BRIEFING

Economic Dialogue and Exchange of Views with the President of the Council (ECOFIN)

ECON on 22 July 2014

Mr Padoan, Italy's Finance Minister is participating in the ECON meeting in his capacity of President of the ECOFIN Council during the Italian Presidency (July-December 2014). This exchange of views will also cover an Economic Dialogue on the implementation of the European Semester Cycle, including the Country Specific Recommendations.

The Country Specific Recommendations (CSRs)

The 2014 CSRs were examined by the Council (EPSCO on 19 June, ECOFIN on 20 June, General Affairs on 24 June), endorsed by the European Council on 26-27 June and finally adopted by ECOFIN on 8 July.

The CSRs combine economic and employment recommendations to the Member States based on Articles 121(2) and 148(4) of TFEU, including Council opinions on stability and convergence programmes, based on preventive arm of the Stability and Growth Pact and in certain cases based on the preventive arm of the Macro-economic Imbalances Procedure (see Annex 2).

Changes introduced by the Council to the 2014 CSRs - "comply or explain"

According to EU law[1] the Council is expected to follow the Commission (COM) recommendations or explain its views publicly (*"comply or explain")*. Similarly to last year many Member States had the view that the original COM text on pension reforms focused too much on raising the (statutory) retirement age compared to broader measures to improve sustainability of public finances and therefore did not agree with the COM text. The Council has produced a document on all the changes introduced by the Council and which COM did not agree with.

Box: Examples of changes introduced by the Council:

=> FR (CSR4): a specific deadline (2019) for a reform in the railways sector was replaced with a generic reference to "forthcoming directives".
=> IE (CSR5): "while avoiding risks to public finances and financial stability" was introduced in the recommendation aimed at improving lending to SMEs and addressing SMEs debt restructuring.
=> IT (CSR2): the level of detail in a recommendation dealing with, *inter alia*, environmental taxation was reduced, by dropping a reference to excise duties on diesel and petrol.
=> HU (CSR1): deletion of a reference to 0.9% as regards a gap in relation to SGP.
=> NL (CSR2): "When the economic environment allows..." was introduced in the recommendation requiring the reform of the housing market.
=> PT (CSR1): the reference to the Fiscal Strategy Document 2014 was dropped in the recommendation dealing with fiscal issues.
=> FI (CSR1): an explicit reference to reinforced budgetary measures in 2014 was deleted.

*For an **overview of all changes introduced by the Council** see separate table on ECON homepage.*

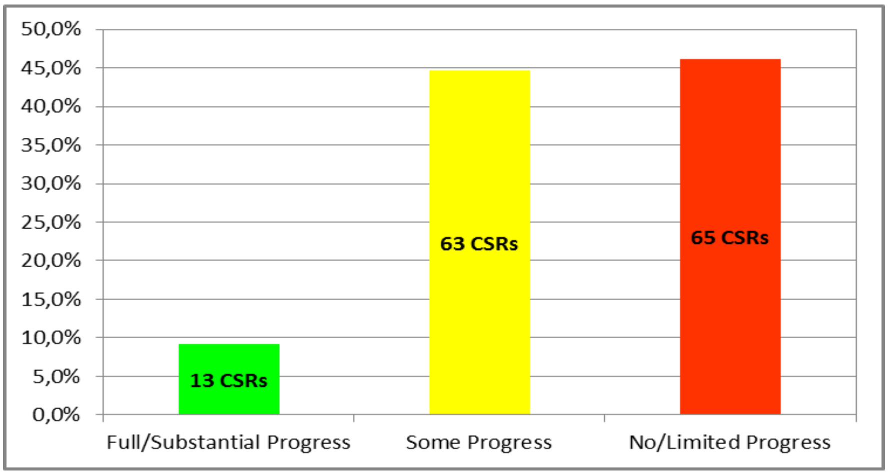
[1] Article 2ab)(2) of Regulation 1466/97 part of the section on "Economic dialogue" states that "*the Council is expected to, as a rule, follow the recommendations and proposals of the Commission or explain its position publicly*".

Progress in implementation of 2013 CSRs

According to the June 2014 European Council conclusions the implementation of the CSRs is key to accelerate growth. Based on the principles of national ownership and social dialogue, Member States should respect the recommendations in their forthcoming decisions on budgets, structural reforms and employment and social policies. According to the conclusions the Council and the COM will further monitor CSRs implementation and take action as required. Article 121 of the TFEU stipulates that the Member States shall regard their economic policies as a matter of common concern and shall coordinate within the Council.

Chart below shows that full or some progress has been made for roughly 55 % of recommendations by June 2014: 10 % of the CSRs have been fully/substantially implemented, while some progress has been registered on approximately 45 % of the CSRs. An almost equally large proportion of the recommendations have not been implemented at all or only in a limited manner. The figures are based on the assessment by the Commission's services (see Annex 1).

Chart: Implementation of the 2013 Country Specific Recommendations (CSRs) based on the Commission's assessment as of June 2014



Source: European Commission and EGOV calculus.

Note that one CSR may contain several sub-recommendations. The analysis in Figure 1 focuses exclusively at the assessment provided for each CSR as a whole (and not sub-CSRs level). Each Member States have received 3 to 8 CSRs based on an appropriate legal base (see Annex 2).

Next steps: implementation of 2014 CSRs

According to EU law[2] Member States shall take due account of recommendations addressed to them in their economic, employment and budgetary policies for succeeding years. Furthermore (and contrary to what is often presumed) many of the CSRs are based on EU legal acts (see Annex 1 of the briefing paper) which enables further procedural steps, if not sufficiently implemented. Failure by a Member State to act upon CSRs may result in legal procedures, including the possibility of imposition of fines and/or suspension of funds in the following areas:

- **Fiscal policies**: further procedural measures, including enforcement measures under the preventive arm and corrective arm of the SGP and closer monitoring of draft budgetary plans possible suspension of up to five European structural and investment funds under the so-called macro-economic conditionality.

[2]Art. 2-a of Regulation No.1466/97, "*take due account of the recommendations addressed to them in the development of their economic, employment and budgetary policies before taking key decisions on their national budgets for the succeeding years*" and Art. 3 of Regulation No. 473/2013: "*Member States' budgetary process shall be consistent with [...] the recommendations issued in the context of the annual cycle of surveillance*".

- **Macro-economic imbalances:** further procedural measures on prevention and correction of imbalances, including enforcement measures for a Member State which is under the Excessive Imbalance Procedure; possible suspension of up to five European structural and investment funds under the so-called macro-economic conditionality.
- **CSRs implementing the integrated policy guidelines** (the BPGS and the Employment Guidelines): further policy recommendations or warnings
- **Macro-economic adjustment programmes**: possible suspension of up to five European structural and investment funds under the so-called macro-economic conditionality.

The Stability and Growth Pact (SGP)

In June 2014, the Council closed the **excessive deficit procedures** (EDPs) for 6 Member States (Belgium, Czech Republic, Denmark, the Netherlands, Austria and Slovakia) as these countries have reduced their deficits below 3% of GDP. As a result, 11 EU Member States remain subject to an EDP (down from 24 during a 12 month period in 2010-11).

The 17 Member States, which are not subject to an EDP, are subject to the **preventive arm of the SGP**. The CSRs as adopted by the Council include for each of these countries a recommendation to implement the preventive arm i.e. a specific recommendation for the budgetary policy that is necessary in order to attain the Medium Term Objective (MTO). The MTO is a country specific budget balance in structural terms that aims to ensure the sustainability of public finances or a rapid progress towards it.

An overview on the **current state-of-play in implementation the SGP** and an overview on the **role independent fiscal bodies** in 2014 Stability or Convergence Programmes are available on ECON homepage.

June 2014 European Council conclusions

The possibilities offered by the EU's existing fiscal framework to balance fiscal discipline with the need to support growth should be used. Given the persistently high debt and unemployment levels and the low nominal GDP growth, as well as the challenges of an ageing society and of supporting job-creation, particularly for the young, fiscal consolidation must continue in a growth friendly and differentiated manner. *Structural reforms that enhance growth and improve fiscal sustainability should be given particular attention, including through an appropriate assessment of fiscal measures and structural reforms, while making best use of the flexibility that is built into the existing SGP rules.* In this context, the COM will report to the EP and to the Council on the application of the EU governance framework by 14 December 2014, as foreseen in EU law ('6-Pack' and '2-Pack').

The Macroeconomic Imbalance Procedure (MIP)

In the context of the MIP, the Council (on a proposal from COM) may address the necessary recommendations to Member States experiencing macroeconomic imbalances.
Among the 158 CSRs addressed to Member States in 2014, 66 explicitly referred to the MIP:

- For the three countries with excessive imbalances (Croatia, Italy and Slovenia), **all** the recommendations are linked to MIP:
- For the three countries with imbalances requiring specific monitoring (Ireland, Spain and France), **most** of the recommendations are linked to MIP;
- For the eight countries experiencing imbalances (Belgium, Bulgaria, Germany, Hungary, the Netherlands, Finland, Sweden and the United Kingdom), **some** of the recommendations are related to MIP.

- Ten Member States do not present macroeconomic imbalances, Greece and Cyprus are under macroeconomic surveillance and Portugal and Romania are under post-programme surveillance and precautionary financial assistance respectively.

No further procedural steps were proposed by the COM for the countries experiencing excessive imbalances.

A presentation of the MIP procedure and an overview on the **implementation of the MIP** during the European Semester Cycle can be found on ECON homepage.

Banking Union: recent developments

At the 8 July 2014 ECOFIN meeting, the Italian Presidency committed to further steps towards the Banking Union, in particular the start of the *Single Supervisory Mechanism (SSM)*, due to take place in November this year, including steering of Council's communication of the final results of comprehensive assessment and follow-up actions at national and European levels.

Accomplishment of *comprehensive assessment* is the main preparatory step for the ECB prior to taking over its new banking supervisory function. It is composed of diligent reviews of the quality of the banks' assets and its related valuations as well as of stress tests. The comprehensive assessment is currently on-going and the ECB claims to make good progress despite all organisational challenges. As a direct consequence of the comprehensive assessment, a number of large European banks has recently taken decisive action and significantly written down the book values of some of its assets respectively increased its loan loss provisions. As soon as the final results of that exercise are available and the required follow-up actions are known, the Council may become involved in the related communication process.

In order to ensure an effective resolution of failing banks within the Union, the second key element of the banking union - the *Single Resolution Mechanism (SRM)* - is being established as a centralised power of resolution. The SRM with a single resolution board shall become fully operational as of 1 January 2015.

In order to provide the required means for financing a resolution, a *Single Resolution Fund (SRF)* is set up. It is financed by bank contributions raised at national level. At present the level 2 legislation concerning the banks' contributions to the SRF are still under discussion. The related expert meetings showed conflicting views as regards proportionality as well as the appropriate calculation models and risk factors to be taken into account. While there seems to be some consensus to calculate the contributions on a non-consolidated basis, it remains open how to effectively deal with intragroup liabilities and derivatives.

FURTHER INFORMATION ON ECON HOMEPAGE:

- Country Specific Recommendations (CSRs) for 2013 and 2014, including summary of implementation assessment – July 2014 (PE 528.743)
- Country Specific Recommendations (CSRs) under the European Semester Cycles 2011, 2012 and 2013 and 2014 – July 2014 (PE 528.744)
- Country Specific Recommendations (CSRs) for 2014 - A comparison of Commission and Council texts - "comply or explain" - July 2014 (PE 528.746)
- Member States progress to meet EU2020 targets: July 2014 (PE 528.741)
- Implementation of the Stability and Growth Pact - July 2014 (PE 497.746)
- Implementation of the Macroeconomic Imbalance Procedure (MIP) - July 2014 (PE 528.734)
- Involvement of independent fiscal bodies in SCP and NRP - 2014 (PE 528.747)

ANNEXES:

ANNEX 1: Implementation of the 2013 Country Specific Recommendations

ANNEX 2: Overview table of CSRs in 2014, 2013 and 2012 according to legal base

ANNEX 1: Progress in implementation of the 2013 Country Specific Recommendations

Table 1 provides an overview of the 2013 CSRs implementation based on the assessment provided in the June 2014 Commission's Staff Working Documents.

Table 1: Implementation of the 2013 Country Specific Recommendations based on the Commission's assessment as of June 2014

	Full/Substantial Progress	Some Progress	No/Limited Progress	Total
BE	0	3	4	7
BG	0	1	6	7
CZ	0	1	6	7
DK	1	1	1	3
DE	0	2	2	4
EE	1	3	1	5
IE	Economic Adjustment Programme			
EL	Economic Adjustment Programme			
ES	1	8	0	9
FR	0	4	2	6
HR	EU entry on 1 July 2013			
IT	0	1	5	6
CY	Economic Adjustment Programme			
LV	1	5	1	7
LT	1	3	2	6
LU	0	1	5	6
HU	0	2	5	7
MT	0	3	2	5
NL	1	2	1	4
AT	0	6	1	7
PL	1	4	2	7
PT	Economic Adjustment Programme			
RO	1	2	5	8
SI	1	2	6	9
SK	0	2	4	6
FI	2	3	0	5
SE	1	1	2	4
UK	1	3	2	6
Sub-Total	**13**	**63**	**65**	**141**
Euro Area				6
Total				**147**

Source: European Commission and EGOV calculus.
Note: The Commission uses in its 2014 Staff Working Documents the following categories:
• No progress: The Member State has neither announced nor adopted any measures to address the CSR. This category also applies if a Member State has commissioned a study group to evaluate possible measures.
• Limited progress: The Member State has announced some measures to address the CSR, but these measures appear insufficient and/or their adoption/implementation is at risk.
• Some progress: The Member State has announced or adopted measures to address the CSR. These measures are promising, but not all of them have been implemented yet and implementation is not certain in all cases.
• Substantial progress: The Member State has adopted measures, most of which have been implemented. These measures go a long way in addressing the CSR.
• Fully addressed: The Member State has adopted and implemented measures that address the CSR appropriately.

Note that one CSR may contain several sub-recommendations. If this is the case, the Commission provides also an assessment at both the CSRs and sub-CSRs levels. However, the Table 1 focuses exclusively at each CSR as a whole. This is partly due to the fact that each CSR is based on a distinct legal procedure, which may be different pending the nature of the policy recommendation (see Annex 2 of this briefing paper).

The table shows inter alia that, as of June 2014:

- Member States fully/substantially implemented 13 out of 141 recommendations (or equivalently about 10%);

- Some progress has been registered on approximately 45 % of the 2013 CSR, while, broadly speaking, an equally large proportion of the recommendations has not been implemented at all or only in a limited manner;

- Out of 27 Member States which received CSRs in 2013, 12 countries fully/substantially implemented at least one recommendation;

- Only 2 Member States have made either substantial or some progress on all their respective 2013 CSRs, namely Spain and Finland (i.e. 0 CSR in the "No/Limited Progress" category);

- 4 countries have made full/substantial progress on at least 25% of their respective 2013 CSRs, namely Finland, Denmark, Sweden and the Netherlands;

- 4 Member States have made no or limited progress on at least 75% of their respective CSRs, namely Bulgaria, the Czech Republic, Italy and Luxembourg;

- Denmark is the Member State that received the fewest recommendations in 2013 (i.e. 3 CSRs);

- Spain and Slovenia are the countries which received the most recommendations in 2013 (i.e. 9 CSRs);

- Commission does not provide an assessment of their implementation of the 6 recommendations to the euro area as a whole.

ANNEX 2: Number of CSRs in 2014, (2013) and (2012) according to their legal base

Member State	Total number of CSR	Number of CSR based on SGP	Number of CSR based on MIP	Number of CSRs based exclusively on the Broad Economic Policy Guidelines and the Employment guidelines
Belgium	6 (7)(7)	1 (1)(1)	3 (5)(4)	2(2)(3)
Bulgaria	6 (7)(7)	1 (1)(1)	3 (3)(2)	2(3)(4)
Czech Republic	7 (7)(6)	1 (1)(1)	0(0)(0)	6(6)(5)
Denmark	3 (3)(5)	1(1)(1)	0(1)(3)	2(1)(1)
Germany	4 (4)(4)	1(1)(1)	4(0)(0)	0(3)(3)
Estonia	5(5)(5)	1(1)(1)	0(0)(0)	4(4)(4)
Ireland	7(0)(0)	2(0)(0)	4(0)(0)	2(0)(0)
Greece	0(0)(0)	0(0)(0)	0(0)(0)	0(0)(0)
Spain	8(9)(8)	1(1)(1)	7(8)(5)	1(1)(3)
France	7(6)(5)	1(1)(1)	6(6)(3)	1(0)(1)
Croatia	8(0)(0)	1(0)(0)	8(0)(0)	0(0)(0)
Italy	8(6)(6)	1(1)(1)	8(6)(4)	0(0)(2)
Cyprus	0(0)(7)	0(0)(1)	0(0)(3)	0(0)(4)
Latvia	5(7)(7)	1(1)(1)	0(0)(0)	4(6)(6)
Lithuania	6(6)(6)	1(1)(1)	0(0)(0)	5(5)(5)
Luxembourg	5(6)(5)	1(1)(1)	0(0)(0)	4(5)(4)
Hungary	7(7)(7)	1(1)(1)	4(6)(4)	3(1)(3)
Malta	5(5)(6)	1(1)(1)	0(2)(0)	4(2)(5)
Netherlands	4(4)(5)	1(1)(1)	2(1)(0)	1(2)(4)
Austria	5(7)(6)	1(1)(1)	0(0)(0)	4(6)(5)
Poland	6(7)(6)	1(1)(1)	0(0)(0)	5(6)(5)
Portugal	8(0)(0)	1(0)(0)	0(0)(0)	7(0)(0)
Romania	8(8)(0)	1(1)(0)	0(0)(0)	7(6)(0)
Slovenia	8(9)(7)	1(1)(1)	8(9)(3)	0(0)(4)
Slovakia	6(6)(7)	1(1)(1)	0(0)(0)	5(5)(6)
Finland	5(5)(5)	1(1)(1)	3(3)(1)	1(1)(3)
Sweden	4(4)(4)	1(1)(1)	2(2)(1)	1(1)(2)
UK	6(6)(6)	1(1)(1)	4(4)(3)	1(1)(2)
Total	**158(141)(137)**	**27(23)(23)**	**66(56)(36)**	**72(67)(84)**

Note 1: For some countries, the first recommendation had both the SGP and the MIP as legal bases. In those cases, the sum of the CSRs based on the SGP, MIP and Integrated guidelines in the above table does not equal the total number of CSRs.

Note 2: Member States whose currency is the euro should in addition to the country specific recommendations ensure the full and timely implementation of the recommendation addressed to all Member States of the Euro Area.

Note 3: Member States subject to a macroeconomic adjustment programme is in accordance to Article 12 of Regulation No 472/2013 exempted from the monitoring and assessment under the European Semester. Once exiting from a programme a Member State is fully re-integrated into the Semester framework and shall be under post-programme surveillance as long as a minimum of 75 % of the financial assistance received has not been repaid.