

ANNEX – GOVERNANCE, TOOLS AND POLICY CYCLE OF EUROPE 2020

In March 2010, the Commission proposed "Europe 2020: a European strategy for smart, sustainable and inclusive growth"¹. This Strategy is designed to enhance the EU's growth potential and deliver high levels of employment, productivity and social cohesion. Progress in achieving the objectives of the Strategy will be monitored by theme and by Member State as part of a new economic policy co-ordination process decided by the European Council. To track progress the Commission proposed five headline targets for the EU. These will be translated into national targets by each Member State, reflecting their different starting points and the diversity of situations across the EU. Member States will pursue growth enhancing reforms in the key Europe 2020 thematic policy areas – these national plans will be set out in National Reform Programmes. Pursuing similar growth enhancing reforms at EU level, the Commission is launching seven flagship initiatives in priority policy areas.

The European Council finalised the Europe 2020 Strategy at its June 2010 meeting. It confirmed the five EU headline targets, gave its political endorsement to the Integrated Guidelines for economic and employment policies and asked Member States to implement the policy priorities of Europe 2020 at their level². It invited the Member States, in close dialogue with the Commission, to rapidly finalise their national targets.

This paper provides more operational guidance for Member States on what will be required from them at various points throughout the year in order to deliver on the aims of Europe 2020. It also explains the role of the Commission throughout the year in the new governance cycle. A key new element of the governance of the Europe 2020 Strategy is the introduction of a "European Semester" starting in January 2011. Under this new process the instruments of the Stability and Growth Pact and the Europe 2020 Strategy will be aligned, while retaining their legal specificities. Therefore this operational guide also draws on and complements the recent Commission Communications on reinforcing economic policy co-ordination³.

The aim of aligning the Stability and Growth Pact and the Europe 2020 Strategy is to bring a stronger ex-ante dimension to economic coordination and surveillance in the EU, allowing the EU to draw timely lessons from national developments and Member States to fully incorporate the European perspective and guidance into their national policies for the following year. This will also ensure greater consistency and effectiveness in terms of policy direction and reporting at all levels.

1. POLICY COORDINATION UNDER THE EUROPE 2020 STRATEGY AND THE SGP

Taking on board the lessons of the crisis, the implementation of the Europe 2020 Strategy will be based on a much stronger policy framework at EU level. This will be done through reinforced, integrated surveillance to address key macro-economic challenges combined with a thematic approach to speed up growth-enhancing structural reforms.

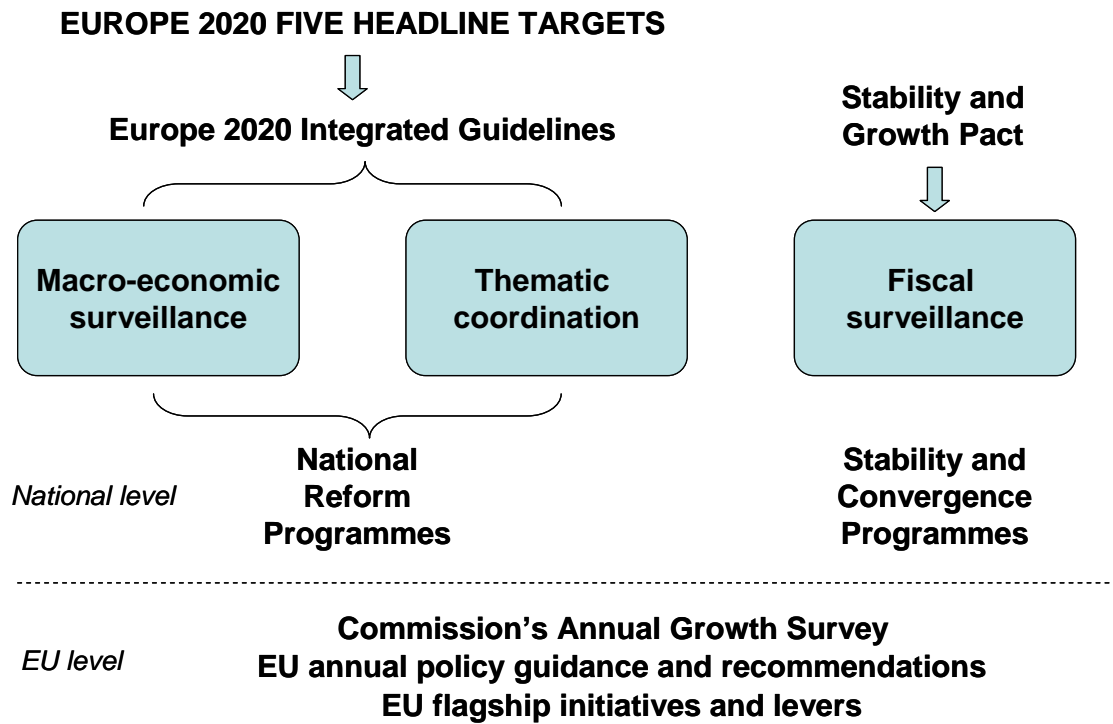
¹ COM(2010)2020 of 03.03.2010

² See EU headline targets agreed by the June European Council at:
<http://www.european-council.europa.eu/council-meetings/conclusions.aspx?lang=en>

³ COM(2010)250 of 12.05.2010 and COM(2010)367 of 30.06.2010

A visual representation of the governance of the new Strategy is given in Graph 1. The five EU headline targets and the Europe 2020 integrated guidelines will serve as a policy framework for the production of National Reform Programmes (NRPs). The Stability and Growth Pact will be the framework for the establishment of Stability and Convergence Programmes (SCPs).

Graph 1. Governance of the Europe 2020 Strategy



The governance of the Strategy will be based on three integrated strands:

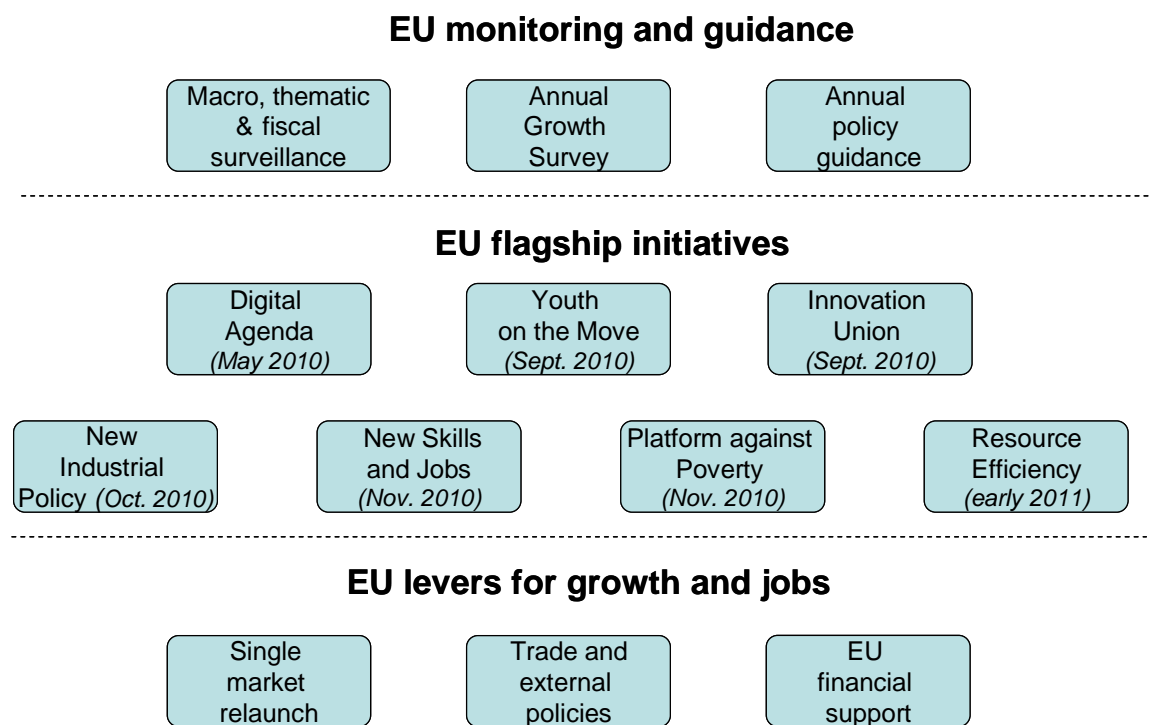
- *Macro-economic surveillance* to ensure a stable macroeconomic environment conducive to growth and employment creation, taking full account of spill-over effects across Member States economies, particularly in the euro area. In accordance with the Integrated Guidelines (numbers 1 to 3), it will cover macro-economic and structural policies to address macroeconomic imbalances, macro-financial vulnerabilities, and competitiveness issues which have a macro-economic dimension.
- *Monitoring of growth-enhancing reforms (thematic coordination)* will focus on structural reforms in the field of innovation and R&D, resource-efficiency, business environment, employment, education and social inclusion, in accordance with the Integrated Guidelines (numbers 4 to 10). The policies pursued in this context should be designed to deliver smart, sustainable and inclusive growth and employment creation at national and EU level and also focus on removing obstacles to achieving the objectives set in the above Guidelines. Progress will be monitored through the five Europe 2020 headline targets and the national targets which underpin them.

- In parallel, *fiscal surveillance under the Stability and Growth Pact* will be enhanced to strengthen fiscal consolidation and foster sustainable public finances. This will help ensure the overall consistency of EU policy advice by identifying the fiscal constraints within which Member States' actions are to be developed.

Member States have direct responsibility for the policy initiatives to be undertaken under the Europe 2020 Strategy. Their NRPs and the SCPs will be the cornerstones of their action.

Through reinforced monitoring and guidance mechanisms, the EU level will provide a supportive policy framework. The Commission will work to unlock new growth potential and to remove obstacles to sustainable growth through seven flagship initiatives and by mobilising the main EU policy instruments for growth and jobs, as explained below.

Graph 2. *EU tools in support of the Europe 2020 Strategy*



2. REINFORCED INSTRUMENTS

Strengthening EU strategic guidance

The Spring meeting of the European Council will provide horizontal policy guidance for the EU and the euro area as a whole (and possibly for groups of countries). It will take stock of the overall macro-economic situation and of progress towards the five EU headline targets. It may also consider progress under the flagship initiatives. It will provide policy orientations covering fiscal, macro-economic and thematic elements and will advise on linkages between them. Member States should take these orientations into account when preparing their SCPs and NRPs which should be submitted to the Commission in April of each year.

Annual Growth Survey

The Commission's *Annual Growth Survey*, presented each January, will be the main input for discussions at the Spring meeting of the European Council. The *Survey* will include both a review and a forward-looking part integrating the three main strands of surveillance:

The review will focus on:

- Fiscal and macro-economic developments in the EU and the euro area, including macroeconomic imbalances (based on an alert mechanism developed by the Commission), macro-financial risks as reported by the European Systemic Risk Board (ESRB) and progress made with the implementation of policies to address macro-structural challenges;
- Thematic developments in the EU, in particular overall progress achieved on the EU headline targets, as well as progress on the flagship initiatives and in removing bottlenecks in the single market and in the external aspects of the Strategy;
- Fiscal stance and overall progress towards fiscal targets.
- Horizontal issues related to developments in intra-euro-area imbalances and competitiveness, to be discussed by the Eurogroup.

The forward-looking part will describe:

- The main challenges for fiscal and macro-economic policies taking into account indicators of macro-financial vulnerability and competitiveness.
- Policies to address these challenges, also taking into account the views of the ESRB.
- Priorities for action in the area of structural reforms to advance the thematic part of the strategy.
- The Commission's draft Joint Employment Report will constitute a part of the survey addressing employment policies.

The role of sectoral Councils

Input to the Spring European Council will be prepared as appropriate by the ECOFIN Council (macro-economic surveillance) and by EPSCO as well as other Council formations (thematic coordination), taking account of the key findings of the Joint Employment Report. Comparisons with the performance and measures taken by international partners will be included in the Annual Growth Survey and should also be discussed in Council.

Throughout the year, the sectoral Councils will play a key role in examining progress towards the EU headline targets, through appropriate monitoring and peer review, as well as in advancing the Europe 2020 flagship initiatives.

Effective reporting at Member States' level

Effective reporting will enable the EU to undertake effective monitoring, surveillance and peer review of progress. Reporting will be carried out through the Stability and Convergence Programmes (SCPs) and the National Reform Programmes (NRPs), which will be submitted simultaneously by mid-April:

- The content of *Stability and Convergence Programmes* will be adapted to fit the new cycle of the European Semester. SCPs will be submitted before government adoption of national budgets for the following year and will include the necessary information to allow for meaningful discussions on fiscal policy. This is especially important for the year t+1.
- *National Reform Programmes* will play a key role under Europe 2020 and are to be regarded as the counterpart of the SCPs. The Commission will propose that NRPs be based on a Code of Conduct, similar to that for the SCPs. NRPs should contain the elements necessary for country specific as well as for thematic surveillance under the Europe 2020 strategy (see box below).

Both reports (NRPs and SCPs) should be fully integrated within the national budgetary procedure. It is important to ensure involvement of regional/local authorities, social partners and other stakeholders throughout the preparation process to build broad-based support for the implementation of these policies.

Main elements of the NRPs

The NRPs should include the following building blocks:

- Macroeconomic scenario

A cross-reference to the elements in the SCP should be made here.

- Macro-economic surveillance:

Drawing on the work of the EPC/EFC, the NRP should identify non-fiscal, macro-economic policies in accordance with the Integrated Guidelines (notably 1 to 3) to address internal/external imbalances, ensure macro-financial stability, and tackle competitiveness weaknesses having a macro-economic dimension.

- Thematic coordination:

- The NRP should set out Member States' proposed trajectories for meeting their agreed national targets derived from the five EU headline targets and should track progress towards these targets (Integrated Guidelines 4 to 10).
- NRPs should include a description of key measures to achieve the national targets, including time-tables and budgetary impacts.

- In addition, Member States should set out how they intend to tackle obstacles to achieving the objectives set in the above guidelines with a focus on policy outcomes and demonstrating concrete results.
- The above guidelines provide a list of the measures which Member States could consider to attain their agreed targets and to tackle bottlenecks. Where appropriate, Member States should indicate how EU structural funds will be used in support of measures to achieve the targets as well as the budgetary impact of these measures. NRPs should clearly focus on a limited set of priority measures, based on the principle that reforms must be sequenced.

- Participation, communication and identification of good practice

The NRP should indicate how the national authorities plan to involve/have involved local/regional authorities and relevant stakeholders in defining and implementing the NRP and how they communicate (or plan to communicate) on Europe 2020 and on their own NRP, and what the results have been. They will also be invited to report on their experience with collecting, sharing and implementing good practices.

Country-specific recommendations

In June of each year, the Commission will propose a single set of country-specific recommendations and/or draft opinions attached to a single country report and an overall report for the euro zone, to reflect the integrated nature of the Strategy. However, these will be issued under separate legal instruments:

- *Council Opinions* on fiscal policies;
- *Recommendations* on other elements of macro-economic surveillance will be issued under articles 121 of the Treaty and on the basis of secondary legislation currently being prepared as regards excessive imbalances;
- *Recommendations* on thematic issues will be issued under articles 121 and 148 of the Treaty.

The Commission will consider on a case-by-case basis whether it would be appropriate to issue a recommendation for a longer period – for example two years – in order to give sufficient time for implementing important structural reforms.

In cases where recommendations are not followed up sufficiently within the time-frame provided, the Commission may issue policy warnings and ensure effective enforcement through appropriate incentives and sanctions in the context of excessive imbalances procedures.

The Europe 2020 flagship initiatives and other EU instruments

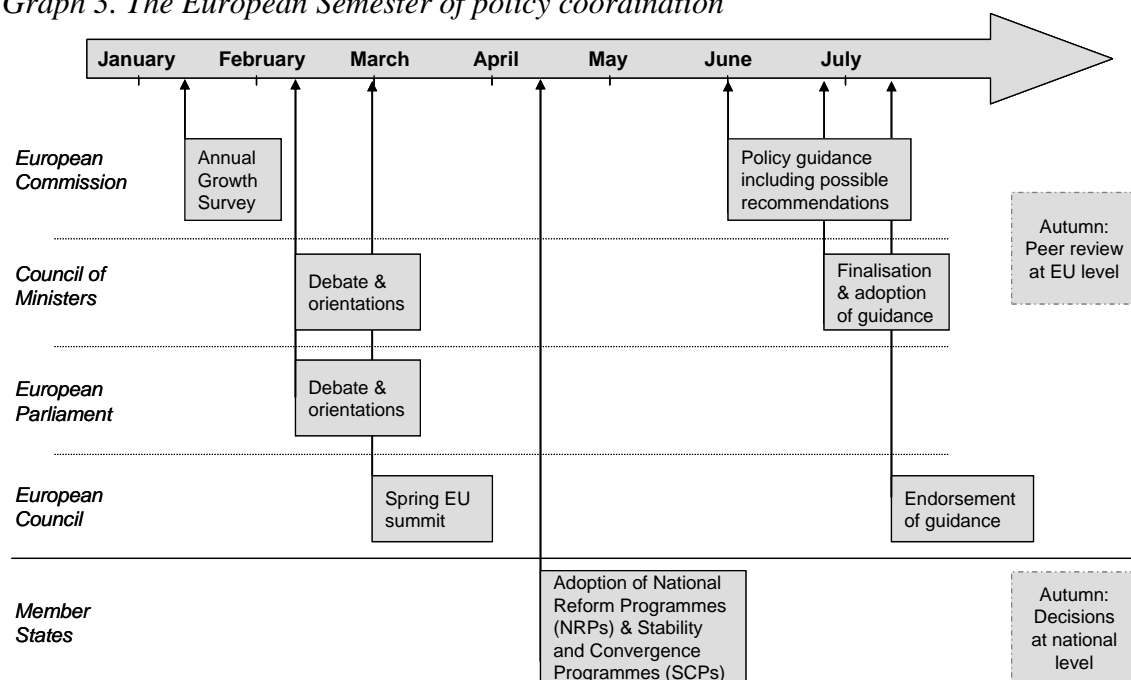
Graph 2 above gives an indicative timeline for the launching of the seven Europe 2020 flagships. Active engagement of sectoral Councils and of key stakeholders will be critical to their success. The Commission will mobilise key EU instruments – the single market, trade and external policies, the EU budget – in support of the Strategy.

3. 2011: THE LAUNCH OF THE EUROPEAN SEMESTER

Under the new governance scheme, there will be one annual policy cycle for economic policy coordination, in which the instruments of Europe 2020 and the SGP will be synchronised and made fully coherent.

The organisation of the annual cycle reflects the agreement on the "European Semester" reached by the June 17 European Council. Graph 3 highlights the main building blocks of the "European Semester".

Graph 3. The European Semester of policy coordination



The first full cycle according to this new approach will begin in 2011, as follows:

January-June each year:

- *January:* the Commission presents its Annual Growth Survey, reporting on progress and setting out orientations for the coming year.
- *February/March:* meeting of the European Council gives guidance to Member States and EU level
- *By mid-April,* Member States submit their *NRPs and SCPs*, taking account of policy guidance addressed to them.

- In *June*, based on Member States' NRPs and SCPs, the Commission will present proposals for *country-specific Opinions and Recommendations* addressed to Member States.
- In *June*, ECOFIN and/or ECOFIN in Eurogroup formation discusses/adopts the opinions and policy recommendations on fiscal and other macro-economic policies, with necessary input from sectoral Councils as regards the thematic recommendations. The EPSCO Council will adopt policy recommendations under art. 148. The European Council will provide orientations where necessary in line with Treaty requirements.

Second half of the year:

In the second part of the year, Member States finalise national budgets and policy measures taking into account the EU and country-specific guidance received. In its Annual Growth Survey of the following year, the Commission assesses how Member States have taken EU guidance into account.

4. 2010: TRANSITION TOWARDS THE EUROPEAN SEMESTER

The first full annual policy cycle under the new "European Semester" approach will begin in 2011. Given the need to develop sustainable growth enhancing policies and reforms and to ensure coordination at EU level, Member States are requested to start identifying key structural reforms with large macro-economic impact, compatible with a credible fiscal consolidation strategy, and reform priorities to promote smart, sustainable and inclusive growth and jobs.

In developing their NRPs, Member States should take due account of the Europe 2020 Integrated Guidelines, which are expected to be adopted after the summer. In operational terms, the Commission proposes the following process between now and the finalisation of the first NRPs and SCPs by mid-April 2011:

- *Autumn 2010:* Member States should submit *draft NRPs* to the Commission by *12 November*. This should be a blueprint, targeting only a limited number of key elements, notably:
 1. a medium-term macro-economic scenario,
 2. the national targets translating the Europe 2020 headline targets,
 3. an identification of the main obstacles to growth and jobs,
 4. the main measures envisaged to "frontload" growth-enhancing initiatives. It is understood that at this stage, the definition of measures will be work in progress. Member States will not be requested to submit draft NRPs in subsequent years.
- *By mid-April 2011*, full NRPs should be completed and finalised in line with the more detailed guidance contained in the future Code of Conduct.

To assist Member States in their tasks and discuss the contents of the draft NRPs, Commission services will take bilateral contact with Member States during September and October 2010.