IN-DEPTH ANALYSIS

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EGOV

ECONOMIC GOVERNANCE AND EMU SCRUTINY UNIT

ECONOMIC GOVERNANCE

Implementation of the 2023 Euro Area Recommendations

This note provides an overview of the implementation of the 2023 Recommendation on the economic policy of the euro area proposed by the Commission and agreed by the Council. It makes use of public information and proxies such as on how the Eurogroup has integrated euro area recommendations' concerns in their "thematic discussions" and work programmes. This note will be updated in light of relevant developments.

The Recommendation on the economic policy of the euro area (Euro Area Recommendation, EAR) assesses the economic policy of the euro area as a whole with the goal of providing orientations to Member States on issues of "common concern" relevant for the functioning of the entire economic and monetary union (e.g. common fiscal stance, completion of the Banking Union).

Annually, as part of the so-called "Autumn Package" of the European Semester, the EAR is issued by the Council on proposal of the Commission (under Articles 136 and 121(2) of the Treaty on the Functioning of the European Union, TFEU). Notwithstanding the coordination at European level, most of the actions are implemented by Member States at national level. Euro area countries are thus expected to reflect the EAR in their Stability Programmes and National Reform Programmes, in the implementation of their country-specific recommendations (CSRs) and, more recently, in their national Recovery and Resilience Plans (RRPs).

While the Commission, the Council and the Eurogroup (EG) can be seen as responsible for the monitoring of the follow-up to the EAR, the European Parliament exercises its scrutiny mandate particularly through Economic Dialogues, resolutions or regular requests for external research papers on the European Semester.

At euro area level, while there is no body formally responsible for the implementation of the EAR nor there exists any mechanism to ensure enforcement, the Eurogroup has an important role by being the *de facto* coordinating body for economic policies in the euro area. It thus takes into account the EAR both in the definition of its work programme as well as in its "thematic discussions". Therefore, as proxies to understand what has been done following the adoption of the EAR, the main public sources today are (a) publicly

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available information on EG discussions, (b) Commission's staff analyses relating to the Semester, (c) the Commission's CeSaR database providing an overview of progress in implementation of EAR-relevant CSRs. For a separate overview of the institutional role of the EAR, please see separate EGOV document.

Box 1: Overview of the 2023 EAR

The 2023 EAR addresses mainly five areas:

- **Fiscal policies and inflation (EAR 1)**, suggesting to avoid a broad-based stimulus to instead focus on targeted policies to cushion the impact of higher energy prices on vulnerable households and firms; promoting a two-tier pricing model for energy. It also recommends to reflect on reducing support once energy price pressures fade away. It calls for continued coordination among Member States' fiscal policies with a view of ensuring debt sustainability and support return to the 2% inflation target in the medium-term;
- **Structural policies (EAR 2),** calling for high level of public investments and encouraging private developments in support of the green and digital transitions, particularly to improve energy efficiency and facilitate the shift towards renewables. It lists REPowerEU as well as national energy and climate plans as the channels to boost the energy transition and achieve energy independence at EU level. Finally, it calls for the timely implementation of cohesion policy programmes and RRPs, with a view of "ensuring the timely delivery of reforms and investments";
- **Labour markets (EAR 3),** focusing on supporting wage developments to address the loss in purchasing powers, in particular for low-income workers. At the same time, the Council emphasises the need to prevent second-round effects. It recommends further work to adapt social support systems to help vulnerable households address the energy crisis and the twin transitions. Lastly, it calls for further development of skills, effective participation of social partners in policy-making and improved social dialogue;
- **Internal market (EAR 4),** recommending that support for corporates in the energy crisis remains "cost-effective, temporary and targeted", offers incentives to transition towards renewable energy and improves energy efficiency. It emphasises the need to avoid competitive distortions in the single market and identifies the Temporary State aid Crisis Framework as a way to maintain a level playing field. The recommendation continues to call for improvements in the efficiency of insolvency frameworks and in the business environment as well as for advancements towards the Capital Markets Union (CMU).
- **Financial markets (EAR 5),** emphasising the need to prevent fragmentation and maintain credit channels. It urges to monitor negative developments in the energy sector, vulnerabilities in the real estate market, tightening of financial conditions, possible changes in non-performing assets and private indebtedness levels. It highlights the role of the proposal on the reform of bank crisis management and deposit insurance framework (CMDI) for the completion of the Banking Union while recommending that Member States continue to engage in the preliminary work for the issuance of a digital euro.

The following sections present how the EG discussions reflect the 2023 EAR (section 1), how the Commission assessed its implementation (section 2), a comparison between the Commission analysis and Eurogroup discussions (section 3) and EGOV's assessment on implementation in the period 2019-22 based on the Commission's data (section 4).

1. Eurogroup's discussions

To find out how the EAR 2023 have been implemented, it is possible to evaluate the extent to which its policy areas were addressed by the EG through a review of the summaries and conclusions of their debates, taking into account the EG work programme. The EP's Euro Area Recommendation Dashboard comprises the most relevant of such summaries and conclusions for the past five years as published by the EG; the main elements for 2023 are summarised below.

Box 2: Eurogroup work programme for 2023

The **Eurogroup work programme** for 2023 continued on the track set in the second half of 2022 by pivoting around three main areas: economic and fiscal policy, EMU deepening and the euro as a digital and reserve currency.

The work programme until July 2023 focused on the following priorities:

- **Economic and fiscal policies to tackle economic challenges**: The EG committed to closely monitor economic and financial developments of the EA economy in light of the geopolitical and economic developments following the Russian war against Ukraine. It engaged to deliver a determined and agile economic policy response including via a close coordination of national policies on the appropriate fiscal policy in the EA. It also underlined the importance of discussing relevant euro area aspects of the economic governance reform (EGR) and to help building broad-based consensus amongst Member States and institutions. It also outlined its intention to continue assessing the inflation development and to avoid distortions due to the uneven impact of the energy price shocks in the EA.
- **Deepening the EMU:** The EG underlined its readiness to work towards further progress on the completion of the Banking Union and deepening the CMU. Based on the EG statement adopted in June 2022, it committed to discuss the (then-forthcoming) Commission proposals on the review of the framework for bank crisis management and national deposit guarantee schemes (CMDI).
- **The euro as a digital and international reserve currency**: The EG would revert to this topic regularly as the project advanced towards the decision to proceed to the implementation phase by the end of 2023. In full respect of the institutional roles and mandates of all actors, it committed to regularly take stock of the work of the investigative phase by the ECB and on the future legislative proposals by the Commission. It would also focus on monitoring the plans and actions of non-euro area Member States on the introduction of the euro and offer its support and guidance.

The **Eurogroup priority areas until March 2024** are broadly in line with those identified for the first semester of 2023. The work programme until March 2024 continued to focus on:

- **Fiscal and economic policy coordination:** The EG committed to coordinate fiscal policies, also against the backdrop of monetary policy normalisation, to promote a consistent policy mix. The focus shifted on achieving a more prudent fiscal stance, promoting the withdrawal of energy support measures, starting with the less targeted, and continuing to coordinate action in this area during the winter to avoid competitive distortions. The EG indicated that it would continue to discuss the adequate euro area fiscal stance to avoid undermining monetary policy, particularly by means of coordinating draft budgetary plans. It also continued to monitor inflation developments, especially core, and differentials among countries, its impact on public finance and uneven energy price shocks.
- **Deepening the EMU:** The EG would continue to assess the state of the Banking Union and "*ensure progress continues to be made in line with the June 2022 statement"* while seeking to identify measures to strengthen other elements and work towards completion. It also committed to monitor developments in financial markets. In its inclusive format, it would work to develop a medium-term strategic vision for the future of the European capital and financial markets, with a view of involving policymakers and market participants. In laying down this commitment, it indicated that it would assess gaps in the legal framework to identify the priorities for the next legislative cycle.
- **The euro as a digital and international currency:** The EG would continue working on the digital euro and, should the ECB's Governing Council decide to move forward with the next phase of the project, it indicated its intention to continue engaging on the political dimension. It also reiterated its commitment to follow-up on the workstream on a stronger international role of the euro and monitor exchange rate developments in 2023. As financial stability and global economic developments remain key priorities, the EG sought to contribute to international discussions, e.g. G7 meetings, by coordinating the euro area's position. It would continue to assess the plans and actions of non-euro area Member States to adopt the euro.

The work programme for the first half of 2024 remains broadly aligned with the three key policy areas outlined above.

The EG adopted its work programme for the first half of 2023 on December 2022 and for the second half of the year in June 2023. This usual bi-annual adoption of work programmes better caters for evolving conditions.

While throughout 2023 the EG kept focusing on the same three priority areas (fiscal coordination, EMU deepening and strengthening the role of the euro), it is possible to note **a shift in narrative over the second half of the year**. As the euro area economy moved from grappling with still high inflation and the energy price shock to the tightening of the fiscal stance, finance ministers also gradually shifted their focus from responding to existing challenges to **normalisation of the fiscal policy**. The priorities for the second half of 2023 were also heavily shaped by **further uncertainty in relation to geopolitical and inflation-related factors affecting the economic outlook**. The return to normal times multilateral fiscal surveillance with the de-activation of the general escape clause of the Stability and Growth Pact in 2024, in the context of discussions on the overarching reform of the EU's economic governance framework, have further strengthened the focus on normalisation of fiscal policy and further coordination.

On the financial stability side, the first months of 2023 were characterised by the need to address potential spillovers from the banking turmoil in the US and Switzerland. **As monetary policy normalisation advanced, the need became evident to careful monitor of financial market dynamics,** also against the backdrop of the publication in April 2023 of the Commission's CMDI proposal. While discussions on the completion of the Banking Union took a backseat by merely focusing on the pending ratification of the ESM Treaty in Italy finance ministers started to shift their work towards outlining "strategic vision for the future of the European capital and financial markets".

This momentum behind the CMU as a key funding tool for EU's growth ambition is linked to the broader debate on competitiveness, which has become a predominant topic of EG discussions. On the fiscal side, this has been tackled by ensuring that fiscal measures avoid distortions of the Single Market and by ad hoc discussions in the last months of the year. This is in line with the overall narrative on competitiveness at EU level, which is currently a dominant feature of the work programme of several European institutions. The mandates to report on the Single Market and on the EU's competitiveness more broadly assigned to former Italian Prime Ministers Enrico Letta and Mario Draghi represent the most concrete materialisation of this new focus. Moving forward, this is expected to remain a key area of work at euro area level, as further highlighted by the (draft) 2024 EAR.

Looking at the implementation of the 2023 EAR more specifically:

- **The EG has discussed intensively fiscal measures (EAR1) to address the economic challenges**. Noteworthy topics included addressing inflationary pressures while maintaining fiscal space, coordinating support measures for households and firms amidst the energy crisis, and emphasising the need for sound public finances and fiscal consolidation. Ministers highlighted the importance of withdrawing energy support gradually and tightening the fiscal stance, while endorsing policies aimed at enhancing competitiveness and investment.
- The **internal market (EAR4) emerged as a key area of work for euro area finance ministers,** with discussion addressing not only the risk of competitive distortions, particularly from energy crisis support measures, but particularly focusing on unlocking additional sources of funding for euro area competitiveness. Ministers started to work on a blueprint of initiatives to advance the CMU. They have called for initiatives to expand the scale and depth of the Single Market (including in the energy and banking field) while also supporting a coordinated approach to industrial policy.
- The **financial markets recommendation (EAR 5) was largely addressed by finance ministers discussions:**

- The push to finalise the ratification of the ESM Treaty to provide a backstop to the Single Resolution Fund (SRF) as well as the exchanges on the CMDI proposal represent the core of discussions to advancing legislative efforts to strengthen the Banking Union's framework. More ambitious programmes on re-launching the work for Banking Union completion remained shelved in 2023. Nevertheless, **no concrete outcomes were reported.**
- Also in light of the March banking turmoil in the US and Switzerland, **ministers focused on risks to financial stability in the euro area, measures to enhance financial sector resilience and cooperation among financial authorities**. In this context, The EG continued to hold its bi-annual exchange of views with the Chair of the ECB's Supervisory Board, Andrea Enria, and with the Chair of the Single Resolution Board (SRB), Dominique Laboureix.
- The **discussions on the digital euro continued extensively**, representing de facto one of the main areas of work of the EG. Throughout the year, ministers discussed various aspects, seeking to provide input to the ECB. Ultimately, the EG welcomed the ECB's decision to advance to the exploration phase of the digital euro, reaffirming its commitment to providing strategic direction to future development.

• It is possible to note a much **lower degree of engagement on discussions on structural policies (EAR 2)** as well as on **social policies and labour markets (EAR 3)**.

Table 1: Overview of EAR discussions in the Eurogroup in 2023

	Eurogroup discussions in 2023											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug[1]	Sep	Oct	Nov	Dec
Fiscal policies (EAR 1)												
Green and digital agendas (EAR 2)												
Social policies and labour markets (EAR 3)												
Internal market and divergences (EAR 4)												
Banking Union (EAR 5)												
Financial Stability (EAR 5)												
CMU (EAR 4)												
EMU deepening and international role of the euro (EAR 1 and EAR 5)												

Source: EGOV's own elaboration. Please refer to [The Euro Area Recommendation Dashboard] for additional details.

Note: A green cell implies that a discussion was held at the corresponding Eurogroup meetings. The reference date for Eurogroup action is January 2023 to December 2023; nevertheless, the final reference date for the 2023 EAR is May 2023 (date of publication in the Official Journal - OJ C 180, 23.5.2023). The split of EAR in subcategories aims to better categorise Eurogroup action and is based

[1] No Eurogroup meetings were held in August

on EGOV assessment, taking into account the various subjects reflected in each EAR. Eurogroup meetings in inclusive format are also taken into account.

2. Analysis by the Commission services

The Commission follows up on the previous year EAR in the recitals for the new EAR and in the SWD that accompanies the new cycle-EAR. Such elements provide a background analysis of developments in the euro area and constitute the underpinning of the new cycle-EAR. Insofar the recommendations on deepening the EMU and Banking Union refer to European policies, there is still a European interest (and rationale) for the Commission to assess progress on a yearly basis, despite the fact that most EAR are to be implemented through national policies.

The **SWD accompanying the 2024 EAR proposal continues with the qualitative approach as in previous years**. The approach assesses progress at national level on the implementation of "EAR-relevant" country-specific recommendations (CSRs) of the Semester cycles between 2019 and 2022, i.e. with relevance from a euro area dimension, as a proxy for the implementation of the EAR 2023. We discuss in more detail in the next section a number of shortcomings of this approach.

The Commission indicates that there is a variation in the degree of implementation of different recommendations, in particular looking at implementation in the areas of the twin transitions of green, digital and labour markets in 2023. Overall, the SWD notes that in spite of progress in the implementation of recommendations, this varies across policy areas:

- **Fiscal policy measures (EAR 1) exhibit moderate progress overall**. However, there is a noticeable lower level of implementation specifically in the sustainability of public finances;
- **Investment for twin transitions and energy independence (EAR 2) sees some progress** across most sub-CSRs, yet only 14% show full implementation or substantial progress. The SWD indicates that progress for the EAR 2 is largely due to the implementation of the RRF in Member States.
- **EAR 3 regarding labour market, including wages developments and social policy, shows an overall good progress** yet reforms in these areas are rather slow with only 15% of them having recorded "substantial progress" in the past 3 years.
- **Corporate support reforms (EAR 4) are generally well implemented,** although proposed in fewer Member States. These reforms primarily comprise of liquidity assistance for companies, especially SMEs, and measures to improve the business environment;
- **Progress in the area of macro-financial stability, monitoring banking asset quality, non-performing loans, the completion of the banking union, and work on the digital euro (EAR 5) is relatively limited**, with only a few sub-CSRs addressing these issues.

Annex 3 in the SWD accompanying the 2024 EAR proposal also looks at the role of the RRF in implementing the EAR and addressing euro area priorities. Overall, the SWD notes that the national recovery and resilience plans (RRPs) *"appears to be broadly on track"*. In particular, the SWD indicates that roughly 40% of the milestones and targets corresponding to reforms to be implemented between 2021 and 2026 cover the 2023 EAR. For investments, this ratio rises to 44%. Once again, the coverage is heterogeneous with the RRF particularly contributing to the fiscal (EAR1), investment/structural (EAR2) and social (EAR 3) recommendations. Measures included in national Recovery and Resilience Plans (RRPs) seem instead less targeted towards the business environment and macro-financial stability.

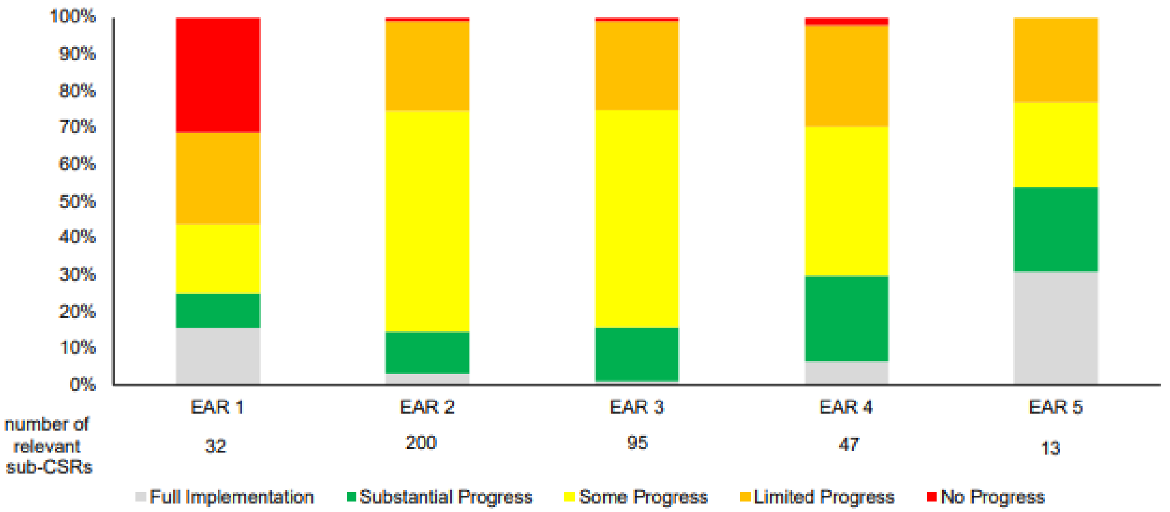
3. Comparison between the Commission analysis and Eurogroup discussions

A comparison between the Commission SWD and the review of EG discussions in 2023 show some discrepancies. While both analyses show progress on the fiscal recommendation (EAR 1) and on the internal market one (EAR 4), we see diverging assessments notably with respect to structural policies (EAR 2) and financial stability (EAR 5).

This seems due to the different metrics used to measure implementation, with the Commission assessing it by evaluating implementation of CSRs between 2019 and 2022 that are relevant for a given EAR in 2023. One could note the **very limited progress at country-level on financial stability**, with merely 13 CSRs covering EAR 5, reflecting potentially that **the bulk of coordination in this area takes place at euro area level**. The outcome of EG discussions thus seems a better measure of success of implementation in this area.

The implementation of **structural reforms takes place primarily at the national level**, having then broader resonance at aggregate euro area level. This might explain the difference, with the Commission noting "some" to "limited" progress in this area whereas the EG discussions indicated only "very limited" engagement in the matter.

Figure 1: Implementation of EAR-relevant CSRs in 2023 by Commission services



Source: European Commission analysis based on CeSaR Database, SWD accompanying the 2024 EAR proposal

Note: The graph includes CSRs from years 2019-2022. Analysis at sub-CSR level. Sub-CSRs for 2019, 2020 and 2022 are grouped according to 2023 EAR.

One could however **question whether looking at the implementation of structural reforms at national level on the aggregate period of 2019-2022**, as per the Commission's assessment**, is the most adequate way to capture how in the EAR has been effectively implemented in a given year.** The Commission, in the SWD accompanying the 2024 draft EAR, states that "*Progress in the implementation of EAR-relevant CSRs of recent semester cycles (2019-2022) provides an estimate of the degree of implementation of the EARs*." This is true but only for the whole period (i.e. 2019-2022 period) rather than for the 2023 Semester cycle. Additionally, no data is provided for the 2023 round. The SWD analysis is nonetheless based on this assumption and ultimately suggests that countries are generally making satisfactory progress across EARs (see **Figure 1**). However, the Commission's assessment aggregates CSRs spanning over a volatile period of four years to make a proxy for the implementation in one single year, therefore making it difficult to track progress. In addition, no country-level figures are provided to evaluate implementation across countries.

The Commission's CeSaR Database itself explains that a CSR (or a subset of it) can be mapped against a subpart of the EAR according to the following classification *"2016 CSRs are linked to EAR proposed by the Commission in November 2015, 2017 CSRs with November 2016 EAR, etc. The tagging only applies to euro area Member States"*. This specification in itself allows to **question the Commission's approach in the SWD accompanying the 2024 EAR proposal**.

4. Complementing the analysis on the implementation of the EAR

The **following section attempts to respond to the inconsistencies identified in the Commission's assessment**. It is our view that the methodology employed by the Commission is of limited value in light of their own scoring of the data and by the use of an aggregate of past years' observations to make an inference on a specific point in time. In particular, according to the Commission's own classification, **the current database does not allow to draw conclusion on the implementation of the 2023 EAR on the basis of relevant CSRs** as such information is not available at the time of writing (March 2024).

The database allows instead to merely observe for each year for the same country, whether a CSR relevant to the corresponding EAR cycle has been implemented and the extent to which this has been implemented. This means that it is possible to define an alternative, replicable methodology to that employed by the Commission that would allow to **(i) assess the evolution of the trend of EAR implementation over time and (ii) track the implementation of relevant CSRs in a given year against the EAR for that year.**

The following analysis therefore evaluates:

(i) **How the EAR has been implemented in the current legislative cycle from 2019 until 2022** (last year for which observations are available) by looking at the aggregate progress over time, and

(ii) **How the 2022 EAR has been implemented based on progress in tackling relevant CSRs of the 2022** Semester cycle.

Our analysis also takes a country-specific approach as well as an aggregate perspective to identify the policy areas in which more progress has been achieved.

At the light of the above, we attempt to bridge the gap between the descriptive assessment of EG discussions and the quantitative approach that has been attempted, with shortcomings, by the Commission.

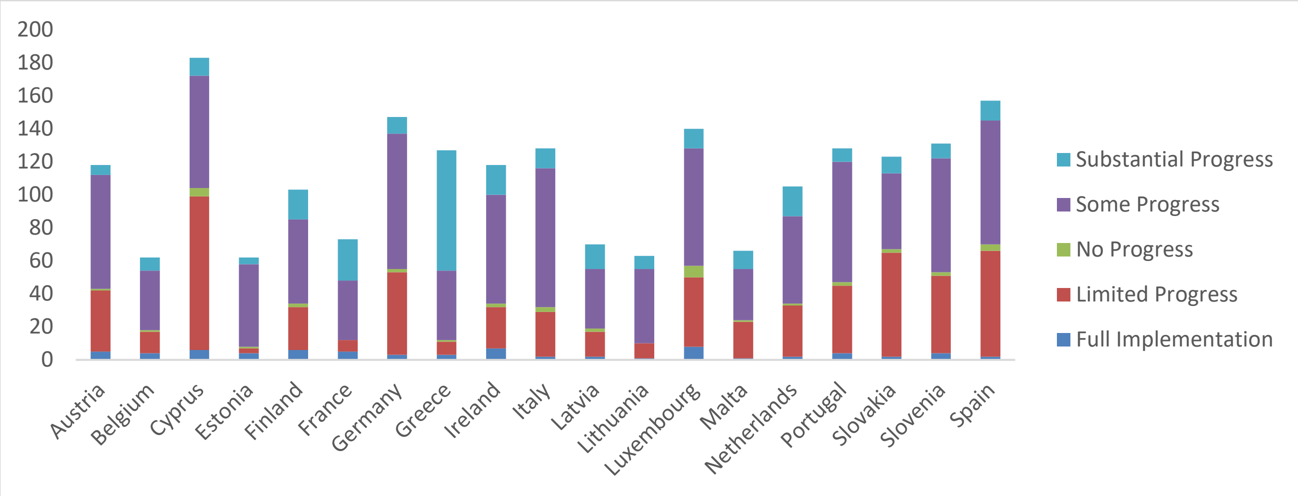
4.1. Progress in EAR implementation between 2019 and 2022

Figure 2 and **Figure 3** present progress in implementation at country-level of EAR-relevant CSRs between 2019 and 2022.

Overall, the figures show a **broad disparity across the euro area in both the number of CSRs implemented and the degree of implementatio**n. By aggregating the data, it is also possible to note that **most countries display some progress in implementation but for very few observation full implementation is recorded**. This covers only 71 sub-recommendations, roughly 3.4% of the total recommendations issued in this period. Progress in implementation is heavily skewed towards lower levels in implementation, with "limited progress" and "some progress" covering more than 80% of the recommendations issued.

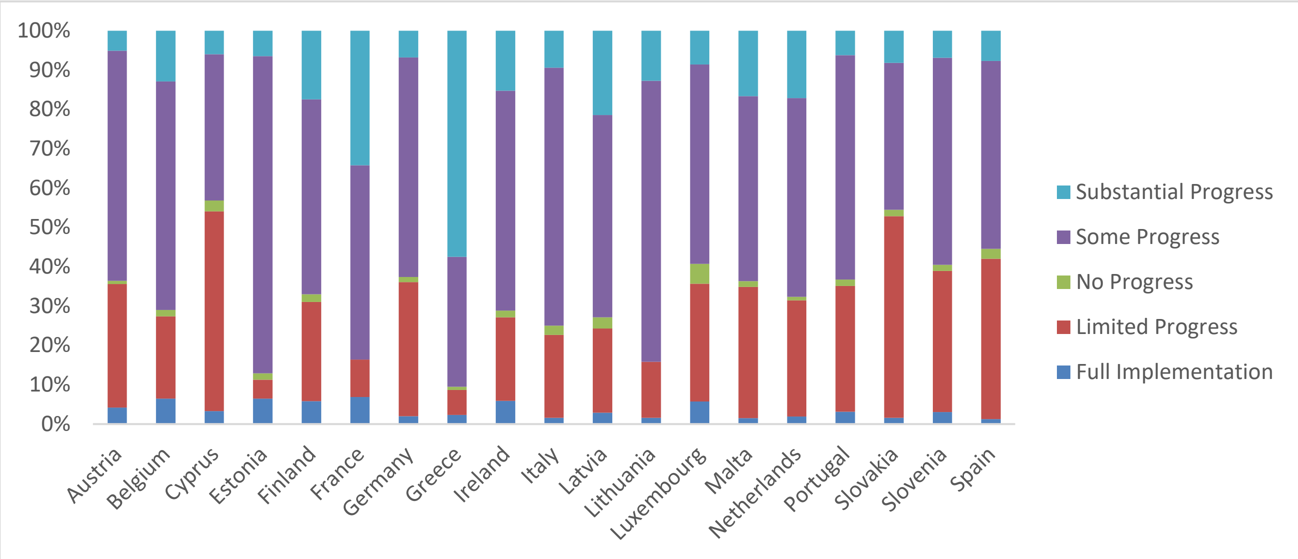
It is also possible to note the **broad variance in terms of the number of EAR-relevant recommendations for Member States,** with Belgium, Estonia and Lithuania being subject to the lowest number of recommendations Cyprus, Spain and Germany are instead the Member States with more recommendations issued.

Figure 2: Country-level implementation of EAR-relevant CSRs (2019-2022), absolute terms



Source: EGOV's own elaboration based on the [CeSaR database]

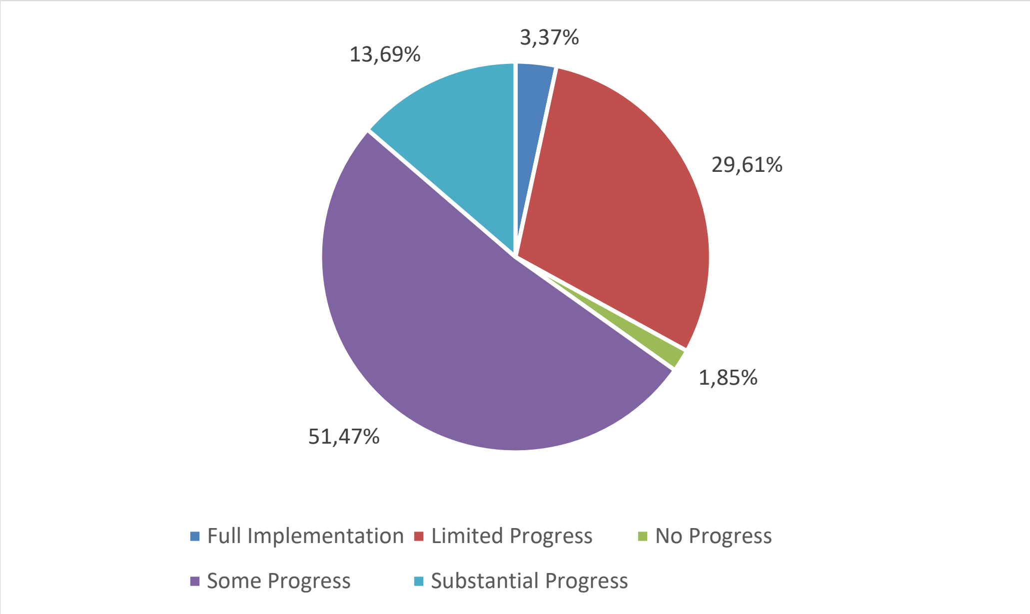
Figure 3: Country-level implementation of EAR-relevant CSRs (2019-2022), relative terms



Source: EGOV's own elaboration based on the [CeSaR database]

Over the last legislative term, **Greece outperformed other Member States in terms of implementation of the CSRs with roughly having 93% of recommendations addressed to it showing high levels of implementation** (i.e. excluding limited progress and no implementation). The value is even more relevant if considering that about 58% of the EAR-relevant CSRs addressed to Greece show substantial progress in implementation. **France and Lithuania also show high degrees of implementation though levels of full and substantial implementation remain much lower than Greece** (in the case of France slightly more than one third of EAR relevant CSRs show substantial progress). The two countries, however, are the only ones in the euro area that have not failed in having any form progress in CSRs in this timeframe. Overall, highest levels of full implementation are recorded in France (6.85%), Belgium (6.45%) and Estonia (6.45%).

Figure 4: Degree of implementation of EAR-relevant CSRs (2019-2022)

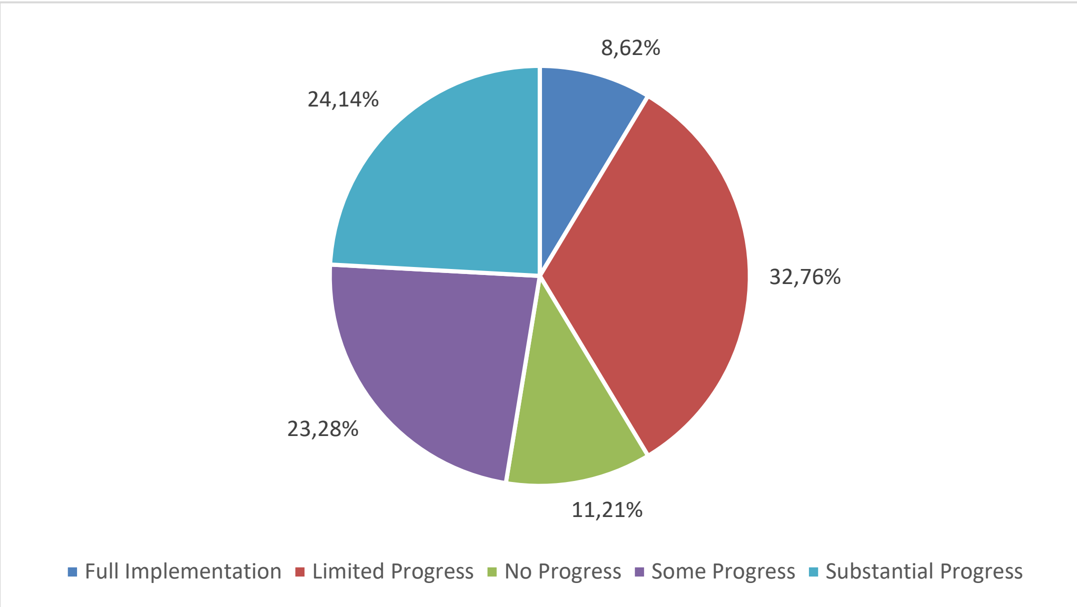


Source: EGOV's own elaboration based on the CeSaR database

4.2. The implementation of the 2022 EAR based on the 2022 CSRs

By replicating the analysis in the previous section for 2022 - the latest year for which the Commission provides data on progress in implementation - one could immediately note a **stark difference with the aggregate results,** once again pointing to a favourable bias in the Commission's methodology.

Figure 5: Degree of implementation of EAR-relevant CSRs in 2022



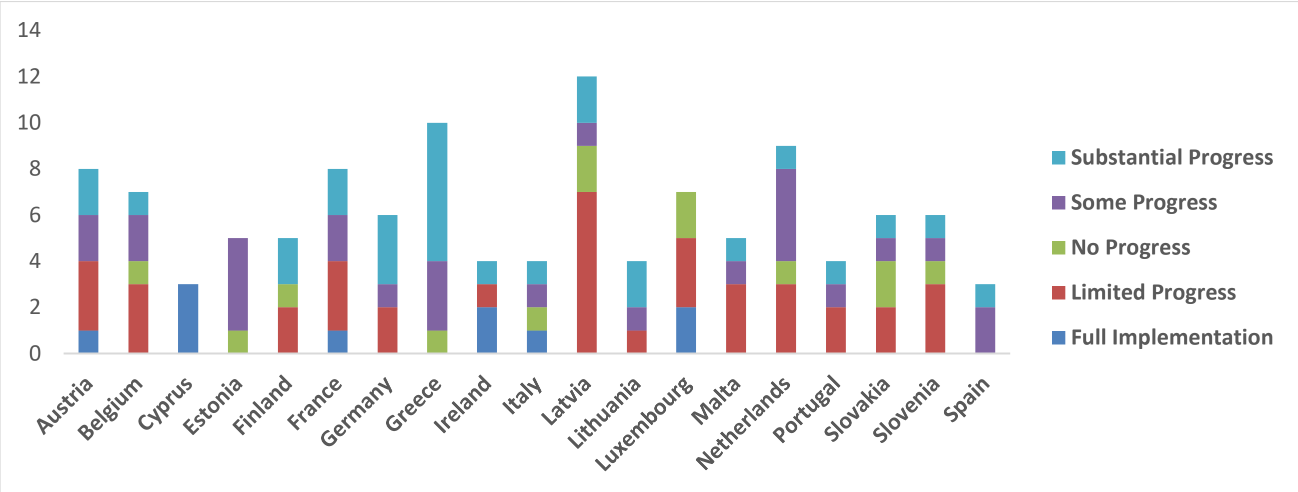
Source: EGOV's own elaboration based on the CeSaR database

Figure 5 shows the **relatively small progress in implementation in 2022 in comparison with the 2019-2022 aggregate**. The graph highlights how "limited" or "no progress" in implementation cover slightly less than half of the EAR-relevant CSRs in 2022, with one observation out of three showing only limited progress.

If the ratio of full implementation to the total seems to be increasing, one could however note **broad heterogeneity among Member States.** Only 6 Member States actually record some cases where a CSR was fully implemented, with Cyprus and Ireland having the highest levels, respectively at 100% and 50% (see **Figure 7**). However, as **Figure 6** suggests the high performance in implementation might be due to a narrower set of CSRs to be implemented, 3 in the case of Cyprus and 4 in the case of Ireland. The number of countries with no progress in implementation is jumping to 11, with the highest rates being recorded in Slovakia (33.3%), Luxembourg (28.6%) and Italy (25%). The lack of progress in Luxembourg seems however offset by the third highest rate of full implementation in the 2022 sample (28.6%).

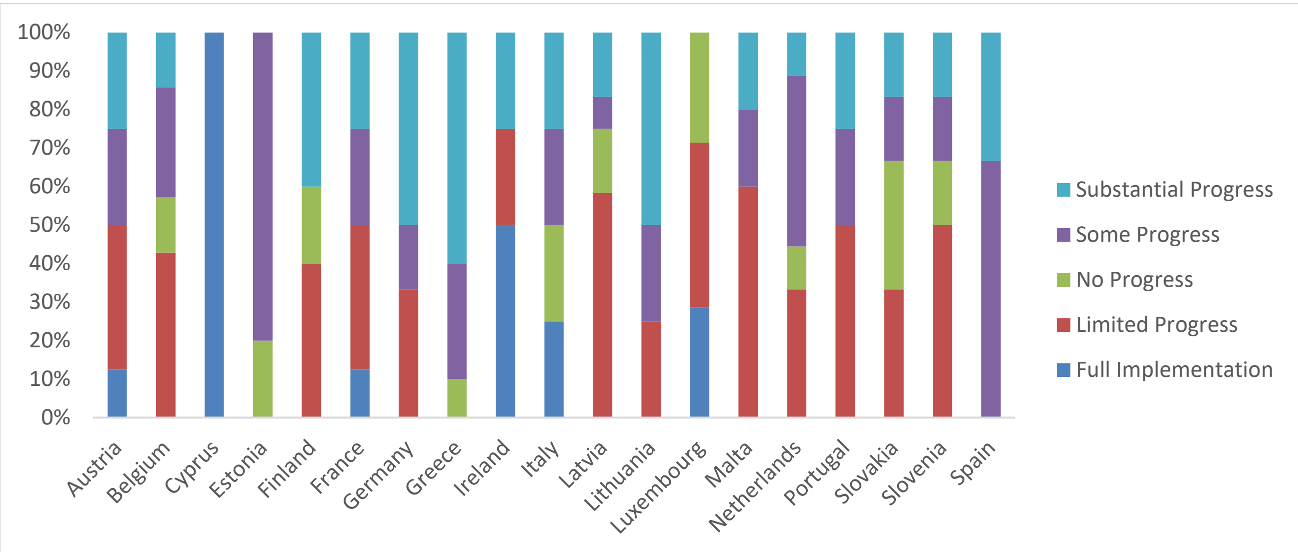
France and Greece continue to show a satisfactory performance in terms of EAR implementation, with the results being noteworthy for Greece given the relatively higher number of CSRs addressed to this country (10) in comparison to other euro area Member States. For Greece, only in one area (taxation policy) there seems to be no progress in implementation, whereas 60% of observations show substantial progress.

Figure 6: Country-level implementation of 2022 EAR based on relevant 2022 CSRs, absolute terms



Source: EGOV's own elaboration based on the [CeSaR database]

Figure 7: Country-level implementation of 2022 EAR based on relevant 2022 CSRs, relative terms



Source: EGOV's own elaboration based on the [CeSaR database]

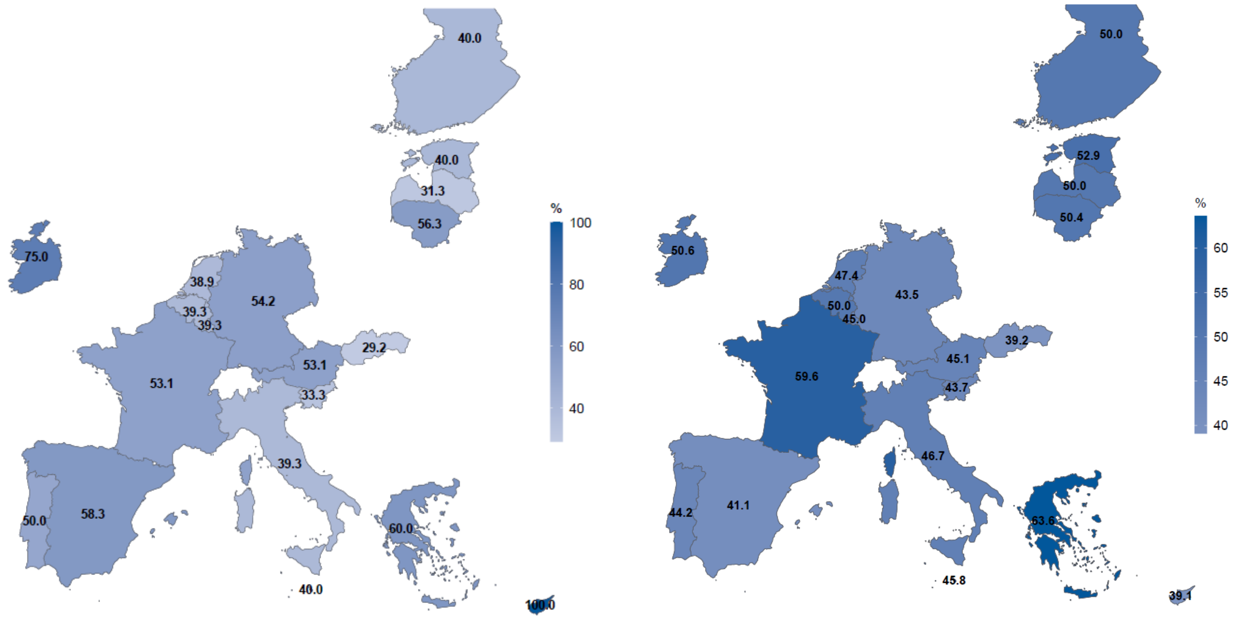
4.3. Intensity of implementation across the euro area

Finally, in order to provide an assessment on the level of implementation by each Member States, we built a measure of the degree of intensity of implementation. Such measure allows **to compare overall performance across Member States by taking into account both the number of recommendations implemented as well as the different level of progress** achieved in implementation, as assessed by the Commission. **Figure 8** shows the degree of intensity of implementation in 2019-2022 and in 2022.

For the period 2019-2022, the average intensity of implementation at euro area level is 47.8%, indicating overall unsatisfactory progress in implementation. The measure confirms Greece (63.6%) and France (59.6%) as the frontrunners in implementation. Cyprus (39.1%) and Slovakia (39.2%) are the worst-performing countries in terms of implementation.

Implementation in 2022 shows an improvement at euro area level relative to the aggregate for the 2019-2022 period, with an intensity of implementation close to 50%. Cyprus jumps to the lead with an intensity of 100% given by the full implementation of all its (three) EAR-relevant CSRs in 2023 followed by Ireland (75%). Greece continues to show a strong performance of 60%. Slovakia and Slovenia show instead a weak performance in 2022, with rates of 29.2% and 33.3% respectively.

Figure 8: Average intensity of EAR implementation across the euro area in 2022 (left) and 2019-2022 (right)



Source: EGOV's own elaboration based on the CeSaR database.

4.4. Analysis of progress in EAR implementation by sub-category

Moving from a country-specific analysis, we now assess overall progress in implementation according to each EAR sub-category. Between 2019 and 2022, the EAR has been divided in 5 subcategories (see Section 1). Overall, **Figure 9** and **Figure 11** demonstrate that:

- **EAR 1, pertaining to fiscal policy, is by far the most tackled (sub)recommendation both over the 2019-2022 period and in 2022**.
- The **number of recommendations issued and related progress in the area of structural reforms and investments (EAR 2) seems to remain constant** when comparing both the aggregate and

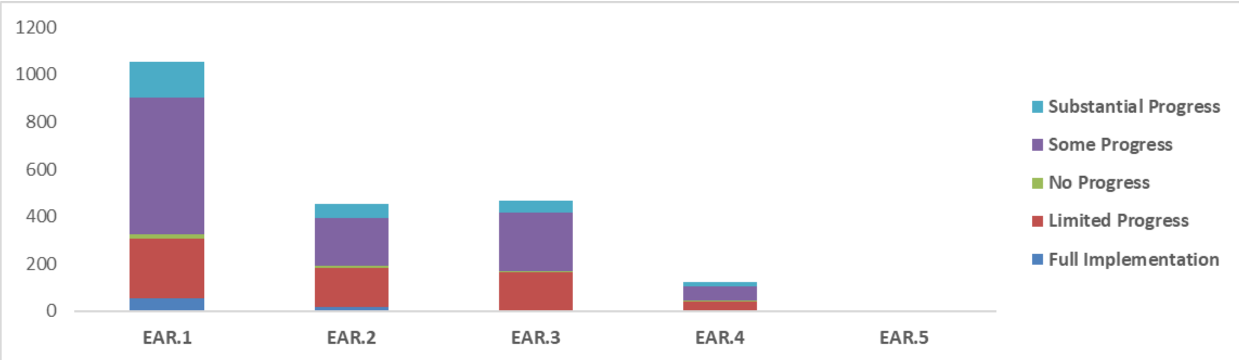
the 2022-specific observations. This seems quite interesting when compared to the trend described in Section 1 according to which this is becoming less of a focus of EG discussion.

- The **considerable lower number of social CSRs (EAR 3) tackled at national level in 2022 relative to the aggregate 2019-2022 period** seems instead consistent with the discussion that have been taken place at EG level.
- The **financial stability EAR seems to have been addressed only by 6 relevant CSRs in** the current **legislative term, with no CSRs addressing this policy area in 2022.** Even where addressed, the financial EAR still falls short from recording full progress in implementation. This might also be due to the lower role that Member States can play in this area where coordinated action at European level might be better suited to address these issues.

Please refer to the Annex for an overview of implementation across countries of the different EARs.

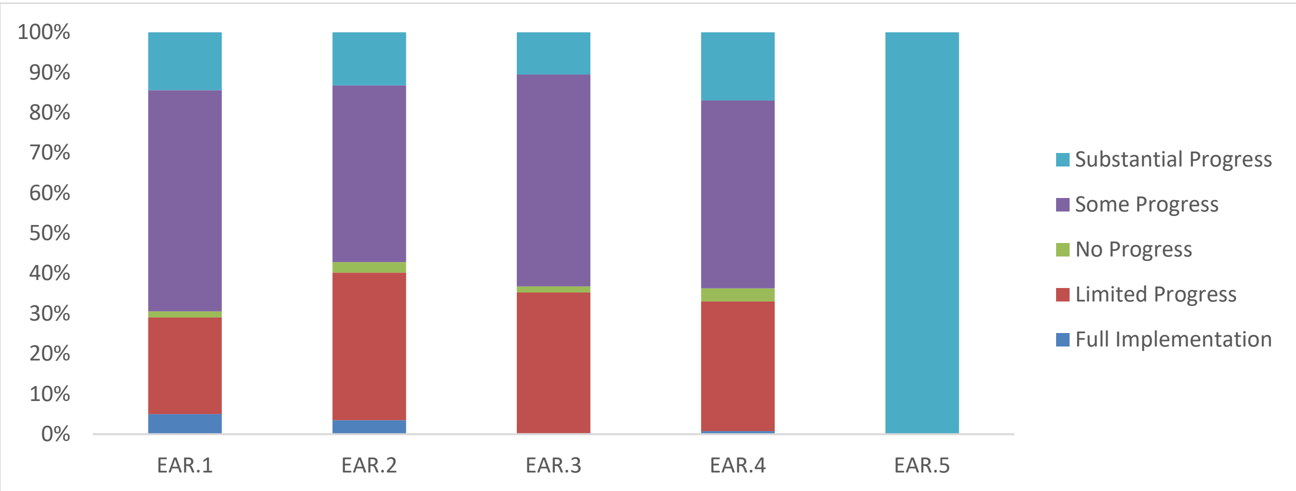
If one excludes the financial stability EAR given its outlier nature, overall it seems that progress is constant across the different categories in 2019-2022 (see **Figure 10**), with the fiscal policy EAR showing more positive progress in implementation.

Figure 9: Implementation of CSRs by relevant sub-EARs between 2019-2022, absolute terms



Source: EGOV's own elaboration based on the CeSaR database

Figure 10: Implementation of CSRs by relevant EARs between 2019-2022, relative terms

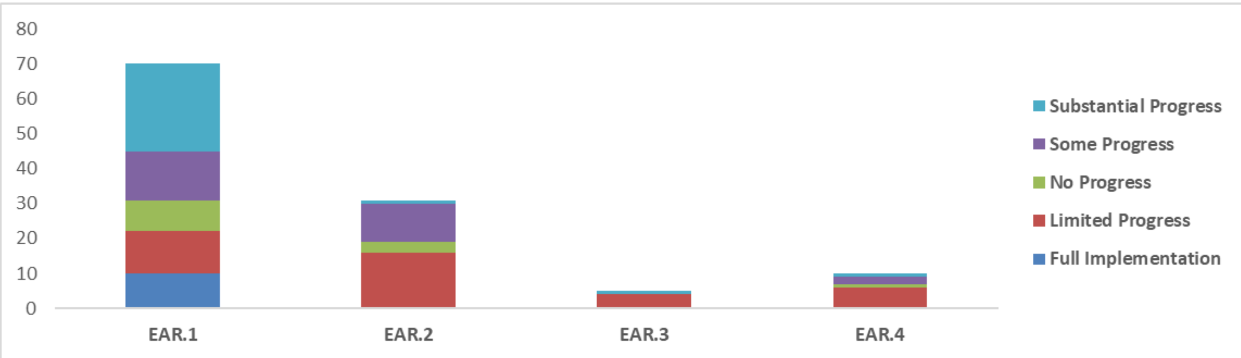


Source: EGOV's own elaboration based on the CeSaR database

When looking at implementation in 2022 alone, such constant progress in implementation disappears. **Figure 11** shows the relative difference in the degree of implementation across EAR categories in 2022. It is evident that implementation is uneven across the different policy areas, tending to show particularly dissatisfactory results in the social (EAR 3) and competitiveness (EAR 4) areas. In particular, in the area of social policy, only one recommendation out of the five showed substantial progress. All the others were characterised by limited implementation. Full implementation is registered only for the fiscal EAR, where however roughly one in three recommendations have had either no progress at all or only limited progress in 2022

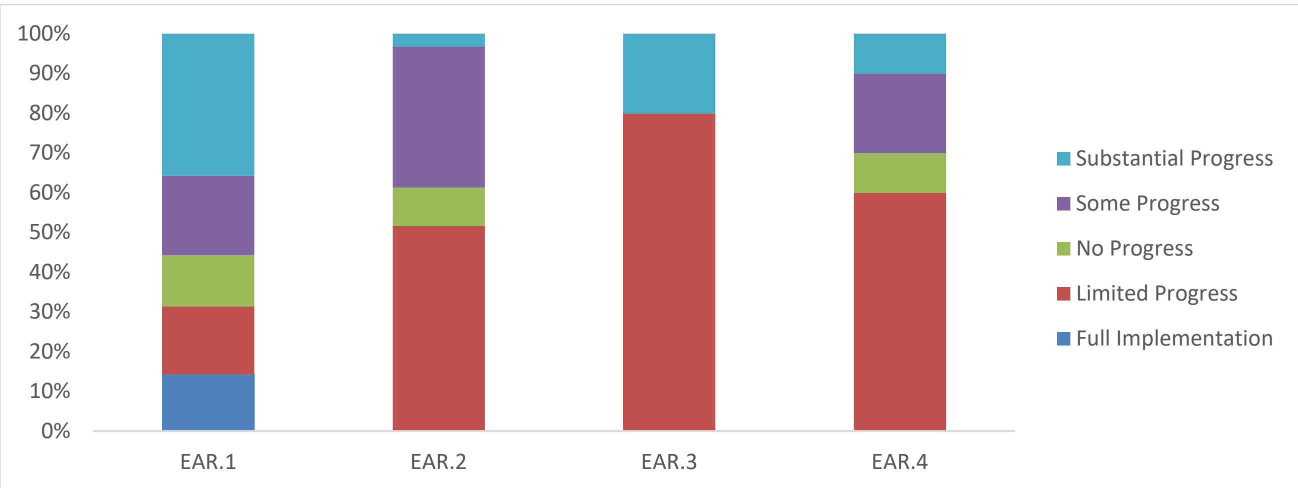
This seems to clash with the analysis of the Commission on the implementation of the 2022 EAR in 2022 outlined in the SWD accompanying the 2023 draft EAR. The Commission notably claims that "*the CSRs related to fiscal policy (EAR 1) generally show a good progress*" and *"reforms of corporate support (EAR 3) (...) have generally been well implemented"*. If some discretion could be granted in the assessment of progress on fiscal policy, it is evident from our analysis (which relies on a qualification by the Commission itself) that reforms of corporate support have not been successfully implemented in 2022. The Commission also managed to present an assessment on progress in EAR 5 in 2022 although its database shows that no relevant CSR was addressing such policy area in 2022.

Figure 11: Implementation of CSRs by relevant EARs in 2022, absolute terms



Source: EGOV's own elaboration based on the CeSaR database

Figure 12: Implementation of CSRs by relevant EARs in 2022, relative terms

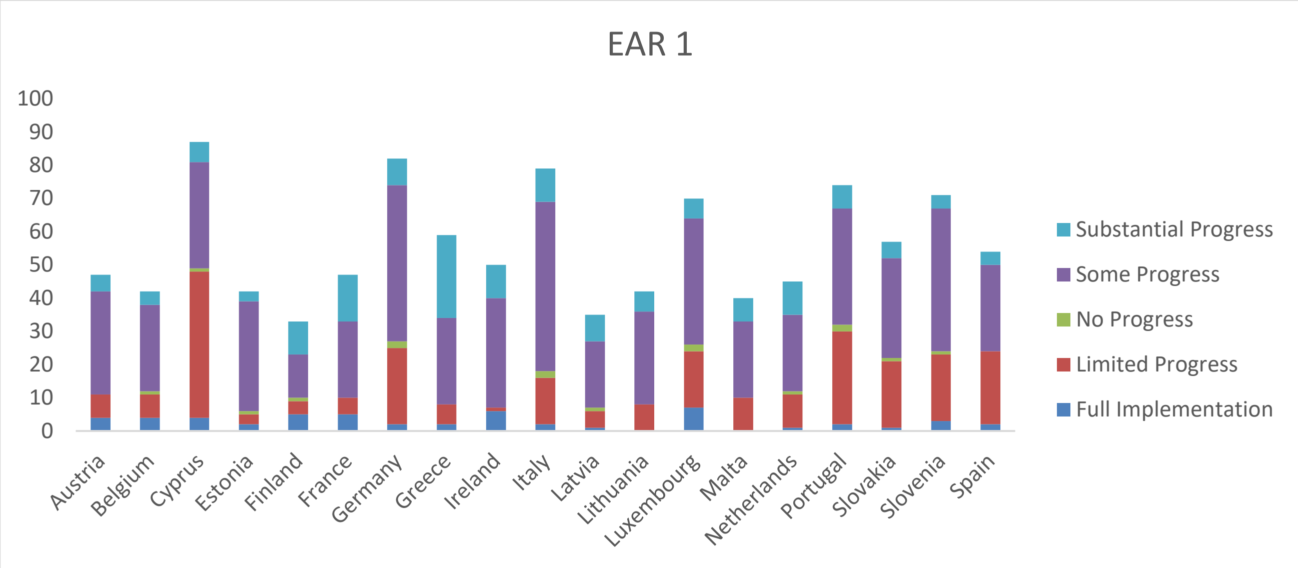


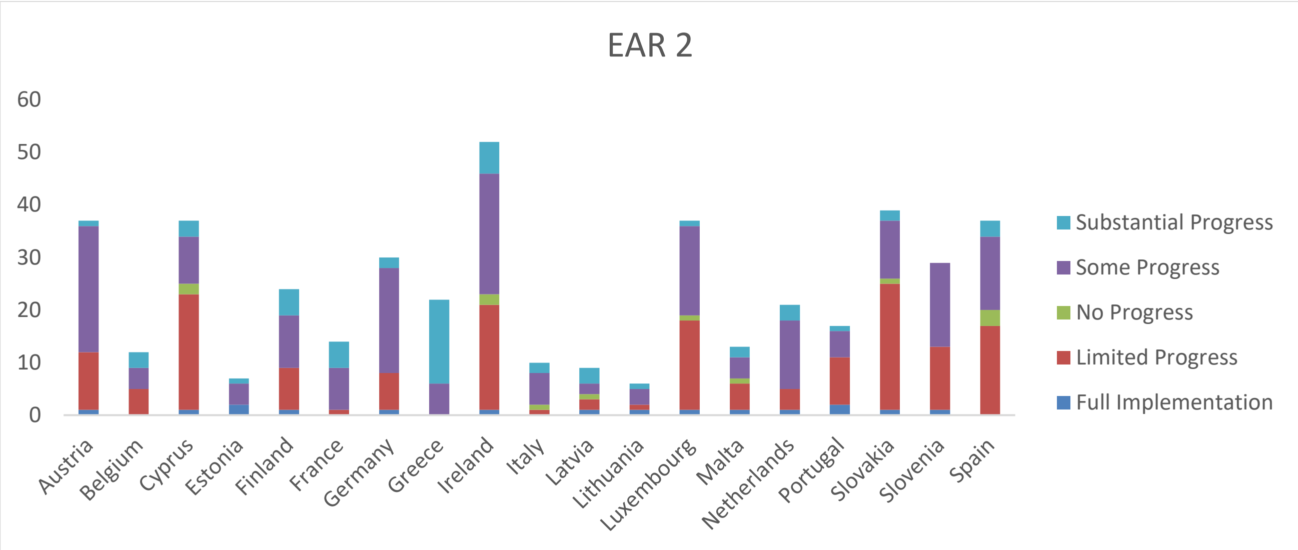
Source: EGOV's own elaboration based on the CeSaR database

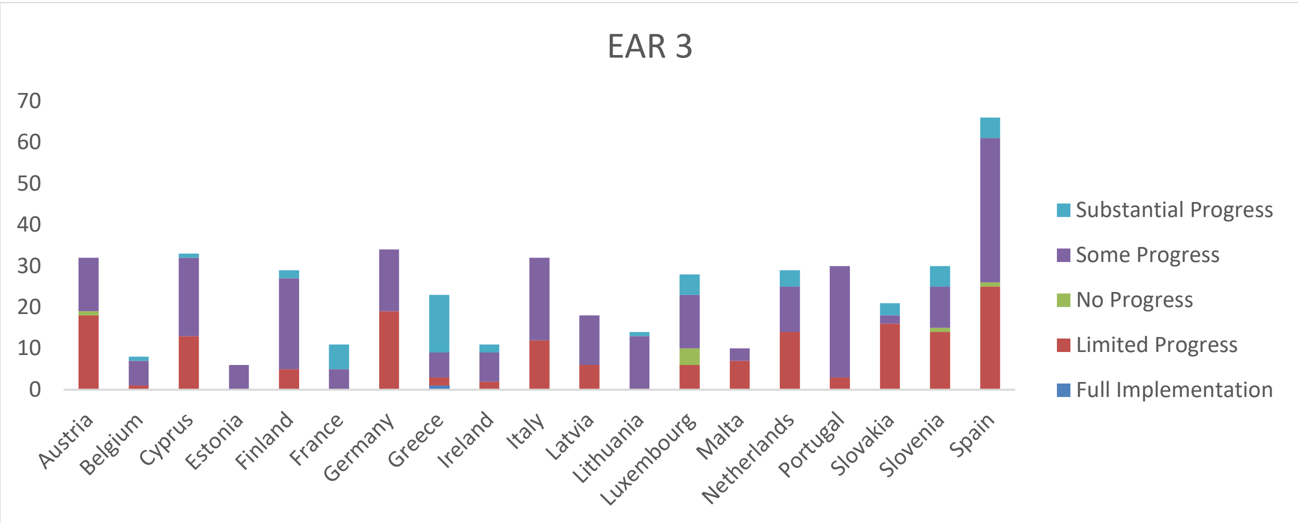
The **difference in outcomes between the two assessments could rest in the methodological framework used**. As argued before, in our view the Commission's methodology is imprecise by seeking to make inferences on implementation of the EAR in a given year based on the aggregation of implementation of EAR-relevant CSRs in previous years. The financial stability example makes this evident: one could question how it is possible to claim that there has been even some limited progress in the implementation of the 2022 EAR in this area when in 2022 not a single Member State tackled (or for what the database shows was subject to) a related CSR.

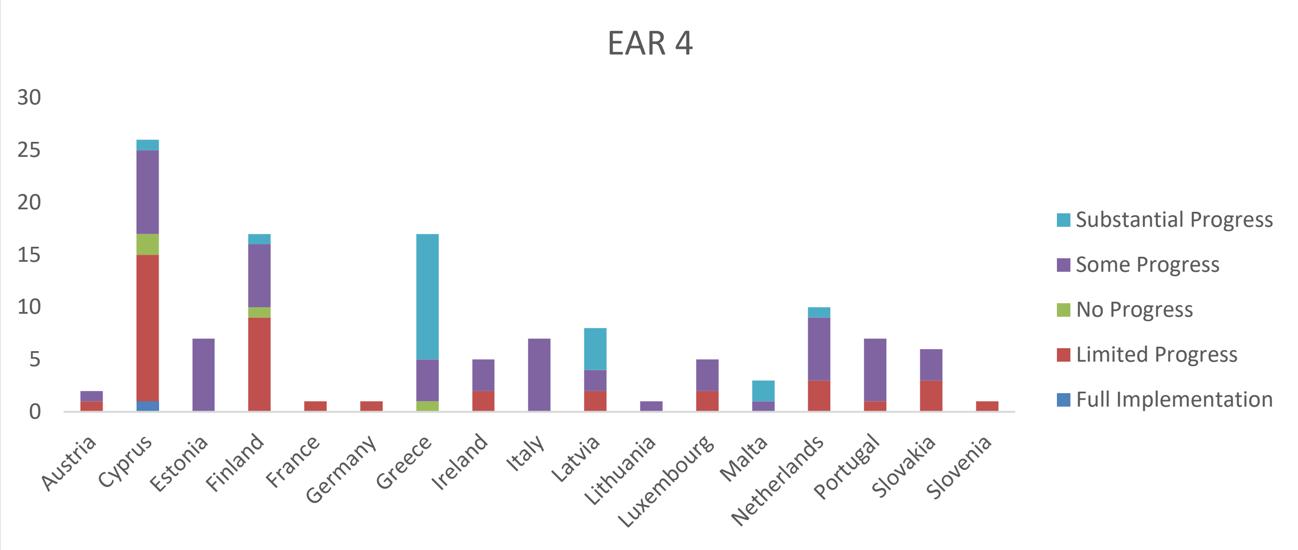
Our analysis has also pointed to a **positive bias towards successful implementation when aggregating the data together**. While looking at the aggregate might be relevant to assess an overall trend over different years, using it to provide a snapshot of a given moment in time seems wrong as it portrays a rosier picture than reality.

Annex: Sub-EAR implementation across euro area Member States, 2019-2022









Note: The graph for implementation of EAR 5 is not shown as it only covers 6 CSRs evaluated at "Substantial Progress" in Greece.

Source: EGOV's own elaboration based on the CeSaR database.

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