

# European Semester and country-specific recommendations (CSRs)<sup>1</sup>

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## Introduction

While it has been acknowledged that the European Union does not have an official mandate in the housing field and that the EU Member States have exclusive powers in matters of housing policy (see Mapping, Section: 'Ministerial Meetings and conclusions of EU Housing Ministers'), the European Semester Country Specific Recommendations (CSRs) have addressed issues related to housing since 2011. The CSR recommendations passed within the European Semester sit in a wider European policy context. For this reason, it is particularly important to examine (a) their legal context (i.e. whether and when CSRs are legally binding) and (b) the methodology that underpins these recommendations.

Under the jurisdiction of the **DG for Economic and Financial Affairs**, the **European Semester**<sup>3</sup> is the yearly cycle of economic policy coordination that provides the framework for steering and monitoring Member States' economic and social reforms to reach the Europe 2020 targets.<sup>4</sup> In 2010, the Commission proposed a '**Europe 2020 Strategy**' to follow on from the **Lisbon Strategy**.<sup>5</sup> Endorsed by the European Council in March 2010, the Europe 2020 Strategy for smart, sustainable and inclusive growth<sup>6</sup> sets five ambitious targets - one of these is to lift 20 million people out of poverty and social exclusion by 2020.

The key role of the European Semester is of an economic nature and it serves as a measure to address the effects of the economic crisis that began in 2008. All Member States have translated the Europe

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<sup>1</sup> **Disclaimer:** This document was prepared in September 2016. The paper focuses on one macroeconomic indicator only. It does not cover inclusion of the Social Pillar in the EU Semester. It should be noted that the Pillar of Social Rights has been introduced in 2018. The author recommends further examination of the effects of inclusion of the Social Pillar and the recommendations underpinned by its indicators. The views expressed in the document are purely those of the author and may not in any circumstances be regarded as stating an official position of the European Commission.

<sup>2</sup> **Preferred quotation:** Rosenfeld, O. (2016) 'European Semester and Country Specific Recommendations', a briefing note prepared for DG REGIO and the EU Urban Agenda Partnership for Housing, European Commission, DG REGIO, Brussels.

<sup>3</sup> European Commission. *Making it Happen*. Available at: [http://ec.europa.eu/europe2020/making-it-happen/index\\_en.htm](http://ec.europa.eu/europe2020/making-it-happen/index_en.htm)

<sup>4</sup> See: European Commission. *Europe 2020 targets*. Available at: [http://ec.europa.eu/europe2020/targets/eu-targets/index\\_en.htm](http://ec.europa.eu/europe2020/targets/eu-targets/index_en.htm)

<sup>5</sup> House of Commons European Scrutiny Committee. 2014. *First Report of Session 2013-14*. London, The Stationery Office Limited.

<sup>6</sup> See: European Commission. *Housing 2020*. Available at: [http://ec.europa.eu/europe2020/index\\_en.htm](http://ec.europa.eu/europe2020/index_en.htm)

2020 goals into national targets that are to be achieved by 2020. ‘The semester is an EU level framework for coordinating and assessing Member States’ structural reforms and fiscal/budgetary policy and for monitoring and addressing **macroeconomic imbalances**’.<sup>7</sup> In line with these goals, the Commission started a new cycle of EU economic governance and the first European Semester in 2011.

## Housing and the Macroeconomic Imbalances Procedure (MIP): A brief overview

When considering the role and place of housing issues in the context of the European Semester, it is important to reflect on the nature of the **Macroeconomic Imbalances Procedure (MIP)**. According to the definition of the DG for Economic and Financial Affairs:<sup>8</sup>

*The Macroeconomic Imbalance Procedure (MIP) is a surveillance mechanism to detect and address economic trends that may adversely affect the proper functioning of a Member State, the euro area, or the EU. It aims to identify potential risks early on, prevent the emergence of harmful macroeconomic imbalances and correct the imbalances that are already in place.*

MIP was designed to be an **Early Warning System (EWS)** to draw attention to emerging macroeconomic imbalances. In order to establish the legal context of CSRs in relation to housing, it is important to briefly reflect on the MIP procedure (see Box 1 below).

### Box 1 Macroeconomic Imbalances Procedure (MIP) at a glance

**Stage 1.** Publication by the Commission of an annual **Alert Mechanism Report**. The aim of this report is to identify which Member States may have macroeconomic imbalances. In the Report, the Commission assesses each Member State against a **scoreboard of 11 macroeconomic indicators** (including housing prices, see Table 2) that monitor the potential development of problematic external and internal imbalances, based on the data available.

**Stage 2.** For Member States deemed at risk, the Commission conducts a more detailed assessment contained within an In-Depth-Review (IDR). There are three potential outcomes following the publication of IDRs:

**Stage 3.**

- a) The commission might find that none of the indicators that exceed their threshold represents a macroeconomic imbalance within a country and that no further action is needed.
- b) The commission might find that one or more of the indicators that exceed their threshold represent an imbalance. If none of them are deemed to be ‘excessive’, the Commission proposes a **non-binding recommendation under Article 121 (2) TFEU**, on the same legal basis as country-specific recommendations as a part of the **European Semester**. These recommendations would be to address the identified imbalances under the ‘Preventive Arm’ of the procedure and would need to be agreed by Council approval through qualified majority voting (QMV). These recommendations are made public under Article 121(4) TFEU.
- c) The commission may consider that an ‘excessive’ imbalance exists. In this case, the Commission proposes, subject to Council approval by QMV, placing the Member State in an ‘Excessive Imbalance Position’. This involves stringent requirements, which in case of non-compliance result in escalating sanctions up to and including a non-refundable fine of 0.1% of GDP.

Source: House of Commons European Scrutiny Committee (2014)

<sup>7</sup> See: House of Commons European Scrutiny Committee. 2014. *First Report of Session 2013-14*. London, The Stationery Office Limited.

<sup>8</sup> European Commission. 2016. Macroeconomic Imbalances Procedure (MIP). Available at: [http://ec.europa.eu/economy\\_finance/economic\\_governance/macroecomic\\_imbalance\\_procedure/index\\_en.htm](http://ec.europa.eu/economy_finance/economic_governance/macroecomic_imbalance_procedure/index_en.htm)

As shown above, **the MIP recommendations are not legally binding, until the point where it is confirmed that an 'excessive' imbalance exists.**<sup>9</sup> Nonetheless, as part of the European Semester, the Commission monitors compliance with the **Stability and Growth Pact**.<sup>10</sup> Therefore, while not being legally binding, the recommendations may influence the development of national housing policies.

Concerns about using macroeconomic indicators to provide housing recommendations in the EU Semester have been raised by Committee of the Regions<sup>11</sup> as early as 2011. Subsequently, similar concerns have been communicated by European Housing Ministers (see Mapping, section: 'Ministerial Meetings and conclusions of EU Housing Ministers'). Within the framework of the Housing Partnership, Housing Europe and the City of Vienna address the topic (see document Summary of Conclusions distributed to partners on 20 August 2016). In this context, the questions about CSRs acting in odds with the subsidiarity principle are noted.

As an in-depth examination of macroeconomic analysis is not within the scope (or goal) of this paper. Therefore, only key indicators and key characteristics of the HPI housing related macroeconomic indicators are noted.

**The Macroeconomic Imbalances Procedure (MIP)** (see Table 2) 11 ke macroeconomic indicators, is **HPI Housing Price Index one of them** . At the outset, it should be stressed that the 11 indicators correspond to the most important macroeconomic vulnerability indicators identified in the literature.<sup>12</sup> If the number of indicators in the scoreboard exceed EC-defined threshold, this is treated as a possible indication of macroeconomic imbalance. The threshold is defined on a purely statistical basis.<sup>13</sup> It should be noted, however, that the Commission (DG ECFIN) emphasizes that the set of indicators, the threshold and the methodology must be treated in a flexible manner. In addition, in the case of identified imbalances, additional examinations are carried out (see Box 1).

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<sup>9</sup> In the next period, it should be examined whether Greece cancelled its Social Housing Provision based on European Semester recommendations.

<sup>10</sup> European Commission. *Stability and Growth Pact*. Available at:

[http://ec.europa.eu/economy\\_finance/economic\\_governance/sgp/index\\_en.htm](http://ec.europa.eu/economy_finance/economic_governance/sgp/index_en.htm)

<sup>11</sup> Committee of the Regions. *92nd plenary session, October 2011*. Available at:

<http://www.eesc.europa.eu/resources/docs/cor-opinion-on-towards-a-european-agenda-for-social-housing.pdf>

<sup>12</sup> This relates to academic literature on macroeconomic theory and models. For details, see: Csontos, O. and Szalai, Z. 2013. Assessment of macroeconomic imbalance indicators, Magyar Nemzeti Bank. In: MNB, Bulletin 2013. Available at:

<https://www.mnb.hu/letoltes/csontos-szalai.pdf>

<sup>13</sup> European Commission. 2012. Scoreboard for the surveillance of macroeconomic imbalances. In: *Occasional Papers*, 92, February.

Type	Abbreviation	Variable	Indicator	Threshold
EXTERNAL	CAB	Current account balance	as a percentage of GDP, 3-year retrospective moving average	+6%/-4%
	NIIP	Net international investment position	as a percentage of GDP	-35%
COMPETITIVENESS	REER	Real effective exchange rate	3-year change, HICP-deflated	±5% (EA)*/±11% (NEA)**
	EMS	Export market share	5-year change	-6%
	ULC	Unit labour cost	3-year change	+9% (EA)*/+12% (NEA)**
INTERNAL	HPI	House price index	annual change	+6%
	PSCF	Private sector credit flow	as a percentage of GDP	+15%
	PSD	Private sector debt	as a percentage of GDP	+160%
	GGD	General government debt	as a percentage of GDP	+60%
	UR	Unemployment rate	3-year retrospective moving average	+10%
	TFSL	Total financial sector liabilities	annual growth	+16,5%

\* EA: euro area member countries.  
\*\* NEA: non euro area member countries.

Source: Csontos and Szalai (2013)<sup>14</sup>

The **HPI scoreboard indicator** is the year-on-year growth rate of the deflated house price index (HPI), data source Eurostat, with an indicative threshold of 6%. The inclusion of the housing indicator has an economic rationale within the overall context of the European Semester and the aims and objectives of this mechanism. According to the European Commission (DG ECFIN), this rationale can be summarized as follows:<sup>15</sup>

*The rationale for including an indicator on housing price developments is that large movements in real asset markets have been traditionally associated with a number of economic crises and have also figured prominently in the recent financial crisis. Monitoring real asset prices is important as booms and busts in housing markets affect the real economy through a variety of channels and can be an important source of macroeconomic imbalances.<sup>16</sup>*

It is noted that the changes in **house prices (measured by the HPI indicator)** may be efficient as an early warning indicator in macroeconomic terms. Numerous studies have discussed the effect housing prices may have on the real economy and the ways in which these can be the source of the evolution of macroeconomic imbalances. For example, asset prices and house prices usually move closely together with monetary and credit aggregates, which may also jeopardize financial stability.<sup>17</sup>

<sup>14</sup> Csontos, O. and Szalai, Z. 2013. Idem.

<sup>15</sup> European Commission. 2012. Scoreboard for the surveillance of macroeconomic imbalances, *Occasional Papers*, 92, Available at: [http://ec.europa.eu/economy\\_finance/publications/occasional\\_paper/2012/pdf/ocp92\\_en.pdf](http://ec.europa.eu/economy_finance/publications/occasional_paper/2012/pdf/ocp92_en.pdf)

<sup>16</sup> „Some empirical analyses suggest that the impact of a significant fall in real estate prices may be even more important than an equivalent decline in stock prices though this finding is not unchallenged’ See Buiter (2010) and Case et al (2011) in

[http://ec.europa.eu/economy\\_finance/publications/gr\\_euro\\_area/2011/pdf/grea3\\_section\\_4\\_en.pdf](http://ec.europa.eu/economy_finance/publications/gr_euro_area/2011/pdf/grea3_section_4_en.pdf)

<sup>17</sup> See Csontos, O. and Szalai, Z. 2013. Assessment of macroeconomic imbalance indicators, Magyar Nemzeti Bank. In: *MNB, Bulletin 2013*. Available at: <https://www.mnb.hu/letoltes/csontos-szalai.pdf>

The authors, nevertheless, suggest that house prices only rarely exceeded the threshold recommended by the European Commission; therefore, it cannot be said that – in their own right, without the credit aggregates – they called attention to the development of imbalances or ‘events’.

**A key limitation of the HPI (by design)** is that it does not have the capacity (or the aim) to address entire housing systems comprised of several housing tenures and their interlinks, it has no spatial sensitivity, no time element adjusted to housing production, among other critical issues. More work needs to be done for housing continuum including several affordable housing tenures to be effectively addressed.

## Examples of country-specific recommendations related to housing up to 2016

Brief review of the Country-Specific Recommendations (CSRs) **related to housing from 2011 to 2016** (with the emphasis on the last three years) shows that countries systematically received recommendations on how to structurally reform their housing markets.

The recommendations that seem to prevail concern **mortgage sector (homeownership)**. For instance, in 2014 the **Netherlands** received recommendations to reform its housing market by accelerating the reduction in mortgage interest tax deductibility; the **UK** was recommended to mitigate risks related to high mortgage ineptness and to address issues related to the rapid increase in property prices. Among countries receiving recommendations related to the mortgage sector in 2015 were Sweden, Netherlands and Ireland. **Sweden** was recommended to gradually limit the tax deductibility of mortgage interest payments; **Netherlands** received recommendations in line with those in 2014; and **Ireland** was recommended to finalize durable restructuring solutions for mortgages in arrears.

This suggests a continued focus on the mortgaged home ownership sector. The focus is understandable considering the overall methodology and aim of the CSRs within the wider policy context (as described above). However, while focusing on the home-owned sector, the recommendations extended into reducing spending on the housing sector in general and promoting the market priced rented sector. Countries with the largest share of the social housing sector (see UNECE, 2015<sup>18</sup>), were generally advised to reduce public spending on housing (**France**) and make the prices in the rented sector more market-oriented (**Netherlands** and **Sweden**). These recommendations contributed to continued residualization of the social housing sector as an affordable housing option.

Notably, Netherlands and Sweden, had been advised (2014-2016) to reform the housing sector by providing a more market-oriented pricing mechanism in the rental market, and further relating rents to household income in social housing sector. The recommendations advise Sweden to remove utility value system and liberalise certain segments of the rental market.

While the majority of the recommendations passed in 2014 targeted energy efficiency (e.g. Belgium, Estonia, Hungary, Latvia and Lithuania), the recommendations in 2015 and 2016 prioritized 'key issues on macroeconomic and social relevance'. The analyses of the CSRs suggest that the **dominant focus of both the Communication and the CSRs continues to be on 'preserving responsible public finances'** - in other words, reducing public deficit and debt, requiring continued austerity and 'rationalization of social spending'.<sup>19</sup> These recommendations treated the long-term investment in public sector, including housing as sources of public debt increase, this was the key concern of the EU Urban Agenda Housing Partners till

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<sup>18</sup> UNECE (2015) Social Housing in the UNECE region: models, trends and challenges. Available at:

[https://www.unece.org/fileadmin/DAM/hlm/documents/Publications/Social\\_Housing\\_in\\_UNECE\\_region.pdf](https://www.unece.org/fileadmin/DAM/hlm/documents/Publications/Social_Housing_in_UNECE_region.pdf)

<sup>19</sup> The Semester Alliance. 2016. Available at: <https://semesteralliance.net/2016/05/24/eapns-initial-response-to-country-specific-recommendations-more-csrs-on-poverty-but-austerity-still-dominant/>

2016. It remains to be examined to what extent the inclusion of the indicators from Social Pillar will change the situation.

## Concerns raised by the partners and solutions proposed by September 2016

This section examines key concerns raised by partners in relation to CSRs within the context of the European Semester. It takes into consideration selected publications on the topic. The brief overview of the partners' publications and communications related to the issues of the European Semester and CSRs **until 2016** suggests that the main points of concern are: perceived 'conflict over competence' in the housing sector; use of macroeconomic indicators to provide recommendations; classification of long-term public investments as public debts and lack of transparency in formulating CSRs (see Table 3 below).

The preliminary findings suggest that 3 out of 14 members of the Partnership (that are not EC) support addressing the issue of CSRs and the European Semester (as noted in 'Summary of Conclusions' (dated 20 August, 2016) in the framework of the Housing Partnership. The partners, specifically **Housing Europe, The City of Vienna and Eurocities** have been raising concerns about nature of the CSRs and their impact on the social housing sector. The summary of their (selected) concerns published between 2010 and 2016 is presented in the table below along with the solutions they propose.

However, before their concerns and suggestions are considered, it is important to note that apart from the **EC** that is asked address te issue of the CSRs in the framework of the European Semester – **EIB** and **URBACT** - are neutral because of the definition of their roles and responsibilities. The European Investment Bank (EIB) is a policy taker, in that it responds to the EU and national legislation, which means that it may lend only according to the SGEI and EU State Aid principles. URBACT is an EU-funded initiative, which means that it may fund initiatives according to SGEI and EU State Aid principles. It should be also noted that the **DG for Regional and Urban Policy** and **DG for Employment Social Affairs** and Inclusion who are closely involved in the operation of the Housing Partnership are **not responsible for issues around the European Semester** and CSRs but *DG for Economic and Financial Affairs* .

**The Member States:** positions communicated in the ministerial conclusions presented in the mapping (see Mapping, section: 'Ministerial Meetings and conclusions of the EU Housing Ministers') critically address the macroeconomic exercise that underpins the CSR recommendations related to housing (see the table bellow). **It remains to be examined to what extent the inclusion of the indicators from Social Pillar will change the situation.**

<b>Table 3.</b>	
<b>Selected concerns raised by the partners</b>	<b>Selected solutions proposed</b>
<b>Member States</b>	
<p><b>2013 19<sup>th</sup> Informal Ministerial Meeting<sup>20</sup></b>            The Ministers emphasize 'the exclusive powers of the Member States in matters of housing policy'; 'the great diversity of the national housing markets'; 'the widely diverse legal and economic status of the services and activities offered'; 'the wide range of financing methods for these different services'. The Ministers nevertheless note 'that the</p>	<p>The ministers recommend, among other issues, that 'the balance must be found between, on the one hand, the need to consolidate the budgetary situation and to strengthen financial stability and, on the other hand, the need to establish policies oriented towards growth and social inclusion'; 'that an even more thorough monitoring of housing markets be initiated so</p>

<sup>20</sup> <http://www.housingeurope.eu/file/52/download>

<p>European Commission takes into account the macroeconomic impact of the housing in the European Semester’; ‘that the growing phenomena of exclusion and homelessness are a real challenge’; and ‘that the difficult budgetary and economic circumstances in a number of Member States have an impact in terms of the sustainable financing of housing policies’.</p>	<p>that crises can be better anticipated and so that the impacts can be better assessed; to this end, they query whether the indicators currently used should be refined and extended and that the systematic exchange of statistical invitation by the competent authorities be introduced.</p>
<b>Cities</b>	
<p><b>2014 Eurocities<sup>21</sup></b> The main concern raised by Eurocities is what they perceive as insufficient involvement of stakeholders, especially cities, in the formulation of the Country-Specific Recommendations (CSRs).</p>	<p><b>2014 Eurocities</b> Eurocities recommends the following: ‘the European Commission should include recommendations in its CSRs on the involvement of cities and other stakeholders in the European Semester to ensure that the governance process of the Europe 2020 strategy includes all relevant parties’.</p>
<p><b>2016 City of Vienna<sup>22</sup></b> The city of Vienna sees a clear need to invest in affordable homes and in the technical and social infrastructure around them because of the growing population. It is concerned that, under the regulations of the European semester, long-term public investments are defined as debts, thus adding to the national deficit. The partner is concerned about the extent to which CSR recommendations were balanced and appropriate for the respective national housing markets. One particular concern is that the CSRs are based on economic analysis, while social considerations are not sufficiently taken into account.</p>	<p><b>2016 City of Vienna</b> Long-term public investments should not be regarded as debts in the housing sector (specific investment in social infrastructure like social housing should not be accounted for in the deficit threshold of 3%). Recommends increase of policies in the CSR that aim to increase the supply of new homes, in particular affordable homes. Recommends including the housing cost overburden in the European Commission’s scoreboard, in particular the overburden for tenants in the private sector.</p>
<b>Social housing providers and customers</b>	
<p><b>2016 Housing Europe<sup>23</sup></b> The reported challenge is the <b>lack of transparency</b> in the creation process of the Semester Report.</p>	<p><b>2016 Housing Europe</b> <b>Suggests including the inputs of the Housing Europe members as feedback in the creation of the Semester Report process.</b></p>
<p><b>2015 Housing Europe</b> <b>Publication: <i>The State of Housing in the EU 2015</i></b>  Concerns are raised about the EU Member States’ right to preserve their ‘exclusive’ competence in terms of housing policy, in the light of recent measures adopted in the area of economic governance related to European Semester and</p>	<p><b>2015 Housing Europe</b> <b>Recommendations noted in the publication are:</b> ‘The social and urban diversity and the accessibility of the offer of housing are the major challenges that European towns will have to face up to with their growing concentration. Social housing, as a public service, must be in a position to respond to these new challenges.</p>

<sup>21</sup> <http://ec.europa.eu/europe2020/pdf/contributions/eurocitiespositionontheeurope2020midtermreview3.pdf>

<sup>22</sup> <https://www.wien.gv.at/wirtschaft/eu-strategie/pdf/social-housing-workshop-report.pdf>

<sup>23</sup> <http://www.housingeurope.eu/resource-746/working-committee-meeting-highlights>

<p>CSRs. The publication identifies ‘a conflict over competence’.</p> <p>The publication emphasizes the impact of the CSR recommendations on the housing sector and continued rise in housing expenses.</p>	<p>The European Union must guarantee and not hamper its accessibility, its flexibility and universality. It must support it through Structural Funds and its Cohesion Policy and give up on the disproportionate bureaucratic burden on a local public service that is deeply anchored in the local realities’.</p>
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**UPDATE: Following the work of the EU Semester Alliance the European commission has included the Social Pillar and its indicators in the EU Semester considerations and Country Specific Recommendations. It remains to be examined to what extent these recommendations are implemented and what is the effect of their implantation.**

## Recommendations and next steps

The European Semester (ES) is a multi-annual exchange between the European Commission and Member States in order to achieve the Europe 2020 targets (e.g. on poverty, employment and education) as well as the objectives set out in the Stability and Growth Pact. The ES is fast becoming one of the key tools influencing policy-making in all EU Member States.

While understanding the imbalances in this sector, it is vital to prevent a financial crisis emerging from the (mortgaged) home-owned sector. Failure to systematically address other tenures on the housing continuum, and the interlinks between these tenures as a key element in building sustainable and resilient housing systems is important to note..

If the CSRs are to continue providing recommendations regarding housing systems, they should consider including the scientific developments in the field of housing theory and housing economy, develop capacity to address and analyse complete national housing systems not only their selected elements. This would include a thorough and complete monitoring of affordable housing along the housing continuum as well as research and examination geographical differentiation between low demand areas and heated housing markets among other important issues.

**It should be noted that the Pillar of Social Rights has been introduced in 2018. The author recommends further examination of the effects of inclusion of the Social Pillar and the recommendations underpinned by its indicators.**