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COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN CENTRAL BANK AND THE EUROGROUP

2015 European Semester: Assessment of growth challenges, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176/2011

{SWD(2015) 20 final to SWD(2015) 47 final}

1. CONTEXT

For the first time since 2007, the economies of all European Union Member States are expected to grow again in 2015[1]. Economic activity is expected to pick up moderately in the EU and in the euro area and to accelerate further in 2016. This improvement is supported by lower oil prices, the depreciation of the euro and non-conventional measures of the European Central Bank, notably its expanded asset purchase programme. The confidence boosting effect and rapid implementation of the Commission's Investment Plan for Europe[2] should also help strengthen the real economy. However, the recovery remains fragile, inflation remains very low and the social consequences of years of slow or no growth remain acute in several Member States.

In the short term, forecast economic growth will not be high enough to deliver a marked improvement in job creation. While the unemployment rate is set to fall to 9.8% in the EU and 11.2% in the euro area in 2015, these are still unacceptably high levels and the situation is significantly worse in a number of Member States. Youth unemployment is much too high and half of all unemployed have been so for more than a year. At the same time, it is encouraging to see that the labour market reforms undertaken in recent years in several countries are starting to bear fruit and will help unemployment decrease further in 2016.

The reduction in general government deficits continues, and the deficit–to-GDP ratio in the EU is expected to go down to 2.6% this year and 2.2% next year (2.2% and 1.9% in the euro area). For the EU as a whole, the debt-to-GDP ratio is expected to have peaked at 88.4% in 2014. For the euro area, it should peak this year at 94.4%, before declining.

International developments add to the uncertainty about the economic prospects. These include volatility in commodity prices and energy, as well as exchange rates and financial markets, the persistence of geopolitical tensions in Europe's neighbourhood and reduced economic activity in emerging economies.

In the Annual Growth Survey for 2015[3], the Commission presented a new jobs and growth agenda based on three mutually supporting pillars:

(i) a coordinated boost to investment;

(ii) a renewed commitment to structural reforms;

(iii) the pursuit of fiscal responsibility.

The Commission also announced it would streamline and reinforce the European Semester of economic policy coordination to open up the process, strengthen ownership and increase its effectiveness and implementation at all levels.

Following this new approach, a Country Report has been produced for each of the Member States[4] and for the euro area[5]. They assess the progress of each Member State in addressing

[1] European Commission, Winter Economic Forecast of 5 February 2015.
[2] COM(2014) 903 of 26 November 2014.
[3] COM(2014) 902 of 28 November 2014.
[4] Except Greece – a report on Greece will be published later, taking account of the follow-up to be given to the Eurogroup statements of 20 and 24 February 2015.
[5] The analysis has been done by Commission staff and is available at: http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm

the issues identified in the 2014-2015 Country Specific Recommendations[6] and – for 16 Member States – also include the outcome of the In-Depth Review warranted under the Macroeconomic Imbalance Procedure (MIP)[7]. On the basis of this analysis, the Commission proposes to update the status of a number of Member States under the Macroeconomic Imbalance Procedure.

The package presented today also takes stock of the fiscal situation of the Member States, based on the Commission's latest economic forecast. For some, it takes position on further steps under the Stability and Growth Pact (SGP). This assessment builds on the Commission's opinions on the draft 2015 budgetary plans for euro area Member States[8], issued last November, as well as on the new guidance the Commission adopted on how to ensure that the common fiscal framework is supportive of the EU's jobs and growth agenda[9].

2. CONTINUING THE REBALANCING OF OUR ECONOMY

In the aftermath of the economic and financial crisis, a number of macro-economic imbalances are being corrected, but there are still high risks in certain Member States. In particular, large external liabilities make debtor countries vulnerable, and improvements in current account are not always sufficient to stabilise the stock of external debt. Although losses in price competitiveness compared to pre-crisis levels have been partly corrected in a number of debtor countries, consolidating export growth remains an urgent priority to strengthen potential growth. At the same time, current account surpluses remain high in some other countries: these reflect persistent weak domestic demand, which can be seen notably in low levels of private and public sector investment.

Several countries are vulnerable because of high level of private and government debt. Debt deleveraging reduces growth while it is happening and low inflation makes it harder to bring down the debt-to-GDP ratio. Unemployment, in particular youth and long-term unemployment, remain high and together with rising poverty levels in several countries have led to very negative social developments. This also has a negative effect on growth prospects. In countries with high deleveraging needs, structural reforms are needed to enhance the growth potential.

In the euro area in particular, low inflation and low demand risk holding back the recovery. What happens in the largest economies of the euro area will have an important impact on all parts of the EU. In particular, France and Italy need to address growth bottlenecks by stepping up structural reforms. At the same time, Germany has a largely positive saving balance which could support much needed investment in infrastructure modernisation and development. An appropriate mix of policies is thus needed in the euro area to boost confidence, contribute to rebalancing and put its recovery on a more stable footing. Such a mix would also support the monetary policy action of the ECB and help to restore price stability in a very low inflation environment.

[6] For Member States with a macro-economic adjustment programme, the Report discusses progress with the implementation of reforms.
[7] Member States covered by In-Depth Reviews are identified in the Commission's Alert Mechanism Report 2015 (COM(2014) 904 of 28 November 2014).
[8] COM(2014) 907 of 28 November 2014.
[9] Commission Communication, Making the best use of the flexibility within the existing rules of the Stability and Growth Pact, COM(2015) 12 of 13 January 2015.

Box 1. Updates under the Macroeconomic Imbalance Procedure

In its Alert Mechanism Report 2015, published in November 2014, the Commission announced In-Depth Reviews (IDRs) of the situation of sixteen Member States: Belgium, Bulgaria, Germany, Ireland, Spain, France, Croatia, Italy, Hungary, the Netherlands, Portugal, Romania, Slovenia, Finland, Sweden and the United Kingdom.[10]

In the framework of the Macroeconomic Imbalance Procedure (MIP), the purpose of these IDRs is to assess whether imbalances and excessive imbalances exist in these Member State.[11] *The IDRs discuss issues such as the evolution of Member States' external accounts, savings and investment balances, effective exchange rates, export market shares, cost- and non-cost competitiveness, productivity, private and public debt, housing prices, credit flows, financial systems, unemployment and other variables. The drivers of imbalances and the risks they raise are different from one economy to another. The IDRs also take account of the euro area dimension of macroeconomic imbalances and possible policy challenges for the euro area as a whole.*

Since last November, the services of the Commission have been in close contact with experts from national administrations to review the latest evidence. The IDRs are published alongside this Communication as a part of the respective Country Reports. Annex 1 and Annex 3 to this Communication also give an overview of the situation of each Member State.

The main findings can be summarised as follows:

- ***Croatia**, **Bulgaria**, **France**, **Italy** and **Portugal** are considered to be in a situation of **excessive imbalance requiring decisive policy action and specific monitoring**, including regular reviews of progress by all Member States in the relevant committees at EU level:*
  - *For Croatia and France, risks of imbalances have significantly increased. For France, this represents a stepping-up of the status under the procedure compared to last year. The Commission will consider in May, taking into account the level of ambition of National Reform Programmes (NRPs) and other commitments presented by that date whether to recommend to the Council to adopt recommendations, pursuant to Article 7 (2) of Regulation 1176/2011, establishing the existence of an excessive imbalance and recommending that these Member States take corrective action to be set out in a Corrective Action Plan (CAP).*
  - *For Italy, imbalances remain excessive, requiring decisive policy and specific monitoring of the ongoing and planned reforms.*
  - *For Bulgaria and Portugal, in light of the situation, the Commission will carry out specific monitoring of the policies recommended by the Council.*
- ***Ireland**, **Spain and Slovenia** are considered to be in a situation of **imbalance requiring decisive policy action, with specific monitoring**:*
  - *For Ireland and Spain, this monitoring will rely on post-programme surveillance.*
  - *For Slovenia, the Commission considers that a significant adjustment has taken place over the last year; while this is the basis to conclude that imbalances are no longer excessive, the Commission stresses that important risks are still present.*
- ***Germany and Hungary** are considered to be in a situation of **imbalance requiring decisive policy action and monitoring**. For Germany, the Commission considers that there is no tangible improvement in the trends of imbalances identified last time and that the policy response has been insufficient so far.*[12] *For Hungary, the Commission considers that there is no tangible improvement.*

[10] In the cases of Greece and Cyprus, currently benefitting from financial assistance, the surveillance of imbalances and monitoring of corrective measures have been taking place in the context of the respective programmes.

[11] In so doing, this Communication fulfils the requirement of Articles 6(1) and 7(1) of Regulation (EU) No 1176/2011, according to which the Commission informs the European Parliament, the Council and the Eurogroup about the outcome of the IDRs. In the sense of the MIP, imbalances are trends giving rise to developments which adversely affect the functioning of the economy of a Member State, or the monetary union, or the Union as whole; excessive imbalances are severe imbalances, including those that could jeopardise the proper functioning of the Economic and Monetary Union.

[12] It should be noted that Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances requires the Commission to keep under review Member States showing persistently large current-account deficits and competitiveness losses, but also requests that "in Member States that accumulate large current-account surpluses, policies should aim to identify and implement measures that help strengthen their domestic demand and growth potential" (cf. recital 17).

- ***Belgium**, **the Netherlands**, **Romania**, **Finland**, **Sweden** and **the United Kingdom** are considered to be in a situation of **imbalance requiring policy action and monitoring**.*

The results of the IDRs will be taken into account in the next steps of the European Semester of economic policy coordination, as explained below. For euro area Member States, the Commission will carry out a specific monitoring of the policies recommended by the Council and will be in contact with national administrations to ensure follow-up.

3. MEMBER STATES' RESPONSES TO THE MAIN CHALLENGES

While the Country Reports demonstrate a varied degree of action by Member States to address the problems identified in the Country Specific Recommendations, they also show that the recommendations feature prominently on the domestic political agenda of the Member States with the most acute challenges. As shown in Annex 2 to this Communication, there is evidence of progress in starting to implement the 2014-2015 recommendations in the majority of cases, but the nature of this progress needs to be qualified, also in the light of the substance of the challenges confronting each Member State and the EU as a whole.

This shows clearly that the new economic governance arrangements of the EU, if properly implemented at all levels, are instrumental in identifying priority areas for action at national level which reflect the close interdependence between Member States. There are also clear signs of improvements in those Member States that have undertaken reform. Combining structural reforms, investment and fiscal responsibility ("the virtuous triangle" of the Annual Growth Survey for 2015), with a stronger focus on social fairness and on the social dimension of reforms helps to build a solid foundation for sustained growth, greater social cohesion and economic convergence. The Commission's analysis also shows where insufficient reform at national level reduces competitiveness and sustainability and has potentially negative impacts on other Member States.

3.1 Boosting investment

After two years of contraction, total investment rose by 2.2% in the EU and 0.9% in the euro area in 2014. Investment growth is expected to gain momentum as from the second half of this year in both the EU and the euro area, lifting the annual growth rate to 3.0% in the EU and 2.0% in the euro area. In 2016, total investment is expected to accelerate to 4.6% in the EU and 4.4% in the euro area. Nonetheless, investment remains below the levels needed to renew and modernise Europe's capital stock and to significantly boost jobs and growth potential for the future.

Stabilising the financial sector and restoring better lending conditions to the real economy is an essential part of on-going efforts. Most Member States have made progress in re-establishing capital buffers for their banking sector and in resolving distressed banks where necessary (e.g. Ireland, Slovenia, Spain, the United Kingdom), thereby creating the conditions for a more dynamic supply of credit in the future. Last year's comprehensive assessment of the largest banks' balance sheets by the European Central Bank and the start of operation of the Single Supervisory Mechanism have contributed to boosting confidence in the banking sector.

In many Member States private investment has not yet returned to its pre-crisis levels, so the investment gap is still large.[13] Together with the European Structural and Investment Funds for the period 2014-2020, the Commission Investment Plan for Europe will make a strong contribution to restoring investment levels and promoting the key investments that Europe needs for job-creating growth. These include large needs in energy infrastructure to complete the internal energy market and for security of supply. Good examples of priorities include interconnectors, e.g. the 'Baltic connector' linking the gas markets of Estonia and Finland or future interconnectors between the Iberian peninsula and France. More modern transport and digital infrastructure is also needed to further support mobility and exchange. Investment in education, research and innovation is also seen as a priority across the board.

In many Member States, EU funding plays an important role in financing investment and administrative reforms. Further measures are needed to enhance the management of EU Funds, for instance in Bulgaria, the Czech Republic, Croatia, Italy, Romania and Slovakia.

3.2 Accelerating structural reforms

Structural reforms in services, product and labour markets are needed to strengthen and sustain the economic recovery, correct harmful imbalances, improve the conditions for investment and unleash the potential of Member States' economies. At the same time, some reforms must be co-ordinated by Member States in order to maximise positive spill-overs and minimise negative ones. Their social impact should also be closely monitored.

Since mid-2013, labour market conditions have improved, as can be seen in falling unemployment rates (even if they remain high) and increasing employment growth in both the EU and the euro area. However, youth unemployment remains high and long-term unemployment has increased since the beginning of the crisis. It will take time to reduce.

Given the impact of the crisis on society, several Member States need to modernise their labour market policies and welfare systems to meet current challenges. They need to promote the creation of new work places, while at the same time providing broad social security coverage, notably for those in need, and tackling the risks of social exclusion and rising poverty levels. Almost all Member States have recognised these challenges and taken steps to address them. In many Member States, there is a need to better align wage-setting with productivity developments and to ensure that the education and training systems better match labour market needs. Some Member States, such as Estonia, are planning or implementing measures to reduce the tax wedge, often targeting labour tax cuts specifically at lower income categories.

In order to tackle youth unemployment, all Member States have now launched a Youth Guarantee, but many still need to strengthen the capacity of their Public Employment Services to fight long-term unemployment. The Commission recently proposed to the EU legislator to make available immediate additional funding through the re-launch of the Youth Employment Initiative[14].

Labour market segmentation remains a problem in many Member States. In the Netherlands, the government enacted a comprehensive reform of employment protection legislation with the aim of reducing labour market duality and fostering occupational mobility. The Italian Jobs Act makes decisive changes in employment protection legislation and unemployment

[13] In 2013, investment was still at 19.3% GDP, roughly 2 percentage points below its historical average if one excludes the boom-bust years (cf. Annual Growth Survey 2015, COM(2014) 902).
[14] COM(2015) 46 of 4 February 2015.

benefits to improve entry and exit in the labour market, enhance reallocation of labour across sectors and promote more stable open-ended employment, notably for the young.

Reformed and integrated product markets have a key role to play in increasing productivity, regaining competitiveness and improving the business environment, thereby also fostering private productive investment. Some Member States have taken measures to stimulate competition in the services and retail sectors and to open up some of the regulated professions, but the progress remains low overall.

Concerning professional services, proposed reforms sometimes lack ambition (e.g. France), or face difficulties to be adopted or implemented (e.g. Italy, Portugal, Spain). Poland was an exception with an ambitious reform process in this area starting in 2013 and continued in 2014, which is due to facilitate access to more than 200 regulated professions. Some limited reforms in retail have been adopted in a few countries (e.g. Finland, France or Spain).

Progress in streamlining the regulatory environment in which enterprises operate remains mixed. Despite some limited progress (e.g. Italy, Romania, Slovenia), there is a general need for further modernisation of public administration and for increasing its efficiency and transparency, stepping up the fight against corruption, tax evasion and undeclared work. Improving the independence, quality and efficiency of judicial systems, and ensuring better contract enforcement and establishing well-functioning insolvency frameworks is also crucial. For example in Slovakia, a new legislation on whistleblowing was adopted in 2014 and an Action Plan on fighting corruption has been updated in December 2014.

3.3 Pursuing growth-friendly fiscal responsibility

The significant fiscal efforts undertaken by most Member States since 2010 are starting to bear fruit. The process is not complete and further progress towards sustainable budgetary positions is still needed in a large number of countries. Both in the EU and in the euro area, the debt-to-GDP ratio is forecast to stabilise in 2014-15 before slightly declining in 2016. Some governments can now use greater fiscal space and lower costs of borrowing to off-set adverse short term effects and to bring forward the benefits of structural reforms. At the same time, there is a need for a greater focus on improving the effectiveness, quality and growth-friendliness of public finances. Government debt has increased significantly over the last five years and remains at levels above 90% of GDP in Belgium, Ireland, Spain, France, Italy, and Portugal, or at levels that are well above their pre-crisis levels in Croatia and Slovenia.

The pace of adjustment has significantly slowed down, reflecting both cyclical conditions and reduced fiscal effort. However, as can be seen from their high debt ratios, some Member States need to step up their fiscal efforts in order to ensure the sustainability of their public finances and avoid that interest rate expenditure crowds out more productive expenditure.

Box 2. Updates under the Stability and Growth Pact

In its assessment of the 2015 draft budgetary plans for euro area Member States, published in November 2014, the Commission indicated that for seven countries (Belgium, Spain, France, Italy, Malta, Austria and Portugal), these plans posed a risk of non-compliance with the provisions of the Pact. In the case of France, Italy and Belgium, the Commission also announced that it would examine the situation vis-à-vis their obligations under the Pact by early March 2015, once their budget laws for 2015 were finalised and when their structural reform programmes were set out in greater detail. In the meantime, these Member States have presented new information regarding their fiscal and reform plans, which are published alongside this Communication. As is customary, the Commission

also takes the opportunity of the publication of its latest economic forecast to update its guidance.

Against this background, the Commission concludes the following:

- *The Commission recommends a new Council Recommendation to **France** to correct its excessive deficit by 2017. The new recommendation includes strict milestones for the fiscal adjustment path that will need to be respected and will be assessed regularly, starting with a first assessment in May 2015. In line with the Communication on making best use of the flexibility within the existing rules of the Stability and Growth Pact, this is meant to give France sufficient time to implement ambitious structural reforms. First elements of a structural reform plan were adopted and made public by the French Government on 18 February 2015.*
- *The Commission adopts reports on the fiscal situation of **Belgium**, **Italy** and **Finland** under Article 126(3) TFEU, in which it reviews their compliance with the deficit and the debt criterion of the Treaty. While these countries appear to be at variance with the debt reference value, the Commission considers that the opening of an excessive deficit procedure is not warranted at this stage in the light of key relevant factors that the Commission is required by Article 126(3) TFEU to take ito account in assessing compliance with the debt criterion. For Belgium and Italy, the assessment takes into account the following relevant factors: (i) the current unfavourable economic conditions characterised by low nominal growth make the respect of the debt rule particularly demanding; (ii) the expectation that these countries are broadly compliant with the required adjustment towards the medium term objective (MTO) and (iii) the ongoing implementation of ambitious structural reform plans. For Finland, the prima facie excess over the 60% reference value is explained by Finland's support to financial stability mechanisms in the euro area.*

Compliance with the required fiscal structural adjustments and, especially in the case of France, Italy and Belgium, full implementation the ongoing and planned structural reforms (formally agreed and adopted by the government) is crucial. The Commission will ensure close monitoring in the context of the European Semester, based on the National Reform Programmes and Stability or Convergence Programmes to be submitted by mid-April, and specific monitoring/EIP in the context of the MIP as foreseen for Italy and France. If one of these Member States fails to implement the required reforms, the Commission will consider this as a relevant factor in future reports assessing the need to open an excessive deficit procedure (EDP) and, for Member States already under EDP, as an aggravating factor when deciding about the length of the extension of the deadline for correction in a new recommendations following the assessment of effective action. Lack of effective action on the fiscal side will lead to a stepping up of the EDP and the possible suspension of European Structural and Investment Funds. For euro area Member States, this also means that the Commission will recommend to the Council the imposition of a fine.[15]

The Commission has also assessed the Member States' response to recommendations calling for strengthening the institutional and longer term dimension of their fiscal policy. As agreed at EU level, Member States introduced new elements such as numerical fiscal rules, medium term frameworks, independent fiscal institutions and improved budgetary procedures, but there is still progress to be made.

Member States need to further step up efforts to modernise their pension systems. The budgetary impact of population ageing poses a challenge to long-term fiscal sustainability, in particular in those countries where the old-age-dependency ratio[16] is expected to significantly increase in the years to come. Age-related expenditure growth needs to be curbed in order to contribute to the long-term sustainability of public finances. The social partners in Finland reached an agreement in September 2014 on a pension reform that will take effect in 2017.

[15] See also COM(2015) 12 of 13 January 2015.

[16] Measured as the share of the population over 65 as a percentage of 15-64 year olds.

Limited progress can also be observed in improving the efficiency of healthcare and long term care systems that would ensure that they are well functioning and accessible, while containing costs. Romania has introduced an electronic health card that will register all consultations and prescription and will also help highlight abusive consultations or prescriptions.

4. WHERE NEXT?

The European Semester is an important process for ensuring integrated economic policy coordination at EU level. The combination of macro-economic and fiscal surveillance tools is essential to build consistent policy agendas, steer convergence of performance, monitor progress and manage interdependence. The strengthening and streamlining of the European Semester should go hand-in-hand with increased ownership and a better understanding of the process at all levels.

The analysis underpinning the Country Reports has been produced following an open dialogue with the Member States at technical level. The findings are published earlier than in past years to enable a broader range of actors within the Member States and at EU level to scrutinise this technical analysis, not only country by country, in the context of the preparation of national programmes, but also by looking at crosscutting issues and identifying themes to be tackled in a more coordinated way at EU level, within the euro area, as well as by individual Member States. In this respect, the Country Reports also provide an input for a deeper multilateral surveillance by the Council and its Committees, which is critical for the success of the European Semester.

The Commission is ready to engage in further dialogue at all levels in the coming weeks and months: with the Member States, the European Parliament and national Parliaments, with the social partners, and more generally with stakeholders.

In March, it will organise another round of bilateral meetings with the Member States to provide an opportunity to discuss the Country Reports. By mid-April, the Member States are expected to present their National Reform Programmes and their Stability or Convergence Programmes. Based on all these sources, the Commission will present a new, focussed set of Country Specific Recommendations for 2015-2016 in May, targeting the most important priorities to be tackled.

Streamlining and reinforcing of the European Semester with a view to boosting its ownership and effectiveness will be an important part of the broader discussion on the deepening of the Economic and Monetary Union[17].

[17] See, for instance, the Analytical Note on "Preparing Next Steps on Better Governance in the Euro Area" prepared for the Informal European Council of 12 February 2015: http://ec.europa.eu/priorities/docs/economic-governance-note_en.pdf

ANNEX 1 - INTEGRATED SURVEILLANCE OF MACROECONOMIC AND FISCAL IMBALANCES – OVERVIEW TABLE SHOWING UPDATES AS PART OF THIS PACKAGE

	Macroeconomic Imbalance Procedure (MIP)	Stability and Growth Pact (MTO: medium term objective / EDP: excessive deficit procedure)	Comments
AT	-	-	-
BE	Unchanged: Imbalances, which require policy action and monitoring	Not yet at MTO; subject to transitional debt rule Commission report under Art 126.3 concluding not to open an EDP at this stage	**EDP not opened at this stage** based on relevant factors
BG	Change: Excessive imbalances, which require decisive policy action and specific monitoring	Not yet at MTO	**MIP escalation** stemming from increased risks following the financial turbulences in 2014
CY	-	-	Under a dedicated financial assistance programme
CZ	-	-	-
DE	Change: Imbalances, which require decisive policy action and monitoring	Overachieving MTO; subject to the debt rule	**MIP escalation** stemming from: - persistent weak investment and high current account surplus coupled with insufficient policy action - increased systemic risk for the euro area
DK	-	-	-
EE	-	-	-
EL	-	-	Under a dedicated financial assistance programme
IE	Unchanged: Imbalances, which require decisive policy action and specific monitoring (post programme surveillance)	Excessive deficit, deadline for correction: 2015	-
ES	Unchanged: Imbalances, which require decisive policy action and specific monitoring (post programme surveillance)	Excessive deficit, deadline for correction: 2016	-
FR	Change: Excessive imbalances, which require decisive policy action and specific monitoring	Excessive deficit, deadline for correction: 2015 Recommendation for a Council recommendation under Art 126.7 with 2017 as deadline to correct the excessive deficit	**MIP escalation** stemming from - deterioration of competitiveness and public debt sustainability not sufficiently curbed by announced measures - systemic risk for the euro area Decision on the activation of the corrective arm to be taken in May, in the light of National Reform Programme and other commitment to structural reforms **EDP** - new deadline, including strict milestones and also taking into account the reform plan submitted by France
HR	Unchanged: Excessive imbalances, which require decisive policy action and specific monitoring	Excessive deficit, deadline for correction: 2016	MIP decision on the activation of the corrective to be taken in May, in the light of National Reform Programme and other commitment to structural reforms

	Macroeconomic Imbalance Procedure (MIP)	Stability and Growth Pact (MTO: medium term objective / EDP: excessive deficit procedure)	Comments
HU	Unchanged: Imbalances, which require decisive policy action and monitoring	Not yet at MTO; subject to transitional debt rule	-
IT	Unchanged: Excessive imbalances, which require decisive policy action and specific monitoring	Not yet at MTO; subject to transitional debt rule Commission report under Art. 126.3 concluding not to open an EDP at this stage	MIP: Status quo, considering the reform plan already submitted and to be closely monitored **EDP not opened at this stage** based on relevant factors
LT	-	-	-
LU	-	-	-
LV	-	-	-
MT	-	-	-
NL	Unchanged: Imbalances, which require monitoring and policy action	Not at MTO; subject to transitional debt rule	-
PL	-	-	-
PT	Change: Excessive imbalances, which require decisive policy action and specific monitoring (post programme surveillance)	Excessive deficit, deadline for correction: 2015	MIP decision (after programme exit) stemming from high levels of indebtedness, both internally and across sectors.
SI	Change: Imbalances, which require decisive policy action and specific monitoring	Excessive deficit, deadline for correction: 2015	**MIP de-escalation** stemming from improvements in the external position and the banking sector
SE	Unchanged: Imbalances, which require policy action and monitoring	At its MTO	
SK	-	-	-
RO	Change: Imbalances, which require policy action and monitoring	Not yet at MTO	MIP decision stemming from weak external position and competitiveness
FI	Unchanged: Imbalances, which require policy action and monitoring	Not yet at MTO Commission report under Art. 126.3 concluding that EDP should not be opened at this stage	**EDP not opened at this stage** based on relevant factors
UK	Unchanged: Imbalances, which require policy action and monitoring	Excessive deficit, deadline for correction: 2014-15	

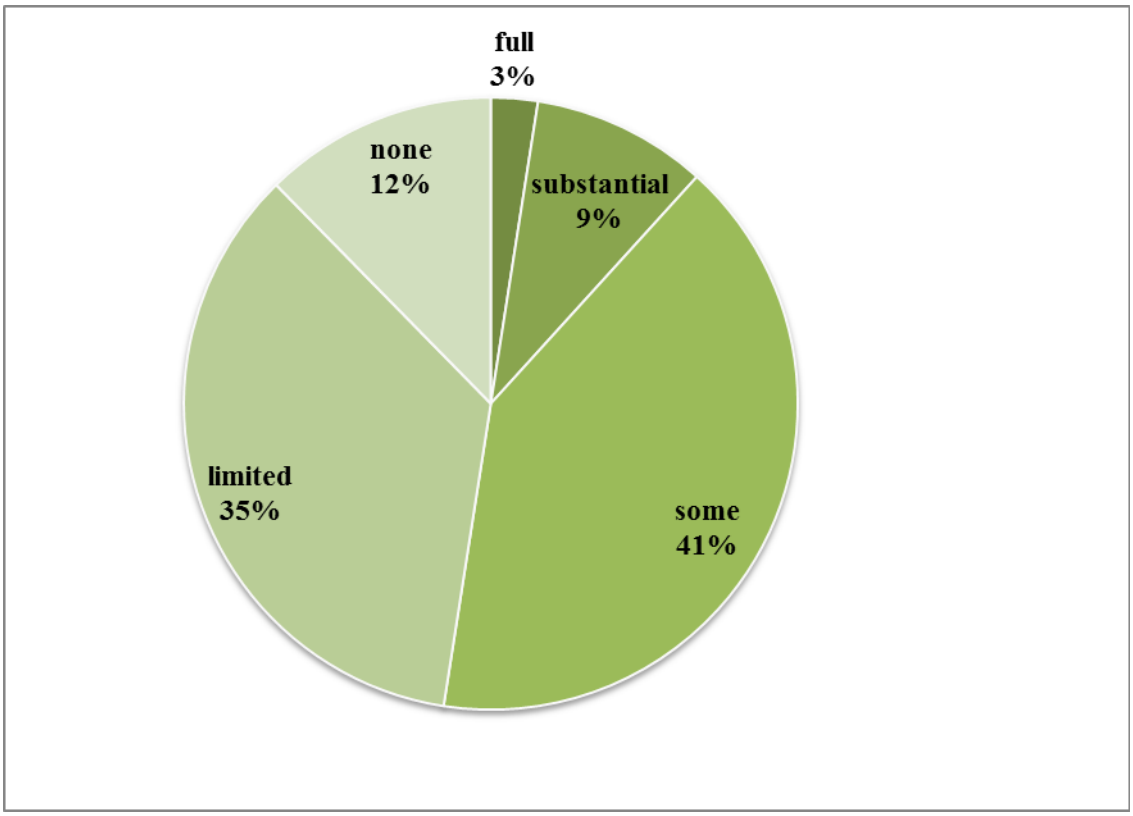
(*) The Recommendations under the '2-pack' (Reg. No 473/2013) regarding measures to be taken in order to ensure a timely correction of its excessive government deficit only concern euro area Member States.

ANNEX 2: IMPLEMENTATION OF THE COUNTRY SPECIFIC RECOMMENDATIONS BY MEMBER STATES

Eight months after the 2014-2015 Country Specific Recommendations were proposed by the European Commission and subsequently endorsed by the Member States, a first analysis of their implementation to date shows some positive trends. More detail is available in the overview table presented in each Country Report.

The graph below is based on an analysis of Member States' progress in addressing individual problems identified in the Country Specific Recommendations. It does not include the assessment of the Member States' performance under the Stability and Growth Pact. It is made for illustrative purposes only and has some methodological limitations: Country Specific Recommendations are not all equally straightforward to implement, with some objectively more difficult to achieve than others. For instance, there are always necessary time lags between the preparation of an initiative, its discussion within national consultation and decision-making processes, its implementation on the ground and the evaluation of impact. This is why the Commission's analysis cannot be reduced to a "box-ticking" exercise and must remain qualitative in essence, even though the quantitative assessment gives a first impression on the willingness and ability of Member States to implement the reforms agreed by them in Council.

Member States' progress in addressing the key issues identified in the 2014-2015 Country Specific Recommendations



Examples of the reforms undertaken

Full implementation	Quite a number of recommendations can be considered as fully implemented. These include important labour market reforms (Croatia), further strengthening the banking sector (Ireland), strengthening the fiscal framework (Malta) or increasing the statutory retirement age (Netherlands).
Substantial progress	Substantial progress can be noted in a large number of very important policy areas, such as ensuring better access to finance by SMEs (United Kingdom, Spain and Ireland), advancing the bank restructuring process (Slovenia), reducing tax burden on low income earners (Romania), reforming insolvency framework (Latvia), reaching out to unemployed youth (Croatia), or strengthening national competition authority (Austria).
Some or limited progress	Some or limited progress has been achieved in a vast majority of cases. This includes in particular active labour policy measures (Sweden, Slovakia and Slovenia), fighting against the shadow economy (Spain, Italy), reforming public administration (Spain), preparing reforms of pensions system (Austria), accelerating fixed broadband coverage (Poland), reforming health sector (Slovenia, Romania, Germany or Austria) or taking measures to improve tax compliance (Hungary).
No progress	Very few recommendations have not been addressed by Member States at all. The problems range from strengthening the institutional aspects of budgetary frameworks (Hungary, Estonia, Poland, Ireland), reforming energy markets (Romania, Slovakia), reforming wage setting mechanism (Luxembourg, Romania) or tackling the issue of pensions (Germany, Bulgaria).

ANNEX 3: FINDINGS FROM IN-DEPTH-REVIEWS BY MEMBER STATE

- **Belgium** is experiencing *macroeconomic imbalances, which require policy action and monitoring*. Developments with regard to the external competitiveness of goods continue to present risks and deserve attention as a renewed deterioration would threaten macroeconomic stability. Further action to ensure convergence of cost parameters would slow down the decline of employment in the tradable sectors while tangible progress to narrow the historic cost gap could be reinforced by a tax shift towards non-labour tax bases. Public debt remains high but several factors temper associated macroeconomic risks.
- **Bulgaria** is experiencing *excessive macroeconomic imbalances, which require decisive policy action and specific monitoring*. In particular, the financial sector turbulence in 2014 has raised concerns about the existence of banking practices in the domestically-owned part, with potentially significant implications for financial sector and overall macroeconomic stability. In addition, the still negative, albeit improving, external position, corporate overleveraging and weak labour market adjustment continue to pose macroeconomic risks and deserve close attention.
- **Germany** is experiencing *macroeconomic imbalances, which require decisive policy action and monitoring*. Risks have increased in light of the persistence of insufficient private and public investment, which represents a drag on growth, and contributes to the very high current account surplus which continues to deserve close attention. The need for action so as to reduce the risk of adverse effects on the German economy and, given its size, of negative spillovers to the economic and monetary union, is particularly important.
- **Ireland** is experiencing *macroeconomic imbalances, which require decisive policy action and specific monitoring*. Ireland completed the EU-IMF financial assistance programme in 2013 and is currently subject to post-programme surveillance and European Semester surveillance. Despite a marked improvement in the economic outlook, risks related to the high levels of private and public sector indebtedness; remaining financial sector challenges, in particular with regard to the banks' profitability, and labour market adjustment marked by high structural unemployment, continue to deserve close attention.
- **Spain** is experiencing *macroeconomic imbalances, which require decisive policy action and specific monitoring*. Spain exited the financial assistance programme for the recapitalisation of financial institutions in 2014 and is currently subject to post-programme surveillance and European Semester surveillance. Despite some improvement in the current account rebalancing, risks related to the high levels of private and public sector indebtedness and the highly negative net international investment position continue to deserve close attention in a context of very high unemployment. The need for action so as to reduce the risk of adverse effects on the Spanish economy and, given its size, of negative spillovers to the economic and monetary union, is particularly important.
- **France** is experiencing *excessive macroeconomic imbalances, which require decisive policy action and specific monitoring*. The Commission will take in May, on the basis of the National Reform Programmes (NRPs) and other commitments to structural reforms announced by that date, the decision to activate the Excessive Imbalance Procedure (EIP). In a context of low growth and low inflation, coupled with a poor profitability of companies, and given the insufficient policy response so far, risks stemming from the deterioration in both cost and non-cost competitiveness and from the high and rising French indebtedness, in particular public debt have significantly increased. The need for

action so as to reduce the risk of adverse effects on the French economy and, given its size, of negative spillovers to the economic and monetary union, is particularly important.

- **Croatia** is experiencing *excessive macroeconomic imbalances, which require decisive policy action and specific monitoring.* The Commission will take in May, on the basis of the National Reform Programmes (NRPs) and other commitments to structural reforms announced by that date, the decision to activate the Excessive Imbalance Procedure (EIP). In a context of subdued growth, delayed restructuring of firms and dismal performance of employment, risks related to weak competitiveness, large external liabilities and rising public debt coupled with weak public sector governance, have significantly increased.
- **Italy** is experiencing *excessive macroeconomic imbalances, which require decisive policy action and specific monitoring*. In a context of protracted weak growth and persistently low productivity, risks stemming from the very high level of public debt and the weakness of both cost and non-cost competitiveness have significantly increased. The need for action so as to reduce the risk of adverse effects on the Italian economy and, given its size, of negative spillovers to the economic and monetary union, is particularly important.
- **Hungary** is experiencing *macroeconomic imbalances, which require decisive policy action and monitoring*. In particular, risks stemming from the still highly negative net international position, despite some progress in the rebalancing of external accounts, the high level of public debt as well as the high regulatory burden on financial sector and a high level of non-performing loans which make the deleveraging difficult, continue to deserve attention.
- **The Netherlands** is experiencing *macroeconomic imbalances, which require policy action and monitoring*. Risks stemming from the high level of private debt remain and deserve attention although recent measures support a recovery in the housing market and the curbing of mortgage growth. While the high current account surplus is partially traceable to structural features of the economy the structure of the pension and tax systems may potentially be a source of inefficient allocation of capital.
- **Portugal** is experiencing *excessive macroeconomic imbalances, which require decisive policy action and specific monitoring*. Portugal exited the economic adjustment programme in 2014 and is currently subject to post-programme surveillance and European Semester surveillance. Despite considerable progress achieved during the programme, both as regards economic adjustment and policies, important risks remain linked to the high levels of indebtedness, both internally and externally, and across various sectors and deserve close attention. There are also strong deleveraging pressures in the context of low growth, low inflation and high unemployment.
- **Slovenia** is experiencing *macroeconomic imbalances, which require decisive policy action and specific monitoring*. The rebalancing is ongoing and overall decisive policy actions, improved export performance and growth conditions have reduced risks compared to last year, in particular those linked to external sustainability. However, weak corporate governance, a high level of state ownership, a still high corporate leverage, and an increasing public debt pose risks for financial stability and growth and warrant close attention. The imbalances are therefore no longer considered as excessive but continue to deserve close attention.
- **Finland** is experiencing *macroeconomic imbalances, which require policy action and monitoring.* In particular, risks related to the weak export performance in a context of industrial restructuring deserve attention. While the decline in export market shares and manufacturing industries has largely come to an end investment remains low and potential

growth has declined. Private-sector debt has stabilised and does not appear to be a source of immediate concern, but its relatively high level calls for close monitoring.

- **Sweden** is experiencing *macroeconomic imbalances, which require policy action and monitoring*. In particular, household debt remains at very high levels and keeps expanding as a result of increasing house prices, persistent low interest rates, still high tax incentives and housing supply constraints. Macroeconomic developments linked to private debt continue to deserve attention.
- **Romania** is experiencing *macroeconomic imbalances, which require policy action and monitoring.* In the three consecutive EU-IMF programmes, external and internal imbalances have been significantly reduced. However, risks from the relatively large negative net international investment position and a weak medium-term export capacity deserve attention. Moreover financial sector stability has been preserved so far, but external and internal vulnerabilities of the banking sector remain.
- **The United Kingdom** is experiencing *macroeconomic imbalances, which require policy action and monitoring.* In particular, risks related to the high level of household indebtedness, also linked to structural characteristics of the housing market, continue to deserve attention. The resilience of the economy and financial sector has increased. However, a shortage of housing will persist and is likely to underpin high house prices in the medium term and continue to leave the sector less resilient in the face of risks.