BRIEFING

European Parliament

EGOV
ECONOMIC GOVERNANCE AND EMU SCRUTINY UNIT

ECONOMIC GOVERNANCE

The implementation of country-specific recommendations under the European Semester cycles

This note provides an overview of the European Commission's assessment of the implementation of the country-specific recommendations issued annually to EU Member States under the European Semester for economic policy coordination. It presents how their implementation has been assessed over time (during 2011-2023 European Semester cycles), both from an annual and a multiannual perspective. The note is updated on a regular basis.

The balancing act

The **country-specific recommendations** (**CSRs**) **adopted annually by the Council provide guidance to EU Member States on macroeconomic, budgetary, employment and structural policie**s in accordance with Articles 121 and 148 of the Treaty on the Functioning of the European Union (TFEU). These recommendations, issued within the framework of the European Semester for economic policy coordination since 2011, are aimed at strengthening economic growth and job creation, while achieving or maintaining sound public finances and preventing excessive macroeconomic imbalances. They provide policy guidance for national reforms and investments over the following 12-18 months.

When assessing how effectively the EU-level policy recommendations have been implemented by the national governments, one needs to take into account both the nature of the recommendations themselves and the corresponding actions taken by the Member States. **Steering national policies with supranational recommendations is a balancing act**: the more prescriptive and comprehensive the recommendations are, the less likely it is that they will be fully implemented. Vice versa the less demanding the recommendations are, the more likely it will be that they will find traction in national policies. For instance, the recommendation issued during the COVID-19

Economic Governance and EMU Scrutiny Unit (EGOV)
Authors: Kajus HAGELSTAM, Giacomo LOI, Kateryna HANINA
Directorate-General for Internal Policies
PE 760.248 - November 2024

pandemic period that Member States should provide extra support to the health sector was by itself something that the Member States were doing even without the steering effect of these EU recommendations. Instead, specific recommendations in the area of tax policies have seen less progress in implementation.[1]

This briefing provides an overview on how CSR implementation has evolved over time based on the assessments done by the Commission services (see Section 1). This note also shows some aggregate figures related to the implementation of CSRs since the pandemic times, in particular after the establishment of the Recovery and Resilience Facility (RRF, see Section 2).

We note that **annual progress in implementation at the national level has been sluggish in the pre-pandemic period whereas signals of improvements have started to emerge**. A comparison of multiannual progress in implementation however shows that **implementation rates have not differed substantively before and after the pandemic**, raising doubts on whether the RRF has actually accelerated the roll-out of reforms. However, many reforms and investment under the RRF are still to be implemented in the coming two years before the instrument terminates in 2026.

For an overview of the 2024 CSRs, as approved by the Council in July 2024, please refer to the specific EGOV briefing. **The Commission will publish its implementation assessment in spring 2025.**

1. EGOV analysis of Commission assessments

EGOV has been monitoring the implementation of country-specific implementation since their introduction based on the annual assessment issued by the Commission. Originally, the Commission included their assessments in the so-called annual Country Reports and recently they have made their CRS related database public in the so-called CeSaR database, which includes both annual and multiannual assessments of implementation[2].

By looking at the annual assessment of the Commission (see Figure 1), it is clear that **CSR implementation has been on a downward trend between 2012 and 2019, despite marginal improvement in 2017**. While in 2012, slightly less than 2/3 of CSRs are assessed as having at least "some progress" (see green and yellow parts in Figure 1) in implementation, by 2019 this proportion falls to 39%. In 2020, there is an **inversion of this trend**, with the same figure rising to 67%, before receding to 44% in 2022 and rising again to 62% in 2023. This implies that, **after 2020, CSR implementation on an annual basis has reached new picks and has returned to the high levels recorded in the first Semester cycles**. The annual assessment for 2023 is also aligned with the

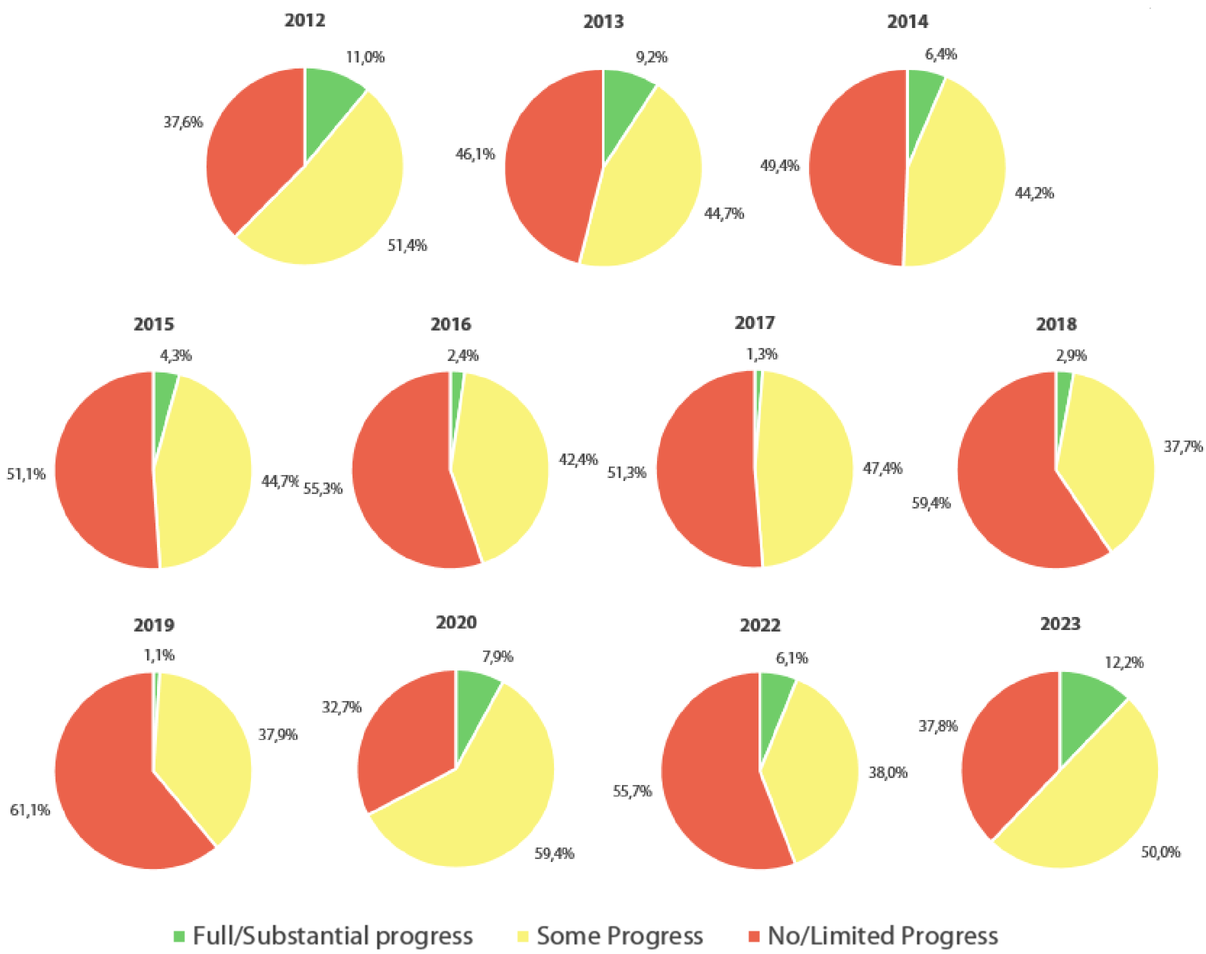
[1] One can ask what the difference is between the EU policy recommendations made under the European Semester (i.e. CSRs) and similar recommendations issued by the OECD or the IMF to the participant countries. The main difference from a procedural point of view is that the CSRs are partly based on EU primary and secondary legislation (i.e. the TFEU, the Stability and Growth Pact and the Macroeconomic Imbalance Procedure) and are adopted by the Member States themselves in Council (even endorsed by the heads of state in the European Council). In addition, the Member States have agreed in EU legislation that in case of non-compliance financial penalties can ultimately be imposed. In this respect, EU policy recommendations are formally clearly different from policy advice provided by external institutions such as the OECD and the IMF (see EGOV reflection papers on the European Semester (2019)). One may in this respect note that with the entry of force of the new EU economic governance framework in April 2024, the Regulation on the preventive arm of the SGP is not used as a legal bases for the 2024 fiscal policy related CSRs. This is change compared to the fiscal CSRs issued in previous European Semester Cycles.

[2] The multiannual assessment of evaluates the state of play in implementation of 2019-2022 CSRs since their first adoption until the publication of the 2024 Spring Package. This is different from the annual assessment which instead only shows progress one year after the adoption of the CSR. Progress on the 2021 CSR that is considered no longer relevant as focusing only on fiscal policy and it is therefore excluded by the Commission in its multiannual assessment in 2024.

Commission's own conclusion that progress on the 2023 CSRs has been substantial (62% in EGOV's analysis and 59% in the Commission's assessments).

Note that these results are based on the evaluation provided at the level of CSRs as a whole (and not on the assessment at sub-recommendations level[3]) and cover compliance with the fiscal-CSR based on the provisions of the Stability and Growth Pact (SGP)[4]. The analysis assigns identical weights to each and every CSR within and across Member States as well as across time. It abstracts from difficulties linked to implementation of various types of reforms, including the electoral cycle. In line with the Commission approach, we also exclude the 2021 CSR from our analysis.

Figure 1: Implementation of all CSRs for the period 2012-2023 based on the annual assessments



Source: Commission's CeSaR database.

Note: Figures on the implementation of all CSRs for the period 2012-2023 based on the annual assessment of the European Commission.

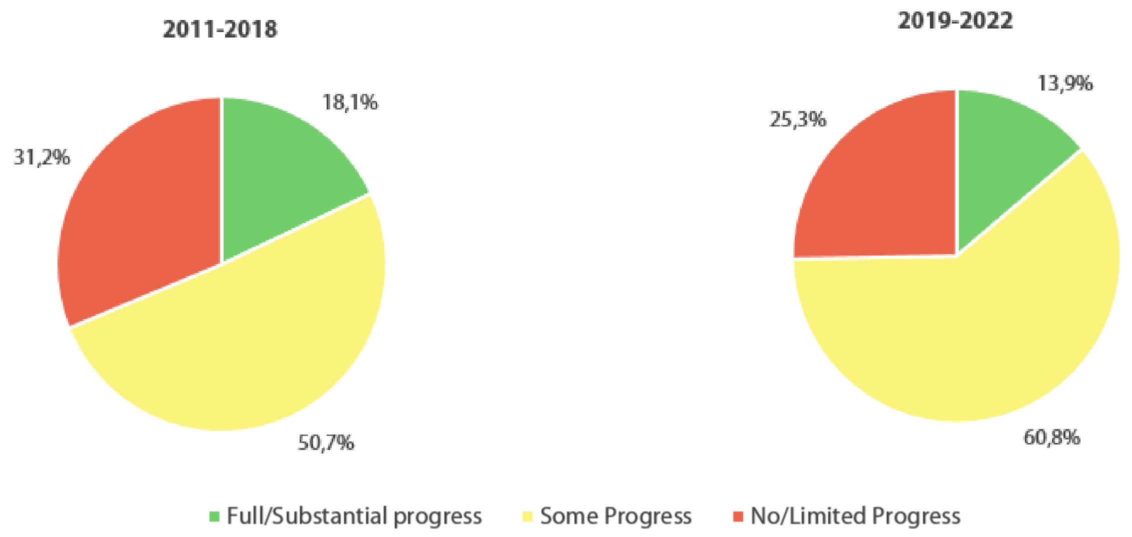
By replicating the multiannual assessment of the Commission, it is possible to compare CSR implementation between the two periods 2011-18 and 2019-22. The choice of the two periods mirrors the approach adopted by the Commission and allows to assess whether the RRF has played a role in the delivery of CSRs as claimed in the Communication on the 2024 Spring Semester Package. The methodology follows the same approach used for the annual assessments (i.e.

[3] One recommendation often tackles policy challenges in several areas (sub-recommendations).

[4] One may note that in the 2024 cycle, in light of the reform of the economic governance framework there is no more an explicit reference to the SGP in CSRs related to the fiscal policy (CSR1).

exclusion of 2021 CSR, aggregation at the level of assessment as a whole, application of identical weights).

Figure 2: Implementation of all CSRs for the period 2011-2018 and 2019-2023 based on the multiannual assessments



Source: Commission's CeSaR database.

Note: Figures tracking and comparing the assessment of all CSR for the two periods 2011-2018 and 2019-2023 based on the multiannual assessments of the Commission. I.e. version 2024-Semester Cycle and version 2021-Semester Cycle.

Overall, **it is difficult to see any significant difference in implementation progress between the two periods (Figure 2).** For the period 2011-18, roughly 69% of CSRs are assessed as having at least some progress in implementation. This proportion raises by roughly 6 percentage points to approximately 75% for the 2019-22 period. However, the share of recommendation for which full or substantial implementation has been achieved ultimately drops from 18.1% for the 2011-18 period to 2019-22 period.

Although our results (74%) broadly coincide and are slightly more positive than the official Commission figures (71%) in the Communication, it **remains in our view unclear whether the marginal improvement can be really be attributed to the RRF** or simply to the less demanding CSRs issued in 2019 and 2020. In any case, given that the rates of implementation are not that distant from each other, as the improvement between the two periods is roughly 9%, we would tend to **caution against an extremely optimistic view on the role of the RRF in accelerating implementation of CSRs**.

2. CSRs during pandemic times

A major stimulus for the promotion of CSR-related policies has been the establishment of the RRF, which included obligations to ensure that the national Recovery and Resilience Plans (RRPs) would deliver on 2019 and 2020 CSRs. The **RRF has often been claimed as a success by the Commission in promoting the implementation of the CSRs**. In its latest Communication accompanying the European Semester Spring Package 2024, the Commission praised the role of the RRF in accelerating progress on the CSRs issued between 2019 and 2022 from a multiannual perspective.

Box: Multiannual assessments and transparency

The use of multiannual assessment was introduced by the Commission in 2017 and has been noted to lead to a more favourable picture of CSRs implementation than the reliance on an annual assessment. This follows the logic that important reforms might require time to be fully rolled out.

The Commission has repeatedly stressed that CSRs are focused on reform steps that can be implemented within 12-18 months. Under the current setup of the European Semester, they are proposed by the Commission in May, before being adopted by the Council in July (of year *t*). However, their implementation is assessed already in February (of year *t+1*), namely after a period of only eight months. This is one of the factors that currently generates, *ceteris paribus*, a downward bias in the "yearly" assessment of implementation of CSRs as adopted in the previous year and is a reason why the multiannual approach might seem more appropriate. Yet, on the other hand, the multiannual approach may introduce an upward bias in the results, since one can expect that some action is taken on a majority of recommendations over a sufficiently long period. In the case of multiannual assessment, one would also need to take into account that the CSRs may not be identical each year, which makes the assessment from a multiannual perspective complicated.

Following criticism from the **European Court of Auditors** in 2020 on the lack of a publicly available database on the methodology underpinning the multiannual assessments and on the assessments themselves, the Commission has now made available its CeSaR database.

In terms of its multiannual assessment, the Commission notes that: *"**at least some progress has been achieved for 71% of the 2019-2022 CSRs** (...) Compared to [the 2023] assessment, significant additional progress has been achieved on both 2019 and 2020 CSRs"* with 75% of them showing at least some progress of implementation, up from 68% the year before. In the Commission's view, this is indicative, of the **role of the RRF in accelerating CSR policy action, which "*is expected to further reinforce CSR implementation as additional reforms and investments in the RRPs are undertaken*"**.

In terms of the annual assessment, the Commission suggests that there has been substantial progress, with Member States achieving at least some progress on approximately 59% of the recommendations issued in July 2023. **As mentioned in the introduction, one of course need to have a closer look on how prescriptive the 2023 recommendation where.**

Following the **2024 revision of the EU economic governance framework**, Member States' national medium-term fiscal-structural plans will have to explain how each country is delivering *"reforms and investments responding to the main challenges identified in the context of the European Semester, in particular in the country-specific recommendations"* as well as "*describe the action of the Member State concerned to address the country-specific recommendations addressed to it that are* *relevant for the macroeconomic imbalances procedure"*[5]. Similarly, should a Member State request an extension of its fiscal adjustment period, then the underpinning reforms and investments should be addressing its CSRs[6].

A recent paper by [Bruegel](#) has challenged the idea that the RRF has promoted the implementation of CSRs. The authors point to the fact that the improvement of the implementation rate for 2019-2020 CSRs might have to do more with the **easier recommendations that were issued to Member States:** "*some of the recommendations were relatively easy to comply with, because they required what countries were doing anyway: address the adverse impact of the pandemic"*. The authors continue by claiming that there was no overall improvement in challenging reform areas for which implementation rates were low already before the pandemic and claim that the implementation of the 2022-2023 CSRs remain low.

Criticism had also emerged from the **European Court of Auditors, which in 2022 issued a special report pointing to gaps in how RRPs address CSRs.** Bruegel concludes that "*there were hardly any changes in the low implementation rates of other areas [than fiscal policies and business environment] necessitating difficult structural reforms, including labour market, governance and taxation"*.

In a way, this conclusion is aligned with what the Commission has indicated in the Communication on the 2024 Spring Package, where it highlighted to the **uneven implementation in different policy areas:** *"[O]verall most progress has been achieved on budgetary framework and fiscal governance, followed by business environment, energy efficiency, renewable energy, energy infrastructure and networks. By contrast, less progress has been made in addressing recommendations on taxation policy"*. This seems to back the claim by Bruegel that the lion's share of advancements in implementation rate is in the remit of the fiscal policy recommendation (during times of the general escape clause of the SGP) and in the improvement of the business environment.

Contact: egov@ep.europa.eu

This document is available on the internet at: www.europarl.europa.eu/supporting-analyses

[5] Article 13 of the new preventive arm regulation.
[6] Article 14 of the new preventive arm regulation.