Cyprus are subject to more regular and separate monitoring under EU-IMF financial assistance programmes, which aim to restore financial stability, boost competitiveness and create the conditions for sustainable growth and job creation. Given the extensive reporting requirements under these programmes, Greece and Cyprus are exempt from the obligation to submit medium-term budgetary plans and reform programmes in April, and therefore do not receive recommendations.

**MORE DETAIL ON THE EUROPEAN SEMESTER**

**What is the European Semester?**

The European Semester is the EU's calendar for economic policy coordination. It provides year-round economic surveillance and makes clear when and how the EU's economic governance rules apply. These rules were fundamentally strengthened during the crisis to ensure that Member States tackle problems early on, before they spread.

- The Semester begins with the **Annual Growth Survey in November**, where the Commission suggests EU-wide economic priorities for the following 12-18 months. At the same time, the Commission screens Member States for potential economic imbalances in the Alert Mechanism Report (AMR). The AGS and AMR are discussed by Member States in the winter, and used as a basis for agreeing EU-wide economic priorities in March.

- In early spring the Commission presents its country reports that set out the analytical basis for the country-specific recommendations. The country reports also present the next steps for those countries screened for potential economic imbalances.

- The EU priorities, together with the analysis contained in the country reports, are taken into account by Member States in their multiannual reform and budgetary plans presented in April. The Commission analyses the plans and uses them in its preparation of the country-specific recommendations each spring.

- There is also a new budgetary timetable for **euro area Member States in the autumn**, where draft budgetary plans for the following year are assessed by the Commission and discussed in the Eurogroup before final budgets are adopted in December.

**What is the legal basis for the country-specific recommendations?**

Under the European Semester, the Commission was given a mandate by Member States to check whether they take action on reform commitments they have made at EU level.

The country-specific recommendations related to economic policy are adopted on the basis of Article 121 of the EU Treaty and those on employment policy on the basis of Article 148.

Those referring to the Stability and Growth Pact are based on Article 5(2) and Article 9(2) of Council Regulation 1466/97 and those related to the Macroeconomic Imbalance Procedure on Article 6(1) of Regulation 1176/2011.

**How does the Commission monitor progress on the recommendations?**

Economic surveillance under the European Semester is a constant process, with regular milestones during the year. The Commission holds a number of bilateral meetings with Member States to discuss progress on the CSRs at several points in time. Dedicated visits may also take place.

The formal assessment of each Member State’s performance on the annual CSRs takes place in early spring each year, when the Commission presents its country reports, and later in spring its country-specific recommendations. In November the Commission provides an overall assessment of the EU economy, and identifies general priorities in its Annual Growth Survey.

The autumn, winter and spring economic forecasts also offer an opportunity to take stock of
developments in the Member States.

**What happens if Member States do not act on the recommendations?**

It is primarily in Member States' own interests to implement the reforms that will help them recover from the crisis and create the foundations for lasting growth. The Commission's recommendations are based on expert analysis of the main challenges in each country.

Member States are also accountable to their EU counterparts, as they make a political commitment to reform by endorsing the recommendations at EU leaders' level and formally approving them at ministerial level.

As a last resort, there is the possibility of sanctions if Member States repeatedly fail to take action on public finances or macroeconomic imbalances (under the Excessive Deficit Procedure and the Excessive Imbalance Procedure, respectively).

**Does 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, on the medium-term budget and reform plans submitted by Member States in April and on the priorities discussed and agreed on the basis of the Annual Growth Survey.

In addition, dialogue with the Member States on the assessment and progress in implementation is ongoing throughout the year.

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

The recommendations presented by the Commission today are recommendations for the Council of ministers to adopt, so it is the Council which has the final say.

The value of these recommendations is that they are the product of extensive and objective technical analysis, validated by thorough discussion between EU leaders and ministers.

In the past, most of the Commission's recommendations have been adopted as they were drafted. Member States are free to suggest amendments, which then have to be adopted by a qualified majority of Member States. According to rules introduced by the Six-pack reforms in 2011, the Council is expected to follow the recommendations and proposals of the Commission or explain its position publicly.

**What is the role of national governments and parliaments in the process?**

National governments retain the responsibility for implementing their own budgets and economic reforms, but have signed up to better coordinate these policies under the European Semester. In particular, they have agreed to adhere to common, legally binding rules on public finances and macroeconomic imbalances. They have also committed themselves repeatedly to work towards the targets set out in the Europe 2020 strategy.

National parliaments retain the right to debate and vote on national budgets and other economic reforms. Under the European Semester, they now have access to more and better information, allowing them to get involved in policy-making before final decisions are made. The Commission is very supportive of an increased role of national parliaments, as well as social partners and other stakeholders; in the process in future.

**Does 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 Annual Growth Survey and the country-specific recommendations.


**Do the social partners have a say on the recommendations?**

The social partners have the occasion to pronounce on the European priorities contained in the Annual Growth Survey and have already discussed analysis of the Member States' economic situation contained in the country reports at EU and national levels. This was for instance the case at the tripartite Social Summit on 19 March 2015 which focused on jobs, growth and investment for Europe.
One of the key changes made to the running of the 2015 European Semester is aimed at increasing ownership at national level and with social partners. By giving more time for dialogue and initiating more intensive outreach at political level, the Commission is keen to support deeper discussion with Member State authorities and social partners on the implementation of past recommendations and potential areas for future recommendations.

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