



Coordination of economic policies

Policy and economic surveillance

**Directorate General for Economic and Financial Affairs (DG ECFIN)
European Commission**

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These slides accompany the explanation of the acquis to Albania and North Macedonia and can only be used for that purpose. Their content is subject to further development of the acquis and interpretation by the Court of Justice of the European Union

Agenda

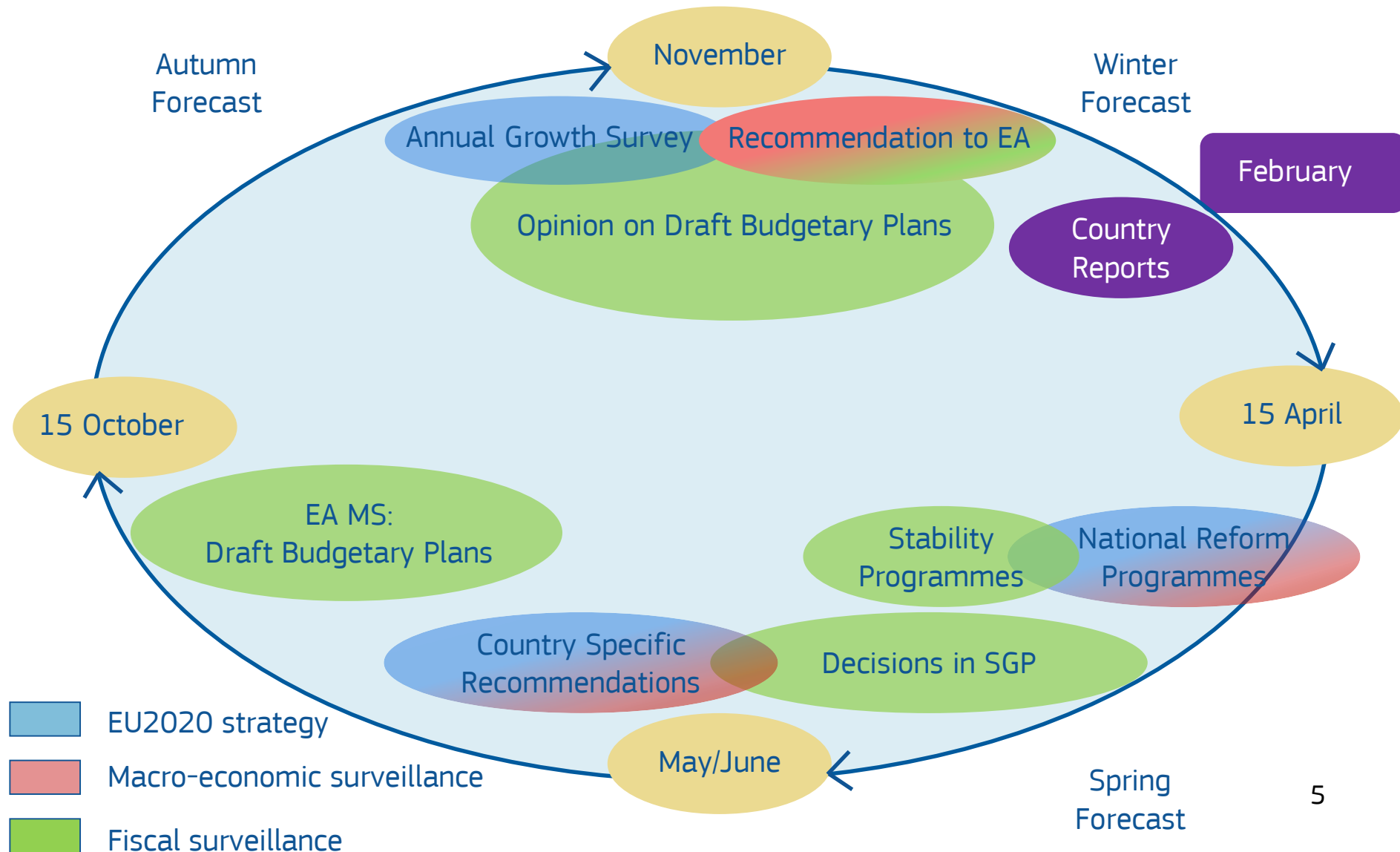
- **Introduction to European Semester**
- **Macroeconomic outlook & priorities of the European Semester in 2019**
- **European Semester - Fiscal surveillance**

Introduction to European Semester

The European Semester

- The European Semester is the EU's **annual integrated surveillance cycle for fiscal and macro-economic policies**
- In the presence of **cross-border spillovers**, **economic policies are a matter of shared concern**.
- Since Maastricht, the EU has acquired a "**coordinating competence**", on top of the "exclusive", "shared" and "supporting" competences it exercises in other areas (art. 5 TFEU).
- The "coordinating competence" extends to **economic, employment and social policies** of the Member States, including fiscal policy and structural reforms.
- **Specific procedures for dealing with fiscal policies** (SGP) and **macro-economic imbalances** (MIP) are integrated into a broader **integrated surveillance framework** based on the Open Method of Coordination.
- **Coordination does not equal harmonisation** (by law).
- The EU's **power of enforcement** varies by policy area.

The Annual Coordination Cycle



The Europe 2020 growth strategy: European Objectives

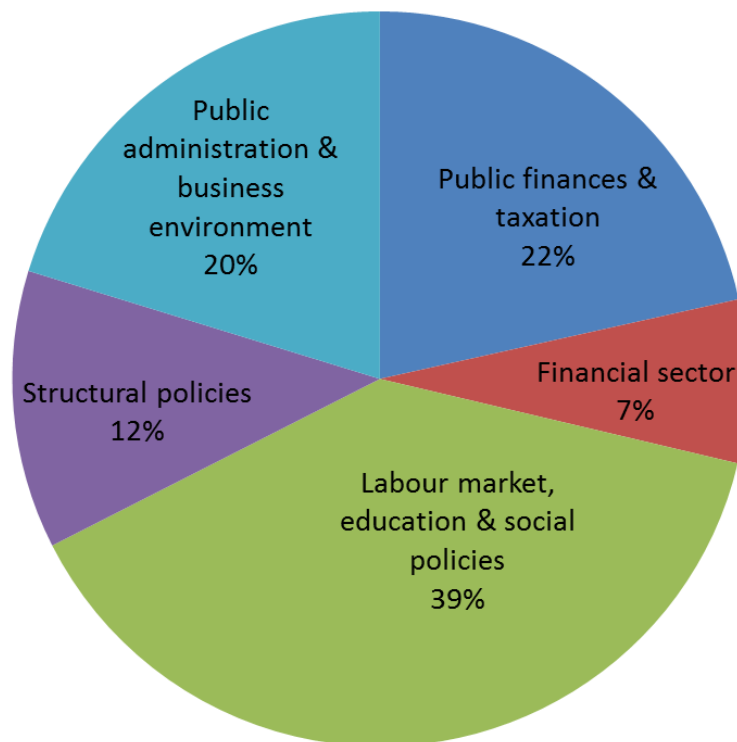
- ***Employment rate:*** 75%
- ***Research and Development:*** 3%
- ***Education:***
 - Early School Leavers: 10%
 - Tertiary Education: 40%
- **Climate Change & Energy:** 3x20%
- **Poverty and Social Exclusion:** 20 MM

Coverage of 2018 CSRs

... Seek to build the basis for economic resilience, and sustainable and inclusive growth

Broad categories

2018 CSRs as proposed by the Commission on 23 May (by broad policy categories)



Coverage of 2018 CSRs: examples

- **Public finances & taxation:** Rebuilding fiscal buffers, appropriate allocation of public revenues and expenditures, efficient taxation, reforms on pension, health-care and long-term care systems
- **Financial sector:** Strengthened financial sector supervision, reduce NPLs, address bottlenecks to housing supply and reduce debt bias
- **Labour market, education and social policies:** Prepare workforces for the future with increasing digitalisation, reduce income inequalities and create employment opportunities (particularly for young people)
- **Structural policies:** Improve business environment and conditions for investment through product and service market reforms, support innovation and SME access to finance
- **Public administration & business environment:** Ensure independence and effectiveness of the justice system, improve public procurement and tackle corruption

Examples of CSRs on public administration and civil justice

➤ Examples of CSRs on public administration:

- **Bulgaria: CSR 4 of 2017:** 'Ensure efficient implementation of the 2014-2020 National Public Procurement Strategy'.
- **Romania: CSR 3 of 2016:** 'Strengthen the independence and transparency of human resources management in the public administration'.
- **Croatia: CSR 4 of 2017:** 'Reduce the fragmentation and improve the functional distribution of competencies in public administration, while enhancing the efficiency and reducing territorial disparities in the delivery of public services'.

➤ Examples of CSRs on justice systems:

- **Croatia: CSR 5 of 2017:** 'Improve the quality and efficiency of the justice system, in particular by reducing the length of civil and commercial cases'.
- **Croatia: CSR 4 of 2018:** 'Reduce the duration of court proceedings and improve electronic communication in courts'.

The main channels for dialogue and interaction

Formal written exchanges

From the EU to the Member States

- Opinions on Draft Budgetary Plans (for EA MS)
- Decisions under the Stability and Growth Pact
- Country Reports/Enhanced surveillance reports/Specific Monitoring Reports
- Assessment of the Stability/Convergence Programmes
- Country-Specific Recommendations

From the Member States to the EU

- Reporting tables on CSR implementation
- National Reform Programmes (NRPs)
- Stability or Convergence programmes
- Draft Budgetary Plans (for EA MS)

Formal and informal discussions

Between Commission and Member State

- Bilateral meetings with Member States
- Fact-finding missions to Member States
- European Semester Officer discussions with stakeholders
- In-depth country team sessions with national experts
- Political Semester Missions to the Member States

In a multilateral setting

- Council Committee discussion (EFC, EPC, EMCO and SPC)
- Council Discussions

Current macroeconomic outlook & priorities of the European Semester in 2019

Macroeconomic outlook (1)

Main messages

1

- Economic growth set to continue at a slower pace.

2

- Labour market tightening translates into higher wages.

3

- Core Inflation expected to move up very gradually.

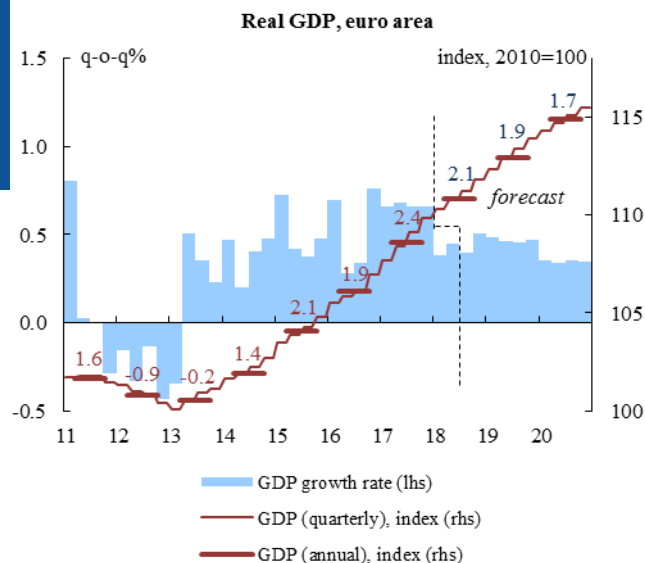
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- Fiscal stance set to turn slightly expansionary next year.

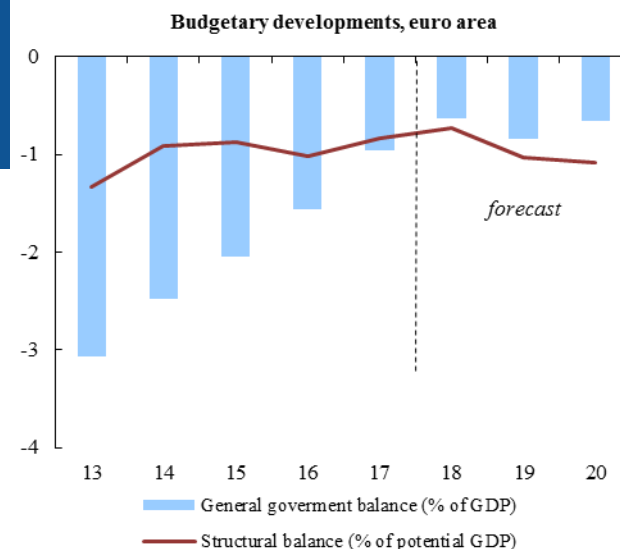
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- Numerous interrelated risks are clouding the outlook.

Real GDP growth



Headline deficit and fiscal stance



Macroeconomic outlook (2)

Risks

1

- In the US, overheating could lead to interest rates rising faster than expected, leading to a sharper deceleration of the economy with spillovers to other regions.

2

- Trade tensions could escalate further.

3

- In China, several triggers could derail the rebalancing towards a more service and consumption-based growth model.

4

- In emerging markets, turmoil could spill over if global financial conditions were to raise debt servicing costs and increase refinancing risks.

5

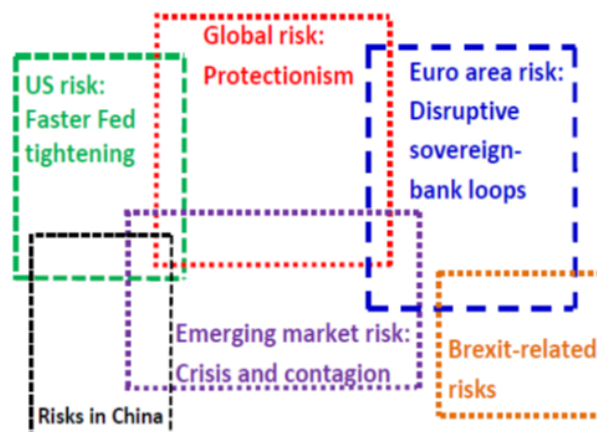
- In Europe, disruptive sovereign-bank loops could resume.

6

- The outcome of the Brexit negotiations could be more disruptive than assumed.

Interrelated downside risks

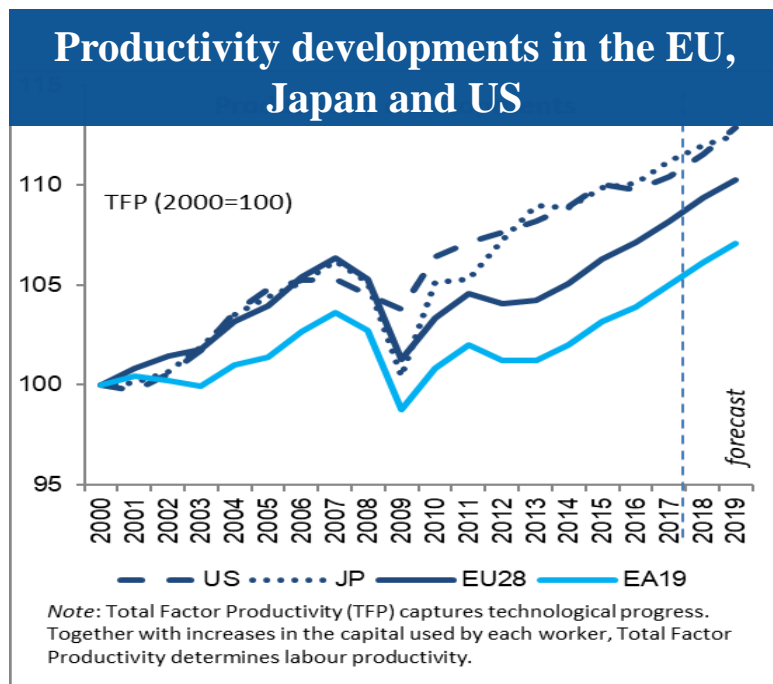
Interrelated risks surrounding the central scenario of the autumn 2018 forecast



Annual Growth Survey

➔ ... 6th year of uninterrupted growth but challenges ahead

- Low and dispersed productivity growth, regional disparities;
- Persisting inequality;
- Remaining macroeconomic imbalances;
- Long-term challenges like digitalisation and technological transformation, demographic changes and migration, climate change;



Source: European Commission

Delivering high-quality
investment



Focusing reforms efforts on
productivity growth, inclusiveness
and institutional quality

Ensuring macro-financial
stability and sound *public*
finances

European Semester – Fiscal surveillance

As a result of the crisis, our economic governance framework became...

More encompassing

- Draft Budgetary Plans
- Operational debt criterion

Stricter

- Sanctions in the preventive arm
- Reversed qualified majority rule

More proactive

- Common timeline

European Semester - Fiscal surveillance

- Every spring, on the basis of budgetary plans presented in Stability and Convergence Programmes and COM forecast:
 - **Ex post assessment of previous year (t-1)**
 - **In-year assessment (t)**
 - **Ex ante assessments (t+1 and beyond)**
- Assessment can trigger:
 - **Significant Deviation Procedure under Preventive Arm** (only ex post)
 - **Excessive Deficit Procedure** (if Treaty criteria not fulfilled) **or step-up**
 - **Sanctions**
- Fiscal CSRs for following year (for countries not yet at MTO):

"Achieve the medium-term budgetary objective in 2019."

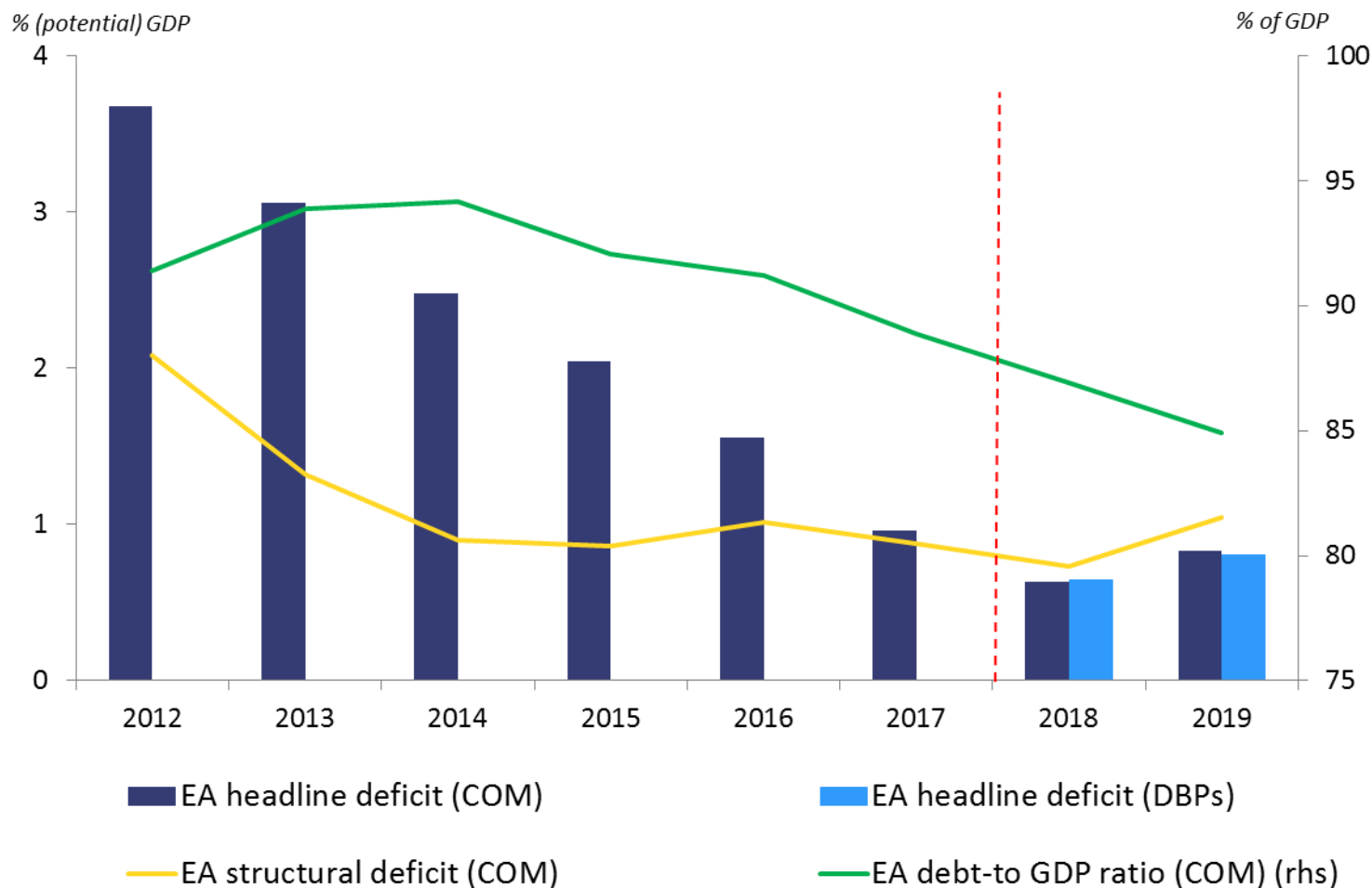
"Ensure that the nominal growth rate of net primary government expenditure does not exceed x% in 2019, corresponding to an annual structural adjustment of x% of GDP."

Draft Budgetary Plans (Euro area Member States)

- Every autumn, on the basis of budgetary plans presented in Draft Budgetary Plans (by 15 October) and COM forecast:
 - **In-year assessment (t)**
 - **Ex ante assessment (t+1)**
- Assessment takes the form of COM Opinions
 - **Risk assessment** (“compliant”, “broadly compliant”, “risk of non-compliance”)
 - **Possibility of requesting revised Draft Budgetary Plan** (in case of particularly serious non-compliance with SGP)

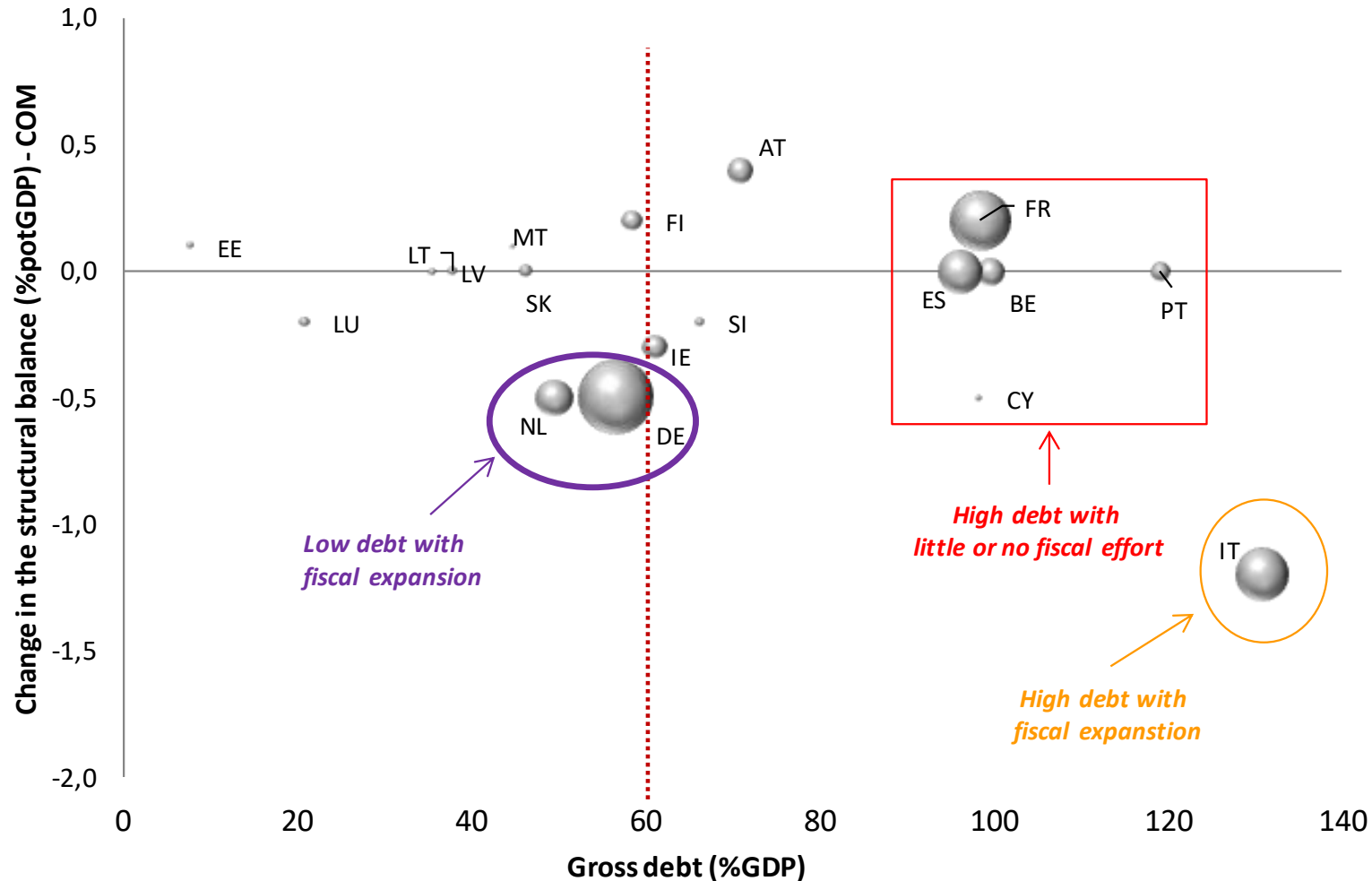
Implementation of the Stability and Growth Pact

Euro area headline and structural deficits to increase in 2019 but debt-to-GDP ratio to continue falling



Implementation of the Stability and Growth Pact

Some highly-indebted Member States Plan little or no fiscal effort in 2019



Implementation of the Stability and Growth Pact

Corrective and preventive arms of the Pact

EURO AREA

NON-EURO AREA

Countries under the corrective arm (EDP)

2018

ES



Countries under the preventive arm

AT*



EE



LT



MT



BE*



FI



LU



NL



DE*



IT*



LV



SK



IE*



SI*



CY*



PT*



EL*



FR*



BG



HU*



SE



CZ



PL



HR*



DK



RO



UK*



* Member States subject to the debt rule.

SGP steps adopted on 21 November for HU and RO

Country	Action	Comments
HU	Recommendation for Council Decision on no effective action	<ul style="list-style-type: none"> Assessment concludes that Hungary has not taken effective action. Both pillars point to a deviation.
	Recommendation to correct significant deviation	<ul style="list-style-type: none"> Nominal growth rate of net primary government expenditure not to exceed 3.3% in 2019, corresponding to an annual structural adjustment of at least 1% of GDP. Report to the Council by 15 April 2019 on action taken
RO	Recommendation for Council Decision on no effective action	<ul style="list-style-type: none"> Assessment concludes that Romania has not taken effective action. Both pillars point to a deviation.
	Recommendation to correct significant deviation	<ul style="list-style-type: none"> Nominal growth rate of net primary government expenditure not to exceed 4.5% in 2019, corresponding to an annual structural adjustment of at least 1% of GDP. Report to the Council by 15 April 2019 on action taken

EDP steps : Italy

Country	Action	Comments
IT	Report Article 126(3)	<ul style="list-style-type: none">• Material changes in the relevant factors assessed in spring (most importantly particularly serious non-compliance with the preventive arm a new relevant factor)

Next steps

- 126 (4) : EFC opinion within two weeks
- 126 (5), (6) and (7) – COM proposals: timing depending on dialogue with the Italian authorities
- 126 (6) and (7) – Council adoption: within 4 months from 1 October

DBP assessments: risk of non-compliance

		2018	2019
Preventive Arm	BE	<ul style="list-style-type: none"> • Significant deviation from the adjustment path towards the MTO; , prima facie non-compliance with the debt reduction benchmark 	
	PT	<ul style="list-style-type: none"> • Significant deviation from the adjustment path towards the MTO; compliance with the transitional debt reduction benchmark 	<ul style="list-style-type: none"> • Significant deviation from the adjustment path towards the MTO; non-compliance with the transitional debt reduction benchmark
	SI*	<ul style="list-style-type: none"> • Significant deviation from the adjustment path towards the MTO; compliance with the (transitional) debt reduction benchmark 	
	SK	<ul style="list-style-type: none"> • Significant deviation from the adjustment path towards the MTO 	
	FR	<ul style="list-style-type: none"> • Some deviation from the adjustment path towards the MTO; prima facie non-compliance with the transitional debt reduction benchmark 	<ul style="list-style-type: none"> • Significant deviation from the adjustment path towards the MTO based on 2018 and 2019 taken together; prima facie non-compliance with the transitional debt reduction benchmark

* DBP submitted on a no-policy-change basis.

DBP assessments: risk of non-compliance

		2018	2019
Corrective Arm	ES**	<ul style="list-style-type: none">• headline deficit projected below 3%• headline target not met• fiscal effort not delivered	<ul style="list-style-type: none">• Significant deviation from the adjustment path towards the MTO; prima facie non-compliance with the transitional debt reduction benchmark

* Spain's Draft Budgetary Plan was submitted without the concurrent submission of a draft budget act to the national parliament.

DBP assessments: broadly compliant

		2018	2019
Preventive Arm	EE	<ul style="list-style-type: none">• Compliant with the adjustment path towards the MTO	<ul style="list-style-type: none">• Close to the MTO while risk of significant deviation from the expenditure benchmark requirement.
	LV*	<ul style="list-style-type: none">• Close to the MTO while risk of significant deviation from the EB requirement	<ul style="list-style-type: none">• Close to the MTO while risk of significant deviation from the EB requirement

* DBP submitted on a no-policy-change basis.

DBP assessments: compliant

Preventive Arm*

	2018	2019
DE	<ul style="list-style-type: none"> MTO respected 	
NL		
CY		
LT		
LU**		
MT		
IE	<ul style="list-style-type: none"> MTO respected while risk of significant deviation from the EB requirement based on 2017 and 2018 taken together 	<ul style="list-style-type: none"> MTO respected
AT	<ul style="list-style-type: none"> MTO respected taking into account the allowances for which a temporary deviation is granted while risk of significant deviation from the EB requirement 	<ul style="list-style-type: none"> MTO respected while risk of significant deviation from the EB requirement based on 2018 and 2019 taken together
FI	<ul style="list-style-type: none"> MTO respected taking into account the allowances for which a temporary deviation is granted 	<ul style="list-style-type: none"> MTO respected taking into account the allowances for which a temporary deviation is granted while risk of significant deviation from the EB requirement based on 2018 and 2019 taken together

* Following the abrogation of the EDP on 19 September 2017 and the completion of the ESM stability support programme on 20 August 2018, Greece is subject to the preventive arm of the SGP. As Greece is expected to set its MTO in its forthcoming Stability Programme, the current assessment of compliance with the SGP is conducted in the absence of an MTO.

** DBP submitted on a no-policy-change basis.

Background slide

The Semester procedures: state of play February 2018

STABILITY AND GROWTH PACT

Countries in Excessive Deficit Procedure (corrective arm)

Countries not in Excessive Deficit Procedure (preventive arm)

