European Commission - Fact Sheet

European Semester 2017: Winter Package explained

Brussels, 22 February 2017

What does today's package include?

Today, the Commission publishes:

- 27 Country Reports (for all Member States except Greece, which is subject to a stability support programme), including the In-Depth Reviews (IDRs) for 13 countries identified in the Alert Mechanism Report of last November
- a Chapeau Communication on the main findings and results of the Country Reports and IDRs
- a report on the implementation of the Fiscal Compact in national legal frameworks and an accompanying Communication "Fiscal Compact: Taking Stock"
- a report reviewing Italy's compliance with the debt criterion under Article 126(3) of the Treaty
- a report and a proposal to the Council for a fine on Austria regarding statistical misrepresentation in Land Salzburg

Country Reports

What are Country Reports?

Country Reports are analytical documents that provide an overview of the economic and social challenges in the Member States. The reports are a tool under the European Semester, the process of economic policy coordination to monitor reforms and to point to issues that Member States should address. For countries for which the Commission's Alert Mechanism Report identified the need for an In-Depth Review in November, these Country Reports include the analyses into whether the countries are experiencing macroeconomic imbalances and to what degree. The Country Reports will serve as a basis for the continuation of the dialogue with Member States and stakeholders at all levels, ahead of the presentation of national programmes in April and of the preparation of new Country-Specific Recommendations later in spring.

This year, for the first time, Member States were consulted on the analytical elements of the reports in advance of publication, also to give them the opportunity to check the accuracy of facts and figures. The final analysis is that of the Commission. The Country Reports also include policy highlights for some countries, which are important for the countries in question or can serve as inspiration for others.

What are the overall findings of the Country Reports?

The 27 Country Reports (for all Member States except Greece, which is under a dedicated stability support programme) review progress Member States made in addressing the issues identified in the Country-Specific Recommendations they received last July. There is particularly encouraging progress in the areas of the financial sector and labour market policy, where many Member States have taken steps to address issues highlighted last year. In the context of low interest rates, there is also progress in consolidating public finances. Progress in improving the business environment and boosting investment has been more varied across Member States, while the areas showing least progress include opening product and services markets and addressing social exclusion.

Most Member States are on their way to meet their Europe 2020 targets on emission reductions, renewable energy and energy efficiency, while reaching the targets set for education, employment, poverty reduction and research and development spending demands more efforts.

The absorption of EU funds has improved and so has the way in which Member States are using the available resources to design and implement structural reforms. In addition to the European Structural and Investment Funds, Member States can access financing under the European Fund for Strategic Investments, the so-called Juncker Fund, as well as other directly managed EU funds such as Horizon 2020 and the Connecting Europe Facility.

They can also receive technical assistance – upon their request - from the Structural Reform Support Service to help implement key reforms.

How do Country Reports help to address employment and social priorities in the context of

the European Semester?

Since coming into office, the Juncker Commission has strengthened the focus of the European Semester, the process of economic policy coordination, on employment and social priorities. Member States continue to implement a wide spectrum of employment, education and social reforms. These reforms are expected to bring the Member States closer to the Europe 2020 targets in the employment and social areas: helping people to find jobs, providing them with the right skills and reducing poverty.

Employment in the EU reached 232 million in 2016, the highest number ever recorded. Unemployment has fallen to 8.5%, the risk of poverty or social exclusion is the lowest in five years, and the overall income distribution is more equal than in other major economies. However, significant challenges still persist as high unemployment, poverty and inequality in some countries remain key concerns following the economic and financial crisis. Moreover, there are still big differences between Member States, so more convergence in performance needs to be fostered.

In order to better assess employment and social trends, the Commission in 2014 included new employment and social indicators in its scoreboard of the Macroeconomic Imbalances Procedure, such as the activity rate, long-term unemployment and youth unemployment. Today's package gives prominence to the issue of skills, education and training, pensions and the situation of older workers, poverty and social inclusion, labour market participation of women and active labour market policies, including public employment services.

Steps under the Macroeconomic Imbalances Procedure (MIP)

What are In-Depth Reviews?

In-Depth Reviews are carried out in the context of the Macroeconomic Imbalances Procedure to identify and prevent the emergence of potentially harmful macroeconomic imbalances that could damage economic stability in a single country, the euro area or the EU as a whole. First, the Alert Mechanism Review identifies, on the basis of a scoreboard of indicators, released in November of each year, Member States with possible economic imbalances. Then the Commission undertakes In-Depth Reviews to assess whether imbalances or excessive imbalances indeed exist in these countries and to assess their gravity. For those countries where an In-Depth Review was carried out, the results are included in the Country Reports.

The reviews examine aspects such as the sustainability of Member States' external accounts, savings and investment balances, effective exchange rates, export market shares, cost and non-cost competitiveness, productivity, private and public debt, housing prices, credit flows, financial systems, unemployment and other variables.

Since the publication of the Alert Mechanism Report, the services of the Commission have been in close contact with experts from national authorities and stakeholders to gather the latest information and undertake the analysis.

What do you mean by "macroeconomic imbalances"?

In the context of the European Semester, a macroeconomic imbalance is defined as 'any trend giving rise to macroeconomic developments which are adversely affecting, or have the potential to adversely affect, the proper functioning of the economy of a Member State or of the Economic and Monetary Union, or of the Union as a whole', while excessive imbalances are 'severe imbalances that jeopardise or risk jeopardising the proper functioning of the Economic and Monetary Union'.

The situations that fall under the definition of imbalances are those that pose a threat to macroeconomic stability to the economy of the Member State itself, the euro area or the EU as a whole. These might be related to unsustainable trends (e.g. excessive and protracted growth in house prices) which could result in disruptive adjustment, or the presence of vulnerabilities (e.g. large stocks of debt) that weigh on the economy and amplify the impact of macroeconomic shocks.

For which countries did the Commission carry out In-Depth Reviews? Which countries were deemed to experience imbalances?

In the 2017 Alert Mechanism Report, the Commission identified 13 Member States for In-Depth Reviews: **Bulgaria, Croatia, Cyprus, Finland, France, Germany, Ireland, Italy,** the **Netherlands, Portugal, Slovenia, Spain** and **Sweden.** All 13 countries were found to experience imbalances or excessive imbalances also in 2016.

In the case of **Greece,** the surveillance of imbalances and the monitoring of corrective measures continue to take place in the context of its stability support programme.

The main findings of this year's In-Depth Reviews can be summarised as follows:

- **Finland** is deemed not to be experiencing economic imbalances in the sense of the procedure.

- **Germany, Ireland, Spain,** the **Netherlands, Slovenia** and **Sweden** are deemed to be experiencing economic imbalances.
- **Bulgaria, France, Croatia, Italy, Portugal** and **Cyprus** are deemed to be experiencing excessive economic imbalances.

That means fewer Member States are now identified with imbalances than in 2016.

- **Ireland** and **Slovenia** are still identified with imbalances. A number of positive economic developments and implemented reforms point to their ongoing gradual correction. The sustainable correction of their imbalances is within reach, provided that further efforts are made. The Commission will therefore monitor economic developments in these two countries and forthcoming commitments, notably their National Reform Programmes (NRPs), to prepare its next In-Depth Review.
- **Germany** is identified with imbalances reflected in its large current account surplus. Recent economic developments do not point to a correction of these imbalances, although some progress has been made in addressing last year's MIP-related CSRs.
  The Commission will therefore monitor economic developments and forthcoming policy commitments, notably the National Reform Programme and a possible new NRP by the next government, to prepare its next In-Depth Review.
- **France** is still identified with excessive imbalances but a number of economic developments and implemented reforms point to their ongoing gradual correction. Further efforts remain necessary to achieve a sustainable correction of the imbalances. The Commission will therefore monitor economic developments and forthcoming commitments, notably the National Reform Programme and a possible new NRP by the next government, to prepare its next In-Depth Review. On the basis of this review, the Commission could consider revising the classification from excessive imbalances to imbalances.
- For three countries identified with excessive imbalances, namely, **Cyprus, Italy** and **Portugal**, in light of persistent structural weaknesses emerging from the IDR analysis, the Commission will review its assessment in May, taking into account the level of ambition of their National Reform Programmes.

What are the next steps?

The Council is expected to discuss the Commission's findings emerging from the Country Reports and the In-Depth Reviews included in some of them. The Commission will then hold bilateral meetings with the Member States on the Country Reports. The Vice-Presidents and Commissioners will visit Member States to meet the governments, national parliaments, social partners and other stakeholders.

By mid-April, Member States are expected to address the identified challenges in their National Reform Programmes and their Stability Programmes (for euro area countries) or Convergence Programmes (for non-euro area countries) related to public finances.

Member States are expected to involve national parliaments and social partners closely and ensure the ownership of the reform process by a wider range of stakeholders. Member States will also be invited to explain how regional and local authorities are involved in the preparation of the programme, as the success of implementation also relies on various levels of government.

On the basis of all these sources, the Commission will present its proposals for new Country-Specific Recommendations later in spring, targeting the key challenges each country should address.

Fiscal Compact

What is the Fiscal Compact?

The Fiscal Compact is the central aspect of the inter-governmental Treaty on Stability, Coordination and Governance (TSCG) in the Economic and Monetary Union. The Treaty was signed on 2 March 2012 by the leaders of 25 EU Member States and introduced strengthened fiscal discipline and stricter surveillance within the euro area, in particular by establishing a "balanced budget rule". It entered into force on 1 January 2013.

The Fiscal Compact is the result of the deep review of economic governance arrangements for the EU and the euro area following the financial and economic crisis. One of the elements was to complement the EU rules-based fiscal framework – the Stability and Growth Pact – by provisions at national level in order to better achieve sound budgetary policies and to prevent the emergence of excessive deficits.

The Fiscal Compact Treaty stipulates that national budgets must be in balance or in surplus under the balanced budget rule, a criterion that is met if the annual structural government deficit does not exceed 0.5% of GDP at market prices. They must also be in line with the country-specific medium-term budgetary objective, as defined in the EU's Stability and Growth Pact.

The balanced budget rule had to be transposed into national legal systems, preferably at constitutional level, within one year after the entry into force of the treaty, i.e. by 1 January 2014. After that deadline passed, the Commission services asked the contracting parties about those national provisions in July 2015. The Commission subsequently requested, in May 2016, formal observations from contracting parties where it had identified potential compliance issues. Today's report concludes that process.

Today's report shows that all Member States that are party to the Fiscal Compact have introduced the substance of the Fiscal Compact in their national fiscal frameworks. National designs vary, a natural consequence of the framework set by the Treaty, which lays out principles and relatively broad requirements.

At the time of the agreement on the Fiscal Compact, it was not possible to conclude the Treaty within the EU legal order, so the route of an inter-governmental treaty was chosen. However, steps towards incorporating the TSCG into Union law should be taken in order to increase democratic accountability and legitimacy across the Union.

The Fiscal Compact also reinforces budgetary rules by incorporating a commitment made by euro area contracting parties to adopt EU Council recommendations and decisions under the Excessive Deficit Procedure unless opposed by a qualified majority.

There is a political understanding that the granting of new financial assistance under the European Stability Mechanism is conditional on ratification of the Fiscal Compact and transposition of the balanced budget rule into national legislation in due time.

The Fiscal Compact is legally binding as an international agreement. It only applies to contracting parties whose currency is the euro, while the others will be bound by its provisions once they adopt the euro, unless they declare their intention to be bound by certain provisions at an earlier date.

What is the purpose of today's report on the Fiscal Compact?

The purpose of the report is to formally assess whether the national provisions adopted are in compliance with the Fiscal Compact. The report does not aim at assessing the effective functioning of the transposing provisions: this is beyond the scope of the mandate granted to the Commission.

Why is the report published now?

Since the Fiscal Compact entered into force in 2013, several rounds of consultations were organised between the Commission and the Member States concerned to accompany and review progress in its transposition.

These consultations had two positive outcomes: first, they facilitated the quality of the national transpositions by encouraging the adoption of relevant amendments by certain Member States; second, they improved the accuracy of the Commission's assessment thanks to clarifications brought by Member States on specific transposition points.

The Commission regularly informed Member States of the progress of its assessment through the Economic and Financial Committee.

Debt Situation in Italy

What did the Commission decide on Italy today?

The Commission has today adopted a report on Italy under Article 126(3) of the Treaty on the Functioning of the European Union (TFEU), in which it reviews the country's compliance with the debt criterion of the Stability and Growth Pact and the benchmark pace of reduction towards it.

The report concludes that unless the additional structural measures, worth at least 0.2% of GDP, that the government committed to adopt at the latest in April 2017 are credibly enacted by that time in order to reduce the gap to broad compliance with the preventive arm in 2017 (and thus in 2016), the debt criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 should be considered as currently not complied with.

However, a decision on whether to recommend opening an Excessive Deficit Procedure would only be taken on the basis of the Commission 2017 spring forecast, taking into account outturn data for 2016 and the implementation of the fiscal commitments made by the Italian authorities in February 2017.

Why did the Commission have to file this report?

The European Commission committed last spring to issue a new report under Article 126(3) for Italy once new information became available on the adjustment path towards the medium-term objective in 2017, also in the light of approved budget. By issuing the updated report under Article 126(3) now, the Commission honours its commitment of last spring. At the same time, the timing allows Italy to take the necessary measures in 2017 to ensure a sufficient adjustment towards the medium-term objective,

which is a key factor for concluding on Italy's compliance with the debt criterion.

Article 126(3) of the TFEU stipulates that if a Member State does not fulfil the requirements under the deficit and/or the debt criteria, the Commission has to prepare a report. This report also has to take into account all relevant factors including the medium-term economic and budgetary position of the Member State. In the case of Italy, the report was prepared to review the compliance of the country with the debt criterion. A Member State is non-compliant with the debt requirement if its general government debt level is greater than 60% of GDP and it is not declining at a satisfactory pace. The Article 126(3) report represents the first step in assessing the case for launching a possible Excessive Deficit Procedure.

What is the consequence of this report?

The next step is for the Economic and Financial Committee to formulate – within two weeks – an opinion on the Commission's report under Article 126(3), assessing the potential breach of the debt criterion by Italy.

Statistical Misrepresentation in Austria

What powers does the Commission have to investigate irregularities in Member States' statistics?

Since 2011, the Commission (Eurostat) has powers to look in more detail into the quality of Member States' statistics to ensure the reliability of economic and fiscal surveillance. It can carry out on-the-spot visits and check government accounts at central, state, regional and local levels, including the underlying accounting information and other relevant sources.

If there is suspicion that a Member State has misrepresented its deficit and debt data, either intentionally or through serious negligence, the Commission can open a formal investigation. If this shows that there was manipulation of data, the Commission can propose to the Council to impose a fine on a euro area Member State according to Article 8 of Regulation (EU) No 1173/2011of the "Six Pack".

Find a separate Memo on this issue here.

For More Information

Press release

Communication

Country Reports

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Start of the 2017 European Semester: Autumn Package

The EU's economic governance explained

Alert Mechanism Report 2017

Fiscal Stance Communication

Annual Growth Survey 2017

Euro Area Recommendation 2017

Draft Joint Employment Report 2017

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Press contacts:

Annika BREIDTHARDT (+ 32 2 295 61 53)
Annikky LAMP (+32 2 295 61 51)
Corentin CASSIERS (+32 2 295 32 08)

General public inquiries: Europe Direct by phone 00 800 67 89 10 11 or by email