Implementing economic reforms – are EU Member States responding to European Semester recommendations?

By Servaas Deroose and Jörn Griesse

1. Introduction

In the wake of the economic and financial crisis, the European Union has thoroughly overhauled its economic governance arrangements. Not only have financial assistance mechanisms been created and a banking union set up, but fiscal rules have also been strengthened and complemented by wider macroeconomic surveillance through the introduction of the macroeconomic imbalances procedure. To integrate the various regular economic surveillance strands (fiscal, macroeconomic, as well as structural under the Europe 2020 strategy) and to allow interaction between the European and national level before policies are implemented, the European Semester for economic policy coordination was set up in 2011. The European Semester is complemented by a “national semester” of policy implementation. Together, they make up an annual surveillance cycle.

The fourth vintage of the European Semester was kicked off with the Annual Growth Survey of 13 November 2013 and completed on 7 July 2014 with the adoption of country-specific recommendations (CSRs) by the Economic and Financial Affairs Council. These economic reform recommendations for each EU Member State,1

### Summary

For the past four years, the EU has issued country-specific recommendations for economic reform to its Member States under the European Semester. A synthetic indicator of EU-wide implementation of these recommendations shows a score of just over 40%. While this is higher than what some critics of the European Semester process have argued, a more stringent implementation record is necessary in the face of Europe’s economic challenges.

Looking at implementation over time, across groups of Member States and policy areas, this article also finds that implementation (i) was weaker for the 2013 vintage of recommendations than for the 2012 one; (ii) appears to vary with the electoral cycle in Member States; and (iii) is stronger in policy areas where market pressure requires an imminent policy response (banking sector reform) and/or where the recommendations are backed by EU rules with enforcement powers (public finances).

<table>
<thead>
<tr>
<th>Year</th>
<th>CSRs</th>
<th>Member States concerned</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>118</td>
<td>(all bar Greece, Ireland, Portugal, Latvia and Romania)</td>
</tr>
<tr>
<td>2012</td>
<td>138</td>
<td>(all bar Greece, Ireland, Portugal and Romania)</td>
</tr>
<tr>
<td>2013</td>
<td>141</td>
<td>(all bar Greece, Ireland, Portugal, Cyprus and new entrant Croatia)</td>
</tr>
<tr>
<td>2014</td>
<td>157</td>
<td>(all bar Greece and Cyprus)</td>
</tr>
</tbody>
</table>

1 The country-specific recommendations, as well as the accompanying Commission staff working documents, can be found on: [http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm](http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm).

2 Member States with a macroeconomic adjustment programme linked to EU financial assistance do not receive CSRs. The following table provides a numerical overview of the four vintages of CSRs:
proposed by the Commission based on an assessment of the challenges, risks and policy gaps in the country concerned, aim to promote sustainable economic growth and job creation, poverty reduction and social inclusion, productivity and competitiveness, while safeguarding and further advancing financial stability and sound public finances. While the crisis has exposed many weaknesses in these areas, a need for reform existed before the crisis, e.g. in labour and product markets.

There is generally broad agreement at EU level on the direction of adjustment and reform that is required. EU Member States’ Heads of State or Government have committed to these reforms by endorsing the European Semester package. Furthermore, the final CSR text as adopted by the Council is generally very close to what the Commission proposed. According to a recent model simulation by Commission staff, most Member States can reap substantial benefits, in terms of growth and employment, from structural reforms of the type recommended in the CSRs. If reform efforts are undertaken in a coordinated manner across countries, positive spillover effects can magnify the gains further.4

The effectiveness of CSRs in reaching these goals crucially depends on implementation. This, in turn, is largely in the hands of the Member States, and the implementation record is often seen as insufficient, notably by the European Parliament, but also in the press.5 The criticism tends to focus on the (low) number of CSRs that the Commission assesses as fully implemented or as showing substantial progress. In doing so, it chooses to overlook the many CSRs on which some progress has been made.

This article proposes an alternative measure of progress against the European Semester recommendations, which gives a more nuanced picture of CSR implementation across Europe. This synthetic indicator, which takes into account the various degrees of implementation for each CSR, puts progress at a level of around 40% – higher than what the critics would like to make believe, but lower than what would arguably be required in view of the serious challenges that the EU and its Member States are facing. The article also looks at the implementation record over time and investigates implementation patterns across (groups of) Member States and policy areas. At the same time, it is argued that any scoring or ranking of Member States’ implementation record must be interpreted carefully: a simple score can and should not displace a thorough, country-specific qualitative assessment.

2. How does the Commission assess CSR implementation?

In-depth assessments of each Member State’s implementation progress against the previous year’s CSRs have been an integral part of the Commission’s European Semester work for the past three years. The Commission assessment is based on the joint appreciation of an interdisciplinary team of country analysts of all relevant measures that the country has taken or announced, cross-

3 According to Council Regulation (EC) No. 1466/97 as amended in December 2011, the Council is, as a rule, expected to follow the Commission text for the CSRs. Where it amends the text without the Commission’s consent, it has to explain its position publicly. This ‘comply or explain’ rule may contribute to the relatively low number of amendments in the adoption process.


5 The Ferreira report of 08/10/2013 "points out that the Commission has identified a significant degree of progress in comparison with previous years in only 15% of the around 400 country-specific recommendations”
checked against a horizontal assessment framework per policy area. As the reform progress is often not directly measurable and the scope of challenges differs across countries, the progress assessment is mostly qualitative. Hence, any scoring (as well as all counting, summing or averaging) can only deliver a reduced picture. In view of this caveat, the primary motivation for the Commission is to deliver a differentiated qualitative assessment per Member State, appreciating past achievements and helping to focus the domestic implementation effort going forward.

At the same time, the Commission has gradually increased the cross-country comparability of its assessment of the reform progress not least because this can help to strengthen pro-reform peer pressure. In the 2014 European Semester staff working document (SWDs) for each Member State, one of the following five categories has been assigned to each recommendation: “no progress”, “limited progress”, “some progress”, “substantial progress” or “fully implemented”. The vast majority of CSRs (136 out of 141 CSRs given in 2013 – as assessed in the 2014 SWDs) fall in one of the middle three categories. The definitions of the assessment categories are published with the overview table of CSR implementation in each staff working document.

- “Limited progress”: The Member State has announced some measures to address the CSR, but these measures appear insufficient and/or their adoption / implementation is at risk.
- “Some progress”: The Member State has announced or adopted measures to address the CSR. These measures are promising, but not all of them have been implemented yet and implementation is not certain in all cases.
- “Substantial progress”: The Member State has adopted measures, most of which have been implemented. These measures go a long way in addressing the CSR.

When looking at implementation records, it is important to note that CSRs sometimes require far-reaching structural and institutional reform as they seek to address long-term challenges. Even if ambitious measures are taken, their effectiveness may not be immediately verifiable, which poses problems in an annual assessment cycle. Recommendations related to education are a case in point. For example, reforms to increase the labour market relevance of higher education can take different forms, but will most likely take many years to yield visible results in terms of improved labour market outcomes. While in principle CSR implementation is assessed on the basis of action taken (rather than observed outcomes), it can be difficult to judge – in an annual assessment process, where typically not more than 6-10 months have lapsed since the introduction of a reform – whether such measures “go a long way in addressing the CSR”. Scoring “substantial progress” is thus quite a high hurdle to clear. In case of doubt Commission analysts more appropriately attribute the next lower category of “some progress”.

As a result, calculating an overall implementation share consisting only of CSRs scored as “fully implemented” or as showing “substantial progress” – as some observers do – is overly restrictive and gives insufficient credit to serious and commendable reform efforts by many Member States in a number of areas.

Finally, while the CSRs aim to be a comprehensive set of reforms for each country covered and there is a high degree of ownership stemming from the endorsement by Heads of State or Government, Member States may also implement reforms not directly related to CSRs, which can have a positive impact in their own right. Therefore, the European Commission’s reform monitoring goes beyond the issue of CSR implementation and covers a variety of macro- and macroeconomic indicators.

3. Analysis of EU Member States’ CSR implementation record

The quantification of qualitative information is notoriously difficult and subject to judgement issues. This applies to the attribution of the above categories to each individual recommendation, but even more so when undertaking any form of aggregation, even simple counting. CSRs are not all equally important: within each country, they may range from a mere evaluation of a recent policy measure to fully-
fledged tax or pension reform; and across countries, those Member States with more pressing economic and social problems tend to receive more detailed and demanding recommendations.

These caveats notwithstanding, based on the Commission assessment of implementation progress against the 279 CSRs issued in 2012 and 2013, 28 CSRs were either fully addressed or showed substantial progress (10.0%). In addition, some progress was made on 136 CSRs (48.7%). Meanwhile, limited or no progress was recorded for 115 CSRs (41.2%).

The construction of a simple synthetic indicator helps to circumvent the necessarily somewhat arbitrary choice of where to attribute the “some progress” category. To construct it, we assign cardinal numbers out of 100 to the five assessment categories applied to each CSR: 0 for “no progress”; 25 for “limited progress”; 50 for “some progress”; 75 for “substantial progress” and 100 for “fully implemented”. Once scores across CSRs have been averaged (unweighted arithmetic mean), the resulting synthetic indicator values correspond to the original five assessment categories broadly as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>No progress</td>
<td>0</td>
</tr>
<tr>
<td>Limited progress</td>
<td>25</td>
</tr>
<tr>
<td>Some progress</td>
<td>50</td>
</tr>
<tr>
<td>Substantial progress</td>
<td>75</td>
</tr>
<tr>
<td>Fully implemented</td>
<td>100</td>
</tr>
</tbody>
</table>

Doing this on a CSR-by-CSR basis for each Member State over two vintages (2012 and 2013 CSRs) yields the following result: for the EU, an average synthetic indicator score of 41.7% emerges. In accordance with Chart 2, this can be interpreted as representing the lower range of the “some progress” category.\(^{11}\)

Despite the simplicity of the synthetic indicator (with equal weights assigned to each CSR), the score per country presented in Chart 3 coincides with the Commission’s qualitative country assessments (as published in the Commission SWDs) for the vast majority of countries. The few cases where there are differences can be attributed to Commission analysts’ assigning greater importance to some CSRs than to others when evaluating a country’s overall progress. A case in point is Slovenia, where financial sector repair and reform was of paramount importance in the 2013 CSRs. As Slovenia’s implementation record was better on this important topic than in other areas, the overall analyst judgement published in the SWD for Slovenia shows “some progress”, whereas the indicator presented here places Slovenia in the upper range of “limited progress”.

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10 Progress against 2011 CSRs is not included here because only three assessment categories were used in the 2012 SWDs ("no implementation", "partial implementation", "full implementation"). These cannot be unambiguously converted into the current five-point scale. See Chart 7 for details.

11 Note that this synthetic implementation score is not a share of CSRs having been implemented and thus not directly comparable to the percentages quoted above.
3.1. Implementation by country groups

As noted above, one of the advantages of uniform assessment categories is to facilitate comparisons of track records, e.g. across countries or across policy areas. For example, it is sometimes argued that EU-level recommendations have more traction in smaller than in bigger Member States. However, the available CSR implementation data does not corroborate this view: there is no apparent correlation between the (population) size of Member States and their implementation score – see Chart 4.

The only notable geographical pattern is that the Nordic EU Member States (Denmark, Finland and Sweden) have a comparatively strong CSR implementation record (occupying the top-three spots if the CSRs of 2012 and 2013 are combined). But even this pattern is less obvious if the implementation of 2012 CSRs is kept separate from that of the 2013 vintage.\(^\text{12}\)

\(^{12}\) See below for an inter-temporal comparison.
An interesting angle from which to look at CSR implementation by country is the national electoral cycle. In the run-up to a general election when political campaigning is ongoing and also in its immediate aftermath when, in many countries, it takes some time to form a government in coalition negotiations, Member States may not be in a position to devise and implement reforms.\textsuperscript{13}

Indeed, the impact of the electoral cycle is discernible in the available data. Chart 5 plots the implementation record of Member States as per the synthetic indicator introduced above (separately for 2012 and 2013 CSRs) against a dummy variable set to 1 if the country in question held a general election within 12 months of CSR adoption (July-June), or to 0 for other Member States (i.e. without a general election). Average implementation was superior when CSR adoption was not followed by an election within 12 months.

\textbf{Chart 5} \hspace{1cm} CSR implementation and the electoral cycle

<table>
<thead>
<tr>
<th>Year</th>
<th>Election Within 12 Months</th>
<th>No Election Within 12 Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>37.8</td>
<td>43.9</td>
</tr>
<tr>
<td>2013</td>
<td>37.5</td>
<td>43.8</td>
</tr>
</tbody>
</table>

\begin{itemize}
  \item Average (arithmetic mean) – value shown in \textbf{bold}
  \item Median – value shown in \textit{italics}
\end{itemize}

\begin{itemize}
  \item 1 – general election within 12 months of CSR adoption
  \item 0 – no general election within 12 months
\end{itemize}


Note: The synthetic indicators of CSR implementation of Member States holding a general election within 12 months of CSR adoption (July-June) are plotted at the level of 1 on the vertical axis; the scores of other Member States (i.e. without a general election) are plotted at the level of 0. For example, if a country held a general election in September 2013, its implementation score of the 2012 CSRs (adopted in early July 2012) would be shown at the level of 0 (no general election within 12 months), while its 2013 score would be shown at the level of 1 (general election held three months after CSR adoption).

Again, this result should be interpreted with some caution. It is based on just two years of implementation data with only 12 observations for Member States with an election (six each for the 2012 and the 2013 CSR vintage). However, it is unlikely to be pure coincidence (in the sense that elections over the past two years may just have happened to be concentrated in countries for which the CSR implementation record is poor anyway). Indeed, looking at each of the 12 countries that held an election in one of the two years, six of them recorded better CSR implementation for the non-election vintage than for the election one (thus being in line with the expected picture). While there are also three that show the opposite pattern (implementing the CSRs to a greater extent when their adoption was followed by an election than when this was not the case), the country-specific political context may help to explain this outcome. Of the remaining three countries, two had an identical implementation score in both years, while one received CSRs only in the 2012 vintage.\textsuperscript{14}

### 3.2. Implementation by policy area

In the 2014 SWDs, the Commission assigned for the first time an assessment category not only to each CSR but to each relevant sub-part separately, reflecting the fact that an individual CSR may cover different aspects and that implementation may vary across these aspects.\textsuperscript{15} This makes it possible to look at the implementation of 2013 CSRs by policy area.

The implementation record has been strongest for financial sector reform (with a score of 59.7%) and in public finances (54.5%).\textsuperscript{16}

- For financial sector reform recommendations, most of which concern the banking sector, stronger implementation may be related to the urgency of policy action in view of financial stability concerns and concomitant market pressure in several Member States.

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\textsuperscript{14} Owing to its entry into a financial assistance programme, Cyprus did not receive CSRs in 2013; it is thus not possible to compare the Cypriot CSR implementation record from 2012 to a non-election year.

\textsuperscript{15} For example, CSR No. 3 given to Slovenia in July 2013 contains aspects on wage developments and labour market segmentation (among others). On the first aspect, progress was assessed as limited, while on the second there was some progress.

\textsuperscript{16} The score for reforms in the area of unemployment benefits is also high, but it is based on only three observations, so cannot be considered indicative. See note to Chart 6 for further explanations.
Chart 6  EU-wide CSR implementation by policy area

Source: European Commission European Semester SWDs 2014.
Note: Bars denote the average synthetic indicator of 2013 CSR implementation per policy area. For this purpose, the Commission assessments per CSR aspect are used (i.e. if a CSR covers more than one aspect, the individual assessments for each CSR sub-part are counted), with equal weights per assessment. Each CSR sub-part has been allocated to a policy area (or sometimes to two, a primary and a secondary one, e.g. to reflect a dual objective). In the average score for each policy area, all CSR sub-parts allocated to this area have been taken into account, regardless of whether the policy area is the primary or the secondary one for the sub-part concerned. Shaded bars are used for policy areas with less than 10 assessments; their average scores should be interpreted with caution as outlier scores can skew the average to a greater extent than in policy areas with a higher number of observations.
For public finances, the stronger implementation record may reflect not only market pressure, but also the fact that fiscal recommendations are in large part derived from the Member States’ obligations stipulated by the EU’s Stability and Growth Pact, such as the reduction of the general government deficit to below 3% of GDP, attainment of the medium-term budgetary objective or reduction of public debt (if above 60% of GDP). In turn, these rules come with significant enforcement powers, notably financial sanctions, which may spur compliance.

At the opposite end of the spectrum – with the lowest implementation record – are tax reforms with 2.9.2%. The low score reflects perhaps Member States’ reluctance to embrace EU-level recommendations in this area, which is politically highly sensitive and has direct distributional implications. Education, competition in services and public administration (all in the low 30s) also show a relatively poor implementation score, which may be related to the fact that reforms in these areas often require taking on vested interests.

3.3. Implementation over time

Finally, we can make an inter-temporal comparison of Member States’ CSR implementation. This comparison has its limitations, for two reasons. First, out of the three annual assessment cycles completed so far (presented in the 2012, 2013 and 2014 SWDs, always for the CSRs of the preceding year), the first cycle (2012 SWDs assessing implementation of 2011 CSRs) was done on the basis of only three rather than five assessment categories. These cannot be unambiguously converted into the current five-point scale, which leaves only two years to compare. Second, it can be argued that CSRs have become more difficult to implement over time because recommendations implemented during the previous round will not be repeated in the next vintage of CSRs. Thus, Member States that have ‘picked the low-hanging fruit’ first may effectively be facing a more challenging set of CSRs in subsequent rounds of the European Semester, even without an active intention by the Commission or the Council to ‘get tougher’. These caveats notwithstanding, an inter-temporal comparison can be useful to shed light on emerging trends.

Chart 7 EU-wide CSR implementation over time

Note: The three bars show the number (and share) of CSRs placed in each assessment category per year. In the assessment of the implementation of 2011 CSRs only three categories were used: “no implementation”, “partial implementation” and “full implementation”. The “partially implemented” bar for 2011 can therefore not be directly compared with the “some progress” bars of 2012 and 2013. For the same reason, the synthetic indicator could not be calculated on a like-for-like basis for 2011 and is hence only shown for 2012 and 2013.

The synthetic indicator shows a minor deterioration in the CSR implementation record between 2012 and 2013: from 43.1% for the 2012 CSRs to 40.2% for the 2013 CSRs. To nuance this picture, it is useful to look at the frequency of attribution of the standard assessment categories. On the positive side, the number of CSRs having seen no implementation progress whatsoever has diminished, indicating that at least a limited level of policy action has

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17 Excluding policy areas with less than 10 observations. See note to Chart 6 for further explanations.
18 The categories used for the 2011 CSRs were: “no implementation”; “partial implementation”; and “full implementation”.

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been taken in an increasing number of cases. The share of CSRs with full implementation or at least substantial progress has remained broadly stable between 2012 and 2013. On the negative side, the middle category of “some progress” has given way to a greater prevalence of “limited progress” when comparing 2012 and 2013 CSR implementation – see Chart 7. This trend from “some” to “limited progress” may reflect reform fatigue in combination with a perception of diminishing urgency of reforms as market pressures have dissipated somewhat. In the interest of supporting the recovery and safeguarding long-term growth and employment prospects, any negative trend in implementation should be halted and reversed.

4. Conclusion

Since the launch of the European Semester of economic policy coordination in the EU in 2011, the track record of EU Member States in implementing EU-level economic reform recommendations has been mixed. A country-specific qualitative assessment of reform efforts in each Member State remains the cornerstone of the European Commission’s surveillance, not least because the nature and size of economic challenges differ across countries. Nonetheless, the synthetic indicator that this article has proposed makes it possible to draw an overall picture. According to this indicator, the score of EU Member States’ implementation of country-specific recommendations (CSRs) addressed to them by the Council in July 2013 on a proposal from the European Commission stands at just over 40%.

Even though the acute phase of the crisis has abated, its economic and social consequences are still intensely felt across Europe. Unemployment, at over 10% in the EU but exceeding 15% or even 20% in some Member States, remains at a very high level, and the crisis has seriously dented potential growth. Economic reform is the only way to lift long-term growth, which in turn would facilitate job creation, as well as helping to bring public and private debt levels back down. An unrelenting reform drive to increase productivity and participation in the productive process is therefore in the interest of Member States individually and of the EU as a whole.

The CSRs under the European Semester are designed to guide such an EU-wide reform effort. While responsibility for their implementation rests with Member States, it is the Commission’s duty to perform surveillance and monitoring, as well as to ensure that the recommendations it proposes remain analytically well-founded and pertinent, providing a response to the key challenges of each Member State and the Union altogether in terms of supporting sustainable, smart and balanced economic growth and job creation. As the European Semester matures, structural measures – also of a longer-term nature – should start to have an impact on economic performance. Indeed, some Member States having implemented reforms swiftly and decisively have already seen positive effects, not least via the confidence channel.

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