INFONOTE
EU Semester and Economic Governance

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Background: the current situation

The *European Semester* is the **EU mechanism used to ensure coordination across economic and employment policies** amongst Member States. Introduced in 2011, as a response to the economic crisis and the need for better preparedness to respond to such shocks, it has undergone a series of changes, ranging from focusing solely on economic considerations to providing attention also to social policy through the introduction of a **social scoreboard that reflects the European Pillar of Social Rights** and to following up on **sustainability and green indicators** as of recently. The latest change includes the **alignment of the Semester with the Recovery and Resilience Facility** (i.e. the National Recovery and Resilience Plans of each Member State)[1]. The coordination foreseen is directly impacting the economic and structural reform programmes of the Member States as, through the Semester, the EU is identifying the investment priorities in each Member State and provides guidance on accessing funding for these priorities. A continuous lack of compliance with the EU's proposals can lead to corrective programmes and fines which are impacting the investment available at national level for the education and training sector.

The way the European Semester operates is based on the following cycle, composed of three 'packages':

- **Autumn Package,** released in **November**, sets up the **economic and social priorities of the EU** for the year, providing Member States with policy guidance and is composed of the following documents:
  - The *Annual Sustainable Growth Survey (ASGS)*, outlining the economic and employment policy priorities for the EU for the coming 12 to 18 months.
  - The *Alert Mechanism Report*, evaluating the potential economic imbalances in Member States which could trigger the EU to launch a macroeconomic imbalance procedure[2].
  - The *Joint Employment Report*, assessing the social and employment situation in Europe.
- **Winter Package**, released in **March**, providing an **analysis of the economic and social developments in the Member States**. This is performed after the EU Semester Officers engaged in **fact-finding missions to collect data in relation to the priorities of the EU**. At this moment, stakeholders can engage Semester Officers to share their own data and assessment of the issues

[1] European Commission (2023). Linking the European Semester and the Recovery and Resilience Facility, *here*.

[2] A Macroeconomic Imbalance Procedure is a surveillance mechanism that aims to identify potential macroeconomic risks early on, prevent the emergence of harmful macroeconomic imbalances and correct the imbalances that are already in place. It is done by a more thorough analysis of a country's situation in relation to a set of EU indicators.

experienced in different sectors across their country. The Winter Package contains the following documents:

- The *Country Reports*, providing an in-depth analysis of each Member State. A specific section of the reports is focused on Education & Training, with references to skills and investment in education being made across the entire document.

- **Spring Package**, released in **May**, providing the **final recommendations** of the European Commission connected with the **reconciliation between the priorities of the European Commission and the economic and social developments in each Member State**. These recommendations are based on consultations between the European Commission and Member States regarding the previously published Country Reports and regarding any National Reform Programmes which Member States foresee based on this analysis. National stakeholders can engage Member States governments in this process in the preparation of their national reforms. The Spring Package contains the following documents:
  - *Country Specific Recommendations* (CSRs), listing 3-4 recommendations for each Member State to address. These feed in the design of funding programmes as well as the reforms devised in each Member State.

In exceptional fashion, the European Semester is currently connected with the *Recovery and Resilience Facility* and the National Recovery and Resilience Plans (NRRPs). Therefore, any commitments made via the NRRPs will be streamlined across the CSRs, while any progress reporting on the work of Member States will be aligned to the reporting associated to the NRRPs. For this reason, the monitoring process on the implementation of the NRRPs is essential, as well as the inclusion of national civil society in this process, considering that it will influence the way in which the CSRs are developed.

Background: a proposed change of economic governance

This economic governance and coordination led to a set of fiscal rules, rigorously implemented in the aftermath of the 2008 economic crisis. **The rules are laid out by the Stability and Growth Pact (SGP) and its most recent updates in 2011 and 2013**. The SGP's central rules are the deficit and the debt rules. **The deficit one states that a country must not run a deficit higher than 3% of the GDP** and, if it incurs a small excess to that, then this is not the case for more than one year. **The debt rule states that a country's debt cannot be higher than 60% of the GDP**. However, if an excess is foreseen, there is a requirement for it to be decreasing by 1/20 on average over a three-year period. These rules are monitored via the European Semester, leading to corrective recommendations and sanctions if Member States diverge[3].

[3] European Commission (2023). Stability and Growth Pact, *here*.

The rules have been frequently portrayed as rigid for Member States, prolonging the economic post-crisis malaise due to limitations imposed on spending and the shackles of austerity[4]. This has gained more standing as the rules have been completely suspended during the COVID-19 pandemic to allow Member States to recover from the subsequent crisis. This action was largely lauded by the Commission in its Annual Sustainable Growth Survey of 2023[5]. **Although the rules are set to be unfrozen and operational once more in 2024, the EU institutions are launching a process of reviewing them due to the lessons learned during the pandemic and due to the implications of the energy crisis.** The first step in the review process has been a *European Commission Communication on orientations for a reform of the EU economic governance framework*, published on 9 November 2022.

The proposed new rules

The Commission Communication's suggestions aim to simplify the governance architecture by relying on one single indicator to measure a Member State's debt sustainability. **This indicator will be their net primary expenditure**[6]. This indicator and a debt sustainability analysis methodology will inform the European Commission's proposal for fiscal adjustment paths for Member States. This path is a four-year plan which ensures that the debt of each Member State is plausibly on a downward trend while the deficit can credibly remain below the 3% of GDP rule. Member States will respond to these proposed paths with their own medium-term fiscal path which outlines their priority reforms and public investment commitments. The Commission will evaluate the credibility of these plans and the Council will approve them based on the Commission's assessment. The suggestions further allow for more flexibility in tailoring the recovery path to Member State's needs and their capacity to service debts without putting a significant strain on their public investment. The successful implementation of the plan is represented by Member States being on a 10-year trajectory of debt reduction either at the end of the 4-year fiscal adjustment path or three years after the end of the plan depending on the risk grade that is assigned to their debt sustainability. Member States can extend their periods of grace via justifications for additional reforms[7].

In this Communication, the sanctions have also been overhauled, with smaller financial sanctions, with additional reputational sanctions, and with the continuous implementation of the macroeconomic conditionality which would see EU funding withheld for non-compliant Member States. In addition, the

[4] LLLP (2022). Position Paper 2022: Investment in Education and Training: A Public Good for All, *here*.
[5] European Commission (2022). Communication on Annual Sustainable Growth Survey, *here*.
[6] Net primary expenditure stands for the government's expenditure excluding discretionary revenue measures, interest expenditure and cyclical unemployment expenditure.
[7] European Commission (2022). Communication on orientations for a reform of the EU economic governance framework, *here*.

monitoring of Member States' pathways could be reformed as follows: updating the indicators associated with the Macroeconomic Imbalances Procedures and with the European Semester to monitor systemic challenges, notably related to climate change, environment and energy transition[8].

Way Ahead

A European Commission proposal, based on the Communication described above, is expected to arrive in the first quarter of 2023, and it will be discussed by the European Parliament and Council of the EU with the aim of adopting a reformed set of fiscal rules by the end of 2023 for their implementation in 2024.

[8] Ibid.