

5 The 2017 country-specific recommendations

Every year the European Commission issues country-specific recommendations (CSRs) for each EU Member State,²² which contain the policy priorities for the following year. These recommendations are approved by the EU Council following endorsement by the Heads of State or Government of all EU Member States. The CSRs provide guidance tailored to individual Member States on how to enhance growth and resilience, while maintaining sound public finances.²³ The CSRs are drawn up in line with the medium-term Integrated Guidelines on economic and employment policies of the Member States. They are a key element of the European Semester as they are the instrument through which national economic policies become “a matter of common concern”, as stipulated in Article 121 of the Treaty on the Functioning of the European Union. Timely implementation of these recommendations is critical to reduce vulnerabilities and boost medium-term growth, employment and productivity in the European Union. For euro area countries, they are also consistent with the objective of ensuring the smooth functioning of Economic and Monetary Union (EMU).

The CSRs are prepared by means of a comprehensive process which starts in the autumn of the preceding year. First, in November each year the Commission releases the Annual Growth Survey and the Alert Mechanism Report. While the Annual Growth Survey identifies the main policy priorities for the European Union as a whole, the Alert Mechanism Report assesses developments in Member States to establish whether there are potential or existing imbalances which need to be corrected by targeted policy actions. On the basis of these documents, the Council adopts the recommendations for the euro area early in the year, setting out the main areas for reform for EMU as a whole. On 22 February 2017 the Commission released the Country Reports for all EU Member States, which analyse progress made by each country on implementing reforms and identify imbalances and rigidities which require further policy actions, in the context of the in-depth review of the macroeconomic imbalances procedure. On the basis of the Country Reports, the Commission provided Member States with the draft 2017 CSRs on 22 May. Following discussions in the relevant EU committees, the Council adopted the final CSRs on 11 July.

The euro area recommendation this year focuses on ways to reduce imbalances, increase resilience and strengthen growth and employment in euro area countries. The euro area recommendation (adopted by the Council on 10 March) precedes the country-specific recommendations and is addressed to all euro area Member States jointly. More specifically, it calls on euro area countries to increase reform efforts towards improving productivity and the institutional and

²² Member States that are under a macroeconomic adjustment programme do not receive CSRs, as their policy priorities are already covered under a Memorandum of Understanding. This is currently the case for Greece.

²³ This box focuses on all the CSRs received by the euro area countries, except for the first recommendation on fiscal policies, which contains recommendations for implementing the Stability and Growth Pact (SGP). These SGP recommendations are described in the box entitled “Country-specific recommendations for fiscal policies under the 2017 European Semester”, *Economic Bulletin*, Issue 4, ECB, 2017.

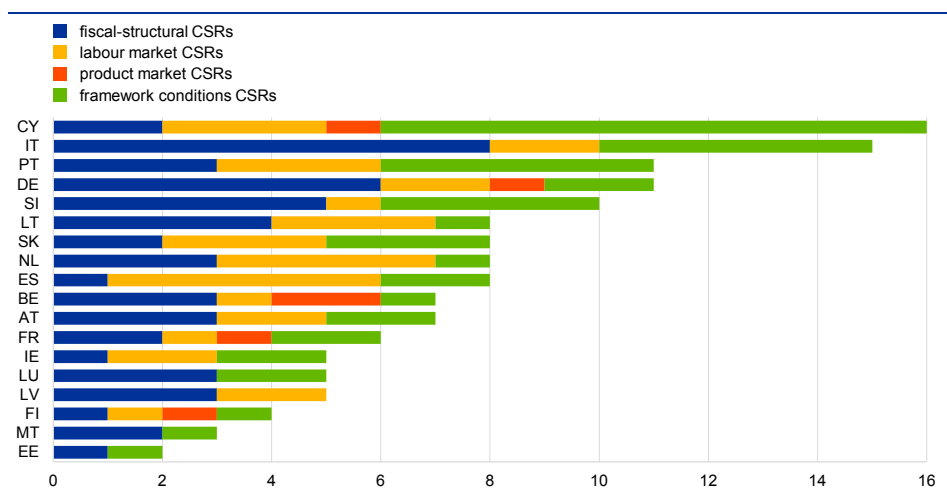
business environment, and removing bottlenecks to investment. The euro area recommendation also calls on governments to increase flexibility and security in labour markets, as well as to ensure fiscal sustainability and accelerate the work on completing EMU, in particular regarding banking union.

The 2017 CSRs broadly echo the emphasis of the euro area recommendation.

Chart A shows a breakdown of the 2017 CSRs by reform area. It indicates, for example, that a significant proportion of the recommendations address bottlenecks in framework conditions (including all measures related to the regulatory environment, the judicial system, insolvency frameworks, housing policy and financial sector regulation). Addressing such bottlenecks should positively affect market entry, increase incentives for firms to invest and improve resource reallocation. A large proportion of the recommendations address fiscal-structural issues, such as increasing the long-term sustainability of public finances, reducing the tax burden on labour, and increasing the efficiency of public administration and state-owned enterprises.

Chart A

The 2017 CSRs for euro area countries by reform area



Source: ECB computations, applying the CSR breakdown used in the European Commission's Country Reports.
 Notes: The chart shows the number of 2017 CSRs broken down into broad reform areas. "Fiscal-structural" comprises public administration, age-related spending and taxation policies; "labour market" comprises wage policies, employment protection, education and active labour market policies; "product market" comprises sector-specific regulations; and "framework conditions" comprises the regulatory environment, public procurement, the judicial system, insolvency frameworks, housing policies and financial sector regulation. CSRs related to the Stability and Growth Pact are not included.

The new recommendations should be seen in the context of the relatively weak implementation of CSRs in recent years.²⁴

The Commission found in February this year that for the overwhelming majority of the 2016 recommendations (more than 90%) there had been only "some", "limited" or indeed "no" progress on implementation, while only a very small number of recommendations had been "substantially" or "fully" implemented. Despite specific monitoring by the European Commission, implementation was not higher for countries with excessive

²⁴ For more details, see the box entitled "The 2017 macroeconomic imbalance procedure and implementation of the 2016 country-specific recommendations", *Economic Bulletin*, Issue 2, ECB, 2017.

imbalances. This is consistent with past patterns of very low rates of “substantially” or “fully” implemented reforms. The weak implementation of CSRs is all the more concerning given the remaining rigidities and vulnerabilities in euro area countries. The high level of remaining vulnerabilities is, for instance, reflected in the Commission’s finding that the number of countries with excessive imbalances (Bulgaria, France, Croatia, Italy, Cyprus and Portugal) remains at an all-time high.²⁵

Although the degree of CSR implementation remains low, the 2017 CSRs have been streamlined further. The Commission had already reduced the 2015 and 2016 CSRs with a view to allowing Member States to focus on key macroeconomic and social priorities. Despite this, CSR implementation did not improve. In several cases, some recommendations have even been dropped, although the countries concerned have made no progress or only limited progress on implementation during the past year.

CSRs have also been streamlined for countries with excessive imbalances.

The number of CSRs has been reduced for countries with excessive imbalances and in several cases the level of urgency has been reduced, insofar as the CSRs contain significantly fewer deadlines compared with last year’s recommendations. This comes despite the limited implementation of CSRs for countries with excessive imbalances.

Given the difficulties of strengthening reform implementation in the context of the preventive arm of the macroeconomic imbalance procedure, there seems to be a strong case for applying the corrective arm of this procedure for all countries with excessive imbalances. This tool, which has not been used so far, offers a well-defined process ensuring greater traction on reform implementation for the most vulnerable Member States.

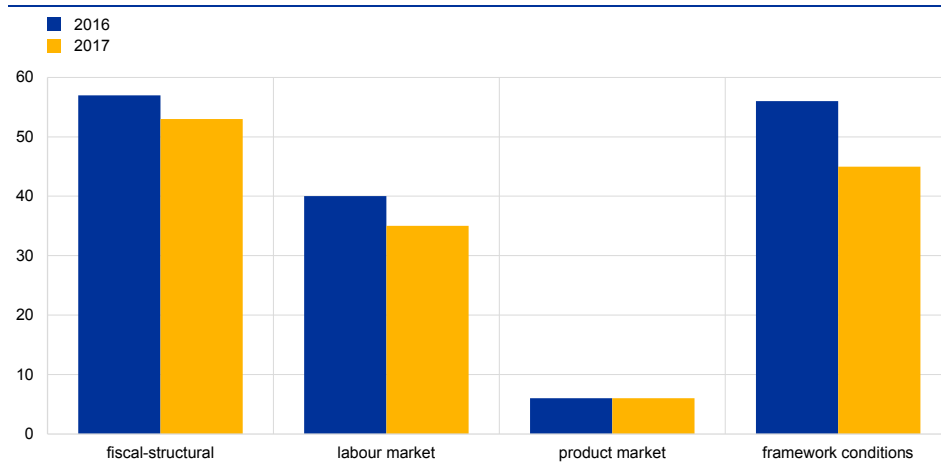
As a result of the streamlining of CSRs, fewer recommendations have been issued compared with the previous year. In particular, there are fewer recommendations on framework conditions and still only a limited number on product markets (see Chart B). This is surprising since a lack of competition in product markets and sub-optimal conditions for business activity remain an issue in many sectors across Member States.²⁶ In view of the continued emphasis on strengthening private investment and productivity, it will be important to ensure that greater focus is restored to product market reforms in Member States’ CSRs.

²⁵ *ibid.*

²⁶ See Chart 6 in the article entitled “Increasing resilience and long-term growth: the importance of sound institutions and economic structures for euro area countries and EMU”, *Economic Bulletin*, Issue 5, ECB, 2016.

Chart B

2016 and 2017 CSRs for euro area countries by reform area



Source: ECB computations, applying the CSR breakdown used in the European Commission's Country Reports.

Notes: The chart shows the number of 2016 and 2017 CSRs broken down into broad reform areas. "Fiscal-structural" comprises public administration, age-related spending and taxation policies; "labour market" comprises wage policies, employment protection, education and active labour market policies; "product market" comprises sector-specific regulations; and "framework conditions" comprises the regulatory environment, public procurement, the judicial system, insolvency frameworks, housing policies and financial sector regulation. CSRs related to the Stability and Growth Pact are not included.

Continued monitoring of other reform areas which are no longer covered by the CSRs, but which are critical for the overall economic performance of Member States, remains essential. For the past three years the Commission has excluded from the CSRs certain policy areas which are covered by other monitoring channels.²⁷ These include the energy sector (which is covered in the context of the energy union) and the monitoring and enforcement mechanisms related to the Single Market. It remains essential, however, to keep track of developments and policies in these areas under the European Semester to ensure that all significant economic policies implemented by Member States are assessed in a holistic manner.

²⁷ See the European Commission's communication entitled *2016 European Semester: country-specific recommendations*, published on 13 May 2015.