

Economic Policy Coordination in the Euro Area under the European Semester

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Abstract

The implementation record of the Country Specific Recommendations (CSRs) has declined over time, as financial turbulences lessened and the economic outlook started to improve. Urgency for reforms seemingly receded to leave room to request from member states towards more accommodative stances. It is mainly the small countries that implement, at least partially, the recommendations addressed to them. Unfortunately there is little that the EU can do to change the status quo. Yet, the President of the Eurogroup could be held accountable for the implementation of the recommendations addressed to the euro area. The creation of National Competitiveness Boards risks making the European Semester even more complex and likely to have little impact in the countries which need them most, namely large countries and those with poor governance. To make it effective, a procedure would be needed to make national wage norms consistent at the euro area level, which may be a very difficult objective to achieve.

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Executive Summary

This contribution focuses on one aspect of the European Semester, namely the Country Specific Recommendations (CSRs) proposed by the European Commission, and then addressed by the Council to individual member states and the euro area.

We find that implementation record of the (national) Country Specific Recommendations has deteriorated over the last two years, probably because pressure from financial markets lessened and economic conditions started to improve, receding the urgency for reforms.

The implementation assessment suggests that it is mainly the small countries which implement, at least partially, the recommendations addressed to them. Among the large countries, no one has fully or substantially implemented its CSRs.

It is still too early to judge whether the reduction in the number of recommendations (which have also become somewhat less specific), as foreseen by the new 'streamlined' European semester, will make a difference in terms of better implementation.

Unfortunately there is little the European Union can do to change the status quo. There is *de facto* little peer pressure and, even where it exists, it has little impact on large countries. However, the President of the Eurogroup could contribute to the implementation of the recommendations addressed to the euro area as a whole.

These recommendations are of a different nature than those addressed to individual countries and contain political initiatives and /or decisions to be taken. They explicitly include the use of peer pressure to ensure implementation of CSRs.

Furthermore, the European Commission has recently made a number of concrete proposals as the follow up to the Five Presidents report. Forward work on the governance of the Union, as outlined in the report, is part of the CSRs addressed to the euro area. Among the Commission's proposals two deserve attention in the framework of the European Semester, namely the National Competitiveness Boards and the European Fiscal Board.

The objective of National Competitiveness Boards is to prevent economic divergence and increase domestic ownership of reforms. While these are certainly desirable outcomes, the existence of these Boards risks rendering the European Semester even more complex than it is now. Moreover, if the experience with the (national) Fiscal Councils created under the Economic Governance reform of 2011 is of any guide, these Boards are likely to have little impact in those countries which need them most, namely the large countries and those with poor governance.

The Commission also proposes to create an independent advisory European Fiscal Board. The impact of this body (which would concentrate its work on the euro area) on the European Semester is difficult to predict. If it remains a purely internal body advising only the Commission there would be little impact. By contrast, if it networks with the national fiscal councils, it might impact the working of the European Semester, by strengthening the coherence of the recommendations on fiscal policy matters.

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1. Introduction

The nature of the EU economic policy coordination has changed over the last few years, largely reflecting the debt crisis and the deep economic problems of the euro area since 2010. The European Semester was introduced in parallel with the Macroeconomic Imbalances Procedure (MIP) and a strengthened Stability and Growth Pact (SGP), in the wake of the euro area crisis, which started in Greece, and of the global financial crisis of 2008. It aimed at addressing problems of large fiscal and other macroeconomic imbalances. Against a backdrop of acute tensions in financial markets, it is thus not surprising that attention was focused on the fiscal adjustment, which was deemed necessary to re-establish confidence in the sustainability of public finances.

All EU member states participate in the policy coordination cycle framed by the European Semester. However, euro area members, which have surrendered monetary policy as national stabilization tool, should be more concerned. They are also the only ones subject to the sanctions under the corrective arm of the SGP and the MIP.

This contribution focuses on the euro area member countries and the euro area as whole.

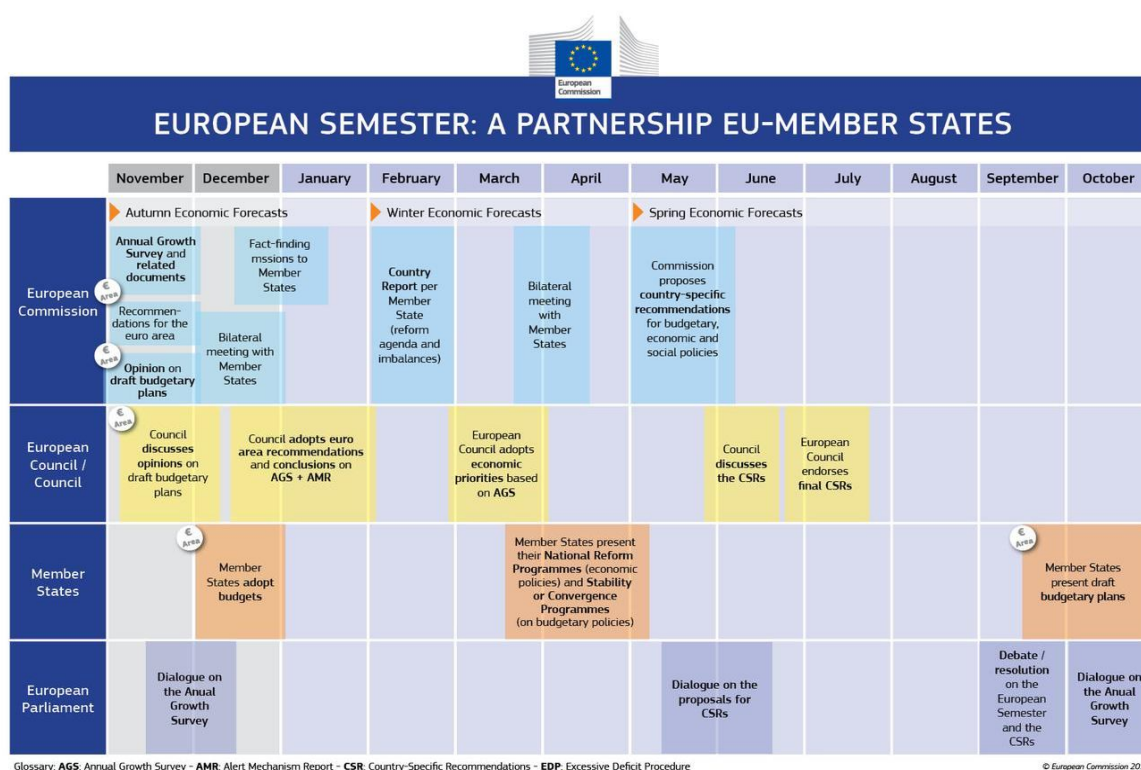
As tensions in financial markets started to abate, but growth continued to stall after 2013, attention shifted in a marked fashion to the more general issue of how to make economies more flexible and productive. The focus of the (national) Country Specific Recommendations (CSRs) has followed a similar pattern, reflecting both the urgency to correct certain imbalances and to improve the structure of the economy, with different emphasis over time. As is illustrated below, in recent years they have also tended to cover additional fields.

The 2015 European Semester cycle has seen some further changes, which were introduced by the new Commission. In order to streamline the process of economic policy coordination, the Commission now publishes the country analyses in advance, already at the beginning of the year, to give member states longer time for discussion, including with social partners. For the 2016 European Semester, it also adjusted the timetable of other steps in order to have more time to agree on priorities from European and euro area perspectives (see Figure 1).

Compared to previous years, the 2015 CSRs focus on fewer, key areas of action, according to the priorities identified in the Annual Growth Survey (AGS). This approach is consistent with the Europe 2020 objectives and the Commission's new guidance on the application of the rules of the SGP. The underlying objective is to strengthen the link between structural reforms, investment, and fiscal responsibility in support of jobs and growth. These broad guidelines are then translated into specific recommendations for each country, according to the specific needs and situation.¹

¹ http://europa.eu/rapid/press-release_IP-15-4975_en.htm

Figure 1. Streamlined European Semester



Source: European Commission.

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When it comes to the content, the most important novelty of the new CSRs is the emphasis on reforms. As it will be argued below, while reforms are necessary and welcome in most countries across the Union, not only in those member states most hit by the crisis, the economic rationale for coordinating reform policies is weak in 'normal time' and their implementation will depend on national governments' assessment of domestic needs. The rate of implementation of CSRs tends to be limited and has declined over the last two years. We argue that next year will be no different, if anything implementation is likely to be even lower.

On the question of what can be done, we stress the role that peer pressure can play given that the past track record of the Commission and Council to not implement sanctions. Their ability to ensure enforcement is therefore uncertain, even more so when it comes to structural reforms which do not explicitly fall under MIP and SGP procedures. The president of the Eurogroup could exert more pressure.

² http://europa.eu/rapid/press-release_IP-15-4975_en.htm

We then discuss the Commission's follow-up to the Five Presidents' Report, paying particular attention to the propositions for the creation of National Competitiveness Boards and the advisory European Fiscal Board. While both new institutions seem motivated by the intention of increasing the ownership of policies in the respect of EU rules, such set up might end adding an extra layer to the already complex governance system, with only very limited effect, if any.

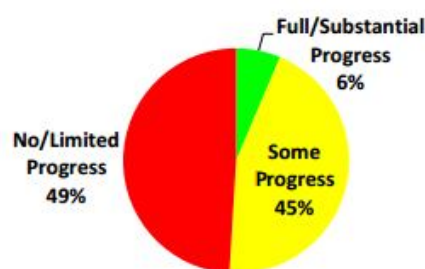
Against this background, the rest of the paper is organized as follows. Section 2 looks at the past track record of implementation of CSRs, focusing on the results of last year, and at the main features of the 2015 CSRs. Section 3 looks into the broad issue of structural reforms, highlighting how this term has become a 'generic product'. Section 4 makes some considerations about the idea of a European Fiscal Board and the National Competitiveness Boards and how they could affect the governance system. Section 5 offers some reflection on how the enforcement of the CSRs can be improved and what the president of the Eurogroup could do. The last section concludes.

2. New and old country specific recommendations

It is by now widely known that the implementation record of the CSRs has been spotty. Measuring the degree of implementation of qualitative recommendations like 'liberalize labour markets' is always imprecise. But all the metrics used to date come to similar results: only a fraction of all recommendations is implemented.³

In 2014, a summary note by the European Parliament⁴ focussing on the euro area showed that implementation has been lower than in 2013. The number of recommendations that recorded substantial progress in implementation had slightly decreased from 9% to 6%, and the percentage of CSRs that registered no or limited progress has increased from 46 to 49%.

Figure 2. CSRs 2014, EU-28: implementation assessment



Source: European Parliament (2015).

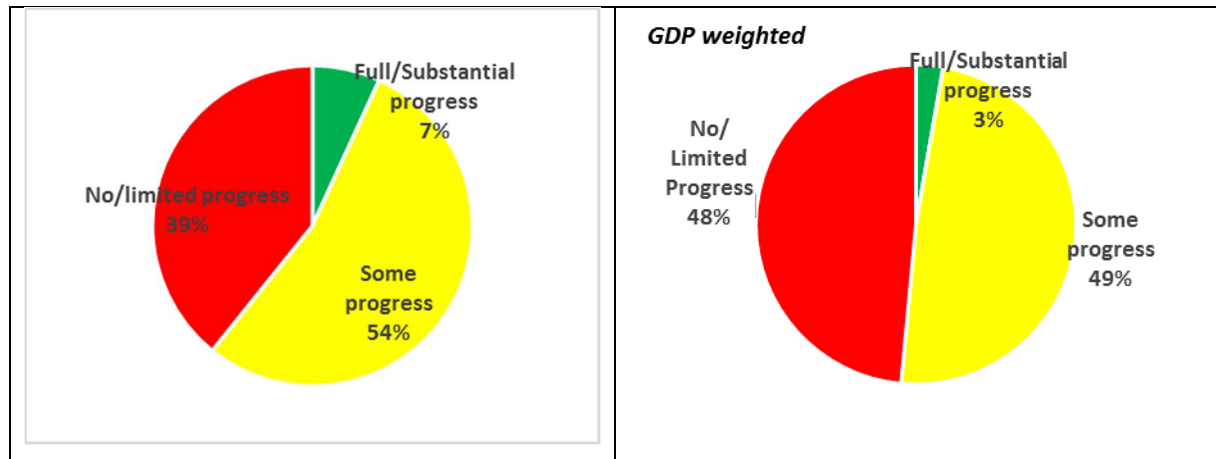
If one weights each reform by the size of the country, as it is shown in Figure 3, the picture is even less encouraging. The share of CSRs fully implemented falls to 3%. This result is due to

³ Country specific recommendations are divided into three categories, respectively related to the Stability and Growth Pact, to the Macroeconomic Imbalances Procedure, and to the EU 2020 national objectives (so called "integrated guidelines"). Policy recommendations regarding fiscal policy fall under the objective of meeting SGP rules, and provide numbered targets (MTOs). They can be considered as the most quantifiable recommendations because they mention a specific adjustment, but they tend to be little specific on the measures needed to attain them. On the other hand, recommendations based on the MIP tend to differ greatly, being more or less specific.

⁴ [www.europarl.europa.eu/RegData/etudes/ATAG/2015/542649/IPOL_ATA\(2015\)542649_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/ATAG/2015/542649/IPOL_ATA(2015)542649_EN.pdf)

the fact that it is mainly the small countries which tend to follow the recommendations. No large country has fully or substantially implemented its CSRs.

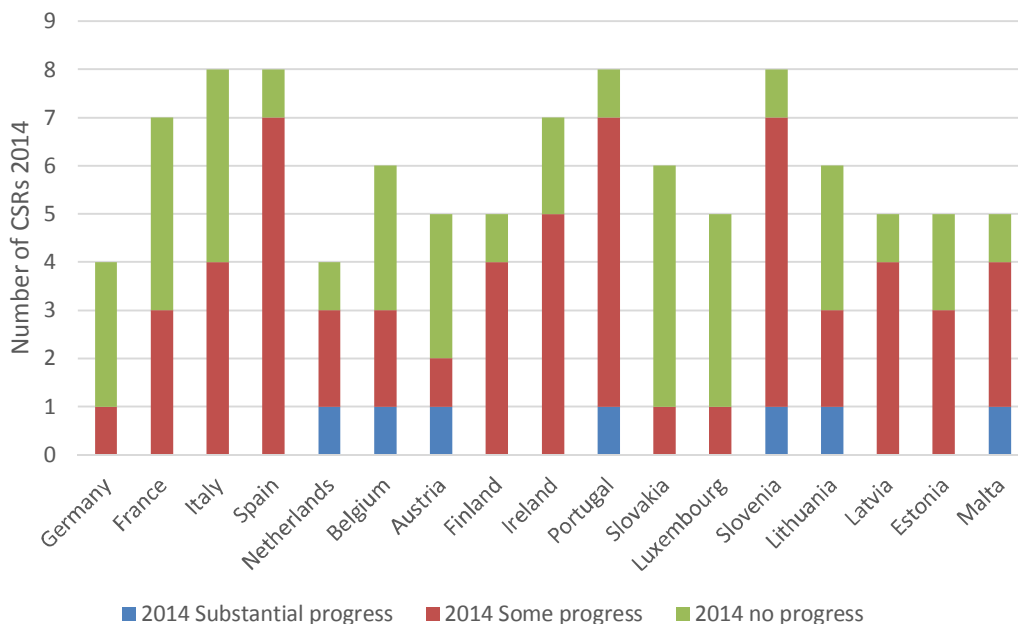
Figure 3. CSRs 2014, implementation in the euro-area member states, headline (LHS) and weighted by GDP (RHS)



Source: Authors' elaboration based on European Parliament (2015).

A possible reading of it is that large countries tend to avoid full or substantial implementation, either by neglecting the recommendations or in most cases by taking marginal action in response to them. This is also confirmed by Figure 4 below, which looks at implementation by country.

Figure 4. Implementation of CSRs in 2014

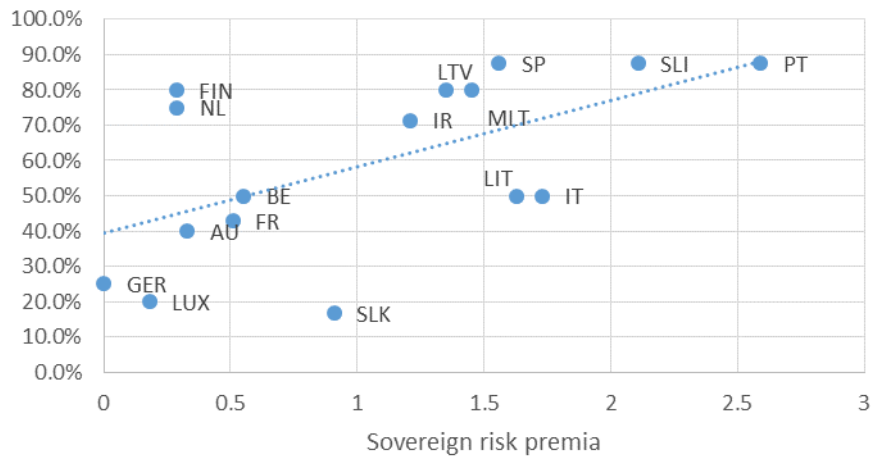


Source: Authors' elaboration.

There is a large variability in the progress achieved by member states. On the one hand, the Netherlands, Latvia, Slovenia, Finland, Portugal, Spain, and Malta have registered at least "some" progress in more than 75% of the recommendations. On the other hand, large member

states like Germany, France and Italy have addressed only between 25% and 50% of the CSRs. In general, it seems that the smaller countries are better at implementation. None of the four largest euro area countries had recorded substantial progress on any CSRs in 2014. On the other hand, Figure 5 shows that it appears that the most distressed countries, as measured by their sovereign risk premia, tend to have a stronger implementation record.

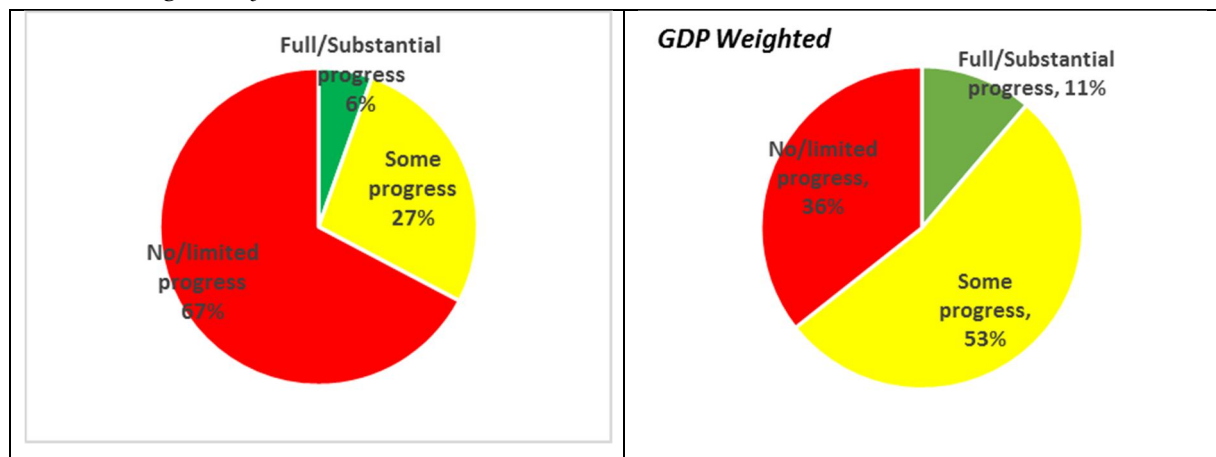
Figure 5. Positive implementation efforts as % of 2014 CSRs and risk premia (2014)



Note: Positive implementation effort is the sum of “some progress” and “substantial/full implementation”. Risk premia are annual and measured relative to German 10-year Bund
 Source: Authors’ elaboration based on Eurostat and European Commission.

There is also a difference between Eurozone and non-Eurozone EU member states. Indeed, while in 2014 at least some progress was made in 61% of the CSRs in euro area countries, non-euro area countries have only achieved at least some progress in 33% of the recommendations. Interestingly, when implementation of CSRs is weighted by respective GDP, the share of CSRs where at least some progress is made increased substantially, up from 33 to 64%. This suggests that unlike in the euro area, large countries perform better than small countries.

Figure 6. CSRs 2014, implementation in non-euro-area EU member states, headline (LHS) and weighted by GDP (RHS)



Source: Authors’ elaboration based on European Parliament (2015).

In Annex I, we report the CSRs addressed to Germany and Italy since the first European semester exercise in 2011 and their assessment, by year, in some selected areas, namely reforms in the service sector, for Germany, and in the service sector, labour market and taxation reforms, for Italy. The two countries have received the same kind of recommendations in each of these areas every year and, (broadly) every year the Commission's assessment has been "limited progress". The fact that recommendations tend to be similar from one year to the other offers two readings. An optimistic one that suggests that small progress would lead to large changes over a longer period. A more pessimistic one that suggests that large countries, like the two considered, attempt to superficially and formally address broad recommendations, without substantial actual changes. Both interpretations are plausible and may hold in different areas. This points to the fact that an important limit of CSRs in the framework of the European semester is that they have no follow up in terms of monitoring of achievement of objectives.

2.1 The 2015 CSRs

The 2015 CSRs focussed on 4 priorities.⁵

- I) Investment to support growth. In order to achieve such objective, barriers to financing and launching investment projects have to be removed and the Investment Plan for Europe implemented;
- II) Structural reforms in product, service and labour markets that raise productivity, competitiveness and investment, as well as in the financial sector to ease access to finance for investment and lessen the negative impact of deleveraging in the banking, private and public sectors;
- III) Sound fiscal policies that strike a balance between short-term stabilisation and long-term sustainability. In member states with weak fiscal position (both deficits and debt) further efforts are required to fix their balance sheets, and in member states with fiscal space, expansionary stance towards productive investment should be taken. The composition of public finances should be designed to make them more supportive to growth;
- IV) Improvement of employment and social protection.

The 2015 CSRs exhibit some change, at least in the language, compared to previous years. Until 2013 the main focus of the CSRs had been on sound fiscal policy combined with major labour market reforms, especially in countries under financial stress. In 2014 the tone had already changed, with much stronger emphasis on growth friendly fiscal consolidation. This year, investment and broad reforms are the two main priorities. This seems to signal a shift towards a more accommodative stance on fiscal matters.

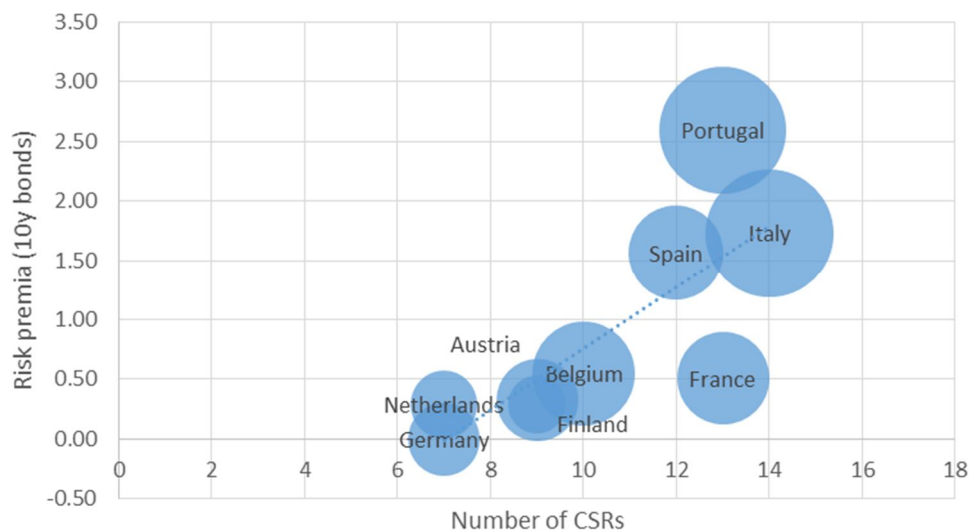
This is partially due to the fact that fiscal consolidation has been undertaken by many countries since 2011, their public finances are in a much better shape and the pressure coming from the markets has reduced substantially. But it may also reflect the new more 'flexible' approach of the Commission when it comes to the interpretation of the fiscal rules.⁶

⁵ http://europa.eu/rapid/press-release_IP-15-4975_en.htm

⁶ http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/2015-01-13_communication_sgp_flexibility_guidelines_en.pdf

Figure 7 suggests that most vulnerable countries (those with high public debt and larger sovereign spreads) remain the target of the largest number of CSRs, not only fiscal.

Figure 7. CSRs, risk premia and sovereign debt (2014-15)



Note: the size of the bubble is proportional to public debt-to-GDP ratio. Risk premia are annual and measured relative to German 10-year Bund.

Source: Authors' elaboration based on Eurostat and European Commission.

Broadly speaking, reforms and investment seem always desirable⁷. It is unreasonable to oppose reforms that are called to improve funding conditions, boost investment and growth. The problem is how to translate these general desiderata into concrete policy action and, in the context of the CSRs, it is unclear what role the EU should have.

On investment, one has to keep in mind that only public investment is under the control of governments. The bulk of total investment (in most cases 90% of total investment) is driven by market forces. What governments can do is to contribute to build a favourable environment to invest. This boils down to reforms ranging from the public administration to simplified regulation to financial sector stability. In other words, the first two CSRs are about reforms.

Next section looks more in depth at structural reforms.

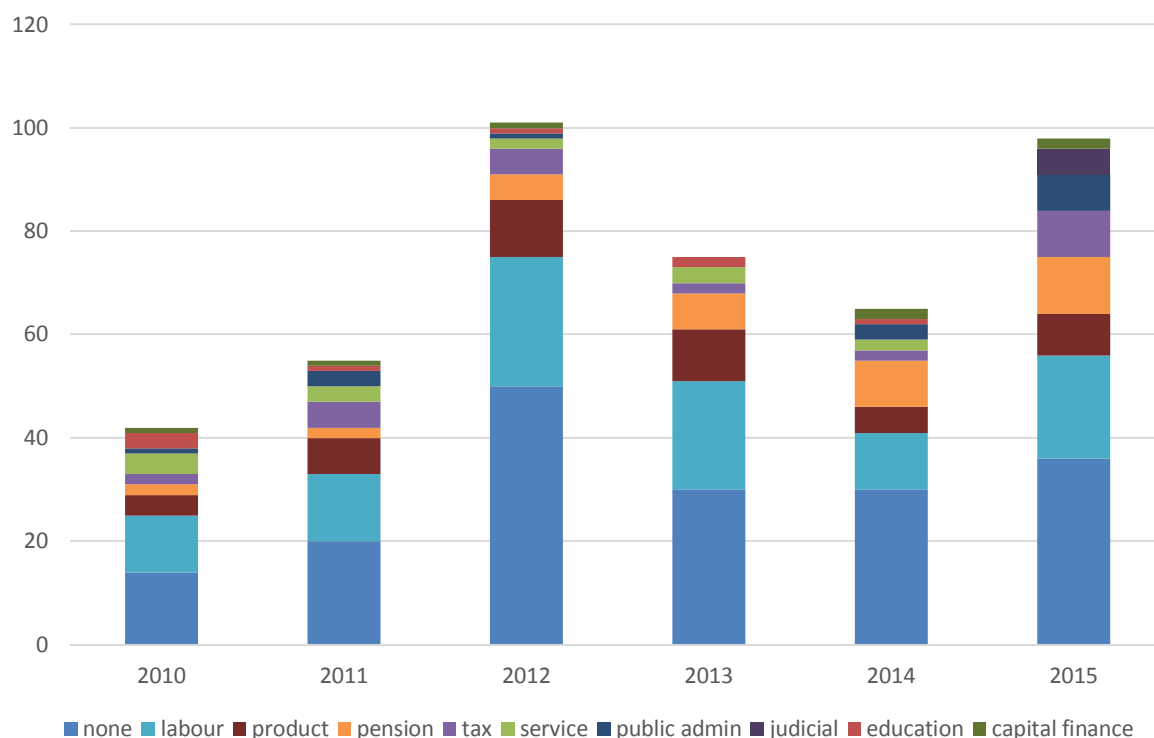
3. Structural reforms

Structural reforms seem to get invoked whenever there is a crisis, or limited understanding of the policies that can really boost growth and employment. But by being invoked almost as a *panacea*, the term is in danger of losing concrete meaning. This seems to be the case even in high level discussion *fora* of the economic profession.

Figure 8 shows the frequency of the use of the term structural reforms on two leading websites (voxeu.org and Project Syndicate).

⁷ For a dissenting view see Gros (2014).

Figure 8. Structural reforms and economic and policy debate



Source: Authors' elaboration on publications on Project Syndicate and VoxEU.

Of the 300 articles mentioning structural reforms in the euro area⁸ between 2010 and August 2015, less than half (120) give a definition or example of desirable reforms, while the rest remained vague with no further specification. The figure suggests that the frequency of the topic has a certain correlation with the crisis in the euro area, with a pick in 2012, when the crisis reached also Italy and Spain; it then slowed down and resumed again in 2015, most likely affected by the new Commission guidelines and the emphasis on structural reforms.

The share of articles without definition or example peaked in 2012, (ca. 60%), but it has remained high. Labour market reforms have been and remain still the most mentioned target for specific reforms, but tax reforms and public administration have recently become more prominent – possibly as consequence of some lessons learned with (the failures of) the Greek programmes. There may also be mounting awareness that even deep and large reforms, which are painfully adopted, may fail to deliver if, for instance, the administrative context is poor or inefficient.

Overall the debate has become slightly more specific during the last year, where we have seen a more diverse and explicit controversy over avenues of structural reforms. Nevertheless structural reforms are still often mentioned offhand, as to stress that financial support for struggling economies is dependent on their willingness to reform.

⁸ Only search results on the website of Vox.eu and Project Syndicate for “Structural reforms” + “Eurozone” were taken into account. The search was conducted throughout August 2015. Several articles provided many examples of reforms or a wider definition, therefore multiple entries for articles in the categories are possible.

Among the specific examples of previous reforms with a positive outcome, the most often cited cases are in Sweden in the 1990s and the German labour market reforms in the early 2000s (Hartz reforms).

While lessons can be taken from those experiences, their success depends on a constellation of factors which may not exist in other countries. Reforms in Sweden after the banking crisis were adopted in a context of global growth, which may have helped Sweden substantially. The success of the Hartz reforms in Germany may be closely linked to the corporative structure of the German production system, largely dominated by the manufacturing.

If such conditions are crucial for success, other countries adopting similar reforms have little chance to deliver similar success. Recent literature⁹ on reforms suggests that uncertainty is high around what makes reforms proposal successful. There are several dimensions, including the global economic context (growth versus recession), the institutions of the country under consideration, the political context that could be key for success or failure.

To such uncertainty one should add a specific element of the EU governance system. From this perspective, the situation of EMU countries is different from non-euro area member states. One general weakness of the European Semester is that it is often difficult to say why the Union has an interest in the country undertaking the reforms. This is especially the case for countries outside the EMU. When financial market conditions are difficult, one can argue that the entire Union can suffer from contagion if any individual country is at risk of severe crisis. However, in “normal times”, when this danger seems remote, it is much more difficult to argue that the entire Union would gain if any individual country coordinates its policies and undertakes, for example, labour market reforms.¹⁰ Some reforms are good for the country itself (even if moment is low in normal times) and not necessarily coordination leads to a better outcome than reforms driven by domestic consideration. In such case, the lack of obvious spillovers weakens incentives to coordinate policies *ex ante*, though not for reforms.

The rationale for reforms is much stronger from a domestic perspective than from an EU perspective, and this is especially true in absence of crisis. The pay-off from reforms is the stronger economic performance in the country itself. If this is the case, the effective pressure for reforms coming from outside is much diminished and reforms are likely to proceed according to domestic political priorities, whose calendar often conflicts with the various stages foreseen by the European semester.

3.1 Political economy of structural reforms

In the field of structural reforms, literature seems to suggest that the political economic dimension is relevant. In 2009 OECD¹¹ produced a quite comprehensive report on the political economy of reforms (pensions, labour and product market), where they look at the experience of several countries with different reforms. Among the numerous points, the report stresses few aspects which seem critical for the success of reforms. One of the strongest findings of the

⁹ Among other see Banerji et al. (2015).

¹⁰ The issue of the rationale for economic policy coordination under different conditions (normal times, financial crisis, ZLB, etc.) is a very complex issue where literature is still scant. The H2020 research project, FIRSTRUN, focuses on this key issue.

¹¹ OECD (2009), “The political Economy of Reforms. Lessons from pensions, product markets and labour markets in ten OECD countries” (www.oecd.org/site/sgemrh/46190166.pdf).

report is that it is important to have an electoral mandate for reform. If this is not the case, public approval will appear only when the benefits of the reforms materialize, which in most cases (especially for large reforms) tend to happen with a large time lag. Time is another key issue: reforms need to be prepared, both from a technical and political point of view (consultation), and this takes time. This contrasts starkly with the practice of several countries in the Union, where momentum for reforms was driven by the crisis and many reforms were hastily approved in response to immediate pressure from financial markets.

There seems to be an inverse relationship between the willingness or pressure to reform and the economic cycle. During difficult economic times the need for reforms is most apparent, but the economic environment may be most hostile. For example, the need for more flexibility in the labour market might be more apparent during a deep downturn. But the cost of flexibility in, initially, more firings, will also appear to be higher at that time. During the upswing, the converse is often true: a favourable economic climate gives the illusion that reforms are not needed, at the time when they might be easier to implement them.

This seems to apply at European level and in particular with the CSRs. As the business cycle improves there is general unwillingness by member states to implement the CSRs.

It should be said that literature on when economic policy coordination in a monetary union leads to a superior outcome is rather scant. From an economic point of view, fiscal policy coordination is justified in presence of market failures associated with large cross country spillovers effects. These usually emerge in times of crisis, or when policy tools are constrained, e.g. zero lower bound. In principle, there is no need for full coordination at any point in time. In normal time, coordination should be just a tool for commitment by individual member states to certain policy principles and transparent policy setting.¹²

Last but not least, successful reform requires persistence. Reforms which are blocked, limited or reversed imply high cost both in terms of political capital and future success.

One task for the President of the Eurogroup would be to combat this broad tendency and try to exert pressure for reforms to be implemented even when the domestic political cycle would suggest otherwise.

4. More inclusive and transparent European Semester

Alcidi et al. (2014) investigate the issue of low degree of both input and output legitimacy of the EMU governance, of which the Semester represents a key pillar, and outline the complexity of the entire process. Addressing such shortcoming is of crucial importance, but in the current institutional set up (no Treaty change) it is very difficult, probably impossible, to achieve substantial improvements. The Commission has suggested changes with the objective of increasing ownership of reforms, which are in line with the EU system of rules, and improve the EU member states mutual understanding of priorities, but there is a significant risk that the already complex system will become even more complex.

¹².While this issue is of critical importance in the framework of the EU governance, addressing it goes beyond the scope of this paper.

In fact, such complexity will be increased by two new elements: the stronger emphasis on the EU2020 objectives in the CSRs and the new proposals of the Commission to push forward the implementation of the Five Presidents Report on Completing the EMU.

The Commission proposes in particular two innovations¹³ (see Box 1 for more details): a system of National Competitiveness Boards and an advisory European Fiscal Board.

There might be valid reasons, like inclusiveness and transparency, for both proposed innovations, but they risk complicating the European Semester even further.

The case for National Competitiveness Boards (NCBs) is based on the judgement that this approach seems to have worked well in two countries (Belgium and Netherlands) and that it might increase the ownership of reforms at the national level. But there is also a risk of duplication and overlap, as well as conflict. The purpose of the NCBs is clearly not limited to recommending wage increases in line with productivity to avoid losses of competitiveness, but to developing a view on reforms needed at the national level to improve productivity and other competitiveness indicators.

The danger of duplication and further complication is apparent in particular in the task 5 enunciated in Box 1, which would give the national competitiveness board a direct role in the European Semester.

More in general, it is clear that the role of these National Competitiveness Boards in policy advice would clearly overlap with the entire process of the European Semester. This means that there will be at least one additional instance which will want to make its own contribution.

Another risk is that the National Competitiveness Board develops a different view of the reform agenda than the Commission. The nature and composition of these NCBs will vary greatly from country to country and their underlying approach might be very varied. Moreover, there are wide differences on the effectiveness of specific reforms even among economists sharing the same perspective. This will make it even more difficult to find a consensus, leading to less specific CSRs. For example, during the early 2000s there was a heated discussion inside Germany on whether an increase in wages would be good for growth. One side held that wages should go up to strengthen domestic demand, whereas the other side emphasized that lower wages improves competitiveness and thus exports and indirectly employment and growth.

This example shows not only that there can be legitimate differences of opinion concerning wage policy, but also that the NCBs are more likely to take a national point of view. A gain in competitiveness through lower wages by any one country represents a loss for the other countries in the euro area. It is apparent that not all countries can aim at an improvement of their wage level relative to the others (in economics this is called the N-1 problem).

Relative wages (in the form of wage norms) will of course not be the only, hopefully not even the main, variable for the NCBs, but this was the case in Belgium, whose experience inspired this proposal.

The advisory European Fiscal Board could represent an additional element of complexity, especially concerning the recommendations addressed to the euro area.

¹³ We do not comment here on the forthcoming proposal to create a system of (re-)insurance of bank deposits at the euro area level. This would be a very important step to complete the Banking Union, as argued by Gros (2014).

A good case can be made for the establishment of such an independent source of opinion and advice on fiscal policy based on a systemic, euro area view. But for the purpose of this contribution one has to note that this new body could present another source of overlap and potential difference of views. If this body, as it seems to be the case according to the Commission's proposal, limits itself to providing internal advice within the Commission, this danger would be small.

Box 1. European Commission proposal following up on the Five Presidents Report

A SYSTEM OF NATIONAL COMPETITIVENESS BOARDS

"The creation by each euro area Member State of a national body in charge of tracking performance and policies in the field of competitiveness is recommended. This would help to prevent economic divergence and it would increase ownership of the necessary reforms at the national level.

Tasks

1. Track performance of competitiveness developments;
2. Provide information and expertise to inform wage setting mechanisms, without setting wages or interfering with the role and powers of social partners;
3. Monitor policies related to competitiveness and provide assessments of their effectiveness;
4. Provide policy advice, taking into account the broader euro area and EU dimension;
5. Inform the member states and the Commission throughout the European Semester and the Macroeconomic Imbalance Procedure (MIP);
6. Publish an annual report of their findings.

AN ADVISORY EUROPEAN FISCAL BOARD

"One of the main lessons of the crisis has been that fiscal policies are a matter of vital common interest in a Monetary Union. Even a strong Economic and Financial Union and a price stability-oriented common monetary policy are no guarantee for EMU to always function properly. (...) Responsible national fiscal policies are therefore essential."

Tasks

The European Fiscal Board will feed into the Commission's work of surveillance and enforcement of the Stability and Growth Pact (SGP). It will advise on the overall direction of fiscal policy of the euro area and evaluate how the fiscal governance framework was executed. The Board would neither replace national fiscal councils nor duplicate the Commission's work on applying the Stability and Growth Pact.

Source: http://ec.europa.eu/priorities/economic-monetary-union/docs/single-market-strategy/factsheet-efb_en.pdf

http://ec.europa.eu/priorities/economic-monetary-union/docs/single-market-strategy/factsheet-ncbs_en.pdf

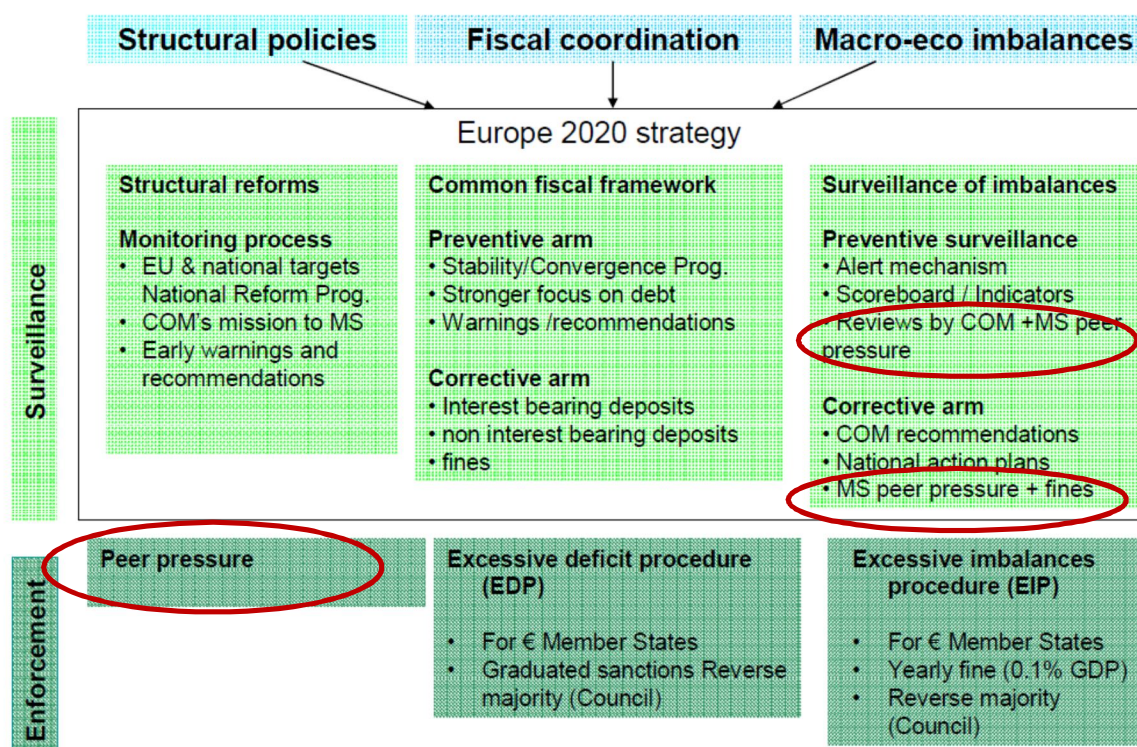
5. The role of the president of the Eurogroup

While rules-based governance plays a central role in the existing framework, the soft aspects of the new economic governance are often neglected. One of the essential functions of the European Semester is to create a “learning-by-doing loop”, where national policy-makers commit to achieve certain targets and learn to think, develop and implement their economic policies in a coordinated fashion. Thinking national economic policies as a part of a wider process should become a standardized, natural part of domestic policy making. This would, in turn, increase the probability of respecting the fiscal and economic targets.

The experience seems to suggest that this has never really happened. Similarly, in the EU rule-based system, there was the belief that peer pressure would push governments on the right track.

Figure 9 highlights the moment during the semester cycle where peer pressure should come into play.

Figure 9. Peer pressure in the European Semester



Source: European Commission, http://ec.europa.eu/europe2020/pdf/m11_14.en.pdf

Yet the 2010 legislative proposal to reinforce governance says little about the use of peer pressure as coordination instrument. In fact, this may be not surprising and possibly be the expression of the Commission's frustration about the absence of peer pressure.

In this perspective, both fiscal councils, which are supposed to provide independent analysis, assessment and forecasts, and the European Fiscal Board could fall under the framework of the peer pressure. Fiscal councils, with their independent estimates, forecast and assessments, could work as 'domestic' source of pressure on government. This may be perceived as more legitimate and likely than the one coming from other member states.

On the latter, it is clear that within the Council¹⁴ peer pressure does not work. One reason for this is the low incentive to name and shame those who do not comply with rules and recommendations and rather to collude with them, hoping in similar behaviour if necessary. Another possible explanation is the ‘small country syndrome’. Each individual country has little incentive to invest in the analytical capacity needed to make a meaningful contribution on the reforms programmes and the recommendations for other countries. The only country that has undertaken this investment seems to be Germany. The German Ministry of Finance has specialists who follow the economy of other member states closely enough to be able to form an independent opinion on what is needed in terms of reform. However, most other countries, especially the smaller ones, have either not shown interest or do not have the capacity to make a similar investment. Why should every country have enough capacity to follow every other country? With 19 euro area member countries, the entire matrix contains over 240 bilateral combinations. It rather makes sense to reap economies of scale by centralising the analytical work in the Commission. But the downside is that the process of peer pressure cannot work when it comes to looking at the details of the CSRs and their implementation.

As emphasized by Gros and Alcidi (2014) when it comes to the specific actions that the President of the Eurogroup could promote, there is little he can do to enforce action by member states, whether individually or collectively, but it could contribute to the implementation of the recommendations addressed to the euro area as a whole.

Recommendations are formulated independently by the Commission, who has also the prerogative to propose sanctions. In principle, peer pressure is the only area where there is room for improvement. It remains to be seen whether in the future peer pressure can be more effective than in the past.

6. Conclusion

The recommendations dispensed in the context of the 2015 European Semester focussed in a more marked fashion, compared to previous year, on structural reforms. While structural reforms are in general welcome, we find that they are often poorly defined. Economists and policy makers disagree under which conditions which reforms work, and reforms take time to deliver. In the context of the EU governance the additional complication comes from the fact that the rationale at EU level for such reforms is weak in normal times and the Commission and the Council have no concrete tool to ensure the enforcement.

In the current institutional framework the only coordination instrument that could be boosted is peer pressure across member states, but also coming from other level (e.g. domestic). In the past this has not worked and it should be considered that additional peer pressure could come at the cost of complicating even further the existing governance system.

¹⁴ In the framework of the open method of coordination peer pressure has an explicit role. “[It] may provoke member states into action when they would not have acted on these issues of their own accord. The role of the European Parliament in this process is seen to be very limited and mostly confined to giving advice, while the Commission's role is limited as well to mere monitoring and surveillance”.

www.europarl.europa.eu/EPRS/EPRS-AaG-542142-Open-Method-of-Coordination-FINAL.pdf

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Annex

Germany – recommendations on Service sector

2011	2012	2013	2014	2015
CSRs on Service sector competition				
<p><i>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</i></p>	<p>Continue efforts to keep the overall economic costs of transforming the energy system to a minimum, including by accelerating the expansion of the national and cross-border electricity and gas networks. Ensure that the institutional set-up guarantees effective competition in railway markets. <i>Take measures to further stimulate competition in the services sectors, including professional services and certain crafts, in particular in the construction sector.</i></p>	<p>Take measures to further stimulate competition in the services sectors, including certain crafts – in the construction sector in particular – and professional services to boost domestic sources of growth. Take urgent action to significantly increase the value of public contracts open to procurement. Adopt and implement the announced legislative reform to improve the enforcement of competition law regarding competition restrictions. Remove planning restrictions which unduly restrict new entries in the retail sector. Take further measures to eliminate barriers to competition in the railway markets. Pursue efforts for consolidation in the banking sector, including by improving the governance framework.</p>	<p>Take more ambitious measures to further stimulate competition in the services sector, including certain professional services, also by reviewing existing regulatory approaches and converging towards best practices across Länder. Identify the reasons behind the low value of public contracts open to procurement under EU legislation. Increase efforts to remove unjustified planning regulations which restrict new entries in the retail sector. Take action to remove the remaining barriers to competition in the railway markets. Pursue consolidation efforts in the Landesbanken sector, including by improving the governance framework.</p>	<p>Take more ambitious measures to stimulate competition in the services sector, in particular in professional services, by eliminating unjustified restrictions such as legal form and shareholding requirements and fixed tariffs. To this end, conclude the ongoing domestic review of these barriers and take follow-up measures. Remove the remaining barriers to competition in the railway markets, in particular in long-distance rail passenger transport.</p>
⇒ EC Assessment	<p>Insufficient progress in minimising the costs of transforming the energy system. Some progress in setting the conditions for accelerating the expansion of the networks. Limited progress in ensuring competition in the railway markets. Limited progress in stimulating competition in the service sectors.</p>	<p>Limited Progress: Limited progress in taking measures to further stimulate competition in the service sector. Germany has undertaken isolated reforms in specific professions and regions. Limited progress in increasing the value of public contracts open to procurement. Steps in the right direction, including the development of a database on procurement procedures. Full implementation of improved enforcement of competition law as regards competition restrictions. The revised Act against Competition Restrictions came into force in 2013. No progress in removing planning regulations that unduly restrict new entries in the retail sector. Limited progress in taking measures to eliminate barriers to competition in the railway markets. No significant steps to improve competition in the railway markets. The NRP announces the</p>	<p>Limited Progress: Limited progress as regards stimulating competition in the services sector. Germany is participating in the mutual evaluation exercise provided for in the Directive amending the Professional Qualifications Directive. However, no major changes can be expected before the end of that exercise or before the deadline for submission of the national action plan. On legal form and shareholding restrictions, limited changes are underway in some federal states, but there is still no broad review of such restrictions. Limited progress in identifying the reasons behind the low value of public contracts open to procurement under EU legislation. The Federal Ministry for Economic Affairs and Energy presented an interim report</p>	

		<p>transposition of European legislation into national law.</p> <p>Limited progress in pursuing efforts for consolidation in the banking sector, including by improving the governance framework. While Commission state-aid decisions have driven the restructuring of Landesbanken, no major measures have been taken to address possible impediments to market-driven consolidation in the public banking sector.</p>	<p>of a statistical study aimed to build a statistical database. No progress as regards restrictions in retail.</p> <p>Limited progress in improving competition in the railway markets. Germany has announced the preparation of a new proposal to transpose Directive 2012/34/EU in 2015). The federal government and Deutsche Bahn AG have signed a new infrastructure financing agreement. No progress in pursuing consolidation efforts in the Landesbanken sector.</p>	
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Italy: CSRs on labour market, Services and Taxation

CSRs Labour market				
2011	2012	2013	2014	2015
<p>Reinforce measures to combat segmentation in the labour market, also by reviewing selected aspects of employment protection legislation including the dismissal rules and procedures and reviewing the currently fragmented unemployment benefit system taking into account the budgetary constraints. Step up efforts to fight undeclared work. In addition, take steps to promote greater participation of women in the labour market, by increasing the availability of care facilities throughout the country and providing financial incentives to second earners to take up work in a budgetary neutral way.</p>	<p>Adopt the labour market reform as a priority to tackle the segmentation of the labour market and establish an integrated unemployment benefit scheme. Take further action to incentivise labour market participation of women, in particular through the provision of childcare and elderly care. Monitor and if needed reinforce the implementation of the new wage setting framework in order to contribute to the alignment of wage growth and productivity at sector and company level.</p>	<p>Ensure the effective implementation of the labour market and wage setting reforms to allow better alignment of wages to productivity. Take further action to foster labour market participation, especially of women and young people, for example through a Youth Guarantee. Strengthen vocational education and training, ensure more efficient public employment services and improve career and counselling services for tertiary students. Reduce financial disincentives for second earners to work and improve the provision of care, especially child- and long-term care, and out-of-school services. Step up efforts to prevent early school leaving. Improve school quality and outcomes, also by enhancing teachers' professional development and diversifying career development. Ensure effectiveness of social transfers,</p>	<p>Evaluate, by the end of 2014, the impact of the labour market and wage-setting reforms on job creation, dismissals' procedures, labour market duality and cost competitiveness, and assess the need for additional action. Work towards a more comprehensive social protection for the unemployed, while limiting the use of wage supplementation schemes to facilitate labour re-allocation. Strengthen the link between active and passive labour market policies, starting with a detailed roadmap for action by December 2014, and reinforce the coordination and performance of public employment services across the country. Adopt effective action to promote female employment, by adopting measures to reduce fiscal disincentives for second earners by March 2015 and providing adequate</p>	<p>Adopt the legislative decrees on the design and use of wage supplementation schemes, the revision of contractual arrangements, work-life balance and the strengthening of active labour market policies. Promote, in consultation with the social partners and in accordance with national practices, an effective framework for second-level contractual bargaining. As part of efforts to tackle youth unemployment, adopt and implement the planned school reform and expand vocationally oriented tertiary education.</p>

		notably through better targeting of benefits, especially for low-income households with children.	care services. Provide adequate services across the country to nonregistered young people and ensure stronger private sector commitment to offering quality apprenticeships and traineeships by the end of 2014, in line with the objectives of a youth guarantee. To address exposure to poverty and social exclusion, scale-up the new pilot social assistance scheme, in compliance with budgetary targets, guaranteeing appropriate targeting, strict conditionality and territorial uniformity, and strengthening the link with activation measures. Improve the effectiveness of family support schemes and quality services favouring low-income households with children.	
EC Assessment	<p>Some progress In line with the CSR, an ambitious reform of the labour market was adopted in June 2012, but still requires the adoption of implementing decrees for some of its provisions. Although measures were adopted to encourage female participation in the labour market, their scope remains narrow. Furthermore, the measures regarding the provision of childcare and elderly care remain at a general stage and have limited scope. On wage bargaining, an agreement was signed by the social partners in 2012. It promotes decentralised bargaining and acknowledges the need to link wages not only to inflation but also to the economic and competitive conditions of the country of the sector concerned.</p>	<p>Limited Progress:</p> <p>Some progress in implementing the labour market and wage-setting reforms. Most implementing legislation of the 2012 labour market reforms has been adopted. The March 2014 decree law further simplifies the regulation of fixed-term and apprenticeship contracts. Criteria for representativeness in collective bargaining were set in January 2014, which may foster decentralisation of bargaining. The measures to upgrade public employment services however still need to be implemented and the effectiveness of active labour market policies remains low. The national reform programme announces further measures as regards to contractual simplification, the reform of unemployment benefits and the systematisation of active labour market policy. Limited progress has</p>	<p>Some Progress:</p> <p>Some progress was made to reduce segmentation, increase exit flexibility, reform passive and active labour market policies and foster participation. A broad-ranging enabling law for reforming the labour market was adopted in December 2014, with two important legislative implementing decrees on employment protection and the revision of unemployment benefits being already adopted and two, respectively on labour contracts and work-life balance, subject to the non-binding opinion of the Parliament. Other implementing legislative decrees (on active labour market policies, review of wage-supplementation schemes and inspections) are expected to follow before June 2015.</p>	

		<p>been made in addressing youth unemployment. Some measures were taken but their scope and the resources allocated are limited. The Youth Guarantee Implementation Plan is being examined by the Commission. Limited progress on women's labour market participation, with regard to both childcare and long-term care and disincentives to work for second earners. Some measures to reduce disincentives to work for secondearners and foster parenthood are included in an enabling law adopted by the government in April 2014. Some progress on the effectiveness of social transfers. A 'social inclusion card' pilot project targeted to low income households with children is in place and is planned to be extended to the whole territory. Limited progress on education. Measures have been taken on career guidance and early school leaving. Initiatives to strengthen vocational education and training are of limited scope and impact. The issue of enhancing the teaching profession remains largely unaddressed.</p>	<p>Limited progress was made on youth unemployment. The implementation of the Youth Guarantee started in May 2014 but take-up is limited.</p> <p>Limited progress was made to address exposure to poverty. A pilot project on the social inclusion scheme (SIA) has been carried out in 12 metropolitan cities. Under the labour market reform, an unemployment assistance scheme is being established (ASDI).</p>	
CSRs Service sector and business environment				
2011	2012	2013	2014	2015
<p>Extend the process of opening up the services sector to further competition, including in the field of professional services. Adopt in 2011 the Annual Law on Competition, taking into account the recommendations presented by the Antitrust Authority. Reduce the length of contract law enforcement procedures. Further strengthen actions to promote the access of SMEs to capital markets by</p>	<p>Implement the adopted liberalisation and simplification measures in the services sector. Take further measures to improve market access in network industries, as well as infrastructure capacity and interconnections. Simplify further the regulatory framework for businesses and enhance administrative capacity. Improve access to financial instruments, in particular equity, to</p>	<p>Ensure the proper implementation of the measures aiming at market opening in the services sector. Remove remaining restrictions in professional services and foster market access for instance in the provision of local public services where the use of public procurement should be advanced (instead of direct concessions). Pursue deployment of the measures taken to improve market access conditions in</p>	<p>Approve the pending legislation or other equivalent measures aimed at simplifying the regulatory environment for businesses and citizens and address implementation gaps in existing legislation. Foster market opening and remove remaining barriers to, and restrictions on, competition in the professional and local public services, insurance, fuel distribution, retail and postal</p>	<p>Implement the simplification agenda for 2015-17 to ease the administrative and regulatory burden. Adopt competition-enhancing measures in all the sectors covered by the competition law, and take decisive action to remove remaining barriers. Ensure that local public services contracts not complying with the requirements on in-house awards are rectified by no later than end-2015.</p>

removing regulatory obstacles and reducing costs.	finance growing businesses and innovation. Implement the planned reorganisation of the civil justice system, and promote the use of alternative dispute settlement mechanisms.	network industries, in particular by setting-up the Transport Authority as a priority. Upgrade infrastructure capacity with focus on energy interconnections, intermodal transport and high-speed broadband in telecommunications, also with a view to tackling the North-South disparities.	services sectors. Enhance the efficiency of public procurement, especially by streamlining procedures including through the better use of eProcurement, rationalising the central purchasing bodies and securing the proper application of pre- and post-award rules. In local public services, rigorously implement the legislation providing for the rectification of contracts that do not comply with the requirements on in-house awards by 31 December 2014.	
EC Assessment	<p>Some progress: Important measures have been adopted to improve market functioning in services and network industries. Yet, risks can be identified as regards the proper implementation of some of them, the liberalisation of local public services halted, and areas for further action remain, for instance in fuel distribution, insurance, and postal services. Besides, only limited progress has been registered regarding the improvement of infrastructure in the electricity and gas sectors. Work on administrative simplification has continued. However, the draft law on simplification expected to supplement this effort has not been approved by the Italian Parliament. Several tools were introduced to ease firms' access to finance and improve research and innovation, but remain limited in scope.</p>	<p>Limited progress: Limited progress in fostering market access in services. Some efforts have been made to open up and modernise the services sector, particularly a reform of professional associations (implementation is proceeding, with some challenges for the legal profession). However as stressed by the Italian Competition Authority, the issue of procurement and provision of local public services remains high on the agenda and needs to be addressed. Substantial progress in improving market access conditions in energy;</p>	<p>Limited Progress: Some progress was made simplify the regulatory environment for business and citizens. The government has adopted the 'Simplification Agenda for 2015-17' to foster cooperation between central and regional governments in establishing a more coherent simplification framework and measures have been taken to simplify authorisation procedures in environmental and construction matters. Limited progress was made in improving public procurement. Measures to rationalise public procurement have taken and a draft enabling law for the reform of the public procurement code was tabled government. No progress was made to reform local public services. The deadline of end-2014 for rectifying contracts that do not comply with EU law has been postponed to end-2015. The observatory that is supposed to oversee the implementation of relevant legislation is not yet operational. The draft enabling law for the reform of the public</p>	

			<p>administration includes measures to reform local public services.</p> <p>Limited progress was made to address restrictions on competition in other sectors, for which a 'law for competition' has been announced. In the banking sector, the regulation concerning the portability of bank accounts was improved. The rental market for non-residential large buildings was opened. Italy is actively participating in the mutual evaluation exercise provided for in the Directive amending the Professional Qualifications Directive but has yet to complete its review.</p>	
CSRs Tax evasion and taxation of productive factors				
2011	2012	2013	2014	
	<p>Pursue the fight against tax evasion. Pursue the shadow economy and undeclared work, for instance by stepping up checks and controls. Take measures to reduce the scope of tax exemptions, allowances and reduced VAT rates and simplify the tax code. Take further action to shift the tax burden away from capital and labour to property and consumption as well as environment.</p>	<p>Shift the tax burden from labour and capital to consumption, property and the environment in a budgetary neutral manner. To this purpose, review the scope of VAT exemptions and reduced rates and of direct tax expenditures, and reform the cadastral system to align the tax base of recurrent immovable property to market values. Pursue the fight against tax evasion, improve tax compliance and take decisive steps against the shadow economy and undeclared work.</p>	<p>Further shift the tax burden from productive factors to consumption, property and the environment, in compliance with the budgetary targets. To this end, evaluate the effectiveness of the recent reduction in the labour tax wedge and ensure its financing for 2015, review the scope of direct tax expenditures and broaden the tax base, in particular on consumption. Ensure more effective environmental taxation, including in the area of excise duties, and remove environmentally harmful subsidies. Implement the enabling law for tax reform by March 2015, including by adopting the decrees leading to the reform of the cadastral system to ensure the effectiveness of the reform of immovable property taxation. Further improve tax compliance by enhancing the predictability of the tax system, simplifying procedures, improving tax debt recovery and</p>	

			modernising tax administration. Pursue the fight against tax evasion and take additional steps against the shadow economy and undeclared work	
EC Assessment	Limited progress After the ambitious measures adopted over 2010- 11, progress towards further shifting the tax burden from labour and capital to property and consumption has been limited. Relevant measures were contained in a draft enabling law for reforming the tax system to improve tax compliance, simplify the tax system and enhance its efficiency but remained at the stage of projects since the law has not been adopted by the Italian Parliament. Italy has implemented targeted measures to enhance the tools available to the tax administration to efficiently tackle tax evasion.	<p>Limited Progress:</p> <p>Some progress in shifting the tax burden away from productive factors. The 2014 Stability Law decreased the tax burden on labour and further measures were taken in April 2014 to reduce the tax wedge, but fully financed only for 2014. The standard rate of VAT was raised but VAT exemptions and reduced rates have not been reviewed. Furthermore there has been no structural reform of direct tax expenditure and cadastral values have not been updated to reflect real market values (an enabling law to these purposes was adopted in March 2014).</p> <p>Limited progress to reform taxation, improve tax compliance and reducing tax evasion. The government has undertaken additional enforcement measures but decisive action to improve tax compliance and reduce tax evasion is missing. The March enabling law on taxation includes measures that, once implemented, could represent a significant step forward. Progress on reducing the shadow economy and undeclared work has been limited.</p>	<p>Some Progress:</p> <p>Some progress was made in shifting taxation away from labour. A tax credit (of EUR 10 billion or 0.6% of GDP per year) was introduced for lowincome earners in April 2014 and the labour component was excluded from the calculation of the regional business tax (IRAP) from Jan 2015. For new hires under open-ended contracts in 2015, private sector employers will not pay social security contributions for three years. Limited progress was made on tax expenditures, environmental taxation, and removal of environmentally harmful subsidies. Some progress was made to simplify procedures (including pre-filled tax returns) and improve compliance (including measures to prevent carousel fraud in VAT and facilitate voluntary disclosure). A report on tax evasion was published in October 2014, which assesses the tax gap (EUR 91 billion).</p>	
CSRs Euro Area				
2011	2012	2013	2014	2015
Strictly adhere to the budgetary targets set out in their 2011 Stability Programmes as well as the Memoranda of Understanding in	Strengthen the working methods of the Eurogroup to allow it to take responsibility for the aggregate policy stance in the euro area, effectively	Take responsibility for the aggregate policy stance in the euro area in order to ensure the good functioning of the euro area to increase growth and	Take forward work on deepening Economic and Monetary Union and contribute to the improvement of the economic surveillance framework in	Use peer pressure to promote structural reforms that facilitate the correction of large internal and external debts and support

<p>Member States receiving EU/IMF financial assistance and, where applicable, reinforce consolidation efforts in line with the opinion delivered by the Council. In particular, ensure adequate fiscal efforts with a view to correcting excessive deficits and approaching medium-term budgetary objectives. Use any fiscal windfalls to accelerate adjustment. This should also help to improve public debt dynamics.</p>	<p>responding to changes in the economic environment, and to lead the coordination of economic policy in the context of the strengthened surveillance framework which applies to the euro area member states.</p>	<p>employment, and to take forward the work on deepening Economic and Monetary Union. Allow the Eurogroup to play a central role in the strengthened surveillance framework applicable to euro area member states to coordinate and monitor reforms at national and at the euro area level that are necessary for a stable and robust euro area and to ensure policy coherence, and in the preparation of the Euro Summits.</p>	<p>the context of the reviews foreseen for end 2014.</p>	<p>investment. Regularly assess the delivery of reforms in those member states which require specific monitoring within the framework of the Macroeconomic Imbalances Procedure. Continue the regular thematic assessment of structural reforms. By spring 2016, take decisions on the follow-up to the coordination exercise on reducing the high tax wedge on labour and on reforming services markets.</p>
<p>Ensure fiscal discipline at both national and sub-national levels, notably by introducing or reinforcing sufficiently strong and binding fiscal frameworks.</p>	<p>Intensify policy cooperation in the Eurogroup by sharing information and discussing budgetary plans and the plans of major reforms with potential spillovers effects on the euro area. Ensure that such reforms are undertaken that are necessary for a stable and robust euro area, including the implementation of the recommendations which the Council has addressed to individual euro area member states and which, in addition to addressing challenges at national level, have an impact on the euro area as a whole.</p>	<p>Ensure that the Eurogroup monitors and coordinates fiscal policies of the euro area member states and the aggregate fiscal stance for the euro area as a whole to ensure a growth friendly and differentiated fiscal policy. To this end the Eurogroup should discuss the Commission opinions of the draft budgetary plans of each of the euro area member states, and the budgetary situation and prospects for the euro area as a whole on the basis of the overall assessment by the Commission of the draft budgetary plans and their interaction. The coordination shall contribute to ensuring that the pace of fiscal consolidation is differentiated according to the fiscal and economic situation of the euro area member states with the budgetary adjustment defined in structural terms in line with the Stability and Growth Pact, allowing the automatic stabilisers to function along the adjustment path and that, in view of reinforcing the credibility of fiscal policy over the medium term, fiscal consolidation is supported by an overall efficient and growth-friendly mix of expenditure and revenue and by appropriate</p>	<p>Coordinate fiscal policies of the euro area member states, in close cooperation with the Commission, in particular when assessing draft budgetary plans to ensure a coherent and growth-friendly fiscal stance across the euro area. Improve the quality and sustainability of public finances by prioritising material and immaterial investment at national and EU levels. Ensure that national fiscal frameworks, including national fiscal councils, are strong.</p>	<p>Coordinate fiscal policies to ensure that the aggregate euro area fiscal stance is in line with sustainability risks and cyclical conditions. This is without prejudice to the fulfilment of the requirements of the Stability and Growth Pact. By spring 2016, hold thematic discussions on improvements in the quality and sustainability of public finances, focussing in particular on the prioritisation of tangible and intangible investment at national and EU levels, and on making tax systems more growth friendly. Monitor the effective functioning of the recently strengthened national fiscal frameworks.</p>

		structural reforms which enhance the economic growth potential.		
Continue to implement reforms to social security systems that ensure fiscal sustainability with due regard to the adequacy of pensions and social benefits, notably by aligning pension systems with the national demographic situation.	Strengthen fiscal discipline and fiscal institutions at both national and subnational levels to enhance market confidence in the medium and long-term sustainability of public finances in the euro area. Following the agreement by the euro area Heads of State or Government in July and October 2011 and on 2 March 2012, advance the transposition of Directive 2011/85/EU to the end of 2012 and strengthen fiscal governance further, in particular by introducing in the national legislation of all euro area member states the rules for balanced budget in structural terms and the automatic correction mechanisms.	Assess, in the framework of the Eurogroup, the reasons behind the differences in lending rates especially to SMEs across the euro area member states; explore the consequences of the fragmentation of the financial markets in the euro area and contribute to ways to overcome it.	Ensure the resilience of the banking system, in particular by taking the necessary action in the follow up of the asset quality review and the stress tests, and by implementing the Banking Union regulations and taking forward the further work foreseen in the SRM transition period. Stimulate private sector investment and increase the flow of credit to the economy via actions to improve access to credit by SMEs, deepening of capital markets, restarting the securitisation market, based on the proposals and the calendar in the Commission Communication on longterm financing of the European economy.	Ensure the timely finalisation of the follow up of the Comprehensive Assessment carried out by the European Central Bank, implementation of Directive 2014/59/EU of the European Parliament and of the Council (1) (Bank Recovery and Resolution Directive), completion of the ratification of the Intergovernmental Agreement on the Single Resolution Fund and make the Fund fully operational as from January 2016. Promote measures to deepen marketbased finance, to improve access to finance for SMEs and to develop alternative sources of finance. Encourage further reforms of national insolvency frameworks.
Improve the functioning and stability of the financial system, following up immediately on the forthcoming EU-wide stress tests to ensure that the banking sector continues to strengthen its resilience to possible further losses or funding constraints and that non-viable financial institutions are able to restructure or exit the market without creating undue tensions on financial markets.	Based on the European Council Conclusions of 1-2 March 2012, ensure a coherent aggregate fiscal stance in the euro area by pursuing fiscal consolidation as set out in Council recommendations and decisions, in line with the rules of the Stability and Growth Pact, which take into account the country-specific macro-financial situations. Member states affected by significant and potentially rising risk premia should limit deviations from the nominal balance targets even against worse-than-expected macroeconomic conditions; other member states should let the automatic stabilisers play along the adjustment path assessed in structural terms and stand ready to review the pace of consolidation should macroeconomic conditions deteriorate further. Composition of government	Building on the recapitalisation and the restructuring of the past years, promote further balance-sheet repair among banks as a means to reverse fragmentation in the single market and improve the flow of credit to the real economy, particularly SMEs. To this end: (a) ensure that the balance sheet assessments and stress tests to be conducted by the Single Supervisory Mechanism (SSM) in cooperation with the European Banking Authority (EBA) are concluded in accordance with the agreed timeline; (b) ensure a level playing field in applying burden-sharing requirements in the recapitalisation of banks; (c) ensure the availability of credible fiscal backstops in the context of balance sheet assessments and stress tests; (d) remove supervisory incentives for banks to match asset and liabilities	Promote and monitor, in close cooperation with the Commission, the implementation of structural reforms in those areas most relevant for the smooth functioning of the euro area in order to foster growth and convergence and adjustment of internal and external imbalances. Assess and stimulate progress in delivering on reform commitments in euro area member states experiencing excessive imbalances and in reform implementation in the euro area member states with imbalances requiring decisive action, to limit negative spillovers to the rest of the euro area. Foster appropriate policies in countries with large current account surpluses to contribute to positive spillovers. Regularly hold thematic discussions on structural reforms in the labour and product	Take forward work on deepening Economic and Monetary Union, and contribute to the improvement of the economic surveillance framework in the context of the report on the next steps on better economic governance in the euro area, prepared by the President of the European Commission, Jean-Claude Juncker, in close cooperation with the President of the European Council, Donald Tusk, the President of the European Parliament, Martin Schulz, the President of the European Central Bank, Mario Draghi, and the President of the Eurogroup, Jeroen Dijsselbloem, and its follow-up.

	<p>expenditure and revenues should reflect the growth impact of spending items and revenue sources. In particular, all the available budgetary margins should be used to foster public investment in the euro area, including by taking into account cross-country differences in the cost of funding.</p>	<p>within national borders; and (e) accelerate the necessary steps to establish the Banking Union, as outlined by the European Council.</p>	<p>markets with potentially large spillovers, focussing on reducing the high tax wedge on labour and reforming services markets.</p>	
<p>Pursue further tax reforms which give priority to growth-friendly sources of taxation while preserving overall tax revenues, in particular by lowering taxes on labour to make work pay; when reducing public expenditure, protect growth-enhancing items such as spending on research and development, education and energy efficiency; where necessary adjust wage setting arrangements and indexation mechanisms, in consultation with social partners and in accordance with national practices, so as to ensure that wages are evolving in line with productivity, competitiveness and the employment situation.</p>	<p>Take action to improve the functioning and stability of the financial system in the euro area. Accelerate the steps towards a more integrated financial architecture, comprising banking supervision and crossborder crisis resolution.</p>	<p>Coordinate ex ante the major economic reform plans of the member states whose currency is the euro. Monitor the implementation of structural reforms, notably in the labour and product markets and assess their impact on the euro area, taking into account the Council recommendations to individual euro area member states. Promote further adjustment in the euro area, ensuring a correction of external and internal imbalances, inter alia by following thoroughly the reforms that address distortions to saving and investment behaviour in member states with both current account deficits and surpluses. Take the necessary steps for an effective implementation of the Macroeconomic Imbalances Procedure, notably by assessing progress in reform commitments in member states experiencing excessive imbalances and in reform implementation in member states with imbalances requiring decisive action to limit negative spillovers to the rest of the euro area.</p>		
<p>Introduce further reforms to enhance competition in service sectors, in particular by removing unjustified restrictions on professional services, retailing and network industries.</p>	<p>Implement structural reforms, which also promote flexible wage adjustments, and which – together with a differentiated fiscal stance – would promote an orderly unwinding of intraeuro area macroeconomic imbalances and thus growth and jobs.</p>	<p>In line with the AGS 2013, it is crucial for the euro area member states to take collective and significant measures in order to tackle the social consequences of the crisis and the rising unemployment levels. The situation of unemployed young people is</p>		

	This would include action at national level which reflects the country-specific situation and takes account of the Council recommendations to individual euro area member states.	particularly worrying and bold action is recommended along the lines of the Compact for Growth and jobs and the EU Youth Guarantee. Further reforms to facilitate access to employment, prevent early withdrawals from the labour market, reduce the cost of labour, combat labour market segmentation and support innovation are recommended.		
Fully implement the commitments made in the Euro Plus Pact so as to enhance growth, competitiveness and employment within the area.				