

## The 2016 Annual Growth Survey: A step closer to the Semester as imagined in the Five Presidents' Report? By Christos Louvaris Fasois

**R**ight from the beginning of its term, the Juncker Commission expressed its ambition to deepen the Economic and Monetary Union (EMU) and strengthen the social side of the European Semester. In his October 2014 speech before the European Parliament for the approval of the new Commissioners, Jean-Claude Juncker highlighted the necessity to adopt a more balanced approach between social and economic policies. As he famously stated, his goal was to accomplish “a triple-A on social issues, as much as in the financial and economic sense” adding that “the Semester is about more than just the economy.” During the Euro Summit of the same month he also declared that closer coordination of economic policies was “essential to ensure the smooth functioning of the Economic and Monetary Union.” These ideas have been elaborated on over the following months and were laid out in more detail in the so-called [Five Presidents' Report](#) (hereafter FPR), which came out in June 2015 (complemented in October 2015 by a Commission Report “[On Steps Towards Completing Economic and Monetary Union](#)”).

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The FPR (which incidentally came out in the midst of the Greek bailout crisis) was published as an initiative by Juncker in cooperation with the other four presidents of the main EU institutions—European Council, Eurogroup, European Central Bank, European Parliament—to set up a comprehensive plan towards deeper integration and better economic governance, primarily in the euro area. The report refers to the necessity of creating a deeper economic union, a financial union, a fiscal union as well as a political union. In essence, the FPR lays out an implementation roadmap so that the economies of the EU can develop the necessary “structural features” for a more prosperous future. Among other things, the FPR calls for a stronger focus on employment and social performance within the EMU and mentions the creation of a common “social protection floor.”

## The role of the European semester

The FPR's implementation roadmap is set to be carried out in two stages, the first aiming to enhance existing instruments until 2017, the second intending to bring forward deep reforms through a process of "upward convergence" and the use of benchmarks. Having been the main instrument of economic coordination and fiscal monitoring between Member States since 2011, the European Semester was unlikely to be left unmentioned in the FPR. Its integrated framework brings together within "a single annual policy coordination cycle" a variety of EU governance mechanisms with different legal bases, incorporating the Stability and Growth Pact, the Macroeconomic Imbalance Procedure and the strategic goals of Europe 2020. The Semester's prominent role in the advancement of the economic union is acknowledged by the FPR, which mentions, however, that there is still room for progress and points, in particular to a better implementation of policies, the inclusion of social goals as well as a stronger involvement on the part of national parliaments.

The recent crisis has revealed the dangers of potential spillover effects among the Eurozone countries, and shifted the politicians' and policy-makers' focus on the situation of the euro area as a whole. The institutional framework of setting priorities while having in mind the wider perspective and the EU's aggregate fiscal stance already exists; in practice, however, this coordination approach is mainly based on national-oriented reporting, thus making it hard to monitor things directly at the EU level. For that reason the FPR aims for more active participation before each year's Annual Growth Survey (AGS) and before the adoption of the Draft Budgetary Plans from the Eurogroup, the European Council and the European Parliament. In addition, as part of the efforts to revamp the European Semester, the Report recommends that this process should be reorganized in two consecutive stages, with the first one focused widely on the euro area and the second dealing more narrowly with national recommendations. Due to the Semester's heavy criticism in the past years, the issue of democratic accountability and legitimacy has also been addressed in the need of strengthening parliamentary control. Thus, the AGS would be discussed in the plenary session of the national Parliaments before and after their issuance. But also during the preparation of the Country Specific Recommendations (CSRs) and the national budgets, national parliaments need to be in closer and more systematic cooperation with the Commission. Finally, civil society and social actors in each Member State shall be more engaged in the key-points of the Semester, including the adoption of National Reform Programmes (NRPs) and Stability Programmes.

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Both the FPR and the Commission's October report highlighted the importance of benchmarking and cross-examination of performance as two powerful levers towards a substantial convergence of policies. According to them, benchmarking can increase the ownership of the Member States' reforms and contribute to their implementation while cross-examination may foster convergence towards the best performers in a plethora of policy areas—such as labour market, public administration and even tax policy. Due to the different challenges and variety of circumstances in every policy field, it is necessary that the implementation of benchmarks must be given leeway to meet each domain's particular needs. Thus, the convergence process must adopt a balanced approach between the particularities of each MS's policy area and the promotion of common good practices.

Besides the foregoing, the FPR and the Commission's report refer to the necessity of improving the Semester's transparency and reducing the complexity of the fiscal rules related with the Macroeconomic Imbalance Procedure (MIP). This recently-introduced mechanism has been proved effective in spotting early fiscal imbalances on national budgets. However, the reports claim that there are several ways it can still be improved. These include a better follow-up to the identification of excessive imbalances, a clearer presentation of the MIP's results and a wider approach based on the euro area as a whole. Finally, a strong emphasis is given to employment and social performances. An interesting development here is the Commission's intention to create a "European pillar of social rights" aiming to serve as a compass towards the abovementioned process of upward convergence.

## **Enhancing the social dimension**

The long-awaited streamlining of the European Semester became more evident in the 2015 cycle. The Country Reports and Commission Proposals for the adoption of country specific recommendations were published earlier—in February and May respectively—granting more time for a genuine dialogue between Member State governments and the national social stakeholders. This shift of time schedule reflected the Commission's ambition to enhance the

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role of National Reform Programmes (NRPs) as democratic vehicles for “forward-looking policy initiatives.” The [2016 AGS](#) continues in the same direction by deepening the Semester’s streamlining process and by strengthening the dialogue between actors at all levels. For the first time the AGS is accompanied by a set of recommendations for the euro area, a development which reflects the FPR’s vision for deeper integration between the EU and national dimensions. Along with the existing goals for enhanced investments, structural reforms and responsible fiscal policies, this year’s AGS draws attention to inclusive social and employment policies. As one of its main goals, it attempts to balance increased social investment in a wide range of policy fields (e.g. minimum income, care services, unemployment benefits, healthcare or skills) with the concept of flexicurity, mainly in the labour market. The Commission highlights that “labour market policies must balance flexibility and social security considerations” and that the notion of investment must extend as well to “human capital and related social investment.”

The Commission also adds that social protection systems, namely pensions and healthcare, must ensure their fiscal sustainability without becoming less accessible. The fact that the 2016 AGS follows the orientation set by the FPR can be seen more clearly in the introduction of three new headline indicators in the 2016 Alert Mechanism Report that accompanies it. The indicators, which refer to the activity rate, the youth unemployment and the long-term unemployment, will be used to raise awareness on social fairness. In addition, the Survey reaffirms the Commission’s aim to progressively strengthen benchmarking and the use of best practices in its effort to push for more convergence across policy fields. Just like in the FPR, it is stated that the EU economic governance shall be strengthened through “practical improvements” to the MIP and the Stability and Growth Pact.

The 2016 AGS is encouraging in the sense that it reveals a more socially balanced approach towards the Semester and at the same time it shows more decisive steps for deeper integration. The Five Presidents Report has made an extensive analysis on the shortcomings which must be addressed and it seems that the last two years’ AGSs are moving in the right direction. There are signs of a more inclusive stance on social and employment issues, yet it remains to be seen to what extent and through which steps these goals can and will be reached. Whatever the Semester’s future evolution, it is certainly worth monitoring its developments and transformations over the next few years.

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