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An Assessment of the European Semester

STUDY

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Abstract

This study assesses the European Semester's effectiveness and legitimacy. Effectiveness is constrained by the fact that spillovers, in particular in the euro area, are insufficiently accounted for and recommendations lack prioritisation across countries and policy areas. Legitimacy derives from the Council vote. We provide evidence based on a survey sent to all 27 National Parliaments, which are found to be active in debating central elements of the Semester and thereby providing national legitimacy. The role of the European Parliament was strengthened with the Six-pack's introduction of an Economic Dialogue. We propose a non-binding vote by the European Parliament on the Annual Growth Survey and on final recommendations. For euro area countries, only MEPs of these countries should vote. Currently discussed steps towards a banking, fiscal and political union may require Treaty changes, which would provide greater legitimacy at the EU level.

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LIST OF ABBREVIATIONS

AGS	Annual Growth Survey
AMR	Alert Mechanism Report
BEPGs	Broad Economic Policy Guidelines
CP	Convergence Programme
EEC	European Economic Community
ECB	European Central Bank
ECJ	European Court of Justice
ECOFIN	Council on Economic and Financial Affairs
EDP	Excessive Deficit Procedure
EGs	Employment Guidelines
EIP	Excessive Imbalance Procedure
EMU	European Monetary Union
EP	European Parliament
ERDF	European Regional Development Fund
ERM	Exchange Rate Mechanism
ESM	European Stability Mechanism
EU	European Union
EU2020	Europe 2020 Strategy
GDP	Gross Domestic Product
IGs	Integrated Guidelines
IMF	International Monetary Fund
MEP	Member of the European Parliament
MIP	Macroeconomic Imbalance Procedure
MP	Member of a National Parliament
MS	Member State
MTBFs	Medium Term Budgetary Frameworks
MTFA	Medium Term Financial Assistance
MTOs	Medium Term Objectives
NRPs	National Reform Programmes
OMC	Open Method of Coordination
PPP	Purchasing Power Parity
QMV	Qualified Majority Voting
RQMV	Reverse Qualified Majority Voting
SCPs	Stability or Convergence Programmes
SGP	Stability and Growth Pact
SMEs	Small and Medium sized Enterprises
SP	Stability Programme
TFEU	Treaty on the Functioning of the European Union
TSCG	Treaty on Stability, Coordination and Governance in the Economic and Monetary Union

EU MEMBER STATES ABBREVIATIONS

AT	Austria
BE	Belgium
BG	Bulgaria
CY	Cyprus
CZ	Czech Republic
DE	Germany
DK	Denmark
EE	Estonia
EL	Greece
ES	Spain
FI	Finland
FR	France
HU	Hungary
IE	Ireland
IT	Italy
LT	Lithuania
LU	Luxembourg
LV	Latvia
MT	Malta
NL	Netherlands
PL	Poland
PT	Portugal
RO	Romania
SE	Sweden
SI	Slovenia
SK	Slovakia
UK	United Kingdom

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EXECUTIVE SUMMARY

The European Semester is a tool to improve EU policy coordination both on macroeconomic and structural issues. It was launched in January 2011 before the EU had approved the new economic governance package known as Six-pack. With the Six-pack, the EU is increasing its intervention rights into national policy making. This bears consequences for the European Semester itself starting with the 2012 cycle. The European Semester is now coordinating more stringent fiscal rules than in 2011 and acts as the underlying coordination framework for the new Macroeconomic Imbalance Procedure (MIP). This may raise concern for the legitimacy of the process. The more invasive the process is, the greater the need for legitimisation. The Six-pack takes a number of steps to increase the role of the European Parliament in the European Semester by establishing the so-called Economic Dialogue. One of the aims of the present Report is to explore the potential of the Economic Dialogue and provide concrete policy recommendations for improving the Semester's overall legitimacy.

In fact this study looks more extensively at the effectiveness and the legitimacy of the European Semester. We assess the first full European Semester cycle in 2011 and the start of the second cycle of 2012. We will make reference in the text to the narrow European Semester intended as the first six months of the year when the EU level is dominant and to the so-called National Semester, which is when EU Member States need to convert EU recommendations into policy actions. We assess whether the shift in the timing and the joint submission of Stability or Convergence Programmes and National Reform Programmes introduced by the Semester are such that the EU coordination exercise has become more effective both at a European level and at the national level by improving compliance with EU recommendations. Moreover, we consider the legitimacy of the Semester by focusing on the role of the European Parliament and of National Parliaments. The study is based on official documents, an original survey sent to all 27 National Parliaments, a literature review and media analysis and concludes with concrete policy recommendations.

We review the most relevant theoretical literature that has looked at the legitimacy of the EU and at the notion of effectiveness in public policy. Based on the literature, we argue that legitimacy is mostly derived from the appropriate participation of democratically elected bodies (i.e. the European Parliament and National Parliaments). Other concepts of legitimacy based on the outcome of policy choices – while often employed in the literature – are not useful in circumstances where far-reaching decisions characterised by difficult and multiple trade-offs need to be taken. As regards effectiveness, we define it as the capacity of the European Semester to meet its intended objective of enhanced economic policy coordination. The literature emphasises that economic policy coordination in a multi-level governance system like the EU is effective only if early, accurate and transparent guidance is given, and if Member States acquire national ownership of the process. We assess the effectiveness of the Semester against these two dimensions.

For the **European level**, our key findings are as follows. **First**, the definition of objectives and recommendations is not sufficiently justified by a transparent quantification of spillovers across countries, which undermines effectiveness. In particular, the euro area recommendations remain insufficiently linked to the logic of the common currency. **Second**, EU recommendations lack appropriate prioritisation both across countries and across policy areas. **Third**, the effectiveness of EU recommendations (as all ex-ante guidance) is limited by forecasting difficulties. **Fourth**, the Six-pack, the future Two-pack, now under negotiation, and the Fiscal Compact, yet to be ratified, potentially create a multiple-geometry EU, where the divide between euro and non-euro area countries is only one of the possible cleavages in the Union. One interesting question is thus how the

European Semester will interact with this emerging complex governance system and what role will and can all EU Institutions, including the European Parliament, play in it.

To assess the effectiveness of the new procedure at the **national level**, we have selected a sample of six countries (France, Germany, Estonia, Finland, Hungary and Ireland) that vary along a number of dimensions ranging, for example, from national fiscal frameworks to whether the Member State is under Excessive Deficit Procedure (EDP) or not. Our key findings are as follows. **First**, there is a good level of adaptation to the new reporting requirements imposed by the Semester across all countries in the sample, with only minor differences. **Second**, as concerns actual policy compliance, it is interesting to note that countries seem to have a similar approach. In a nutshell, they are likely to follow fiscal recommendations, especially if they are under EDP but all score low in the implementation of recommendations in policy areas where vested interests tend to be concentrated (e.g. service market liberalisation). By means of media analysis, we show that there is some overall public awareness of the European Semester but with important differences across the countries sampled and across themes, with fiscal issues obtaining on average more coverage than structural reform topics. Taken together, the evidence we collected indicates that the Semester process is able to deliver on procedural adaptation, yet not much on actual policy compliance.

We provide **recommendations to improve the effectiveness** of the Semester. We argue for a greater focus on i) countries with significant problems and/or ii) countries with significant spillover effects. This general objective may be achieved through a number of concrete interventions. The Alert Mechanism Report of the MIP could be released simultaneously to the Annual Growth Survey (AGS) to allow focusing on a subset of countries potentially threatened either by macroeconomic imbalances or an excessive deficit for the remainder of the European Semester. In terms of substance, prioritisation should be given to policy areas where clear spillovers and externalities exist. In line with this approach, we suggest that the Commission, instead of publishing a separate euro area recommendation in May/June, makes this document part of the AGS so as to make the euro area dimension more visible and clearly prominent early on. Thus, based on much deeper analysis than currently done, country-specific recommendations directed to euro area countries should have policy recommendations explicitly linked to spillovers in the euro area. The *'euro area recommendations'* should be discontinued. Furthermore, the European Commission should provide a more explicit account of why certain priorities have been selected in the AGS each year, including an evaluation of spillovers among euro area countries, as suggested above, but also between euro area and non-euro area countries. It is important that the AGS is published as early as possible but then the Spring Forecast should be published earlier. Finally, public awareness of the Semester should be increased.

The second dimension we assessed is the **legitimacy of the process**. The input legitimacy of the European Semester in its first cycle has been fairly weak. At the EU level, the European Parliament has played a subordinate role in 2011. The Six-pack in force since December 2011 increases the involvement of the European Parliament by creating the possibility of an Economic Dialogue with the institutions of the Union. The role of the European Parliament is important for strengthening the legitimacy of the process. We recommend that, in the short run, the European Parliament makes its voice heard. The Treaty does not ascribe any formal role to the Parliament in the framework of the Stability Pact and the MIP, but the European Parliament should nonetheless consider establishing its own non-binding vote. The plenary should hold a debate after the publication of the AGS and after the final EU recommendations have been endorsed and adopted in June/July every year followed by a vote in the plenary. Even if the deliberation remains non-binding, the vote will increase pressure alongside the Council and the European Council. This vote should be communicated via the Interparliamentary Committee meetings to the National

Parliaments. In regard to euro area issues, the vote and, in some cases, the Economic Dialogue instrument should be performed only by MEPs from euro area Member States. The non-euro area MEPs should voluntarily abstain from voting.

Indeed the Economic Dialogue is an important instrument and should be exploited to its full potential by inviting representatives from European Institutions on a regular basis in at least three instances: i) at the beginning of the cycle closely before the AGS is published; ii) after its publication; and iii) at the end of the narrow European Semester when the European Council endorses country-specific recommendations. The objective of the European Parliament should be to use the Economic Dialogue to become an agenda-setter. Moreover, we suggest that the European Parliament prepares, at the beginning of each five-year electoral mandate, a multi-year policy priorities document to be voted in plenary. This document should become the main reference on economic policy priorities in the dialogue between the European Parliament and the European Commission in particular. The Parliament would also be more vocal in national debates, as the European Semester currently has little traction in international and national media, which undermines its legitimacy. The Economic Dialogue currently allows the Parliament to hold the European Commission to account but also provides the option of inviting the Member States that face severe imbalances. The latter is a useful instrument, provided the imbalance would bear dramatic consequences for the system as a whole. The best way to engage with national realities is to exploit the existing channel of communication with National Parliaments in the Interparliamentary Cooperation. As we suggested above, this is a forum in which the European Parliament can communicate the results from its own non-binding vote on the AGS and on the final country-specific recommendations. The meetings should be organised at regular intervals of time, for example, twice a year to coincide with the above-mentioned two events.

The question of legitimacy also concerns the national level and in particular the extent to which National Parliaments have been involved in the different steps of the Semester procedure. We constructed an original survey and submitted it to National Parliaments in EU27. The 2012 survey is a follow-up from a similar one submitted in 2011 to National Parliaments in just six Member States. All in all, we find that National Parliaments and in particular the respective European Affairs Committees have been quite active on the national documents that need to be submitted to Brussels in the framework of the Semester. Budget Committees were also involved in the discussion of national documents submitted to the EU. By contrast, the respondents did not support proposals that the European Parliament vote on country-specific recommendations or hold hearings on whether countries have complied with their recommendations. There was support, however, for Interparliamentary Committee meetings to improve coordination under the European Semester.

There is also an important forward-looking element in our analysis. As it was suggested above, the EU economic governance framework is heading for a variable-geometry system. The complexity of the emerging structure may undermine its actual effectiveness but it has also implications for legitimacy. The Fiscal Compact has been established without the co-decision power of the European Parliament. Yet, it requires Member States to alter their voting behaviour in the EU procedures of the Six-pack established under EU law with European Parliament co-decision. The European Parliament should not lightly accept this de-facto hollowing-out of its co-decision power. It should intervene whenever a decision taken by the Council has become tougher or laxer as a result of the operation of the Fiscal Compact. It may do so by inviting the Eurogroup President as well as the Commission President.

With the imminent introduction of the European Stability Mechanism (ESM) and indeed the Fiscal compact, democratic legitimacy becomes an even greater issue. We recommend that a significant Treaty revision is contemplated. The creation of a banking union that has been decided by the Euro Summit of 29 June 2012 increases the need for further political integration at the euro area level. Such an increase in powers at a euro area level requires the build-up of an appropriate parliamentary legitimacy if one wishes to preserve the essential functioning of democracy. However, when opening the Pandora box of a Treaty change, one should be even more open-minded and enlarge the areas of discussion beyond the narrow remits of the banking union, fiscal compact and ESM and also potentially include a discussion about a small euro area budget for stabilisation purposes.

INTRODUCTION

The debt crisis that started in 2009/2010 clearly unveiled problems in the structure of the economic governance framework of the European Union (EU) and in particular of the euro area. These include the weak enforcement of the Stability and Growth Pact (SGP); narrow macroeconomic surveillance, which was basically limited to just public deficits; and ineffective wider economic policy coordination across countries and across policy areas.[1] The institutional response to these problems first materialised at the European Council of March 2010 with a general plea for stronger macroeconomic surveillance and coordination and was further defined until the adoption, more than a year later, of the so-called Six-pack in November 2011. The Six-pack is a body of six legislative acts that translated the initial EU reform proposals into binding rules.

The idea of a European Semester was linked to the whole reform process since the very beginning but started well before the Six-pack was finally entering into force in December 2011. The Semester is a framework whose purpose is to improve the practical conditions for enhanced economic policy coordination in the EU. The Semester introduced **two major procedural changes**, regarding **timing** and **the integration across policy areas**. Specifically, EU Member States are asked to submit Stability or Convergence Programmes (SCPs) and National Reform Programmes (NRPs) already in April every year, much earlier than in the past. Second, the two documents have to be submitted jointly so as to force national governments to produce two consistent pieces taking, for example, full account of the budgetary consequences of structural reform (i.e. the so-called *'integrated approach'*). Legally, the Semester was at the beginning framed as a new code of conduct on the implementation of the Stability and Growth Pact (SGP), which required only approval by the ECOFIN Council of 7 September 2010.

The shift in timing is not innocuous. In principle, EU guidance thereby interferes already at the stage of actual **fiscal policy *formulation*** in contrast to before the European Semester, where the SGP interferes with **fiscal policy *outcomes***. Since guidance is given at a point in time in the national budgetary process, in which National Parliaments have not yet intervened, questions about the broader legitimacy of the new procedure need to be raised. The European Parliament recognised the potential implications early on and used its position as co-legislator in the Six-pack to force the institutionalisation of the European Semester and acquire a deeper involvement in the procedure to at least partly address the legitimacy concerns, which the Semester was clearly raising. The Semester became part of the EU's Six-pack Regulations on 13 December 2011, which strengthened the role of the European Parliament through the institutionalisation of a Economic Dialogue on the Semester. The Six-pack introduced numerous additional changes to the economic governance of the Union and of the euro area in particular strengthening fiscal and macroeconomic surveillance, of which we will provide full account in Chapter 1.

This study provides an assessment of the first Semester cycle of 2011 and of the start of the second cycle of 2012. The extended time span allows us to account for the first operation of the European Semester in 2011 at a time when the procedure was merely based on a code of conduct and to compare the first phase of the Semester in 2011 with the same phase in 2012 following the approval of the Six-pack. Based on the assessment of the Semester's effectiveness and legitimacy, policy recommendations for increasing democratic legitimacy and effectiveness are explored. This large study is the follow-up to a Briefing Paper that was published in September 2011, at the end of the first six months of

[1] In this study we do not address fundamental shortcomings in the euro area structure such as the lack of any fiscal capacity at the EU level, but indeed hint in the conclusive chapter at the need to design a fundamentally different structure under Treaty change.

the 2011 Semester cycle, but before national governments had started discussing recommendations received by the EU and before the Six-pack was approved.[2]

We build here on the same analytical framework sketched in the previous Briefing Paper and approach the assessment of the European Semester looking at two dimensions: legitimacy and effectiveness. Effectiveness is simply defined as the capacity of the European Semester to deliver policy compliance. Whilst the previous Briefing Paper was simply analysing national commitments, in the present study we are indeed assessing actual compliance in selected Member States.

Legitimacy is mostly defined as the involvement of the European Parliament and of National Parliaments in the procedure, but it also depends on whether the other EU Institutions that are part of the process apply appropriate practices. One important added value of both the previous Briefing Paper of 2011 and the present larger study is the direct assessment of involvement of National Parliaments in the process by means of an original survey. The 2011 survey was submitted to a number of selected Members of Parliament and parliamentary staff in six Member States. The present study builds on the same survey structure but extends it to all National Parliaments in EU27.

The assessment of the operation of the European Semester in 2011 is of particular interest for a number of reasons. **First**, we want to assess whether the shift in timing and the choice of an integrated approach (i.e. the simultaneous submission of SCPs and NRPs) are by themselves sufficient to enhance compliance, even in the absence of the new Six-pack Regulations that bring more stringent rules on fiscal and other macroeconomic imbalances. **Second**, we are interested in defining the actual involvement of National Parliaments in the process and the nature of their involvement. In principle their role is ambiguous. The early discussion of fiscal and reform plans and the short window governments have at their disposal to finalise their national documents may limit their capacity to get involved. At the same time, however, National Parliaments are informed of economic policy priorities early in the year before the standard budgetary process has started. **Third**, and more obviously, the first-year experience provides evidence of potential problems with the operation of the European Semester concerning its effectiveness and/or its legitimacy. We are thus able to draw policy recommendations based on past experience.

The study is structured as follows. Chapter 1 describes the European Semester procedure, its main objective, timeline, constituent parts, key stakeholders, legal basis and fit with the overall economic governance framework of the EU. We clarify also how the procedure changed from 2011 when the Semester was not codified in the Six-pack and explain how it may change following the possible approval of the so-called Two-pack. Chapter 2 describes the analytical framework and reviews the theoretical literature on EU legitimacy and policy effectiveness, on which our analysis is based. Chapter 3 assesses the operation of the European Semester at the EU level, looking at whether it meets the conditions for effectiveness (clear and appropriate guidance) and for legitimacy (mainly parliamentary input but also use of best practices). Chapter 4 looks at the implementation of EU recommendations at the Member State level on the example of six EU countries, namely France, Germany, Estonia, Finland, Hungary and Ireland. The selection is based on a *'most-different systems'* approach with countries in the sample varying along a number of significant dimensions. We want to assess here the effectiveness of the Semester in fostering policy compliance at the Member State level. Chapter 5 presents the results from the new survey submitted to National Parliaments in EU27. Chapter 6 summarises our main results and provides the ensuing policy recommendations.

2 See Hallerberg, Marzinotto, and Wolff (2011), European Parliament Briefing Paper: http://www.europarl.europa.eu/document/activities/cont/201109/20110901ATT25810/20110901ATT25810EN.pdf.

1. THE EUROPEAN SEMESTER

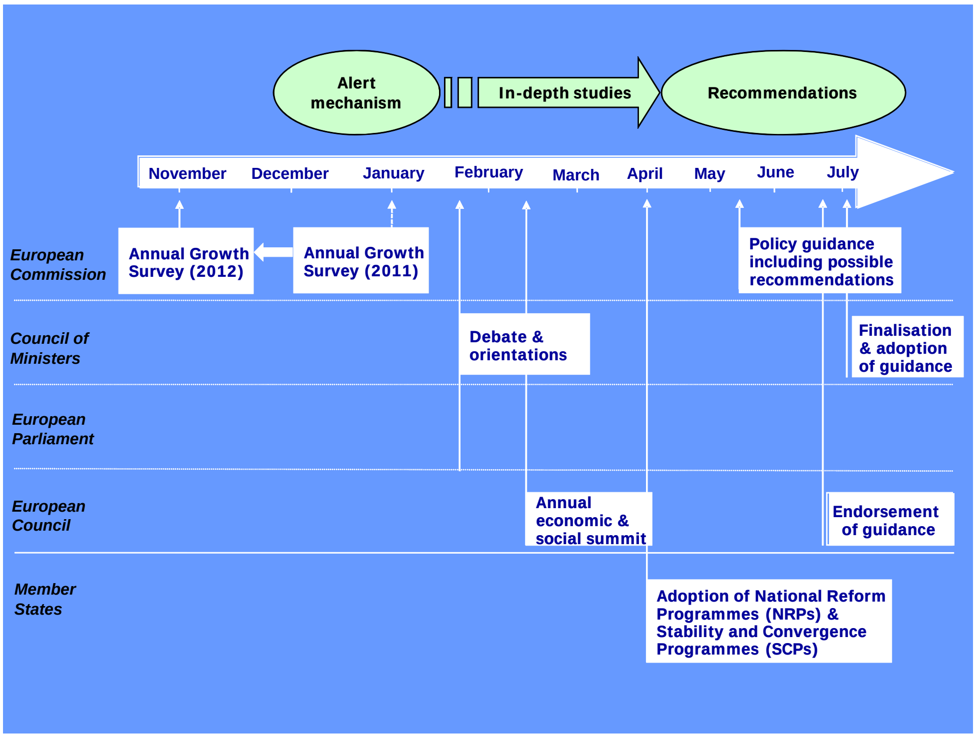
KEY FINDINGS

- The European Semester is an instrument to enhance (time) consistency in EU economic policy coordination, which explains why in essence the architecture of the European Semester mostly concerns the timing of policy formulation, guidance and monitoring in Europe.
- Besides addressing timing issues, the European Semester is also about contents and about how these are formulated in the following official documents: the Broad Economic Policy Guidelines (BEPGs), the Employment Guidelines (EGs), Stability or Convergence Programmes (SCPs), National Reform Programmes (NRPs), the Annual Growth Survey (AGS), and the Alert Mechanism Report.
- The European Semester is now fully codified in the Six-pack, it builds on the same legal base of the relevant Six-pack Regulations, namely Article 121 TFEU on the Broad Economic Policy Guidelines and Article 148 TFEU on the Employment Guidelines, but it is deeply related with the Treaty provisions on excessive deficits and debts. The complex legal architecture poses potential challenges to effectiveness, a question that is addressed in Chapter 3.
- The Six-pack has redefined the role of the European Parliament in the Semester process. The Economic Dialogue codified by the Six-pack gives the European Parliament the right to intervene in the Semester at almost any point in time.
- One related question is how the European Semester fits with the wider EU economic governance structure, which is a broader issue than the mere legal architecture. In particular, the coming into force of the so-called Fiscal Compact is challenging from the perspective of both the effectiveness and the legitimacy of EU economic policy coordination. First, it creates an intergovernmental track for the coordination of fiscal policy which runs in parallel to the track based on the Community Method. Second, at the same time, it reduces the gap between euro and non-euro area countries as it has been signed by 25 Member States. Third, it poses legitimacy concerns as it alters de facto existing EU legislation.
- The Two-pack, if approved in its current form, would bring further important changes to the architecture and timeline of the Semester. First, it crystallises the divide between euro and non-euro area countries, de facto creating a separate European Semester for the euro area. Second, it institutionalises the National Semester for euro area countries by extending EU surveillance and guidance to a phase in which national actors, governments and parliaments are in the process of formulating fiscal policy measures. Third, it potentially opens up a channel of communication and moral suasion between National Parliaments and the European Commission.

1.1. Objective, basic timetable and constituent parts

The European Semester is a **framework to support economic policy coordination** in the EU. It is meant to improve policy coordination across all EU Member States but also across policy areas (i.e. fiscal policy and structural reform). With this aim, it provides a common timetable for the formulation of EU policy guidance and the assessment of national fiscal and reform programmes, bringing together under the same umbrella different pillars of EU economic policy coordination. Figure 1 provides a simplified version of the timetable that characterises the new process. It should be noted that the timetable has become more articulated following the approval of the Six-pack and is deemed to change further if the so-called Two-pack is approved in its current form.[3] We shall provide, in the next sections, a more detailed overview of the Semester's timeline distinguishing between its first version (2011), the post-Six-pack version (2012) and the possible future Two-pack version.

Figure 1: A simplified version of the European Semester timeline



Source: Own elaboration, Bruegel.

We suggested above that the European Semester brings together different instruments for economic policy coordination with the explicit objective of enhancing consistency (especially time consistency) in the broad exercise of EU policy formulation, guidance and monitoring. The current pillars of **EU economic policy coordination** are as follows:

i) the **EU2020 Integrated Guidelines** (IGs), a merge of the Broad Economic Policy Guidelines (BEPGs) and Employment Guidelines (EGs), mostly providing EU Member States with non-binding policy guidance now aligned in the AGS;

ii) the **Stability and Growth Pact** (SGP) revised and reinforced with the approval of the Six-pack; and

iii) the new **Macroeconomic Imbalance Procedure** (MIP) introduced by the Six-pack, which imposes compulsory adjustment on euro area Member States that suffer from significant macroeconomic imbalances, where the latter are monitored on the basis of a number of nominal and real indicators and an in-depth (qualitative) analysis.

The European Semester, which at present cuts across all three pillars, has been a constituent part of the new EU economic governance framework since the beginning of the reform process. However, initially, it was framed as a new code of conduct on the

[3] Details of the main contents of the Six-pack and of the Two-pack are provided in the next sections; for quick access to relevant legal texts and guidelines see: http://ec.europa.eu/economy_finance/economic_governance/sgp/legal_texts/index_en.htm.

implementation of the Stability and Growth Pact and its launch in 2011 simply required approval of the new guidelines in the ECOFIN Council, which occurred on 7 September 2010. The Semester was fully codified just a year later with the approval of the Six-pack, which has been in force since 13 December 2011.[4] Article 2a of the Six-pack Regulation (EU) No 1175/2011 amending Regulation (EC) 1466/97 describes the constituent parts of the current European Semester as follows:

- The **Broad Economic Policy Guidelines** (BEPGs), whose legal basis is Article 121(2) of the Treaty on the Functioning of the European Union (TFEU), including the analysis of whether Member States have implemented them.
- The **Employment Guidelines** (EGs), which build on Article 148(2) TFEU, plus the analysis of whether Member States have implemented them.
- **National Reform Programmes** (NRPs) which Member States need to submit equally in April and in conjunction with the Stability or Convergence Programmes, including their assessment by the EU; national reform plans need to fully account for BEPGs and EGs and for the **Annual Growth Survey** (AGS) the European Commission releases every year at the beginning of the Semester, based on three evaluation blocks: its own assessment of the EU2020 Strategy, the Macroeconomic Report, and the Joint Employment Report.

  Note: NRPs would also include reference to concrete measures undertaken in the framework of the **Euro Plus Pact**, and of any other policy initiative launched at the European Council level. The so-called Euro Plus Pact was signed in March 2011 by euro area governments and also by Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania. This is **not secondary legislation** but a **political commitment** to enhanced policy coordination in the euro area and in the other interested parties. Its declared objectives are to foster competitiveness through a sort of reinforced cooperation across Member States and to channel efforts for accelerating the completion of the Single Market. To achieve these targets, the participating Member States need to agree on a concrete set of actions and are asked to describe those actions in the national documents they submit every year to the EU. As such, the Euro Plus Pact falls directly under the same Semester framework.
- **Stability or Convergence Programmes** (SCPs) which Member States must submit already in April every year (instead of December), hence before the budgetary process has started, plus their assessment by the EU.
- The surveillance to prevent and correct **macroeconomic imbalances** enshrined in Regulation (EU) No 1176/2011 including the new **Alert Mechanism Report** (AMR).

The Regulations also list corrective instruments and sanctions that represent ramifications of the European Semester process.

[4] For a review of the legal history of the Semester, see Box 1.

Box 1: The legal history of the European Semester

The legal history of the European Semester

The European Council of 25 and 26 March 2010 advocated the alignment of the timing of submission and assessment of national SCPs and NRPs.

The European Semester was mentioned and the concept was expanded in the European Commission communication of 12 May 2010 titled *'Reinforcing economic policy coordination'*. The idea was formally endorsed at the European Council of 17 June 2010. The European Commission further provided procedural details in its Communication of 30 June 2010 titled '*Enhancing economic policy coordination for stability, growth and jobs – Tools for stronger EU economic governance*'.

As the Semester was presented as a new code of conduct on the implementation of the Stability Pact, the only practical change that was necessary to initiate the **first cycle** was the approval of the new **Code of Conduct** in the ECOFIN Council of 7 September 2010. In the same period, the European Commission presented the Six-pack proposal, six legislative proposals that were significantly redesigning the EU economic governance framework.

Intense negotiations between the Council and the European Parliament on the **Six-pack** mostly in the ordinary legislative procedure during 2010 and 2011 led to the result that, in the final text of the Six-pack, the practice of the European Semester was given **a legal basis**, it was better defined and the role of the European Parliament was articulated and strengthened through the Economic Dialogue. The new rules entered into force on 13 December 2011.

Following approval of the Six-pack, the Code of Conduct of 7 September 2010 was further revised on 24 January 2012 to take account of the Six-pack provisions.

1.2. The procedure: timeline and stakeholders

1.2.1. Timeline

In Figure 1 we provided a simplified version of the European Semester timeline. The details are discussed in this section. The cycle of EU multilateral surveillance lasts for about six to eight months and is followed by a phase in which EU Member States translate EU guidance into policy actions. This latter part of the process is often referred to as the National Semester. We describe here the main steps characterising the European Semester, abstracting for the moment from the Economic Dialogue between the European Parliament and other EU institutions as well as national institutions, which can be initiated at almost any point in time.

The whole process is launched with the submission of the **Annual Growth Survey** (AGS) by the European Commission. The AGS is a document that brings together a short list of **policy priorities** and a longer list of **policy objectives** for the EU as a whole based on the progress report on EU2020 Strategy, the Macroeconomic Report and the Joint Employment Report, all of which form the backbone of the EU2020 Integrated Guidelines (IGs). The 2011 AGS was presented in January 2011 in line with the original Semester set-up. However, in the second Semester cycle of 2012, the AGS was made public already in November 2011. Following presentation of the AGS and having allowed time for debate and orientations in the Council of Ministers and in the European Parliament simultaneously, the Spring European Council formally endorses the AGS. It is at this stage of the process that EU Member States are invited to take account of the contents of the AGS when drafting national SCPs and NRPs.

The **defining feature** of the Semester is a **shift in the timing** of the EU policy coordination exercise with the objective of bringing about greater consistency, indeed starting from the time dimension. The Semester introduced two procedural innovations that address this dimension. The first consists of a shift in timing of **submission of national documents.** Member States have been asked to submit their SCPs and NRPs already by 30 April every year, hence at a time when national budgetary processes are either in their very early stages or, in most cases, have not even started. Before the launch of the European Semester, SCPs were typically submitted around December time, when national budgets had been already finalised. The second procedural innovation consists of the **alignment** in the timing of submission **of fiscal and structural reform plans**, which in the past were submitted separately. EU Member States have been asked to submit NRPs together with SCPs so as to account for complementarities and spillover effects between fiscal and other structural policies. The objective here is to strengthen economic coordination across policy areas in each country and then, by extension, across the Union.

After Member States have submitted both their national documents by the agreed deadline, the European Commission is responsible for assessing them, making sure that suggested measures are in line with the principles and contents of the AGS. The Commission's evaluation is made public around the end of May in a set of documents that goes under the name of ***'country-specific recommendations'***. It is important to note that the European Commission publishes in the same context also a separate document under the name of ***'euro area recommendations'***, where it highlights policy issues and priorities for the euro area as a whole. We will discuss the opportunity of such a document in Chapter 3. The June European Council endorses all recommendations. The next step in the procedure involves the Council of Ministers, whose responsibility is to adopt country-specific and euro area recommendations on the basis of the European Commission's proposal. The same scheme is repeated every year.

Table A2.1 in Annex 2 provides the details of the European Semester timeline as it looks at present. The **Six-pack** introduced in fact an important change compared with the original version of the Semester cycle, as it institutionalised the Economic Dialogue, fundamentally redesigning the role of the European Parliament across the entire process. Before the Six-pack, during the 2011 Semester cycle, it was simply foreseen that the European Parliament holds an internal debate on the AGS between February and March and is informed of all EU recommendations at the end of the process. The new Economic Dialogue provides an instrument for a deeper involvement of the European Parliament at any point in time from before the AGS is published to the final approval, about eight-nine months later, of country-specific and euro area recommendations by the Council.

Two further Regulations, which the Commission presented in November 2011, known under the name of **Two-pack** and still under negotiation in the ordinary legislative procedure, would carry further changes for the Semester timeline. In particular, the *'Proposal for Regulation of the European Parliament and the Council on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area*' (COM(2011) 821 final) creates a reinforced European Semester for euro area countries. The deadline for the joint submission of national Stability Programmes (SPs) and NRPs is anticipated to 15 April every year. In addition, euro area countries are asked to submit national draft budgets by 15 October so as to give the Commission the chance to assess compliance with the SPs submitted in the Spring and/or with the related country-specific recommendations approved by the Council around July time. The purpose of this further shift in timing is to strengthen fiscal surveillance on Member States, whose fiscal behaviour bears important consequences for the Union as a whole. Table A2.2 in Annex 2 shows how the revised timeline would look like following the approval of the Two-pack in its current form. If approved, the Two-pack will contribute to crystallising the divide between euro and non euro area countries, making thus explicit the asymmetric structure of European economic governance. We shall discuss benefits and costs of asymmetry in Chapter 3.

One other implication from the possible approval of the Two-pack in its current form is that it will institutionalise the National Semester in the euro area by requiring the submission of national draft budgets in October, thus at a time when the government proposal is finalised and National Parliaments are deeply involved in the discussion of individual fiscal measures and modes of implementation. Insofar as the Two-pack includes the possibility for the European Commission to provide feed-back and suggestions on national budgetary plans, the new Regulation will thus also contribute to opening-up a new potential channel of communication and moral suasion between National Parliaments and the Commission charged with significant new intervention rights.

1.2.2. Stakeholders

Here we clarify the role and responsibility of each stakeholder in the European Semester. For the purpose of simplification, we assume **three different layers** in the new procedure and explain the function of each institution in each of the layers. We name the first layer or stage the ***narrow European Semester***, which coincides with EU ex-ante guidance and the early assessment of national documents. The second layer is referred to as ***National Semester*** and coincides with the implementation of EU guidance at the national level. This is the layer that shall be mostly affected by the possible approval of the Two-pack. The third layer, which we define as the ***broader European Semester***, consists of the discussion at the EU level and implementation at the Member State level of corrective measures with the correction of macroeconomic imbalances being an explicit content of the European Semester as defined in the amended Regulation 1466/97. It relates to all cases in which Member States suffer from an excessive imbalance, whether fiscal or generally macroeconomic, and/or have failed to correct an excessive imbalance, which would result in the fact that the Excessive Deficit Procedure (EDP) or the Excessive Imbalance Procedure (EIP) has been activated. In these cases, the process builds on the Six-pack and is extremely detailed as concerns timing and role of individual institutions, but the outcome of this process is in any case part of the European Semester procedure as, for example, euro area countries will have to provide details in the national documents of the corrective measures undertaken in response to EU recommendations.

The European Commission

1) The European Commission initiates the *narrow European Semester* process by formulating the AGS and is responsible for monitoring individual countries' progress towards the agreed targets. The tasks of the European Commission are as follows:

- selecting the priorities to be included in the yearly AGS based on the EU2020 Progress Report, the Macroeconomic Report, the Joint Employment Report ;
- making the assessment of national fiscal and reform plans;
- issuing country-specific policy recommendations that provide guidelines for adjusting the reform course where necessary and issuing warnings to individual countries on the basis of Article 121(4) TFEU;
- monitoring progress each year under the Stability Pact provisions and under the new system of prevention and correction of macroeconomic imbalances; the latter exercise is based on an alert-system that uses a scoreboard of macroeconomic indicators compounded also with a qualitative assessment of countries' positions and reform plans; the Commission's annual evaluation is contained in the so-called Alert Mechanism Report, which is published every February.

2) Under the current framework, the European Commission plays no specific role in the so-called *National Semester*, but it will acquire significant intervention rights on national draft budgets, if the Two-pack is approved.

3) Under the *broader European Semester*, the role of the European Commission is to provide enforcement, via several instruments:

- proposition to the Council to deliver further recommendations under Article 121 TFEU and 148 TFEU, and under Regulation 1466/97 and 1176/2011,
- a warning by the Commission itself under Article 121(4),
- a proposition to the Council to start an Excessive Deficit Procedure or an Excessive Imbalance Procedure.

An aspect to account for in the evaluation of the role of the European Commission in the Semester process is the fact that the cycle of 2012 unfolds after the approval of the Six-pack. As it will be discussed in greater detail in the next chapters, the Six-pack attributes significant intervention rights to the Commission. There are important steps in the corrective arm of the Stability Pact and of the new Macroeconomic Imbalance Procedure in which the voting system has been changed from majority voting in the Council of Ministers to reversed voting, which implies that some of the recommendations by the Commission may only be reversed by either the simple or qualified majority of the Council. Obviously, binding corrective measures and sanctions may be imposed only on euro area countries. The areas in which the new voting system applies are as follows:

- Deviations from structural budgetary targets or from a minimum annual adjustment effort towards those targets under the preventive arm of the Stability Pact (i.e. the Council can reject it by reverse simple majority – Article 6(2) and 10(2) of Regulation 1466/97)
- The imposition of sanctions under the preventive arm of the SGP (i.e. the Council can reject or amend the Commission's proposal by qualified majority – Article 4(2-3) of Regulation 1173/2011)
- The imposition of sanction under the corrective arm of the SGP (i.e. the Council can reject or amend the Commission's proposal by qualified majority – Article 5(2-3) of Regulation 1173/2011)
- Non-compliance with the recommended corrective action under the Excessive Imbalance Procedure (EIP) (i.e. the Council can reject it by qualified majority - Article 10(4) of Regulation 1176/2011).
- The imposition of sanctions under the EIP (i.e. the Council can reject or amend the Commission's proposal by qualified majority – Article 3(3) of Regulation 1174/2011)

As anticipated above, the approval of the Two-pack in its current form will also create a role for the European Commission in the *National Semester* cycle. The tasks of the Commission will be as follows:

- collect and assess the National Draft budgetary plans;
- deliver a country-specific assessment of the draft budgetary plans;
- deliver an assessment of the budgetary perspectives of the euro area at whole, deliver country specific recommendations on the draft budgetary plans, and eventually consider to update guidance in the next AGS

The Council of Ministers

1) The Council of Ministers plays an important role in the *narrow European Semester* process by approving country-specific and euro-area recommendations around July time and by representing together with the European Council the forum in which peer review and pressure may be exercised. In this European Semester phase, the tasks of the Council of Ministers may be summarised as follows:

- deciding by qualified majority on country-specific and euro area recommendations on the basis of a proposal by the Commission;
- discussing and monitoring national fiscal and structural reform plans in the relevant Council formations.

2) The Council plays no role in the *National Semester*.

3) In the *broader European Semester*, the role of the Council is as follows:

- deciding on possible further country-specific recommendations on the basis of a Commission's recommendation
- adopting the decision to launch both the Excessive Deficit Procedure and the Excessive Imbalance Procedure.

The European Council

1) The European Council plays also an important role in the *narrow European Semester*, by setting the political agenda and offering a forum for exchange of information, peer review and pressure. More precisely, the European Council is responsible for:

- assessing annual progress towards the agreed fiscal and structural reform targets for the EU as a whole and individual Member States;
- providing horizontal policy guidance to the EU and the euro area specifically on the basis of the Commission's AGS;
- discussing economic policy priorities and necessary actions;
- endorsing policy priorities, country-specific and euro area recommendations on a proposal by the European Commission.

2) The European Council does not play any specific role in the *National Semester*.

3) There is no specific role assigned to the European Council under the *broader European Semester*; nevertheless, the European Council may provide political impetus to decisions concerning the imposition of sanctions on non-compliant Member States as well as to the decision to extend the deadline for correction, where exceptional circumstances apply.[5]

The European Parliament

1) The European Parliament has been always informed of recommendations in the framework of the EGs, which are now a constituent part of the European Semester. It is currently involved in the *narrow European Semester* procedure mostly through the so-called Economic Dialogue. The Economic Dialogue has inter alia a legal basis enshrined in Article 2ab of the amended Regulation 1466/97 and Article 14 of Regulation 1176/2011. Part of the Six-pack, the Economic Dialogue grants the European Parliament the right to

[5] The Stability Pact in its 2005 version and in the Six-pack version provides for a list of circumstances in which excessive imbalances are tolerated and the deadline for correction extended. Any decision of this kind may be endorsed by the European Council if it carries political significance. An example of it is the decision of July 2012 to extend by one year the deadline for deficit correction in Spain, which occurred at the same time as the European Council was deciding on a comprehensive package in favour of the Spanish banking system, and was in turn endorsed by an extraordinary European Council.

invite the President of the Council, the Commission, the President of the European Council, and the President of the Eurogroup to discuss documents and procedures relating to the European Semester. As already highlighted above, this new procedure represents an important step forward compared with the way in which the European Semester and the relative involvement of the different EU institutions were initially conceived. The discussion referred to in the Regulations may concern the following topics:

- the European Commission's AGS,
- the Spring European Council's conclusions regarding economic policy orientations under the Semester process,
- the results of the surveillance exercise regarding both fiscal and other macroeconomic imbalances,
- the June European Council's conclusions regarding the results from surveillance of fiscal and other macroeconomic imbalances,
- the reviews of surveillance of fiscal and other macroeconomic imbalances at the end of the European Semester,
- Council recommendations in the presence of deviations from the BEPGs and from rules included in the preventive arm of the Stability Pact and those pertaining to the prevention of macroeconomic imbalances,
- All Council positions, opinions and recommendations, especially where these diverge from the Commission's recommendations and proposals.

2) Moreover, the European Parliament has also the right to invite for an exchange of views a national representative from the countries that are subject to recommendations under the preventive and/or the corrective arm of the Stability Pact and of the new rules on macroeconomic imbalances. This may be potentially taken as a form of involvement into the so-called *National Semester*. In addition, the European Parliament has proposed amendments to the Two-pack that would enable it to discuss, together with the Eurogroup, the Commission's opinions on national draft budgetary plans and euro area budgetary perspectives.

3) Whilst the European Parliament has no role in the procedures for the actual sanctioning excessive deficits and other macroeconomic imbalances, it continues to exercise the right to use the Economic Dialogue in the broader European Semester consisting of the continuous monitoring and follow-up from corrective measures recommended to Member States in the preceding years.

National level: Member States

1) In a multi-level governance system like the EU responsibility for effective economic policy coordination is shared between the EU and the national level. In the *narrow European Semester*, Member States are responsible for:

- the timely submission of SCPs and NRPs respecting also a given model structure that would allow the EU to conduct cross-country comparison,

In order to ensure smooth implementation of the suggested and agreed measures, the Member States are explicitly requested to involve in a consultation exercises National Parliaments, local and regional authorities, social partners and other stakeholders.

2) They are obviously key actors in the *National Semester*, being responsible for:

- the implementation of reforms at the national level in line with the received ex-ante guidance and the successive recommendations.

3) Finally, national Member States will also make sure that their policy actions are in line with the recommendations for corrective measures imposed by the EU under the *broader European Semester*.

1.3. The role of the European Parliament over time

One of the aspects of the European Semester we are interested in is its legitimacy. The concept of legitimacy has been extensively studied in the political science literature, as it will be discussed in Chapter 2, and is often described as being multifaceted, but there is no doubt that an important even if not sufficient condition for a process to be legitimate is the extent to which it involves democratically elected institutions. In this section we describe the role of the European Parliament over time; what type of involvement was initially foreseen; and how it evolved and under what types of initiatives.

The Commission Communication *'Reinforcing economic policy coordination*' (COM(2010) 250 final) dated 12 May 2010 contains a preliminary description of the European Semester process and makes a first reference to the possible involvement of the European Parliament. The suggestion is that the European Parliament is '*appropriately engaged*' in the final stage when the EU formulates country-specific recommendations. The following Commission communication *'Enhancing economic policy coordination for stability, growth and jobs - Tools for stronger EU economic governance'* (COM(2020) 367/2) of 30 June 2010 advocates the involvement of the European Parliament mostly at the beginning of the process, suggesting that the European Commission presents the AGS to the European Parliament for internal debate and orientations ahead of the Spring European Council.

When the first Semester cycle was launched in January 2011, the European Parliament had thus very little institutionalised involvement in the process and was mainly informed of the contents of the Commission's AGS, at the beginning, and of country-specific and euro area recommendations at the end of the cycle.

However, in the course of 2011, the European Parliament played an important role in shaping EU economic governance through different instruments and/or tracks: i) own initiative report (INI) procedure and initiatives on Interparliamentary Cooperation, ii) co-legislation, which allowed the European Parliament to contribute substantially to the reform of EU economic governance and to the incorporation of the Economic Dialogue.

The European Parliament started an own-initiative report procedure (2011/2071 (INI)) to monitor the European Semester process and clarify the role of each institution in the procedure.[6] The first meeting was held on 12 May 2011 and the plenary debate followed on 30 November. Successively, on 1 December of the same year, the European Parliament approved a report on the European Semester, which addresses 115 recommendations to the Commission with the purpose of improving the operation and in particular the legitimacy of the European Semester.[7]

[6] The own-initiative report procedure is a legal procedure based on Article 225 TFEU and specified in the Article 41, 42 and 48 of the Internal Rules of Procedure of the European Parliament. It provides to the European Parliament the right of drafting their own resolutions and, following Article 225 TFEU, to request the Commission to initiate the legislative process or to amend an existing one.

[7] Amongst them, the European Parliament suggested the extension of the co-decision procedure to the approval of the AGS, and launched the idea of a formal vote in the plenary on the AGS. See: http://www.europarl.europa.eu/sides/getDoc.do?type=TA&language=EN&reference=P7-TA-2011-542.

The own-initiative report (INI) initiative was not limited to the discussion of the first Semester cycle. The European Parliament in fact launched two own-initiative resolutions on the Annual Growth Survey 2012. One resolution concerns the social aspects of the measures envisaged in the communication of the European Commission, and provides a mandate for its President to defend several issues before the Spring European Council, e.g. EU2020 targets, youth unemployment, quality of labour and social policy, etc.[8] Another resolution includes a series of comments on the AGS, and recalls again a relevant number of procedural and democratic shortfalls in the European Semester process, finally inviting the European Commission to enhance the transparency of the system, not least by actively participating in the Economic Dialogue.[9]

Moreover, the European Parliament organised interparliamentary meetings on the European Semester in 2011 and in 2012 with the aim of discussing EU guidance together with National Parliaments as a way of strengthening collaborations with parliamentary bodies in the Member States and therewith also improve the legitimacy of the whole Semester process.

The European Parliament has also played a role in reinforcing the procedure itself thanks to its role as **co-legislator**. The Parliament proposed a number of amendments to the **Six-pack.** Not all the amendments proposed made it to the final text agreed with the Council, but the codification of the European Semester as well as the codification of the Economic Dialogue in the five regulations of the Six-pack was an indisputable success of the European Parliament.[10] The European Parliament has, in the second Semester cycle of 2012, already exploited the instrument of the Economic Dialogue at different points in time and is in the process of further developing and strengthening its role in the European Semester.

The European Parliament is also involved, as **co-legislator**, in the discussion of the so-called **Two-pack** proposed by the European Commission in November 2011. Two parliamentary reports (i.e. Report Gauzès (EPP/FR) and Report Ferreira (S&D/PT)) have been approved at committee level and voted in Plenary as regards their content, still awaiting the vote on the final legislative resolution and thus formally remaining in first reading.[11] The regulations have been sent back to the Committee in charge with the mandate to enter trilogue negotiations with Council and Commission.

The amendments to the proposal for a 'Regulation *on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States of the euro area*' (COM(2011) 821 final), if approved, would allow the European Parliament to access the discussion on the European Commission's assessment of the national draft budgets, and to have its own assessment taken into consideration in the yearly formulation of the European Commission's AGS.

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[8] European Parliament (2012). *European Parliament resolution of 15 February 2012 on employment and social aspects in the Annual Growth Survey 2012;* http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2012-0047+0+DOC+XML+V0//EN.

[9] European Parliament (2012). *European Parliament resolution of 15 February 2012 on the contribution to the Annual Growth Survey 2012;* http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P7-TA-2012-0048&language=EN&ring=A7-2012-0018.

[10] The procedure file with the main documents can be found under: http://www.europarl.europa.eu/oeil/popups/ficheprocedure.do?lang=en&reference=2010/0280(COD).

[11] http://www.europarl.europa.eu/oeil/popups/summary.do?id=1211133&t=e&l=en.

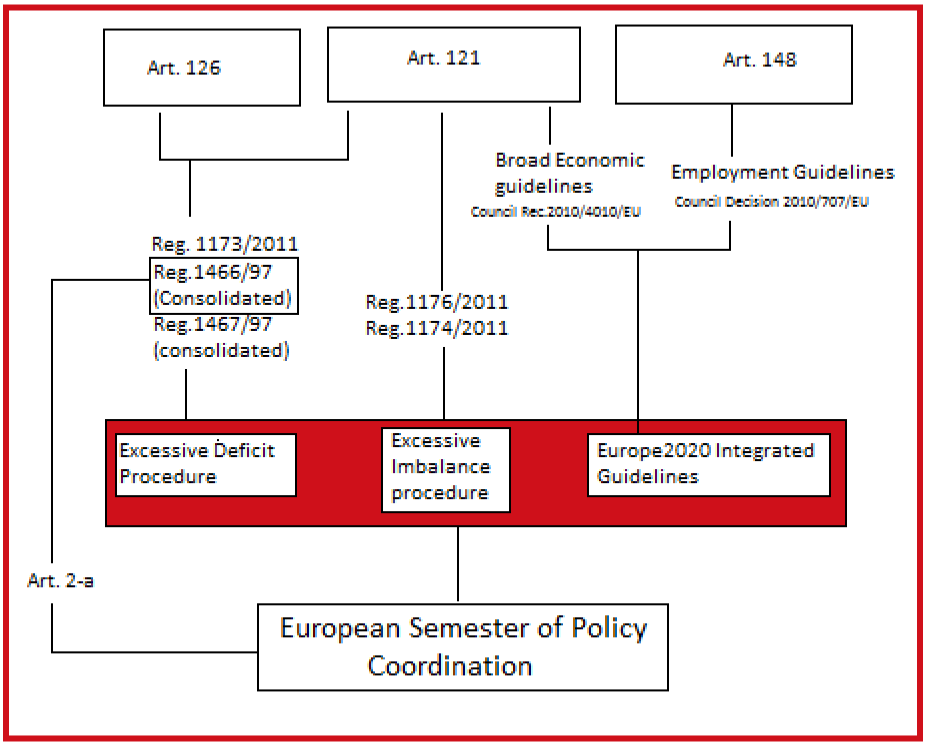
1.4. The legal and governance architecture

1.4.1. The legal basis

In the previous sections, we provided a description of the main elements of the European Semester, looking at objective, timing structure and role of the key stakeholders. Here, we discuss the legal basis of the European Semester. The Semester is codified in the Six-pack but of course the Six-pack Regulations in which the Semester is mentioned have their own Treaty base.

Figure 2 provides a snapshot of the European Semester's legal architecture. It is important to note that the Semester brings together policies and procedures that have different legal bases and in turn display different incentive structures and enforcement mechanisms. Formally, the AGS initiating the European Semester builds on the IGs (a merge of the BEPGs and the EGs) that govern the EU2020 Strategy launched after the failure of the Lisbon Strategy. EU recommendations provided under the EU2020 IGs are mostly non-binding and concern structural reforms, which the Member States may or may not obey by. The rationale for following recommendations is enshrined in Article 121 TFEU, for which Member States should treat their economic policies 'as a matter of common concern' and in Article 148 TFEU where dispositions regarding Employment Guidelines are described in detail. Failure to obey by these recommendations is not sanctioned, but may still lead to additional recommendations and/or to a warning by the European Commission (Article 121(4) TFEU).

Figure 2: The European Semester's legal basis



Source: Own elaboration, Bruegel.

Nevertheless, EU recommendations provided under the Semester framework may also be of a binding nature if they concern fiscal policy and macroeconomic imbalances for which non-compliance would typically lead to the launch of the Excessive Deficit Procedure (EDP) now reinforced by the Six-pack and of the new Excessive Imbalance Procedure (EIP) respectively. In these cases, failure to obey leads to sanctions under both the preventive and corrective arm of the Stability Pact (amended Regulation 1467/97) and under the corrective arm of the new Macroeconomic Imbalance Procedure (Regulation 1176/2011). However, whilst all Member States should concur to enhance economic policy coordination, sanctions may be imposed on euro area countries only. The details of the new Six-pack provisions are described in Box 2, but the main novelties may be summarised as follows:

- **stronger emphasis on medium-term fiscal positions** including the possibility of sanctioning deviations from the declared medium-term objective (MTO) and/or from a predefined minimum annual adjustment effort;[12]
- **stronger surveillance over debt levels** including the possibility of sanctioning insufficient progress towards debt reduction, after having considered all relevant factors and especially taking account of the impact of the business cycle;
- **a stronger role for the European Commission** across the board, as its recommendations for sanctions may only be reversed by simple or qualified majority of the Council, excluding the Member State concerned.[13]

The complex legal architecture of the Semester and in particular the fact that it brings together a number of procedures where incentive structures and enforcement mechanisms may be very different comes with potential costs. First, the differential treatment of euro and non-euro area countries may undermine the effectiveness of EU-wide economic policy coordination, creating de facto a two-tier governance system. Second, the decision of the EU to issue fiscal and structural recommendations in a joint legal text for which fiscal measures are binding and structural ones are not raises questions about the ultimate efficacy of the legal form chosen, as it will be further elaborated in Chapter 3.

Box 2: The Six-pack

The Six-pack

The so-called Six-pack consists of five Regulations and one Directive that have the aim to strengthen and reinforce economic policy coordination in the EU. Four of the six pieces are in the area of **fiscal policy** and two others concern **macroeconomic policy** and imbalances in the EU. The aim is to make economic policy coordination more binding, inter alia by introducing sanctions and subjecting surveillance in a wider area of economic policy making to common rules.

Fiscal Surveillance

Regulation 1175/2011 on the **strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies** aims to strengthen fiscal policy surveillance and introduces the European Semester and the ensuing Economic Dialogue. Member States are obliged to submit information for multilateral surveillance to the Commission and Council The stability programmes submitted by Member States are assessed by the Council and Commission (Section 2, Article 5). This process can be followed by the Council issuing an opinion on the programme (Section 2, Article 5, paragraph 2). The Commission and Council are in charge of monitoring the implementation of stability programmes (Section 2, Article 6, paragraph 1). In case of a deviation of the Member State from the adjustment path, the Commission will issue a warning, after which the Council will adopt a recommendation with policy measures. While addressing the issue, the Member State will report to the Council. Failure to obey will result in a recommendation by the Commission to the Council that no effective

[12] Medium-term fiscal positions refer to the performance of the structural balance, which is the public deficit corrected for the impact of the economic cycle and net of one-off and temporary measures.

[13] The new voting system is known as Reversed Simple Majority Voting and Reversed Qualified Majority Voting (RQMV).

action has been taken. The latter recommendation needs to be adopted by the Council through qualified majority voting. If the Council does not adopt this recommendation and the Member State has still not addressed the problem, within one month of the earlier recommendation, the decision is automatically adopted unless the Council decides to reject the decision by simple majority (within 10 days of it being adopted by the Commission). Only euro area countries have a right to vote on euro area issues, and the concerned Member State is always excluded from the procedure (Section 2, Article 6, paragraph 2).

Regulation 1173/2011 on **enforcing budgetary surveillance in the euro area** defines the sanctions and enhances the enforcement of the SGP, whilst also providing details about the Economic Dialogue and the European Parliament's right to call on national representatives for an exchange of views on national documents and procedures related to the European Semester. When a euro area Member State fails to take action when it has been established that it has deviated significantly from the adjustment path towards the medium-term budgetary objective, the Commission will recommend to the Council that the Member State lodge an **interest-bearing deposit** amounting to 0.2% of its GDP in the preceding year. The decision is considered adopted unless the Council rejects it by qualified majority within 10 days of the recommendation (Article 4). According to Article 5, the Commission may request that a 0.2% **non-interest bearing deposit** be lodged if a Member State either has an excessive deficit (while having lodged an interest-bearing deposit with the Commission) or if the state concerned has not respected its budgetary policy obligations specified by the SGP. Reversed qualified majority voting applies to this procedure. The Council is further allowed to amend the Commission recommendation and the Commission is allowed to recommend a reduction in the non-interest bearing deposit or a cancellation of it. Under Article 6, if the Member State does not take corrective action, the Commission can recommend to the Council that it impose a **fine** amounting to 0.2% of the previous year's GDP. The decision is adopted unless voted against by a qualified majority of the Council. Fines can be reduced or cancelled if exceptional economic circumstances arise. Article 8 spells out the sanctions applicable in case of manipulation of statistics.

The Directive 85/2011 on **requirements for budgetary frameworks of the Member States** aims to improve national accounting and statistic standards, forecasting and fiscal planning, and transparency of government finances. Specifically, Article 3 clarifies accounting and statistics standards. Article 4 discusses forecasts, stating specifically that macroeconomic and budgetary forecasts for fiscal planning will be subject to regular evaluations (Article 4, paragraph 6). Article 9 clarifies the content of medium-term budgetary frameworks for Member States. Article 12 states a need for transparent government finances.

The Regulation 1177/2011 on **speeding up and clarifying the implementation of the Excessive Deficit Procedure** reproduces a description of the Economic Dialogue including the possibility for the European Parliament to invite national representatives for an exchange of views on matters related to the European Semester. The importance of the Regulation is linked to the fact that it adds the possibility of launching an EDP also if the **debt to GDP ratio exceeds 60%** of GDP and is not diminishing at a satisfactory pace (European Commission, 2011c). Prior to the Six-pack, an EDP could be opened only on the basis of the deficit criterion (Articles 2 and 4). It applies to the EU27 with two exceptions: Only in the case of euro area and ERMII countries will the ECB be involved in the enhanced surveillance missions of those countries (Article 10a). Furthermore, when sanctions are imposed on a country and fines are required, only euro area countries are subject to such fines (Articles 11 and 12). The Commission will address a recommendation to the Council if it considers that an excessive deficit exists (Article 3, paragraph 2). If the Member State concerned fails to take action, the Council will report to the European Council (Article 4, paragraph 2.2). If a Member State still does not take action, despite successive acts by the Council, the Council will impose sanctions (Article 7). When a decision to impose sanctions has been made, a fine will be required. This may be supplemented by further measures (Article 11). Fines will be in the 0.2%-0.5% of GDP range (Article 12).

Macroeconomic Surveillance

Regulation 1176/2011 on **preventing and correcting macroeconomic imbalances** broaden economic surveillance considerably. It aims to provide rules for the detection and prevention of macroeconomic imbalances in the EU. It introduces an **alert mechanism** which to identify imbalances consisting of a **report** and **scoreboard** (Articles 3 and 4). The Commission is also assigned the task of carrying out an **in-depth review** of a Member State (Article 5). If the in-depth review leads to the conclusion that a Member State is experiencing imbalances, the Commission will propose a recommendation and the Council needs to adopt it so that it can become binding (Article 6). According to Article 7, an excessive imbalances procedure may be opened if, following the in-depth review, the Commission comes to the conclusion that a Member State is affected by excessive imbalances. The Council will then act on the Commission recommendation and recommend corrective action to the Member State concerned to which the Member State will react with a corrective action plan. If action taken is deemed insufficient, the Commission will recommend to the Council that the state has been non-compliant. The Commission recommendation will be adopted, unless a qualified majority of the Council rejects it within 10 days of it being put forward.

Regulation 1174/2011 defines the **enforcement measures to correct excessive macroeconomic imbalances in the euro area** and describes the instrument of the Economic Dialogue including the possibility for the European Parliament to engage in an exchange of views with national representatives on matters pertaining to the European Semester. The Council will impose an **interest-bearing deposit** if it finds that a Member State has not taken corrective action to address its macroeconomic imbalances (Article 3, paragraph 1). A **fine** will also be imposed if the Council submits two recommendations in the same imbalance procedure, the Member State does not take corrective action, and the Council establishes twice that the Member State has been non-compliant. In the latter scenario, the deposit is converted into a fine (Article 3, paragraph 2). The decisions are taken by RQMV. The interest-bearing deposit will amount to 0.1% of the previous year's GDP (Article 3, paragraph 5). Fines may be reduced or cancelled if exceptional economic circumstances arise (Article 3, paragraph 6).

1.4.2. The emerging system of governance

One other element that is worth mentioning is how the European Semester fits with the overall EU economic governance framework, which represents a broader issue than the mere legal architecture. The Six-pack has implemented a number of significant changes to the operation of economic policy coordination, especially in the euro area, but further instruments have been proposed that add to the already complex governance structure of the Union. Two instruments for economic policy coordination have been put forward during 2011 and 2012: the Euro Plus Pact, which is now a constituent part of the Semester and has been described in Section 1.1 and the **Treaty on Stability, Coordination and Governance** (TSCG), which is currently being ratified at the national level and is conceived outside the so-called Community Method, as it will be explained below.

In March 2012, 25 out of 27 EU countries signed the TSCG, an intergovernmental Treaty by which EU members reiterate their commitment to fiscal discipline and accept that failure to introduce a balanced budget rule into national legislation leads to sanctions by the

European Court of Justice.[14] The Fiscal Compact, which is part of the TSCG, reinforces fiscal policy coordination and will run in parallel to the revised Stability Pact provisions, which instead build on the Community Method. At the same time, the TSCG strengthens the role of the European Commission by extending reversed voting in the Council also to steps in the Excessive Deficit Procedure for which the Six-pack had not foreseen reversed voting.

The juxtaposition of the Six-pack and TSCG raises the following issues and questions:

- The Six-pack de facto crystallises the asymmetry between euro and non-euro area countries, providing for new tougher rules that in reality would affect economic policy behaviour just in the euro area. The TSCG introduces a new geometry in the fiscal governance framework, as the commitment to a national fiscal rule has been expressed also by non-euro area countries, with the exception of the United Kingdom and the Czech Republic. Does the TSCG reinforce or soften the divide between the euro area and the non-euro area?
- The Six-pack institutionalises the Economic Dialogue, which provides for a more formal involvement of the European Parliament in the European Semester. The incorporation of the Economic Dialogue is the result of the fact that the approval of the Six-pack was in the ordinary legislative procedure, which implied that the European Parliament was acting as co-legislator. On the other hand, the TSCG is an intergovernmental Treaty, whose drafting did not see any involvement of the European Parliament. Still, the TSCG foresees the possibility of Interparliamentary Cooperation *'in order to discuss budgetary and other issues covered by the Treaty'* by referring in Article 13 to Title II of Protocol (No 1) annexed to the Treaties.
- It remains to be seen how the TSCG is likely to interfere with the operation of the Semester. Would it create a two-level approach to economic policy coordination, one run under the Community Method and legitimised at least partially by the European Parliament, and another run under the intergovernmental method legitimised only by the national governments and their electorates but lacking legitimisation at the EU level?

Box 3: The Treaty on Stability, Coordination and Governance (TSCG)

The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG)

The TSCG was signed by 25 EU Member States on 2 March 2011, with the exception of the United Kingdom and the Czech Republic. It will enter into force following ratification by at least 12 euro area Member States. It will bind euro area members, and will only bind the other contracting parties once they become members of the single currency area, or earlier if they express a desire to fall under its scope. The fiscal part of the treaty is known as the 'Fiscal Compact'.

The TSCG states that contracting parties need to respect their medium-term objective, as defined in the SGP, under threat of sanctions. Under Article 3, Member States need to have budgetary positions either balanced or in surplus, with deviations being allowed only under special circumstances.

There is a lower limit of a structural deficit of 0.5% of GDP for most Member States (with the exception of Member States with debt ratios significantly below 60% of GDP, for whom the threshold is 1%). These rules will become part of national law. The European Court of Justice (ECJ) has the right to impose financial sanctions (0.1% of GDP), should a country

[14] For a detailed description of the contents of the TSCG, see Box 3.

not incorporate the new budget rules into national law and fail to comply with a ECJ ruling.

The treaty re-states the debt rules as spelled out in the Six-pack and formulates a behavioural commitment to Reverse Qualified Majority Voting, even where the Six-pack does not foresee it. Member States and the Commission are allowed to call other Member States to the ECJ. Should a Member State fail to take action after being called to the ECJ, the case may be re-considered by the Court and financial sanctions imposed on the non-compliant Member State. In the case of non euro area countries, the fine will be paid into the general EU budget, while in the case of euro area countries; the fine is paid into the ESM (European Stability Mechanism).

The Treaty also introduces formally the concept of a Euro Summit, to be held at least twice a year, in an attempt to reinforce economic cooperation and under the leadership of a Euro Summit president, who may or may not coincide with the European Council President. Non euro area countries will also participate in Euro Summit meetings.

Finally, the TSCG calls on the democratic principles of the EU and alludes to exploiting the Interparliamentary Cooperation between the European Parliament and the National Parliaments to discuss budgetary matters. Article 13 of the TSCG states: '[...] *the European Parliament and the national Parliaments of the Contracting Parties will together determine the organisation and promotion of a conference of representatives of the relevant committees of the European Parliament and representatives of the relevant committees of national Parliaments in order to discuss budgetary policies and other issues covered by this Treaty.*'

Additionally, further changes to the governance structure may be brought about once the so-called **Two-pack**, which the European Commission proposed on 23 November 2011, will be approved.

The first proposal for a *'Regulation of the European Parliament and of the Council on the strengthening of economic and budgetary surveillance of Member States experiencing or threatened with serious difficulties with respect to their financial stability in the euro area'* (COM(2011) 819 final) excludes assisted countries subject to an Economic Adjustment Programme from the exercise of policy coordination under the Semester framework (Article 9). In practice, it implies that countries under programme are not under the obligation of submitting their SCPs and NRPs jointly and by the Spring deadline. Instead, their reporting obligations are set under the macroeconomic adjustment programme they have agreed to with the European Commission, the European Central Bank (ECB) and International Monetary Fund (IMF). The experience of the first Semester cycle in 2011 shows that assisted countries are treated differently anyway, but the Two-pack Regulation add to the current situation by formally excluding them from the Semester exercise.

The second proposal for a *'Regulation of the European Parliament and of the Council on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area'* (COM(2011) 821 final) creates a reinforced European Semester for euro area countries with a revised timetable for the submission of national documents. Euro area Member States would be obliged to submit national draft budgets by 15 October every year, hence in most cases in the midst of parliamentary approval. Under this Regulation, the European Commission takes on responsibility for assessing these draft documents with the purpose of evaluating compliance with the country-specific recommendations delivered at the end of the narrow European Semester. Moreover, the European Commission is also in charge of assessing the overall budgetary position of the euro area, bringing the issue for discussion to the Eurogroup.

Thus, the Two-pack together with the Treaty on Stability, Coordination and Governance (TSCG) will add to the complex governance system that is emerging in Europe, that includes Six-pack and also the European Stabilisation Mechanism (ESM), the new European instrument for crisis management and resolution that was expected to come into force on 1 July 2012 but is still going through national ratification. Table 1 describes the system of multiple-geometry that is implicit under these new Regulations and Treaties. It shows how Six-pack, Two-pack, Fiscal Compact and ESM Treaty apply to countries and groups of countries and what the voting rule in each procedure is.

Table 1: Actors and voting rules across Six-pack, Two-pack, Fiscal Compact and ESM Treaty

Six-pack Regulation	To whom it applies	Voting Rule (if applicable)
Improving budgetary positions and economic policies	EU27 (with minor exceptions which only apply to euro area + ERM2)	Qualified majority voting, excluding the Member State concerned (only euro area countries vote on euro area members), Council can reject Commission recommendation by simple majority voting
Improving the excessive deficit procedure	EU27, ECB surveillance only applies to euro area + ERM2 countries	Not applicable
Budgetary frameworks requirements	EU27, the UK does not have to abide by Article 5 to 7 (concerning numerical fiscal rules)	Not applicable
Macroeconomic imbalances	EU27	Qualified majority voting, excluding the Member State concerned
Enforcing euro area budgetary surveillance	Euro area	Qualified majority voting, excluding the Member State concerned
Correcting excessive imbalances	Euro area	Qualified majority voting of euro area countries, excluding the Member State concerned
Two-pack Regulation	**To whom it applies**	**Voting Rule (if applicable)**
Surveillance for Member States with financial stability difficulties	Euro area	Qualified majority voting of euro area countries, excluding the Member State concerned
Common provisions for draft budgetary plans and excessive deficit correction	Euro area in general (with minor exceptions for members who are subject to macro-economic adjustment programmes or already subject to an excessive deficit procedure)	Qualified majority voting of euro area countries, excluding the Member State concerned
Agreement	**To whom it applies**	**Voting Rule (if applicable)**
Fiscal Compact (TSCG)	EU27 without the United Kingdom and Czech Republic, which did not sign the Treaty.	Reversed qualified majority voting (euro area countries)
European Stability Mechanism (ESM) Treaty	Euro area	Qualified majority voting or mutual agreement by the Board of Directors and the Board of Governors

Source: Taken from Pisani-Ferry, Sapir and Wolff (2012b).

Notes: EU27 refers to the whole European Union, ERM II stands for Exchange Rate Mechanism (ERM).

2. CONCEPTUAL FRAMEWORK AND LITERATURE REVIEW

KEY FINDINGS

- We analyse the operation of the European Semester using two analytical categories: legitimacy and effectiveness.
- Legitimacy needs to be studied for at least two reasons. First, the Semester alters the timing of policy dialogue between the Member States and the EU interfering with national fiscal policy formulation, especially in its parliamentary phase. Second, the European Commission acquires significant intervention rights without a proper Treaty change, which suggests that, absent national legitimisation, the new process must find some form of legitimisation at the EU level.
- The theoretical literature on the legitimacy of the EU, of its actors and of its processes typically distinguishes between two types of legitimacy: input and output legitimacy (Scharpf 1998). It was also noted that the EU cannot be input legitimate as it lacks a Demos and may only be output legitimate in the sense that it contributes to expanding the welfare of all European citizens. We challenge this view and argue that the traditional concept of output legitimacy is not applicable in times of crisis. By default, input legitimacy is a more appropriate concept to test for the relative legitimacy of the European Semester process.
- Based on the conditions for input legitimacy identified in the literature, we assess the legitimacy of the European Semester by looking at the following dimensions: i) democratically elected institutions such as the European Parliament and National Parliaments are involved in the process; and ii) best practices and the rule of law prevail in the policy-making process.
- The Semester's effectiveness in delivering on the intended objective of enhanced economic policy coordination matters for obvious reasons, and is an aspect that justified adjustment costs to the new process.
- Of all the conditions for effectiveness identified in the literature we focus on i) a good balance between national and supranational objectives, which we interpret as the EU providing clear, transparent and articulated guidance that takes account of country specificities and spillover effects, and ii) national ownership of the process, which is in our framework a function of procedural adaptation, policy adaptation and the extent to which the elements of the Semester have made it into the domestic public debate and raised the interest of National Parliaments.

2.1. A two-dimension approach

We assess the European Semester from a number of perspectives that ultimately go back to two analytical categories: the legitimacy and the effectiveness of the process. In order to assess **legitimacy,** we ask whether:

- the European Semester is a legitimate process from an input perspective in the sense that it appropriately engages parliamentary actors in particular but also if all the institutions involved apply best practices and the rule of law, and/or it has the potential to become an input-legitimate process;

- it makes sense to qualify the Semester as legitimate from an output perspective by arguing that it has improved the welfare of European citizens;

For the assessment of **effectiveness**, we ask if it has been effective in:

- delivering proper multilateral surveillance at the EU level; and
- forcing policy compliance at the Member-State level.

It is important that the process is legitimate at least for two reasons. First, the Semester procedure changes the timing of reporting between national governments and the EU, thereby requiring some adaptation by the Member States that has implications for national fiscal policy formulation and in particular in its parliamentary phase. Second, the Six-pack which codifies the European Semester introduces significant intervention rights for the European Commission, as it has been argued and accounted for in the previous Chapter. Any devolution of national sovereignty realised without Treaty change and possibly national referenda to approve the new commitments must find alternative sources of legitimisation at the EU level.

We start our discussion of the **legitimacy** of the European Semester by dwelling on the difference between input and output legitimacy. The two concepts have been defined and discussed with reference to the EU in Scharpf (1998). The conclusion by the author is that input legitimacy is not a concept that is easily applied to the EU context since the Union lacks a common identity or Demos. Output legitimacy, a grade of shared common interest and measured by the extent to which EU policy outputs support the welfare of European citizens, is a more appropriate concept for a complex reality such as the EU. We challenge this view and argue that in periods of crisis like the one Europe is currently facing it is difficult to justify legitimacy from an output perspective. In fact, in bad times far-reaching decisions need to be taken. The outcome of these decisions is difficult to predict and has significant implications on income, wealth and well-being of different peoples and individuals. Since in such situations it is difficult to define the general welfare of all citizens, output legitimacy is not a useful concept. Legitimacy in this phase needs to stem most of all from the legitimacy of the process by which the decisions are taken. In this study, we therefore investigate whether the Semester is or is not legitimate from an input perspective. Ultimately, this depends on the extent to which intrinsically democratic institutions such as the European Parliament and National Parliaments, but also the Council and the Commission are involved in the process. Our main objective is to determine whether there are missing gaps in the legal-democratic framework of Europe in the context of the European Semester.

The concept of **effectiveness** is intended in its most straightforward meaning, namely as the capacity of the European Semester to meet its intended objective of enhanced economic policy coordination. In its narrow meaning, effectiveness is the extent to which EU Member States have embraced EU ex-ante policy guidance and translated top-down guidelines into policy actions at home. But, effectiveness in economic policy coordination is not an object that drops from the sky. There must be conditions in place that enhance the probability of a process to be effective. The literature has identified the following conditions for success: i) the EU provides clear, transparent and articulated guidance that takes account of country specificities and spillover effects, and ii) national governments assume ownership of the process, namely they clearly adapt to a new procedure in procedural terms but ideally also in political terms.

2.2. Legitimacy in the EU

In the literature, legitimacy means a different thing depending on whether one is referring to the State level, where the meaning of the term is relatively straightforward, or the European level where there is much more scope for interpreting legitimacy in different ways. There is an extensive theoretical literature that has attempted to define what legitimacy in the EU is, whether it is about the legitimacy of actors or of processes, and what it implies.

The most exploited theoretical classification is then one between input and output legitimacy provided by Scharpf (1998). He suggests that each political regime can have two sources of legitimacy. The first source of legitimacy called ***'input legitimacy'*** can be understood through the concept of **'*government by the people*'**. In Scharpf's own words '*the input dimension [...] implies that collectively binding decisions should originate from authentic expression of the preferences of the constituency in question.'*[15] Input legitimacy requires ex-ante a common identity or *Demos*, as without it decisions taken by a majoritarian rule risks crystallising the dictatorship of the majority over the minority.[16] **Output legitimacy** can be defined as **'*government for the people*'**, which '*implies that collectively binding decisions should serve the common interest of the constituency'*.[17] This type of legitimacy does not require any common identity ex-ante, but only some grade of shared common interest. In applying these two concepts to the EU, Scharpf (1998) concludes that there is no reason to argue that the EU is or should be input legitimate, but the dimension that counts may only be output legitimacy, intended as the capacity of the EU to protect and possibly expand the welfare of European citizens.

The subsequent literature on EU legitimacy draws extensively from the work of Scharpf either to endorse the two-dimensional approach or to criticise it, raising in particular doubts about the definition of output legitimacy. Moravcsik and Sangiovanni (2002), for example, suggest that the definition of shared common interest provided by Scharpf is too generic and does not account for possible trade-offs. They further indicate that one way in which the EU can contribute to protecting and expanding the welfare of European citizens is by encouraging national leaders to reform their systems where it is apparent that existing policies are not for the general public interest but indeed serve specific interests.

Bellamy and Castiglione (2003) suggest that the performance of public policy does not affect the legitimacy of a regime. A process or institutional framework may be considered legitimate only from an input perspective implying that it is essential that peoples or their democratically elected representatives participate in the policy process. By applying their argument, we shall draw the conclusion that the European Semester is a legitimate process only if the European Parliament and National Parliaments are appropriately engaged.

Horeth (1999) adds a third dimension of legitimacy, namely the **indirect legitimacy** that is **provided by the Member States**. He suggest that input, output and indirect legitimacy are all useful concepts to define what form legitimacy in the EU will take but they emphasise different aspects and do not share the same underlying vision as to where the EU should go. Input legitimacy tends to emphasise political accountability, democratic control and individual participation with a view of creating a federation. Output legitimacy

[15] Scharpf (1998), p.2.

[16] The seeds of this debate rest with the work of the philosopher and sociologist Joseph Weiler (1996). His argument is that the existence of a democracy is strictly dependent upon the existence of a *Demos,* a group of people having a common citizenship. Under these premises, he concluded that there was clearly no European *Demos*, as there were no subjective linkages among people in Europe and further argued that the scope of the European integration process was exactly to create a union among different European *Demoi,* a process extremely different from a nation building exercise.

[17] Scharpf (1008), p. 2.

relies on the real effectiveness of the promoted policies and here the long-term vision is to create a pure regulatory state, a depoliticised technocracy. Indirect legitimacy is informed by the Member States and the underlying vision is a confederation of States.[18] This is an interesting theoretical approach for the sake of identifying the instruments that better support the legitimacy of the European Semester. So, for example, would recent unification aspirations fail and the EU orients itself towards a confederation of States, then the overwhelming concern for European policy-makers should be the real effectiveness of the promoted policies or Scharpf's 'government for the people'. However, if the EU would orient itself towards a banking and fiscal union even if not up to a political one, then European policy-makers should emphasise input legitimacy or Scharpf's 'government by the people' and make sure that the European Parliament and National Parliaments are properly and deeply engaged.

Scharpf's is not the only analytical characterisation of legitimacy in the EU. Lord and Magnette (2004) accept the distinction between input and output legitimacy but extend it to include other vectors of legitimacy. The four vectors comprise: i) **'indirect legitimacy'** provided by the Member States, which consist of the inputs and their policy preferences characterised as outputs; ii) **'parliamentary legitimacy'**, which emerges if parliamentary actors participate in the process, on the input-side, and voters' preferences are translated into policy actions, on the output side; iii) **'technocratic legitimacy'**, which depends on whether the personnel is selected on the basis of expertise and on whether institutions are capable to offer 'Pareto-improving' solutions, on the output side; and iv) **'procedural legitimacy'**, which is there if the policy-making process is inspired by best practices and, in terms of outputs, if the policies produced are capable of expanding the body of rights.[19]

We endorse the view and argue that the concept of output legitimacy is not appropriate for an assessment of the legitimacy of the European Semester. First of all, in times of crisis, there is no clear definition of the general welfare of citizens and decisions can have significant implications for the welfare of some countries. Indeed, welfare gains are likely to be a function of the time horizon, as some structural reforms may have detrimental effects in the short-run but may be welfare-improving in the long-run. Besides the difficulty of defining public welfare in bad times, we thus find Scharpf's output legitimacy also inappropriate in the context of the European Semester because of the likelihood that structural reforms are unevenly distributed over time. But even the notion of procedural legitimacy seen from an output perspective provided in Lord and Magnette (2004) is problematic because the Semester is not a process that has the potential to expand the body of rights. We thus argue that input legitimacy is a much more relevant concept to be applied to the European Semester and use analytical tools derived from the reviewed literature to discuss the Semester's input legitimacy.

To sum up, the existing literature would leave us with a matrix of different forms of input legitimacy. On the input side, the European Semester process may be regarded as legitimate if i) there is a European *Demos*, a condition that is obviously not satisfied (Scharpf 1998); ii) democratically elected institutions such as the European Parliament and National Parliaments are involved in the process, namely in the presence of parliamentary legitimacy (Bellamy and Castiglione 2003; Lord and Magnette 2004); iii) best practices and the rule of law prevail in the policy-making process or there is procedural legitimacy (Lord and Magnette 2004).

[18] Horeth (1999).

[19] Lord and Magnette (2004), pp. 186-188.

2.3. Policy effectiveness

This section describes the notion of effectiveness and what it implies in the context of EU economic policy coordination. The notion of effectiveness has occupied much space in public policy analysis. It is normally defined as the extent to which a given instrument is able to deliver a certain objective.[20] In a multi-level governance framework such as the EU it is possible to conceive of similar or even dissimilar instruments to achieve the same objective.[21] In turn, analyses of the effectiveness of policies at the EU level have been typically concerned with the extent to which the intended objective has been achieved, independently of the instrument used. Most of the literature that has dealt with the concept of effectiveness of (soft) policy coordination in the EU context has looked at the operation of the Broad Economic Policy Guidelines (BEPGs) and the Open Method of Coordination (OMC), identifying the conditions under which these two instruments have delivered on their intended purposes.

Discussing the relative success of BEPGs before the recent governance changes, Deroose et al (2008) show appreciation for the fact that they have been an overarching instrument of coordination, relied on decentralised coordination and acted as a catalyst for closer cooperation amongst policy makers. However, they also criticise the fact that the BEPGs were based on a long list of guidelines, peer pressure has not succeeded, be it at the committee level (Economic and Financial Committee and Economic Policy Committee), the ministerial level (ECOFIN and Eurogroup), or the Heads of State level (Spring European Council), the public debate on these issues has not been wide, and National Parliaments themselves showed little interest in the functioning and the problems of EU economic governance. Hodson (2011) expands further on the failures of the BEPGs, for which three main explanations are isolated. First, the BEPGs were not credible due to the lack of sanctions and in fact the European Council and the European Commission have been themselves reluctant to issue recommendations. Second, the criteria for issuing non-binding recommendations were not clear, opening up leeway for Member States to contest accusations of non-compliance. Third, the BEPGs did not really make it into the political debate and have not become part of the domestic discourse.[22]

Linsenmann (2007) also assesses the success of the BEPGs reaching similar conclusions. Soft economic policy coordination is able to foster policy learning by strengthening horizontal links across different Council formations. At the Member State level, there is also evidence of procedural adaptation but not of a proper institutional adaptation that involves an upgrading of the national framework. However, the compliance record is modest. This is related to a number of factors including low public awareness which relates to the fact that national governments have not internalised non-binding EU recommendations; the vagueness of the recommendations themselves or the fact that they were in conflict with governments' policy preferences; and the fact that some of the recommendations need longer time horizon to be properly designed and implemented.[23]

Deroose et al (2008) suggest a number of interventions to improve the effectiveness of the BEPGs. They actually launched the idea of a European Semester for economic policy coordination that would allow the EU to provide policy guidance ex-ante before national budgets are fully formed and approved. Secondly, they proposed to involve the European Parliament through the Economic Dialogue with the purpose of creating the conditions for more effective peer pressure. Moreover, they suggested that better methodological

[20] Heritier (2003).

[21] Jacquet and Pisani-Ferry (2001).

[22] Meyer (2005) equally highlights the little media coverage reserved to coordination of structural reform, especially compared with fiscal policy issues.

[23] Linsenmann (2007).

instruments were created to allow effective surveillance; to avoid a proliferation of proposals, they believed necessary to have instruments to distinguish between reforms that are merely proposed and those that are implemented and, amongst the implemented ones, between those that will offer just a marginal contribution to achieving a given target and those able to disclose their full potential. Finally, they advised that incentives were created to foster compliance including the possibility of withdrawing funds from the EU Budget if the structural reform agenda is not pursued.

In describing the practice of using the OMC to coordinate structural reform in Europe, Tabellini and Wyplosz (2006) express a critical view of the OMC and in general of coordination effort behind the Lisbon Strategy. To the extent that the Semester builds on the EU2020 Integrated Guidelines, previous evaluations of the success of the OMC and of its rationale are relevant. They argue that the coordination of supply-side reforms is an exercise doomed to fail, and possibly also undesirable. The OMC is an example of an experiment in coordination that tries to set a common target in ways that are not constraining of national sovereignty. The authors suggest that the two objectives are incompatible, that it is not possible to achieve coordination without a loss in sovereignty. In addition, they tackle the question of desirability and viability of coordination on the supply side. First, structural reforms make countries more competitive; a rise in competitiveness is but neither a zero-sum nor a positive-sum game, as it would make others worse off; hence, they conclude, in the area of structural reform, competitive pressures should do the job, not policy coordination from above. Second, structural reforms hit concentrated interests and benefit diffuse unorganised interests; if national governments are left free hand, they are unlikely to hit concentrated interests.

On the conditions for effective coordination, La Porte (2002) states that the success of a soft policy coordination such as the OMC requires three conditions: i) the identification of the correct indicators for benchmarking; ii) a good balance between supranational and national priorities; and iii) an appropriate process of assessment of Member States' compliance. She finds that policy guidance is effective only if national governments acquire ownership and if the same objective is presented as a national imperative. This is especially true in the case of labour market measures, where successful implementation depends more on the domestic arrangement of interests than on supranational guidance. She also finds that effectiveness varies from one policy area to the other. Policy guidance is successful only if applied to an area that truly requires supranational coordination. On this latter aspect Szyszczak (2006) argues at the opposite extreme that the real effectiveness of the OMC should not be related only with its capacity to generate change in policies, but also with its capacity to generate the need for a supranational coordination. In other words, the value of the OMC relates to its capacity of '*opening new doors*' for European integration. The capacity of the OMC to promote the idea of Europeanisation in certain policy areas relies on the involvement of sub-national actors and civil society.

Of all the conditions for effectiveness identified in the literature we focus on

- a good balance between national and supranational objectives, which we interpret as the EU providing clear, transparent and articulated **policy guidance** that takes account of country specificities and spillover effects, and

- **national ownership** of the process, which is in our framework a function of i) *procedural adaptation*, ii) *policy adaptation* and iii) *discourse visibility*, the extent to which the elements of the Semester have made it into the domestic public debate and raised the interest of National Parliaments.

3. THE EUROPEAN LEVEL

KEY FINDINGS

- The definition of objectives and recommendations is not transparently justified by a quantification of spillovers across countries. In particular, the euro area recommendations remain insufficiently linked to the logic of the common currency.
- Recommendations also lack appropriate prioritisation both across countries and across dimensions.
- Effectiveness of European level ex-ante guidance is limited by forecasting difficulties in the context of the early release of the AGS.
- The timing of the new procedures is not fully and appropriately aligned with the European Semester. For example, the Alert Mechanism Report of the Macroeconomic Imbalances Procedure could be released simultaneously with the AGS so as to allow for greater focus.
- Political legitimacy is given to the AGS by an endorsement by the European Council and policy recommendations are legitimised by the Council. The Treaty does not give a strong role to the European Parliament in this process and the Parliament has played a subordinate role in the first cycle.
- The Six-pack increases the involvement of the European Parliament by creating the possibility of Economic Dialogue with the institutions of the Union.

This chapter evaluates the interaction between key stakeholders at the EU level in the context of the European Semester against our developed methodology. In particular, we assess to what extent the first Semester cycle was successful or effective in defining clear and consistent policy priorities. We also analyse its legitimacy. We then also discuss how the changes to the Semester due to the passing of the Six-pack may impact the relationship between the different European institutions and in particular how the European Parliament's role has changed under the new Six-pack rules, building on the description developed in Chapter 1. We also aim to assess to what extent the new Treaty on Stability, Coordination and Governance (TSCG) will change the European level of the European Semester. Necessarily, this discussion will be somewhat speculative as during the first Semester, the European Parliament played a comparatively smaller role, as the new Six-pack was not yet approved, and the TSCG is still not yet ratified.

The chapter is based on extensive readings of the AGS as well as the country-specific recommendations issued by the Council focusing on the first year of experience. It provides a horizontal assessment. Instead, individual country-specific recommendations and their implementation at national level are analysed in Chapter 4. The annex provides further details.

3.1. Ex-ante policy guidance

Ex-ante policy guidance starts with the Annual Growth Survey (AGS). The European Commission's AGS refers to a short list of policy priorities and a longer list of policy objectives. There are a number of problems associated with such ex ante guidance that affects legitimacy as well as effectiveness.

Objectives are identified early on in the year. In the first cycle, the AGS was presented in January and endorsed shortly afterwards at the March European Council. In the following European Semester cycle of 2012, the AGS was presented already in November. An early presentation of the objectives provides for time of consultation with key stakeholders, also at a national level. This contributes to the legitimacy of the procedure as also greater parliamentary involvement is made possible. At the same time, however, the earlier the overall guidance is provided, the less effective it may be as the economic conditions may change in the meantime. Indeed, a significant problem of any form of ex-ante guidance is that this guidance has to rely on forecasts for the economic situation in the coming year. In other words, under the European Semester, the Commission has to make a forecast of GDP developments as well as budget balances based on the Fall forecast. The Commission will then ask the Member States to adjust its budget balance up- or downwards depending on how it sees the necessities. National policy making, of course, has a similar problem as any budget which is drawn up based on such forecasts; still, the national process comes later and is therefore based on more and better information.

In Box 4, we investigate the forecasting performance of the European Commission as well as of Member States as evidenced in the Stability or Convergence Programmes during 2005-2010. We chose this relatively short period to illustrate the difficulty of ex-ante guidance in times when it is most needed, namely in crisis periods. We find that forecast errors for the budget balance as well as for GDP growth are significant and of similar size for both the Commission and the Member State. We also find a systematic bias of the forecast error for the budget balance across countries. The analysis suggests that forecasting difficulties make ex-ante guidance more complicated for any actor. On the other hand, this is not a problem specific to the European Semester and fiscal policy coordination in the EU more general, as it also applies to the national budget process. Nevertheless, the Commission's guidance comes especially early in the budget year making it more difficult for the Commission itself to provide guidance that is accepted by the Member States. Secondly, governments providing inaccurate forecasts due to the natural constraints of the exercise do not face a weakening of their legitimacy; this is different for the Commission, whose legitimacy is importantly conditioned by its capacity to deliver expertise.[24] Finally, it should be noted that Commission forecasts can be made wrong by a change in the policy stance of the national government – an event that national governments can arguably better predict than the Commission.

[24] Political science experts talk in this regard of 'technocratic legitimacy' (see i.e. Lord and Magnette, 2004). See also Section 2.2.

Box 4: Ex-ante guidance: the problem of deficit forecasts

Ex-ante guidance: the problem of deficit forecasts

Ex-ante guidance on fiscal policy making requires making forecasts of the deficit and GDP. The less reliable such forecasts are, the more difficult it is for the national political system to implement the recommendation. In this box, we analyse the forecast of the deficit and GDP growth by the European Commission and the Member State in the Stability or Convergence Programme a year in advance.

In the table, we specifically document the average forecast error of the budget balance by the European Commission and the Member State as presented in the Stability or Convergence Programme as well as the root of the mean squared error. The latter accounts for the fact that forecast errors are made to the upside and the downside while the former accounts for the potential bias in the forecast error made on the upside or the downside. We show the numbers during 2005-2010. We chose the recent and relatively short period to highlight the difficulty of accurate forecasts in particular in times of significant market turbulences. Melander et al (2007) provide an analysis of forecast performance of the Commission in more quiet times and find a 'reasonable' forecasting performance.

Budget Balance Forecast				
	European Commission		**Stability or Convergence Programme**	
	Average	**Average Absolute Error**	**Average**	**Average Absolute Error**
Germany	-0,65	1,18	-0,73	1,13
France	0,11	1,11	0,55	1,61
Ireland	3,66	7,61	4,28	8,80
Estonia	-0,64	2,68	-0,34	2,69
Hungary	0,75	1,99	1,55	2,79
Finland	-0,45	2,41	-0,48	2,44

Source: Calculation of the authors.

The simple exercise shows that forecasts a year in advance have significant errors. The average absolute error is at least one percent of GDP and may be as large as 3 percent not taking account of major shocks as those in Ireland. However, we do not find that the Commission's average absolute error is significantly different from the Member States' error. Looking at the average sign of the forecast error, we find that they go in the same direction for the Stability or Convergence Programme and for the Commission forecast. For Germany, Estonia and Finland, the deficit forecast is too pessimistic on average and the budget balance is larger. For France, Ireland and Hungary, budget forecasts have been too optimistic on average.

One of the most important source of error when forecasting budgets is the forecast of GDP growth as GDP determines revenues and expenditure. In the table below we compare the forecast error of GDP growth. As before, the Commission's average absolute error does not differ greatly from the Stability or Convergence Programme forecast errors. On average, forecasts for German GDP growth were too pessimistic, while forecasts for the remaining countries remained rather optimistic. The sign of the forecasts is the same for both, the Commissions as well as for Member States' errors.

GDP Forecast				
	European Commission		**Stability or Convergence Programme**	
	Average	**Average Absolute Error**	**Average**	**Average Absolute Error**
Germany	-0,33	2,03	-0,22	1,94
France	0,41	0,99	0,96	1,60
Ireland	1,09	2,81	1,24	2,76
Estonia	2,19	6,07	1,87	6,11
Hungary	1,20	2,53	1,43	2,75
Finland	0,73	3,54	0,84	4,21

Source: Calculation of the authors.

Note on the timing of forecasts:
European Commission Forecasts were made in October 2004 for the 2005 values, and thereafter in the November prior to the forecast year.

The Stability or Convergence Programmes forecasts were made as follows:
For 2005: Dec-04 for all countries
For 2006: Dec-05 Ireland, Estonia, Hungary and Finland, Jan-06 France, Feb-06 Germany
For 2007: Nov-06 Germany, Finland, Dec-06 Estonia, Ireland, France, Hungary
For 2008: Nov-07 Estonia, France, Ireland, Hungary, Finland, Dec-07 Germany
For 2009: Dec-08 Estonia, France, Hungary, Finland, Jan-09 Germany, Ireland
For 2010: Dec-09 Ireland, Jan-10 Germany, Estonia and Hungary, Feb-10 France and Finland.

The significant forecast errors thus limit the effectiveness of the ex-ante guidance on fiscal policy. At the same time, earlier ex-ante guidance may increase legitimacy as it gives more time for the European Parliament and the National Parliaments to get involved in the Semester process. The trade-off is, however, less severe in the case of coordination in structural reform, where reform needs are typically a-cyclical and are unlikely to change over a short time span.

3.2. Defining objectives and recommendations

A second fundamental difficulty of the European Semester is the definition of the right objectives and priorities. As regards the AGS, the objectives are fairly general and reflect the standard objectives of the EMU framework as manifested in the Europe 2020 strategy that was published in March 2010 and endorsed by the European Council in June 2010. Yet, they still go beyond the standard objectives and make relatively strong statements about the appropriate stance for fiscal policy for example. However, the European Commission does not provide a clear explanation for its own selection of these policy priorities and objectives. In particular, the Commission does not highlight the potential trade-offs that the policy choices expressed in the AGS imply.[25]

Following the AGS, the evaluation of SCPs and of NRPs poses a number of similar procedural and political challenges. For this assessment, the European Commission needs to quantify not only the effect of measures on the country concerned but more importantly the spillover effects across countries that would result from the simultaneous implementation of the suggested measures.

[25] While the last two AGSs refer to the Europe 2020 strategy, more detailed explanation of the trade-offs and the policy choices are missing.

The quantification of spillover effects across countries is not an easy exercise but is pre-condition to successful EU level coordination. In the **first Semester cycle**, the European Commission assessed national fiscal and structural programmes, eventually providing country-specific recommendations that focused on a restricted list of priorities per country, but spillover effects across countries were not explicitly quantified. At the same time, no explicit rationale was provided as to why certain areas and types of intervention were privileged over others in each country, and indeed references to the implications of policy measures on the EU as a whole were scarce. For example, in the case of Germany, four main recommendations were put forward: conducting sound fiscal policy, including the full implementation of the debt brake rule, but also more spending on education and research; addressing structural weaknesses in the financial sector including Landesbanken; reducing high tax-wedge to reduce unemployment; transforming the energy system. While all four objectives may be laudable, it is unclear why these are the most important objectives that the EU demands from Germany in the interest of the EU as a whole. For example, a reduction of the tax-wedge to foster employment in the low wage segment is certainly not the most urgent priority for Germany given its low unemployment rate. It is also unclear, why and how the main partners in the EU would benefit from lower labour cost in Germany. More generally, these policy recommendations are not linked to EU objectives.

Moreover, the European Commission did not associate country-specific recommendations with different senses of urgency as a function of each country's starting position. In the standard Semester procedure, all countries receive their four to five recommendations. This suggests that indeed all countries have an equally pressing reform agenda ahead of them.

The only case where there is an explicit differentiation in the sense of urgency is when a country falls under a financial assistance programme and is de facto assessed outside the standard Semester procedure. In the case of assisted countries, the reform programme derives from a stringent macroeconomic adjustment programme agreed with EU institutions and the IMF. In the standard Semester procedure, all countries receive their 4-5 recommendations. This suggests that indeed all countries have an equally pressing reform agenda ahead of them.

A further crucial aspect of effectiveness relates to the integration of policy recommendations across policy areas.[26] Before the European Semester, the Commission provided a separate recommendation for a Council Opinion on fiscal policy plans and a recommendation for a Council recommendation on structural reform. With the European Semester, the European Commission has inserted all recommendations to each country into one unified legal text. This implies that analysis and prescriptions become two integrated processes. And indeed, one of the main purposes of the European Semester is to integrate policy making across policy areas. However, integrating policy recommendations also poses a number of challenges. From a bureaucratic point of view, integrating policy making also means involving different departments of the European Commission. Without strong leadership, the different departments may have very different views of the world and these different assessments may lead to ineffective[27] or even non-operational compromises reached in the final recommendations. There may thereby also be a risk that the stringency of recommendations is reduced. The European Commission is trying to address this problem by de-facto restricting the exercise to just the Directorate General (DG) for Economic and Financial affairs, for employment affairs and the secretariat general.

[26] See also Marzinotto, Hallerberg, Wolff (2011), where we have discussed the legal base and potential drawbacks.

[27] Ineffective recommendations could be two mutually offsetting recommendations.

Experiences with the second Semester cycle, however, suggest that differences in opinion across these DGs have had a significant bearing on the final recommendations given.[28]

The absence of a strong spillover analysis and assessment, the lack of prioritisation and the procedural difficulties to integrate policy recommendations in policy areas are risking undermining the effectiveness of the European Semester. Indeed, it is of central importance that coordination of policies is based on a clear view of why and how policies implemented by national policy makers affect the economies of other EU countries. To be effective, it is also crucial to focus attention on the key policy areas in the most important cases. Effectiveness also fundamentally depends on the ability to properly prioritise policy recommendations across policy areas. Overall, the evidence thus suggests that the way policy recommendations have been made in the first European Semester do not create the conditions for effectiveness.

Spillovers, but also prioritisation, are central for the legitimacy of the European Semester intended, as described in Chapter 2, as the respect of best practices and the rule of law in the EU policy-making exercise. There is also an additional implication that relates to legitimacy. The subsidiarity principle requires EU policy making and guidance to act only, if national decision-making alone would not be sufficient. In other words, EU guidance is only legitimate to the extent that national policy making is insufficiently taking into account the effect on the union.[29] The issue of legitimacy is further discussed below in Section 3.5.

3.3. The euro area dimension

A fundamental problem of the European Semester approach is the insufficient cross-country perspective.[30] In significant respects, the Semester is conceived as a country-specific exercise even though of course implicitly the Commission is making cross-country assessments. This is particularly apparent for the euro area countries. There is indeed a risk that the specific **euro area dimension** resulting from the common monetary policy is **insufficiently reflected** in the country-specific recommendations. To address this problem, the Commission issues a separate recommendation to the euro area, which is addressed to all Member States of the euro area. This document[31] is, however, puzzling in the sense that it is unclear who is actually recommended to act. By being addressed to all Member States of the euro area and by not mentioning individual Member States, it is de facto ineffective in the sense of providing clear and transparent guidance, which we highlighted as being an important conditions for effectiveness in policy coordination. Effectively, this guidance would therefore require Member States to take on board their national as well as the euro area recommendations. For example, one recommendation given is to ensure a *'coherent aggregate fiscal stance in the euro area'*. Yet, while high-spread countries are asked to stick to their consolidation targets, no clear recommendation to the other countries is given. The national recommendations then do not at all reflect the spirit of euro area recommendation.

For an EU institution to issue a recommendation to the Member States of the euro area jointly is strange. In fact, it is the central function of the European Commission to issue policy recommendations to national decision makers so that national policy knows what

[28] Documents for at least one country were leaked a few days before the final publication and some policy points were subject to differences across.

[29] A necessary but not sufficient condition for legitimacy of EU decisions is thus a clear EU competence, which in the area of economic policy is only given for economic policy choices that have an impact on the Union as a whole.

[30] This assessment is based on our analysis of the national recommendations and how policy recommendations are linked to EU spillovers.

[31] Recommendation for a Council recommendation on the implementation of the broad guidelines for the economic policies of the Member States whose currency is the euro; http://ec.europa.eu/europe2020/pdf/nd/csr2012_euroarea_en.pdf.

policies would foster the common interest of the Union.[32] By preparing a separate entry for the euro area, the Commission implicitly gives the message that the recommendations addressed to individual national policy makers concern mostly national (or EU-wide) problems. This is not to say that the Commission should not perform a specific euro area exercise. It should indeed analyse the euro area and the euro area spillovers very explicitly as economic policy making within the euro area needs to be significantly closer coordinated due to the much larger spillovers. Thus, the Commission should identify spillovers and define how national policy making interacts with European Union interest. Yet, it should derive from its analysis very specific recommendations to the 17 Member States of the euro area. By preparing national and euro documents separately, it implicitly re-enforces the message that the national recommendations are mostly prepared on a country-by-country level without much regard to spillovers. This, in turn, reduces their effectiveness and is an infringement of procedural legitimacy, as it has been defined in Chapter 2. In turn, the effectiveness of the euro area recommendations is even more limited as they do not have a clear addressee.

The Commission's role should not be confounded with that of the IMF in that respect. The IMF has responsibility of surveillance over the members of the International Monetary System as established in Article IV of the IMF's Articles of Agreement, but runs also a surveillance exercise of the euro area, addressing recommendations mostly to the ECB and the Commission. The concept of euro area broad guidelines for economic policy to be issued by the Commission is thus debatable, while in the case of IMF surveillance of the euro area, it makes in principle sense to have a euro area surveillance mission addressed to the ECB and the European Commission.[33]

3.4. Recent changes in the European Semester and their potential impact

The European Semester was launched at a time when the new Six-pack rules on stronger surveillance and enforcement were not yet in place.[34] The Six-pack constitutes a significant increase in intervention powers of the EU into economic policy making. This implies that the European Semester in the second cycle is developing in a rather different way than in the first year, at least the narrow European Semester.[35]

In the sections that follow we describe in detail the extent to which the **second Semester cycle** is developing and may further developed differently from the first cycle of 2011. The balance between binding and non-binding recommendations is different. Both tougher rules introduced by the Six-pack and the institutionalisation of the Semester imply that the procedure has, both legally and politically, greater relevance. De facto, recommendations given under the European Semester become more than ex-ante guidance and the threat of more binding procedural steps is tangible. For example, the Commission was well aware of the importance of fiscal policy but the signal given now from the AGS to the Member States is certainly a stronger one. Also, other issues in the AGS will now be strictly linked to the new Macroeconomic Imbalances Procedure (MIP).

In this context, one important question is how the interplay between the AGS and the new Macroeconomic Imbalances Procedure (MIP) can be improved. In the second European Semester, the AGS was issued in November 2011 but the so-called ***'Alert Mechanism Report'*** (AMR) which launches the MIP was issued only several months later. The Alert

[32] And here the interest of the union as a whole is defined by the Commission and ultimately by the Council.

[33] For a detailed discussion, see Pisani-Ferry, Sapir, Wolff (2011).

[34] The Six-pack rules are described in Box 2.

[35] It is too early for us to be able to determine if the European Commission's greater intervention rights foster policy compliance at the Member State level.

Mechanism Report aims to provide an early assessment, in which countries the Commission believes important macroeconomic imbalances could exist. It thus serves as a simple screening device to focus analysis and policy on a subset of key countries that could potentially be harmful to the proper functioning of EMU. The AGS, in turn, aims to identify general policy priorities for the EU27 as a whole. Separating the release of the AGS from the Alert Mechanism Report is somewhat artificial. Instead, a **simultaneous release of the AGS and the Alert Mechanism Report** would have a number of advantages. First, it would allow focusing the European Semester exercise on the countries where most attention is needed. Indeed, arguably one of the biggest problems of the first European Semester exercise is that it ended in policy recommendations to all 27 Member States. The implicit political message was that all countries face similarly severe problems and all 27 Member States should basically implement four or five recommendations. By doing so, little time for serious deliberations on a country-by-country level in the Council was given. This arguably reduced the effectiveness. The Alert Mechanism Report could help overcoming this problem of the European Semester. Moreover, the simultaneous release would increase efficiency of the decision making process at the Commission as arguably both documents are based on similar data, analysis and policy considerations. Alternatively, one may argue that the AGS as well as the European Semester exercise should really be addressed to all Member States. It would then constitute a soft way of providing guidance to all Member States. Of course, the central question then is whether the exercise has any impact on actual policy making at the national level. Arguably one of the central questions of the European Semester is thus whether it should be restricted to a smaller set of countries or whether it should rather be a general soft process that is addressed to all Member States.

Further changes in the legislative and institutional package are likely to affect the working of the European Semester. The **TSCG** has three distinct features that make it relevant for the Semester exercise. It is a form of policy coordination that is managed outside the Community Method and gives the 'Euro Summit' president an important role (see Box 3 in Section 1.4.2). At the same time, the TSCG reinforces the role of the European Commission by introducing de facto reversed qualified majority voting on the fiscal surveillance where currently only a simple majority could reject a recommendation of the Commission. It also reinforces the role of the European Court of Justice by giving it the jurisdiction over the implementation of fiscal rule requirements in national legislation.

The impact of the TSCG on de-facto economic policy coordination in Europe is difficult to predict and the relation to the European Semester is also uncertain. However, a number of points are worth noting. First, it should be noted that while the TSCG is intergovernmental law outside of the community law it has direct implications for existing EU law. In particular, it requires Member States to vote in a certain manner in the Stability and Growth Pact so that de facto reversed qualified majority voting is established at stages of the Excessive Deficit Procedure where not even the Six-pack foresees such voting system. Second, the TSCG was passed without European Parliament involvement as a co-legislator. This de facto changes existing EU law which the European Parliament together with the Council had established. This raises interesting questions as regards the operation of the European Semester. As has been pointed out above, the European Parliament has the right to invite national authorities to explain why and whether they have deviated from a binding Council recommendation. Since the TSCG may de facto change the nature of Council recommendations due to different voting rules, the question arises whether the European Parliament should also invite national representatives in case they deviate from the tougher policy recommendation that has resulted from the operation of the TSCG. Similarly, should the European Parliament invite European Institutions to detect and hold to account breaches from the TSCG?

In our assessment, the **Two-pack** would constitute an important step towards a more effective European Semester. One of the two proposed Regulations concerns countries under financial assistance programmes, which are relieved from some of the requirements resulting from the European Semester but have farther reaching requirements as regards compliance and reporting. The other Regulation tightens reporting requirements for countries of the euro area. In particular, national draft budgets need to be submitted to the European Commission by 15 October every year so that the Commission can check adherence to commitments taken in their Stability Programmes.

Most of the European Semester is applicable to all EU Member States. However, some of the new legislations such as the Six-pack have special provisions for countries inside the euro area.[36] Sapir, Pisani-Ferry and Wolff (2012) highlight that

'*most of the so-called Six-pack reforms are based on the Lisbon Treaty and therefore perpetuate the clear distinction between euro and non euro area countries. In particular, Regulation 1175/2011 'on the strengthening of the surveillance of budgetary positions' applies to the EU27, but the associated sanctions refer to the euro area. Regulation 1176/2011 on the prevention and correction of macroeconomic imbalances also applies to the whole EU, however, the alert mechanism, which is part of the Regulation, is in accordance with Article 121(3) TFEU, which is being dealt with in the Eurogroup. Also, the so-called Scoreboard, which forms the basis of the alert mechanism, distinguishes between euro and non euro area countries. Finally, the enforcement mechanism to correct excessive macroeconomic imbalances adopted as part of the Six-pack is exclusively addressed to euro-area countries (Regulation 1174/2011). For the most part, the Regulations require qualified majority voting (QMV) by the Council to adopt a recommendation by the European Commission. For euro-area countries, only euro-area countries vote. Overall, the Six-pack strengthened euro-area governance, and by doing so, the legislation increased the gap between euro-area and non-euro area countries. Indeed, stronger and more binding rules for euro-area countries imply a wider legal gap and may also result in diverging economic policy stances.*'

The approval of the Two-pack would certainly push further in that direction as more euro area governance elements are introduced. The Six-pack thus increases the likelihood that euro area level policies get somewhat more traction than observed in the first Semester. In fact, the threat of sanctions may increase compliance with binding policy recommendations. In terms of effectiveness, we therefore argue that compliance for countries in the euro area is higher than for countries outside the euro area. Empirically, fiscal consolidations inside the euro area during 2012 have indeed been very significant. Yet, it is impossible to ascribe this to the European Semester as very significant market pressure during 2012 was present. Even in France, where market pressure is absent, the threat of such pressure may have shaped economic policy making more than the actual European Semester. Indeed, we show below that relatively little reference to the fiscal part of the European Semester is made in the official documents submitted in 2011 by France.

3.5. Accountability, legitimacy and the role of the European Parliament

Many commentators as well as Members of the European Parliament (MEPs) have pointed out that Council policy recommendations in many instances differ from the original recommendations formulated by the Commission. Commentators fear that such deviations may not only be motivated by sound economic arguments but rather be driven by false political compromises that ultimately undermine the effectiveness of the Semester. The European Parliament has therefore insisted on holding the European Institutions to account.

[36] Sapir, Pisani-Ferry and Wolff (2012) discuss some of these challenges.

With the Six-pack, the European Parliament can indeed hold both, the Council and the Commission accountable as well as more generally the institutions of the European Union. One aim of the exercise is to allow a broader audience to get informed about changes in policy preferences. The Six-pack thus contributes to solving the problem of missing possibilities to hold Council and Commission to account in the first Semester.

As regards (input) legitimacy of the European Semester, the situation is quite complicated. For a start, the **AGS** is a **statement about political preferences** as regards future key priorities. While elaborate economic justifications will help making the case, the ultimate decision needs to remain a political one. The AGS is endorsed by the European Council to give it political legitimacy. The timing of this endorsement is crucial. Ideally, the European Council should endorse it quickly enough so that the national budget process receives an ex-ante guidance that is politically legitimised. An endorsement in March as currently done[37] is too late for some budget processes, for example in Germany, where important national deliberations on the budget take place already during the period from December to March. In early March the estimates of each department on expenditure needs and revenues are transmitted to the finance ministry. The adoption of conclusions on the AGS by the Council in February is thus an important intermediate step to increase the political importance of the AGS in these national processes.[38]

At the same time, the AGS by the Commission can also be seen as legitimate if the National Parliaments have enough time to consider the guidance of the Commission and to overrule it if deemed necessary. In this interpretation, legitimacy must ultimately come from the National Parliaments. The problem with this interpretation is, however, that it ultimately undermines the effectiveness of the European Semester. In particular, it will then remain possible that national political systems overrule the European guidance. In such a situation, policy coordination will only be effective for policy decisions that are strictly Pareto improving, i.e. decisions that do not hurt any country. Clearly, the experience of the last two years has taught us that the solutions sometimes require decisions that do not benefit all, at least in the short run.

A further question of legitimacy is related to the parliamentary support of the political preferences expressed in the AGS and the national policy recommendations. The Treaty does not give a strong role to the European Parliament in this process. In fact, Article 121(2) TFEU basically requires the Council to inform the European Parliament of its recommendations and Article 121(5) TFEU gives the European Parliament the right to invite the President of the Council to appear before the relevant committee. Article 148 TFEU requires for a consultation of the European Parliament. Article 126 TFEU, the basis for fiscal surveillance, is even more restrictive and only requires the President of the Council to inform the European Parliament of decisions taken. De facto, the **European Parliament** therefore has **no say in the formulation of policy decisions** – the Treaty reserves this to the Commission and the Council. An own-initiative report by the European Parliament with Rapporteur Prevenche Berès has therefore called for a larger role of the European Parliament.[39]

Under the **Economic Dialogue** approved with the Six-pack, the European Parliament has now the power to invite both the Commission and the Council to discuss the AGS as well as the national recommendations under the fiscal and macroeconomic/structural arm. More specifically, the Macroeconomic Imbalance Regulation (No 1176/2011 and No 1174/2011)

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[37] http://europa.eu/rapid/pressReleasesAction.do?reference=DOC/12/4&format=HTML&aged=0&language=EN&guiLanguage=fr.

[38] http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/lsa/128036.pdf. The Two-pack and the harmonisation of budgetary procedures at the national level will likely also further shape the national process.

[39] Report on the European Semester, A7-0384/2011, http://www.europarl.europa.eu/sides/getDoc.do?type=REPORT&reference=A7-2011-0384&language=EN.

as well as the Fiscal Regulations (No 1173/2011; No 1175/2011 and Regulation 1177/2011) aim to foster *'the dialogue between the institutions of the Union, in particular the European Parliament, the Council and the Commission, and to ensure greater transparency and accountability.'* [40] In practice, the Parliament therefore has now the right to invite the Presidents of the Commission, of the European Council, of the Council and of the Eurogroup to speak in front of the relevant committee. The discussion can cover

(a) information provided by the Council,

(b) general guidance to Member States,

(c) AGS,

(d) results of multilateral surveillance carried out under Regulation 1176,

(e) conclusion of the European Council concerning orientations and results of multilateral surveillance,

(f) a review of the conduct of multilateral surveillance,

(g) specific recommendations on excessive imbalances defined in Regulation 1176, as well as specific recommendations based on Regulation 1173/2011 in the fiscal field. The Regulation also offers the opportunity for an exchange of views with the concerned Member State, which remains voluntary.

The so-defined economic dialogue is an important improvement strengthening the role of the European Parliament. It essentially offers the European Parliament the scope to be a platform of discussion and debate on every aspect of substance of the European Semester. Despite of this Economic Dialogue, the involvement of the European Parliament in the Semester is not fully providing **parliamentary legitimacy** to the decisions taken. Indeed, the European Parliament has no formal vote that could alter or overrule any of the decisions taken. The European Parliament can therefore ask questions and thereby increase public attention to mistakes. Yet, it cannot take decisions itself.

In the first European Semester but also in the second Semester following the reforms of the Six-pack, the European Parliament's involvement in the central decisions is limited. In fact, the European Commission is formulating its recommendations and the Council then adopts recommendations that can even be binding to the individual Member States. The role of the European Parliament is restricted to creating public awareness of decisions and requesting information on the decisions. The Parliament cannot reject decisions taken nor can it alter taken decisions. The European Parliament therefore does not give full legitimacy to the process in the current form. In fact, the Treaty does not even legitimise the European Parliament to be the institution to take economic policy decisions.

The issue of **legitimacy of** the European Semester's **ex-ante guidance** is closely **linked to** the question of **sovereignty** and is at the heart of the problems of the euro area in particular. Constraints imposed on national policy de facto reduce sovereignty of the national decision-making process. In the current set-up, recommendations are legitimised by the Council and de facto constrain the scope of action of national governments and also of National Parliaments. However, the evidence is that National Parliaments do not allow the loss of sovereignty in favour of the EU level. This, of course, reduces the effectiveness of the ex-ante guidance.

Two basic options exist to further increase legitimacy of the European Semester and the different procedures associated with it. **First,** the European Parliament could have a greater involvement in the process. For example, one could envisage that the European Parliament votes on the different policy recommendations addressed to Member States in a quasi-ordinary legislative procedure with the Council. **Second**, a greater involvement of National Parliaments in the decision-making process could be envisaged. This could be done for

[40] This formulation is used almost identical in all five Six-pack regulations.

example by having the European Commissioner address and testify to National Parliaments, thereby establishing accountability of the Commission to National Parliaments. One step would be to foster Interparliamentary Cooperation. Title II (Articles 9 and 10) of the Protocol (No 1) on the role of National Parliaments in the European Union of the Lisbon Treaty defines its scope. In February 2012, an Interparliamentary Committee meeting based on the protocol was organised by the European Parliament. The aim of this Interparliamentary Committee meeting was to foster exchange and awareness of European policy topics among National Parliamentarians. Both options have advantages and disadvantages.

The **first option** is certainly logically and democratically more consistent with a true European federation. The central argument would be that major decisions have to be taken de facto at a European level and should therefore also be legitimised at a European level. A European level decision-making is most likely to fully take into account spillovers across countries. As a consequence, National Parliaments would lose part of their prerogatives, as the European level would provide legitimacy already. De facto, parts of sovereignty would be transferred from a national to a European level. The political reality of today is, however, that National Parliaments and decision making systems want to keep their primary control over central decisions in the area of budgets and structural policy and we report survey-based evidence on this point in Chapter 5.

The advantage of the **second option** would thus consist in recognising this political reality and nevertheless be able to shape national decision-making processes through stronger European Commission presence in National Parliaments and debates. The risk of this option is, however, that the European Commission would lose sight of the European interest and feel more accountable to National Parliaments, in particular those National Parliaments of the large countries. But in the effort of strengthening this form of legitimacy, the role of the National Parliaments is not to be underestimated, especially if the European Parliament acts as a transmission belt between the national and the European level.

De facto and **until far-reaching treaty changes** are made, it appears thus indispensable to **increase the involvement of National Parliaments** in the central European debates. Indeed, these are frightening times in which very major decisions on fiscal and structural policy need to be taken in rather short periods of time. Ultimately, these decisions are still taken at a national level under the pressure of markets as well as under the pressure of EU partners. More presence of the European Commission in National Parliament committees and a strengthening of the Interparliamentary Cooperation between the European Parliament and National Parliaments would help explaining to national decision makers why certain decisions are required if spillover effects need be taken into account and major economic accidents are to be prevented. One way of making sure that the European Commission remains first and foremost accountable to the European interest would be to require the Commission to report on the different hearings it would hold with the National Parliaments to the European Parliaments ECON committee. The Commission would thus be held account by the Parliament. The Interparliamentary Committee Meeting could also meet more regularly so as to create a more genuine understanding of European processes among the national parliamentarians.

However, especially with the introduction of the ESM and the Fiscal Compact, the issue of democratic legitimacy of European decisions is becoming burning. Indeed, both treaties amount to a significant transfer of power to the euro area level. Yet, at the euro area level, the legitimacy of decisions is only derived from the Eurogroup, the Euro Summit and the European Commission. There is thus a clear need to increase parliamentary legitimacy at the euro area level. We will revert to this issue in Chapter 6.

4. THE NATIONAL SEMESTER - CASE STUDIES

KEY FINDINGS

- The objective of this Chapter is to assess the effectiveness of the process, which we define as its capacity to deliver on enhanced economic policy coordination, which ultimately coincide here with its capacity to achieve policy compliance at the Member State level.
- The analytical framework of the assessment builds on two concepts: i) actual policy compliance, and ii) presence of the conditions that would favour compliance, which we identify as being a) procedural adaptation; b) policy adaptation and; c) public discourse visibility, all of which speak about the extent to which national governments have acquired ownership of the Semester process.
- The analysis is restricted to a sample of six representative Member States. At the national level, we find that the European Semester is not sufficient to ensure policy compliance. Member States generally ignore the content of recommendations especially in areas where these are not binding and at the same time likely to fall on a few concentrated vested interests (e.g. service market liberalisation). Whilst actual policy compliance is disappointing, the analysed EU Member States display appreciable levels of procedural adaptation, albeit to different degrees.
- One unexpected result we obtain from the analysis of our small-scale sample of EU countries is that national fiscal institutions including the timeline of the national budgetary process do not bear any appreciable impact on each country's level of adaptation to the European Semester.

4.1. Case selection

The objective of this section is to assess the effectiveness of the process, which we define as its capacity to deliver on enhanced economic policy coordination at the Member State level. In other words, we look at how the European Semester worked in practice in each Member State. We simply assess whether EU Member States have implemented EU recommendations. The second related issue is the extent to which the conditions for effective coordination are met. These have been identified as being: a) procedural adaptation; b) policy adaptation and; c) discourse visibility. All three speaks about the extent to which the Member States have acquired **ownership of the Semester process**. Member States involved in a coordination exercise are subject to adaptive pressures that may impose reporting requirements (e.g. deadlines, model guidelines and data quality) and policy requirements (e.g. policy targets).[41] But national ownership of a process is also a function of the extent to which the general public is aware of the change. It is in fact hard to imagine how *ex-ante* policy guidance and peer pressure would be sufficient to deliver compliance in the absence of public awareness.

Evidence on Member States' adaptation and ultimately on the effectiveness of the new procedure in its first year of life tends to be sparse and mostly qualitative in nature. Our analysis is based on six EU Member States so as to allow a detailed assessment. The sample comprises: Estonia, Finland, France, Germany, Hungary and Ireland. The rationale

[41] The classification partly resembles the analytical framework described in Linsenmann, Meyer and Wessels (2007).

behind sample selection is based on the '**most-different systems' approach**. The countries vary in fact from each other along a number of dimensions: size; type of fiscal governance; fiscal institutions; if under programme or special surveillance; whether subject to EDP in 2011-2012 or not; whether caught in an electoral cycle in 2011 during the first Semester cycle.[42] There is high diversification in our sample. We deal with two large and four small Member States; half of them rely on a contract-based system of fiscal governance and the other half on delegation; the timeline of the governmental phase of the budgetary process varies from one country to the other, starting much earlier in Finland and Germany and later in Estonia and France, for example; there are also different degrees of experience with medium-term budgetary frameworks (MTBFs). National Parliaments play a very important role in the budget process of Finland and Germany but much less so in the other countries. Additionally, Ireland is under programme and Hungary under special surveillance. Finland and Estonia are, together with Luxembourg which is not in our sample, the only two euro area countries that are not under EDP in 2011. Finally, Ireland, Estonia, and Finland went through an electoral cycle in 2011.

We expect the dimensions identified above to shape each country's commitment to the European Semester and to bear an impact on national adaptation. For example, large countries might be less prone to accept and implement policy guidance, maybe anticipating that they will be able to impact on any subsequent decision that is subject to qualified majority voting (QMV) or even reversed qualified majority voting (RQMV).

Of particular importance are variables that relate to fiscal governance and institutions given the nature of the process that is being described. Following Hallerberg, Strauch and von Hagen (2009), we distinguish between two forms of **fiscal governance** or ways of centralisation of the budgetary process: i) **delegation** and ii) **contracts.** The first implies that budgetary powers are fully delegated to a strong Ministry of Finance. The second refers to a situation in which the ruling parties have agreed on a series of fiscal contracts, under which multi-annual fiscal frameworks are more likely to be detailed and eventually also honoured. In this respect, the expectation is that contract countries are better able to integrate the elements of the Semester than delegation countries because the contracts provide an explicitly political role - they help coordinate a coalition government. In delegation countries, where one party rather than multi-party governments are common, there are other mechanisms to coordinate the government.

[42] Table 2 provides a summary of these dimensions and of values, where appropriate.

Table 2: Selected Countries for case studies - Selection according most-different system approach

	Group 1		Group 2		Group 3	
	France	Germany	Estonia	Finland	Hungary	Ireland
Population (million)	65.1	81.8	1.3	5.4	10.0	4.5
EU Membership	Founding Member	Founding Member	2004	1995	2004	1973
Euro area Membership	1999	1999	2011	1999	No	1999
Fiscal Governance[43]	Delegation	Delegation	Contract	Contract	Delegation	Contract
Fiscal Institutions						
Duration of Government Budget Proposal Preparation[44]	May-June to Early-October	End-December to End-June/Early-July	Early-June to End-September	End-December to Mid-September	Mid-April to End-September	April to Early-December
Presentation of Proposal to the National Parliament[45]	Early October	Early-September	End of September	Mid-September	End of September	Early December
Medium-Term Budgetary Frameworks[46]	1.80	1.40	1.40	1.40	1.20	0.60
Strength of Parliament in the Budgetary Process[47]	1	4	1	5	1	1[48]
Conjuncture (2011-2)						
Under programme	No	No	No	No	No but surveillance	Yes
Under EDP	Yes	Yes	No	No	Yes but no sanctions	Yes but irrelevant
Electoral cycle in 2011	No	No	Yes	Yes	No	Yes

[43] Hallerberg, Strauch, and von Hagen (2009).

[44] Indications on the important steps in the budget preparation in the EU Member States. European Commission, Directorate General for Economic and Financial Affairs (DG ECFIN), Country Desks, consulted September 2012.

[45] Hallerberg, Marzinotto, and Wolff (2011).

[46] Medium-Term Budgetary Frameworks Index, median value, 2009. European Commission, DG ECFIN, Fiscal Governance, Medium-Term Budgetary Frameworks Database. See also: http://ec.europa.eu/economy_finance/db_indicators/fiscal_governance/framework/index_en.htm.

[47] Hallerberg, Marzinotto, and Wolff (2011): The strength is measured within a range from 0 (weakest) to 6 (strongest) and is based on if i) Parliament can propose budget independently of government; ii) it can propose amendments; iii) amendments can cause fall of government; iv) those amendments are limited; v) amendments face an offset rule so that increased spending must be matched with spending cuts; vi) they are offsetting relative to the budget balance. Strength increase by 1 for each questions answered with yes for questions i-iii) and answered with no for iv-vi), respectively. See also Section 5.1 of this study.

[48] Estonia and France reported a value of 2 in Hallerberg, Marzinotto, and Wolff (2011), while the Irish score was equal to 0. These differences come from the fact that one of the questions on offsetting amendments was answered differently in 2012 than in 2011.

Besides fiscal governance, actual **fiscal institutions** should equally bear an impact on Member States' capacity to adapt to the new framework. For example, in some countries the governmental phase of the budgetary process starts much earlier than in others. Early start in the preparation of the draft budget should facilitate adaptation to a process that is based on ex-ante policy guidance and on the anticipated submission of NRPs and SCPs. Furthermore, some countries have a long experience in multi-annual fiscal planning and strong MTBFs that signal also that they may be accustomed to look at spillover effects between policy areas.[49] These very same countries should perform better than others the planning and forecasting tasks that the new procedure requires.[50]

Moreover, the dimensions relating to the conjuncture we have identified may interfere with the operation of the Semester, especially in its first year of implementation, namely at a time in which the procedure was not fully institutionalised. For example, over the first Semester cycle, Ireland was under financial assistance and Hungary had just concluded a period of financial assistance under the Medium-Term Financial Assistance (MTFA) facility and was under special surveillance. The natural expectation is that the Semester's rules do not bite in the case of Ireland given that the country's commitment to fiscal consolidation and structural reform is part of the stringent macroeconomic adjustment programme that the country has agreed with the EU, the IMF and the ECB in exchange for financial assistance. A second relevant aspect is whether countries are under EDP. We expect that euro area countries under EDP will incorporate into their Stability Programmes the same fiscal targets and deadlines suggested in the Council recommendation on the correction of excessive deficits. So, national fiscal commitments should be fully aligned with EDP documents. Nevertheless, the question of the effectiveness of fiscal policy coordination remains. In this respect the relevant question is: Does the European Semester add to the normal operation of the Stability Pact? Finally, we account for political business cycles, under the assumption that countries that are subject to an electoral cycle are more likely to deviate from their initial commitments if electoral considerations take them in the direction of a more expansionary fiscal policy stance As argued in the literature on the political economy of deficit and debt biases.[51]

We recognise that this very diverse sample makes a clear identification of the effects of the European Semester more difficult. On the other hand, it allows us to demonstrate better how the European Semester interacts with vastly different institutional and economic situations. The chosen sample is therefore a compromise and we achieve better comparability by **grouping the six countries in three pairs:** i) France and Germany; ii) Estonia and Finland; and iii) Hungary and Ireland. The common dimensions justifying this grouping will be described in Section 4.3 to Section 4.5.

4.2. The framework of analysis

4.2.1. Adherence to policy guidance

We have defined effectiveness as the capacity of the European Semester framework to induce Member States' compliance. Hence effectiveness is first of all intended as **adherence to policy guidance**, namely as the extent to which individual EU Member States have taken EU recommendations on board, translating them into policy actions. We

[49] MTBFs refer to the practice of conducting multi-annual fiscal planning which implies that the budgetary implications of fiscal measures are considered for a period of time longer than one year.

[50] The figures do point in that direction. For example, Ireland which has the weakest MTBF in our sample is also the country for each the forecasting error in the case of deficit levels is the largest, as shown in Chapter 3.

[51] Alesina and Perotti, Balassone and Francese (2004), Mueller (2003), Buti and van den Noord (2003), Hughes-Hallet, Strauch and von Hagen (2001).

also identify if the conditions for successful economic policy coordination normally isolated in the literature are met.

4.2.2. National ownership of the process

When it comes to state-level conditions for effectiveness, the general consensus in the literature is that the key one is the **ownership of the process**, which may be defined along three dimensions: a) *procedural adaptation,* which refers to the extent to which EU Member States have followed the reporting requirements imposed by the EU; b) *policy adaptation* capturing whether they have internalised substantive policy requirements; and c) discourse visibility*,* which refers to the extent to which there is public awareness of the new process. We specify below how the concept of national ownership is operationalised in the context of the present research.

a) Procedural adaptation

- References in national SCPs and NRPs to the European Semester and the AGS
- Accurate acknowledgment of spillover effects across policy areas (or 'integrated approach')
- Improvement in reporting format (NRP)[52]

b) Policy adaptation

- Adherence to AGS priorities and objectives and extent to which the main headlines of 2011 NRPs are adjusted in 2012 to reflect the new AGS[53]

c) Discourse visibility

- Space attributed in the public debate to the European Semester and to the reforms that have been promoted in the framework of the Semester.

4.2.3. Media coverage and cross-country differences

National ownership of the Semester process is not only a function of the extent to which national administrations have adapted to the new procedures and taken EU recommendations on board, but also of the extent to which the Semester has found its way in the public debate (discourse visibility). We have run an analysis of media coverage in three countries, Germany, France and Ireland but also at the EU level by extracting quotes from EU-level media through Factiva, a web-based search programme for citations in leading print media.

The results we obtained and which are outlined in more detail in Annex 11 are meaningful only in a comparative perspective. We searched for the following terms: *'European Semester'*, *'Annual Growth Survey'*, '*National Reform Programmes'*, and *'Stability Programmes'*. In all three countries under analysis, i.e. Germany, France and Ireland, the most quoted is the *'Stability Programme'*. Fiscal binding commitments remain the most visible contents of EU economic policy coordination across all countries, but in particular in France than in Germany and Ireland. The second most cited term is *'European Semester'*.

[52] Whilst the European Semester comes with a series of guidelines for the preparation of SCPs and national documents are to some extent comparable across countries, NRPs remain in their model structure quite different from each other. Table A3.1/Annex 3 compares the format of NRPs across the six countries surveyed.

[53] The first AGS of January 2011 endorsed the following three priorities: i) fiscal consolidation and macroeconomic stability; ii) labour market reforms for higher employment; and iii) growth enhancing measures. The second AGS was delivered in November 2011 much earlier than in the first cycle and the listed priorities somehow reflected a change in the political consensus about ways to overcome the crisis; they have been expanded to include: i) pursuing a differentiated growth-friendly fiscal consolidation; ii) restoring normal lending to the economy; iii) promoting growth and competitiveness for today and for tomorrow; iv) tackling unemployment and the social consequences from the crisis; and v) modernising public administration.

Citations are more numerous in France and Germany than in Ireland, where it is in fact the financial assistance package what defined the EU economic policy of the country in 2011 and certainly not its participation in the Semester exercise of policy coordination. As for the Stability Programme, visibility in media is slightly greater in France than it is in Germany and is not a function of the ideological orientation of the printed media. The terms *'National Reform Programme'* and *'Annual Growth Survey'* are the least quoted of the four terms we have isolated. This confirms results in previous research, for which any non-binding exercise in policy coordination in the EU has generally little visibility.[54] It is especially worrying that an important document such as the AGS which is meant to set the priorities for all Member States at the beginning of each cycle is lacking public recognition. Legitimacy of the at least some stages of the Semester process may therefore be limited in the eyes of a wider public.

For the purpose of comparison, we have also run a similar media coverage analysis using only EU wide media. We tested for the frequency of the term *'European Semester'*. A first result is that the Semester has had much more coverage in the first than in the second cycle, which is not necessarily surprising given the perception of novelty in 2011. Coverage rises at salient steps in the procedure, namely in September 2010 when the new code of conduct was approved and the European Commission launched the Six-pack proposal; in January 2011 when the AGS was published; at the end of the surveillance cycle when the EU issued country-specific recommendations; and finally in November 2011 with the launch of the second AGS and in December 2011 with the entering into force of the Six-pack. An important difference between the first and the second cycle is that, in the second cycle, media attention is less concentrated at salient times and more evenly distributed over time. We have further taken an important pillar of the Semester, the EU2020 Strategy, and compared with the success of the former Lisbon Strategy. Our results confirm a good media success for EU2020 compared with the Lisbon Strategy, even if in 2005 the Lisbon Strategy was reformed, a policy measure that should have been accompanied by a significant rise in media coverage.

Box 5: Methodology behind discourse visibility analysis

Methodology behind discourse visibility analysis

To conduct our discourse visibility analysis, we employ Factiva, an internet-based analyser of national newspapers. We firstly individuate several keywords to enter in Factiva. We decided to adopt a structure of keywords organised on three levels, scaled following the link of the keyword with the European Semester process.

- At the first level, we individuated only one keyword, namely '*European Semester*' itself.
- At the second level, we placed the keywords related to the structural documents of the European Semester process: therefore, we adopted the keywords '*Annual Growth Survey*', '*National Reform Programme*', and '*Stability Programme*'.
- At the third level, we placed the keywords related to the policy content of the European Semester. Therefore, we used as keywords the three main policy areas identified by the 2011 Annual Growth Survey: '*fiscal consolidation*', *'labour market reform',* and '*growth enhancing measures'.*[55]

[54] Meyer (2005).

[55] The link between the third level keywords and the Semester is weaker than for the other two levels. In some cases, the cited reforms were already part of the national reform agenda. Nevertheless, we could not exclude *a priori* any link between the discussion on these reforms and the guidance provided within the European Semester process, so we added the third level to our analysis.

In order to overcome language barriers, we did not restrict our research to the literal translation, but we also adapted our criteria to the research of synonymous, particularly for the third level keywords. In addition, we complemented the results obtained through Factiva using the research tool provided by the newspapers' websites. We identified appropriate temporal windows to which our research could have been restricted. We considered that a window of three months before and after the date of publication of each document represented the best timeline to assess the European Semester's pervasiveness. As additional set of information, we considered it useful to have an overall view of the public opinion so far, regardless of the dates of publications of the documents. Therefore, we checked how many times the different keywords have been mentioned since April 2010.[56] Concerning the selection of national newspapers to monitor, we used a selection of the most important newspapers for France, Germany and Ireland. We had in fact restricted our experimental analysis to these three countries, because it was not possible to fully and reliably cover the other three countries either through Factiva or manual search.

4.3. Group 1: France and Germany

4.3.1. Group description

We adopt the strategy of treating countries in our sample in pairs. France and Germany are large founding states of the European Economic Community (EEC) and early adherers to, first, international monetary cooperation and, second, monetary unification. More recently, they supported in tandem the launch of the Euro Plus Pact. In terms of fiscal governance, they both rely on a *'delegation'* system that attributes strong budgetary powers to the Ministry of Finance. The most evident difference between the two concerns the timing of the budgetary process, the strength of MTBF and the role of the National Parliament.

In **France,** the governmental phase of the budgetary process starts in May or June and is completed in early October, when the draft budget is presented to Parliament, much later than in all other countries in our sample. The Parliament shall vote on it within 70 days from submission. The government maintains the power to propose changes in the course of the budgetary year, if required, by means of a corrective law (*loi de finances rectificative*). The French fiscal framework benefits from strong medium-term planning capacity. On the other hand the Parliament plays a modest role and does not have the power to decide on raising expenditures and/or lowering revenues.

The **German** budgetary process starts quite early compared with other countries. The Ministry of Finance sends an annual budget circular to all departments in December or January. By early March, all departments forward estimates of economic developments and tax revenues; these are followed up by an estimate of tax revenues in May. These figures represent the basis for negotiations with the Ministry of Finance. The resulting document is transmitted to the federal cabinet. After approval, the draft budget is sent to the Federal Parliament (*Bundestag*) and the Federal Council (*Bundesrat*) no later than the first session of the Bundestag in early September. The German fiscal framework relies on multi-annual planning and is characterised by the presence of strong MTBF, yet this is not as strong as in France. The Parliament has an important role in the budget process, only second to Finland amongst the countries in our sample.

We find for both just a moderate degree of compliance with EU recommendations. In particular, both countries fail to obey by EU recommendations relating to the need to enact

[56] Unfortunately, Factiva does not provide a complete account of all six countries. The newspapers we chose for Estonia, Hungary and Finland were not covered or only partially covered.

service market liberalisation. As to the key condition for effective coordination, the national ownership of the process, and its three dimensions of procedural, policy adaptation, and discourse visibility, we find the following: all in all, there seems to be a greater sense of ownership of the process in Germany than in France; most interestingly, the French government stresses the role of the European Semester as a tool for the coordination of supply-side reforms, whilst the German government seems to put more emphasis on fiscal policy coordination.

4.3.2. France

Adherence to policy guidance

In 2011, the EU addressed five recommendations to the French government, four relating to structural reform and one to fiscal policy. The EU suggests that the dialogue with the social partners is revived especially to discuss and negotiate regulatory measures that would limit labour market segmentation, support skill upgrading and foster employment creation for the young and the low-skilled. Another recommendation equally concerns the labour market and recommends measures to improve access to lifelong learning for older workers, to favour return to employment and strengthen the efficiency of the public employment service. There are is also a reference to the tax system, which shall be made more efficient and fiscal pressure moved away from labour to environmental protection and consumption. The fourth structural recommendation is about service liberalisation, mainly of trades and professions. On the fiscal front, the EU stresses the need to stick to the correction of the excessive deficit by 2013 by allowing an annual cut in the nominal deficit of at least 1 percentage points of GDP. The necessary measures shall be better defined and review of the sustainability of the pension system continued.

The European Semester process is considered effective at the national level if country-specific recommendations approved by the Council and endorsed by the European Council translated into policy actions. We find in France a moderate implementation record.[57] In the French 2012 Budget Act, there is no clear reference to active labour market policies, exception made for some actions to encourage companies to hire young people and invest in training. The tax system has been partially reformed with a rise in VAT and a reduction in social contributions. By contrast, no measure has been undertaken to liberalise trades and the retail sector. Finally, on fiscal consolidation, a lower-than-expected deficit in 2011 implied a reduction in the burden of adjustment over the period 2011-2013, but the better-than-expected result was mainly due to windfall revenues and statistical reclassifications.[58]

National ownership

a) Procedural adaptation

The French government submitted its NRP and SP in early May 2011. The 2011 NRP contains reference to the European Semester with most of the emphasis on the Euro Plus Pact, whilst the SP does not take explicit account of the new Semester procedure. The so-called integrated approach, i.e., the acknowledgment of how fiscal policy and other structural interventions interact with each other, is adopted only in the SP. Procedural adaptation to the European Semester has not improved from 2011 to 2012; as a matter of

[57] The key documents we use to give account of practical implementation of fiscal and structural reform are as follows: The Report on the Evolution on the Economic and Budgetary Situation provided at the beginning of the *Projet de loi des finances rectificative 2012,* The French 2012 Budget, The report on the Organisation and Implementation of the *Investment for the Future Programme* annexed to the 2012 Budget, further information available on Government's and ministries' websites, The French Stability Programme 2012 The French Reform Programme 2012.

[58] See also Commission Staff Working Document, 'Assessment of the 2012 national reform programme and stability programme for France', 30 May 2012.

fact, the 2012 NRP contains a description of the implementation record of various policy measures but, differently from other countries, the document is not explicit about how these measures relate to the priorities that were laid down in the 2011 NRP nor about how the French government has responded to each of the five EU recommendations received at the end of the first Semester cycle, even if EU recommendations are listed in the appendix. Moreover, there is no evidence of a change in the NRP's model structure from 2011 to 2012 which is also hardly comparable with that of other countries. Overall, what comes out of the analysis of official documents is that the Semester is mostly considered as an exercise in the coordination of structural reform across countries and much less as a procedure that supports multilateral fiscal surveillance.

b) Policy adaptation

The 2011 NRP identified the following priorities: i) quality and sustainability of public finances, ii) the need to address macroeconomic imbalances; iii) excellence in higher education and research; iv) green economy; v) improving the regulatory framework in which firms operate, especially SMEs, reindustrialisation and service sector liberalisation; vi) employment and the fight of poverty and social exclusion; and vii) the reform of training systems. There is a strong sense of continuity between the 2011 NRP and the 2012 NRP, as all the priorities are confirmed and further details on concrete actions provided in some cases, e.g. macroeconomic imbalances. But, there is no evidence that the 2012 AGS has forced the French government into a rethinking or a revision of its own reform path.

c) Discourse visibility

We run an analysis of media coverage in France.[59] The newspapers covered are: *Liberation*, *Les Echos*, *La Tribune*, *Le Figaro*, *Le Monde*. The keywords used for the search are *'European Semester'*, *'Annual Growth Survey'*, *'National Reform Programme'*, and *'Stability Programme'.* The most cited term is *'Stability Programme'*, probably because it alludes to binding measures and confirms hypotheses developed elsewhere, for which the presence of a sanctioning regime and more so the possibility of hard sanctions on EU Member States is associated with greater media coverage.[60] This is followed by the term *'European Semester'* with the highest number of citations compared with the other two countries for which we conduct media analysis, Germany and Ireland. As to the distribution of citations over time, these are concentrated in the first Semester cycle, whilst the start of the second cycle is not associated with a similar degree of visibility.

4.3.3. Germany

Adherence to policy guidance

In 2011, the EU delivered four recommendations to the German government, three concerning structural reform and one fiscal policy. One recommendation regards the financial sector and includes the suggestion to restructure weak *Landesbanken*. Another one addresses labour market challenges, advocating improved equitable access to education and training, a reduction in fiscal pressure on low-income workers, a rise in the number of childcare facilities and better access to the labour market for second income earners. The third non-fiscal recommendation is a plea for the liberalisation of professional services, certain crafts, network industries and for an improvement in cost-efficient energy production and transmission. Finally, on fiscal policy, the EU recommends the actual implementation of the suggested growth-friendly fiscal consolidation path in 2012 and

[59] For an overview of the methodology used, see Section 4.2.3 and Box 5 therein.

[60] Meyer (2005).

beyond, and invites the government to complete the implementation of the debt rule at the level of the Länder.

As for the case of France, we test whether EU recommendations have been translated into policy actions and find also here a moderate implementation record.[61] Reforms have been implemented in the financial sector, including granting the Financial Supervisory Authority (BaFin) the power to impose higher requirements for capital adequacy ratios on certain institutions. But, there is no reference to the restructuring of the *Landesbanken*. Some measures have been implemented to expand childcare facilities and reduce fiscal pressures on low-income workers but there are no provisions for equitable access to education and training. More needs to be done to liberalise professional services. Finally, the German government is continuing its fiscal consolidation strategy after having corrected its excessive deficit earlier than expected; however, there is no evidence of the German government having reacted to the Council recommendation that advocated acceleration in the implementation of the budget strategy at the level of the *Länder*. Here, there is still leeway in the application of the debt rule but, at the same time, the *Länder* are not bound to comply until 2020.

National ownership

a) Procedural adaptation

The German 2011 NRP and SP were submitted to the EU in April 2011. National documents refer extensively to the Semester and in particular to the Euro Plus Pact, for which the German government provides a detailed list of commitments. Differently from France, Germany devotes numerous references to the new framework also in the SP, suggesting that it conceives of this new instrument as an additional tool to enforce fiscal surveillance. The same applies to the 2012 SP, yet this document is not perfectly aligned with the guidelines provided by the European Commission on 24 January 2012, as it omits precise information on the quality of public finances and on the institutional features of public finances. The 2012 NRP not only continues to refer to the Semester process, as in the previous year, but also includes a section detailing the measures that the government has implemented in response to EU recommendations and their status of implementation. Spillover effects across policy areas are accounted for but only in the NRPs. Finally, there is a significant improvement in the model structure of the NRP from 2011 to 2012, as the 2012 NRP, as the section on measures to support growth and employment is restructured along the lines of the EU2020 Integrated Guidelines.

b) Policy adaptation

The priorities identified in the 2011 NRP include: i) growth-friendly fiscal consolidation; ii) financial sector reform; iii) the strengthening of domestic demand, which is in fact specific to the German situation; iv) labour markets, v) education and human capital formation; and vi) competitiveness. The same priorities are restated in the 2012 NRP but enriched with a reference to concrete policy actions especially in the area of financial reform and energy. There is no explicit acknowledgment of the influence that the 2012 AGS may have exercised, possibly because the reform programme in 2011 largely anticipated contents not explicit in the 2011 AGS but indeed endorsed with the AGS of 2012.

[61] The key documents we use to give account of practical implementation of fiscal and structural reform are: a) information provided by the Federal Ministries, and b) monthly reports of the Federal Ministry of Finance.

c) Discourse visibility

Also for Germany we run an analysis of media coverage on the basis of *Focus*, *Der Spiegel*, *Die Zeit*, *Die Welt*, *Frankfurter Allgemeine Zeitung*, *Süddeutsche Zeitung, FT Deutschland, Handelsblatt* and using the same keywords used for the other two countries sampled. The term *'Stability Programme'* remains the most cited of all. Extensive attention is devoted to *'Annual Growth Survey'* and '*National Reform Programme'* mostly in correspondence with the time of publication of these documents with a number of citations that significantly exceeds those of the other countries.

4.4. Group 2: Estonia and Finland

4.4.1. Group description

The second group comprises Estonia and Finland. Both are small and newish euro area countries. They rely on contract-based fiscal governance but the timing of the budgetary process and the role National Parliaments in the budget process are different from one country to the other. They are also the only two euro area countries, together with Luxembourg, that are not subject to the EDP at the time of the first Semester cycle and indeed their public finances are generally considered to be very sound. Both went through national elections shortly before the presentation of the national documents to the EU in April 2011.

The **Estonian** Ministry of Finance collects multi-annual development plans from each ministry before the first of March every year but then initiates the annual budget process later on in June, leads the negotiations and eventually transmits the draft budget to the government. After government approval, the budget is transmitted to the Parliament at the end of September.[62] The timeline of the budgetary process is slightly postponed compared with most countries in our sample. Estonia has only a very recent experience with multi-annual fiscal planning, even if the new MTBF is as strong as in Finland and Germany. The Parliament has a modest role in the budget process compared with Finland.

In **Finland**, the governmental phase of the budgetary process develops from December or January to September, thus earlier than in other countries (except for Germany), at the end of which the Ministry of Finance merges the individual ministries' budget proposals into a draft budget. The text is transmitted to parliament in September and voted in December. In Finland, the preparation of the annual budget thus starts quite early on, similarly to Germany. The country enjoys a relatively strong MTBF, similar to Estonia and Germany. The parliament has an important role in the budgetary process and is the strongest of all countries in our sample.

Concerning the implementation of EU recommendations, the countries score high only in areas that are either unproblematic or in any case close to national policy agendas. Estonia, for example, has a good implementation record in the case of fiscal policy, which is unsurprising given that public finances are under control. In Finland, the strongest reaction to EU recommendations is in labour market policies, which are in any case more of a national than a European priority. In all other areas, the implementation record is either moderate or low. The two countries have moderate degrees of ownership of the Semester process, with the Estonian documents probably more attentive to acknowledging potential spillover effects across policy areas.

[62] See Kraan, Wehner, and Richter (2008). See also: *Estonian Ministry of Finance website; http://www.fin.ee/index.php?id=79458*.

4.4.2. Estonia

Adherence to policy guidance

In 2011, four recommendations came from the Council, three about structural reform and one relating to fiscal policy. It is recommended that labour creation is supported through fiscal incentives and stronger active market policies that help the young and the long-term unemployed to access the labour market. Another recommendation concerns the implementation of the planned incentives to support energy intensity and efficiency. The final structural recommendation touches on the national education system, it provides guidance to improve the availability and quality of professional education and suggests that educational contents are better adapted to labour market's needs. Finally, the EU asks that the 2012 deficit does not exceed the planned 2.1% of GDP, a structural surplus is achieved by 2013 at the latest and firm control is exercised over expenditure growth.

The Semester is considered effective at the national level if the Council recommendations are implemented.[63] We find that the envisaged structural reforms have been only partially implemented. The tax burden is reduced but further alleviation is postponed to 2015. Primary and secondary school curricula have been reformed and a new training and lifelong learning programme launched. Much less has been done so far in the area of energy and the green economy, where the electricity market remains largely protected and the total investment budget of the Ministry of the Environment has been in fact reduced. On the fiscal front, the 2012 budget confirms a plan deficit of 2.1% of GDP on the basis of the same growth projections used in the original 2011 SP, even though nominal deficit is calculated on an accrual base instead of a cash base, as required by the guidelines of the EDP. Finally, the budget 2012 also reports a structural surplus of 0.3%, which is consistent with the Council recommendation to achieve structural surplus by 2013.

National ownership

a) Procedural adaptation

The Estonian government submitted its NRP and SP at the end of April 2011 following general elections on 6 March 2011. The first Semester cycle coincides not only with a new government but also with the first year of euro area membership for Estonia and a number of new obligations. Both national documents contain reference to the Semester, the EU2020 objectives and the Euro Plus Pact. It should be noted, however, that the government's commitments in the NRP tend to assume the form of very general engagements in a given policy field, without providing much information on the nature of the changes and their timeline. Both the NRP and the SP in the following year equally refer to the Semester process and the NRP devotes a section to a detailed analysis of the implementation state of the EU recommendations received under the Semester in 2011. Both documents contain acknowledgement of possible spillover effects across policy areas. There is also a clear-cut improvement in the model structure of the NRP from one year to the other.

[63] The key documents (in Estonian) we use to give account of practical implementation of fiscal and structural reform are as follows:
a) The Brief Overview of the Budget 2011 from the Estonian Ministry of Finance,
b) The Brief Overview of the Budget 2012 (Estonian language),
c) The explanatory memorandum of the budget 2012 (Estonian language),
d) The Websites of the Estonian Ministries, of some executive agencies (as the Tax and Custom Board and the Archimedes Foundation), and of the Estonian Parliament,
e) The National Reform Programme 2012, which presents some insights on the implementation of 2011 measures.

b) Policy adaptation

The priorities laid down in the 2011 NRP are consistent with the AGS and the Europe 2020 headline goals, and target following topics: i) well educated people and inclusive society; ii) competitive business environment; iii) environmentally sustainable economy and energy sector; and iv) sustainable and adaptive public sector. The commitments for the year 2011-2012 undertaken by Estonia in the framework of the Euro Plus Pact are presented in separated boxes. The same priorities are confirmed in the 2012 NRP even if the reference to energy efficiency is eliminated and substituted by a commitment to reduce intensity; in addition, fiscal governance is improved by strengthening planning of local government's revenues. Euro Plus pact commitments are treated in a separate annex to the document. Nevertheless, the new reform plan does not explicitly refer to 2012 AGS. The 2012 deficit is expected to reflect a relaxation in the fiscal policy stance but a reversed trend of fiscal consolidation thereafter to reach a surplus of 1% of GDP in the nominal deficit at the end of the programming period. The more relaxed fiscal stance is also the result of the fact that Estonian public finances are generally under control and the country is together with Finland one of the few euro area countries not under EDP.

4.4.3. Finland

Adherence to policy guidance

The EU produced five recommendations for Finland, four concerning structural reform and one about fiscal policy. Further measures are deemed necessary to improve the efficiency of public service provision in the face of the challenges arising from population ageing. Another recommendation advocates that active labour market policies are better geared to support young people and the long-term unemployed. The labour market is also at the core of third recommendation. The suggestion is to improve the employability of older workers, discourage early exit from the labour market and try to link the statutory retirement age to life expectancy, changes that shall be introduced by reviving the social dialogue. The last structural recommendation concerns the service sector, where it is suggested that further liberalisation measures should be taken especially in the retail sector. Finally, on the fiscal front, it is advised that the fiscal consolidation path is continued, windfall revenues used to reduce the deficit, and additional measures adopted to maintain the fiscal policy stance above the MTO.

The country's implementation record is mixed.[64] During 2011 and 2012, the Finnish government introduced some measures to foster efficiency in public service provision and activated labour market policies in favour of the young and the long-term unemployed. On the other hand, no measure has been introduced for improving the employability of the older workers,[65] discourage early exit from the labour market,[66] connect retirement age to life expectancy and liberalise the service sector. Furthermore, the MTO for 2012 forecasted in the 2012 Budget is a structural deficit of 0.4% and hence not above the target of 0.5% of GDP, as recommended by the EU.

[64] The key documents we use to give account of practical implementation of fiscal and structural reform are as follows: a) the Budget Review 2011 of the Finnish Ministry of Finance; b) the Budget Review 2012; c) the Economic Bulletin 02/2011 (20 December 2011) of the Finnish Ministry of Finance; d) the Finnish Ministry of Finance's website; e) the Finnish Stability Programme 2012; and f) the Finnish Reform Programme 2012.

[65] In fact, central government funding to voluntary adult education centres was cut.

[66] Benefits for early retirement for the unemployed have been scrapped to standardise the pension system.

National ownership

a) Procedural adaptation

The Finnish NRP and the SP were submitted in early April 2011 just before the general election of 17 April 2011. The measures suggested in the 2011 NRP largely relate to the EU2020 objectives but there is no specific reference, in either document, to the Semester or to the institutional adaptation to the Semester. The 2012 NRP includes a section dedicated to the Euro Plus Pact commitments but the government does not explicitly refer to the Semester or provide an assessment of the measures suggested in the 2011 NRP, their status of implementation and the reception of the EU recommendations. In all national documents, there is very little acknowledgement of spillover effects across policy areas.

b) Policy adaptation

The Finnish government has opted for a restricted set of reform priorities: i) safeguarding the long-term sustainability of public finances; ii) reducing the centralisation of the production structure; iii) full utilisation of labour; and iv) increasing competition) all grouped under the heading '*prerequisites for and barriers to growth and employment'*. Moreover, there is a further section which presents the practical measures proposed to achieve the five EU2020 targets: i) raising the employment rate, ii) research and development expenditure, iii) climate and energy target, iv) raising the proportion of people with a tertiary education share and reducing the proportion of early school leavers, v) reducing the number of people living at risk of poverty and social exclusion. Whilst the four priorities presented are largely consistent with the 2011 AGS, there is no explicit reference to the European Commission's strategic document. The same priorities are proposed in the 2012 NRP with minor changes except for a reference to the need to identify and eliminate subsidies harmful to the environment, which is in line with the priorities listed in the 2012 AGS, but again no explicit reference is provided. The 2011 SP defines a fiscal strategy that is largely geared towards the preservation of existing results. The lack of a proper fiscal consolidation plan relates to the fact that the country's deficit and debt are largely under control and the country is just like Estonia not under the EDP. A stronger fiscal effort is envisaged in the 2012 SP, where the 2011 deficit is at 0.5% of GDP lower from the 0.9% forecasted in the previous year, in spite of lower-than-expected growth for the same year.

4.5. Group 3: Hungary and Ireland

4.5.1. Group description

Finally, we treat Hungary and Ireland together. They share size and in particular the fact that they are to some extent under special surveillance. Ireland is officially a programme country after having applied for EU assistance in November 2010. Hungary is under surveillance having just completed an adjustment programme in exchange for financial support from the EU under the framework of the Medium-Term Financial Assistance Facility (MTFA). Moreover, Hungary is outside the euro area, which implies that deviations from fiscal targets are noted but they are not subject to the same fine euro area countries are subject to under the Stability Pact's corrective arm. The situation of Ireland is comparable but for a different reason. As the country is in a financial assistance programme, fiscal commitments are defined in the framework of conditionality, which implies that fiscal plans are decided outside the EDP and may be subject to some flexibility in the timing because the deadline for correction needs be reasonable.[67] On the other hand, Hungary and Ireland differ in the form of fiscal governance and in their fiscal institutions.

Like France and Germany, **Hungary** is a *'delegation'* country. The start of the budgetary process coincides with the publication of a set of macroeconomic forecasts by the Ministry of Finance. By 15 April every year the Ministry of Finance shall transmit the so-called Macroeconomic Guidelines to all the government. Negotiations among the different Ministries continue until the End of August. The draft budget must be completed and officially submitted to government by the end of August, relatively late compared to other countries. That is still not the end of the governmental phase. The month of September is devoted to finalising the draft budget and consult with external agents. By the end of September, the draft is submitted to Parliament.[68] Hungary has a generally weak MTBF, and the role of the National Parliament in the budget process is limited compared with Germany and Finland.

Budgetary policy-making in **Ireland** is based on the contract approach. The budget process in Ireland usually covers the period between April and early December, with a budgetary memorandum from the government and the discussions among the Ministry of Finance and the other ministries on the allocations of the available resources. Once the governmental phase of the budgetary process is finalised in December, the draft is sent to parliament. In the course of the year, the Parliament can, under request of the government departments, vote for new Supplementary Estimates.[69]

4.5.2. Hungary

Adherence to policy guidance

The Council provided five specific recommendations, three concerning the structural reform and two fiscal policies. On structural reform, one suggestion is to favour labour market participation by providing tax incentives for low wage earners and childcare and pre-school facilities for women. Another recommendation concerns the Public Employment Service, whose effectiveness shall be increased by offering more quality training, providing job search assistance and individualised services, and improving the effectiveness of labour market policies. The last one refers to the need to improve the regulatory framework in which firms operate and favour access to non-bank funding. Moreover, the EU suggests strengthening the fiscal effort to avoid budget deterioration above 3% of GDP in 2012 and to ensure an annual adjustment in the structural balance of at least 0.5% of GDP until the MTO is achieved. The EU further asks to operationalise the envisaged fiscal rules and broaden the remit of the Fiscal Council.

We assess effectiveness by looking at whether the country-specific recommendations adopted by the EU have been fully implemented.[70] Hungary has a moderate record of implementation. The Hungarian government implemented fiscal incentives in favour of greater labour market participation, simplified the regulatory framework for SMEs and launched an initiative to improve their access to EU funding. More remains to be done in the case of the reform of the Public Employment Service, where little attention was paid to the quality aspects of training. On the fiscal front, the reform of fiscal governance is under

[67] For example, the deadline for the correction of Ireland's excessive deficit has been extended to 2015.

[68] Kraan, Bergvall, Hawkesworth and Krause (2007).

[69] Irish Department of Finance (2011), *'Reforming Ireland's Budgetary Framework: a discussion document';* March 2011, p.1 section 1.

[70] The key documents we use to give account of practical implementation of fiscal and structural reform are as follows: a) The Report on Measures taken in response to Council Recommendations of 7 July 2009 published in December 2011; b) September 2011 update on the 2012 Budget of Hungary; c) the European Commission working paper on the EDP procedure of 11 January 2012; d) the Hungarian Convergence Programme 2012; and e) the Hungarian Reform Programme 2012.

way; the new fiscal rules have been approved, whilst the profile and remit of an independent Fiscal Council still to be defined. The members of the current Fiscal Council are appointed by the government. Finally, the Hungarian government has not yet reversed the one-off nature of some of the measures suggested in the 2011 CP and is just recently making progress towards deficit reduction.[71]

National ownership

a) Procedural adaptation

The Hungarian 2011 NRP and the CP were presented in mid-April 2011. Both documents demonstrated strong awareness of the new Semester procedure.[72] The 2012 NRP makes several references to EU recommendations and their implementation and adds specific reference to adherence to the 2012 AGS, which most of the other countries in our sample do not do. There is extensive acknowledgment of possible spillover effects across policy areas.

b) Policy adaptation

The measures contained in the 2011 NRP can be grouped as referring to the following topics: i) structural reforms to enhance economic growth; ii) employment; iii) research and development; iv) climate change; v) education; and vi) poverty. There are all in line with the 2011 AGS and add, compared with the list in the AGS, a special attention to vocational training. The priorities of 2011 are largely confirmed in the 2012 NRP except for some additions to the reform programme of the previous year that concern disincentives for early retirement, measures to fight youth unemployment and a general re-organisation of public employment scheme. The 2011 CP included standard notes about fiscal consolidation strategies with a view of reversing a dramatic deterioration in the net borrowing of 2012 and continuing the path towards debt reduction, with figures fully confirmed in 2012 CP, in spite of lower-than-expected growth.

4.5.3. Ireland

Adherence to policy guidance in a programme country

The assessment of the Semester's effectiveness is in itself meaningless as the external constraint on the Irish government's actions is represented by the macroeconomic adjustment the country has agreed to in exchange for assistance. In the first Semester cycle, there has been in fact some ambiguity as to the extent to which Ireland should have been subject to the Semester procedure. The recent proposal by the European Commission in the Two-pack eliminates this ambiguity by suggesting that the Semester process is explicitly suspended for countries that fall under EU financial assistance and substituted with the adjustment programme agreed under conditionality.

[71] The European Council of 13 March 2012 decided in favour of the suspension of EUR 0.5 billion in Structural and Cohesion funds as the 2011 net lending was 4% of GDP but mainly due to 'one-off revenues of almost 10% of GDP linked to the transfer of pension assets from private pension schemes to the state'. The latest country-specific recommendations of May 2012 argue in favour of the cancellation of the suspension of EU cohesion support.

[72] Hallerberg, Marzinotto, and Wolff (2011).

National ownership

a) Procedural adaptation

The analysis of national commitments is limited by the fact that the country was at the time under EU financial assistance and going through a government changeover.[73] Since 28 November 2010, Ireland is under financial assistance and thus under strict conditionality. The Irish government has thus agreed a National Recovery Plan with the European Commission, the International Monetary Fund (IMF) and the European Central Bank (ECB), which commits the country to a series of fiscal and structural reform measures. The Irish NRP and SP were nonetheless submitted in April 2011, as requested under the Semester process. Both documents refer to the 2011 AGS, EU2020 objectives and the Euro Plus Pact. Even if the assisted country does not have an obligation to submit a NRP in 2012, it has nonetheless produced a report that contains information about the policy measures introduced in the course of 2011.

b) Policy adaptation

The documents submitted in 2011 mostly reproduce measures envisaged in the National Recovery Plan. However, some adjustment was necessary for two reasons. First, the budgetary outlook turned out much worst than forecasted in the National Recovery Plan, with the consequence that additional measures had to be introduced to allow fulfilling the fiscal commitments. Second, the Irish Government lost it majority just after having approved the 2011 financial bill. The general elections that followed produced a change in the country's political landscape. The 2012 Budget, approved by the Ministry of Finance and by the Ministry of Expenditure and Reform, is substantially disconnected from the 2011 NRP and mainly concerned with deficit cutting measures. The 2011 NRP makes no explicit reference to the 2011 AGS but is concerned with the standard EU2020 targets including: i) employment; ii) research and development; iii) climate change; iv) education and poverty.

c) Discourse visibility

We run media coverage analysis based on *Sunday Business Post, Sunday Independent, Irish Times, Irish Independent, Irish Examiner*. The keywords used for the search are *'European Semester'*, *'Annual Growth Survey'*, *'National Reform Programme'*, and *'Stability Programme'*. The success of the term *'Stability Programme'* is more evident than in other countries, arguably as a result of the fact that the country is under surveillance and under strict macroeconomic conditionality, but there is also a non-trivial attention dedicated to *'Annual Growth Survey'* compared with the other two countries.

[73] Hallerberg, Marzinotto, Wolff (2011).

4.6. Summary

Table 3: National Semester - Case Studies: Summary of main findings

	Group 1		Group 2		Group 3	
	France	**Germany**	**Estonia**	**Finland**	**Hungary**	**Ireland**
1.Ownership						
1.1.Procedural adaptation						
Reference to ES (t)	Low	High	Moderate	Moderate	High	Low
Reference to ES (t+1)	Low	High	Low/Moderate*	Moderate	High	Low
Integrated approach	Yes (SP)	Yes (NRP)	Yes (SP, NRP)	No	Yes (CP, NRP)	Yes (SP, NRP)
Improvement (NRP) (t+1)	Not significant	Significant	Significant	Significant	Significant	Not relevant
1.2.Policy adaptation						
Adherence to AGS (t)	Moderate	Moderate	Moderate	Low	High	Low
Adherence to AGS (t+1)	Low	Low	Low	Moderate	High	Moderate
1.3.Discourse visibility	Moderate	Moderate	-	-	-	Moderate
2.Policy guidance						
Implementation by sector**	Low (service sector liberalisation and active labour market policies)	Low (financial sector, service market liberalisation)	Low (energy)	Low (fiscal, pension reform, service sector liberalisation)	Low (fiscal)	Not relevant
	Moderate (fiscal and tax reform)	Moderate (fiscal institutions)	Moderate (tax reform and education)		Moderate (fiscal institutions, education and training)	
		High (tax reform and welfare)	High (fiscal)	High (labour market policies)	High (tax reform and product market regulation)	

*Still, it is to be noted that the Estonian 2012 NRP devotes a section to the EU recommendations received under the Semester framework, but there is in the overall text less explicit reference to the Semester than in the preceding year. **Evaluation based on examination of list of documents as described in Annex 5 to 10.

5. SURVEY TO NATIONAL PARLIAMENTS

KEY FINDINGS

- National Parliaments scrutinise the government's Stability or Convergence Programmes both in plenary and in committee in about 2/3 of Member States. National Reform Programmes, in contrast, are discussed in a similar proportion but only in committee.
- The EU Affairs Committee is the most likely forum for discussion and debate of government plans both before they are submitted and after the Council issues recommendations. Budget/Finance Committees are also active, however, and in about half the Member States both committees debate preparation of the Stability or Convergence Programme.
- Council recommendations are more likely to be discussed in parliaments in small Member States than in parliaments in the large Member States.
- About half of the respondents refused to answer questions about future reforms. Of those that did answer, they did not favour a European Parliament vote on recommendations or European Parliament debates on individual Member States. They did, however, favour an Inter-Parliamentary Committee.

5.1. Role and strength of National Parliaments

This chapter considers the role that National Parliaments have played under the European Semester. Assessing the role of National Parliaments in the Semester is essential for two reasons. First, the new guidelines produced by the EU advocate the involvement of National Parliaments in the process. Second, the nature and depth of their involvement will say something about the input legitimacy of the process. To assess this issue empirically, we have submitted an original survey to all EU National Parliaments. The results from the survey are presented in this chapter. The analysis in this chapter is thus limited to governmental adaptation. The general findings are clear - there is a fair amount of parliamentary scrutiny especially of government SCPs before they are submitted in April under the Semester. The scrutiny is lower for the NRPs, and there is less discussion in Parliament of Council recommendations.

For this study, we surveyed parliamentarians and staff based in each of the National Parliaments. Our survey is a follow-up survey from the one we submitted to National Parliaments in only six Member States and whose results have been reported in the Briefing Paper that precedes this study.[74]. Box 6 explains in what respects the two surveys differ from each another.

[74] Hallerberg, Marzinotto, and Wolff (2011).

Box 6: The two surveys to National Parliaments

The two surveys to National Parliaments

The 'Questionnaire on Parliaments and the European Semester' is meant to offer a deeper understanding of what role Member States parliaments play in the preparation of the documents for the European Semester. Sent for the first time in April 2011 to six pilot countries (France, Ireland, Finland, Germany, Hungary, Estonia), its 2012 edition was submitted to all the 27 EU Member States between March and April 2012.

The 2012 edition (see Annex 12) was organised in only four parts, instead of five as in the 2011 survey. The first part regrouped sections 1, 3 and 4 of the 2011 questionnaire. It had the goal to review what function a parliament usually performs in the domestic annual budget process. In 2012 this section was extended in order to capture also the role that National Parliaments can play in the redaction of the National Reform Plan, other than Multi-Annual Fiscal Plans and Stability or Convergence Programmes. In addition, two questions were added at the end of this part to document if the parliaments had any reaction to the recommendations expressed by the Council at the end of the first European Semester cycle (July 2011) and if any parliamentary committee debated the 2012 Annual Growth Survey.

The second part corresponded to the last of the previous survey. It remained substantially unchanged from the first edition of the survey. It monitored foreseen or implemented changes in parliamentary procedures, undertaken in response to the introduction of the European Semester.

The third part developed the last question formulated in the previous survey. It directly asked what kind of guidance National Parliaments would like to receive from European institutions. In particular, it documented if National Parliaments could consider as necessary the vote of the European Parliament on the recommendations given by the Council or the setup of hearings, organised by the European Parliament in the year following the execution of a national budget, to evaluate a country's economic performance in light of those recommendations. Finally, in this part respondents could express their opinion on the proposal to establish an Interparliamentary Committee of National Parliaments to coordinate under the European Semester and even propose other ways in which National Parliaments should get more involved at European level.

The fourth and last part of the survey remained unaltered with respect to the previous questionnaire. It examined the role of National Parliaments in the annual domestic budget process, both in terms of strength of the amending power of budget laws and modalities according to which a parliament usually discusses national expenditures and revenues proposed by the government.

The lower house is the most important when considering the passage of economic policy. There are completed surveys for 26 of the 27 lower houses.[75] We also have data for 4 upper houses of parliament.[76] As a rule, this chamber has limited powers in the budget process, but it can play a role in scrutinising policy. While we have preliminary data for some Member States for 2012, or during the second cycle of the European Semester, several surveys were returned before a given Member State had prepared its SCP, and the answers for 2012 were either unknown or incomplete. Unless otherwise stated, the replies that appear in the tables are for the first full year of the European Semester or in 2011.

[75] Staff contacted from Bulgaria indicated that '*there won't be a reply from the Bulgarian parliament to this questionnaire.*'

[76] We also received multiple replies for some countries, such as for France and Germany. For the Upper Houses, we do not have enough of a sample to be able to generalise about what they do under the European Semester. For this reason, we focus on lower houses in what follows.

5.1.1. Role of National Parliaments in annual budget process

It is helpful to begin with an overview of the role National Parliaments play in their domestic budget processes. It may be that their national role limits their ability to integrate advice and comments that come from the Council and the European Commission. A parliament that only checks whether a government spent its allocations according to the law and has no opportunity to change the government's budget presumably is weaker than a parliament that actively debates the government's initial plans and can propose unlimited amendments. Following this logic, a prediction would be that weak parliaments have integrated less of the European Semester into their practices than strong parliaments. At the same time, additional requirements under the European Semester could possibly increase domestic discussions of budgets especially in Member States with historically weak parliaments.

Our measure of parliamentary *'strength'* in the **annual budget process** is based on the formulation in Hallerberg, Strauch, and von Hagen's (2009) study of fiscal governance in European Union countries. A parliament has a stronger role in the budget process, and it received a score of '1' in Figure 3 below, for each of the following six items:

i) a parliament can propose a budget independently of government;

ii) it can propose amendments to the government's budget;

iii) whether those amendments are unlimited;

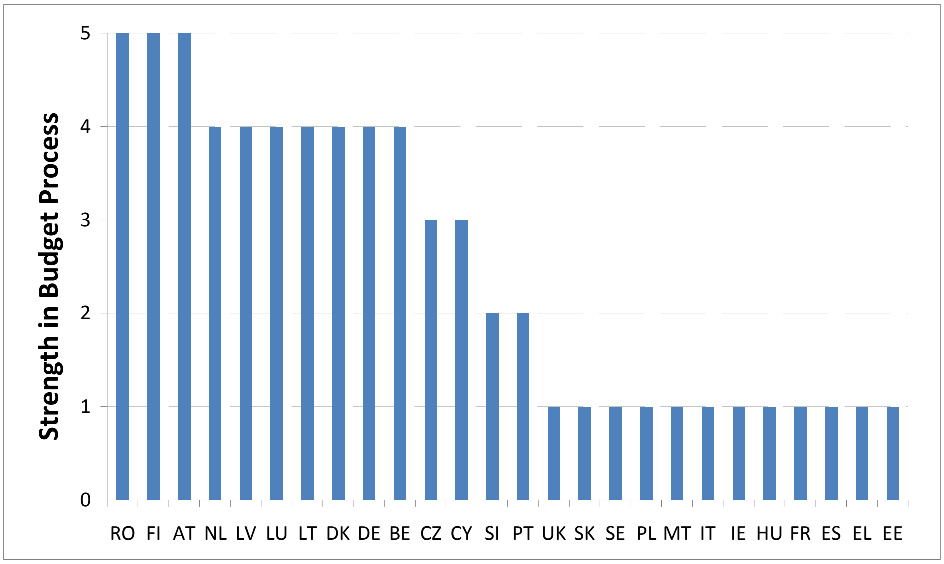
iv) amendments do not face offset rule on spending, which means that increased spending must be matched with spending cuts;

v) they do not face an offsetting rule relative to the budget balance; and

vi) amendments to the government budget can cause the fall of government.

The highest ordinal score for the strength of parliament on the budget a Member State can receive is 6 while the lowest is 0. Figure 3 indicates a wide dispersion of parliamentary budget powers. While the average for our sample is 2.5, most parliaments are either strong or weak and not at this average position in practice. The strongest parliaments are in Austria, Finland, and Romania with a score of 5 and another seven countries have a score of 4. At the other end, twelve parliaments have scores of 1.

Figure 3: Formal strength of parliament in the domestic annual budget process



Source: Data from surveys sent to Member State parliamentary officials and returned to Bruegel from February through August 2012.

5.1.2. Role of National Parliaments in multi-annual planning, SCPs and NRPs

The data above concerns the role of EU National Parliaments in the annual budget process. What role do parliaments traditionally play in **multi-annual planning**? There are two ways to consider this question. First, governments in most cases have their own multi-annual fiscal plans. Such plans usually follow whatever accounting standards governments use for their annual budget. They also have a multi-annual plan in their SCP that they submit to the European Union in April under the European Semester. The form these documents take is harmonised across the Member States. It could be that these documents mostly overlap. Does the government use its own multi-annual plan in addition to its SCP? If so, does the general plenary debate the plan before it is submitted? We ask the same questions for a country's SCP: does Parliament discuss and vote on a government's SCP? We assume that this type of scrutiny would be public and most likely to receive press attention.[77]

Role of Plenary

Table 4 compares full plenary participation in debates about a government's multi-annual plans and debates on the SCP in 2011. As a rule, the plenary was more than twice as likely to debate the government's multi-annual plans (about 62%) as debate the SCP (about 27% of the time). Five countries have full plenary debates on both sets of plans. Member States that have plenary debates on the SCP tend to have weak parliaments in the budget - using the scale above, Member States that did not have plenary debates on the SCP had an average strength of 2.8 while those that had debates had an average score of 1.6. This suggests that weak parliaments use the SCP as an opportunity to comment on the government's overall plans.

Table 4: Plenary debates of government multi-annual fiscal plans and Stability or Convergence Programmes, 2011, lower house

		Plenary Debate SCPs?	
		No	Yes
Plenary Debate Govt Multi-Annual Plans?	No	CY, CZ, EE, HU, IE, MT, LT, PL	IT, PT
	Yes	AT, BE, DK, DE, EL, FI, LV, NL, RO, SE, SI	ES, FR, LU, SK, UK

Source: Data from surveys sent to Member State parliamentary officials and returned to Bruegel from February through August 2012.

In comparison to the multi-annual fiscal plans and the SCP, there was much less plenary interest in the National Reform Programmes. Just three countries (Luxembourg, France, and Italy) debated the NRPs in plenary sessions in 2011.

Results at the plenary level did not change much in 2012. Plenary debates of multi-annual plans remained at approximately the same percentages as in 2011, or above 60% for government plans and about 25% for SCP. In terms of discussions of the NRPs, only Luxembourg and Italy had plenary debated on them in 2012.

[77] We also expect that this type of scrutiny will become more important if the so-called *'Two-pack'* passes. Article 3(1) *'Common Budgetary Timeline'* of the proposal indicates that Member States shall make their multi-annual fiscal plans and their multi-annual budgetary frameworks (together with their Stability programmes) public by April 15 of each year. See: Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area'; COM (2011) 821 final, of 23.11.2011.

Role of Committees

Committees also may participate in the preparation of these programmes, and we discuss the role of any relevant committee, not just the European Affairs Committee.[78] It is useful to consider their traditional role more broadly before examining which committee played what role under the European Semester. Parliamentary committees have several tasks. One is to scrutinise government legislation. Ex-ante, they may ask whether the assumptions the government makes are realistic. This could concern economic forecasts, for example, or whether the government is able to educate as many students as it claims it can. In an analogous role during and after the budget year, they may serve an audit function to check whether the government spent money in ways consistent with legislation that passed through parliament. A second function of committees is to monitor specific ministries. In several Member States, a Labour Committee matches a Labour Ministry and has competence to discuss the policies relevant to the particular ministry. A third function concerns allocative efficiency. Committees discuss whether the people's money is being spent on matters parliamentarians think are important.

For all of these roles, parliamentarians who have knowledge of the policy area have an advantage over parliamentarians who do not. That knowledge may come from one's education or from previous work experience before joining parliament. It may also come over time from sitting on the same committee. Whether the most knowledgeable Members of a National Parliament (MPs) end up on committees where their experience is potentially the most useful depends upon several factors. The most important is political party affiliation. Parliaments use some form of proportionality rule, where parties with more seats in parliament receive more seats in committees. A majority government, therefore, usually has a majority of seats in committees. Their parliamentarians, in turn, do not have an incentive to embarrass the government.

For this reason, **Budget/Finance Committees** sometimes have a different structure than other committees in parliament. In particular, the budget hearings are held in secret in some countries. The rationale is that this allows the committee to offer frank criticism of the budget draft without the fear that parliamentarian's comments will appear live on the internet or in the evening news. This is meant to lead to more informed discussions and, ultimately, to an improved budget draft.[79] The survey responses indicate that such closed committees are especially prominent in the strongest parliaments. The correlation between closed Budget/Finance Committees and the parliamentary strength index provided above is 0.50.[80] Closed Budget/Finance Committee meetings are the rule in Austria, Denmark, Estonia, Finland, Germany, and Luxembourg. At the same time, such closed debates mean that committee deliberations do not raise public awareness of the issues that the committee debates.

Concerning the strength of this committee in discussing the government's **multi-annual plans**, however, one surprise from our survey is that relatively few Budget/Finance Committees debate such plans. In approximately three out of four Member States the committee does not debate what the government sets out to do in the following years. The exceptions are Estonia, France, Italy, Latvia, Romania, Slovenia, and Slovakia. The responsibility of this committee is primarily to scrutinise the annual budget, not a multi-annual framework. Committee scrutiny of a SCP, therefore, would represent the first time

[78] The literature on parliaments and the European Union focuses almost exclusively on the role of European Union Affairs Committees. Raunio (2009), in his literature review, calls for work that extends the analysis to other parts of parliament, which is what we do in this study.

[79] See Wehner (2001).

[80] There are other ways to configure a committee to encourage more scrutiny of the government's budget. In Germany, for example, the largest opposition party provides the Chair of the Budget Committee.

that a government multi-annual framework would receive such attention. Moreover, one can also consider the combination of plenary and committee oversight of multi-annual plans. In eight Member States parliament debates the government's multi-annual plans neither in committee nor in the plenary: Cyprus, Czech Republic, Hungary, Ireland, Malta, Lithuania, Poland, and Portugal.

Another committee that may play an important role in the European Semester is the **EU Affairs Committee**. Rather than scrutinise domestic legislation, this committee usually considers a given Member State's relationship with the European Union. The strength of such committees varies widely across Member States. The strongest such committee is the Danish one. Traditionally, ministers appear before the committee on a Friday before a relevant Council of Ministers meeting the following week and present the government's proposed position for Denmark. If a majority of the committee opposes the position, it is then blocked and the Minister has to submit a new proposal until he or she receives the committee's assent.[81] In his study of the EU15, Raunio (2005) notes that all had established EU Affairs Committees to monitor government positions at the European level, and that stronger EU Affairs Committees are found in countries with both Euro-sceptic populations and strong parliaments. Maurer and Wessels (2001) rank the strength of EU Affairs Committees again in the EU15. The strongest committee was found in Denmark with a score of 1, while the weakest were found in Belgium, Greece, Ireland, Italy, Luxembourg, Portugal, and Spain, all with a score of 5. Karlas (2011) performs a similar study of EU Affairs Committees in the Member States from Central and Eastern Europe that acceded either in 2004 or 2007. He finds that euroscepticism in the population does not predict the strength of the EU Affairs Committee, but the overall strength of a given parliament is the key predictor of whether this committee plays a prominent role. Winden (2012) provides an updated index for the strength of EU Affairs Committees in the EU27, which we will use in comparisons below.

With this background in mind, we examine which committees debated the SCP in the lower house of parliament in 2011. Table 5 indicates whether the Budget/Finance and EU Affairs Committees debated the government's proposal moved in tandem. In ten Member States neither committee debated the SCP proposal while in 11 both committees were involved. There were, however, three Member States where only the Budget/Finance Committee debated the SCP: Luxembourg, Portugal, and Sweden.[82] When considering other committees not included in Table 5, the Labour/Employment committee in Latvia and Slovenia also debated the SCP.

Table 5: Committee debates of government Stability or Convergence Programmes, 2011, lower house, preparation stage

		EU Affairs Committee Debate SCP?	
		No	Yes
Budget/Finance Committee Debate SCP?	No	AT, CY, DK, EL, ES, IE, MT, NL, PL, UK	
	Yes	LU, PT, SE	BE, CZ, DE, EE, FI, FR, IT, LV, LT, HU, SI

Source: Data from surveys sent to Member State parliamentary officials and returned to Bruegel from February through August 2012. The answers for Romania and Slovak Republic are missing.

There is a lot of overlap between the Member State committees that debate the government's proposed SCP and NRP, but the committees involved somewhat differ. The

[81] Møller Sousa (2008), p. 432.

[82] The surveys were set out at the beginning of the process in 2012. Four respondents therefore left the answers for 2012 blank. But in ratio of countries for 2012 was almost identical as the data reported for 2011 in Table 5.

EU Affairs Committee plays a more prominent role, with nine Member States using that committee to evaluate the NRP in the preparation stage but not the Budget/Finance committee. With the exception of Finland, the Member States that have no committee oversight at the preparation stage of the NRP also do not have oversight of the preparation of the SCP. While we do not include other committees in Table 6, we also asked respondents if Economics Committees, Labour Committees, or any other committees considered the government's proposal. Given that the NRP covers a wide range of ministries potentially, other committees may consider the NRP to be part of their remit. Only in Germany (Economics), Luxembourg (Labour), and Italy (Economics, Labour/Employment) are other committees involved.

Table 6: Committee debates of National Reform Programmes, 2011, lower house, preparation stage

		EU Affairs Committee Debate NRP?	
		No	Yes
Budget/Finance Committee Debate NRP?	No	AT, DK, EL, ES, FI, IE, MT, NL, PL	BE, CY, CZ, EE, LV, PT, RO, SK, UK
	Yes	LU, SE	DE, FR, IT, LT, HU, SI

Source: Data from surveys sent to Member State parliamentary officials and returned to Bruegel from February through August 2012.

A second opportunity for committees to participate under the European Semester comes after the Council of Ministers has issued Member State-specific recommendations under both the SCP and the NRP. Such debates allow governments to explain how they intend to react to the recommendations. They could also put pressure on governments to respond to Council recommendations in terms of the proposed budget or in terms of various reform proposals. Table 7 compares the committees that debated the comments from the Council. Those that appear in **bold** mean that the same committees considered both; those in normal type the consideration of the SCP; and those in *italics* the consideration of the NRP. There is some constancy in the answers. Ten Member States did not discuss the Council recommendations. This included the four largest Member States in the euro area - France, Germany, Italy, and Spain.[83] Once again, the EU Affairs Committee was most important in the remaining group. In seven Member States it considered recommendations on both plans, while it played a role in another five Member States. The Budget/Finance played a role in nine states, and it was more important in debating SCP than NRP.

[83] Spain did hold a plenary debate on the Commission response to the SP (only).

Table 7: Committee debates of Council recommendations on either Stability or Convergence Programmes and/or National Reform Programmes, 2011, lower house

		EU Affairs Committee Debate?	
		No	Yes
Budget/Finance Committee Debate?	No	**AT**, **DE**, **EL**, **ES, FR**, **IT**, **MT**, **PL**, **PT**, **SI,** *FI*	**DK, EE, HU, NL**, **UK,** *CY***,** *CZ*, *SK*
	Yes	**LU,** IE, CY, *LT*, LV	**BE, SE**, CZ, FI, LT

Source: Data from surveys sent to Member State parliamentary officials and returned to Bruegel from February through August 2012.

Note: Member States in **bold** have the same response for both the SCP and NRP, those in normal text for the SCP only, and in *italics* for the NRP only. The answers for some countries are missing. In Ireland, a Joint Committee on Finance, Public Expenditure, and Reform considered its Stability Programme; we list it in this table under 'Budget/Finance Committee'.

One finding that emerges more generally from this analysis is that the EU Affairs Committee is the main actor that plays an oversight role. On average, it debates the government's preparation of the SCP and the NRP, and it is more important for considering the Council's recommendations. One explanation could be that EU Affairs Committees that are stronger in providing more general oversight of governments are the same ones that debate the components from the European Semester. Curiously, this is not the case. The overall strength of a European Union Affairs Committee does not explain whether this committee examines government drafts of SCP or NRP. A Spearman's rank correlation,[84] which assesses whether there is a monotonic relationship between two variables and where a perfect correlation equals one, between Winden's (2012) ranking and whether an EU Affairs Committee debated a SCP is 0.37 and is not statistically significant at the 0.05 level, while the Spearman's rank correlation between Winden's measure and a debate of the NRP is even lower at 0.03. Consistent with this finding, the country with the strongest EU Affairs Committee, Denmark, did not have its committee debate either its government's SCP or the NRP before its submission.

The results are almost the same if one uses the measure of parliamentary strength in the budget process developed here. When looking at the role of both the Budget/Finance and the EU Affairs Committees, the only statistically significant correlation between strength and a given role of a committee is for the role of the Budget/Finance Committee in evaluating the SCP recommendations from the Council.

A final hypothesis to consider is whether there is a difference between euro area and non-euro area countries. For the involvement of Budget/Finance Committees, there is no statistically significant correlation between being in the euro area and having the Finance Committee debate a SCP, NRP, or Council recommendations on either of these plans. There is, however, a weak relationship between euro area membership and the use of EU Affairs Committees, but the relationship is negative - non-euro area members are more likely to have EU Affairs Committees scrutinise Council recommendations on the SCP and NPR

[84] Spearman's rank correlations measure the strength of association between two ranked variables such as, for example, reform outcomes and individual conditioning factors. In other words, it assesses if and how well the relationship between two ranked variables can be described by a monotonic function (A Spearman correlation of +1 means that each of the considered variables is a perfect monotone function of the other). The rank correlation approach is notably well suited to use with small samples. Tompson, W., Price, R. (2009) *The Political Economy of Reform: Lessons from Pension, Product Markets and Labour Markets in Ten OECD Countries.* OECD, Paris.

respectively.[85] It may be that countries outside the euro area are more sensitive to the comments the Council makes and are more likely to debate them.

So far the focus has been on either plenary or committee debate of Member State policy, but there is another role National Parliaments could play as well. The European Commission issues the **Annual Growth Survey (AGS)**, which is meant to set the economic priorities of the European Union as a whole. Do National Parliaments discuss this document? The answer is often yes. 16 out of 26 Member States from whom we have answers responded affirmatively. In nine of those countries, only the EU Affairs Committee discussed the AGS. In Portugal, five committees examined it, with the EU Affairs Committee issuing the final opinion. The remaining countries were Finland (Budget/Finance, Economics and EU Affairs), Italy, the Netherlands (Budget/Finance and Economics), Slovenia, Sweden (Budget/Finance and EU Affairs). In Austria, parliamentary committees receive individual proposals from the Federal Government as part of the debate on the annual forecast of EU policies presented by means of reports that each Federal Ministry issues to respective committees.

5.2. Potential collaboration with the European Parliament

A contentious issue in the surveys is the role of the European Parliament in the European Semester. The survey asked three questions to respondents:

i) Should the European Parliament vote on recommendations the Council issues to individual Member States;

ii) Should the European Parliament hold hearings in the year following the execution of a national budget, to evaluate a Member State's economic performance in light of the recommendations the Council gave them; and

iii) Should there be an inter-parliamentary committee of national parliamentarians meeting in Brussels to coordinate under the European Semester.

About a third of the respondents indicated that they did not feel comfortable answering the questions and several noted that this was a *'political decision'*. This suggests that there is no clear consensus on these items. Of those that did respond, the first two questions clearly were unpopular, with most respondents indicating that they did not think that the European Parliament should either vote on recommendations or evaluate Member State performance. A clear majority (12 of 15), however, supported the idea of an Inter-Parliamentary Committee that would bring together members of National Parliaments with Members of the European Parliament to discuss the European Semester.

Table 8: Comments on possible expansions of the role of the European Parliaments, respondents from the lower house

	No	Yes	Cannot answer
Should European Parliament vote on recommendations?	10	3	9
Should European Parliament evaluate Member State performance?	9	3	9
Should there be an Interparliamentary Committee?	3	12	8

Note: This table indicates the number of respondents from different Member States. Respondents were told that individual Member States would not be identified in this table.

[85] The correlations are -0.39 and -0.28 for the SCPs and NRPs respectively. The Spearman's rank correlation is statistically significant at the p<0.1 level for the first correlation.

6. CONCLUSIONS AND POLICY RECOMMENDATIONS

6.1. Main Conclusions

In the present study, we have thoroughly assessed the first Semester cycle in 2011 and the beginning of the second cycle in 2012. We have focused on two dimensions, the effectiveness and legitimacy of the process.

6.1.1. Effectiveness

Effectiveness is the capacity of ex-ante guidance to deliver on good coordination, which requires that Member States follow EU recommendations and translate them into policy actions. To achieve overall effectiveness, two conditions need to be met. First, the European Commission needs to deliver on early, transparent and consistent guidance. Second, national governments need to acquire ownership of the process.

EU level

Our analysis, though limited to 2011 and developments in early 2012, questions the effectiveness at the **EU level**. **First**, the **European Commission** has provided **limited explanation** for why certain policy priorities and objectives have been inserted into the AGS, both in 2011 and 2012.

Second, most of the **EU surveillance** delivered in the framework of the European Semester **fails to account** explicitly **for** possible **spillover effects across countries**. The AGS is not explicit about the fact that certain policy measures in one country may produce negative externalities for neighbouring countries. This is also true for country-specific recommendations delivered at the end of the European Semester.

Third, **euro-area recommendations** delivered at the end of the European Semester together with country-specific recommendations are themselves **not very explicit about trade-offs and spillover effects**. Even if they are ideal candidates for an assessment of possible externalities, they are also not well integrated with the country-specific recommendations and thereby miss the opportunity of formulating concrete policy recommendations resulting from euro area interdependencies.[86]

Fourth, EU recommendations to countries do not give a **degree of urgency** of actions for different countries. This lack of differentiation between alarming and non-alarming imbalances undermines the effectiveness of policy recommendations.

Fifth, the **scheduling of the constituent parts** of the European Semester is **not ideal**. The Alert Mechanism Report (AMR) of the Macroeconomic Imbalance Procedure (MIP) is published after the AGS, creating an unnecessary proliferation of analyses about policy priorities in the EU. Another timing problem is the release of the European Commission forecasts. Under the EDP, EU Member States are committed to report deficit and debt levels at regular intervals to allow the European Commission putting together Economic Forecasts. The figures for the Spring Economic Forecast published around mid-May are normally submitted to the EU by a cut-off date in April or May.[87] These are the same data national Ministries of Finance use for compiling their SCPs and NRPs in April. Commission's forecasts of May have often diverged from the national forecasts. Using different forecasts reduces the effectiveness of the exercise.

[86] The Two-pack proposal provides an important addition in that respect insofar as it commits the European Commission to prepare a document that describes the overall fiscal policy stance in the euro area, also with the aim of reinforcing surveillance over euro area countries.

[87] For the 2012 Spring Economic Forecast the cut-off date was 26 April 2012; the year before, the cut-off date was 2 May 2011.

Sixth, there are risks associated with the way in which **elements of the Semester will interact with the TSCG**, i.e. the Treaty including the Fiscal Compact, which is still under ratification. We look at two dimensions here. One is that the TSCG may create a system of multiple geometry. Failure to ratify the Fiscal Compact in some of the Member States of the euro area, would create a complicated variable geometry that goes beyond the simple euro/non-euro area divide. The second dimension relates to the changes the Fiscal Compact introduces to EU governance of the Six-pack. In the Fiscal Compact Member States commit to change their voting behaviour in the Six-pack. Thereby, the TSCG effectively changes the applicable voting rules in the Six-pack in a direction that reinforces the role of the European Commission. This may increase the effectiveness of the fiscal surveillance. Secondly, the TSCG requires Member States to improve the quality of domestic fiscal institutions including suggestions to form in each country independent *'Fiscal Councils'*. Parts of these reforms are already required by the Council Directive 2011/85/EU[88]. Fiscal Councils are meant to provide information independently from Member States' governments on the health of public finances. Such independent assessments may increase compliance and thereby effectiveness of fiscal surveillance.

Seventh, there are **differences between the recommendations produced by the European Commission and those eventually accepted by the Council** at the end of the surveillance cycle. The Council has either intervened on fiscal recommendations or on recommendations that represented a threat to national dominant positions and rents (e.g. professional services liberalisation and energy markets). While such changes are legitimate, little explanation is given as to why recommendations are changed in the Semester cycle of 2011, the main focus of the present analysis, but the problem has been addressed in the second Semester cycle of 2012.

Member State level

As regards the National Semester, we study effectiveness. In particular, we assess actual adherence to EU guidance on a sample of six EU **Member States**. Our results suggest that a shift in the timing of policy guidance and the joint submission of NRPs and SCPs is in itself not sufficient to produce policy compliance. Qualitative evidence suggests that EU countries continued to take important economic policy decisions indepentently, except for fiscal policy, which is indeed somewhat constrained in the framework of the corrective arm of the SGP, where non-compliance is associated with sanctions.[89] Yet even for fiscal policy, it is difficult to clearly assign this to the European Semester in the current period of significant market pressure. The worst implementation record concerns measures aimed at reducing dominant positions and rents, and this is true for all countries. The Commission's recommendations of 2011 in the area of service market liberalisation were either altered by the Council of Ministers or not adopted during the National Semester. The implementation record is moderate in the areas of tax reform, fiscal institutions and education. In fact, reforms are barely regime-changing and, with few exceptions, take the form of adjustments at the margins. In specific sectors where there is some compliance, the impression is however that it is because it is about measures that reflect national preferences rather than signalling a Europeanisation of policies. It is important to assess whether the conditions for effectiveness exist also at the national level. The key condition for effective EU economic policy coordination relates to the extent to which EU Member States have adapted to the new procedure and internalised it. In other words, it depends

[88] See Box 2 in Section 1.4 for a short overview of this Six-pack Directive.

[89] In isolating the constraints on national fiscal policy-making, we focus on the corrective arm of the Stability Pact, which in 2011 is the only one in which deviations would lead to sanctions. The Six-pack in force since 13 December 2011 introduced sanctions also in the preventive arm, suggesting the application of sanctions in the form of an interest-bearing deposit in the case of significant deviations from the MTO and the minimum suggested annual adjustment effort.

on the national ownership of the process. We distinguish between procedural and policy adaptation; in addition, we look at whether the European Semester and its constituent parts have made it into the public debate. Unsurprisingly, degrees of procedural, policy adaptation and media coverage vary from one country to the other.

Treating our six sampled countries in pairs, we find that procedural adaptation is greater in Germany than in France. References to the new procedure are in fact more pervasive in the German than in the French documents. The German 2012 NRP benefits from a significant improvement in the structure compared with the previous year, better reflecting the model structure guidelines provided by the EU. The two countries have a different interpretation of the remit of the Semester. For France, it is mostly an instrument for the coordination at the EU level of structural reforms, whilst for Germany the Semester is mostly about fiscal policy coordination. In both of them, policy adaptation is limited. Some of the policy priorities identified in the national documents are only tangent to the AGS. Moreover, the contents of the 2012 AGS are not reflected in the documents submitted to the EU in April 2012, which largely preserve the policy priorities and measures suggested in the previous year. Media coverage analysis confirms a moderate level of public awareness but the term *'Semester'* is generally more quoted in the French than in the German media.

The second pair comprises Estonia and Finland. Both show moderate procedural adaptation, which is higher than in France but lower than in Germany. The structure of the documents improves from one year to the other and spillover effects across policy areas are accounted for, and in fact more so in the Estonian than in the Finnish documents. Overall policy adaptation in Estonia is similar to that of Finland but one specific aspect of it, i.e. the extent to which policy priorities explicitly relate to the AGS, scores higher in the Estonian documents, as Finnish policy priorities are designed around EU2020 which is in fact only one of the background report upon which the AGS is based.

Hungary and Ireland display very different degrees of ownership of the process. Procedural and policy adaptation are high in Hungary, probably also a consequence of the fact that Hungary is holding the Presidency of the Council in the first six months of 2011. In Ireland, procedural and policy adaptation is minimal because the country is under programme and committed to policy priorities and objectives identified in the adjustment programme rather than those of the AGS. Still, in the documents of 2012, the Irish government obeys by reporting requirements imposed by the Semester, even if not obliged to do so. There is moderate media coverage and, unsurprisingly, given that the country is under programme, the most cited part of the Semester is *'Stability Programme'*.

Overall summary of effectiveness

To sum up, **firstly**, coordination frameworks, independently of how overarching they are, are by themselves not sufficient to produce policy compliance when EU recommendations are non-binding and the instruments for coordination are limited to peer-review and pressure in the Council of Ministers and in the European Council.[90] Thus, the shift in the timing under the Semester framework is a procedural innovation that by itself is not sufficient to foster actual compliance. **Secondly**, a common framework and stronger horizontal links across policy areas are capable of generating at least some policy adaptation but they are not a regime-changing institutional adaptation. **Thirdly**, we do not find that fiscal institutions have such a clear impact on the capacity of Member States to adapt to the Semester. This may be related to the limited number of observations, but

[90] Of course other procedures fall under the European Semester that are of a binding nature such as significant deviations from MTOs and excessive deficits and debts but they kick in when a Member State fails to obey by the EU recommendations provided in June every year and would rather be part of the Semester procedure in the following year.

policy compliance and national ownership of the process appears to be little affected by either fiscal governance or institutions in the six countries studied.[91]

6.1.2. Legitimacy

The other aspect of the Semester we have discussed and assessed is its legitimacy. We have explored the different dimensions of legitimacy focusing on the distinction between input and output legitimacy and argued that input legitimacy is a much more significant perspective to be applied to the Semester than output legitimacy. Input legitimacy is mostly a function of the type and depth of involvement in the procedure of the European Parliament and of National Parliaments and the appropriate compliance with legal procedures. The first year of implementation did unfold before the Economic Dialogue was codified in the Six-pack and hence before the European Parliament was granted an institutionalised albeit soft role in the European Semester cycle. In turn, in spite of the launch of an own-initiative report (INI) procedure on the Semester, the European Parliament did not provide any formal input to the Semester process itself, whilst but offering a fundamental contribution in the framework of the ordinary legislative procedure on the Six-pack to codify the European Semester and the instrument of the Economic Dialogue. All in all, the formal involvement of the European Parliament has been rather limited in the first European Semester cycle. In the first phase of the second cycle, the European Parliament has been able to play a larger role by means of the Economic Dialogue. However, a fundamental aspect that hinges on the legitimacy of the Semester is the fact that the European Parliament cannot change policy recommendations. This remains an obligation of the Commission, the Council and the national decision makers.

To assess the actual involvement of National Parliaments in the first Semester cycle, we have collected original survey-based evidence. Our results suggest that, all in all, the National Parliaments have proved quite active. Few full plenaries debate the SCPs but parliamentary committees are more active - SCPs, NRPs, and the European Commission's AGS all receive attention in at least ⅔ of the parliaments at the national level. In this context, there are a few findings worth highlighting. **First**, the government's own multi-annual domestic plans receive little scrutiny at the committee level. Even in a Member State like Germany with a relatively strong parliament in the budgetary process, the committees are simply informed of the government's plans but there is no debate. To the extent that committees (and even plenaries) use the SCP debates to evaluate multi-annual plans of the government more generally, the European Semester is adding value to what parliaments have done in the past. Moreover, the proposed legislation under the Two-pack would strengthen this connection further by checking whether the government's proposed budget in the fall matches the multi-annual plan the government presented under the European Semester in the spring. Domestic fiscal councils can play a similar role. **Second**, the most active committee is the EU Affairs Committee. Functionally, its role is usually to check what the government does at the European Union level. While this role is useful, it would be helpful if the committee charged with considering the annual budget would be more involved.

Third, some National Parliaments recognise that the Interparliamentary Cooperation may be useful but some of them were uncomfortable in providing answers. Whilst there may be some resistance in the national capitals to provide immediate support to the idea of raising the profile of Interparliamentary Cooperation, the issue is likely to become prominent in the next years. Indeed the role of the European Parliament and of National Parliaments is not only important when the two institutions are taken individually, but also insofar as they can

[91] These factors might be more relevant in the future under the Two-pack, which imposes further reporting requirements that should have different implications depending on the timeline of different national budget processes.

collaborate through the Interparliamentary Cooperation. The latter is only a locus for discussion and not a legislative assembly and it has no tax raising powers. This implies that its power to influence EU economic policy-making is limited. But that does not mean that discussion and non-binding deliberation between European and national democratic institutions bring no benefit to legitimacy. In this regard, it is also important to note that the TSCG calls on Protocol (No 1) of the Treaties and re-affirms the importance of democratic principles in the EU, explicitly arguing in favour of the use of the Interparliamentary Cooperation to discuss budgetary issues pertaining to the TSCG. Whilst the recognition of the role of the Interparliamentary Cooperation is unlikely to alter in practice the actual role of the European Parliament in EU economic policy-making, it does on the other hand create a forum where MEPs and National MPs can exchange views on EU fiscal policy-making. With this aim and to fully exploit the potential of the Interparliamentary Cooperation, we provide in the next section policy recommendations that look at the best ways to set-up Interparliamentary Cooperation meetings, distinguishing between four dimensions: i) the scheduling of meetings; ii) their composition (euro area *vs* non-euro area representatives); iii) the topics they should address; and iv) the instruments for discussion and deliberation they can use.

6.2. Policy recommendations

6.2.1. Recommendations to increase effectiveness

To improve the **effectiveness** of the European Semester, we propose the following:

A **lack of prioritisation** both across countries and across policy areas and the poor attention to spillover effects **significantly reduces the effectiveness** of the European Semester. In fact, recommendations for some countries appear to follow a bureaucratic necessity rather than a genuine need for EU guidance on policies. We suggest the following:

- The European Commission provides an explicit account of the reasons why certain priorities have been selected in the AGS each year. To achieve that, it shall include in the document an annex section that highlights possible spillover effects across policy areas and across euro area countries.
- Additionally, one important dimension to account for is spillovers between euro area and non-euro area countries. If policy priorities suggested for the euro area may imply negative externalities for other countries, this should be clearly laid out by the Commission. Ideally, the Commission should propose specific policy measures in such cases that aim to reduce the risk of a widening gap between the euro area and the non-euro area countries.[92]
- The same reasoning applies to country-specific recommendations delivered by the European Commission around May and voted by the Council in June or July. When the final country-specific recommendations are delivered, the European Commission shall provide an assessment of how country-specific interventions will (or may) impact on euro area partners.
- One other practical method to bring the euro area dimension to light and deliver a more consistent and effective approach to EU surveillance is to align the release of the AGS and the Alert Mechanism Report (AMR).

[92] One example of such coordination is the Vienna Initiative that impeded Western European banks' deleveraging in subsidiaries in the new Member States.

- Moreover, country-specific recommendations should be prioritised for those countries that are identified by the AMR as being at risk of exhibiting macroeconomic imbalances and for those countries where an excessive deficit procedure is already in place.
- Taken to the extreme, this prioritisation could go as far as discontinuing the country-specific recommendations for countries that do not fall under one of the two headings (i.e. macroeconomic imbalance or deficit). This would move the European Semester procedure from the current relatively soft form of coordination to a procedure with significantly more teeth that is both feasible to achieve and more legitimate. It is more feasible as scarce resources at the Commission as well as at the Council level will be more focused on the real problem cases as well as on the countries where significant spillovers are to be expected. It will be more legitimate as it will focus on those cases, where significant spillovers exist and for which thus the legitimate decision-making arena is the European level.
- The Commission (and in turn the Council) should review its approach to addressing the '*Recommendation for a Council Recommendation on the implementation of the Broad Guidelines for the Economic Policies of the Member States whose currency is the euro*'. Arguably, euro area spillovers constitute a prime reason for giving policy recommendations to Member States. The euro area dimension of economic policies should be firstly addressed in the AGS, as we argued above, but when it comes to the final recommendations, the Commission and the Council should only address recommendations to euro area Member States in policy areas where significant spillovers exist. Whilst in the recommendations laid down above, we argue in favour of an emphasis on problematic countries, here we argue also in favour of increased attention to problematic policy areas.
- Following up from the above recommendation, it should be noted that it is not the obligation of the Commission to send policy recommendations to Member States that have purely national implications. In fact, this would violate the subsidiarity principle. Instead of addressing a recommendation to all euro area Member States as a regional group, the Commission should address recommendations to the Member States individually and argue why a certain recommendation is important given the integrated nature of economic policies in the euro area.

To foster compliance with recommendations, also **positive incentives should be created.** The new EU cohesion policy for the period 2014-2020 now under negotiation is considering the idea of rewards for countries that use Structural and Cohesion Funds in effective ways. Such positive incentives are indeed desirable and may contribute to the efficiency of EU cohesion spending. Similarly, positive incentives could help the implementation of country-specific recommendations, even those relating to areas for which EU funding is sought, and may even be more effective than sanctions, which come usually too late. These positive incentives could be made more generous for the euro area countries than for non-euro area countries. For example, one could think of a support in case of a major labour market reform that is of crucial importance for the functioning of the monetary union.

The other important limits we identified concern the **timing or scheduling** of the European Semester process and the internal (timing) consistency of the constituent parts of the European Semester. In this regard, we suggest the following:

- As to the timeline of the AGS, the Commission's document should be submitted early to allow proper discussion at the Council and European Parliament level, but of course the shift in the timing leaves the European Commission with the burden of calculating the appropriate fiscal stance for the EU as a whole quite early on. We believe that the advantages of the early publication are greater than the cost in terms of forecasting precision.
- After the AGS has been published in November of the year preceding the Semester (like for the 2012 cycle), the next obligation for the European Commission should be to publish the Spring Economic Forecasts before Member States submit their Stability or Convergence Programmes by 30 April (or 15 April, if the Two-pack is approved in the current form). That also implies that national administrations will have to send national data to the EU by an earlier cut-off date. Basing all national Stability or Convergence Programmes on the same projections will improve coordination and simplify cross-country comparisons. Would that not be possible, then there is a strong argument for inducing euro area governments to submit their Stability Programmes later in 15 May and to use the Commission forecast in their fiscal projects. In this respect, the Two-pack now under negotiation should delay rather than anticipate euro area countries' reporting requirements, whilst preserving the obligation to submit national draft budgets by 15 October.
- Some other timing issues concern the European Parliament and its intervention in the process by means of the Economic Dialogue and the use of Interparliamentary Cooperation, which we will address in the following sections.

Public awareness of the process is important not only because it increases the legitimacy of the process but it also strengthens ownership of the process at the national level and thereby increases effectiveness. Our media discourse analysis showed that the European Semester receives moderate media coverage. Yet, public discourse is of central importance to fostering ownership of reform processes. All actors in the European Semester should increase their efforts to communicate on the results of the Semester and more importantly justify the need for action due to the large connections among EU economies.

6.2.2. Recommendations to increase legitimacy

European and the national Level

The European Parliament is the main actor capable of increasing the input legitimacy of the European Semester with the Economic Dialogue and further measures. The Six-pack has increased European decision making power in areas that directly concern the European Semester. The increase in intervention rights especially those of the European Commission is particularly relevant for the countries of the euro area. The legitimacy of decisions is basically derived from a Council decision, with only the Council members of the euro area voting when a euro area member is concerned by a recommendation. This gives rise to two concerns. First, at EU level there is limited Parliament's involved in the formulation of the policy decision. Second, while the European Parliament can hold an Economic Dialogue with the Commission, Council, European Council and the Eurogroup as well as an Exchange of Views with national representatives, the European Parliament always acts in full composition consisting of parliamentarians of 27 Member States. Thus, the Parliament does not have a composition corresponding to the decision making body of the Council. These observations constitute part of the background for the recommendations provided below.

Indeed bearing this and other constraints in mind, the **Economic Dialogue** referred to in the Six-pack Regulations represents an important policy instrument that should be exploited to its full potential. With this aim in mind, we propose the following:

- The Economic Dialogue should be used at the beginning of the cycle closely before the AGS is published, shortly after its publication and at the end of the narrow European Semester after the European Council has endorsed country-specific recommendations.

- The European Parliament should invite the President of the Commission to discuss the general ex-ante guidance earlier in the process, before the AGS is completed and released. In this regard, the European Parliament may ask the Commission to provide a draft version of the AGS and discuss the draft in the relevant parliamentary committees. Early involvement is essential to provide input legitimacy to the Semester process, even if the observations by the European Parliament remain non-binding.

- Shortly after the publication of the AGS, the European Parliament would signal its own endorsement (or rejection) of the policy priorities and objectives with a vote in the full plenary. It is an opportunity to assess the extent to which early suggestions by the European Parliament itself have been taken on board and an instrument for building up a track record of the influence of the Parliament on EU policy priorities.

- The European Parliament would then get involved in the dissemination and interpretation of the identified policy priorities by means of campaigns and other informational devices. This may have feedback effects and induce the European Commission to provide clear and transparent ex-ante guidance due to the threat of reputational costs.

- An exercise of information dissemination is also crucially needed as the European Semester currently has limited traction in international and national media. The absence of an open debate on key priorities of the European Semester reduces the legitimacy of its outcome. Our media analysis indeed suggested that media and public awareness of the new surveillance mechanism is only moderate and fragmented along national lines, while the focus in the debate should indeed be on spillover effects.

- The European Parliament should not intervene with formal hearings in the period after the European Council has endorsed the AGS until the publication of the country-specific recommendations in June/July. During this period, essentially the European Commission together with the Member States needs to perform the executive tasks of defining the right policy recommendations. Yet, the European Parliament may stay in close contact with the relevant decision makers on a more informal basis.

- After the endorsement of the national recommendations by the Council, the European Parliament should consider establishing its own non-binding vote on the contents of country-specific recommendations. While it cannot fully legitimise the decisions as the Treaty currently does not give it the legitimacy to take actual decisions in the framework of the SGP and the MIP, the process is still important in order to provide for an alternative forum of peer review and possibly pressure alongside the Council and the European Council.

- We suggest that this non-binding vote is communicated via the Interparliamentary Committee meetings to the National Parliaments, which are the actors that ultimately approve corrective measures by the Member States.

- At the end of the European Semester cycle, it is indeed desirable that the European Parliament uses the Economic Dialogue to ask for explanations in cases of significant deviations of Council recommendations from the initial Commission's proposals, as foreseen in the Six-pack, and under the condition that the explanation already provided in official documents, as occurred in 2012, is considered unsatisfactory.

- The European Parliament should in particular hold the European Commission to account. Questions to the European Commission could include the consistency of recommendations across Member States in a given year as well as consistency across years. It would also be useful for the European Parliament to hear testimony on Member States' track record in following EU recommendations. The expectation would be that the Commission would anticipate such hearings and be more likely to issue consistent recommendations in the first place.

- We consider the possibility of introducing a parliamentary counterpart to the Eurogroup. In the Eurogroup, important discussions on euro area matters take place under the exclusion of non-euro area ministers. Yet, formal votes are taken in the ECOFIN with the euro area members voting only. In the case of the European Parliament, it does not seem suitable to create a subgroup for discussions among euro area parliamentarians. In fact, parliamentary debate should by its very nature typically be public or semi-public. At the same time, the question arises whether parliamentarians from a non-euro area country should speak and vote. When voting on the AGS, the whole plenary should be involved not least because, as we argued above, the AGS should contain an explicit account of spillover effects between the euro area and the non euro area regions. By contrast, when it comes to the parliamentary debate on country-specific recommendations of euro area countries we suggest that the (non-binding) vote on them be performed just by MEPs from euro area countries. The non-euro area MEPs should voluntarily abstain from voting. Parliamentary legitimacy would thereby be increased as only parliamentarians representing the interest of citizens of the concerned countries would vote. This would be an important step recognising the significantly higher degree of economic integration and spillover across euro area countries.

- Looking into more long-term issues, to reinforce the role and the position of the Parliament in setting the agenda, we envisage the possibility for the European Parliament to prepare, at the beginning of each five-year electoral mandate, a multi-year policy priorities document. This would define policy priorities legitimised by a vote of the European Parliament.

The Economic Dialogue grants the European Parliament the right to invite national representatives for an **Exchange of Views**. It should exploit this right in all cases where significant problems in a Member State are identified. This should be cases of persistent excessive deficits as well as excessive macroeconomic imbalances.

As it was discussed in this report, one important tool in the attempt to increase the input legitimacy of the European Semester is through an appropriate use of the Interparliamentary Cooperation. The **Interparliamentary Cooperation** between national MPs and MEPs is useful for policy coordination under the Semester. Most respondents to our original survey perceive the Interparliamentary Cooperation as an important instrument. Several respondents to our original survey have showed support for an Interparliamentary Committee, even if others have failed to provide an answer. The moment and the institutional environment for the development of the Interparliamentary Cooperation should be carefully defined. In particular, we recommend the following:

- The **Interparliamentary Committee** meets in Brussels two times a year, in December at an early stage of the European Semester shortly after the publication of the AGS and in June/July after the Council has adopted its recommendations to Member States. In each case, the President of the Commission together with the Commissioner for Economic and Monetary Affairs should meet with the inter-parliamentary committee, justify recommendations and take questions. This will increase the legitimacy of the process because the President of the Commission in particular will be subject to scrutiny from both National Parliaments and from the European Parliament. It will also increase the importance of this committee and make it more likely that national parliamentarians work together under its auspices.

- We do not recommend an Interparliamentary Committee meeting that takes place after the endorsement of the AGS at the Spring European Council and until the formulation of the final country-specific recommendations. There is no advantage from exchanging views before actual country-specific recommendations are adopted.

- The meetings should serve the function of highlighting potential spillover effects across the EU and the European Parliament seems the ideal candidate for bringing these issues to light, which each National Parliament needs to take on board in the parliamentary phase of national budgetary processes starting almost everywhere around September time.

At the national level, the Budget/Finance Committee should debate the AGS so that the MPs on the committee are better informed about the general direction of European Union policy. It would also be helpful to involve more committees in the formulation and evaluation of the National Reform Programmes, which span the competencies of several committees besides Budget/Finance and EU Affairs.

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MAIN WEBSITES AND PORTALS

- http://archimedes.ee/ (Estonian Archimedes Foundation)
- http://dipbt.bundestag.de (German Parliament Documentation Centre)
- http://eur-lex.europa.eu/
- http://www.europarl.europa.eu/oeil/search/search.do?lang=null (European Parliament Legislative Observatory)
- http://european-council.europa.eu/
- http://valtioneuvosto.fi/ministeriot/vm/en.jsp (Finnish Ministry of Finance)
- http://www.bmfsfj.de (Federal Ministry of Family, Young and Old People of Germany)
- http://www.bmwi.de (Federal Ministry of Economy and Technology of Germany)
- http://www.budget.gouv.fr/ (French Ministry of Economy, Finance and External Trade)
- http://www.budget.gov.ie/Budgets/2012/2012.aspx (Irish Ministry of Finance-Budget Portal)
- http://www.bundesfinanzministerium.de (Federal Ministry of Finance of Germany)
- http://www.consilium.europa.eu
- http://www.data.gov.fr (Database of the French Government)
- http://www.fin.ee/ (Estonian Ministry of Finance)
- http://www.gouvernement.fr/ (French Government Portal)
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- http://www.legaltext.ee (Estonian Legal Text Centre)
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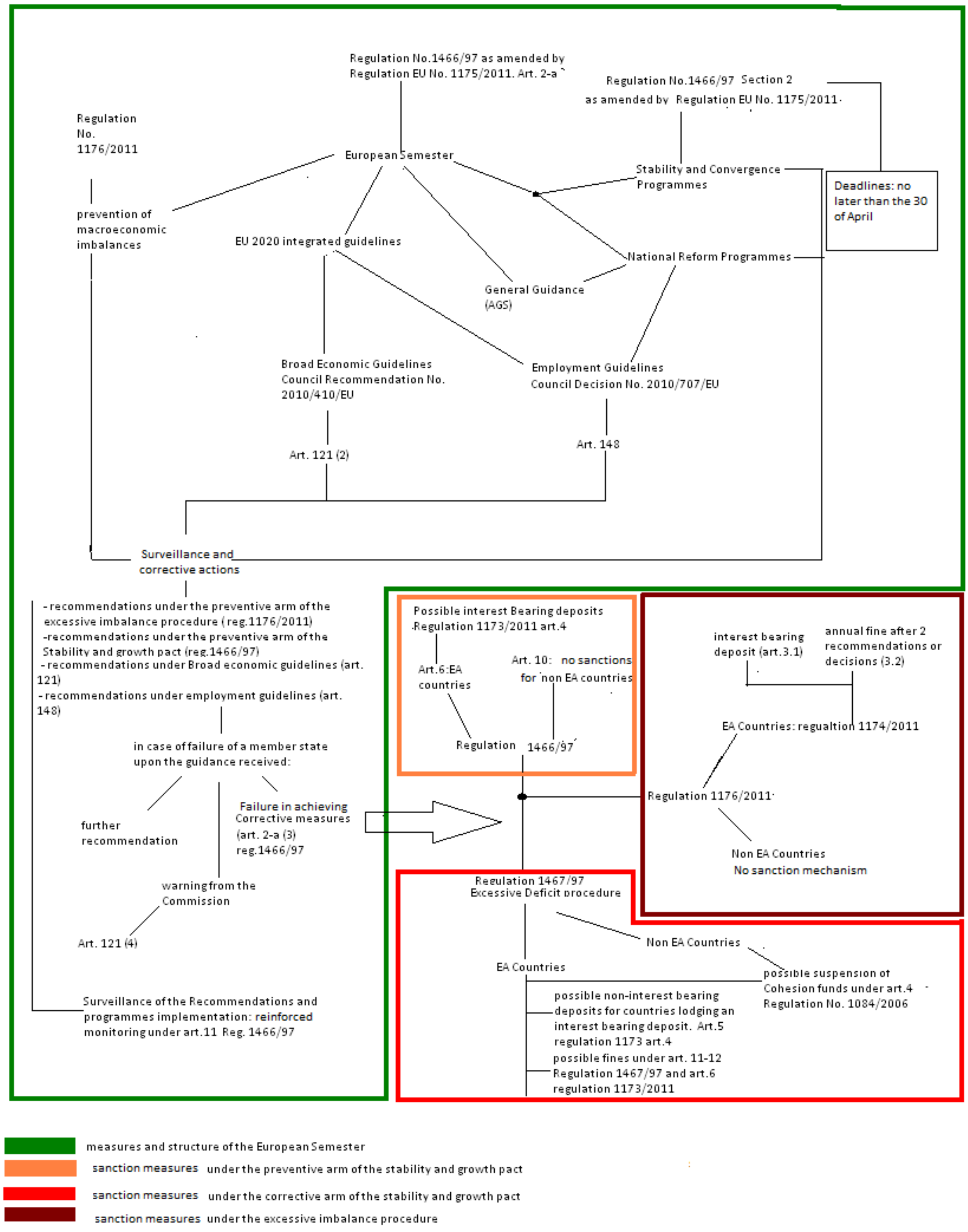
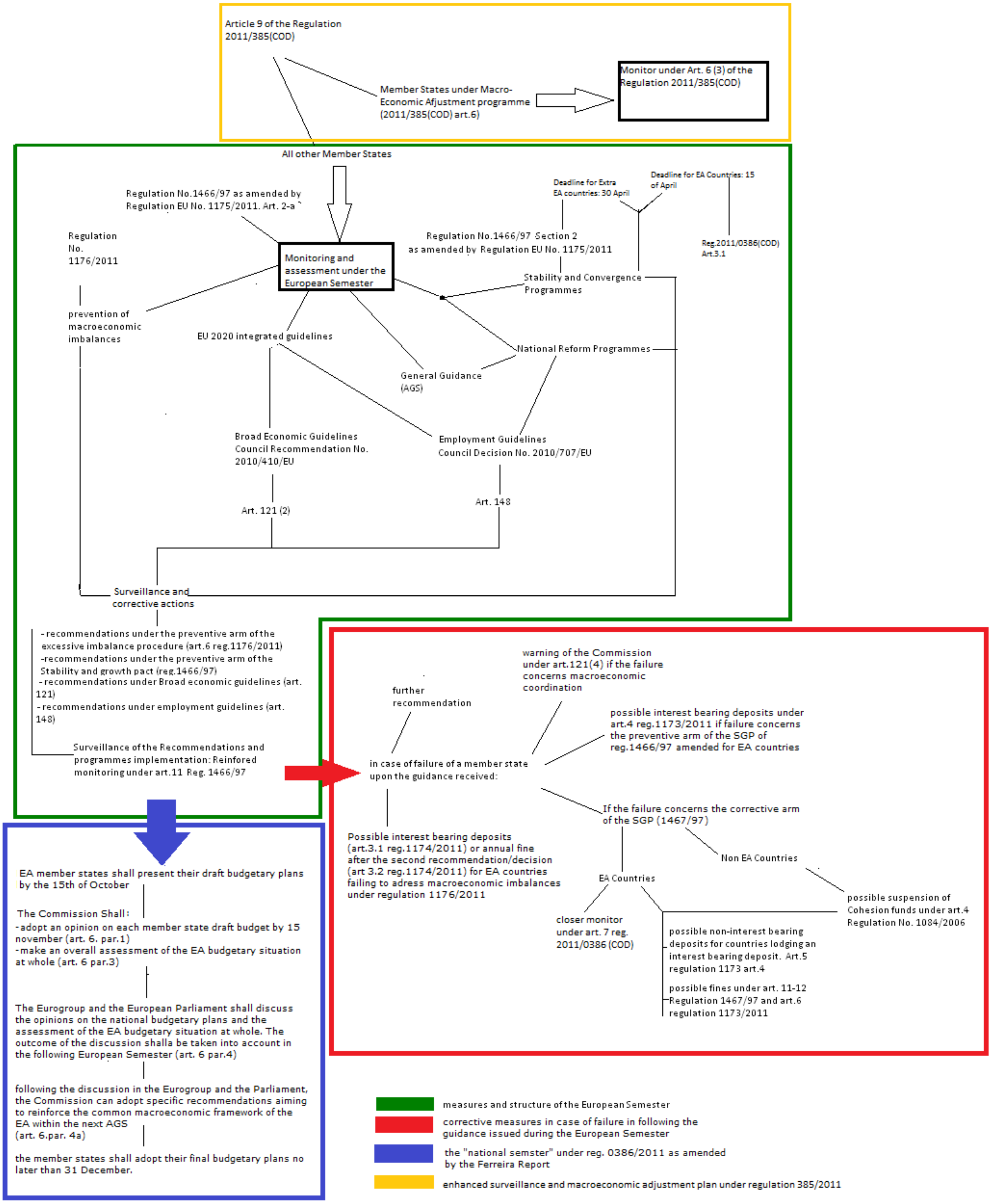
ANNEX 1: LEGAL INFRASTRUCTURE

Figure A1.1 Current European Semester



Source: Own elaboration, Bruegel.

Figure A1.2 Legal Infrastructure with Two-pack



Source: Own elaboration, Bruegel.

ANNEX 2: TIMETABLES

Table A2.1: The timeline under the Six-pack

The current timeline of the European Semester under the Six Pack legislation								
	Year X-1	**Year X**						**Year X+1**
	November/ December	**February/March**	**By end of April**	**Mid-June**	**End of June**	**July**	**August-December**	**All the year**
Commission	Publication of the AGS for the Year X	**February:** Alert Mechanism Report		Adoption of Country-Specific Recommendations for Council Opinions on SCPs and Country-Specific Recommendations on NRPs (joint legal text)				
Council	Discussion on the AGS					Adoption of Country-Specific Recommendations and Council Opinions		
Euro area Member States			Submission of the Multi-annual Fiscal Plans, of the Stability Programmes, of the National Reform Programmes				Introducing in their budgetary laws the provisions proposed in the Stability or Convergence Programmes.	Implementation
Non-euro area Member States			Submission of the Convergence Programmes and of the National Reform Programmes					Implementation
European Council		**March:** Endorsement of the AGS			Endorsement of the Council Recommendations			
European Parliament	Economic Dialogue							
National Parliaments		Parliamentary discussion and inputs to NRPs and SCPs				Discussion of the draft Budget plans	Final vote on the national budget	

Source: Own elaboration, Bruegel.

Table A2.2: The timeline under the Two-pack

The timeline of the European Semester under the Two Pack legislation											
	Year X-1		**Year X**								**Year X+1**
	November/ December	**February/ March**	**By 15 of April**	**End of April**	**Mid-June**	**End of June**	**July**	**By 15 of October**	**By 30 of November**	**By 31 of December**	**All the year**
Commission	Publication of the AGS for the Year X	**February:** Alert Mechanism Report			Adoption of Country-Specific Recommendations for Council Opinions on SCPs and Country-Specific Recommendations on NRPs (joint legal text)			Opinions on euro area countries' draft budget laws	Publication of the AGS for the year X+1		
Council	Discussion on the AGS						Adoption of Country Specific Recommendations and Council Opinions				
EA Member States			Submission of the Multi-annual Fiscal Plans, of the Stability Programmes, of the National Reform Programmes					Presentation of the draft budget laws		Adoption of the final budget law	Implemen-tation
Non-EA Member States				Submission of the Convergence Programmes and of the National Reform Programmes							Implemen-tation
European Council		**March:** Endorsement of AGS				Endorsement of the Council Recommendations					
European Parliament	Economic Dialogue										
National Parliament		Parliamentary discussion and inputs to NRPs and SCPs					Discussion of the draft budget plans		Final vote on the national budget		

Source: Own elaboration, Bruegel.

Table A2.3: National Budgetary Time Framework

National Budgetary Timelines													
	Jan.	**Feb.**	**Mar.**	**Apr.**	**May**	**June**	**July**	**Aug.**	**Sept.**	**Oct.**	**Nov.**	**Dec.**	**Budgetary Year**
Estonia	The Ministry of Finance circulates a budget circular to the Ministries together with a timetable.		Ministries submit a four-year organisation plan together with a financial plan.	The Ministry of Finance leads negotiation among Ministries and present a draft State budget strategy.	Publication of the State budget strategy.	Ministry submit annual budget bids and annual financial plans.	Negotiations among Ministries led by the Ministry of Finance.		Publication of the draft budget act.	By the first of October, transmission of the draft budget acts to the Parliament together with the explanatory budget memorandum.	The Parliament discusses and approves the budget by the end of the year.		
Finland	Ministries propose spending limits to the Ministry of Finance.		The Ministry of Finance consolidate the government budget limits, which are endorsed by the government itself. The Ministry of Finance also delivers procedural guidelines	The Ministries issue to the state agencies their own guidelines. The agencies draw their draft budgets, which are consolidated within individual Ministries. The Ministries transmit their draft budget to the Ministry of Finance by the end of May, presenting eventual amendments to the spending limits.		The Ministry of Finance consolidates the ministerial draft budgets, handing back the proposed budget to the ministries. In August, the Ministries reach an agreement on the final draft budget within the Government's budget session.			The final draft of the budget is presented to the Parliament.	The Parliament discusses the draft budget following the advice of the Finance Committee.		The final budget is approved by the Parliament by the end of December.	If required, a supplementary budget can be presented.

National Budgetary Timelines													
	Jan.	**Feb.**	**Mar.**	**Apr.**	**May**	**June**	**July**	**Aug.**	**Sept.**	**Oct.**	**Nov.**	**Dec.**	**Budgetary Year**
France	There are no official internal deadlines for the negotiations among Ministries within the Government and among the President and the Government.						The Chambers send the questionnaires to the Government no later than the 10 of July.			The Government proposes the Budget draft to the Chambers by the first Tuesday of the month. The Government shall reply to the questionnaires no later than the 10 of October.	The Chambers must approve the Budget within 70 days from its presentation.		During the budgetary year, further modifications can be proposed to the Parliament through the “Loi des finances rectificative.”
Germany	The Ministry of Finance sends an annual budget circular to the departments by the first of January of the year X-1.		Department bids are submitted to the Federal Ministry of Finance.	Negotiations between the Ministry of Finance and the departments. (working level)	Negotiations between the Ministry of Finance and the departments. (general-directorate level, ministerial level)				The Draft budget shall be sent to the Parliament and the Council by the first week of September.	The Parliament discusses the budget in three lectures. The Council shall provide an official statement after a discussion. The Parliament shall vote the budget which enters in force the first of January of the budgetary year.			
Hungary	The Ministry of Finance shall, following its own macroeconomic forecasts, transmit to the Ministries the macroeconomic guidelines. The final macroeconomic guidelines. The final macroeconomic guidelines shall be sent by the Ministry of Finance to the government by the 15 of April.				The Budget Circular is sent to the Ministries. It contains technical details and a timeline for submissions. The Prime Minister distributes the spending limits per each budget chapter.		Ministries negotiate the budget with the Ministry of Finance. The final draft shall be submitted to the government by the Ministry of Finance by the 31 of August.		Finalisation of the bill and audit/discussion with external agents. The Bill shall be proposed to the Parliament by the 30 of September.	Discussion and vote in the Parliament.			

National Budgetary Timelines													
	Jan.	**Feb.**	**Mar.**	**Apr.**	**May**	**June**	**July**	**Aug.**	**Sept.**	**Oct.**	**Nov.**	**Dec.**	**Budgetary Year**
Ireland	(The Parliament discusses and votes the budget for the current year.)					The Government proposes an internal Budget strategy Memorandum and decides on budgetary targets. The government departments' discussion on individual budgets begins in July and continues until September.			The Ministries hold internal discussions on the budget and reach a comprehensive governmental agreement on the allocation of expenditures. In the meantime, the Government publishes a pre-budget outlook.			The budget is presented to the Parliamen t.	The Parliament usually votes the budget at by end of February of the year X. The Government updates the budgetary position.

Note: In blue the Parliamentary phases of the process.

Sources: Mordacq (2008), Lienert and Jung (2004), Knörzer (2008), Kraan, Wehner and Richter (2008), Kraan, Bergvall, Hawkesworth and Krause (2007), Irish Department of Finance (2011), Finnish ministry of Finance website: http://www.ministryoffinance.fi/vm/en/09_national_finances/01_the_budget/index.jsp.

ANNEX 3: EFFECTIVENESS: OWNERSHIP AND POLICY GUIDANCE

Table A3.1: Comparision of the 2011 and 2012 National Reform Programmes

Country	Estonia	Finland	France	Germany	Hungary	Ireland
Changes in structure	The 2012 NRP provides additionally an overview of the implementation of the Estonia 2020 objectives, including -an overview of the attainment of the objectives, -the status of performance concerning the commitments under the Euro plus Pact and the country-specific recommendations of the Council.	The 2012 NRP provides additionally -an introductory section about the coordination of economic policy at European level and -a brief section on how to link EU Structural Fund measures more closely to the implementation of the Europe 2020 Strategy.	The only difference between the 2011 and 2012 documents concerns the appendix. While the 2011 NRP provides an overview of France's commitments under the Euro Plus Pact and the identified obstacles to growth transmitted to the EU Commission in November 2010, the 2012 NRP provides an overview of the Council recommendations to France of 6 July 2011.	The 2012 NRP provides additionally -an overview of the implementation of the country-specific recommendation of the Council , -an assessment of the implementation of the German Action Programme for the Euro Plus Pact 2011. Moreover, the section on key measures to stimulate growth and employment has been restructured according to the Integrated Guidelines for Growth and Jobs.	While the 2011 NRP is mainly based on the National Széll Kalman Plan, the 2012 NRP provides additionally -a section on the priorities of the AGS and how to achieve them at national level, as well as - an overview of the implementation of the 2011 country-specific recommendations. It is, out of the six, the only country that provides in 2012 a section about the priorities of the AGS.	Ireland is not required to submit a separate NRP for 2012 given the rigorous reporting carried out under the EU/ IMF Programme of Financial Support, but submitted, however, one to preview the progress since NRP 2011. The structure did not change between 2011 and 2012, apart of the fact that there is no section on macroeconomic scenario and surveillance in the 2012 document.
Increase in effectiveness	Significant	Significant	Not significant	Significant	Significant	-

Source: Author's own elaborations, Bruegel.

ANNEX 4: METHODOLOGY BEHIND COUNTRY TABLES

For each country we have produced a set of seven different tables. This Annex explains the rationale and the methodology in the construction of the seven tables from Annex 5 to Annex 10.

- Table 1 reports figures of each country's commitment to EU2020 objectives, as laid down in each NRP.
- Table 2 provides a selection of measures described in each NRP based on two principles. First, we have excluded the measures already implemented before the publication of the NRP. Second, we have regrouped the remaining measures in different categories in order to facilitate the readability of the tables.
- Table 3 summarises the fiscal measures envisaged in each national Stability or Convergence Programme, including a synopsis of fiscal policy aggregates and macroeconomic variables.
- Table 4 offers a more detailed description of measures on the revenue and the expenditure side of the budget in each given year.
- Table 5 presents, in the order, the text of the Commission's recommendations to the country, the final version voted by the Council, an assessment of the differences, and a general evaluation of the implementation at national level.
- Table 6 provides an assessment of whether and to what extent the measures described in each NRP have been implemented.
- Table 7 provides figures that allow assessing the extent to which fiscal measures have been implemented according to plan.

ANNEX 5: FRANCE

The process of budgeting in France

The French government begins to prepare the national budget between May and June of the fiscal year, after having completed the analysis of the fiscal results reached in the previous period. The French Budget (‘*loi des finances initiale’)* is proposed by the government by the first Tuesday of October each year, and voted by the two chambers within 70 days by its presentation.[93] The Government maintains the power of proposing modifications during the budgetary year, if it is required, with a corrective law (*‘loi des finances rectificative’)*: the parliament plays a secondary role in respect of the Presidency of the Republic during the budgetary process, because it has not the power of raise expenditures or lower revenues.[94] Moreover, the budgetary process covers only the direct expenditures of the State, but according to the OECD analysis, in 2003 almost 47% of total expenditures are effectuated in extra-budgetary funds.

The national practice of policy making is largely related with **multi annual reform programmes**, usually over 4 or 5 years, which capital funding is decided at the beginning of the period. Therefore, following our general criterion, we excluded the commitments made by France with the National Reform Programme each reform, act and law approved before the presentation of the NRP itself and, accordingly with the NRP, does not require further explicit action by the Central Government. Some exceptions have been made, namely in the case of iterative reform programmes (like the ‘*General Revision of Public Policies’*, launched in 2007 but implemented each year) and in the case of massive investment programmes, like the ‘*Investment for the Future Programme*’, which includes expenditures and investments for around 25 EUR billion; in the latter case, we tracked the implementation of each single funding line to assess which priorities have been effectively implemented.

Bases for the **assessment of implementation** in **Table A5.6** of the reforms announced in the 2011 NRP are:

- The Report on the Evolution on the Economic and Budgetary Situation provided at the beginning of the *Projet de loi des finances rectificative 2012,*
- The French 2012 Budget,
- The report on the Organisation and Implementation of the *Investment for the Future Programme* annexed to the 2012 Budget and
- Information available on Government’s and ministries’ websites.
- The French Stability Programme 2012
- The French Reform Programme 2012

[93] F. Mordacq (2008) *Budgetary Reform and Parliament: The French Experience*. Relation written for the International Symposium on the changing role of parliaments in the budgetary process, 8-9 October 2008, Ankara, p.8.

[94] For a comprehensive review of the French budgetary process, including the evolutions of the negotiations within the Parliament, see Lienert, I. and M.K. Jung (2004) *The legal framework for budget systems-Special Issue of the OECD Journal on Budgeting.* OECD Journal on Budgeting, Vol.4, No. 3. pp. 185-219.

Table A5.1: Europe 2020

School leaving rate	9.5%
Tertiary education attainment	50%
Poverty risk after social transfers	-1.6 millions of people
Adult participation in lifelong education programmes	18%
Employment rate (20-64)	75%
Research and development investments	3%
Greenhouse emissions (with respect to the 2005 level)	-14%
Share of renewable energy on final consumption	23%
Increase in energy efficiency/reduction of energy consumption	- 135 Mtoe

Source: French National Reform Programme 2011.

Table A5.2: National Reform Programme 2011

1) Ensuring the Quality and the Sustainability of Public Finances.	The Révision Générale des Politiques Publiques (RGPP) constitutes a general public policy review. It intends to provide a general rationalisation of public expenditures. In Spring 2011, the French Government has also brought forward the introduction of the balanced budget principle in the French Constitution. This involves the creation of a new legislative instrument in the form of 'balanced budget framework laws'. Finally, the phase-in of the pension reform launched in 2010 is expected to progressively rise the retirement age and boost the size of the working population and the hence the potential level of activity.
2) Addressing Macro-Economic Imbalances	Along the measures meant to boost French Competitiveness reported throughout the chapters of the National Reform Programme, France has attached to this document the commitments assumed under the Euro Plus Pact.
3) Excellence in High Education and Research	*a) Fostering excellence in higher education and stimulating public research.* Components of the "Investments for the Future" Programme and Other Education/Research Investments: The programme titled '*Investment for the Future*' is the major French undertaking in favour of research and innovation**.** The overall amount of the programme is EUR 21.9 billion. More in detail, the programme foresees: -EUR 3.6 billion to invest in higher education and research institutions in 2011; -EUR 7.7 billion to create 5 to 10 top class educational clusters, supported by the launch of the first 'Operation Campus' projects consisting in EUR 5 billion earmarked to new top class universities; - the accomplishment of the process for creating autonomous universities by 2012. The other main reforms in this field are: - the phase 2 of the 'Competitiveness Clusters Programme' for the construction of innovation platforms; - the "*Careers Plan*" initiative for researchers to promote careers in higher education and research; - the 'New Ambition for Science and School Technology in the School Plan' seeking to enhance children understanding of science; - "S*tudent-Entrepreneur Plan*' to promote a spirit of enterprise in institutions of higher education; - the 'laboratoire d'Excellence' and 'the Equipements d'Excellence' to deveop first-class laboratories with first-class facilities; - a strengthened evaluation of research bodies and researchers by the 'Agence d'Evaluation de la Recherche et de l'Enseignement Supérieur'. *b) Optimising support for research and development and innovation.* France's innovation policy gives special importance to SMEs firstly via OSEO (a EUR 13 billion programme for the period 2009-2012), which promotes and supports the industrial development and growth of SMEs through innovation, especially technological, and to contribute to technology transfers. Secondly, innovative start-ups are eligible for tax relief and for exemption from social insurance contributions on the wages of personnel engaged in the company's research projects.

	Additional measures to support innovation that the French government is being implementing are: - the redefinition of the conditions of eligibility for the research tax credit to avoid possible windfall effects; - the creation of a national seed capital fund, with the funds subscribed by the State and managed by CDC Enterprise to invest in existing or newly formed seed capital funds; - the creation of a fund to improve conditions in which French laboratories and research bodies or even businesses can exploit their intellectual property rights. *c) Supporting sectorial innovation, especially in the digital sector.* The 'France Numérique 2012' programme' aims at making fixed and mobile broadband connections and terrestrial digital TV accessible to the entire French population between now and 2012. Its flagship label is 'Broadband for all' label, launched in 2010, which is designed to guarantee broadband internet access at an affordable price to everyone in Metropolitan France, wherever they are. EUR 2.5 billion of the 'Investments for the Future' programme have been also earmarked for innovative digital uses, services and contents. Two additional elements complete the French plan for the development of the digital economy: - the use of the European Regional Development Fund (ERDF) as financial lever in promoting the development of the information and communication technologies (ICT); - the 'E-Government Plan' to allow online access to administrative formalities, the rationalisation of government websites, and the promotion of single virtual windows.
4) Green Economy	'Grenelle II' is an environmental programme created in 2010 to complete the Grenelle I programme. Its main goals are: - supporting enterprises in their shift towards green growth and eco-innovation; - making agriculture contribute to sustainable development through a more efficient use of natural resources; - fostering sustainable consumption patterns through product labelling taking into account the environmental impact; - greening the French tax system; - overhauling transport infrastructures; - mobilising structural funds to convert local governments to eco-policies and for sustainable development.
5) Improving the Regulatory Framework for Firms, especially SMEs; Promote Reindustrialisation and Service Sector Liberalisation	Supporting the development of companies, improving their environment, and ensuring the proper functioning of the domestic market, thanks to high quality public services in particular, are government priorities in its drive to foster growth, create jobs, and improve the competitiveness of SMEs. *a) Modernising the industrial base* The main actions to modernise the industrial base consist in: - boosting competitiveness and supporting innovation in industrial firms; - assisting restructuring and reindustrialisation processes. *b) Improving the economic environment for businesses and consumers* The main reforms to boost competition among businesses and bring down entry barriers in potentially competitive sectors are: - stimulating the growth of companies through the reform of the taxation system towards competitiveness; - the modernisation of the public administration and the reduction of administrative burdens; - facilitating the access to funding for companies and consumers thanks to the European Regional Development Fund (ERDF); - the reform of the financial sector regulation as well as personal banking services. *c) Improving the functioning of the domestic market* The main market reforms to be implemented in this field are: - completing the implementation of the 'Services' Directive; - the energy market reform; - opening the transport sector to competition; - enhancing competition in postal services and telecommunications; - modernising the agricultural sector.

6) Employment and Fight against Poverty and Social Exclusion	The main objectives of the French employment policy are: - boosting the labour force participation, thanks to policies that promote the inclusion of youth and categories of workers in more difficulty in the labour force on the one side, while prolonging the length of the working life on the other side; - creating a secure framework for labour market transition, thanks to the 'professional transition contract, renegotiation of unemployment insurance, and the provision of professional training ; - improving the quality of jobs and working conditions, above all thanks to the second 'Health in the Workplace Plan'.
7) Reform of Educational and Training Systems	The following actions have been foreseen to improve the quality of training and ability to innovative of a country's labour force: - reform of working/study schemes; - a tax reform in favour of training and hiring of young people; - the extension of the 'Contrat d'Autonomie' in 2011-2012; - the reform of the earned-income supplement by the end of 2011; - the reform of the flat-rate social contribution toward a partial progressivity; - the reform of the professional transition contract; - the increase of the number of 'Etablissements de Reinsertion Scolaires' from 11 to 31 by the end of 2011.

Source: French National Reform Programme 2011.

Table A5.3: Stability Programme 2011. National Accounts

	2011	2012	2013	2014	2015	Unit of Measure
Gross Debt	84.6	86.0	85.6	84.1	-	% of GDP
Net Lending (+)/ Borrowing (-)	-5.7	-4.6	-3.0	-2.0	-	% of GDP
Total Revenues	50.0	50.3	50.8	50.8	-	% of GDP
Total Expenditures	55.7	54.9	53.8	52.8	-	% of GDP
Unemployment	n.a.	n.a.	n.a.	n.a.	-	% of Labour Force
Growth Rate	2.0	2.25	2.5	2.5	-	%
Structural Balance[95]	-5.1	-3.8	-2.9	-1.6	-	% of GDP

Source: French Stability Programme 2011.

Table A5. 4: Stability Programme 2011. Main Elements

2011	
Revenues	New tax measures: EUR 2.8billion. Payback effect of early reimbursements under the recovery plan: EUR 3.6 billion. Total growth in social security revenues of EUR 8 billion. Total effects of new revenues in the initial budget act 2011: EUR 11.9 billion. Overall impact of the increased tax burden on GDP: 26.5%. Overall impact of social revenues on GDP: 18.5%.
Expenditures	Reduction by 1.5% of civil servant staffs. Reduction of operating expenditures by 5%. Reduction of non-state interventions by 5%. Limitation of social founds expenditure growth: - national healthcare expenditure growth of 2.9%; - old-age benefits growth of 4.6%; - growth in family and housing benefits by 2.2%. - Unemployment benefits: reduction of 2.6% Total increase of the expenditure for social security: +3.5% Effects of the spending review: - EUR 5 billion expenditures.
2012	

95 Only for countries not under excessive deficit procedure.

Revenues	Total growth in social security revenues by 4%. Reduction of several tax credits. Total effects of new revenues in the initial budget act 2011: EUR 2.4 billion. Overall impact of the increased tax burden on GDP: 26.8%. Overall impact of social revenues on GDP: 18.5%.
Expenditures	Reduction by 1.5% of civil servant staffs. Reduction of operating expenditures by 2.5%. Limitation of social founds expenditure growth: - national healthcare expenditure growth of 2.8%; - growth in old-age benefits by 3.6%. - growth in family housing benefits of 2.6% - reduction in unemployment benefits by 0.9% Total increase of social security founds spending by 3%.
2013	
Revenues	Total growth in social security revenues of 4% Overall impact of the increased tax burden on GDP: 27.3%. Overall impact of social revenues on GDP: 18.4%.
Expenditures	Reduction by 1.5% of civil servant staffs Reduction of operating expenditures (not defined-theoretically 7.5%) Limitation of social founds expenditure growth: - national healthcare expenditure growth of 2.8%; - growth in old-age benefits by 3.6%. - growth in family housing benefits of 2.6% - reduction in unemployment benefits by 0.9% Total increase of social security founds spending by 3%.
2014	
Revenues	Total growth in social security revenues of 4% Overall impact of the increased tax burden on GDP: 27.4%. Overall impact of social revenues on GDP: 18.4%.
Expenditures	Limitation of social founds expenditure growth: - national healthcare expenditure growth of 2.8%; - growth in old-age benefits by 3.6%; - growth in family housing benefits of 2.6%; -reduction in unemployment benefits by 0.9%. Total increase of social security founds spending by 3%.
2015	
Revenues	-
Expenditures	-

Source: French Stability Programme 2011.

Table A5.5: Commission's and Council's Recommendations: Eventual Differences and Implementation at National Level, 2011

Commission's Recommendations	
1)	Ensure the recommended average annual fiscal effort of more than 1% of GDP over the period 2010-2013 and rigorously implement the correction of the excessive deficit by 2013; specify the necessary corresponding measures and use any windfall revenues to accelerate the deficit and debt reduction; continue to review the sustainability of the pension system and take additional measures if needed.
2)	Undertake renewed efforts, in accordance with national practices of consultation with the social partners, to combat labour market segmentation by reviewing selected aspects of employment protection legislation; ensure that any adaptations in the minimum wage are supportive of job creation, especially for the young and the low-skilled.
3)	Encourage access to training in order to help maintain older workers in employment and create incentives to support return to employment. Step up active labour market policies and introduce measures to improve the organisation, decision-making, and procedures of the public employment service to strengthen services and individualised support provided to those at risk of long-term unemployment.
4)	Increase the efficiency of the tax system, including through a move away from labour towards environmental and consumption taxes, and implementation of the planned reduction in the number and cost of tax and social security exemptions (including 'niches fiscales').
5)	Take further steps to remove unjustified restrictions on regulated trades and professions, in particular in services and the retail sector.
Council's Recommendations	
1)	Ensure the recommended average annual fiscal effort of more than 1 % of GDP over the period 2010-2013 and implement the correction of the excessive deficit by 2013, in line with the Council recommendations under the EDP, thus bringing the high public debt ratio on a downward path, and ensure adequate progress to the medium-term objective thereafter; specify the necessary corresponding measures for 2012 onwards, take additional measures if needed and use any windfall revenues to accelerate the deficit and debt reduction as planned; continue to review the sustainability of the pension system and take additional measures if needed.
2)	Undertake renewed efforts, in accordance with national practices of consultation with the social partners, to combat labour market segmentation by reviewing selected aspects of employment protection legislation while improving human capital and upward transitions; ensure that any development in the minimum wage is supportive of job creation.
3)	Encourage access to lifelong learning in order to help maintain older workers in employment and enhance measures to support return to employment. Step up active labour market policies and introduce measures to improve the organisation, decision-making, and procedures of the public employment service to strengthen services and individualised support provided to those at risk of long-term unemployment.
4)	Increase the efficiency of the tax system, including for example through a move away from labour towards environmental and consumption taxes, and implementation of the planned reduction in the number and cost of tax and social security exemptions (including 'niches fiscales').
5)	Take further steps to remove unjustified restrictions on regulated trades and professions, in particular in services and the retail sector.
Eventual Differences	
1)	Additional reference to the Excessive Deficit Procedure.
2)	Additional sentence on the improvement of human capital; change of the term "adaptation" into the term "development"; removed reference to young and low skilled people.
3)	Change of the term 'incentives' into the term 'measures'.
4)	No differences.
5)	No differences.

Implementation	
1)	Partially implemented. The 2011 deficit was already considerably lower than the estimations, implying that there is almost no need for further consolidation in 2012. The 2012 "*Loi des finances rectificative*" proposes a further consolidation of 0.1% of GDP, excluding from calculations the France's 2012 contribution to the ESM (around 0.25% of GDP).
2) and 3)	There is not clear reference in the 2012 Budget Act about active labour market reforms. Some actions, however, are envisaged to encourage companies to hire young people and to improve human capital. According to the Commission staff working document, a law of July 2011 facilitated economic dismissals for companies fewer than 1000 employees. The Commission also considers as limited the effects of the initiatives like "*Pole d'emploi*".
4)	The tax system is in partially reformed, with an increase of indirect taxations (VAT) and a decrease in employment contributions, in order to increase enterprises' competiveness. In February 2012 the Parliament has approved a law to reduce the impact of distortive taxes. There is no track, accordingly with the Commission Staff working document 2012, of a major swift towards environmentally based taxation.
5)	The reform of the electricity market was operative since July 2011. There is no record of other market reforms in 2012 Budget Act. The Commission Staff working document refers to limited removals of restrictions to regulated professions in 2011, which have however a marginal impact.

Sources: European Commission Recommendation for a Council Recommendation on the National Reform Programme 2011 of France and on delivering a Council Opinion on the Stability Programme of France 2011-2014; Council Recommendation of 12 July 2011 on the National Reform Programme 2011 of France and delivering a Council opinion on the updated Stability Programme of France, 2011-2014; National Reform Programme of France 2012; Stability Programme of France 2012-2016; Commission Staff Working Document on the National Reform Programme 2012 of France; Bruegel own research.

Table A5.6: Implementation of the Main Measures of the 2011 National Reform Programme

1) Ensuring the Quality and the Sustainability of Public Finances.	*"The Révision Générale des Politiques Publiques"* was approved in 2010 and it is operative. Budget 2012: strong reinforcement of the fines in case of fiscal elusion (former fines multiplied for a factor of 10 to 13). The 'Constitutional Reform Bill': The project for the constitutional Bill was approved in July 2011 and voted by the two arms of the Parliament. The process is not completed yet because the Parliament, unified in the congress assembly, has not expressed a final vote on the Bill yet.
2) Addressing Macro-Economic Imbalances	The 'Pension Reform' was approved Autumn 2010 and partially operative. The 2012 NRP reports further improvements in the previous year, as well as side measures to complement the reform pensions approved during 2011. The 2012 NRP reports an implementation of the labour market during the previous year thanks to the introduction of the conventional rupture and improved accompaniment of job-seekers in 2011, and to the introduction of Professional Securisation contract in July 2011.
3) Excellence in High Education and Research	ANR and CDC initiatives. Launched in 2010, partially operative: four priorities have reached the financing phase; one priority is in the negotiating phase; seven priorities are in the selection phase. In the framework of the 'Investment for the Future' programme, the 2012 NRP reports the mobilisation of EUR 4.5 billion new investments in Higher Education. Reform of the research and development firms' tax credit: no indications in the 2012 budget. Innovative start-up capital found: no clear indications in the 2012 budget. However, the 2012 budget contains the measures to institute and finance a 'Bank for Industry' with resources from the 'Investment for the Future' programme. The 2012 NRP reports the creation, in June 2011, of a EUR 400 million fund for SMEs. Concerning the completion of the 2010 broadband plan: no explicit developments in Budget 2012. However, the 2012 budget, within the framework of the Bank for Industry, includes EUR 450 million (capital and loans) of the refinance at the voice: 'funds for digital society'. Additional implemented actions are reported in the 2010 NRP: - at the beginning of 2011, 75 universities out of 80 were autonomous. According to the 2013 NRP, 2 additional universities have achieved autonomy by the beginning 2012. Moreover, during the previous year new actions were launched under the *'initiatives d'excellence'* and *'initiatives en formation innovantes*' frameworks. - the second phase of the *'pôles de competitivité'* has been launched in November 2011. - a new research centre has been instituted. Several education institutions have implemented entrepreneur schemes for students.
4) Green Economy	The 'Grenelle II' programme was approved in 2010. Budget 2012: increasing of 1.6% of the budget voice 'écologie' of the Ministry of Ecology, Development, Transport and Housing. The 2012 NRP reports: -the publication of the report on aid for biodiversity from the 'Centre of Strategic Analysis' in October 2011; -the publication of the first report on the implementation of the 'National Strategy for Sustainability'; -the development, in the framework of the 'Grenelle II' programme, of the 'National Scheme for Transport Infrastructure' in October 2011; -the approval of a comprehensive programme of 27 actions to enforce energy efficiency in December 2011.
5) Improving the Regulatory Framework for Firms, Especially SMEs; Promote Reindustrialisa tion and Service Sector Liberalisation	Concerning the 'RGPP SMEs Action Plan' and 'Industry' and 'Innovative SMEs' components of the 'Investment for the Future' programme. OSEO: launched at end 2010; partially operative. Two priorities out of four have reached the financing phase; two priorities are still in the selection phase of the process. Concerning the 'Tax Reform': according to the French 2012 NRP, in February 2012 the Parliament has approved a law to reduce the impact of distortive taxes. Concerning the completion of the domestic market reforms: *A) Energy and electricity* Market reform approved in 2010. Operative since July 2011. Concerning administrative burdens, a new law was passed in February 2012 in order to

	increase administrative simplification. *B) Financial markets* Tax on financial transactions in the 2012 budget. *C) Services* No indications in 2012 budget. According to the 2012 NRP, several reforms to facilitate the access to the internal market services have been passed during 2011. The reform of the usury regime and of the consumer credit was passed during 2011. A package of 96 measures to simplify administrative procedures approved during 2011. *D) Transport* No indications in 2012 budget The 2012 NRP reports the first steps towards the achievement of an increased competition in the rail service sector. Concerning other investment measures: re-industrialisation: the 2012 NRP reports a package of 20 investment projects passed in the end of 2011 to promote re-industrialisation, accompanied by the activities of the National Fund for the revitalisation of territories. The programme for a very high speed connection was launched in July 2011. Launching of digital TV achieved in November 2011; new telephone licences issued in September and December 2011.
6) Employment and Fight against Poverty and Social Exclusion	Publication of the 'Report of the CLNE' with the recommendations to ameliorate the participation of people in situation of poverty in the labour market published in October 2011. Investment during 2011 of EUR 20 million in social housing for homeless. Revaluation of 25% of certain social minimal supports.
7) Reform of Educational and Training Systems	Several evolutions in 2012 budget: 1) Reduction or suppression of employer contributions for lower salaries in order to enhance competitiveness, financed with an increase of VAT and of the tax on patrimonial revenues. 2) Increasing of rotation and training schemes for youth people, including fines for enterprises with less than 1% of youths in rotating/training schemes, and increase of the funded schemes of 1%. 3) The 2012 NRP reports a law approved in March 2012 on public sector employment and a convention in January 2012 on the services provided by the public sector. 4) Law passed in July 2011 on the securitisation of professional careers and on the development of apprenticeships. 5) Set of 4 laws passed during 2011 to enhance the quality of the education system and increase the scholarship support to students. 6) Report of the 'National Committee for the Evaluation of the Revenue of Active Solidarity' published in December 2011. 7) The reform of the "*Pole d'Emploi*" and its re-financing is still ongoing.

Sources: Report on the Evolution on the Economic and Budgetary Situation provided at the beginning of the "*Projet de loi des finances rectificative" 2012;* 2012 French Budget; Report on the Organisation and Implementation of the '*Investment for the Future Programme*' annexed to the 2012 Budget; French National Reform Programme 2012; French Stability Programme 2012; website of the French Ministry of Finance (http://www.budget.gouv.fr/); website of the French legal database (http://www.data.gov.fr).

Table A5.7: Comparative Evaluation

	2011	2012	2013	2014	2015	2016
Real GDP growth (%)						
Previous update	2.0	2.25	2.5	2.5	-	-
Current update	1.7	0.7	1.75	2.0	2.0	2.0
Difference	-0.3	-1.55	-0.75	-0.5	-	-
General government net lending (% of GDP)						
Previous update	-5.7	-4.6	-3.0	-2.0	-	-
Current update	-5.2	-4.4	-3.0	-2.0	-1.0	0.0
Difference	0.5	0.2	0.0	0.0	-	-
General government gross debt (% of GDP)						
Previous update	84.6	86	85.6	84.1	-	-
Current update	85.8	89.3	89.2	88.4	86.4	83.2
Difference	1.2	3.0	3.6	4.3	-	-
Structural Balance						
Previous update	-3.8	-2.9	-1.6	-0.9	-	-
Current update	-3.7	-2.6	-1.2	-0.4	0.4	1.2
Difference	0.1	0.3	0.4	0.5	-	-

Source: French Stability Programme 2011; French Stability Programme 2012.

ANNEX 6: GERMANY

The budgetary process in Germany

The German Basic Law (*Grundgesetz)* defines the roles of the key actors in the budgeting process. The Federation (*Bund)* and the *Länder* independently and execute their own budgets. The Budget Basic Law (*Haushaltsgrundsatzgesetz)* is the main legal basis for budgeting. The *Grundgesetz* requires that budget management takes account of the need for macroeconomic equilibrium (Article 109 GG), the *Law to Promote Economic Stability and Growth (StWG)* requires the formulation of five-year plans. General characteristic of the German budgeting process is that laws specify procedures for preparing and approving the draft budget law within the executive.

One budget is prepared for every fiscal year. The draft budget law must be submitted to the Federal Parliament (*Bundestag)* and the Federal Council (*Bundesrat),* together with the draft budget, in December before the beginning of the fiscal year (on 1 January). The draft budget has to be approved by late June/early July and be introduced to both chambers not later than the 1st week of the Federal *Bundestag's* session following the 1st of September. The process begins 1st January when the Ministry of Finance sends the annual budget circular to departments (i.e. updated five-year financial plan and guidelines). The estimates of the general economic development and the tax revenues shall be submitted to the Ministry of Finance typically in early March. This is then the basis for the decision of the federal cabinet about the great lines of the budget. Then, negotiations between the Ministry of Finance and the other Ministries shape the budget in more details. The cabinet discusses the resulting draft and decides it, as well as the five-year finance plan. Furthermore, the *Bundestag* discusses the draft in three lectures, as well as the *Bundesrat* which discusses the draft and gives an official statement to the *Bundestag*. The latter approves the draft and after the signature and approval of the Federal President (*Bundespräsident),* the budget comes into force 1 January. For more details see the website of the German Ministry of Finance.

Characteristics of the German National Reform Programme (NRP) 2011

The objectives and measures proposed in the German NRP (6 April 2011) are divided into three sections,

a) **Translating the five *Europe 2020* headline targets** into national targets,
b) The ***German Action Programme 2011* for the *Euro Plus Pact***, and
c) **Key measures** to stimulate growth and employment.

We apply the general criterion in accordance with the general methodology. For coherence we did not report reforms written in the 2011 NRP that were already approved before April 2011.

Part a) does not provide concrete actions or reforms but general objectives at the long run. They are summarised in **Table A6.1** (Germany's objectives for Europe 2020). The actions under b) and c) overlap: actions proposed under the *German Action Programme 2011* for the *Euro Plus Pact* appear also under c). They are summarised in **Table A6.2**. We clustered the announced measures into the groups according to the German NRP 2011 section c) and added one additional group listed under b), *fostering competitiveness.*

Bases for the assessment of implementation in **Table A6.6** of the reforms announced in the NRP 2011 are:

- information provided by the Federal Ministries, and by the
- monthly reports of the Federal Ministry of Finance.

Table A6.1: Germany's objective for Europe 2020

Employment rate (20-64)	77 %
Employment rate of women	73 %
Employment rate of older workers	60 %
Number of long-term unemployed people	-20 %
Investments in education and research	10 % (by 2015)
Research and development investments	3%
Early school leaving rate	<10%
Tertiary education attainment (30-34)	42 %
Greenhouse emissions	-14%
Share of renewable energy on final consumption	18%
Reduction in primary energy consumption	-20 % / 38.30 Mtoe
Reduction in the number of people at risk of poverty or social exclusion: reduction in the number of long-term unemployed	-20%

Source: German National Reform Programme 2011.

Table A6.2: National Reform Programme 2011

1) Growth Friendly Fiscal Consolidation	The main actions to combine fiscal consolidation with growth are: - the financial reform of the Statutory Health Insurance System (*GKV-Finanzierungsgesetz*); - the introduction of an Aviation Tax and of a tax on the use of nuclear fuel; - a 'Framework Programme for Innovation and Cross-cutting Measures' to ensure and extend Germany's position in key technologies; - an increase of governmental investments in research and development.
2) Financial Sector Reform	The main reforms envisaged to enhance the financial sector are: - a Bill to strengthen Investor Protection and the Functioning of the Capital Market (Gesetz zur Stärkung des Anlegerschutzes und Verbesserung der Funktionsfähigkeit des Kapitalmarktes); - an Act to amend the Law for Investment Intermediaries and Capital Investments (Gesetz zur Novellierung des Finanzanlagenvermittler- und Vermögensanlagenrechts); - a Restructuring Act (Restrukturierungsgesetz); - an Act on the Prevention of Abusive Securities and Derivative Transactions (Gesetz zur Vorbeugung gegen missbräuchliche Wertpapier- und Derivatgeschäfte); - implementing the act on the EU Regulation on Credit Rating Agencies; - the further restructuring of the Landesbanken.
3) Strengthening Of Domestic Demand	The German government announced the following reforms in order to strengthen domestic sources of demand: - extension of the ex-ante procedure to assess the impact of regulation compliance (the amendments to the 'Joint Rules of Procedure of the Federal Ministries' are planned for 2011); - the 'Energy concept' to chart Germany's path to a renewable age in the long-term overall strategy up to 2050 and the revision of the 'Energy Research programme'.
4) Labour Markets	The main reforms of the labour market are: - the incorporation of skilled professionals with foreign qualifications into the German economy; - the so-called 'Alliance for Labour'; - the so-called 'Job Monitor'; - 'The Early Opportunities Initiative: Nurseries Focusing on Language and Integration'; - the project 'Good Work for Single Parents' and 'Networks for Effective Assistance for Single Parents'; - the 'Federal Initiative for the Equal Treatment of Women in Business and Industry'; - the 'Family Success Factor project (Erfolgsfaktor Familie)' company programme; - the 'Federal Volunteer Service' project.

5) Education And Human Capital Formation	The German government announced the following steps to enhance education and human capital formation: - the 'Higher Education Pact 2020' (between 4.7 and 4.9 EUR billion over the period 2011-2015, with the overall financing ensured by Länder); - the 'Initiative of Excellence' to promote graduate schools, excellence clusters and strategies for the future at universities.
6) Competitive-ness	The planned reforms to foster competitiveness are: - the increase of the funding for the development and maintenance of new and existing federal infrastructure to around 10 EUR billion; -the 'Amendment of the Telecommunications Act' (*Telekommunikationsgesetz)* including the expansion of a high-performance broadband infrastructure; - the establishment of a market-transparency authority and amendments to the 'Energy Industry Act' (*Energiewirtschaftsgesetz);* - 'Amendment of the Law against Restraints on Competition' (*Gesetz gegen Wettbewerbsbeschränkungen)*, - the programme for electric mobility to promote extensive innovation in the field of electric drive trains; - the reduction of bureaucracy burdens, in particular for reducing the net cost of reporting obligations in the business sector by 25 percent compared to the legal situation as of 30/09/2006; - the 'Amendment to the Passenger Transport Act' (*Personenbeförderungsgesetz)* and the 'General Railway Act' (*Allgemeines Eisenbahngesetz*); - the liberalisation of the long-distance coach transport and the enforcement of the 'Authority of the Federal Network Agency' *(Bundesnetzagentur);* - the *Gründerland Deuschland* project; - the implementation of the third internal market Directive on electricity and gas at national level.

Source: German National Reform Programme 2011.

Table A6.3: Stability Programme 2011. National Accounts

	2011	2012	2013	2014	2015	Unit of Measure
Gross Debt	82.0	81.0	79.5	77.5	75.5	% of GDP
Net Lending (+)/ Borrowing (-)	-2.5	-1.5	-1.0	-0.5	-0.5	% of GDP
Total Revenues	43.0	43.0	43.0	42.5	42.5	% of GDP
Total Expenditures	45.5	44.5	44.0	43.5	43.0	% of GDP
Unemployment	6.0	5.5	5.0	5.0	5.0	% of Labour Force
Growth Rate	2.3	1.8	1.5	1.5	1.5	%
Structural Balance[96]	-2.0	-1.0	-1.0	-0.5	0.0	% of GDP

Source: German Stability Programme 2011.

[96] Only for countries not under excessive deficit procedure.

Table A6.4: Stability Programme 2011. Main Elements

2011	
Revenues	Aviation tax (EUR 1 billion structural revenue). Nuclear fuel tax. Moderate increase in tobacco duty. Contribution of the financial sector to solve financial crises (commitment to support a financial market tax). Simplification in the taxation process in the Tax Simplification Act: some measures entered in force retroactively the 1 January 2011. Overall, expected rise of the government revenues of 2.5%.
Expenditures	Abolition of pension allowance for the long-term unemployed (-0.1%). Measures to curb the expenditure growth in the area of health-care. Phasing out of the Investment and Redemption Fund. Overall, expected rise of the government expenditures of 1.5%.
2012	
Revenues	Simplification in the taxation process in the Tax Simplification Act: most of the measures enter in force the 1 January 2012. Overall, expected rise of the government revenues of 2.5%.
Expenditures	Phasing out of the Investment and Redemption Found. ***[97] Overall, expected rise of the government expenditures of 1.5%.
2013	
Revenues	Overall, expected rise of the government revenues of 2.5%.
Expenditures	*** Overall, expected rise of the government expenditures of 1.5%.
2014	
Revenues	Overall, expected rise of the government revenues of 2.5%.
Expenditures	*** Overall, expected rise of the government expenditures of 1.5%.
2015	
Revenues	Overall, expected rise of the government revenues of 2.5%.
Expenditures	Overall, expected rise of the government expenditures of 1.5%.

Source: German Stability Programme 2011.

[97] Total consolidation package 2012-2014: EUR 80 billion. The German Stability program does not provide a year-per-year expenditure description.

Table A6.5: Commission's And Council's Recommendations: Eventual Differences and Implementation at National Level, 2011

Commission's Recommendations	
1)	Implement the budgetary strategy for the year 2012 and beyond as envisaged. Complete the implementation of the budgetary rule at the Länder level and further strengthen the corresponding monitoring and sanctioning mechanism. Maintain a growth-friendly consolidation course, in particular by safeguarding adequate expenditure on education and by further enhancing the efficiency of public spending on health-care and long-term care.
2)	Address the structural weaknesses in the financial sector, in particular by restructuring Landesbanken in need of an adequately funded viable business model.
3)	Enhance participation in the labour market by improving equitable access to education and training systems and by reducing the high tax wedge for the low-paid in a budgetary neutral way. Increase the number of fulltime childcare facilities and all-day schools, and remove tax disincentives for second income earners to work.
4)	Remove unjustified restrictions on certain professional services and on the craft sector. To improve competition in network industries, strengthen the supervisory role of the Federal Network Agency in the rail sector; and, in the context of the announced national Energy Concept, focus on improving the long-term cost-effectiveness of the Renewable Energy Act, ensuring the effective independence of energy production and transmission, and improving cross-border interconnections.
Council's Recommendations	
1)	Implement the budgetary strategy for the year 2012 and beyond as envisaged, thus bringing the high public debt ratio on a downward path, in line with the Council recommendations under the EDP. Ensure an adequate structural adjustment effort towards the medium-term objective thereafter. Complete the implementation of the budgetary rule at the Länder level and further strengthen the corresponding monitoring and sanctioning mechanism. Maintain a growth-friendly consolidation course, in particular by safeguarding adequate expenditure on education and by further enhancing the efficiency of public spending on health-care and long-term care.
2)	Address the structural weaknesses in the financial sector, in particular by restructuring Landesbanken in need of an adequately funded viable business model.
3)	Enhance participation in the labour market by improving equitable access to education and training systems and by taking further steps to reduce the high tax wedge in a budgetary neutral way and improve work incentives for persons with low income perspectives. Increase the number of fulltime childcare facilities and all-day schools. Closely monitor the effects of recent reform measures to reduce tax disincentives for second earners and take further measures in case disincentives remain.
4)	Remove unjustified restrictions on certain professional services and on certain crafts. To improve competition in network industries, strengthen the supervisory role of the Federal Network Agency in the rail sector; and, in the context of the announced national Energy Concept, focus on improving the long-term cost-effectiveness of the Renewable Energy Act, ensuring the effective independence of energy production and transmission, and improving cross- border interconnections.
Eventual Differences	
1)	Additional reference to the EDP procedure and the attainment of the structural adjustment after the medium term.
2)	No differences.
3)	More gradualism about the reduction of the high tax wedge; deleted any reference to the low paid in connection with the tax wedge reduction; addition of a suggestion to provide incentives for people with low income perspectives. The clear indication to remove tax disincentives for second income earners is changed, requiring now monitoring before any eventual action.
4)	The general reference to the craft sector is changed in a reference to certain crafts only.

Implementation	
1)	Partially implemented. The public-sector deficit 2011 (approximately 1.9 percent) was below the 3 percent deficit ceiling stipulated in the Maastricht Treaty. The deficit 2012 is forecasted to be at 1.02 percent. It may thus be considered to be on a downward path (first recommendation of the Council under the EDP). Likewise, the Federal Government made a fiscal effort of at least 0.5 per cent annually 2011/2012 (second recommendation of the Council under the EDP). The implementation of the budgetary strategy at Länder-level, however, is not completed yet. From 2020 onwards, the Länder may not incur any structural debt whatsoever. There is too much leeway in the application of the debt rule and further clarification is needed. Commitments to increase its spending on education and research have to be met by all levels of government. Further efforts to reduce costs in health care are required to contain expenditure increases in the future. The reform of long-term care appears insufficient to cope with expected future costs increases.
2)	Partially implemented. Several reforms in the financial sector have been implemented such as the approval of the draft FMStG, allowing the Federal Financial Supervisory Authority (BaFin) to impose higher requirements for capital adequacy ratios on certain institutions. However, there is no reference to the restructuring of Landesbanken. The core problem, namely the lack of viable business model, remains unsolved. The EU directive to address shadow banks will be probably implemented only before July 2013.
3)	Partially implemented. There is some progress in tackling educational disadvantage It is important to ensure that the reduction of resources allocated to activation and integration programmes and instruments does not result in worsening employment opportunities for the unemployed. The Federal Government is investing 4 EUR billion in expanding child care infrastructure. According to the second evaluation of the programme implementation 750 000 child care spaces can be available until 2013. However, the Länder have still to deliver on their obligations. Moreover, the national reforms programme does not provide information on progress regarding the introduction of all-day childcare facilities and schools. The draft 'Act to Reduce Additional Tax Burdens Deriving from Fiscal Drag, adopted on 7 December 2011' will be implemented in two stages, from 1 January 2013 and 1 January 2014 respectively. The recommendation to improve the incentives for people with low earnings has not been implemented yet. Germany has not reported on the effects of previous reform measures to reduce tax disincentives for second earners.
4)	Partially implemented. Further need to remove unjustified restrictions on certain professional services. Competition in network industries has been improved, even if more authority should be granted to Bundesnetzagentur. Progress in stimulating competition in the services sectors has been limited. The main barrier to competition in the railway sector, namely the separation between the infrastructure manager and the railway holding was not addressed. More efforts are required to improve the long-term cost-effectiveness of renewable energy. Lack of public acceptance and insufficient coordination among regional authorities. Bottlenecks in gas transport capacity.

Sources: European Commission Recommendation for a Council Recommendation on the National Reform Programme 2011 of Germany and on delivering a Council Opinion on the Stability Programme of Germany 2011-2015; Council Recommendation of 12 July 2011 on the National Reform Programme 2011 of Germany and delivering a Council opinion on the updated Stability Programme of Germany 2011-2015; German Stability Programme 2012; German National Reform Programme 2012; Commission Staff Working Document on the National Reform Programme 2012 of Germany; Bruegel own research.

Table A6.6: Implementation of the Main Measures of the 2011 National Reform Programme

1) Growth Friendly Fiscal Consolidation	-The financial reform of the Statutory Health Insurance System (*GKV-Finanzierungsgesetz*) entered into force on 1 January 2011. It has slowed down expenditure growth in the short-term, thanks mainly to cost reductions for pharmaceuticals. However, additional efforts to improve efficiency in health care are needed to contain further expected expenditure increased in the medium term. -Aviation Tax and of a tax on the use of nuclear fuel entered into force on 1 January 2011. -Tax on the use of nuclear fuel: Already approved on 8 December 2010. Was, however, followed by a complex legal battle. Tax was reduced as a consequence of the nuclear incident in Japan. -'Framework Programme for Innovation and Cross-cutting Measures' not implemented. -Increase in the federal expenditure from 9 361 EUR million in 2011 to 10 183 in 2012 in research and development (Source: Abstract of the Federal Ministry of Finance's Monthly report February 2012) According to the 2012 Annual Economic Report of the BMWI, the Federation will probably invest 13.8 EUR billion in research and development, following 13.7 EUR billion in 2013.
2) Financial Sector Reform	-Bill to strengthen Investor Protection and the Functioning of the Capital Market entered into force 8 April 2011. - Act to amend the Law for Investment Intermediaries and Capital Investments entered partly into force on 13 December 2011, Article 22 entered into force on 1 April 2012, Article 26 IV 1 June 2012 (expected), Article 5 1 January 2013 (expected). -*Restructuring Act* entered into force on 1 January 2011. - Act on the Prevention of Abusive Securities and Derivative Transactions entered mainly into force 27/07/2010, but Article Nr. 5 § 30i *Wertpapierhandelsgesetz* will come into force 26 March 2012 (expected). -The act on the EU Regulation on Credit Rating Agencies not implemented. -The further restructuring of the *Landesbanken* not implemented.
3) Strengthening of Domestic Demand	-No amendments to the 'Joint Rules of Procedure of the Federal Ministries'. -The 'Energy concept' is approved. Report about the implementation of the 10-point-immediate action programme throughout 2011 by March 2011. The 6th Energy Research Programme (August 2011) is implemented. 3.5 EUR billion available from 2011 to 2014.
4) Labour Markets	-Reform of incorporation of foreign workers implemented. Establishment of a information portal for skilled professionals with foreign qualifications Bill (proposed by the federal government December 2011) to reduce the salary threshold above which highly skilled foreign workers are permitted to establish themselves in Germany without bureaucracy from 66 000 € to 48000 approved by the *Bundesrat,* Legislative procedure ongoing. -'Alliance for Labour' not implemented. -'Job Monitor' is in development phase. (Source: 2012 Annual Economic Report). -'The Early Opportunities Initiative: Nurseries Focusing on Language and Integration' is still in process. -The project 'Good Work for Single Parents' and 'Networks for Effective Assistance for Single Parents' is not implemented. -'Federal Initiative for the Equal Treatment of Women in Business and Industry' has been implemented. -'Family Success project': Implementation is ongoing (e.g. Unternehmenstag 'Erfolgsfaktor Familie' 23 April 2012). -The 'Federal Volunteer Service project' came into force 1 July 2011.
5) Education And Human Capital Formation	-'Higher Education Pact': According to the Abstract of the Federal Ministry of Finance's Monthly Report February 2012 a slight increase from 1 584 to 1 763 EUR million. The Federal Government is making a further 300 EUR million available to the universities for the Programme allowances in the framework of the funding by the German Research Foundation (DFG). -'Initiative Excellence' has been implemented. Project is ongoing. Orders received by 1 September 2011, final decision 15 June 2012.

6) Competitive-ness	-Infrastructure: Federal expenditure for *Federal railways fund* increased slightly from 5 020 EUR million in 2011 to 5 239 EUR million in 2012 (estimated value for 2012) (Source: Abstract of the Federal Ministry of Finance's Monthly report February 2012) The Federal Government stabilised the investments to about 10 billion € in the medium-term financial plan. - The amendment of the Telecommunications Act has been adopted by *Bundesrat* and *Bundestag*. Entry into force expected for March 2012. -Amendment to the *ENWG* effectuated on 28 July 2011. Market Transparency authority not created. -Amendment of the Law against Restraints on Competition *(8. Novelle des GWB)* cabinet decision 28 March 2012, entry into force 1 January 2013 (expected). -Programme for electric mobility to promote extensive innovation in the field of electric drive trains not implemented. -General reform to reduce bureaucracy burdens already realised before the NRP in the framework '*Bürokratieabbau und Bessere Rechtssetzung*' However, the goal to cut by 25 percent net cost of bureaucracy from reporting obligations not reached yet. -Amendments to the Passenger Transport Act promulgated 26 November 2011 and 12 April 2011; General Railway Act amended 22 December 2011. -Liberalisation of the long-distance coach transport partly implemented: Draft on 21 December 2011. However, no additional authority has been granted to the Federal Network agency (*Bundesnetzagentur)*. -The *Gründerland Deutschland* project has been implemented during 2011 e.g. *Gründerwoche Deutschland* 14-20 November 2011. -The third internal market Directive on electricity and gas is not fully implemented.

Sources: Monthly reports of the Federal Ministry of Finance; websites of the Federal Ministry of Finance (http://www.bundesfinanzministerium.de), of the Federal Ministry of Family young and old people (http://www.bmfsfj.de) and of the Federal Ministry of economy and technology (http://www.bmwi.de); the German National Reform Programme 2012; the German Stability Programme 2012.

Table A6.7: Comparative Evaluation

	2011	2012	2013	2014	2015	2016
Real GDP growth (%)						
Previous update	2.3	1.8	1.6	1.6	1.6	-
Current update	3.0	0.7	1.6	1.6	1.6	1.6
Difference	0.7	-1.1	0.0	0.0	0.0	-
General government net lending (% of GDP)						
Previous update	-2.5	-1.5	-1	-0.5	-0.5	-
Current update	-1.0	-1.0	-0.5	-0.0	0.0	0.0
Difference	1.5	0.5	0.5	0.5	0.5	-
General government gross debt (% of GDP)						
Previous update	82.0	81.0	79.5	77.5	75.5	-
Current update	81.2	82.0	80.0	78.0	76.0	73.0
Difference	-0.5	1.0	0.5	0.5	0.5	-
Structural Balance						
Previous update	-2.0	-1.0	-1.0	-0.5	0.0	-
Current update	-0.7	-0.5	-0.5	0.0	0.0	0.0
Difference	1.3	0.5	0.5	0.5	0.0	-

Source: Germany Stability Programme 2011; German Stability Programme 2012.

ANNEX 7: ESTONIA

The process of budgeting in Estonia

As in most cases, the Estonian budget is developed as a part of a **multi-annual framework**, which is updated each spring for the following three years.

Concerning the **annual state budget**, the Ministry of Finance shall collect each action plan from the ministries, lead the negotiations and transmit the final budget draft to the Government. After the government's approval, the budget must be transmitted to the Parliament by end of September, no later than the first of October. The process must be concluded before the first January of the fiscal year.[98]

Our general criterion of selection fits well with the Estonian National Reform Programme, especially with the national commitments agreed in the framework of the Euro Plus Pact. However, a part of the commitments proposed by the state assumed the form of a very general engagements in a given policy field, without providing much information on the nature of the eventual policy change, on its timeline, and its details. A relevant number of statements take the form of recommendations to the government, (like '*the government should do*') instead of clear commitments, probably reflecting the electoral climate during the preparation of the NRP. Therefore, we completed our general criterion selecting only arrangements having a clear nature of engagement.

Bases for the assessment of implementation in **Table A7.6** of the reforms announced in the NRP 2011 are:

- The Brief Overview of the Budget 2011 from the Estonian Ministry of Finance
- The Brief Overview of the Budget 2012 (Estonian language).
- The explanatory memorandum of the budget 2012 (Estonian language)
- The Websites of the Estonian Ministries, of some executive agencies (as the Tax and Custom Board and the Archimedes Foundation), and of the Estonian Parliament
- The website www.legaltext.ee, a database of the Estonian legislation translated in English.
- The National Reform Programme 2012, which presents some insights on the implementation of 2011 measures.

[98] See Kraan, D.J., J. Wehner, and K. Richter (2008) Budgeting in Estonia. OECD Journal on Budgeting, Vol.8, No. 2, pp. 11-12. See also: *Estonian Ministry of Finance website. http://www.fin.ee/index.php?id=79458*.

Table A7.1: Europe 2020

Employment rate (20-64)	76.0%
Labour participation rate (15-64)	75%
Long-term unemployment rate	2.5%
Youth unemployment rate (15-24)	10.0%
Productivity per employed person	80.0% EU average
Employment rate (20-64)	76.0%
Share of adults without any professional training	Down to 30.0%
At-risk-of-poverty rate after social transfers	15.0%
Investments in research and development	3.0%
Increase in workforce unit costs[99]	Increase. No more than 5.0%
Share of Estonian export in world trade	0.11%
Share of renewable energy out of final energy consumption	25.0%
Increase in energy efficiency/reduction of energy consumption	Maintain the 2010 level (-11.0%)
Greenhouse emissions (change with respect to 2005 level)	Increase. No more than 11.0%

Source: Estonian National Reform Programme 2011.

Table A7.2: National Reform Programme 2011

1) Well Educated People and Inclusive Society	The reform of the Estonian national education system consisting in: - a reorganisation of the national funding structure, seeking to increase the degree of student specialisation and to raise attention on the quality of academic work; - the issue of additional 12 500 national scholarships; - the exemption of degree level education related to employees' work from fringe-benefit tax on work-related studies; - the implementation of the new Basic Schools and Upper Secondary Schools Act; - new institutional accreditations for high education centres; - a comprehensive reform of the higher education system. Measures for pensions and healthcare: in face of decreasing working-age population and overall ageing of the population, the Estonian government has planned to: - reform pension schemes for public officials in order to achieve a better sustainable balance of the public sector, - continue the pension reform decided in 2009 and - complete a study on the sustainable financing of social insurance systems by summer 2011.
2) Competitive Business Environment	The main elements of the Start-up and Innovative Enterprise Programmes are: - the investment of 3.7 EUR million to develop young professionals and students' business ideas; - the realisation of the second part of the Programme for Innovative Enterprises (7.3 EUR million); - the implementation of manufacturing management, design, IT, and intellectual property audit measures to support the development of industries important to the state; - the launch the Start-Up Estonia Programme; - the improvement, on a competitive level, of connection possibilities, both cross-border and domestically. Due to the location and settlement patterns of Estonia, these results will be important for the development of the business environment.

[99] Nominal workforce unit ratio is defined as the ratio of expenses on wages and salaries to value added generated per employee.

3) Environment-ally Sustainable Economy and Energy Sector	To move towards to an environmentally sustainable economy, the Estonian government has undertaken a series of measure to encourage the development of the energy sector and the general degree of efficiency in the use of energy resources. The main actions in this regard are: - the full opening of the electricity market by 2013; - the introduction of more stringent energy efficiency requirements for buildings; - the decrease of energy consumption for public transports; - the development of an intelligent power grid; - a study on the energy potentials of biogases.
4) Sustainable and adaptive Public Sector	The public sector wage system will be reformed thanks to: - the reduction of benefits for public servants; - an increase in the transparency and flexibility of wages in the public sector; - the introduction of a higher degree of flexibility of tasks that public servants can perform; - an increased attention to the quality of public servant work, also through quality controls; - the review of public procurement regulations; - a simplification of on-line public interfaces, especially for international investors. A reform of the taxation system is foreseen in order to foster economic growth. Its main elements are: - the shift from direct taxes on labour and capital income to indirect taxes on consumption and resource use; - the reduction of the ceiling of the income tax incentive; - decrease the Income tax rate to 20% by 2015. Other reforms are: - Inclusion of public sector budget balance requirement in the state budget base law: Amendment of the law containing the basis for the compilation of the state budget and accompanying laws.

Source: Estonian National Reform Programme 2011.

Table A7.3: Stability Programme 2011. National Accounts

	2011	2012	2013	2014	2015	Unit of Measure
Gross Debt	6.0	6.0	5.8	5.6	5.4	% of GDP
Net Lending (+)/ Borrowing (-)	-0.4	-2.1	0.1	0.5	1.0	% of GDP
Total Revenues	39.9	38.3	36.8	35.3	34.3	% of GDP
Total Expenditures	40.3	40.4	36.6	36.8	33.3	% of GDP
Unemployment	13.5	11.4	10.0	8.8	8.0	% of Labour Force
Growth Rate	4.0	4.0	3.6	3.6	3.4	%
Structural Balance	0.2	0.1	0.6	0.8	1.1	% of GDP

Source: Estonian Stability Programme 2011.

Table A7.4: Stability Programme 2011. Main Elements

2011	
Revenues	Increase in tobacco excise of 10% (+0.06% GDP). New excise on oil shale (+0.01% GDP).
Expenditures	Increasing expenditures in national defence plus public order (+0.2% GDP), economic affairs (+0.8% GDP), health (+0.1% GDP), culture (+0.2% GDP), education (+0.1% GDP). Reduction of expenditures in social protection (-1% GDP).
2012	
Revenues	Additional increase in tobacco excise of 10% (+0.05% GDP). Abolishment of excise cuts on diesel, fuel marker (+0.2 GDP). Reform of the fuel market with fiscal marker (+0.2%GDP).
Expenditures	Reform of special pension schemes (impact not specified). Increasing expenditures in national defence (+0.1% GDP), economic affairs (+0.6% GDP), environmental protection (+0.1% GDP); decreasing expenditures in social protection (-0.7 GDP). Increase in the number of state financed scholarships for higher education as part of higher education reform (impact not specified).
2013	
Revenues	New increase in tobacco excise of 10% (impact not specified). Lowering unemployment insurance contributions (impact not specified). Abolition of the land tax for land owners in high density areas (measure to pursuit together with other policies to obtain a neutral effect on budget).
Expenditures	*** (see 2015)
2014	
Revenues	Introduction of limits on social security contributions for high earners (impact not specified).
Expenditures	*** (see 2015)
2015	
Revenues	Lowering personal income tax rate from 21% to 20% (impact not specified).
Expenditures	***[100] Reduction in general public service expenditures (-1.1% GDP), economic affairs, (-2,4 % GDP) public order (-0.5% GDP), health (-0.6% GDP), culture (-0.7% GDP), education (-0.8% GDP) and social protection (-0.6% GDP).

Source: Estonian Stability Programme 2011.

[100] In the document there is no information regarding changes in general government expenditures for the years 2013 and 2014. These changes are integrated in the 2015 data, which hence refer to the whole 3 years period.

Table A7.5: Commission's And Council's Recommendations: Eventual Differences and Implementation at National Level, 2011

Commission's Recommendations	
1)	Achieve structural surplus by 2013 at the latest, while limiting deficit in 2012 to at most 2.1% of GDP in 2012, keeping tight control over expenditure and enhancing the efficiency of public spending.
2)	Take steps to support labour demand, by reducing the tax and social security burden in a budgetary neutral way, **especially for low and medium-income earners.** Improve the effectiveness of active labour market policies by targeting measures on young people and the long-term unemployed, especially in areas of high unemployment, **in order to reduce the risk of poverty.**
3)	Ensure implementation of planned incentives to reduce energy intensity and improve the energy efficiency of economy, targeted on buildings and transportation sectors, including by ensuring better market functioning.
4)	While implementing the education system reform, give priority to measures improving the **quality** and availability of pre-school and professional education, and strengthen the system of professional qualifications. Focus education outcomes more on labour market needs, and provide opportunities for low-skilled workers to take part in life-long learning.
Council's Recommendations	
1)	Achieve structural surplus by 2013 at the latest, while limiting deficit in 2012 to at most 2.1% of GDP in 2012, keeping tight control over expenditure and enhancing the efficiency of public spending.
2)	Take steps to support labour demand and to reduce the risk of poverty, by reducing the tax and social security burden in a budgetary neutral way, as well as through improving the effectiveness of active labour market policies, including by targeting measures on young people and the long-term unemployed, especially in areas of high unemployment.
3)	Ensure implementation of planned incentives to reduce energy intensity and improve the energy efficiency of the economy, targeted on the buildings and transportation sectors, including by ensuring better market functioning.
4)	While implementing the education system reform, give priority to measures improving the availability of pre-school education, and enhance the quality and availability of professional education. Focus education outcomes more on labour market needs, and provide opportunities for low- skilled workers to take part in lifelong learning.
Eventual Differences	
1)	No differences.
2)	Deleted references to low and medium income earners.
3)	No differences.
4)	Deleted reference about the quality of the pre-school education.
Implementation	
1)	Partially implemented. The memorandum annexed to the Estonian 2012 Budget effectively fixes the deficit-GDP ratio at 2.1% for 2012. However, this value is calculated on an accrual base instead that on a cash base, as required by the Excessive Deficit Procedure of the Stability and Growth Pact. The Commission staff working document 2012, however, reports a deficit of 2.6%. Concerning the structural balance, the budget memorandum 2012 shows a structural surplus of 0.3%.
2)	Partially implemented. Further reduction of the tax burden is expected only in 2015. Nevertheless, the labour tax share of the total tax burden is reduced from 54% (2010) to 51.8% (2012). The total weight of social benefits has been increased of 9%, with particular attention to disabled people.
3)	Partially implemented (Estonia has planned to undertake these reforms starting from 2013). The complete opening of the electricity market has not been carried out. The total investment budget of the Ministry of the Environment has been reduced of 41%. There are currently ongoing studies to assess the possibility of building a nuclear plant. However, there are progresses in achieve better building and transportation energy efficiency.
4)	Partially implemented. The reform of the primary and secondary school curricula has been approved. A new lifelong learning programme and a training programme have also been approved. No evidence of new pre-school measures though.

Sources: European Commission Recommendation for a Council Recommendation on the National Reform Programme 2011 of Estonia and on delivering a Council Opinion on the Stability Programme of Estonia 2011-2015; Council Recommendation of 12 July 2011 on the National Reform Programme 2011 of Estonia and delivering a Council opinion on the updated Stability Programme of Estonia 2011-2015; Estonian National Reform Programme 2012; Estonian Stability Programme 2012; Commission Staff Working Document on the National Reform Programme 2012 of Estonia; Bruegel own research.

Table A7.6: Implementation of the Main Measures of the 2011 National Reform Programme

1) Well Educated People And Inclusive Society	- The higher education reform presented before the Parliament in September 2011. It was approved in February 2012 but successively vetoed by the President of the Republic. It is currently under revision. - The reform of the curricula will enter in force in September 2012. - Five new 'excellence centres' opened in 2011 by the Government-funded Archimedes Foundation. - In the Estonian 2012 Budget, the research and development public expenditure is 0.2% higher than in the previous year.
2) Competitive Business Environment	- In the 2011 Budget, the investment in infrastructure is reduced of 0.26% with respect to its 2010 value. In the 2012 Budget, this investment is instead raised by 8% with respect to 2011. - In the 2012 Budget, investments in information technology infrastructure have been increased by 49% with respect to 2011. - The Start-Up Estonia Programme was approved in March 2011. - The total investments foreseen by the Ministry of Economics in the 2012 Budget are almost 8% higher than in the 2011 Budget. -Accordingly with the Commission staff working document 2012, three funds (Kredex, Estonian Development Fund, the Baltic Investment Fund) have provided support and credit to small enterprises.
3) Environmentally Sustainable Economy And Energy Sector	- The opening of the electricity market was already decided in November 2010. The full opening of the market is still under preparation, accordingly with the Budget 2012 Memorandum. - There is a reference to new investments in energy efficiency and wind power-plants in the brief Overview of the 2012 Budget. - There is a reference to the financing of the new animal waste act In the Memorandum Budget 2012.
4) Sustainable And Adaptive Public Sector	- There is no record of public administration reform (including wages) during 2011. According to the 2012 Budget, the entry in force of higher salaries for public servants is postponed of 1 year. According with the National Reform Programme 2012, the Public Service Act is still under approving. - Public procurement regulation reviewed in January 2011 and again in February 2012. - Copyright and property laws modified so to increase competitiveness of the country. - Income tax rates are still equal to 21% in 2012. - Accordingly with the National Reform Programme 2012, the Income Tax Act has been amended to decrease the income tax rates in 2015.moreover, the a second amendment to the Income Tax Act has abolished the tax on fringe benefits for work-related education. - The ceiling for income tax incentives has been reduced. The basic income exemption is unchanged, but the total amount of additional exemptions cannot be more than 1 920 EUR. - Excise duties for alcohol, tobacco and fuel have been increased. - There is no record of amendments of the State Budget Act so far (the last modification occurred in 2004. - The rate of the land tax has been abolished for small and medium residential plots from 2013.

Sources: The Brief Overview of the Budget 2011 from the Estonian Ministry of Finance; he Brief Overview of the Budget 2012; the Explanatory Memorandum of the Ministry of Finance annexed to the budget 2012; website of the Estonian Ministry of Finance (http://www.fin.ee); the website of the Estonian Tax and Custom board (http://www.emta.ee); the website of the Archimedes Foundation (http://archimedes.ee); the website of the Estonian Legal Text Centre (http://www.legaltext.ee); the Estonian National Reform Programme 2012; the Estonian Stability Programme 2012.

Table A7.7: Comparative Evaluation

	2011	2012	2013	2014	2015	2016
Real GDP growth (%)						
Previous update	4.0	4.0	3.6	3.6	3.4	-
Current update	7.6	1.7	3.0	3.4	3.5	3.5
Difference	3.6	-2.3	-0.6	-0.2	0.1	-
General government net lending (% of GDP)						
Previous update	-0.4	-2.1	0.1	0.5	1.0	-
Current update	1.0	-2.6	-0.7	0.1	0.5	0.9
Difference	1.6	-0.5	-0.8	-0.4	-0.5	-
General government gross debt (% of GDP)						
Previous update	6.0	6.0	5.8	5.6	5.4	-
Current update	6.0	8.8	11.0	10.6	10.0	9.5
Difference	0.0	2.8	5.2	5.0	4.6	-
Structural Balance						
Previous update	1.1	-1.1	0.5	0.5	0.8	-
Current update	1.9	-1.8	-0.2	0.3	0.4	0.7
Difference	0.8	-0.7	-0.7	-0.2	-0.4	-

Sources: Estonian Stability Programme 2011; Estonian Stability Programme 2012.

ANNEX 8: FINLAND

The process of budgeting in Finland

The Finnish **process of budgeting** covers the whole period before the fiscal year. The ministries propose singly draft budgets between end of December and mid-September. During the summer, the Ministry of Finance collects and merges the draft budgets, whose consolidated version is voted in December by the Parliament. During the budgetary year, the spending limits can be modified only in case of 'essential needs'.[101]

The national practice of policy making shows a balance among **multi-year programmes**, one-year measures and policy strategies. We could apply the general criterion described in the methodology without exceptions.

It should be pointed out that the **National Reform Programme 2011** was elaborated just before the elections for the renewal of the Parliament.

Basis for the assessment of implementation in **Table A8.6** of the reforms announced in the NRP 2011 are:

- The Budget Review 2011 from the Finnish Ministry of Finance
- The Budget Review 2012 from the Finnish Ministry of Finance
- The Economic Bulletin 02/2011 (20 December 2011) from the Finnish Ministry of Finance
- The Finnish Ministry of Finance's website
- The Finnish Stability Programme 2012
- The Finnish Reform Programme 2012

Table A8.1: Europe 2020

Early school leaving share	Down to 8%
Tertiary education attainment	42%
Research and development investments	4% at least
Poverty risk after social transfers	-150.000 people at risk
Employment rate (20-64)	78%
Greenhouse emissions (with respect to the 2005 level)	-16%
Share of renewable energy on final consumption	38%
Increase in energy efficiency/reduction of energy consumption	-4.21 MToe

Source: Finnish National Reform Programme 2011.

[101] Source: *Finnish ministry of Finance website:* http://www.ministryoffinance.fi/vm/en/09_national_finances/01_the_budget/index.jsp.

Table A8.2: National Reform Programme 2011

1) Prerequisites for and Barriers to Growth	**i) Safeguarding of the long-term sustainability of public finances:** raising the employment rate; reforming the municipal and service structure; raising public sector productivity; curbing public spending; tax reforms to increase tax revenues. **ii) Reducing centralisation of the production structure:** - improving conditions for business activity; - improving the effectiveness of research and development and innovation policy; - directing education and research to meet the needs of businesses and structural reforms; - increasing the occupational and regional mobility of labour; - lightening the administrative burden on businesses. **iii) Full utilisation of labour:** - raising the employment rate; - directing education to meet demand for labour; - increasing the occupational and regional mobility of labour; - lengthening working careers; - improving conditions for employment. **iv) Increasing competition:** - removing barriers restricting competition, particularly in the service sector; - developing the resources and operating potential of the competition authority; - enhancing competitiveness tendering in public procurement. Measures aimed at a stricter spending limits procedure will be initiated with respect to the binding effect of budget limits and the coverage of budget rules. It is planned to develop macro-prudential supervision on the basis of existing institutions and to ensure that the Financial Supervisory Authority has the requisite powers and tools to i.a. prevent excessive corporate and household debt accumulation.
2) Measures to raise the Employment Rate	To improve the use of labour resources, the Finnish government has undertaken a series of measures to raise the employment rate by promoting job creation and supporting labour mobility. To reach this aim: - unemployed will be even further encouraged to participate in measures supporting working capacity and employment; - large-scale participation of women in the labour market and their career development are supported by providing good care services for children and elderly, while promoting men's use of parental leave; - new legislation on promoting the integration of immigrants is used to help immigrants gain employment; - measures to promote longer careers will be taken in cooperation with social partners so to facilitate a more versatile use of exercise facilities and cultural services in working life. Reimbursement to the businesses for the increase in pension insurance contributions and co-funding for daily layoff allowances to facilitate labour market agreement. Corporate tax will be lowered to 25%. Preparation of a working life development strategy in early 2012.
3) Measures to Improve the Effectiveness of Research and Development Activities	In order to improve the effectiveness of research and development activities, the Finnish government will continue to ensure the competition efficiency, which is considered as main incentive to innovation. Greater emphasis will also be given to commercialising and internationalising the results of research and development. Cooperation between universities, research institutes and business will be further increased.

	Finally, research career paths based on competition and an incentive structure will be developed for universities. Securing adequate funding for research and development and innovation, to carry out reform in higher education in 2013. It is foreseen to launch environment related business programme in autumn 2011.
4) Measures to Achieve the Climate Targets	To achieve the EU2020 climate targets, the Government has adopted a number of laws aiming at ensuring a reduction in energy end-use and supporting forms of heating that utilise renewable energy. An additional goal of the Government is to boost the use of wood and biomass in energy production over the short-term, while developing bio-based energy solutions and nuclear power units over the longer-run. Wind power construction will be promoted, while an ad-hoc feed-in tariff is expected to significantly increase the use of wind power. The new Waste Act has been proposed by the Government to reduce the amount and adverse effects of waste and promote sustainable use of natural resources. Taxation on wastes will consequently increase on a gradual base up to 2013. Finally, the government resolution on sustainable choices in public procurements as well as an extensive reform of the Environmental Protection Act that the government should initiate in 2011 will also contribute to promote the sustainable use of natural resources and to combat climate change.
5) Measures to Achieve the Education Targets	The main actions in this field consist in: - a reform of the tertiary education student selection system and the development of a planning, counselling and monitoring systems; - accelerated transfers from one education level to another in order to shorten the time study; - an enhancement of the study counselling system in order to reduce the number of early school leavers.
6) Measures to Combat Risk of Poverty and Social Exclusion	The main measures directed at combating the risk of poverty and social exclusion are: - the implementation of a new healthcare reform with the intention of safeguarding the sustainability of the service system and the support for the poorest; - the implementation of a stricter setup to provide social benefits to youth, aiming at graduating the provision of services with progresses made in their studies; - a raise of the basic deduction in municipal income tax as well as the introduction of a guaranteed pension improving basic protection and the indexation of minimum security benefits.

Source: Finnish National Reform Programme 2011.

Table A8.3: Stability Programme 2011. National Accounts

	2011	2012	2013	2014	2015	Unit of Measure
Gross Debt	50.1	51.3	53.0	54.6	56.2	% of GDP
Net Lending (+)/ Borrowing (-)	-0.9	-0.7	-0.9	-0.9	-0.9	% of GDP
Total Revenues	52.9	52.8	52.6	52.5	52.4	% of GDP
Total Expenditures	53.8	53.5	53.6	53.4	53.4	% of GDP
Unemployment	7.6	7.2	6.9	6.5	6.3	% of Labour Force
Growth Rate	3.6	2.7	2.4	2.1	1.9	%
Structural Balance[102]	0.7	0.5	-0.2	-0.5	-0.9	% of GDP

Source: Finnish Stability Programme 2011.

[102] Only for countries that aren't under an excessive deficit procedure.

Table A8.4: Stability Programme 2011. Main Elements

2011	
Revenues	Tax revenues produced by the 2010 tax increases. Introduction of a new energy tax. Increase in excise duties (0.5% GDP). Reform of social contributions (0.2% GDP).
Expenditures	Decrease in food and restaurant taxation. End of several one off programmes. (-0.1% GDP).
2012	
Revenues	***[103] (tax reductions) Social contributions (0.3% GDP). Impact of 2011 energy tax (0.1% GDP).
Expenditures	*** (tax reductions)
2013	
Revenues	*** (tax reductions)
Expenditures	
2014	
Revenues	*** (tax reductions)
Expenditures	
2015	
Revenues	*** (tax reductions)
Expenditures	Overall change in expenditures by sector:[104] - general services (-0.6% GDP) - defense (- 0.2% GDP) - economic affairs (-0.7% GDP) - housing (- 0,1% GDP) - health (+0.3% GDP) - culture (- 0.1% GDP) - education (+ 0.2% GDP) - social protection (- 0.6% GDP.) Total change on 2009: -2.6% GDP.

Source: Finnish Stability Programme 2011.

103 Programmed tax reductions of 1.86 EUR billion during the period of 2012-2015.
104 Finland provides data only on 2009-2015 difference.

Table A8.5: Commission's and Council's Recommendations: Eventual Differences and Implementation at National Level, 2011

Commission's Recommendations	
1)	Continue the fiscal consolidation using any windfall revenue to reduce the deficit, while taking additional measures to maintain the fiscal position above the medium term objective.
2)	Take further measures to achieve productivity gains and cost savings in public service provision, including structural changes, in order to respond to the challenges arising from population ageing.
3)	Target active labour market measures better on the long-term unemployed and young people.
4)	Take measures to improve the employability of older workers and their participation in lifelong learning. Take further steps to discourage early exit from the labour market and further link the statutory retirement age limits to life expectancy.
5)	Take further measures to open up further the service sector, by redesigning the regulatory framework and removing restrictions in order to facilitate new entry into service sector markets, especially in the retail sector.
Council's Recommendations	
1)	Continue the fiscal consolidation using any windfall revenue to reduce the deficit, while taking additional measures to maintain the fiscal position above the medium-term objective, in particular through compliance with the medium-term expenditure benchmark.
2)	Take further measures to achieve productivity gains and cost savings in public service provision, including structural changes, in order to respond to the challenges arising from population ageing.
3)	Target active labour market measures better on the long-term unemployed and young people.
4)	Take measures to improve the employability of older workers and their participation in lifelong learning. Take further steps, in consultation with social partners and in accordance with national practices, to encourage older workers to stay in the labour market, by measures to reduce early exit and increase the effective retirement age. In view of the already existing system of linking pension benefits to life expectancy, consider a link between the statutory retirement age and life expectancy.
5)	Take further measures to open up further the service sector, by redesigning the regulatory framework and removing restrictions in order to facilitate new entry into service sector markets, especially in the retail sector.
Eventual Differences	
1)	Additional reference to the medium term expenditure benchmark.
2)	No differences.
3)	No differences.
4)	Additional reference to the dialogue with social partners as a tool to extend the participation of older workers in the labour market, measures to reduce the early exit from the labour market and increase the effective retirement age. Additional reference to the existence of pension benefits connected with life expectancy. The requirement of linking statutory retirement age and life expectancy becomes a suggestion.
5)	No differences.
Implementation	
1)	Implemented. Since 2009, Finland's medium-term objective has been defined as a structural surplus of 0.5% of GDP. Consolidation measures taken during the preparation of the 2012 budget and those decided upon in March 2012, to be implemented in 2013, demonstrate the government's commitment to implement this strategy. The general government deficit reached -0.5% of GDP for 2011, better than the target of -0.9% of GDP announced in the 2011 SP. The Finish government decided in March 2012 on the following measures in order to achieve the fiscal adjustment in 2013; -to increase the VAT rate across the board by 1 percentage point, -to introduce a temporary solidarity tax on high incomes, -to suspend the index adjustments of labour income taxation in 2013 and 2014. The Commission estimates the output gap to be smaller than forecasted in the SP, resulting in a lower structural balance for the coming years. As consequence, the Commission's assessment of the structural balance based on the programme is that the MTO was met in 2011 but will not be met in subsequent years.

2)	Partially implemented. Significant local government reform proposals have been introduced. A central government productivity programme is being implemented. Targets have been set for the programme up to 2015. The budget 2011 includes some measures to increase labour productivity in the Public Administration.
3)	Partially implemented. From 2012 and with full implementation from 2013, all young people under 25 and all recent graduates under 30 will be provided with a job or training, study placement, workskop or rehabilitation placement no later than three months into unemployment. A fixed-term pilot programme until the end of the government's term is being launched.
4)	Partially implemented. Measures have been taken to increase the effective retirement age. In November 2011, the social partners concluded a framework agreement which included measures to extend working careers and upgrade skills. In March 2012, the social partners agreed to raise the part-time pension age limit from 60 to 61 years; to limit early retirement, to raise pension contributions by 0.4% per year in 2015-2016 and to reinforce older workers' obligations to take part in activation measures and to carry out a pension reform no later than 1.1.2017. Underpinning pension reforms by implementing measures in work places and labour markets remains a challenge. Moreover, the expenditures for adult voluntary education have been reduced in Budget 2012. The reduction in pension benefits for early retirement has been cancelled for unemployed workers (it was already not available for other groups).
5)	Partially implemented. Measures have been taken to increase competition such as a new national competition law, and a new law on land use and construction. The new competition law clarifies merger controls, adjusts the leniency programme and provides individuals with the right to seek damages. The government will initiate a broad-based project to promote healthy competition in Finland. The amended Competition Act (2011) will contribute to this work. There is still scope for improvement in addressing structural barriers to competition and facilitating entry to the services sector, especially in retail trade. Ensuring neutrality of competition between public undertakings and private undertakings operating in the same markets is still an issue.

Sources: European Commission Recommendation for a Council Recommendation on the National Reform Programme 2011 of Finland and on delivering a Council Opinion on the Stability Programme of Finland 2011-2015; Council Recommendation of 12 July 2011 on the National Reform Programme 2011 of Finland and delivering a Council opinion on the updated Stability Programme of Finland 2011-2015; Finnish National Reform Programme 2012; Finnish Stability Programme 2012; Commission Staff Working Document on the National Reform Programme 2012 of Finland; the Budget Overview 2011; The Budget Overview 2012; Bruegel own research.

Table A8.6: Implementation of the Main Measures of the 2011 National Reform Programme

1) Prerequisites for and Barriers To Growth	A government proposal for the comprehensive restructuring of local government and services has been introduced for public discussion. The Commitments is thus implemented. - Cut in the corporate income tax (CIT) rate in 2012 to foster competitiveness - Increased in capital income taxes - Increase of VAT rate from 2013 across the board by 1 percentage point (revenue impact EUR 750 million) decided in March 2012. - In 2011, the government reduced the top marginal tax rate by 0.25 percentage points and increased earned income allowances in both municipal and state taxation. - Temporary solidarity tax on high incomes, applicable as from 2013. - Increase in the tax rate on capital income from 28% to 30% and to 32% for incomes exceeding EUR 50 000 and a reduction of the threshold for tax-exempted dividends from EUR 90 000 to EUR 60 000 for non-listed companies. The tax deductibility of mortgage interest rate payments will be gradually decreased up to 2014, so that the share of deductible interest payments will decrease to 85% in 2012, to 80% in 2013 and to 75% in 2014. - The action programme to fight the shadow economy and economic crime was launched on 19 January 2012. It aims at increasing the government's tax revenue by EUR 300-400 million per year. No information for measures aimed at a stricter spending limits procedure. No information on a macro-prudential supervision on the basis of existing institutions.
2) Measures to Raise the Employment Rate	1) Supporting financing to the framework trade union agreements (EUR 410 EUR), 2) Long-term and youth unemployment measures increased by EUR 55 to EUR 85 million, 3) Reinforcement of social security for 310 EUR million, 4) Reduction of EUR 24.7 million in immigration policy expenditures. Commitment to reimburse businesses for the increase in pension insurance contributions and to the lowering of corporate taxes implemented. No strategy received for a working life development strategy.
3) Measures to Improve the Effectiveness of Research & Development Activities	Budget 2011: new expenditures on public research and development for EUR 80 million Budget 2012: the research and development expenditures are cut by EUR 61 million There is no information regarding the higher education reform. The new Strategic Programme for Finland's cleantech business is being implemented. A Business Programme for the Environmental Sector has been launched in 2012.
4) Measures to Achieve the Climate Targets	Budget 2011: EUR 30 million in energy efficiency for buildings increase by EUR 55 million in Renewable Energies, and EUR 85 million in energy subsidies, EUR 10 million for wood generation First increase in waste tax in 2011. Second increase in waste tax in 2013 (budget 2011) Budget 2012: several actions have been undertaken to protect the environment. 1) Higher intermediate tax rates for new cars, vehicle emissions, vehicle weight in budget 2012 2) Increase of fossil fuel energy generation in 2011, 3) Increase of diesel duty in 2011 and 2012 budgets, 4) EUR 300 million budget for the Ministry of Environment (2011), 5) Several shift towards environmental taxation in 2012, 6) Several funds for environmental protection in 2012. 7) Tax rate on transport fuels are increased by 10% in two stages (2012 and 2014). 8) The refund system on energy tax payments for industry was extended in 2011 so that 85% of energy taxes paid are refunded when the taxes paid exceed 0.5% of the value added (previously 3.7%) There is track of a comprehensive reform of public procurement towards the sustainability criterion. The 2012Budget 2012 focuses on joint public procurements acquires that will generate savings for EUR 55 million.
5) Measures to Achieve the Education Targets	Main reforms in the Education system: 1) EUR 10 million of new expenditures to support activities for primary and secondary school, 2) Phase-out of vocational training programme (-600 places) and vocation education college place (-350 places) 3) EUR 11,5million cuts to the adult education establishment Increase in index-related University funding of EUR 28 million (half of expected); decrease in additional funding of EUR 30 million, 4) EUR 2 million savings in applied sciences universities.

6) Measures to Combat Risk of Poverty and Social Exclusion	Healthcare Act approved in May 2011 and funded with EUR 21.5 million additional in the 2011 Budget. No further references in 2012 Budget.

Sources: The Budget Overview 2011; The Budget Overview 2012; the Commission Staff Working Document on the National Reform Programme 2012 of Finland; The Economic Bulletin 02/2011 (20 December 2011) from the Finnish Ministry of Finance; the website of the Finnish Ministry of Finance (http://valtioneuvosto.fi/ministeriot/vm/en.jsp); the Finnish National Reform Programme 2012; the Finnish stability Programme 2012.

Table A8.7: Comparative Evaluation

	2011	2012	2013	2014	2015	2016
Real GDP growth (%)						
Previous update	3.6	2.7	2.4	2.1	1.9	-
Current update	2.9	0.8	1.5	2.1	1.9	1.7
Difference	-0.7	-2.0	-0.9	0.0	0.0	-
General government net lending (% of GDP)						
Previous update	-0.9	-0.7	-0.9	-0.9	-0.9	-
Current update	-0.5	-1.1	-0.5	-0.1	0.0	0.4
Difference	0.4	-0.4	0.4	0.8	1.0	-
General government gross debt (% of GDP)						
Previous update	50.1	51.3	53.0	54.6	56.2	-
Current update	48.6	50.7	51.8	51.9	51.6	50.9
Difference	-1.5	-0.7	-1.2	-2.6	-4.6	-
Structural Balance						
Previous update	0.7	0.5	-0.2	-0.5	-0.9	-
Current update	0.9	0.4	0.8	0.9	0.7	0.7
Difference	0.2	-0.1	1.0	1.4	1.6	-

Source: Finnish Stability Programme 2011; Finnish Stability Programme 2012.

ANNEX 9: HUNGARY

The budgetary process in Hungary

The **budgetary process** in Hungary begins with a set of macroeconomic forecasts published by the Ministry of Finance. On the macroeconomic forecasts the Ministry of Finance is thus required to transmit the Macroeconomic Guidelines to the Government and therefore to the Ministries by the 15 of April. The negotiations among the Ministries continue until the End of August. By the End of August the draft budget must be completed and submitted to the Government. The month of September is usually used in finalising the budget draft and to discuss it with external agents. By the end of September, the draft shall be submitted to the Parliament.[105]

The practice of reform policy making in Hungary is based on general framework programmes, like the *Széll Kálmán Plan* on which both the National Reform Programme and the Convergence Programme 2011 are based. Similar plans are also elaborated for single sectors or fields, like the environmental policy. Moreover, certain reforms have been carried out recurring mainly to acts, regulations and single laws unified ex-ex post in sets of norms. Our general criterion of selection seems to be appropriate in studying the 2011 National Reform Programme.

Bases for the assessment of implementation in **Table A.9.6** of the reforms announced in the NRP 2011 are:

- The Report on Measures taken in Response to Council Recommendations of 7 July 2009 (December 2011),
- The September 2011 Update of the 2012 Budget of Hungary
- The Commission staff working document of 11 January 2012.
- The Hungarian Convergence Programme 2012
- The Hungarian Reform Programme 2012

Table A9.1: Europe 2020

Employment rate (20-64)	75.0%
Early-school leaving rate	10.0%
Tertiary education attainment	30.3%
Research and development investments	1.8%
Poverty risk after social transfers	Down to 23.5%
Greenhouse emissions (change wrt 2005 level)	Increase smaller than 10.0%
Share of renewable energy out of total energy use	14.6%
Increase in energy efficiency/reduction of energy consumption	-2.96 MToe[106]

Source: Hungarian National Reform Programme 2011.

105 Kraan, D.J., D. Bergvall, I. Hawkesworth and P. Krause (2007) Budgeting in Hungary. *OECD Journal on budgeting*, Vol.6, No.3, pp.24-26.

106 Million tonnes of oil equivalent.

Table A9.2: National Reform Programme 2011

1) Structural Reforms To Enhance Economic Growth	The Széll Kálmán Plan: a framework programme that gives a basis for the largest part of structural reforms summarised in this table. The main points of the programme promote a large number of measures aiming at enhancing long-term potential growth. Programmes aimed to improve the relation state-enterprise. The main reforms programmed by the Hungarian government in order to develop better relations between the State and the private sector are: - a new law to increase the transparency and effectiveness of public procurement (expected in July 2011); - a programme to reduce the impact of administrative burdens by around 1.74 EUR billion;[107] - a new law for quicker foreclosure and liquidation proceedings; - the E-Government programme; - a comprehensive reform of the Public Administration (Magiary Programme) organised in six main pillars, including also: - the reform of the local public administration towards a more centralised model, and - new career models for public employees; -comprehensive agreement with the financial sector. A thorough reform of the financial sector should be implemented following these two directions: - approval of a set of measures to fix exchange rates for loans in foreign currency, and further development of the domestic based financial sector. Structural reform of the pension system. A series of reforms should continue what was done in previous years. These reforms include: - a comprehensive review of early retirement schemes; - the reform of the rules on disability benefits. The Hungarian Government has also elaborated plans for reforming public transports as following: -debt restructuring and reorganisation of the Hungarian railway system; -creation of a national Transport Company; -review of the incentive, tariff and payment systems.
2) Employment	Several programmes are designed to increase the competitiveness and labour demand of the economy. The main important ones concern: - the increase in the quality of public services; - the development of a domestic capital market; - the creation of competitiveness agreements. A set of three initiatives is intended to strengthen the labour demand, including the redirection of the EU funds towards the creation of a proper business environment for SMEs. Regarding training reforms, the main measures involve: - an adult training programme focusing on key IT and language competences; - facilitations for increasing the employment of disabled people; - the development and strengthening of a vocational training system aimed to provide professional profiles required by the labour market; - the reinforcement of the national health care system. Concerning labour market reforms, the most important actions listed in the NRP are: - the reform of social benefits to be changed towards a system providing more incentives to find a job; - a national plan for work; - a public work programme; - the reform of the labour code; - the review of the sick-pay system.

[107] 1,74 billions EUR = 500 billions HUF. ECB exchange rate of 27 April 2012.

3) Research and Development	Concerning research, the main planned actions involve: - completing the transformation of the institutional framework for Science, Technology and Innovation policy; - new supporting system for research and development investments; - the renewal of research and development and innovation strategies.
4) Climate Change	Different programmes are meant to improve the Hungarian environmental performance. The main are: -the second priority of the New Szechenyi Plan concerning Green Economy; -implementation of a national strategy for energy efficiency of buildings; -the adoption of a new environmental act.
5) Education	The education systems will be reformed according to the following schemes. a new regulation on higher public education, including the reduction of the total length of the study programmes; investments in engineering, IT and language skills; improved services for children with special education needs; reform of the public school curricula; set of six Complex Measures on Public Education.
6) Poverty	Tax reforms. The main reforms in this field are: - the reform of income taxation towards a system founded on family-based income; - the creation of special benefits for workers who start to work after having been supported through child care allowances. Poverty measures. The list of measures aiming to reduce poverty comprehends: - several measures to reach the integration of the most disadvantaged social groups, enhancing their opportunities in the labour market and improving their access to public services; - measures against the heritage of social disadvantages; - measures for the Roma integration plan for social housing and support of basic needs; - development of a national concept on social policy; - set of eight measures to reduce the transmission of social disadvantages among generations; - set of measures and norms to improve the safety of home living and school services. In the programme of the Hungarian government there is also listed a comprehensive reform of the whole national healthcare system and the pharmaceutical sector.

Source: Hungarian National Reform Programme 2011.

Table A9.3: Stability Programme 2011. National Accounts

	2011	2012	2013	2014	2015	Unit of Measure
Gross Debt	75.5	72.1	69.7	66.7	64.1	% of GDP
Net Lending (+)/ Borrowing (-)	+2.0	-2.5	-2.2	-1.9	-1.5	% of GDP
Total Revenues	51.7	41.6	40.3	39.4	38.7	% of GDP
Total Expenditures	49.7	44.1	42.5	41.3	40.3	% of GDP
Unemployment	10.9	10.5	9.9	9.3	8.7	% of Labour Force
Growth Rate	3.1	3.0	3.2	3.3	3.5	%
Structural Balance[108]	-4.7	-2.6	-1.7	-1.6	-1.5	% of GDP

Sources: Hungarian Convergence Programme 2011. Commission Staff Working Document-assessment of the 2011 National Reform Programme and Convergence Programme of Hungary.

[108] Only for countries not suffering from an excessive deficit procedure.

Table A9.4: Stability Programme 2011. Main Elements

	2011
Revenues	Net one-off effect of the abolition of the pension private pillar (+9% GDP). Permanent effect of higher pension contributions (+1.25% GDP). Personal income tax cut, partially offset by the reduction in employment tax credit (-1.8% GDP). Additional (full-year) effect of the corporate income tax cut (-0.3% GDP).
Expenditures	Review of the public works scheme (+0.2% GDP). Creation of a stability reserve, which broadly becomes permanent savings (close to -1% GDP). Debt assumption for public transport companies (+1.25% GDP). Buy-out of earlier PPP investments (+0.75% GDP).
	2012
Revenues	Keeping unchanged the size of the extraordinary levy on financial institutions (+0.3% GDP). Reduction in the tax base for personal income tax (+0.6% GDP). Reduction in employment tax credit (+0.6% GDP). Increase in excise duties (+0.1% GDP). Increase in green taxes (0.1% GDP).
Expenditures	Nominal freeze of wages in the public sector (-0.2% GDP). Wage compensation in the public sector (+0.2% GDP). Widening of the public works scheme (+0.2% GDP). Nominal freeze of central government expenditures in goods and services (-0.1% GDP). Review of disability benefits (-0.3% GDP). Nominal freeze and capping of selected social benefits (-0.1% GDP). Restructuring of labour market benefits (-0.5% / -0.6% GDP).[109] Reduction in price subsidies (-0.3% GDP). Restructuring of the public transport sector (-0.15% GDP). Streamlining of public administration (-0.1% GDP).
	2013
Revenues	Postponement of the further cut in corporate income tax (+0.4% GDP). Introduction of the electronic road toll (+0.3% GDP). Phasing out of the temporary part of the extraordinary levies on selected sectors (+0.9% GDP).
Expenditures	Extension of the impact of the structural reform programme (-0.7% GDP).
	2014
Revenues	-
Expenditures	Nominal freeze of the wage bill in the public sector (-0.2% GDP).
	2015
Revenues	-
Expenditures	Nominal freeze of the wage bill in the public sector (-0.2% GDP).

Sources: Hungarian Convergence Programme 2011. Commission Staff Working Document-assessment of the 2011 National Reform Programme and Convergence Programme of Hungary.

[109] On the value of the labour reforms there is a minor discrepancy between the national convergence programme and the assessment of the Commission: the value of the measures declared is 0,54 % of the GDP. The Hungarian government approximates it to 6%, where the Commission to 5%.

Table A9.5: Commission's and Council's Recommendations: Eventual Differences and Implementation at National Level, 2011

Commission's Recommendations	
1)	Strengthen the fiscal effort to reduce the structural deterioration in 2011 implicit in the planned 2% of GDP budget surplus and avoid that the budget balance breaches the 3% of GDP threshold again in 2012. Adopt additional fiscal measures of a permanent nature at the latest in the 2012 budget to secure the budgetary targets for 2012 and 2013 in the Convergence Programme. Ensure progress towards the medium-term objective by at least 0.5% of GDP annually until the end of the programme horizon and use possible windfall revenues to accelerate the fiscal consolidation.
2)	Adopt and implement regulations specifying the operational aspects of the new constitutional fiscal governance framework, including, inter alia, the numerical rules that will be implemented at the central and local level until the debt ratio has declined to below 50% of GDP. Broaden the remit of the Fiscal Council to cover the entire budgetary cycle, in particular through real-time assessments of new policies with major budgetary implications and strengthen the fiscal framework to cover multiannual fiscal planning and to improve the transparency of public finances.
3)	Enhance participation in the labour market by alleviating the impact of the tax reform on low earners in a budget-neutral manner. Strengthen measures to encourage women's participation in the labour market by expanding childcare and pre-school facilities.
4)	Take steps to strengthen the capacity of the Public Employment Service and other providers to increase the quality and effectiveness of training, job search assistance and individualised services. Link funding of programmes to results. In consultation with stakeholders, introduce tailor-made programmes, for the low skilled and other particularly disadvantaged groups.
5)	Improve the business environment by implementing all the measures envisaged for regulatory reform and lowering administrative burdens in the National Reform Programme; assess the effectiveness of current SME support policies and adjust public programmes in order to improve access to non-bank funding.
Council's Recommendations	
1)	Strengthen the fiscal effort in order to comply with the Council Recommendation to correct the excessive deficit in a sustainable manner, inter alia by avoiding the structural deterioration in 2011 implicit in the planned 2% of GDP budget surplus and ensure that the budget deficit is kept safely below the 3% of GDP threshold in 2012 and beyond, contributing to the reduction of the high public debt ratio. Fully implement the announced fiscal measures and adopt additional measures of a permanent nature if needed at the latest in the 2012 budget to secure the budgetary target for that year. The 2012 budget should also identify the additional measures in order to attain the 2013 target in the Convergence Programme. Ensure progress towards the medium-term objective (MTO) by at least 0.5% of GDP annually until the MTO is reached and use possible windfall revenues to accelerate the fiscal consolidation.
2)	Adopt and implement regulations specifying the operational aspects of the new constitutional fiscal governance framework, including, inter alia, the numerical rules that will be implemented at the central and local level until the debt ratio has declined to below 50% of GDP. Regarding the fiscal framework, implement and strengthen multiannual fiscal planning, improve the transparency of public finances and broaden the remit of the Fiscal Council.
3)	Enhance participation in the labour market by alleviating the impact of the tax reform on low earners in a budget-neutral manner. Strengthen measures to encourage women's participation in the labour market by expanding childcare and pre-school facilities.
4)	Take steps to strengthen the capacity of the Public Employment Service and other providers to increase the quality and effectiveness of training, job search assistance and individualised services. Reinforce active labour market measures delivering positive evidence-based results. In consultation with stakeholders, introduce tailor-made programmes, for the low-skilled and other particularly disadvantaged groups.
5)	Improve the business environment by implementing all the measures envisaged for regulatory reform and lowering administrative burdens in the National Reform Programme; assess the effectiveness of current SME support policies and adjust public programmes in order to improve access to non-bank funding.
Eventual Differences	
1)	Additional reference to Council Recommendation to correct the excessive deficit; reinforced the prescription to keep over time the budget deficit below the 3% of GDP and reduce the debt-to-GDP ratio. Additional request to fully implement the announced measure. Priorities should be identified, rather than directly implemented, in 2012 for ensuring the 2013 target. Extension of the time horizon for carrying out fiscal consolidation.
2)	The reference to real time assessment of new policies with relevant budgetary effects is erased. Additional reference to the need of broadening the remit of the Fiscal Council.
3)	No differences.

4)	Stronger attention on the delivery of labour market measures; erased the reference to the necessity to link the way in which programmes are funded with the results they deliver.
5)	No differences.
Implementation	
1)	Not implemented. The deficit has not been kept safely below the value of 3%. Furthermore, as underlined in the Commission Working Paper on the EDP procedure, the largest part of the measures have a one-off nature, creating a problem of medium term sustainability. The Hungarian 2012 Budget, however, contains – as requested – a preliminary assessment of the effects on 2013 finances of the budget 2012 measures. Moreover, the Convergence Programme 2012 reports for the years 2011-2013 a structural balance improvement of 0,63 % in average per year, which is above to the recommended value of 0,5%.
2)	Almost fully implemented. The independent Fiscal Councils are still in preparation. The Commission Staff working document 2012 states that there is inconsistency between the great veto power and the scarce resources of those institutions. The numerical fiscal rule that should ensure the reduction of the debt towards the threshold of 50% GDP has been approved.
3)	Fully implemented. Childcare allowances have been introduced. The labour market reforms have been set. The alleviation of the income tax reform is introduced. The Commission Staff working document 2012, however, states that those measures are not ambitious.
4)	Only partially implemented. The reforms of the public work schemes have been carried, without direct concern to qualitative aspects though. The reform of the active labour market incentives is based on a deeper use of the EU funds. The Commission Staff Working document 2012 states that the policies for public work schemes are ambitious but unlikely to meet their targets in term of employment for disadvantages and transfers from the public work scheme to the private job market.
5)	Fully implemented. Doubled the threshold for compulsory auditing so to exclude SMEs, which can also use simplified accounting measures for their annual reports. Adoption of the JEREMIE instrument.

Sources: European Commission Recommendation for a Council Recommendation on the National Reform Programme 2011 of Hungary and on delivering a Council Opinion on the Convergence Programme of Hungary 2011-2015; Council Recommendation of 12 July 2011 on the National Reform Programme 2011 of Hungary and delivering a Council opinion on the updated Stability Programme of Hungary 2011-2015; Commission Staff Working Document on the National Reform Programme 2012 of Hungary; Commission Staff Working Document of the 11 January 2012; Bruegel own research.

Table A9.6: Implementation of the Main Measures of the 2011 National Reform Programme

1) Structural Reforms to Enhance Economic Growth	The SKP is a framework programme on which is based the largest part of structural reforms of this table. The measures of the Széll Kálmán Plan that have been strengthened during 2011 mainly regard the labour market, the healthcare system, and the pension system. The New Labour Code draft has been approved by the Parliament and the discussions with the social parts are ongoing. The Fundamental Law passed in April 2011 introduced a public debt threshold of 50%. A new law was approved to increase the transparency and effectiveness of public procurement. Legal parameters concerning debt and expenditures were introduced in the new Hungarian Constitution for ensuring long-term stability of public finances. The administrative burden for enterprises was cut by about 740 EUR million thanks to: -a first set of 33 measures contained in the *Magiary Programme Action Plan*, which started a comprehensive reform of the Hungarian Public Administration; -the E-government programme, approved as part of a second package of cuts on administrative burdens. A simplification programme was approved in Aug.2011 as part of the Magiary programme on Public Administration. According to the 2012 NRP , the comprehensive agreement with the National Banking Association was signed in December 2011. The reshape of the pension system continued in line with the actions taken in 2011. The main measures foreseen for 2012 are: -the elimination of early retirement schemes; -an increase of the effective retirement age; -a new regulation of special pensions for members of military forces; -the transfer of disability benefits and rehabilitation allowances to the Health Insurance Fund. Reform of the public transports involving: -the approval of National Railway Company restructuring; -the realisation of a national Transport Company; -the revision of tariffs ; -the expenditure for subsidies for long distance travel suppliers has been reduced.
2) Employment	*Several market reforms.* Reduction of active and passive labour market provisions, end of job seeking assistance and tightening the access conditions for job seeking benefits. Approval of a new Labour Code and adoption of a New Start-Job Programme for increasing the number of participants in public work schemes. Reduction under the value of the minimal wage of wages granted within the public work. Review of the sick-pay system. Approval in end of 011 of an amendment modifying the laws on vocational training and vocational contribution reported in the 2012 NRP. Moreover, the Government New Generation programme, a framework initiative to support young people in the labour market, has been approved.
3) Research and Development	The Parliament approved about 24 EUR million of new research and development subsidies.
4) Climate Change	Approval of an increase in diesel excise. Approval of the New Szechenyi Plan in January 2011. The second priority concerns the Green Economy development. No further reference to environment programmes and energy efficiency measures in the Hungarian Budget for 2012. Approval of the National Environmental Technology Innovation Strategy during 2011. Approval of the Hungary national Energy Strategy in 2011.
5) Education	Accordingly to the 2012 NRP, the National Higher Education Law was approved in December 2011, together with the Public Education Law. Several government decrees have complemented the reform. The overall number of students admitted in higher education has been reduced, with a preference given to students in natural science and technology. Moreover, the Government has reduced the overall number of available scholarships, with full effect from 2013

6) Poverty	*Tax reforms:* Reform of income taxation through childcare and family allowances. Increase of several indirect taxes. Freezing of social benefits other than family allowances. *Healthcare reform:* Approval of a healthcare reform based on two pillars, where the first fixes the relations between State and pharmaceutical sector, while the second reorganises the overall structure of the national healthcare system (*Semmelweys Plan*). *Poverty measures:* There is no particular reference to poverty issues in the EDP report summarising the budget law for 2012. Tax credit cuts, however, do not concern lower income earners, who will benefit of compensatory measures. Accordingly with the 2012 NRP, the National Social Inclusion Strategy was approved at the end of 2011.

Source: Hungarian Ministry for National Economy (2011a) Report on the measures taken in response to Council recommendation of 7 July 2009 under Article 126(7) of the Treaty. Budapest, December 2011; Hungarian Ministry for National Economy (2011b) Update on the 2012 Budget of Hungary. Budapest, September 2011; Hungarian National Reform Programme 2012; Commission Staff Working Document on the National Reform Programme and Convergence Programme 2012 of Hungary.

Table A9.7: Comparative Evaluation

	2011	2012	2013	2014	2015
Real GDP growth (%)					
Previous update	3.1	3.0	3.2	3.3	3.5
Current update	1.7	0.1	1.6	2.5	2.5
Difference	-1.4	-2.9	-1.6	-0.8	-1.0
General government net lending (% of GDP)					
Previous update	2.0	-2.5	-2.2	-1.0	-1.5
Current update	4.3	-2.5	-2.2	-1.0	-1.5
Difference	2.3	0.0	0.0	0.0	0.0
General government gross debt (% of GDP)					
Previous update	75.5	72.1	69.7	66.7	64.1
Current update	80.6	78.4	77	73.7	72.7
Difference	5.1	6.3	7.3	7.0	8.6
Structural Balance					
Previous update	-4.7	-2.6	-1.7	-1.6	-1.5
Current update	-3.9	-1.8	-1.0	-0.9	-0.8
Difference	0.8	0.8	0.7	0.7	0.7

Source: Hungarian Convergence Programme 2011; Hungarian Convergence Programme 2012.

ANNEX 10: IRELAND

The process of budgeting in Ireland

The budget process in Ireland usually covers the period between April and early December, with a budgetary memorandum from the government and the discussions among the Ministry of Finance and the other ministries on the allocations of the available resources. The agreement is transmitted to the Parliament in December, together with the tax policy decisions. The capital expenditures are chosen in the Multi-annual capital investment framework, and the year-by-year expenditures within the year budget. During the year, the Parliament can, on request of the government departments, vote for new Supplementary Estimates.[110]

The budget 2012 has been prepared by the Ministry of Expenditure and Reform, and by the Ministry of Finance. Differently from the Budget 2011, the 2012 version was approved with a large majority of the new parliament.

Since 28 November 2010, the Republic of Ireland is under Financial Assistance Programme, with the supervision of the European Commission and of the International Monetary Fund. The National Reform Programme was written following the National Recovery Plan approved in 2010 and thus translated in 2010 and 2011 budgets. However, two elements contributed to modify substantially the situation. Firstly, the budgetary outlook was worse than forecasted in the National Recovery Plan, requiring further adjustment to fulfil the Financial Assistance Programme commitments. Secondly, the Irish Government lost its majority just after having approved the 2011 financial bill. The fall of the government was followed by general elections, which outcome produced a change in the political leadership of the country. Therefore, the 2012 budget is substantially disconnected from the National Reform Programme, being mainly devoted to fulfil the government's balance targets.

The practice of reform policy making in Ireland relies on multi-annual *National Strategies*, multi-annual *action plans*, and individual *Initiatives.* Along with the general criterion of selection described in the methodology, we paid particular attention to the proposals of implementation or mid-term review of the multi-annual strategies and action plans.

Bases for the assessment of implementation in **Table A.10.6** of the reforms announced in the NRP 2011 are:

- The comprehensive set of documents composing the 2012 budget and available on the Ministry of Finance/budget department website
- The Summary of the 2011 Budget Measures and Policy Changes
- The Policy Document published by the Ministry of Public Expenditure and Reform on the Reform of the Public Service
- The Irish Stability Programme 2012

[110] Irish Department of Finance (2011) *Reforming Ireland's Budgetary Framework: a discussion document.* March 2011, p.1 section 1.

Table A10.1: Europe 2020

Share of early leavers from education (18-24)	8%
Tertiary education attainment (30-34)	60%
At-risk-of-poverty rate	4% by 2016 2% or less by 2020
Increase in energy efficiency	-2.75 Mtoe (+20%)
Employment rate (20-64)	69-71%
Investments in research and development	2.5 % of GNP (about 2.0 % of GDP)
Greenhouse emissions (with respect to the 2005 level)	-20%
Share of renewable energy in final consumption	16%

Table A10.2: National Reform Programme 2011[111]

1) Active Labour Market Policies	The National Employment Action Plan supports active labour marker policies. It is being reinforced to ensure deeper substance to those at risk of long-term employment. The main initiatives are: - the transfer of the policy responsibility of job search supports from local to central employment services;- the provision to unemployed of access to 276 000 training and further education places; - the creation of a EUR 20 million multi-annual higher education labour market fund to enable unemployed people access innovative part-time education opportunities from certificate to post-graduate levels. The National Recovery Plan has also outlined a series of measures in relation to activation policies, comprising: - the development of a profiling and case management system; - the decision to prioritise four cohorts of unemployed, that is low skilled workers, people under 35 years of age, long-term unemployed and people previously employed in in sectors affected by restructuring; - the introduction of sanctions for unemployed people refusing to co-operate with appropriate training or employment interventions; - changes in the subsidies for one parent families. - the creation of a new Ministerial portfolio focused on jobs; - the launch of The Job Initiative in May 2011, including a large range of measures to support job creation; - the reversal of the recent cut in national minimum wage, while offsetting any effect on business costs; - the review of statutory wage setting mechanisms to ensure their efficient and effective performance. Ireland made the following commitments under Euro Plus Pact: Fostering competitiveness: -Independent review of the Employment Regulation Order (ERO) and Registered Employment Agreement (REA), -A programme of state asset disposal, and -Legislative changes to remove restrictions in the legal and pharmaceutical professions and medical services. Fostering employment: -50% reduction until the end of 2013 in employers' social insurance contributions for low-income earners (on a weekly wage of up to EUR 356), -A capital works programme focusing on 'shovel-ready' labour-intensive projects, -A large increase in the number of places for the unemployed on a range of education and employment programmes, -New taxation and sectorial measures to promote job creation.

[111] The National Reform Programme was written following National Recovery Plan approved in 2010 and thus translated in 2010 and 2011 budgets. However, the budgetary outlook had been much worse than forecasted in the National Recovery Plan, requiring further adjustment. Moreover the Irish Government fell just after having approved the 2011 financial bill. The fall of the government was followed by general elections that produced a change in the leadership of the country. Therefore, the budget 2012 is substantially disconnected from the National Reform Programme, being mainly devoted to fulfil the targets in term of public deficit.

2) Research and Development	In order to increase both the quality and the quantity of research and development investments as well as to realise the optimal return from these investments, a series of initiatives have been undertaken including: - a research prioritisation project (to be approved by October 2011), to identify the main area of opportunity for research and development investments; - the Mathematics and Science Literacy Programme to increase student understanding of mathematical concepts and relate mathematics to everyday life; - the introduction of an Intellectual Property protocol and appropriate supporting structures and the development of a system to maximise the opportunities for industry and entrepreneurs to commercialise intellectual properties created in Ireland; - operational programmes (co-funded by the European Regional Development Fund) to improve regional competitiveness and innovation capacity; Furthermore, an increase in research and development public expenditures (+6.5%) has been already planned in 2015.
3) Energy and Climate Change Policies	The National Renewable Energy Action Plan sets out the Government's strategic approach and the concrete measures to deliver the 16% target for the share of renewable energy in final consumption. In particular: - thanks to onshore wind, the Government is on track to respect the target fixed for electricity consumption from renewable sources. A new study has also recently assessed the opportunities offered by offshore renewable energy; - in the field of transport, two policies have been put in place to reduce the dependency of this sector from imported oil. These combine significant increases in the use of biofuels with an accelerated development and use of electric vehicles; - to comply with the target of 12% renewable heat by 2020, the Government has prepared a roadmap for the development of the bioenergy sector. The Energy Efficiency Action Plan has identified 90 actions and measures to deliver 20% energy saving in 2020. Its main pillars are: - the National Retrofit Programme to finance renewable energy and energy efficiency; - the use of public sector initiatives to leverage the market to provide more energy efficient goods and services; - a new set of Building Regulations to increase the energy performance on new dwellings; - the Large Industry Support Programme to further stimulate investments in energy efficiency; - the introduction of new efficiency standards for oil and gas boilers.
4) Education And Poverty	*Education:* Regarding early school leaving, the Delivering Equality of Opportunity in Schools is a national action plan for fostering educational inclusion. In more detail, it intends to: - offer a improved identification of disadvantages so to target resources more effectively; - reduce the pupil teacher ratio; - introduce additional non-pay allocations for schools based on level of disadvantage; - ensure access to additional literacy or numeracy supports; - enhance evaluation outcomes. Concerning tertiary education, the National Strategy for Higher Education to 2030, published in January 2011, provides a framework for the development of the higher education sector over the next twenty years. The most important measures are: - to meet the demand from school leavers for higher education through the provision of a funding base; - to widen access for students facing social and economic barriers; - to put in place policy measures to maximise the completion of higher education degrees; - to ensure accessibility to higher education of adults, especially to those in the workforce. Additionally, in 2011, a mid-term review of the Plan for Equity of Access to Higher Education 2008-2013 should be finalised. *Poverty:* The National Action Plan for Social Inclusion offers a series of targeted interventions in favour of the most vulnerable groups. The policy focus in the 2011 NRP is on the linkages between poverty, employment and education. The main supporting measures sketched out in this document thus concern: - employment, active labour market, up-skilling and life-long learning policies to boost the labour market participation of jobless households; - education and training programmes to tackle poverty; - targeted services for disadvantaged children and families; - maintenance of welfare payments relative values.

5) Other Commitments under the Euro Plus Pact	Improving the sustainability of public finances: -A comprehensive spending review will underpin the fiscal consolidation process, -A Fiscal Advisory Council will be established, -Reform of the budgetary framework by way of a Fiscal Responsible Bill, -Proactive measures to reduce long-term pension liabilities through the Social Welfare and Pensions Bill, -The introduction of measures to broaden the tax base. Reinforcing financial stability: -Reforming and improving the supervisory framework for Irish banks, -The radical reorganisation and downsizing of the Irish banking system to better serve the needs of the Irish economy, -Deleveraging of the banking system to reduce lending in areas that will not support economic recovery and decrease the system's reliance on ECB/ Central Bank funding, -Making banks profitable again by rationalising their costs base and fully recapitalising the m based on stringent stress tests carried out by independent experts.

Source: Irish National Reform Programme 2011. Commission staff Working Document on the National Reform Programme and on the Stability Programme 2012 of Ireland.

Table A10.3: Stability Programme 2011. National Accounts

	2011	2012	2013	2014	2015	Unit of Measure
Gross Debt	111.0	116.0	118.0	116.0	111.0	% of GDP
Net Lending (+)/ Borrowing (-)	-10.0	-8.6	-7.2	-4.7	-2.8	% of GDP
Total Revenues	35.5	35.1	35.1	35.4	35.1	% of GDP
Total Expenditures	45.5	43.7	42.4	40.1	37.8	% of GDP
Unemployment	14.4	13.7	12.7	11.5	10.0	% of Labour Force
Growth Rate	0.8	2.5	3.0	3.0	3.0	%
Structural Balance[112]	-8.3	-8.1	-7.7	-5.9	-4.6	% of GDP

Source: Irish Stability Programme 2011.

[112] Only for countries not under excessive deficit procedure.

Table A10.4: Stability Programme 2011. Main Elements

	2011
Revenues	Overall, consolidation package of 3.9% GDP. The consolidation should be possible thanks to new tax revenues coming from: - the extension of the 'new universal social charge' (now paid by 500.000 more people); - the reduction of tax credits on income tax, - the increase of tax rates.
Expenditures	-
	2012
Revenues	Consolidation package of 3.6% GDP.
Expenditures	Comprehensive review of expenditures.
	2013
Revenues	Consolidation package of 1.07% GDP.
Expenditures	-
	2014
Revenues	Consolidation package of 1.07% GDP.
Expenditures	-
	2015
Revenues	Consolidation package of 1% GDP.
Expenditures	-

Source: Irish Stability Programme 2011.

Table A10.5: Commission's and Council's Recommendations: Eventual Differences and Implementation at National Level, 2011

Commission's Recommendations	
1)	Implement the measures laid down in Implementing Decision 2011/77/EU on granting Union financial assistance Ireland, as amended by Implementing Decision of 16 May 2011, and further specified in the Memorandum of Understanding of 16 December 2010 and its update of 18 May 2011.
Council's Recommendations	
1)	Implement the measures laid down in Implementing Decision 2011/77/EU, as amended by Implementing Deci 2011/326/EU, and further specified in the Memorandum of Understanding of 16 December 2010 and its updat 18 May 2011.
Eventual Differences	
1)	No difference.
Implementation	
1)	The EU Commission, the European Central Bank, and the International Monetary Fund periodically release an assessment of the completion of the financial assistance programme. The fifth review of the Economic Adjustment Programme for Ireland has been released in March 2012.

Source: European Commission Recommendation for a Council Recommendation on the National Reform Programme 2011 of Ireland and on delivering a Council Opinion on the Convergence Programme of Ireland 2011-2015; Council Recommendation of 12 July 2011 on the National Reform Programme 2011 of Ireland and delivering a Council opinion on the updated Stability Programme of Ireland 2011-2015.

Table A10.6: Implementation of the Main Measures of the 2011 National Reform Programme

1) Active Labour Market Policies	The National Recovery Plan was approved in November 2011. It has represented the multi-year framework used to set up 2011 and 2012 budgets. An independent evaluation report of the National Employment Action Plan was carried out in the second half of 2011. In budget 2011: Reduction in the Jobseeker's Benefit for age group 21-24 in budget 2011. Reduction in the live register to achieve a more intensive activation strategy In budget 2012: Reduction in the base payment entitlement on a 5 day week rather than 6 for the Jobseeker's Benefit Community Employment Schemes and Back to education allowance: total reduction in budget 2012 of EUR 35.9million . EUR. Moreover, the 2012 NRP 2012 reported the approval of the Government Policy Statement on Labour Market Activation *('Pathways to work')* based on 5 strands in February 2012. Euro Plus Pact commitments: Fostering competitiveness: -The review of the ERO and REA was carried out and published. The Industrial Relations (Amendment) Bill was published in the first quarter of 2012 and is set to be adopted later in the year. -The shape and scale of the asset disposal programme has been agreed between the government and the EU/IMF programme partners. Specific assets have been identified for disposal. -The Legal Services Regulation Bill has been published and is expected to be enacted in the third quarter of 2012. Work on the Health (Provision of General Practitioner Services) Act 2012 began in March 2012. Regulations were enforced to reduce the mark-up to 20% on pharmaceutical dispensed under the Community Drug Schemes. The retail mark-up on non-drug items was also reduced to 20%. Fostering employment: -reduction in employers' social insurance contributions for low-income earners was implemented with effect from 1 July 2011. -EUR 90 million was reprioritised towards labour-intensive capital works in 2011. The capital programme for 2012-2016 includes funding for the construction of a new children's hospital, 40 new schools and the expanstion and renovation of 180 existing schools. -An extra 20 900 training, education and work placements were created in 2011. For 2012, the government is committed to supporting over 85 000 beneficiaries of job placement, work experience and back-to-education schemes. -A temporary reduction in some tourism-related VAT rates to 9% and in social security contributions on low wages from 1 July 2011 until the end of 2013. Measures to increase the availability of credit for businesses include the establishment of Microfinance Fund worth up to EUR 100m, the establishment of a Temporary Partial Loan Guarantee Scheme, and a second call for tenders under Innovation Fund Ireland. Job initiative: approved in 2011 and financed with EUR 28 million. Reduced to 27 in 2012. Creation of the Department of Jobs, Enterprise and Innovation. Moreover, the 2012 NRP reported the approval in February 2012 of the creation of the Action Plan for Jobs, with 275 distinct actions. The NRP also reports for the first quarter 2012 the simplification of the Employer Job Incentive Scheme and other supporting measures, altogether with the review of the Wage-Setting Systems and the National Internship Scheme.
2) Research and Development and Competitive-ness	Report of the Research Prioritisation Steering Group approved on February 2012. The NRP 2012 reports also the establishment in March 2012 of the Prioritisation Action Group to implement the report. In budget 2011: - One-year tax exemption for start-ups. - two years extension of the stock relief for farmers - reform of the Business Expansion Incentive In budget 2012: -extension of the tax exemption for start-ups to 3 years

	-reform of the research and development tax Credit, increasing the expenditures for 4 EUR million. -new taxation measures to enhance farm competiveness for 4 EUR million. -introduction of a foreign earning deduction -abolition of the stamp duty for the transfers of no-residential properties. According to the 2012 NRP, the development of the National Intellectual Protocol is almost concluded.
3) Energy and Climate Change Policies	In the *2012-2016 Capital Expenditure Framework* total environment-related investments amount to EUR 1.6 billion. In budget 2011: Energy efficiency capital allowances for companies (2 M.EUR) and for individual housing (EUR 30 million) on the period 2012-2014. In budget 2012 : -EUR 1 million Of new expenditures are devoted to tax relief to corporate investments Renewable Energy -reduction of 7.5 points for the VAT on district heating -increase of the Carbon Tax from EUR 5to EUR 20 EUR per ton. Of fossil fuel -EUR 1 million of VAT refund for farms on purchasing of wind turbines -comprehensive cuts to the Environmental expenditures of EUR 34 million. According to the 2012 NRP, the comprehensive Review of the National Climate Policy was issued in November 2011 and the development programme, as well as the required legislation, was issued in January 2012. The latest NRP also reports a review of the Building Regulations in May 2011.
4) Education Initiatives	National Strategy for Higher Education to 2030: published in January 2011. Moreover, the National Strategy to improve literacy and numeracy among children was released in July 2011. According to the 2012 NRP, an evaluation of the action plan 'Delivering Equality of Opportunity in Schools' was released in January 2012. 430 M EUR investments in 2012 for the ministry of education and skills within the 2012-2016 capital expenditure framework Budget 2011: total cuts for EUR 170 million. Budget 2012: - cuts education expenditures of EUR 151.3 million. -New expenditures on higher education students contributions for EUR 18.5 million -other new expenditures: EUR 0.4 million.
5) Policies Against Poverty	Pension reform introduced in 2011 and completed in 2012. Cuts for EUR 873 million to Social Welfare ministry in 2011. Cuts for EUR 475 million of Social Protection Department in 2012. Increase of the lower exemption threshold of the Universal Social Charge from EUR 4 004 million to 10036 EUR. Increase in the mortgage interest relief. Introduction of a special assignee relief programme. Removal of tax exemption for illness benefits.
6) Increases in Taxation in Budget 2012	The Universal Social Charge is moved into the cumulative system. Introduction of a surcharge of 5% for individuals with a gross income over EUR 100 000 on the property based legacy reliefs. Accelerated Capital Allowances schemes reformed. New household charge. Increase of 5% in capital acquisition tax. Increase of 5% in capital gains tax. Increase of the rates in the taxation of savings schemes. Substitution of the citizenship levy with a domicile levy. Increase the enforcement capacity of the Revenue Commissioners. Increase in the standard VAT rates. Increase in the Tobacco products tax. Increase in the Carbon tax. Introduction of a betting duty. Vehicle registration tax and motor tax.

7) Commitments under the Euro Plus Pact	Improving the sustainability of public finances: -The review was completed and it was published on 5 December 2011. -The Irish Fiscal Advisory Council was established in June 2011 on a non-statutory basis. Legislation to put the Council on a statutory footing will be published soon. -Draft legislation (the General Scheme of the Fiscal Responsibility Bill) was published in April 2012. A separate piece of legislation is envisage later in 2012, covering the remaining aspects of the budgetary framework, in particular multi-annual expenditure ceilings. -Legislation was passed to progressively increase the state pension age from 65 to 68 by 2028. The parliament is still considering a public service pensions reform bill for new entrants. -The 2012 budget introduced measures to broaden the tax base, including changes to property-based 'legacy' tax relief, betting duty, capital taxes, the domicile levy and the tax treatment of certain social welfare benefits. A household charge has also been introduced. Reinforcing financial stability: -The Central Bank (Supervision and Enforcement) Bill was published in October 2011. -The strategy for the two pillar banks was announced on 31 March 2011. The two pillar banks – AIB and Bank of Ireland – have begun to reorganise their operations into core and non-core operations and to implement a carefully managed programme of deleveraging. The operations of AIB and the Educational Building Society (EBS) were merged to create a second pillar bank (on 1 July 2011) to form the Irish Banking Resolution Corporation. -AIB and Bank of Ireland exceeded their 2011 deleveraging targets and their reliance on Eurosystem funding has decreased. They are set to deleverage to loan-to-deposit ratios of 122.5 % by 2013. -The 2011 Prudential Capital Assessment Review identified an additional capital requirement of EUR 21 billion, of which EUR 16.5 billion were covered by the state and the rest by the private sector. The 2011 PACR recapitalisation has for the most part been completed, with only EUR 1.3 billion remaining to be injected into Irish Life & Permanent.

Sources: set of policy documents available at the Irish Budget Department website (http://www.budget.gov.ie/Budgets/2012/2012.aspx). Commission Staff Working Document on the National Reform Programme 2012 and on the Stability Programme 2012 of Ireland.

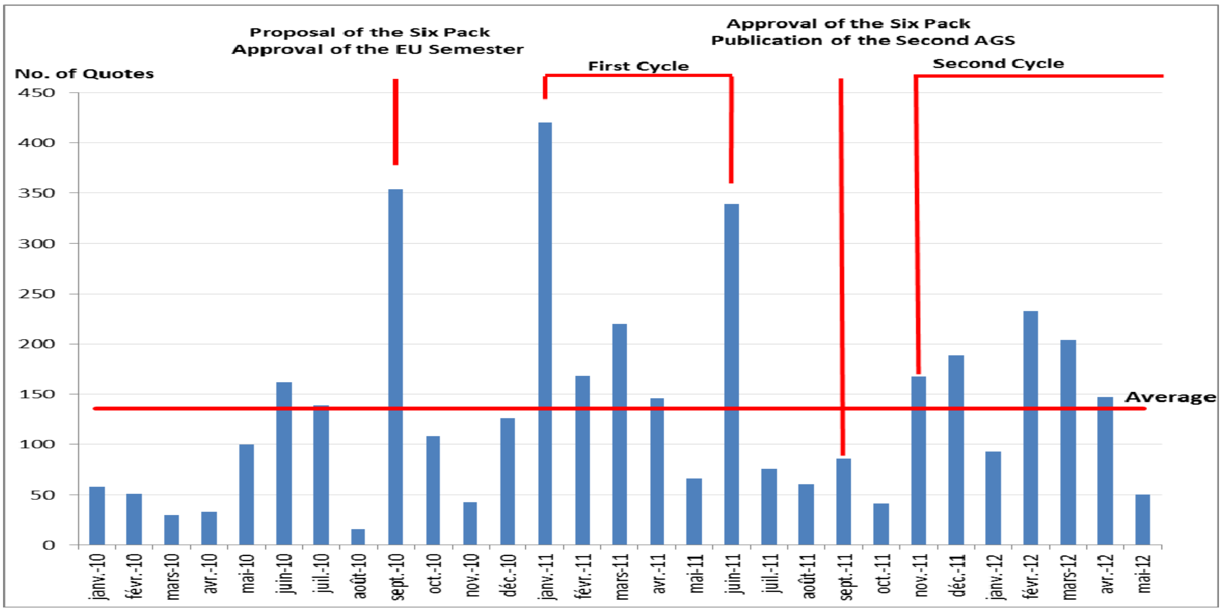
Table A10.7: Comparative Evaluation

	2011	2012	2013	2014	2015
Real GDP growth (%)					
Previous update	1.0	1.3	2.4	3.0	3.0
Current update	0.7	0.7	2.2	3.0	3.0
Difference	-0.3	-0.6	-0.2	0.0	0.0
General government net lending (% of GDP)					
Previous update	-10.1	-8.6	-7.5	-5.0	-2.9
Current update	-3.1	-8.3	-7.5	-4.8	-2.8
Difference	-3.0	0.3	0.0	0.2	0.1
General government gross debt (% of GDP)					
Previous update	107.0	115.0	119.0	118.0	115.0
Current update	108.2	117.5	120.3	119.5	117.4
Difference	1.2	2.5	1.3	1.5	2.4
Structural Balance					
Previous update	-8.3	-8.1	-7.7	-5.9	-4.6
Current update	-7.9	-7.5	-6.9	-5.0	-3.5
Difference	+0.4	+0.6	+0.8	+0.9	+1.1

Sources: Irish Stability Programme 2011; Irish Stability Programme 2012.

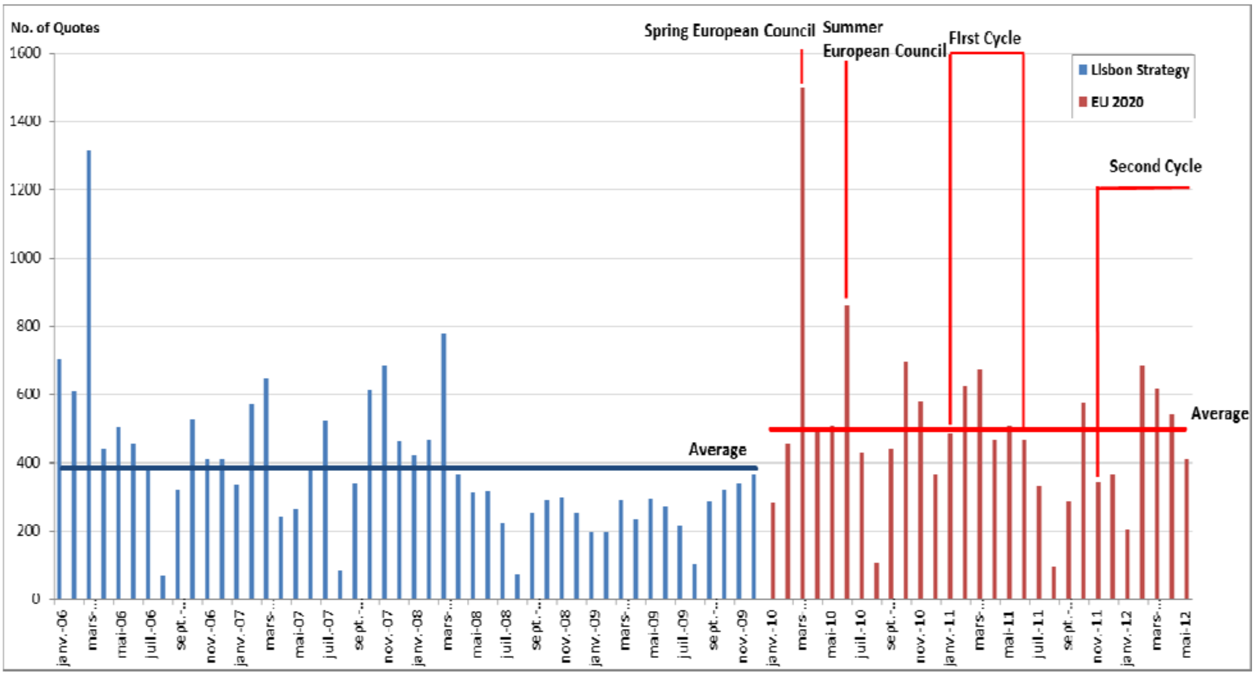
ANNEX 11: MEDIA COVERAGE AND CROSS-COUNTRY DIFFERENCES

Figure A11.1: European Semester in EU-wide media



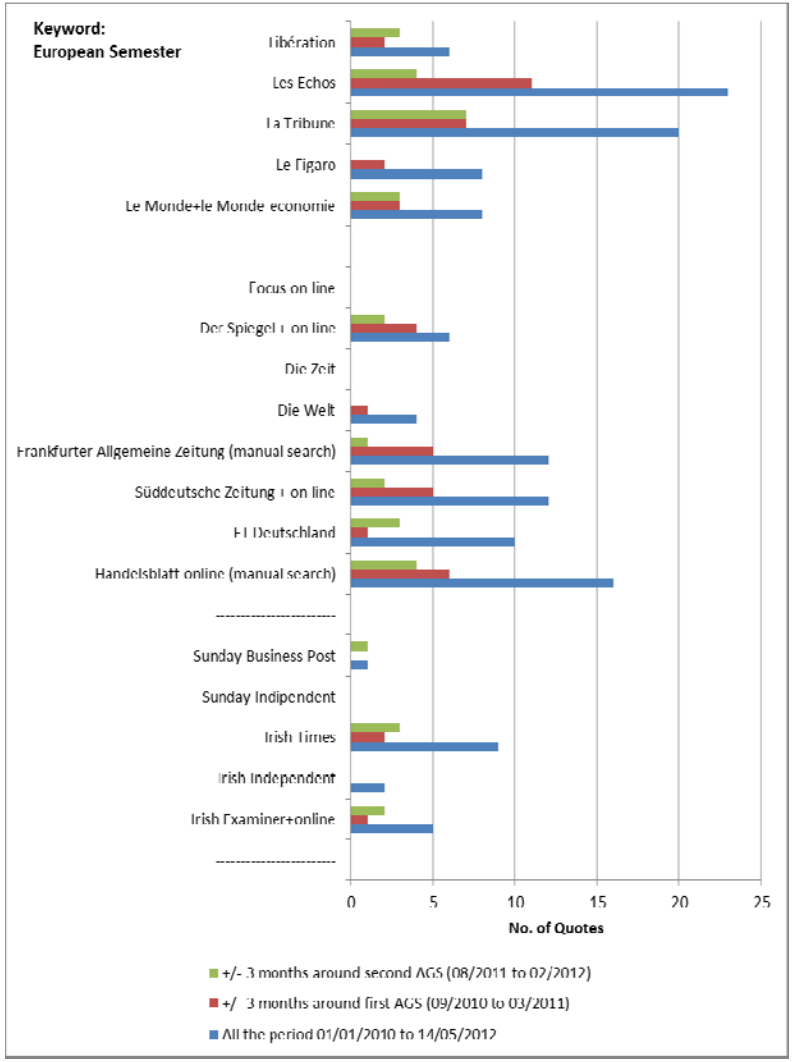
Source: Bruegel's own calculations based on Factiva.

Figure A11.2: EU2020 vs. Lisbon Strategy in EU-wide media



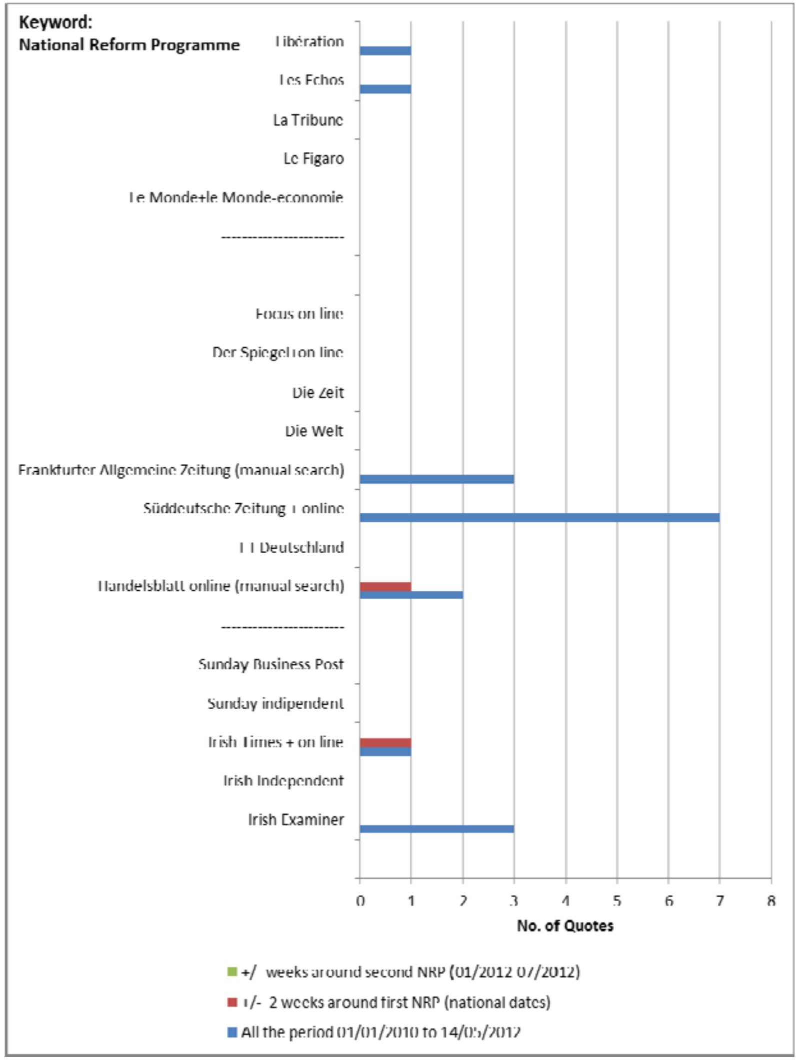
Source: Bruegel's own calculations based on Factiva.

Figure A11.3: European Semester in national media



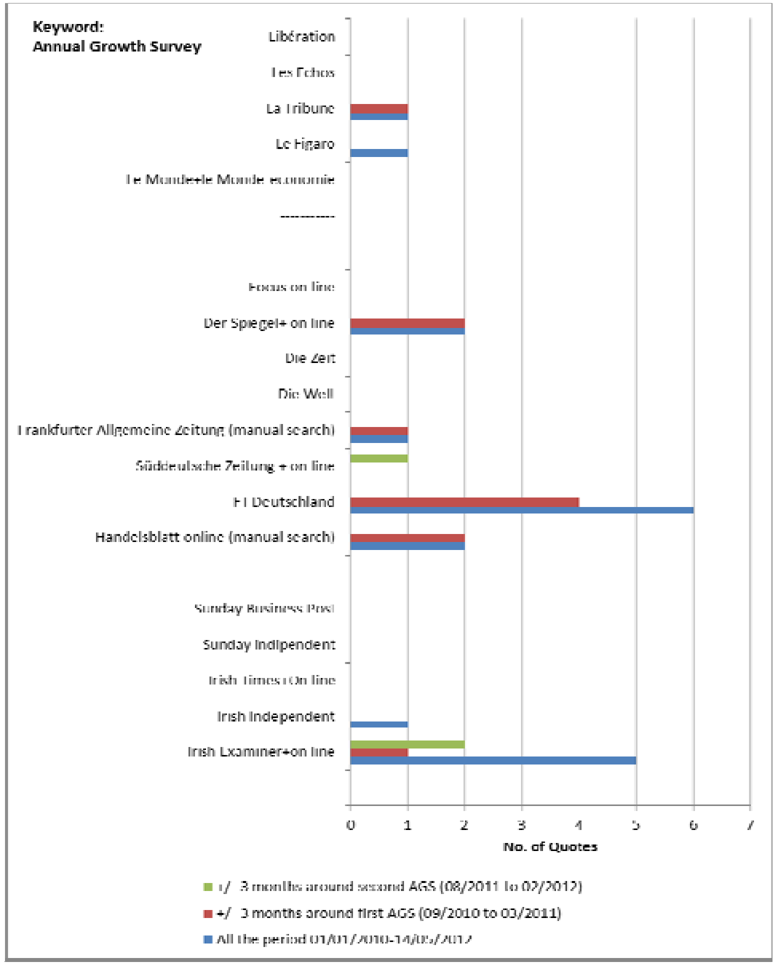
Source: Bruegel's own calculations based on Factiva.

Figure A11.4: National Reform Programme in national media



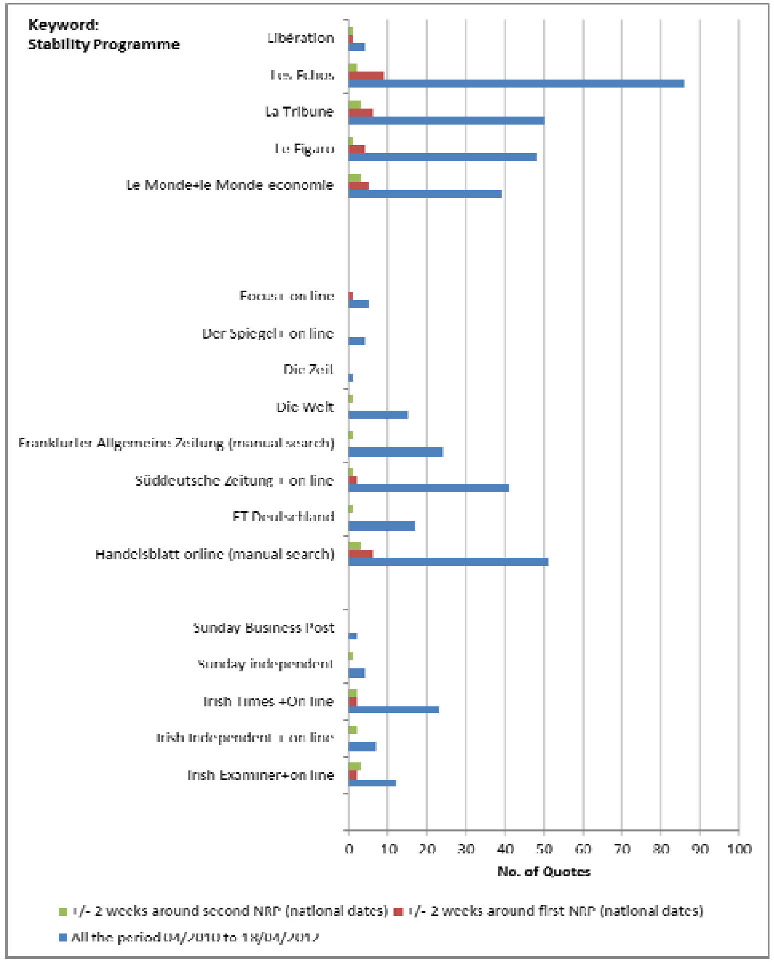
Source: Bruegel's own calculations based on Factiva.

Figure A11.5: Annual Growth Survey in national media



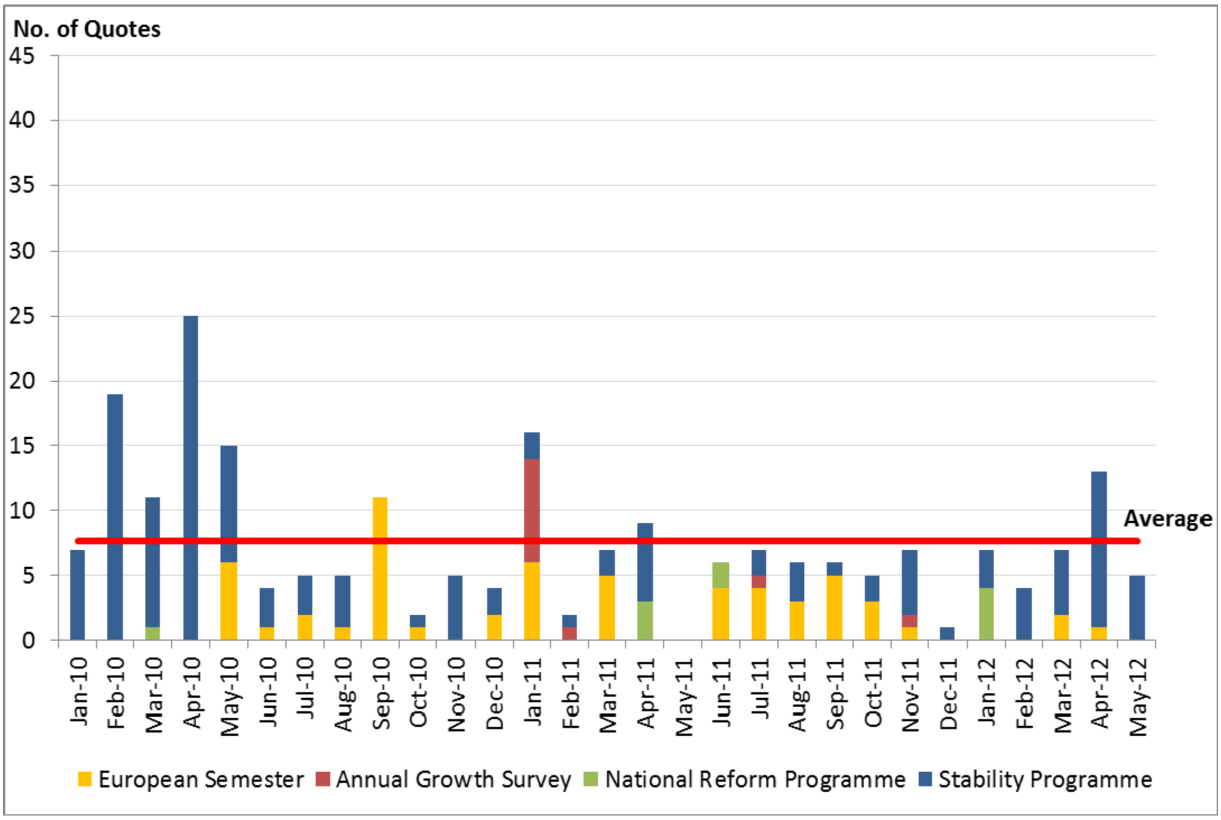
Source: Bruegel's own calculations based on Factiva.

Figure A11.6: Stability Programme in national media



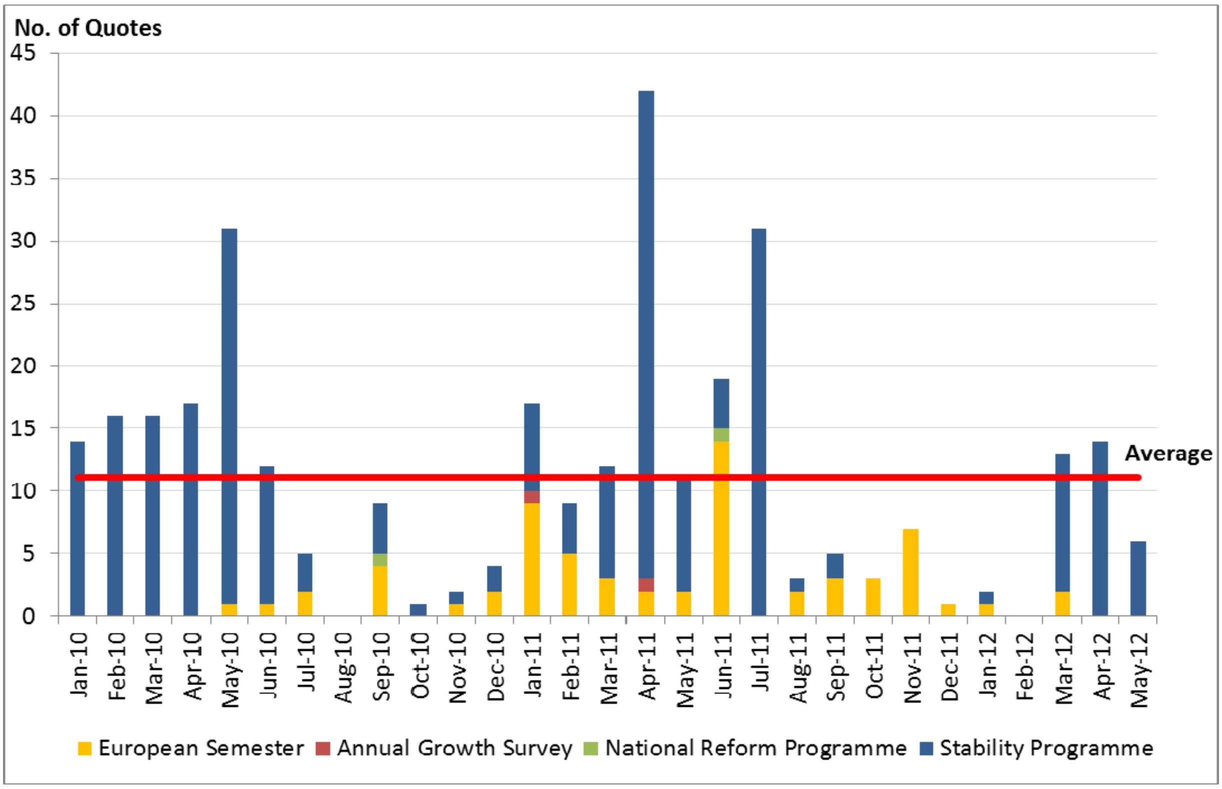
Source: Bruegel's own calculations based on Factiva.

Figure A11.7: Coverage in German media



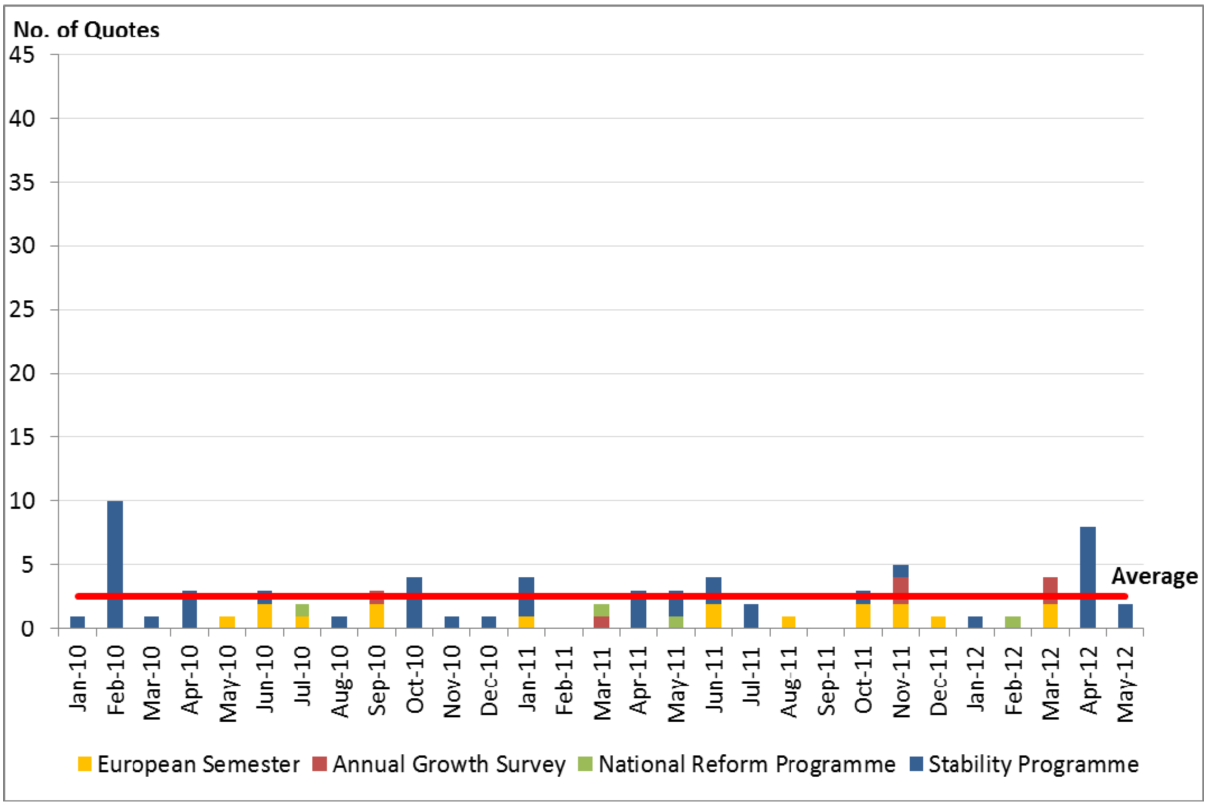
Source: Bruegel's own calculations based on Factiva.

Figure A11.8: Coverage in French media



Source: Bruegel's own calculations based on Factiva.

Figure A11.9: Coverage in Irish media



Source: Bruegel's own calculations based on Factiva.

ANNEX 12: QUESTIONNAIRE ON PARLIAMENTS AND THE EUROPEAN SEMESTER

bruegel

Country:

Position of Respondent:

Beginning in January 2011, the European Semester introduces a revised review of the multi-annual fiscal plans (both internal and external) of Member States. There are more details that Member States now report. Moreover, under this procedure governments submit their National Reform Programmes, which review structural reforms, at the same time as either Convergence or Stability Programmes. These documents are to be submitted in April. The Commission then reviews both programmes. The Council makes recommendations to Member States in June or July.

This survey asks questions about the role your parliament plays in the European Semester. It considers both what committees do and what the full parliament (or plenary) does. It begins with a discussion of what function your parliament performs in the domestic annual budget process. It then asks whether parliament has a say on domestic, internal multi-annual fiscal plans and on what fiscal plans your government submits to Brussels. We are interested in particular whether you incorporate elements of the European Semester into your own procedures. The survey concludes with a discussion of what role the European level could, and should, play in reinforcing the operation of your parliament.

While we will use your survey in our study, we will not reveal the names of individuals who filled them out. Your participation will be held in strictest confidence.

1. Planning Stage of the Budget Process

1.1 Does your country use multi-annual fiscal programmes in addition to the Stability/Convergence Report it submits to Brussels?

__**Yes** __**No**

1.2 Which ministry, or ministries, draft the following documents? Check all that apply, and leave blank if you do not know the answer.

	Finance Ministry	*Economics Ministry*	*Prime Minister's Office*	*Other*
Domestic Multi-Annual Fiscal Plans				
Stability/Convergence Programme				
National Reform Programme				

The Role of Parliament: Plenary

1.3 What role does the plenary (or full parliament) play in the **formulation** of the government's domestic multi-annual fiscal plans, its Stability or Convergence Programme, and the National Reform Programme? Please check all that apply.

	2011	*2012*
Plenary Has a Debate on Government's **Own Domestic Multi-Annual Fiscal Plans**		
Plenary Has Debate on Government's **Stability/Convergence Programme** before it is submitted		
Plenary Has a Debate on the Government's **Annual National Reform Programme** before it is submitted		

The Role of Parliament: Committees

1.4 The following question concerns the role of parliamentary committees in the **preparation** of the following documents in 2011 and 2012. Did the following committees have a debate on the relevant document *before* the final version was released? Please check all that apply.

	Budget Committee		Economics Committee		Labour Employment		European Committee		Other (please name)	
	2011	*2012*	*2011*	*2012*	*2011*	*2012*	*2011*	*2012*	*2011*	*2012*
Domestic Multi-Annual Fiscal Plans										
Stability/Convergence Programme										
National Reform Programme										

If you left all the boxes blank for a given row, does this mean that committees in your parliament did not hold a debate during the document's preparation?

__Yes **__No; I did not tick a box because I did not know the answer**

1.5 The following question concerns the reaction of these committees to information from Brussels. On the 12th of July 2011, The Council, following the lead of the Commission, expressed a number of formal recommendations about the implementation of the National Reform Programme in your country. Did either the plenary or a parliamentary committee discuss the Council's recommendations by December 2011 for either your country's convergences/stability programme or the national reform programme?

Please check all that apply.

	Plenary	*Budget Committee*	*Economics Committee*	*Labour /Employment*	*European Committee*	*Other:*
Held a debate on the Council Response to **Stability/Convergence Programme**						
Held a debate on the Council Response to **National Reform Programme**						

If you left all the boxes blank for a given row, does this mean that committees in your parliament did not hold a debate during the document's preparation?

__Yes **__No; I did not tick a box because I did not know the answer**

1.6 Has a parliamentary committee in your country debated the European Commission's Annual Growth Survey (AGS) in either 2011 or 2012? The Commission issued the Annual Growth Survey in January 2011 for 2011 and in November 2011 for 2012.

__Yes **__No** **__Do Not Know**

If yes, please indicate the committee(s) and years:

1.7 Are debates in the following committees usually open to the public or held in secret?

	Budget Committee		*Economics Committee*		*Labour /Employment*		*European Committee*		*Other:*	
	Open	Secret	Open	Secret	Open	Secret	Open	Secret	Open	Secret
Please Check; Leave Blank If You Do Not Know										

2. Planned Changes/Reforms

2.1 Has your parliament **already** revised its procedures at the domestic level in response to the introduction of the European Semester in January 2011?

__Yes **__No**

If yes, please provide details:

2.2 Does your parliament **plan in the future** to revise procedures at the domestic level in response to these reforms?

__Yes **__No**

If yes, please provide details:

3. Guidance from the European Level

3.1 *Ex ante involvement:* under the European Semester, national parliaments get clear guidance from the European level before they discuss the details of the national budget. The Council approves country-specific recommendations on a country's Stability/Convergence Programme and on its National Reform Programme.

Should the European Parliament vote on the recommendations that are given to national governments?

__Yes **__No**

Comments:

3.2 *Ex post involvement*: in the year following the execution of a national budget, should the European Parliament hold hearings to evaluate a country's economic performance in light of the recommendations the Council gave them?

__Yes **__No**

Comments:

3.3 One proposal is to set up an Interparliamentary Committee of national parliamentarians meeting in Brussels to coordinate under the European Semester. Would you support such a proposal?

__Yes **__No**

Comments:

3.4 Are there other ways national parliaments could become more involved at the European level? Please comment:

4. The Role of Parliament in the Annual Domestic Budget Process

4.1. Can parliament propose the annual budget independently of the government?	**___Yes**	**__No**
4.2. Can parliament propose amendments to the government's budget?	**___Yes**	**__No**
4.3. Are amendments to the government's budget limited?	**___Yes**	**__No**
4.4. Are amendments offsetting in terms of expenditures? That is, must additional spending be matched with corresponding spending cuts?	**___Yes**	**__No**
4.5. Are amendments offsetting in terms of the budget balance? That is, must additional spending be matched with corresponding spending cuts or revenue increases? (Difference from last questions: revenue increases also possible.)	**___Yes**	**__No**
4.6. Can parliamentary amendments cause the fall of government?	**___Yes**	**__No**
4.7. Is the treatment of expenditure and revenues made <u>separately</u> or simultaneously within parliament?	**___Yes**	**__No**
4.8. Is there a time limit on the passage of the budget in parliament?	**___Yes**	**__No**

4.9 *Final question*: are there any reforms to the role of the parliament in the budget process that have occurred in 2011 or that are planned in 2012? If so, please discuss below.

EUROPEAN PARLIAMENT

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