Implementation of the European Semester

After the publication of the Annual Growth Survey (AGS) by the European Commission, the Hungarian Presidency undertook to implement the first ever "European Semester" a six-month period of each year in which member states' budgetary and structural policies are reviewed to identify any inconsistencies and emerging imbalances, so as to facilitate coordination before major budgetary decisions are finalised.

The economic crisis revealed a number of shortcomings in economic governance and coordination at EU level. As a result, actions taken by individual member states in order to boost competitiveness and create new jobs often cancelled one another out.

In September 2010 the member states agreed that the EU and the Eurozone should coordinate their economic and budgetary policies in line with the Stability and Growth Pact and the Europe 2020 strategy. The process, to be known as the European Semester, starts with the AGS in which the Commission provides its analysis of the basis of the 2020 targets, together with a macro-economic report and a joint employment report.

The AGS marks the start of a new cycle of economic governance in the EU. Its purpose is to bring together the different actions which are essential to strengthen the recovery in the short-term, to keep pace with the EU's main competitors and prepare the EU to move towards its 2020 objectives. As part of the European Semester process the Commission will assess the main economic challenges for the EU and it identify the priority actions to address them.

The role of the Member State which presides over the Council is to steer discussions on the AGS through the relevant Councils, aiming at preparing an agreement in the Semestrial European Council providing strategic advice on policies, programmes and the stability for the development of the National Reform Convergence Programmes. Taking this policy guidance into account, the Member States will present and discuss their budgetary strategies as well as the actions they will undertake in priority areas. The two documents will be presented to the Commission for assessment and the Council, based on the Commission’s assessment, will issue specific guidance for any countries whose policies are out of line. Each July, the European Council and the Council of Ministers will provide policy advice before the Member States finalise their draft budgets for the following year. Draft budgets will then be sent by governments to the national parliaments, which will retain their right to decide on the national budget.

The Presidency of the Council is responsible for implementing European policy extending surveillance to macro-economic imbalances and establishing measures to stimulate growth and to recover stability, as well as for improving budgetary discipline. The European Commission’s report summarises the recommended economic policy actions to be taken by the Member States as follows:

- Fundamental Prerequisites for Growth:
  1. Implementation of a solid fiscal consolidation

    2. Correction of macro-economic imbalances
    3. Stability of the financial sector
- Mobilisation of Labour Markets and Creation of Job Opportunities:
    1. Creating a more attractive working environment
    2. Reform of pension systems
    3. Return of unemployed back to work
    4. Balance of security and flexibility
- Frontload of Growth:
    1. Encouraging the potential of the single market
    2. Attracting private capital to finance growth
    3. Creating cost-effective access to energy

The Commission considers that achievement of the goals will help Europe return to strong economic growth and higher employment. In this context, Member States are harmonising their macro-economic and budgetary policies with EU goals included in the Europe 2020 strategy and coordinating economic policies, including budgetary policy, without reducing the power of national parliaments. On the contrary, national parliaments benefit by having wider information. For the first time commitments taken at European level will be translated into national decisions and budgets avoiding contradictions between macro and micro-economic decisions that sometimes happen in policy making.

Finally, a proper enforcement mechanism has been created. Once the Commission's proposals are adapted by the European Parliament and the Council, the European governance will set up financial sanctions against Member States deviating from the recommendations and their own commitments.

The Hungarian Presidency is the first Presidency of the Council to be responsible for guiding the implementation of this EU policy which supports stronger economic coordination among Member States helping to overcome the economic crisis.