



# The European Semester

Past, present and future



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*ECFIN.A.1 – Policy coordination*

# In a nutshell ...

- A yearly exercise to coordinate economic, fiscal, employment and social policy within the European Union
- **Coordination of**
  - **fiscal policies**, in order to ensure the sustainability of public finances in line with the stability and growth pact
  - policies to **prevent macroeconomic imbalances**
  - structural reforms, focusing on **promoting growth and employment**
  - **employment and social policies**, in line with the principles of the European Pillar of Social Rights
  - assessment of how member states are performing on the **UN Sustainable Development Goals**

# Why? - Going back in recent history

- Going back in recent history
  - 1993 Creation of the [single market](#)
  - 1991 Maastricht Treaty preparing for [Economic and Monetary Union](#) (EMU)
  - 1999 / 2002 Introduction of the [euro](#)
- A single market with a single currency can bring substantial benefits ...
- ... but requires more policy coordination
  - Economies can no longer adjust through [exchange rates](#)
  - [Monetary policy](#) cannot differentiate between Member States
- Requires better alignment of other policy instruments

# Policy coordination until 2011

- Instruments
  - Stability and Growth Pact for budgetary policies
  - Broad economic policy guidelines (BEPGs)
  - Employment guidelines (EG)
- But:
  - No common timeline
  - No specific process for monitoring economic imbalances
  - Much less central in the political debate (initially, country specific recommendations were not even public)



# 2011 - Birth of the European Semester

- Strengthen the Stability and Growth Pact
- Synchronising the timelines of policy coordination mechanisms
- Aligning fiscal, economic and employment policies
- Setting up the macroeconomic imbalances procedure
- Governance: more involvement of national and European Parliaments, social partners and stakeholders

# European Semester timeline

OCT NOV DEC JAN FEB MAR APR MAY JUN

Member State

Draft budgetary plan

Budget adoption

SCP and NRP

Commission

Opinion on the DBP

Annual Sustainable Growth Survey

Alert Mechanism Report

Proposal Joint Employment Report

Proposal Euro Area Recommendations

Orientation of fiscal policies

Country reports

In-depth review

Recommendation Country Specific Recommendations

European Council Council / Eurogroup

EG discussion on DBP opinions

Adopts Euro Area Recommendations

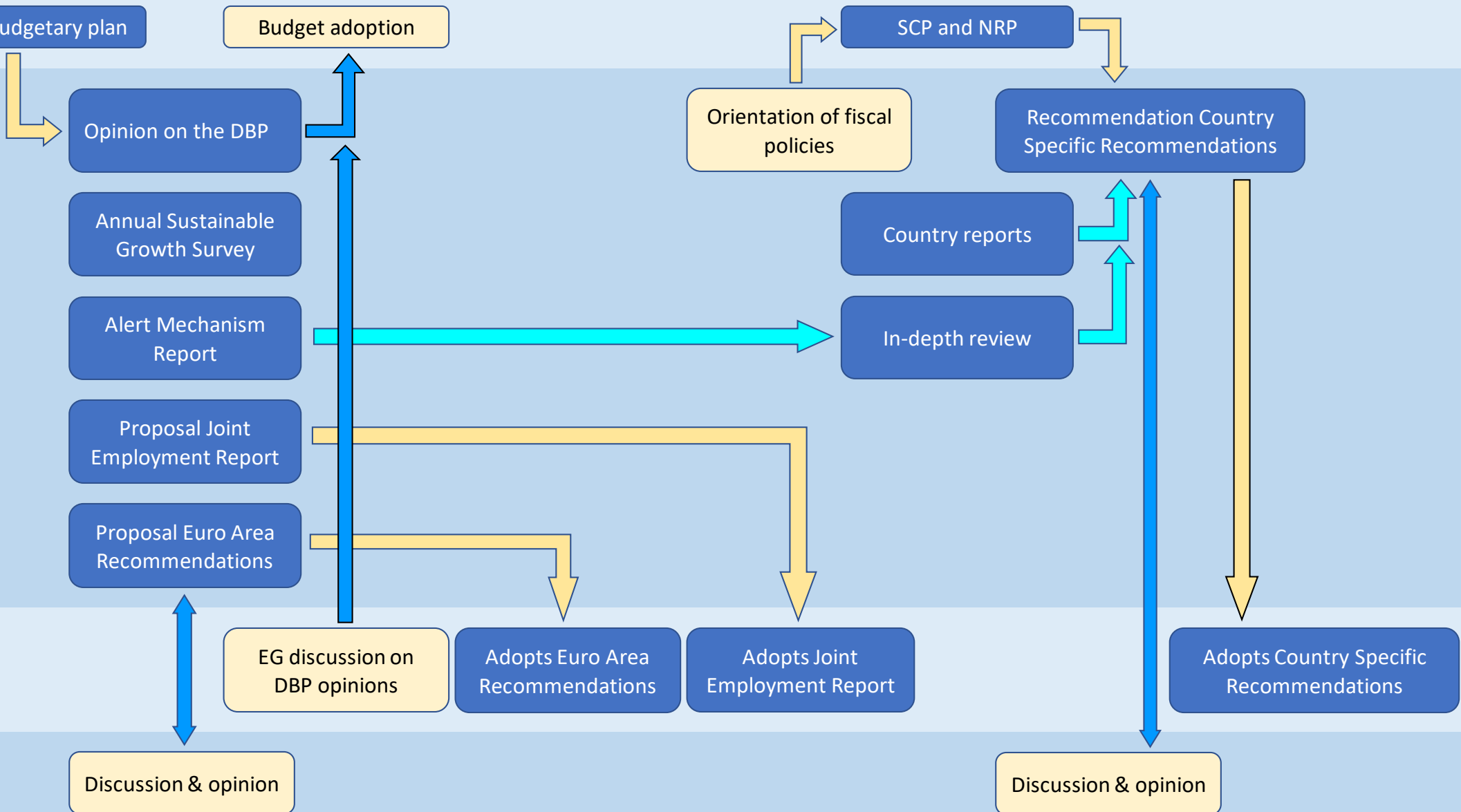
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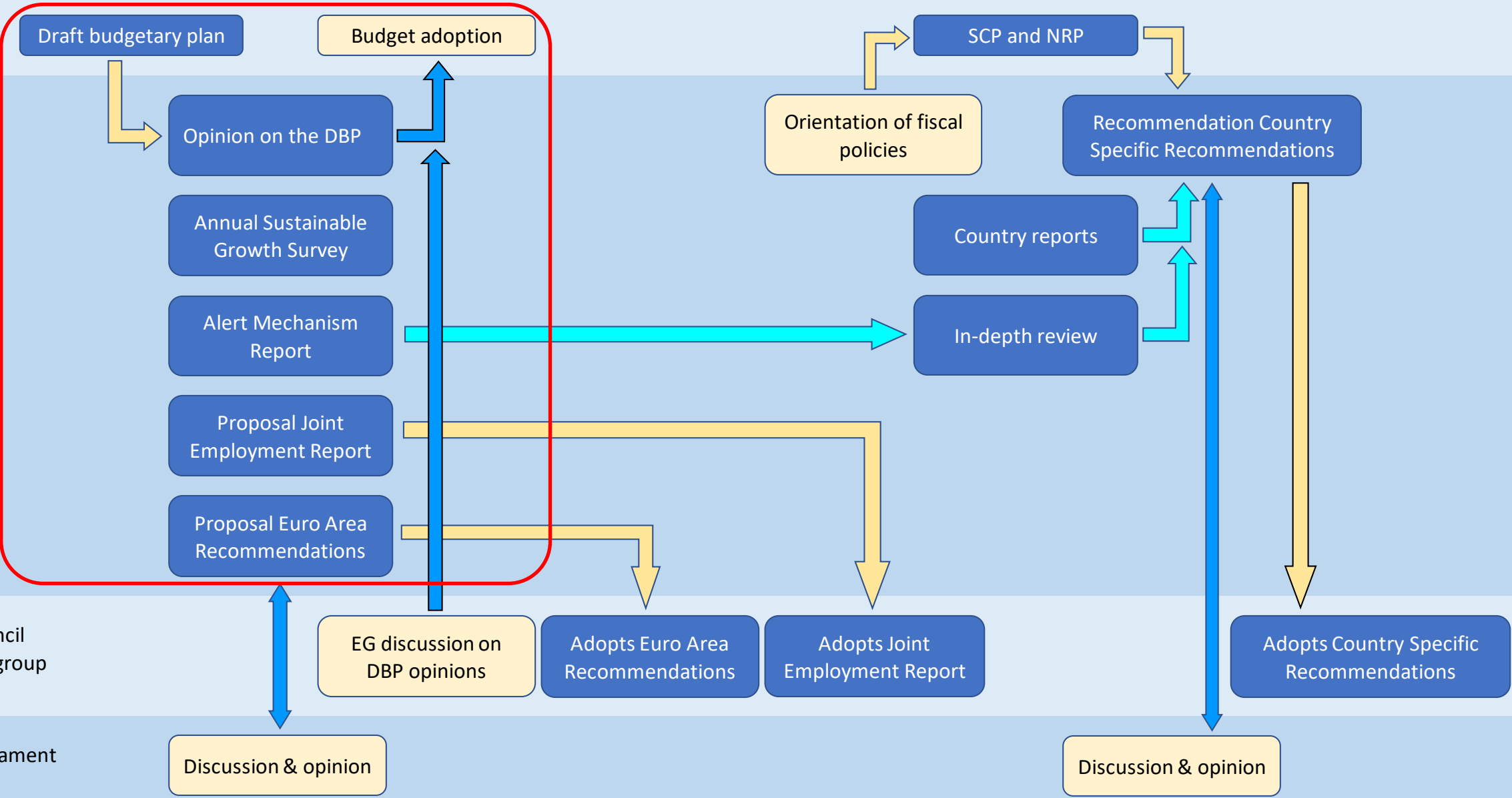
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Strasbourg, 22.11.2022  
COM(2022) 780 final

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL, THE EUROPEAN CENTRAL BANK, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE, THE COMMITTEE OF THE REGIONS AND THE EUROPEAN INVESTMENT BANK

Annual Sustainable Growth Survey 2023

EN

EN



Strasbourg, 22.11.2022  
COM(2022) 782 final

Recommendation for a  
COUNCIL RECOMMENDATION  
on the economic policy of the euro area  
[SWD(2022) 382 final]

EN

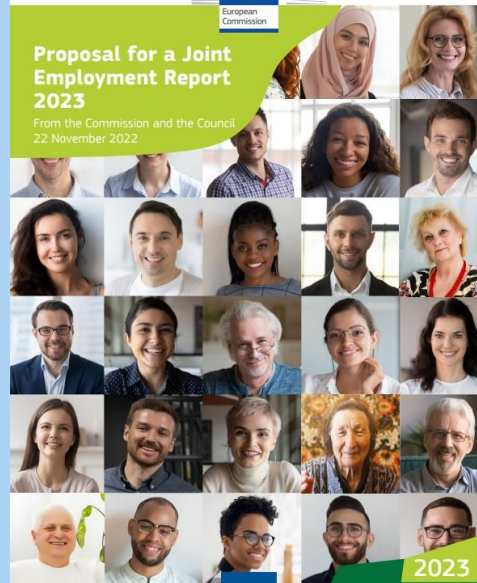
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Alert Mechanism Report 2023



Proposal for a Joint  
Employment Report  
2023  
From the Commission and the Council  
22 November 2022



# Commission autumn package

- Annual sustainable growth survey
- Alert mechanism report
- Proposal for a joint employment report
- Recommendation on the economic policy of the euro area
- Opinions on the Draft Budgetary Plans (20 euro area Members)

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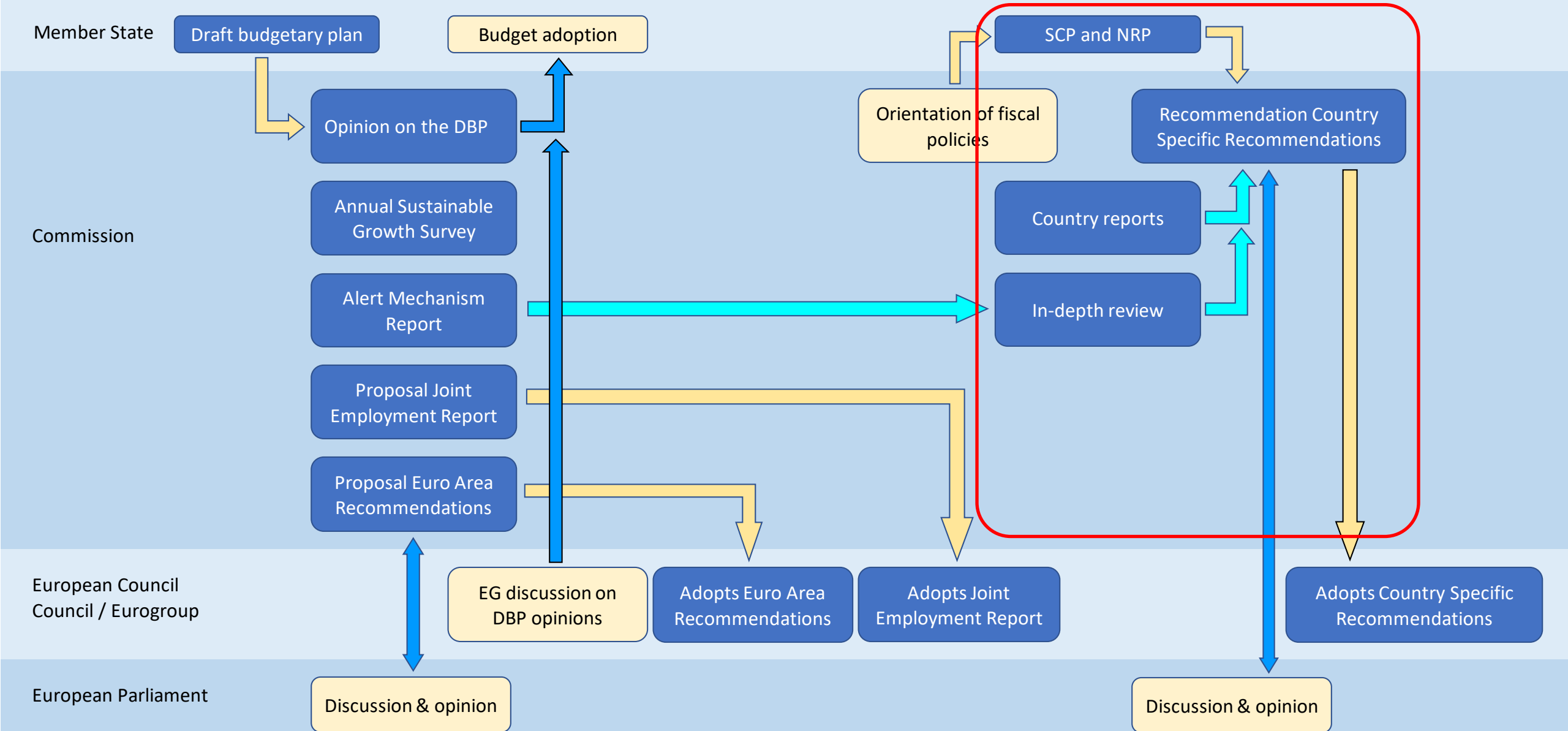
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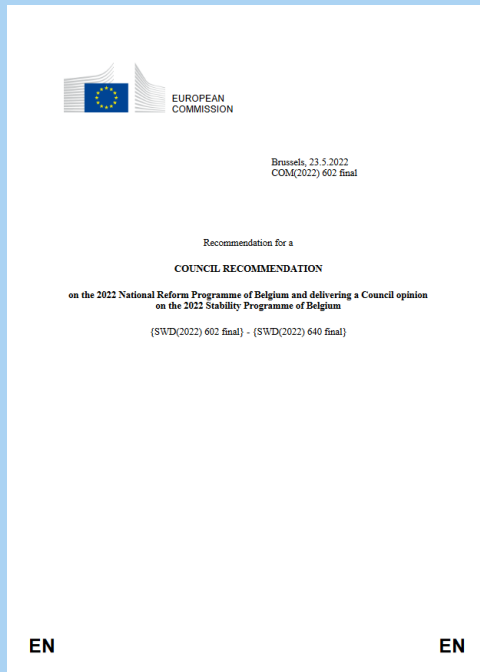
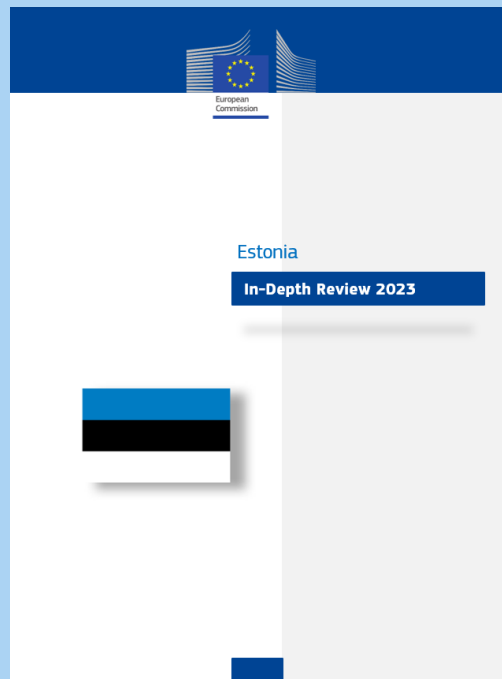
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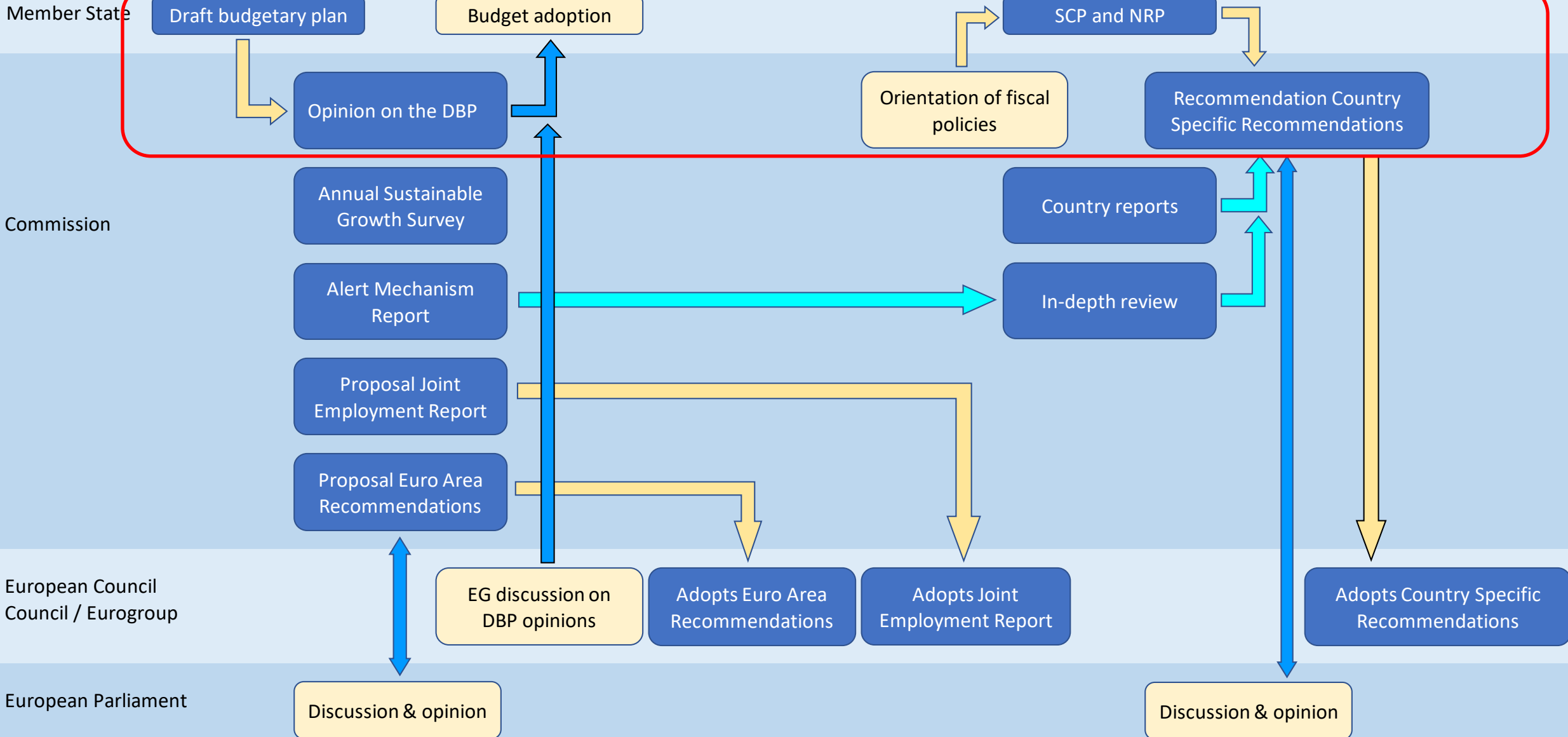


# Commission spring package

- Country reports
- In-depth reviews
- Recommendations for country specific recommendations

# European Semester timeline

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# Budgetary surveillance: spring

- March: Commission communication on fiscal policy guidance
- May – July: Country specific recommendation for fiscal policies
- Example: Italy (17 May 2023)
  - *Wind down the **energy support measures** in force by the end of 2023, using the related savings to reduce the government deficit [...]*
  - *Ensure prudent fiscal policy, in particular by limiting the **nominal increase** in nationally financed net primary **expenditure** in 2024 to **not more than 1.3%**.*
  - *Preserve nationally financed public **investment** and ensure the effective absorption of **RRF grants and other EU funds** [...]*
  - *Further reduce taxes on labour and make the **tax system** more efficient by adopting and duly implementing the enabling law on tax reform [...]*

# Budgetary surveillance: autumn

- October: Euro area Member States submit **Draft Budgetary Plan** to the Commission
- November: **Commission Opinion** on the Draft Budgetary Plan
- Example: Belgium (22 November 2022)
  - *Overall, the Commission is of the opinion that the Draft Budgetary Plan for Belgium is **partly in line with the fiscal guidance** [...]. The Commission invites Belgium to take the necessary measures within the national budgetary process to ensure that the 2023 budget is consistent with the recommendation [...]*
  - *The Commission is also of the opinion that Belgium has **made limited progress** with regard to the structural part of the fiscal recommendations contained in the Council Recommendation [...] and thus invites the authorities to accelerate progress.*
- November / December: Discussion in the **Eurogroup** before budget adoption by the Member State

# Excessive deficit procedure

- A dedicated procedure for Member States where the **deficit is above 3% of GDP** and / or the **debt is not sufficiently reduced towards 60% of GDP**
- Based on:
  - Budgetary data notified by Member States and verified by Eurostat
  - Commission forecasts
- In practice fully aligned with the European Semester (usually part of the spring package)
- Includes separate recommendations for a fiscal adjustment path

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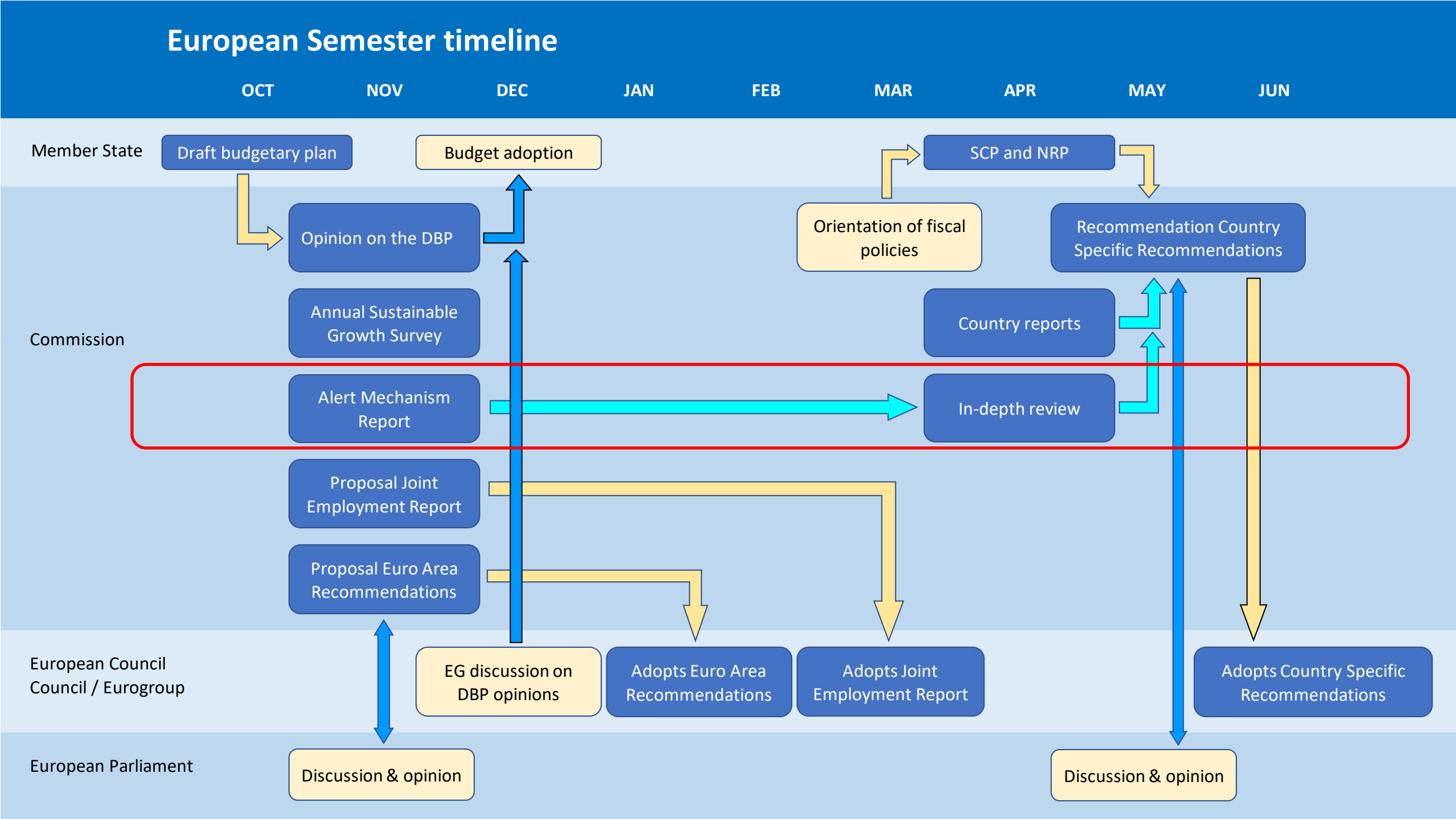
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# Macroeconomic imbalances

- November: **Alert mechanism report**
  - Commission reading of a **scoreboard** of selected indicators to screen EU countries for potential economic imbalances needing policy action
  - Identifies countries that need an in-depth review to assess how macroeconomic risks in the are evolving, and to determine the presence of (excessive) imbalances
- May: **In-depth review** concluding on the presence of (excessive) imbalances
- May / July: **Country specific recommendations** to address imbalances

Table 3.1: MIP Scoreboard 2021

Year2021	External imbalances and competitiveness					Internal imbalances						Employment indicators <sup>1</sup>		
	Current account balance - % of GDP (3 year average)	Net international investment position (% of GDP)	Real effective exchange rate - 42 trading partners, HICP deflator (3 year % change)	Export market share - % of world exports (5 year % change)	Nominal unit labour cost index (2015=100) (3 year % change)	House price index (2015=100), deflated (1 year % change)	Private sector credit flow, consolidated (% of GDP)	Private sector debt, consolidated (% of GDP)	General government gross debt (% of GDP)	Unemployment rate (3 year average)	Total financial sector liabilities, non-consolidated (1 year % change)	Activity rate - % of total population aged 15-64 (3 year change in pp)	Long-term unemployment rate - % of active population aged 15-74 (3 year change in pp)	Youth unemployment rate - % of active population aged 15-24 (3 year change in pp)
Thresholds	-4%/+6%	-35%	±5% (EA) ±11% (Non-EA)	-6%	9% (EA) 12% (Non-EA)	6%	14%	133%	60%	10%	16.5%	-0.2 pp	0.5 pp	2 pp
BE	0.5	59.9	0.6	2.4	5.4p	4.5	3.8p	169.0p	109.2	5.9	7.5	1.1	0.0	2.2
BG	0.5	-18.4	3.8	12.2	16.4	2.5p	4.4	84.4	23.9	5.5	9.5	0.6	-1.0	-0.1
CZ	0.5	-15.6	5.0	-1.1	13.9	16.4	2.9	78.8	42.0	2.5	7.9	0.0	0.1	1.5
DK	8.5	77.0	-1.1	6.5	6.1	9.5	12.3	214.7	36.6	5.2	11.7	1.4	0.0	0.3
DE	7.3	70.7	0.5	-5.9	7.4p	8.2p	5.7p	120.4p	68.6	3.4b	7.2	1.2	-0.2	0.3
EE	-0.1	-13.0	1.9	17.8	10.7	10.4	6.5	95.3	17.6	5.9	17.5	-0.2	0.3	4.7
IE	-4.2	-145.5	-2.6	39.9	-7.9	4.2	2.6p	168.1p	55.4	5.7	18.8p	1.8	-0.3	0.7
EL	-5.0	-171.9	-3.1	9.6	4.0p	6.4e	-0.1p	120.7p	194.5	16.7	14.3	-0.8	-3.3	-5.7
ES	1.2	-71.5	-0.5	-10.5	12.3p	1.5	2.5p	139.1p	118.3	14.8d	6.6	0.0d	-0.2d	0.5d
FR	-0.3	-32.1	-0.4	-11.4	4.6p	4.7	6.5p	167.8p	112.8	8.1d	7.3p	0.2d	-0.2d	-3.1d
HR	1.8	-35.1	-1.5	7.9	6.4p	4.5	3.0p	88.5p	78.4	7.2	11.7	2.4	-0.6	-1.8
IT	3.4	8.1	-1.8	-6.2	4.6	0.9	3.3	113.5	150.3	9.6	6.2	-1.1	-1.1	-2.5
CY	-7.5	-117.8	-2.4	24.9	4.1p	-4.3	4.3p	248.4p	101.0	7.4	-0.8	1.7	-0.1	-3.1
LV	-0.7	-27.4	2.3	13.4	14.5	7.3	0.9	58.0	43.6	7.3	13.2	-1.8	-1.1	2.6
LT	4.0	-7.4	4.4	37.9	19.2	11.0	5.9	53.9	43.7	7.3	25.2	0.9	0.6	3.2
LU	4.2	30.6	0.6	13.1	11.2p	12.4	53.9p	340.6p	24.5	5.9	11.4	2.1	0.4	2.7
HU	-1.9	-53.1	-4.1	0.0	12.4p	10.0p	12.7p	80.5p	76.8	3.8	16.4	2.1	-0.1	3.6
MT	-0.8	52.8	-1.2	-0.9	12.9	3.8p	9.4	131.8	56.3	3.8	7.7	3.5	-0.9	0.3
NL	6.4	93.0	2.2	1.1	11.2p	11.2p	11.7p	229.3p	52.4	4.5	-0.3p	1.0	-0.4	0.4
AT	1.9	14.7	1.2	-2.7	9.9	9.9	7.4	129.7	82.3	5.7	8.0	0.1	0.3	1.0
PL	0.3	-39.5	-0.4	24.9	9.9b	3.7	4.0	71.6	53.8	3.3	13.6	3.4	-0.1	0.1
PT	-0.6	-94.7	-2.8	-5.3	12.5p	7.9	4.0p	156.9p	125.5	6.8	7.1	0.7	-0.3	3.1
RO	-5.7	-47.2	1.0	10.6	14.4p	-1.1	3.8p	48.1p	48.9	5.5	14.3	3.2	-0.2	0.5
SI	5.8	-6.8	-0.4	11.6	12.8	7.8	3.5	66.4	74.5	4.7	14.1	0.6	-0.3	3.9
SK	-1.8	-61.0	3.1	-2.9	14.1	3.0	5.5	95.0	62.2	6.4	24.0	0.2	-0.8	4.8
FI	0.3	-1.4	-0.7	4.9	6.0	2.8	6.1	150.1	72.4	7.4	9.4	1.8	-0.2	-0.2
SE	5.6	21.2	2.1	-1.0	5.5	8.1	16.6	215.2	36.3	8.1	10.9	0.6b	0.2	7.9

Figures highlighted are the ones at or beyond the threshold. Flags:b:Break in series. d:Definition differs. e:Estimated. p:Provisional.

1) For employment indicators, see page 2 of the AMR 2016. 2) House price index e = estimate by NCB for EL. 3) Employment indicators, d = Spain and France have assessed the attachment to the job and included in employment those who had an unknown duration of absence from work, but are expected to return to the same job once COVID-19 health measures allow it.

Source: European Commission, Eurostat and Directorate General for Economic and Financial Affairs (for Real Effective Exchange Rate), and International Monetary Fund data, WEO (for world volume exports of goods and services)

**Table 1: MEMBER STATES CLASSIFICATION UNDER THE MIP**

	2022 IDRs outcomes	2023 IDRs outcomes
No imbalances	HR, IE	CZ, EE, LV, LT, LU, SK
Imbalances	DE, ES, FR, NL, PT, RO, SE	<b>CY</b> , DE, ES, FR, <b>HU</b> , NL, PT, RO, SE
Excessive imbalances	<b>CY</b> , EL, IT	EL, IT
<i>p.m.: No IDR</i>	<i>AT, BE, BG, CZ, DK, EE, FI, <b>HU</b>, LV, LT, LU, MT, PL, SK, SI</i>	<i>AT, BE, BG, DK, HR, FI, IE, MT, PL, SI</i>

Note: Member States with classification changed between 2022 and 2023 are marked in bold in both columns.

# The recovery and resilience facility

- A temporary instrument / centrepiece of [NextGenerationEU](#)
- The Commission raises funds by borrowing on the capital markets
- Funds are made available to Member States in the form of [grants](#) and [loans](#)
- Based on Member States [recovery and resilience plans](#)
  - Containing reforms and investments
  - To make their economies more sustainable, resilient and prepared for the green and digital transitions
  - Address the challenges identified in country-specific recommendations under the European Semester framework
- Performance based – payment against completion of agreed [milestones and targets](#)

# Economic governance review

- Commission proposal of 26 April 2023
- Mainly focused on fiscal rules ('Stability and Growth Pact')
  - 4 year medium-term plans replace annual stability/convergence programmes
  - National ownership: Member States commitments based on debt sustainability assessment
  - More flexible rules, stricter implementation
  - Focus on avoiding gross policy errors
  - Making the debt-based EDP operational
- Implementation as of 2024?

# Thank you