Spring 2016 European Semester package: Commission issues country-specific recommendations

Brussels, 18 May 2016

Member States are making progress with reforms and addressing macroeconomic imbalances, but more is needed to consolidate Europe's recovery.

The European Commission today proposes its 2016 **country-specific recommendations (CSRs)**, setting out its economic policy guidance for individual Member States for the next 12 to 18 months. In addition to efforts already identified and ongoing at European level, this guidance focuses on priority reforms to strengthen the recovery of Member States' economies by boosting investment, implementing structural reforms and pursuing fiscal responsibility.

The CSRs also reflect the Commission's efforts to make the European Semester of economic governance more effective and relevant. The Commission has this year proposed fewer recommendations with a focus on key economic and social priorities identified in its Annual Growth Survey 2016. To strengthen national ownership, it has provided more time and more opportunities to engage and communicate with Member States and stakeholders at all levels. It has also added a greater focus on the euro area challenges and on the interdependence between economies, in line with the agreed recommendation for the economic policy of the euro area.

Vice-President **Valdis Dombrovskis**, responsible for the Euro and Social Dialogue, said: *"Today's economic package places major emphasis on the structural reforms needed to strengthen the EU's economic recovery, reduce obstacles to growth and boost employment. Modernising labour, product and service markets, making it easier to do business, for example by reforming public administration and making tax systems fairer and more efficient, would help open up more job and investment opportunities in the EU. On the fiscal side, the aggregate deficit level in the euro area is set to fall to 1.9% this year, down from a peak of 6.1% in 2010, helped also by the ongoing recovery. The fiscal stance in the euro area is expected to be slightly expansionary this year. However, adjustment efforts are still needed in a number of countries, especially in those where high debt levels remain a drag on growth and a source of vulnerability."*

Marianne Thyssen, Commissioner for Employment, Social Affairs, Skills and Labour Mobility, said: *"In a rapidly changing world of work, we need to continue on the path of reform together with Member States and social partners. Unemployment is going down but much more progress is needed. This year's recommendations have a strong focus on social and employment issues. Only by ensuring that social considerations are better integrated in all EU policy areas we will truly achieve a Social Europe."*

Pierre Moscovici, Commissioner for Economic and Financial Affairs, Taxation and Customs, said: *"Slower global growth and high uncertainty mean we must accelerate our efforts to strengthen the European economy through well-targeted reforms. Responsible fiscal policies should also support job creation and help to spread the fruits of the recovery more widely. These are the guiding principles underpinning the Commission's economic and fiscal policy guidance for the Member States for 2016-2017."*

The 2016 country-specific recommendations

As external factors supporting Europe's moderate recovery are fading, domestic sources of growth are gaining in importance. Today's recommendations therefore focus on the Commission's three priority areas: Investment is still low compared to pre-crisis levels but is gaining traction, also helped by the Investment Plan for Europe. Faster progress on structural reforms is necessary to boost the recovery and raise the long-term growth potential of EU economies. All Member States need to pursue responsible fiscal policies and ensure growth-friendly composition of their budgets.

The Member States have advanced reforms over the last year, but the pace of such progress needs to be accelerated to contribute, as it should, to jobs, growth and investment. The implementation of country-specific recommendations varies across policy areas. This can be due to the complexity of the reforms to be undertaken, such as reforms of labour and product markets, pensions systems and banking sector. Most significant progress is observed with regard to recommendations in the areas of financial services and active labour market policies. In contrast, more progress could have been expected in generating a business and employment friendly and regulatory environment, increasing female labour market participation and reducing barriers in the services sector. More progress in implementation is identified for Member States experiencing imbalances than for Member States without imbalances, presumably due to the larger need for reform, stronger policy dialogue and, in some cases, in response to stronger market pressure.

In countries with high external liabilities, the large current account deficits of the pre-crisis period have been considerably reduced or even turned into surpluses. In some other Member States, surpluses persist and remain very large. Cost competitiveness has generally improved and there is evidence of structural adjustment in terms of resources shifting to the tradable sector. Unemployment is declining, albeit to different degrees across the Member States. The process of balance-sheet repairs is progressing, with deleveraging ongoing in the household and corporate sectors, and bank capitalisation improving. In most countries, deleveraging is mainly linked to reduced spending, while in some countries, the relative level of debt has gone down due to robust growth. In this context, vulnerabilities associated with persisting debt overhang in some sectors remain a source of concern, while the financial sector is affected by low profitability coupled with high levels of non-performing legacy loans and the need to adjust to a more demanding regulatory environment.

Concerning the Macroeconomic Imbalances Procedure (MIP), the Commission confirms that Croatia and Portugal are to be considered to be experiencing excessive imbalances. They should implement their reform agendas rigorously and in a timely manner. The level of ambition of the two countries' national reform programmes (NRPs) is broadly adequate and confirms their intention to correct their excessive imbalances.

The Commission remains committed to support reform efforts at Member States' level. The Structural Reform Support Service, established last year, is already helping with effective reform implementation, building on its experience in Cyprus and Greece. A legislative proposal to expand the service into an EU instrument for all Member States is currently under discussion with co-lawmakers to establish a Structural Reform Support Programme, which will allow the mobilisation of technical support for a broad range of key reform areas.

Fiscal developments and decisions

Overall, the aggregate deficit level in the euro area is set to fall to 1.9% this year, down from a peak of 6.1% in 2010.

The Commission has also taken a number of steps under the Stability and Growth Pact. First, in the light of latest data, the European Commission recommends to the Council to close the Excessive Deficit Procedure (EDP) for Cyprus, Ireland and Sloveniaas these countries have brought their deficits below the 3% of GDP Treaty reference value in 2015 and the correction is expected to be durable. That means their deficits are forecast to remain below 3% of GDP in 2016 and 2017. For Cyprus, this would mean an exit one year ahead of the 2016 deadline. If the Council so decides, this would reduce the total number of Member States in EDP to six (Croatia, France, Greece, Portugal, Spain and UK), down from 24 Member States in EDP in spring 2011.

Second, the Commission adopted reports for **Belgium**, **Italy** and **Finland** under Article 126(3) TFEU, in which it reviews their compliance with the debt criterion of the Treaty. While these countries appear to be at variance with the debt reference value, and the benchmark pace of reduction towards it, the reports, after analysing the relevant factors, suggest that the Stability and Growth Pact should be considered as currently complied with. For Italy, the Commission will review its assessment of the relevant factors in a new report by November as further information on the resumption of the adjustment path towards the medium-term budgetary objective for 2017 becomes available.

As regards **Portugal** and **Spain**, the Commission recommends to the Council to recommend a durable correction of the excessive deficit in 2016 and 2017 respectively, by taking the necessary structural measures and by using all windfall gains for deficit and debt reduction. In line with its duty to monitor the implementation of the excessive deficit procedure under Article 126 of the Treaty, the Commission will come back to the situation of these two Member States in early July.

Finally, the Commission has launched a formal consultation to the Member States that are contracting parties of the Fiscal Compact to enquire about their progress in implementing in national law the provisions of the Fiscal Compact. The Member States concerned have two months to submit their observations to the Commission.

Background:

Since taking office, this Commission has implemented a number of changes to the European Semester, to make it more effective and relevant. These changes were announced in November 2014 in the Annual Growth Survey 2015, rolled out early in 2015 and confirmed in its Communication on next steps towards completing Europe's Economic and Monetary Union in October 2015.

These changes mean for instance that over recent months, the Commission has engaged with governments, national parliaments, social partners and other stakeholders and held several bilateral meetings with national authorities to discuss their policy priorities.

Back in February, 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 so-called 2016 winter package.

In April, Member States presented their National Reform Programmes and their Stability Programmes (for euro area countries) or Convergence Programmes (for non-euro area countries), including any follow-up to the winter package.

Today's recommendations are based on these dialogues, the programmes, outturn data by Eurostat and the recently published Commission 2016 spring forecast.

Greece, which is currently subject to a stability support programme, is not covered by today's package and does not receive any country-specific recommendations. The assessment of Greece's compliance with its objectives is done within the framework of the programme.

Next steps:

The Commission calls on the Council to endorse the proposed approach for 2016-2017 and 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 CSRs by addressing them through their national economic and budgetary policies in 2016-2017.

For more information:

Overview table of Member States in the European Semester

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European Semester 2016: fewer Member States have economic imbalances than a year ago

The EU's economic governance explained

European Semester 2016: winter package explained

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Situation of Member States with regard to the Macroeconomic Imbalances Procedure

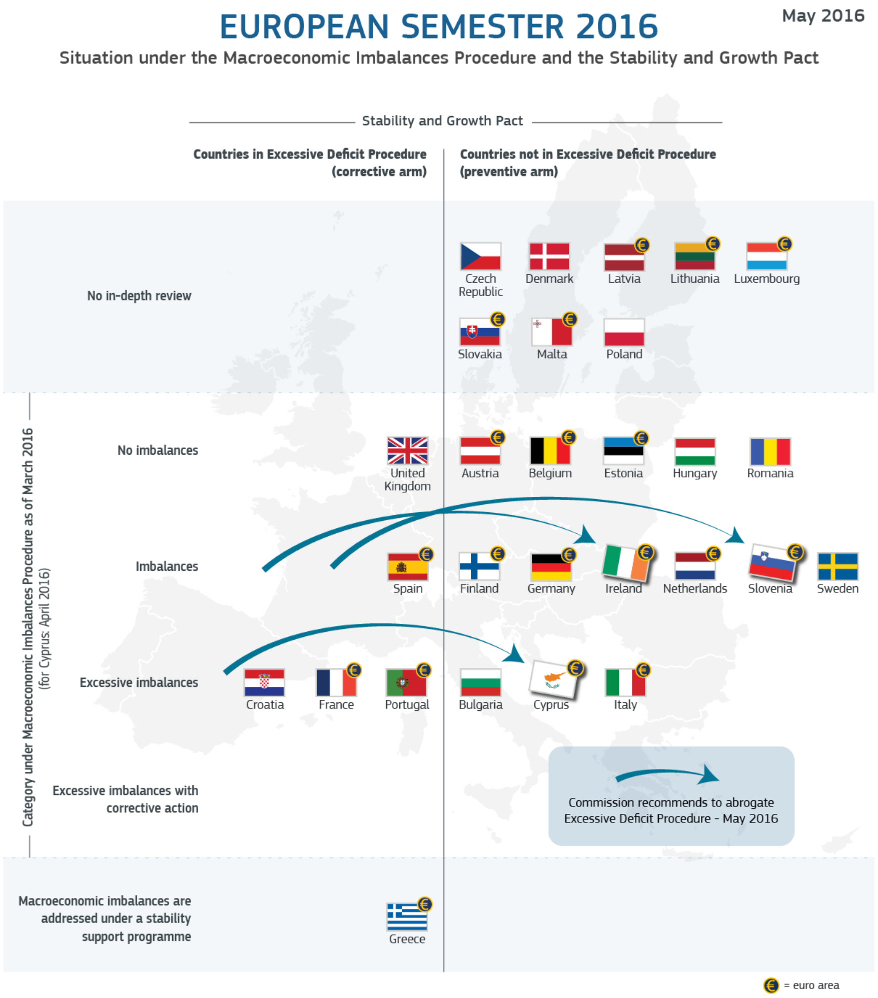
Box 1. Situation of Member States with regard to the Macroeconomic Imbalances Procedure	
MIP Category	**Member States in 2016***
No imbalances	Czech Republic, Denmark, Latvia, Lithuania, Luxembourg, Slovakia, Malta, Poland, the United Kingdom, Austria, Belgium, Estonia, Hungary, Romania
Imbalances	Finland, Germany, Ireland, the Netherlands, Spain, Slovenia, Sweden
Excessive imbalances	Croatia, France, Italy, Portugal, Cyprus,

	Bulgaria
Excessive imbalances, which require the activation of the excessive imbalance procedure	–

* Greece is under a stability support programme

Situation of Member States with regard to the Stability and Growth Pact

Box 2. Situation of Member States with regard to the Stability and Growth Pact, as of 18 May 2016	
No Excessive Deficit Procedure	Austria, Belgium, Bulgaria, Czech Republic, Denmark, Estonia, Germany, Hungary, Italy, Latvia, Lithuania, Luxembourg, the Netherlands, Romania, Slovakia, Sweden, Malta, Poland, Finland
Proposed closure of the Excessive Deficit Procedure	Cyprus, Ireland, Slovenia
On-going Excessive Deficit Procedure	Croatia, France, Greece, Portugal, Spain, the United Kingdom



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Attachments

- Situation under the Macroeconomic Imbalances Procedure and the SGP.pdf
- Overview of issues covered in the EU CSRs for 2016-2017.pdf