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COVER NOTE

From: Presidency
To: Coreper/Council
Subject: The European Semester - ways forward

Delegations will find attached a discussion note prepared by the Economic and Financial Committee on the European semester.

Encl.:



The 2013 European semester process

- Lessons learned and ways forward -

Overall, the 2013 European semester can be regarded as the most successful one so far and, building on the lessons learned from previous exercises, the 2013 exercise was considerably smoother due to efforts made by all parties involved and in particular the active involvement of the Presidency.

The Commission recommendations were clear and in most areas provided an appropriate balance between defining concrete and clear objectives, on the one hand, and providing room for detailed policy responses to be formulated at national level, on the other hand. There was also more differentiation between Member States with different challenges, with a stepping up of language used in cases the Commission was concerned about a lack of reform implementation or depending on the economic situation of Member States. Notably more differentiation was provided in recommendations under the Macroeconomic Imbalances Procedure (MIP) with concrete timelines in recommendations to countries with excessive imbalances. The earlier publication of the in-depth reviews in April provided an opportunity to discuss the underlying analysis in advance of presentation of Commission recommendations. It is important however, in order to guarantee national ownership, that recommendations continue to provide sufficient room for manoeuvre at the national level on how to implement recommendations, in particular for Member States demonstrating a good track record in policy implementation.

Cooperation across committees, including under other Council formations, was more structured and went smoother than in previous exercises. The division of responsibilities between various Council formations (Ecofin and EPSCO) has become clearer and the agreements on the attribution of responsibilities between committees was both facilitated and consistently implemented by the Presidency. The horizontal cross input between committees focused on addressing the main important aspects of the CSRs and provided an appropriate balance between different objectives, while leaving the review of recommendations to individual Member States to the lead committee. More generally, the current arrangements between the committees under different Council formations can be considered to be appropriate and no institutional innovation is needed.

Moreover, a clarification of the modalities for reaching agreement at preparatory level contributed to focus the discussions on substance. The initial horizontal discussions at Committee level together with the wrap-up sessions also contributed to preparing the discussion among Ministers, which focused on the more contentious issues.

Notwithstanding these improvements and the smoother process this year, there is further scope for enhancing the effectiveness of the European semester process:

First, more attention should be given to monitoring of implementation of policy recommendations throughout the year, in line with the conclusions by the European Council on 28 June 2013 calling for a close monitoring of the implementation of the country specific recommendations.¹

¹ See also "Fiscal and structural surveillance in the second half of the year - note for the Economic and Financial Committee", of 4 September 2013.

In the area of fiscal surveillance, with the introduction of the two-pack, implementation of *fiscal policies* of all euro area Member States will be monitored in the autumn on the basis of the draft budgetary plans to be submitted by 15 October and on which the Commission will deliver an opinion on 15 November. Furthermore, the existing close surveillance of Member States under an excessive deficit procedure will be further enhanced with the requirement for euro area Member States to submit Economic Partnership Programmes (EPPs) and the preparation of the Council Opinions thereon (for FR, ES, SI, NL and MT in autumn 2013). These aim at describing the fiscal policy measures and fiscal-structural reforms that are needed to ensure an effective and lasting correction of the excessive deficit. At this stage these reinforced frameworks for fiscal surveillance would seem to be appropriate and sufficient and no additional initiatives are called for.

In the area of *structural policies* a comprehensive monitoring of implementation is not feasible this year due to the very broad policy areas covered and as reporting on progress is geared towards the National Reform Plans in April. While additional reporting structures would put further burden on both Member States and the Commission, the follow-up on implementation building on already existing frameworks and processes should be explored, notably by further emphasising their link to monitoring of European semester recommendations. Some areas are already being considered and will be pursued further, including by:

- i) *Thematic peer reviews* – strengthening the link between the reviews and the country-specific recommendations both in terms of the topics and the country coverage, as well as more structured reporting on the outcome of discussions to EFC and Ecofin/Eurogroup, as appropriate;
- ii) *Ex ante coordination of structural reforms* - responding in particular to reforms with potential spill-overs on other Member States and recommendation No. 5 to the euro area in the context of the 2013 European semester, and in line with Article 11 TSCG and the Commission communication. The EPC will conduct a pilot exercise in this area during the autumn and intend to report on the outcome of the exercise and first lessons learned to the EFC and Ecofin;

- iii) *Monitoring of recommendations provided under the MIP for Member States with excessive imbalances.* The EPC is planning to monitor the implementation of MIP-relevant recommendations issued to Slovenia and Spain in October 2013 and January 2014 and could prepare subsequent opinions for the EFC and Ecofin;
- iv) *A general horizontal assessment of the implementation of 2013 CSRs on the basis of the Commission Annual Growth Survey.* The EPC could undertake a stocktaking of general progress on implementation of CSRs or focus on a few key areas on the basis of the Annual Growth Survey; using as well the relevant outcomes of the exercises under (i), (ii) and (iii) above;
- v) *A broader discussion on the implementation of MIP recommendations in the context of the In-depth Reviews (IDRs).* The main purpose of the IDRs is to assess the accumulation or unwinding of imbalances and discuss the related risks. Of course the impact of policies is discussed in this context. The Commission assesses to what extent measures taken by Member States sufficiently address imbalances and comply with the MIP-relevant recommendations, in the context of the May package. On the basis of the IDRs, the EPC could discuss more explicitly the Member States' policies to prepare a more comprehensive discussion in the context of the European semester review in June; and
- vi) *More attention to assessing implementation by Member States of previous policy recommendations in the context of the European semester review in June,* based on the Commission Staff Work Documents, with a link to new proposed recommendations.

Second, one area of recommendations that continues to be challenging is pension reforms. The review of recommendation in the area of pension reform is complicated by the number of Committees pertaining to different Council formations involved in the review. At national level the Ministries involved are also differing and do not always pursue the same objectives. Considering these challenges is important that the outcome of the review exercise is respected by all committees to ensure that the texts presented to the Council (Ecofin and EPSCO) are fully consistent and respect the respective roles and mandates of the various Committees involved, including the practical cooperation arrangements agreed. The active role of the Presidency is important to ensure the respect of these agreements.

While there is broad agreement on the overall objective of pension recommendations, Commission recommendations are still perceived to be overly prescriptive and to narrowly defined by some Member States. The political process and the role of social partners are particularly sensitive in this area and recommendations need to provide appropriate support to this process at national level. A broader formulation of recommendations was therefore finally agreed, using partly horizontal language and providing a wider menu of policy responses aimed at raising effective retirement age. The use of horizontally agreed language however raises concerns about recommendations becoming too broad and hence unfocused for some Member States with more urgent needs for reforming pension systems in support of fiscal consolidation and to ensure long-term sustainability. The EPC is planning to hold a horizontal exchange of views on pension CSRs in the autumn 2013, in particular focusing on possible rules for linking statutory retirement age with life expectancy. This discussion would be expected to contribute to enhancing the articulation of recommendations in the area of pensions in 2014. More generally, the bilateral discussion between the Commission and Member States on the NRPs leading up to the formulation of CSRs should be further explored with a view to enhance the articulation of the CSRs, their country relevance and to ensure Member State ownership.

Third, the identification of MIP recommendations would benefit from more clarity. In this context, MIP relevant CSRs should include only elements which are in fact MIP-related. More clarity in the respect would also facilitate the subsequent allocation of responsibilities and the discussion in various Committees, including amongst preparatory committees within the Ecofin filière.

Fourth, in support of and to better reflect the multilateral nature of the surveillance exercise, a broader discussion amongst Ministers on the key policy issues could be considered. Ways to prepare for a broader policy discussion reflecting the integrated nature of the European semester, which would go beyond issues and recommendations which remained open after the committee discussion, would be desirable. Moreover, further reflection is needed on how to prepare an exchange of views in the Ecofin/Eurogroup on MIP related issues (e.g. IDRs and MIP relevant CSRs).

Finally, the very tight time frame applying to the European Semester review exercise continues to be a constraint. While the Commission has made efforts advance the release of their assessments and recommendations for Council recommendations (of which the early publication of the in-depth reviews is an example and good practice), the tight time constraints remain and imply reduced possibilities to consider the Commission underlying assessments and to follow-up on implementation from the previous year, and limits the multilateral nature of the process. Looking forward, there are very limited prospects of improving the timetable further. It would be welcome if the Commission could make further efforts to adopt the legal package a few days earlier. A later publication than in 2013 would not be workable for the Committees. The European Council could also be shifted towards the very end of June, or even moved to July. The timing of the European Council meeting however, lies outside the influence of the Committees.