

Countries are still slow to follow European Union policy recommendations

Despite broad adherence to pandemic-related fiscal guidance, EU countries have not speeded up reform in difficult areas

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The main product of the European Semester – the European Union’s annual process of coordinating member-country economic policies – is country-specific recommendations (CSRs). These, proposed by the European Commission and endorsed by the Council of the EU after possible amendments, aim to enforce the EU’s fiscal and macroeconomic imbalances rules and to advise EU countries on how to foster growth, ensure fiscal and macroeconomic sustainability, address climate change challenges and improve social cohesion, among other areas.

However, making recommendations to countries does not guarantee their implementation. From the beginning of the European Semester in 2011, the CSR implementation rate was modest. It gradually worsened until the COVID-19 pandemic (Figure 1), and was not higher than the implementation rate by EU countries of unilateral recommendations from the Organisation for Economic Co-operation and Development (Darvas and Leandro, 2015).

Weak implementation of CSRs could be explained by the inherent difficulty in influencing national policy decisions (Darvas and Leandro, 2015), the lack of coherence with political parties’ programmes (Maatsch, 2017) and limited involvement of national parliaments in the CSR process (Hagelstam *et al*, 2018). In the pre-pandemic period, CSR implementation was better in situations of greater financial-market pressure, larger fiscal and current account deficits, better quality governance, more fragmentation of government coalitions and fewer recommendations received

(Efstathiou and Wolff, 2022). Meanwhile, implementation worsened when the economic environment improved and market pressure on sovereigns lessened¹.

However, there was a major increase in implementation during the pandemic, though there have been some setbacks since then.

Figure 1: Implementation of CSRs (all policy areas)



Source: Bruegel based on the European Commission’s CSR database. Note: qualitative scores assigned by the Commission are converted to numerical scores, following Deroose and Griesse (2014): full implementation = 1; substantial progress = 0.75; some progress = 0.5; limited progress = 0.25; and no progress = 0. The averages across all countries for all evaluated CSRs are reported. 2012, 2013 and 2021 CSRs were not evaluated three years later. In 2024, CSRs given in 2019, 2020, and 2023 were evaluated – for 2023, this is the ‘1 year later’ evaluation.



When the EU launched its landmark pandemic-recovery programme, NextGenerationEU (NGEU) and its main instrument, the Recovery and Resilience Facility (RRF) in 2021, one of the eleven requirements for EU countries to receive investment and reform support was to address all or a significant subset of challenges identified in the relevant CSRs. These were the 2019 and 2020 CSRs for the first 25 countries that submitted their the National Recovery and Resilience Plans (NRRPs), in which reform and investment plans were set out, while for the Netherlands and Hungary, the 2019, 2020 and 2022 CSRs were considered. The Commission assessed compliance with this requirement as follows: A) the NRRP contributes to effectively addressing all or a significant subset of CSRs, B) the NRRP contributes to partially addressing all or a significant subset of CSRs, and C) the NRRP does not contribute to addressing any CSR. The Commission gave all EU countries the best A score. This might suggest that the RRF was instrumental in fostering the implementation of the 2019-2020 CSRs.

In fact, the average implementation rate for 2019-2020 CSRs (which were incorporated in the NRRPs) increased little. Where it did, it was mainly attributable to easier fiscal recommendations. The implementation of 2022-2023 CSRs remains low. The implementation rate for 2020, and especially 2021, fiscal recommendations increased significantly partly because some of the recommendations were relatively easy to comply with, because they required what countries were doing anyway: addressing the adverse effects of the pandemic. However, there was no increase in difficult reform areas for which pre-pandemic implementation rates were low.

CSRs during the pandemic

When the pandemic hit, CSRs mainly focused on addressing its adverse impacts. For example, in 2020, the first two sentences of the first CSR for all EU countries except Romania² were identical:

"In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment."

The third sentence of this CSR for each country recommended strengthening the resilience of the health system, with slightly different wording for different countries.

For most countries, the second CSR recommended the provision of adequate income replacement, access to social protection and mitigating the employment impact of the crisis. The third CSR for most countries recommended measures to provide liquidity to the real economy, frontload public investment and promote private investment with a focus on the green and digital transitions. Some specific sectors for investment were listed for certain countries.

Only the last of the 2020 CSRs for each country included issues that were indeed country-specific. Examples included reducing the regulatory and administrative burden for businesses (Germany), improving the efficiency of the judicial system and the effectiveness of public administration (Italy), safeguarding judicial independence and the involvement of social partners in the policymaking process (Poland) and improving the effectiveness of anti-money laundering supervision (Sweden).

Thus, most of the 2020 CSRs recommended what countries were anyway doing: addressing the adverse impact of the pandemic.

In 2021, only fiscal recommendations were issued. Romania received only one recommendation³, while the other 26 countries each received four. Among these four recommendations, the first, for countries with healthier fiscal positions, was:

*"In 2022, maintain a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment. Keep the growth of nationally financed current expenditure under control"*⁴.

For countries with more serious fiscal challenges, the first recommendation was:

"In 2022, use the Recovery and Resilience Facility to finance additional investment in support of the recovery while pursuing a prudent fiscal policy. Preserve nationally financed investment. Limit the growth of nationally financed current expenditure."

While following this recommendation was crucial, it was an easy recommendation at a time when European fiscal rules were suspended. The average implementation score of the 26 countries was 0.83 as evaluated in 2022, suggesting a high level of compliance with this CSR.

The second 2021 recommendation was more forward-looking: *"When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term."* The average implementation score for this was 0.67.

The third 2021 recommendation suggested to *"enhance investment to boost growth potential"* – which was augmented with some details, such as the composition of public finances and prioritising investment that would support the green and digital transitions. The average implementation score for this was 0.59.

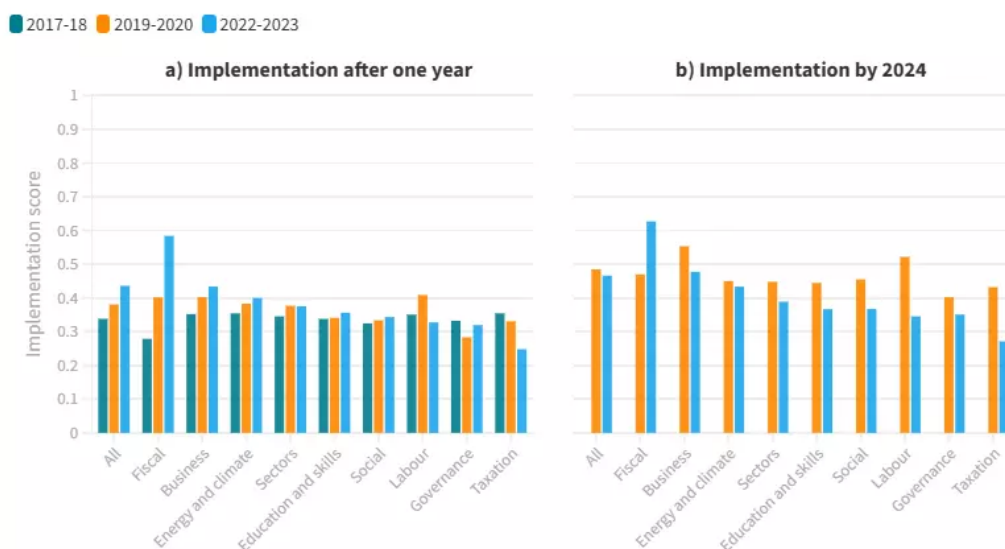
The fourth recommendation in 2021 was the most difficult: *"Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all"* (for some countries, the "where relevant" clause was not included.) The average score for this was 0.39.

Thus, only fiscal recommendations were made in 2021, and addressing them seems not to have been difficult.

Implementation by policy area

The Commission classifies CSRs into 63 policy areas, some of which overlap. To facilitate analysis of their implementation rates, we have classified them into 16 broader categories. For example, a ‘fiscal’ category has been derived by combining four of the 63 policy areas: ‘fiscal policy & fiscal governance’, ‘budgetary framework and fiscal governance’, ‘long-term sustainability of public finances, inc. pensions’, and ‘pension systems and active ageing’ (see the annex for all categories). Figure 2 includes policy areas with at least 5 CSRs in each year.

Figure 2: Implementation of CSRs by main policy area, 2017-2018, 2019-2020 and 2022-2023



Source: Bruegel based on the Commission's CSR database. Note: See note to Figure 1 for scores. The averages across all countries for all evaluated CSRs are reported. The 2017-2018 CSRs were not evaluated in 2024 and therefore these are missing from panel B.



There was a significant increase in the implementation of fiscal recommendations (one year after the recommendations) from the lows of 2017-2018 (0.28) to 2022-2023 (0.59) (Figure 2, Panel A). The 2022-2023 fiscal recommendations also included some easier tasks, such as increasing (in the 2022 recommendations) and preserving (in the 2023 recommendations) green and digital investment with the help of RRF and

RePowerEU (average score was 0.73 for this 2022 recommendation and 0.76 for this 2023 recommendations). There were also more difficult fiscal recommendations, such as improving the long-term fiscal sustainability of public finances, including the sustainability of the pension system, for which lower implementation scores on average were obtained (0.34).

There was also a notable increase in the one-year implementation rates of business environment recommendations from 0.35 in 2017-2018 to 0.43 in 2022-2023. Yet in all other major policy areas, there were minor or no changes, including for 2019-2020 CSRs, which were incorporated in NRRPs. Apart from fiscal recommendations, the 2022-2023 one-year implementation rates remained low, between 0.25 (taxation) and 0.43 (business).

Implementation lags could partly explain the low scores after one year. Yet scores for 2019-2020 CSR implementation by 2024 are not high either and just marginally exceed 0.5 (implying partial progress on average) for business and labour CSRs, and fall below 0.5 for the other main categories (Figure 2, Panel B).

Summary: no substantial speeding up

The increased implementation rates of CSRs compared to the pre-pandemic low values were primarily driven by fiscal recommendations, which included some easier recommendations, such as fiscally supporting the economy when the pandemic hit and utilising the RRF. Beyond some increases in CSR implementation rates related to the business environment, there were hardly any changes in the low implementation rates of other areas necessitating difficult structural reforms, including the labour market, governance and taxation.

It is therefore a puzzle why the financial incentives offered by the RRF have not resulted in a substantial increase in implementation rates. One issue could be timing, because after four or five years, 2019-2020 CSR implementation rates are somewhat higher, yet for most areas, they still fall short of 'partial progress' on average. Another issue is whether NRRPs have incorporated CSRs as well as the Commission said they did. The European Court of Auditors (2022) made several critical remarks about the Commission's assessments of the incorporation of CSRs in the NRRPs.

With the re-activation of European fiscal rules, several EU countries will have to implement potentially difficult fiscal consolidation strategies. Therefore the fiscal CSR

implementation rates might decline in future.

Overall, influencing national policy decisions via the European Semester remains a challenge.

References

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Annex: dataset description

The European Commission's CSR database included 30,390 records when accessed on 26 June 2024. Each record includes information about the year of recommendation, its number, content, policy area, whether it is related to the Macroeconomic Imbalances Procedure, whether it is annual or multiannual, the assessment year and the assessment according to five qualitative grades (full implementation, substantial progress, some progress, limited progress, and no progress) or other information ('Not assessed/no input to add', or 'CSR no longer relevant', or '-'). The dataset classifies recommendations into 63 policy areas, which we merged into 16 main categories:

1. **Fiscal:** Budgetary framework and fiscal governance; Fiscal policy & fiscal governance; Long-term sustainability of public finances, inc. pensions; Pension systems and active ageing.
2. **Taxation:** Broaden tax bases; Fight against tax evasion, improve tax administration & tackle tax avoidance; Reduce the debt bias; Reduce the tax burden on labour; Tax administration, tax evasion & tax avoidance; Taxation policy.
3. **Finance:** Access to finance; Access to finance & growth financing (incl. CMU); Anti-money laundering; Financial services; Financial services and financial stability.
4. **Private debt & insolvency:** Insolvency framework; Private indebtedness; Private sector debt & insolvency framework.
5. **Housing:** Housing; Housing market.
6. **Labour:** Active labour market policies; Active labour market policies, incentives to work & labour market participation; Employment protection legislation & framework for labour contracts; Functioning of the labour market, including framework for labour contracts & undeclared work; Incentives to work, job creation, labour market participation; Unemployment benefits; Wages & wage setting.
7. **Social:** Childcare; Early childhood education & care; Health & long-term care; Healthcare; Long-term care; Non-discrimination and equal opportunities; Poverty

reduction & social inclusion; Poverty, social inclusion & social protection.

8. **Education & skills:** Education; Skills & life-long learning; Skills, Vocational Education and Training & adult learning.
9. **Research:** Research & innovation.
10. **Digital:** Digital connectivity, infrastructure & market functioning; Digitalisation of public administration and public services; Digitalisation of businesses.
11. **Energy & climate:** Climate adaptation; Energy efficiency; Energy, resources & climate change; Environmental policy & resource management; Renewable energy, energy infrastructure & networks.
12. **Competition:** Competition & regulatory framework; Competition in services; Single market, competition & state aid.
13. **Business:** Business environment; Business environment (incl. SME policies).
14. **Sectors:** Telecom, postal services & local public services; Transport.
15. **Regional development:** Regional development & local public services.
16. **Governance:** Civil justice; Corruption; Justice system; Public administration; Public procurement & concessions; Quality of law making; Shadow economy & corruption; State-owned enterprises.

CSRs often have sub-components. For example, in 2023, Austria's first CSR had eight subcomponents (which belong to four of the 63 policy areas classified by the Commission), while Austria's second CSR included only one. In our calculations, we included all sub-components (and only the sub-components), because each of these corresponds to a specific recommendation and the subcomponents are evaluated separately.

Table 1 shows the number of recommendations from 2011 to 2023 according to whether implementation evaluation is included in the dataset or not, and among recommendations with an evaluation, the main policy areas. Since the dataset includes the evaluations of only 43 of the 271 recommendations made in 2011, the 2011 recommendations are not included in this analysis.

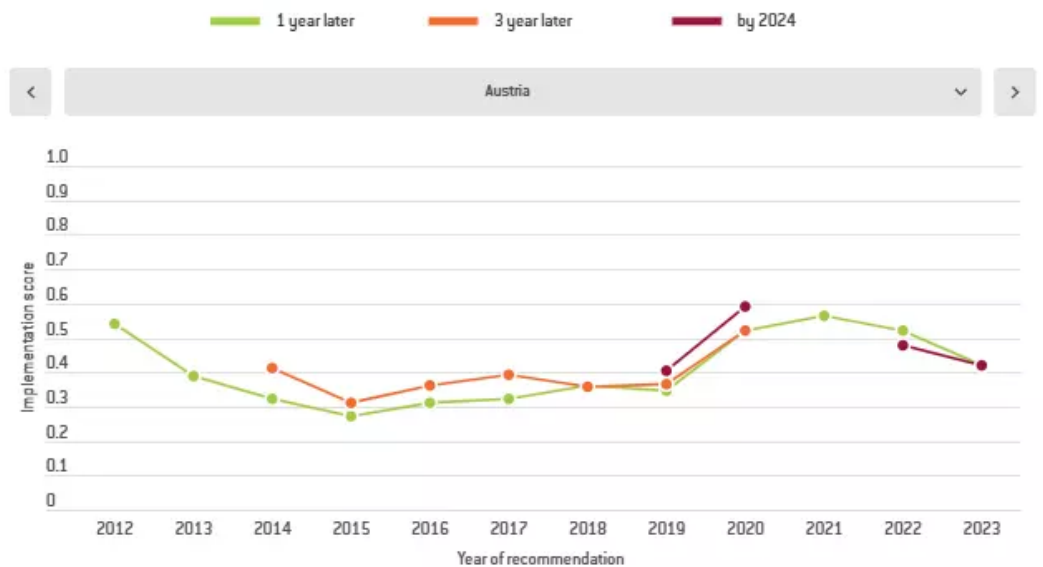
Table 1: Numbers of recommendations (subcomponents of CSRs)

	All recommendations			Recommendations with evaluation									
	Total	with evaluation	without evaluation	fiscal	taxation	finance	private debt & insolvency	housing	social	labour	education&skills	research	compe
2011	271	43	228	26	1	2	0	0	0	9	3	1	4
2012	377	295	82	82	25	18	1	8	26	63	40	8	20
2013	478	478	0	97	42	25	7	12	58	104	59	17	33
2014	533	505	28	98	50	37	23	11	65	139	61	16	42
2015	260	237	23	34	34	23	7	5	29	51	27	4	12
2016	272	247	25	43	22	19	11	6	34	54	23	15	20
2017	235	216	19	41	18	16	8	5	30	47	21	9	13
2018	222	205	17	38	18	15	9	7	31	40	24	12	12
2019	364	346	18	30	18	23	8	10	45	37	38	31	10
2020	398	397	1	58	10	36	2	0	59	37	32	23	2
2021	105	105	0	105	0	0	0	0	0	0	0	0	0
2022	360	309	51	89	16	2	2	5	31	7	12	2	1
2023	395	369	26	118	22	2	2	8	41	6	37	1	2

Source: Bruegel based on the Commission's CSR database.



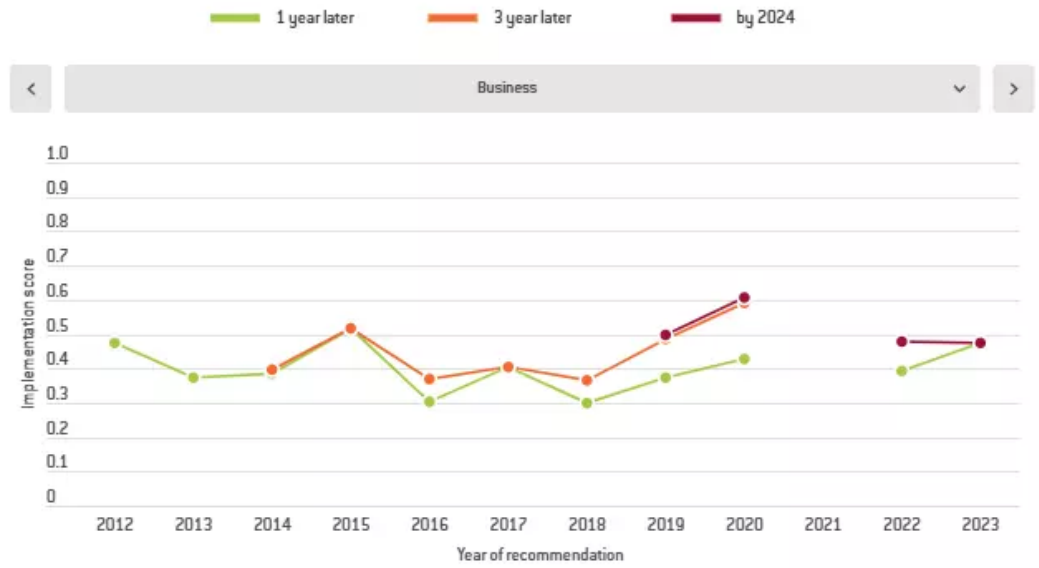
Figure 3: Implementation of CSRs (by countries, all policy areas)



Source/note: see Figure 1.



Figure 4: Implementation of CSRs (by policy areas, all countries)



Source/note: see Figure 1. Note: only cases with at least 5 evaluated CSRs are shown.



Endnotes

- 1 Deroose and Griesse (2014) argued that the difficulty of recommendations might increase over time, because countries might implement the 'easier' reforms first and postpone the more difficult. Implemented recommendations were not repeated in later years, but several non-fully implemented reforms were recommended again.
- 2 Romania was the only country subject to an excessive deficit procedure.
- 3 The single recommendation to Romania was: "Pursue fiscal policies in line with the Council Recommendation of 18 June 2021 with a view to bringing an end to the situation of an excessive government deficit".
- 4 For a few countries, instead of "maintain", the verb "pursue" was used.

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