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COMPARING THE ECONOMIC GOVERNANCE IN THE NEW EU MEMBER STATES - IS THE EUROPEAN SEMESTER A SUCCESS OR FAILURE?

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Introduction

The aim of this paper is to analyze the European approaches to economic governance and policy coordination in the period after the crisis. The challenges that European Union (EU) Member States are facing during the slow and fragile process of economic recovery are numerous and varied. The European Semester, which was set up within the Europe 2020 Strategy as a main instrument for economic policy coordination at the EU level, was the EU response to the crisis and the need to strengthen growth potentials, jobs and productivity. It aims to coordinate and streamline individual efforts in budgetary, macroeconomic and structural reforms through supervision over national governments to maintain economic standards.

The paper intends to examine the following: to what extent was the implementation of European Semester successful in new Member States? To what extent it resulted in the desired impact on growth and the stabilization of economies? How far are the 'new' EU Member States meeting their country specific recommendations? In exploring these challenges, the paper presents an overall mixed experience of five selected new Member States: Croatia, the Czech Republic, Hungary, Slovakia and Slovenia.

The paper resulted from the research undertaken within the Jean Monnet Sup*port to Institution* Project, awarded to the Institute for Development International Relations – IRMO, Zagreb.[1] It is based on the available comparative studies and academic articles, the EU official documents and evaluations of progress in reaching the country specific recommendations within the European semester (country reports), national reports (National Reform Programs and Stability or Convergence Programs) and other sources.

Functioning of the European Semester

The reasons behind the European Semester

As a reaction to the economic and financial crisis, the EU has introduced new tools and legal instruments to strengthen already widely existing concepts of its economic governance framework aiming to detect, prevent and correct problematic economic trends, such as excessive government deficit or public debt levels, which can disable growth and put economies at risk (European Commission, 2015a). The European Semester is the annual process of policy guidance, coordination and surveillance at the European level that has been in operation since 2011. The European Semester was introduced through new tools of EU economic governance, namely the so-called 'Six-Pack' legislation adopted in 2010 (and followed by other acts) whose legal basis is Article 121.1 of the TFEU. This EU-level mechanism was created to support implementation of the Europe 2020 Strategy as well as to ensure more efficient cooperation and

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monitoring of economic and fiscal policies in the EU in the context of the Stability and Growth Pact (SGP) and the Macroeconomic Imbalance Procedure (MIP).

Europe 2020 is a long-term EU strategy introduced 2010 to succeeded the Lisbon Agenda that covered the period 2000-2010. Since implementation of the Lisbon Agenda was rather disappointing (mainly due to a lack of EU-level coordination and of consistent and sufficiently ambitious economic policies at the Member States' level, it was decided to introduce the European Semester as a monitoring tool for Europe 2020 implementation, in order to secure desired impact on economic growth and job creation in the EU by 2020. The Strategy sets the ground for a smart, sustainable and inclusive growth of the European economy by means of five headline targets supported by seven flagship initiatives.[2] These EU-level targets have been transposed by the EU Member States into their national targets, considering their initial development position and their abilities to contribute to the EU 2020 targets (Samardzija, Butkovic (Eds.), 2010; Gern et all, 2015). Within the European semester cycle, the European Commission monitors Member States' progress towards the Europe 2020 targets by reviewing their National Reform Plans, based on which it provides them with Country Specific Recommendations, containing measures to be implemented in the following period of between 12 and 18 months.

Another important task of the European Semester is to strengthen coordination and monitoring of the Member States' economic and fiscal policies at the EU level in order to prevent or effectively act against future crises similar to the European sovereign debt crisis as well as to ensure a long-term stability and growth of the European economy. This is especially relevant for the euro area Member States. In this regard, the European Semester represents the main tool for fiscal and macroeconomic surveillance of the processes under the Stability and Growth Pact (SGP) and Macroeconomic Imbalance Procedure (MIP), providing guidance to the Member States before they take national policy actions.

The Stability and Growth Pact, adopted way back in 1997, is the EU's rules-based fiscal framework consisting of both a preventive arm and a corrective arm (the Excessive Deficit Procedure - EDP). The SGP's preventive arm ensures sound fiscal policies by setting the Medium-Term Budgetary Objective (MTO) for each Member State. The corrective arm of the SGP i.e. the Excessive Deficit Procedure is triggered when Member State breaches the Maastricht criteria on deficit (3 percent of GDP) and debt (60 percent of GDP) limits. Under the EDP, the Member States are obliged to implement corrective actions within a given time frame according to the Council's recommendations. Noncompliance with the SGP's preventive or corrective rules may lead to financial sanctions for euro area Member States, while possible suspensions of European funds may be implied for both euro area and non-euro area Member States (European Commission, 2014a; 2015b).

[2] In particular, by 2020 the EU aims to: (i) increasing the employment rate of the 20-64 years-old to 75% (ii) investing 3% of EU's GDP in R&D (iii) reducing greenhouse gas emissions by at least 20% compared to 1990 levels, increasing the share of renewable energy in final energy consumption to 20%, and achieving a 20% increase in energy efficiency (iv) reducing the share of early school leavers to 10% and increasing the share of the 30-34 years-old completing tertiary education to at least 40% (v) lifting 20 million Europeans out of poverty (European Commission, 2010).

The Macroeconomic Imbalance Procedure (MIP) is a procedure for detecting and correcting harmful macroeconomic imbalances in the EU that has been operating since 2011. It also includes the preventive and corrective arm, which implies opening of the Excessive Imbalance Procedure (EIP). The MIP starts with the Alert Mechanism Report (AMR), a yearly screening of the potential imbalances in the Member States based on a scoreboard of 11 main indicators and 29 auxiliary indicators. The AMR identifies those Member States for which further in-depth review (IDR) is needed. According to the IDR results, the assessed Member State is positioned in one of four MIP categories. The MIP streamlined categories[3] are: 'no imbalances', 'imbalances', 'excessive imbalances' and 'excessive imbalances with corrective action' under the Excessive Imbalance Procedure (Benassy-Quere, 2015; Regulation (EU) 1176/2011**;** 1174/2011). In the case of insufficient corrective actions under the EIP, the euro area Member States may be subject to financial sanctions. For all EU Member States, noncompliance with the EIP may lead to the suspension European structural and investment funds[4]. It should be highlighted that the Excessive Imbalance Procedure has not yet been initiated for any EU Member State.

Considering all the above, the European Semester is an important tool for implementation of commonly agreed policies and delivering reforms at European and national level. It ensures better coordination of the processes within the EU mechanisms (the SGP, the MIP and Europe 2020) and an integrated oversight of Member States' fiscal, macroeconomic and structural policies and reforms.

Table 1. Three components of the European Semester

EUROPEAN SEMESTER				
EUROPE 2020 STRATEGY **(thematic surveillance)**	**STABILITY AND GROWTH PACT** **(fiscal surveillance)**		**MACROECONOMIC IMBALANCE PROCEDURE** **(macroeconomic surveillance)**	
– *Education* – *Employment* – *Environmental and climate protection, energy efficiency* – *R&D*	**Preventive arm** *Deficit <3% GDP* *Debt <60%*	**Corrective arm** *Excessive Deficit Procedure*	**Preventive arm** *1. Alert Mechanism Report*	**Corrective arm** *Excessive Imbalance Procedure*

[3] Previous categorization of imbalances in the MIP included following: 'no imbalances'; 'imbalances which require policy action and monitoring'; 'imbalances which require decisive policy action and monitoring'; 'imbalances which require decisive policy action and specific monitoring'; 'excessive imbalances, which require decisive policy action and specific monitoring' and 'excessive imbalances with corrective action'. More information on: http://ec.europa.eu/europe2020/pdf/csr2016/cr2016_comm_en.pdf

[4] More information on: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=URISERV:ec0019

– *Fighting poverty and social exclusion*		*Debt >60% which is decreasing*			*2. In-Depth Reviews*	

Source: European Commission, '*Six pack*' and '*Two pack'* Regulative (according to: Dalić, 2015.)

The cycle of the European Semester

The cycle of the European Semester kicks-off in November every year, when the Commission simultaneously publishes the Annual Growth Survey (AGS), Alert Mechanism Report (AMR) and Joint Employment Report. The AGS sets general socio-economic priorities at the EU level for the upcoming year. The AMR identifies Member States with a potential risk of harmful macroeconomic imbalances. The Joint Employment Report analyses social and employment policies in the EU and at the Member States' level. All these documents provide Member States with guidelines for their National Reform Programs (national plans for implementing the Europe 2020) and Stability or Convergence Programs (national plans for achieving the Mid-Term Objective within the SGP). These programs are submitted to the Commission in April for a detailed analysis. The Commission evaluates received documents alongside the assessment of Member States' progress in implementation of the last year's Country specific recommendations (CSRs) and priorities indicated in the AGS. The Commission assesses the implementation of CSRs by means of five qualitative categories: 'no progress', 'limited progress', 'some progress', 'substantial progress' and 'fully addressed CSRs'[5]. On the basis of such assessment, the Commission issues a new set of CSRs in the following year, providing Member States with guidelines for implementing responsible fiscal policies and key reforms related to the growth-enhancing and employment-friendly policies in accordance with Articles of 121 and 148 of the TFEU. The proposed CRSs are finally adopted by the European Council in July. Since the 'Two-Pack' legislation entered into force in 2013, the cycle of the European Semester concludes with Commission's assessment of the Draft Budgetary Plans of euro area Member States in order to better harmonize fiscal policies within the Euro area (The European Alliance, 2014; European Commission,2014a).

[5]Regarding CSR, the Commission distinguishes the following five categories: 1) No progress: The Member State has neither announced nor adopted any measures to address the CSR. This category also applies if a Member State has commissioned a study group to evaluate possible measures. 2) Limited progress: The Member State has announced some measures to address the CSR, but these measures appear insufficient and/or their adoption/implementation is at risk. 3) Some progress: The Member State has announced or adopted measures to address the CSR. These measures are promising, but not all of them have been implemented yet and implementation is not certain in all cases. 4) Substantial progress: The Member State has adopted measures, most of which have been implemented. 5) Fully addressed: The Member State has adopted and implemented measures that address the CSR appropriately http://www.europarl.europa.eu/RegData/etudes/ATAG/2016/574398/IPOL_ATA(2016)574398_EN.pdf

Table 2. European Semester at glance

WHEN?	EUROPE 2020 *(thematic surveillance)*	STABILITY AND GROWTH PACT & MACROECONOMIC IMBALANCE PROCEDURE *(macroeconomic and fiscal surveillance)*
November	**Annual Growth Survey (EC)**	
		Alert Mechanism Report (EC)
April	**National Reform Programs (MS)**	**Stability / Convergence Reports (MS)**
June/July	**Country Specific Recommendations (EC)**	
October		**Eurozone budget appraisal**

Source: The European Alliance for a Democratic, Social and Sustainable European Semester, 2014

The National Semester proceeds after concluding the above described process of the European Semester, finishing thus the yearly cycle of policy coordination in the EU. During the National Semester, Member States shall follow received CSRs when adopting their national policies.

The streamlined European Semester

The weaknesses in the implementation of the European Semester indicated the need for improving its frameworks and mechanisms. In 2015 the European Commission has streamlined the European Semester by introducing several important changes to the yearly cycle. The aim was to contribute to better implementation of the CSRs as well as to foster cooperation with stakeholders at all levels to increase the level of ownership. The streamlined European Semester also implies greater focus on priority areas in order to address main challenges. In line with the introduced changes, the Commission has shortened the amount (number) and the length of CSRs issued to the Member States, focusing the CSRs on the priority areas in the given Member State. Also, the Country Reports are rescheduled for February in order to ensure more time for dialogue between the Commission, the Member States and stakeholders but also for preparing the CSRs.

Further improvements of the European Semester as envisaged in the Five Presidents' Report[6] and accompanying Commission's Communication on concrete steps to strengthen the Economic and Monetary Union (EMU) were introduced in the 2016 European Semester (Darvas, Leandro, 2015a). In particular, the 2016 cycle of European Semester started with the publication of the AGS, the AMR and the draft Joint Employment Report, accompanied for the first time by the publication of euro area recommendations in accordance with the Article 136 of the TFEU. Another novelty is the greater focus on employment and

[6] Juncker, J.C., Tusk, D., Dijsselbloem, J., Draghi, M., and M. Schulz (2015), Completing Europe's Economic and Monetary Union, Report of the Five Presidents, European Commission

social aspects. In particular, the existing 11 headline indicators of the MIP scoreboard were supplemented by three social and employment indicators (activity rate, youth unemployment and long-term unemployment). These indicators were included for the first time in the 2016 AMR. Besides, streamlining of the European Semester also puts greater emphasis on social aspects of the economic adjustments (especially for Member States under the bail-out program) and on stronger involvement of social partners and other stakeholders during the European Semester's cycle (Stuchlik, 2016). In addition, together with the 2016 AGS the Commission has also published a proposal for funding for technical assistance for Member States in order to support their implementation of required reforms. The support for preparation and implementation of reforms as well as for more efficient use of EU funds is provided to the Member States by newly established Commission's Structural Reform Support Service. Furthermore, the European Fiscal Board has been established as an independent advisory body in charge of providing an evaluation of the budgetary policies of the Member States and at the euro area level. Besides, the Board advises the Commission on matters related to the multilateral surveillance in the euro area. The Commission has also proposed creation of a network of National Competitiveness Boards. This primarily concerns the euro area Member States, while other Member States are invited to establish such boards if they wish so. The National Competitiveness Boards are aimed at assessing the competitiveness-related policies and reforms and tracking competitiveness developments in a given Member State (European Commission, 2015c; European Commission, 2015d).

How efficient is the European Semester?

The European Semester plays an important role in strengthening the cooperation and improving policy coordination between the EU Member States, especially within the euro area. However, a number of recent analyses have pointed out several shortcomings of the process, reporting mixed operational experiences under the European Semester, notably as regards to implementation of the CSRs. In their study, Darvas and Leandro (2015b) have drawn some disappointing conclusions when assessing the implementation of the European Semester-related recommendations. Their analysis has demonstrated that implementation of CSRs was modest during the period of 2011-2014, with a decreasing trend over the years. Based on calculations of a European Semester reform implementation index, the authors found that in 2011 the implementation rate of the CSRs was 40% and it has since dropped to 29% by 2014. Furthermore, the calculation of the implementation rate of recommendations related to the SGP and the MIP showed that in 2012-2014 the average SGP implementation rate was 44% and only about 32% for the MIP. These weak implementation rates indicate the somewhat limited role of the European Semester in enforcing EU's fiscal and macroeconomic imbalance rules. The authors have also compared implementation of European Semester CSRs with the OECD's unilateral Going for Growth recommendations over the same period to the same EU Member States. The findings indicate similar implementation rates, providing another argument for the limited impact of the European Semester on reform implementation (Darvas, Leandro, 2015a; 2015b).

Another in-depth analysis of the efficiency of the European Semester provided by Gern, Jannsen and Kooths (2015) is more focused on the streamlined European Semester and its impact on the nature of the

2015 CSRs. The authors reported that during 2012-2014 the share of CSRs with 'limited' or 'no progress' in implementation increased from 29% to 48%, while the average of 'fully' or 'substantially' implemented CSRs was only about 10%. As a consequence of the streamlined Semester, the 2015 CSRs were better connected with the priority areas of the AGS[7] and therefore more focused, while the average number of CSRs per Member State has diminished from 6 to 4, and the total number of CSRs issued in 2015 was 106, which is significantly lower as compared to the 165 issued in 2014. However, it should be noted that reducing the number of recommendation regardless of the achieved implementation progress may send a wrong signal to the Member States, namely, that insufficient implementation of the CSRs may be acceptable, or that certain areas have lost importance. According to the authors, the process of the European Semester would be more efficient if it focused on the policy areas of common (EMU) importance, such as issues of financial and debt sustainability, accompanied by a stricter use of the existing enforcement rules. At the same time, more of soft enforcement mechanisms like best-practice exchange or peer-reviewing should be used for policy areas under the Europe 2020 Strategy. In that manner, the European Semester would distinguish policy areas that have high potential of cross-country spill-over effects from those that are relevant only for a particular Member State. Another issue relates to overlaps of mechanisms within the European Semester, notably as regards growth enhancing policies. This can and should be avoided by assigning only one target to one mechanism, in such a way that the SGP should be focused exclusively on public debt sustainability, the MIP on early warning mechanisms, and other instruments on other policy targets (Gern et all, 2015).

Some of substantial shortcomings within the European Semester were also highlighted in the report by Benassy-Quere (2015). By reviewing the process of the 2015 European Semester cycle, the author has pointed out, among other things, to the problem of "*blurring lines*" between tasks of the main mechanisms (the SGP, the MIP and the Europe 2020) covered within the process. This refers to the fact that the same recommendation may appear under different heading of these three mechanisms to the different EU Member State. For example, in 2015 the CSR related to the cost-effectiveness of the health-care system was issued through 'integrated guidelines' of the Europe 2020, but also under the SGP. Other examples are found for CSRs related to the long-term unemployment as well as to the improvement of the governance of public procurement, which were issued for some Member States under the MIP and for others under the Europe 2020. According to the author, this particular problem may be effectively addressed by streamlining the current complex procedure of macroeconomic imbalances, focusing the MIP on medium-term issues, while the long-term issues should fall under the framework of the Europe 2020. This would better separate the MIP from the Europe 2020 and enable equal treatment of the EU Member States regarding the Europe 2020 'integrated guidelines'. In addition, more symmetry between the MIP and the SGP is also suggested by means of setting the current account balance as a main indicator of the MIP likewise the 3 per cent deficit limit of the SGP as well as by replication the SGP's preventive and corrective arm to the MIP so that any country exceeding the current account threshold may be placed under Excessive Imbalance procedure (Benassy-Quere, 2015).

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[7] The priority areas of the 2015 AGS include boost for investment, structural reforms and fiscal responsibility (more information: European Commission (2014) Annual Growth Survey 2015, 28 November, COM(2014) 902 final)

The views expressed in the European Parliament's Report on the European Semester for economic policy coordination (Rodrigues, J.M., European Parliament, 2016) may be helpful when rethinking the role of European Semester in achieving a more robust recovery and sustainable prosperity. Regarding improving (the currently poor) implementation of the country-specific recommendations, there is a need to better identify clearly articulated priorities at European levels well as to increase genuine public debate, political willingness and commitment at national level, leading to greater relevance and national ownership. The right balance should be found, making CSR focus on key priorities and challenges, including the need to overcome the sovereign debt crisis, increase competitiveness, growth and employment and taking into account the Europe 2020 Strategy targets (Rodrigues, 2016).

Performance of five new EU Member States under the European Semester

The Excessive Deficit Procedure

In this section the experiences of the five selected 'new' EU Member States[8] (namely Croatia, the Czech Republic, Hungary, Slovakia and Slovenia) are comparatively analyzed. The countries were selected based on criteria of being new or relatively new EU Member States[9] (all acceded the EU in 5th and 6th enlargement), which are facing similar economic and social challenges (despite of their different economic performance[10]) and are geographically located close to each other in Central and South-Eastern Europe. The analysis covers the period after the start of economic crisis (2009) when the EDP was initiated for three of the selected countries, until the most recent dates. The focus of the analyses depends on the situation in each particular country but is mostly related with the consolidation of public finances. The intention was to cover both representatives of the Eurozone (Slovakia, Slovenia) and countries which were Eurozone candidates (Czech Republic, Croatia, Hungary). The analysis is based on the European Commission and the Council documents (particularly country reports and country specific recommendations), the European Parliament analyses, national strategic documents and academic papers.

To give an overall picture, it should be mentioned that 9 countries are covered by EDP in 2016, namely Ireland, Portugal and Slovenia (with the timeframe for correction in 2015), Greece, Spain, Croatia and Cyprus (deadline 2016), UK (with deadline for correction in 2016-2017) and France (deadline for correction 2017). During past years the EDP was closed for 17 countries (Austria, Belgium, Bulgaria, Czech Republic, Denmark, Germany, Hungary, Italy, Finland, Lithuania, Latvia, Luxembourg, Malta, Netherlands, Poland,

[8] Comparative analytical approach is one of the corner stones in the implementation of the Jean Monnet Support to Institution project „POLO-Cro-28"which is the framework for this analysis, as well.

[9] Czech Republic, Hungary, Slovakia and Slovenia joined the EU in May 2004, while Croatia acceded in the next round of enlargement, in July 2013.

[10] The GDP-a p/c level is in all countries below the EU-28 average, but higher than in Croatia. According to the Eurostat data, the GDP index in 2014 (EU-28 = 100) amounted for the selected countries as follows: Croatia 59, Hungary 68, Slovakia 77, Slovenia 83 and Czech Republic 85. Source: http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec00114&plugin=1

Romania and Slovakia) while 2 countries have not been covered by EDP at all (Estonia, Sweden) (European Commission, 2015b).

This shows that all five new EU Member States analyzed in this paper were under the Excessive Deficit Procedure (EDP) although the duration of the procedure was different, depending on the specific situation in each particular country. For three countries (Czech Republic, Hungary and Slovakia) the EDP has been closed after the countries fulfilled recommendations, while for Croatia and Slovenia are still ongoing.

In 2015, after the EDP was terminated for three analyzed countries (Czech Republic, Hungary and Slovakia) and during the EDP implementation (in Croatia, Slovenia), the economic data show that all the countries started experiencing moderate economic growth with rates at least slightly above or below 2% of GDP, while the growth level was higher in the Czech Republic and Slovakia (4.5% and 3.5% respectively). This might indicate that the EDP mechanisms contributed, among others, to the economic recovery trends of the mentioned countries, depending on the overall situation in each particular country.

In the analyzed period the economic growth was driven primarily by the domestic demand in all countries, and it was the strongest in Slovakia and Czech Republic (according the data for 2015, see Annex 3). All analyzed countries succeeded to keep the budget deficit below the Maastricht margin in 2015, except Croatia which is expected to correct its level in 2016[11]. The high level and increasing trend of public debt remains problematic in Croatia (86.7% of GDP in 2015), but also in Slovenia where it also highly exceeds the allowed margin of 60% of GDP (with current level of 83.5% of GDP) and in Hungary (74.3%) where fiscal consolidation is still underway (European Commission, 2016a; b; c; d; e).

Citizens of the five selected Member States are convinced of the necessity of reforms and the majority of them consider that measures aimed at reducing the public deficit and debt cannot be delayed. According to the results of the 2015 Eurobarometer survey, the proportion of citizens which consider those reforms urgent in the selected countries is higher than the EU average (which is 73%). The support for the mentioned reforms is highest in Slovenia and Croatia, where 85% of respondents agree that measures cannot be delayed, while in Hungary and Czech Republic these reforms are supported by 78% citizens. The support in Slovakia is the lowest among mentioned countries, namely 77% (see: European Commission, 2015e, pg. 206).

[11] The Euro area and EU28 average of government deficit in 2015 was 2.1% and 2.4% of GDP respectively in 2015, while government debt was 90.7% in Euro area and 85.2% in EU28 for the same year. Source: Eurostat.

Table 3. *Excessive Deficit Procedure (EDP) in selected EU Member States – an overview*

EU MS	2009	2010	2011	2012	2013	2014	2015	2016
Czech Republic	EDP opened					EDP closed		
Hungary	EDP opened in 2004				EDP closed			
Slovakia	EDP opened					EDP closed		
Slovenia	EDP opened							
Croatia						EDP opened		EDP still ongoing

Source: European Commission,
http://ec.europa.eu/economy_finance/economic_governance/sgp/corrective_arm/index_en.htm

The Czech Republic has experienced economic recovery after the crisis. In 2014 the country came out of the prolonged period of low growth after the crisis (2010-11), which was followed by two years of recession. The growth has been driven by domestic demand, including strong growth in public investment combined with the increased use of the EU funds. The GDP growth in 2015 has recorded 4.5%, while for 2016 and 2017 the Commission forecast lower growth (2.3% and 2.7% respectively due to the expected fall in public investment).

The country has recorded significant improvement in public finances during and after the EDP. In 2009, when the procedure was lifted, the budget deficit was at highest level of 5.5% of GDP; while in 2015 it was kept at -1.6% of GDP with decreasing trend (estimation for 2016 is -1.1%). The government debt is well below the allowed margin (40.9% GDP in 2015 but it should be noted that at the time of lifting the EDP it was even lower, namely 34,1%, according to European Commission – report, Table in the Annex).

The EDP started for the Czech Republic on 2 December 2009 due to the excessive budget deficit (which was planned to reach 6.6% of GDP in 2009), while the public debt was well below the allowed margin. The Czech Republic was recommended to reduce the deficit below 3% of GDP by 2013. The country succeeded to reach 1.3% of GDP by the deadline set by the Council.

This improvement was driven by consolidation on both the expenditure and the revenue side, in particular by increases in indirect taxation and cuts in public investment. The 2014 Convergence Program of the Czech Republic projected a slight increase in the general government deficit, but still below the 3% of the GDP reference value. Starting from 2014 (the year following the correction of the excessive deficit) the Czech Republic is subject to preventive arm of the Stability and Growth Pact and should maintain its structural balance at or above its medium-term budgetary objective (Council of the EU, 2014a).

Following the correction of the excessive deficit, the Commission issued two sets of recommendations to the Czech Republic (7 recommendations were issued in 2014 and 4 in 2015). In 2014 the country was recommended to preserve a sound fiscal position and prioritize growth-enhancing expenditure to support recovery and improve growth prospects. According to the Commission's assessment, the country made "*some progress*" in the area of public finances due to the fact that public investment was expected to increase significantly, mainly as a result of higher absorption of the EU funds. Another area for which some progress was assessed is strengthening efficiency and effectiveness of the public employment service through increasing personnel capacity and funding for labor-market policy. Finally, in 2015 the country was addressed by 4 recommendations and the assessment was that Czech Republic made some progress in 3 areas. The 2015 and 2016 Country Reports for Czech Republic (European Commission 2015f; 2016a) underline that some progress was made by improving the cost effectiveness and governance of the healthcare sector; fighting tax evasion through introducing VAT control statement, implementing anti-corruption plan and increasing transparency in and efficiency of public procurement; as well by adopting higher education reform (see Annex 1 and 2).

Hungary finds itself in 2016 on a balanced, but still relatively moderate growth path, gradually reducing its macroeconomic imbalances. Growth potential of the country is gradually recovering after the crisis. However, Hungary's rate of potential growth is still slightly lower than during the pre-crisis period (which was already then comparatively low). The GDP growth rate was 2.7% in 2015[12]. The Commission estimates that it will be slightly lower in 2016 (2.1%) but will return to the level of 2.5% in 2017. The general government balance has been kept below the 3% of GDP after the EDP was finished and is constantly decreasing (2.1% of GDP in 2015 with the forecasted level of 1.9% in 2017). On the other hand, the general government gross debt exceeds the allowed margin and represents 75.8% of GDP in 2014 (European Commission, 2016b; Eurostat).

Hungary was the first out of five mentioned countries for which the EDP was opened already in 5 July 2004 (the year when the country joined the EU) and it lasted for nine years, until 21 June, 2013. It was the longest duration of procedure among mentioned countries. The EDP started with the level of budget deficit at 7.1% of GDP in 2004. Hungary was recommended to bring the excessive deficit situation to an end within a given time frame until 2008. However, the country was hit by the crisis and it requested IMF Stand-by arrangements and also received the EU financial support from the Balance of Payment (BoP) Assistance Facility. The measures taken by Hungarian authorities were not considered an effective response and the country received new recommendations on an annual basis in the two following years, while the Commission postponed the deadline for correction to 2009.

In 2009 the Hungarian measures were positively assessed by the Commission, but due to the risks of severe economic downturn in the country resulting from the crisis, recommendations were revised again with the new deadline of 2011. The 3% GDP reference value was not breached in 2011, but it was not considered by the Commission to be a structural and sustainable correction as it hinged upon substantial one-off revenues[13]. It resulted in a new deadline, namely 2012. Hungary took measures regarding the correction of excessive deficit (which was expected to reach 2.5% of GDP in 2012) but the overall progress

[12] For the comparison, between 2003-07 the average growth rate was 3.5%. See table in Annex 3.
[13] The one-off non-tax measures are implemented by some countries as a fiscal consolidation measure to increase revenues. Hungary has used temporary taxes on energy, telecoms and commercial chain companies in 2010 and 2011, while Slovakia used temporary taxes on CO2 emissions in 2011 and 2012. See: OECD (2011), Pg. 62.

in fiscal consolidation was considered to be slow. Namely, the decision on the existence of an excessive deficit should be abrogated only if the Commission forecasts indicate that the deficit will not exceed the 3% of GDP reference value over the forecasted horizon. The result was suspension of part of the Cohesion Fund commitment appropriations for 2013.

This led Hungarian Government to implement considerable fiscal measures in 2012 and the government deficit was reduced to 1.9% of GDP. However, this was due to one-off revenues amounting to almost 0.75% of GDP including significant transfer of assets from the private to public pension pillar and cuts in the appropriations of the budgetary institutions. The budget contained revenue-increasing measures (indirect taxes and social security contributions), structural measures on expenditure side (review of social benefits and expenditure constraints through nominal wage freeze in most sectors). This was followed by two additional corrective packages (amounting 0.7% of GDP) comprising further cuts in the budgetary institutions appropriations, while the balance of the local government sector was improved. Still, the Commission’s evaluation of the Convergence Program 2012 to 2016 showed that the excessive deficit has not been brought to an end in a durable way, which required further corrective measures.

Hungarian authorities were asked to undertake additional fiscal efforts and measures of a structural nature to ensure that the deficit in 2013 remained well below the 3% of GDP threshold as well as to demonstrate sufficient progress towards compliance with the debt reduction benchmark and to bring it back on a declining path. After enhancing the fiscal governance framework, the suspension of 29% of Cohesion funds was lifted. The debt was reduced from a peak of 82% in 2010 to 79.2% in 2012 and afterwards took the decreasing trend thanks to the abolition of the mandatory private pension pillar and a number of consolidation measures. Finally, the EDP was closed for Hungary in June 2013 (Council of the EU, 2013).

After the EDP was closed, Hungary received seven recommendations in 2014. The wording of the Commission recommendations was still rather tough. The progress was assessed as poor (“*limited progress*”) in all 7 areas. Regarding public finances, Hungary was recommended, among other things, to strengthen its budgetary measures, while in 2015 the country was requested to achieve fiscal adjustment towards the medium-term budgetary objective and the progress will be assessed in spring 2016. The overall implementation of the four recommendations from 2015 was somewhat better, with some progress made in one recommendation, due to the fact that the authorities started to implement the MuO with EBRD, including the considerable tax reduction on financial institutions (European Commission 2015g; 2016b).

Slovakia's recovery from the crisis was one of the fastest in the EU. According to the Commission’s 2016 winter forecast (European Commission, 2016g) real GDP was expected to increase by 3.5 % in 2015 and to continue with growth higher than 3% in both 2016 and 2017. The strongest driver of growth is accelerating private consumption and investment activities, which benefited from an intensified use of the EU funds. However, this grow has still not reached the pre-crisis level of 5.7% in 2008 (European Commission, 2016c; see Annex 3).

Slovakia was faced with the existence of an excessive deficit of 7.9% in 2009 when the EDP was opened (December 2009), with the recommendation to reduce that deficit by 2013. The public debt of the country was below the Maastricht reference value that year, namely 35.6% of GDP. Slovakia succeeded to bring the deficit down to 2.8% of GDP in 2013. This deficit reduction was driven by fiscal consolidation on both

the revenue and the expenditure side, including one-off measures. Even though the public debt was not a problem, it should be mentioned that Slovakia experienced a growing trend of general government debt which reached 54.6% of GDP in 2013 and was expected to grow further in 2014. Starting from 2014, the year following the closure of the EDP and the correction of the excessive deficit, Slovakia (like the Czech Republic) is subject to the preventive arm of the Stability and Growth Pact and is expected to maintain its structural balance at or above its medium-term budgetary objective (Council of the EU, 2014b).

In 2014, Slovakia received six recommendations and made some progress only in one of them (on social benefit system, e.g. temporary reduction of the tax wedge for long term unemployed recruits). The country was recommended to reinforce the budgetary measures, further strengthen the fiscal framework and improve the long-term sustainability of public finance. The remaining recommendations addressed the need to improve efficiency of tax administration, to improve the education system, and to improve the functioning of the energy market and the public administration. In 2015 Slovakia received four CSR and none of them addressed fiscal consolidation. According to the Commission's assessment, some progress was made in addressing one CSR by increasing the cost-effectiveness of the healthcare sector. Several measures are at various stages of implementation. In the remaining three areas (employment, training of teachers, investment) only limited progress was made (see Annex 1 and 2).

Slovenian economy recorded rather strong growth in 2014 (3.0%) after the period of economic downturn, which continued in 2015 (2.5%). It was initially driven by strong export performance and raised competitiveness followed by the growth of private consumption, recovery of labor market and investment in infrastructure, co-financed by the EU funds. These positive developments have been accompanied by job creation. Slovenian economic growth is expected to continue in and maintain the momentum (European Commission, 2016e).

For Slovenia, the EDP was introduced on 19 January 2010, after a period of well-functioning public finances. The reason for opening the EDP was the fact that general government deficit was planned to reach 5.9% of GDP in 2009. Among others things, this was a result of severe economic downturn which halved the real GDP growth between 2007 and 2008 and was projected to turn strongly into negative trend in 2009 (-7.8%). On the opposite, the general government gross debt was well below the 60% of GDP reference value (namely 34.5% in 2009) (Council of the EU, 2010). The first deadline for correcting the deficit was 2013. However, due to the unexpected economic trends which indicated lower economic growth in 2015 as compared to the previous year, the Commission prolonged the deadline to 2015.

In 2014 Slovenia received a total of eight CSRs and achieved substantial progress in one recommendation only, related to the insolvency legislation framework and restructuring of the most urgent cases, while some progress was achieved in implementing another six recommendations. Taken together, limited progress was achieved in the remaining recommendation, related to the sustainability and adequacy of the pension system and the long-term care reform. In 2015 the Commission has issued four CSRs for Slovenia. According to the Commission's assessment, Slovenia was the only country among those selected for this paper that has substantially implemented a recommendation related to the financial sector. In particular, Slovenia has made substantial progress in the reduction of the level of non-performing loans (NPLs), in corporate and banking sector restructuring, and it has adopted the strategy for the Slovenian Sovereign Holding (SSH). Some progress has been made in addressing two more CSRs, one related to the unemployment and wage-setting and other to the efficiency of the civil justice. Limited progress has been

achieved regarding the recommendation covering public finances, more specifically in reforming the fiscal and budgetary framework and in advancing the pension and long-term care reform (European Commission, 2016e, Pg. 68; Hradiský et all 2016).

According to the Commission's assessment of structural reforms in the Member States (European Commission, 2016f), reforming pension system remains a longer term challenge for Slovenia. The quality, independence and efficiency of justice system are also indicated as a challenge, even though justice reform achieved some progress. In the area of product and service markets Slovenia took significant measures since 2011 to open up regulated professions, leading to the full deregulation in several sectors at the present. The country has also adopted legislation for the constitutional budget balance rule in order to reinforce its fiscal framework. The 2016 In-Depth Review showed that Slovenia is experiencing macroeconomic imbalances, with main vulnerabilities steaming from the weaknesses in the banking sector, corporate indebtedness, and fiscal risks that require further decisive action by the Government (European Commission, 2016e)**.**

Croatia is the youngest EU Member State, joining the Union on 1 July, 2013. In 2009 the country was strongly hit by the crisis and passed through a period of prolonged recession. In the pre-crisis period the growth was based on unsustainable drivers. Between 2008 and 2014 the GDP dropped for more than 12% in real terms, while unemployment has increased from below 9% to more than 17% respectively. In 2015 Croatia finally came out of the six years of recession and the GDP turned into positive trend, even surpassing the expectations (1.8% in 2015 and continuation of slow growth is forecasted at 2.1% in 2017). The growth was driven by combination of external performance and the internal demand. For the difference of the pre-crisis period (when the growth was based on domestic consumption driven by the growing indebtedness), the GDP growth relies on a sound basis, including exports. The stabilization and decrease of the public debt estimated for 2015 at 86.0% (European Commission, 2016d; see Annex 3) is the most serious problem for Croatia while the budget deficit is projected to be reduced to the allowed margins in 2016. Fiscal consolidation and implementation of structural reforms are crucial for the country.

Soon after the country EU accession (in July, 2014), the EDP was opened for Croatia on 28 January 2014 and it is still underway. The Council recommended correcting the excessive deficit by 2016. Croatia's general government deficit reached 5% of GDP in 2012 while the total debt amounted 55.5% of GDP. The EDP recommendation required Croatia to reach a headline deficit target of 4.6% of GDP in 2014, 3.5% of GDP in 2015 and 2.7% of GDP in 2016. The general government deficit was projected to reach 3.8% of GDP in 2014 and 3.1% of GDP in 2015 while the public debt forecasts were 86.0% for the same year (based on the Commission 2014 spring forecast). The increasing trend of the public debt was worrying, because it rose from 38.9% to 85.1% of GDP between 2008 and 2014 respectively (European Commission, 2016d, pg. 54).

In 2014 Croatia received eight CSRs and six CSRs in 2015. The focus was on fiscal consolidation measures (ensuring the correction of excessive deficit, reinforcing budgetary strategy, expenditure review, improving budgetary planning process etc.). The other recommendations addressed the necessary reforms of the pension system, labor law, social protection system, improving the business environment, public administration, local government and judicial reforms (see Annex 1 and Annex 2). Croatia has taken measures to address the said recommendations but the progress was not deemed sufficient. This can be explained by the fact that Croatia has held parliamentary elections in November 2015, which caused some

delays in the reform agenda. Among the six recommendations from 2015, Croatia was able to make some progress only regarding to one recommendation on reducing the administrative burden of business and on removing parafiscal charges. Although some progress was also made in measures supporting youth employment, which had just started to improve[14] , the Commission considered progress in most policy areas insufficient. In particular, the speed of the reforms is regarded as sluggish in spite of the fact that some measures were well designed (such as in the healthcare system or rationalization of the state agencies) (European Commission, 2014b). In general, Croatia would have to speed up the structural reforms needed to strengthen growth, jobs and investment.

Macroeconomic imbalances

According to the Commission's 2016 Alert Mechanism Report (European Commission, 2015h) based on the scoreboard indicators, out of 18 EU countries identified for an in-depth review (IDR), 12 are deemed to experience imbalances. Croatia has been placed in the excessive imbalances category (together with four other EU Member States) but without initiating the Excessive Imbalance Procedure (EIP) as of yet. While not as pronounced, Slovenia is also considered to experience imbalance (as are six other EU Member States). All mentioned countries are subjected to specific monitoring, varying in accordance with the degree and nature of the imbalance presented. For Hungary and two other countries the procedure has been closed as the in-depth reviews have indicated that risks from imbalances have been sufficiently reduced.

Table 4 shows that during the period 2012-2016 the Czech Republic and Slovakia did not face macroeconomic imbalances at all. Imbalances were identified for Hungary throughout the period 2012-2015, while the 2016 In-Depth Review did not found imbalances in Hungary in 2016. For Slovenia, the situation of imbalance was identified in 2012, while 2013 and 2014 In-Depth Reviews results showed that Slovenia was experiencing excessive imbalances. However, in 2015 and 2016 macroeconomic imbalances in Slovenia were no longer considered excessive. Still, Croatia is considered to be in a situation of excessive imbalances since its formal participation in the European Semester (according to main findings of the In-Depth Reviews for 2014, 2015 and 2016).

Table 4. The status of the selected new EU Member States under the Macroeconomic Imbalances Procedure of (MIP) 2012-2016, according to the streamlined categorization

Year	No imbalances	Imbalances*	Excessive imbalances*	Excessive imbalances procedure
2012	Czech Republic Slovakia	Hungary Slovenia		-
2013	Czech Republic	Hungary	Slovenia	-

[14] This is also visible in the Croatia's National Reform Program 2015 and the Convergence Program 2015-2018.

	Slovakia			
2014	Czech Republic Slovakia	Hungary	Croatia Slovenia	-
2015	Czech Republic Slovakia	Hungary Slovenia	Croatia	-
2016	Czech Republic Slovakia Hungary	Slovenia	Croatia	

*from 2012-2015 there were three categories of imbalances under the MIP: Imbalances, which require policy action and monitoring; Imbalances, which require decisive policy action and monitoring; Imbalances, which require decisive policy action and specific monitoring

**from 2012-2015 this category included Excessive imbalances, which require decisive policy action and specific monitoring

Source:http://ec.europa.eu/economy_finance/economic_governance/macroeconomic_imbalance_procedure/index_en.htm

How are the CSR implemented?

The examples of the analyzed countries follow the general pattern of modest or even distinctly low implementation of CSRs detailed in the previous section. According to the European Parliament's most recent document on CSRs (Hradisky, 2016) the EU-28 Member States fully/substantially implemented only four out of 102 (equating to about 4%) of 2015 recommendations. Some progress was registered for approximately 41% of the CSRs, while nearly half of the recommendations have not been implemented at all, or only in a limited manner.[15] It should be underlined that the euro area members, taken together, had a stronger implementation record than non-euro area members (the above mentioned full/substantial progress recorded for only four CSRs was achieved exclusively by euro area countries). The achievement of the five countries of the present study has been the following: Slovenia was the most successful country regarding CSRs implementation in 2015 (full/substantial implementation progress made regarding one recommendations and some progress in two out of four CSRs), followed by the Czech Republic (some implementation progress made regarding three out of four CSRs). Hungary, Slovakia and Croatia displayed some progress in the implementation of one CSR only, while no progress was achieved regarding three CSRs in Hungary and Slovakia respectively, and even regarding five CSRs in Croatia.

[15] 7% of CSRs have not yet been assessed.

Table 5. Implementation of the 2015 country specific recommendations (CSRs) under the European Semester in selected countries

EU/Country level	**Full/Substantial Progress**	**Some Progress**	**No/Limited Progress**	**Not yet Assessed**	**Total**
Total CSR to EU-28	4	42	49	7	106
Czech Republic	0	3	1	-	4
Croatia	0	1	5	-	6
Hungary	0	1	3	1	5
Slovenia	1	2	1	-	4
Slovakia	0	1	3	-	4

Source: Hradisky, Martin (2016) European Parliament, Economic Governance Unit. At a Glance. Implementation of the 2015 County Specific Recommendations. March 4, 2016

Countries tend to undertake more reforms when they are under a financial assistance program, as they then will experience market pressure which requires imminent policy response, or else they face high unemployment. However, even in such situation, reform momentum fades in many countries when the situation reverses to normal (Darvas and Leandro, 2015, Pg. 2; Deroose and Griesse, 2014). The example of Hungary elaborated in this paper confirms this scenario, bearing in mind the fact that the IMF Stand-by arrangement slightly speeded-up part of the reforms, but that the key driver for changes was the suspension of the 30-odd % of available Cohesion Funds sources.

One of the problems of policy coordination in the EU is linked to the fact that national policymakers are accountable to their national parliaments, so they focus on national interests, which differ widely in different Member States (Darvas and Leandro, 2015, Pg. 19). This is also relevant for the new Member States where the willingness of national authorities to implement required reforms depends greatly on eventual domestic consequences, especially during the years of tight budgets and consolidation efforts due to the economic crisis.

Furthermore, the CSR implementation appears to vary with the electoral cycle in Member States. The negative impact of the electoral cycle on implementation record could be observed in countries which held national elections within 12 months of CSR adoption. The period during the political campaigning before the elections is not the best timing to devise and implement reforms, while after the elections in many countries it takes some time to form a government in coalition negotiations (Deroose and Griesse, 2014, Pg. 6). This could also be one of the explanations of delayed implementation of CSR 2015 in Croatia having in mind the fact that the elections were held in November 2015.

Conclusions

The European Semester is an important coordination and monitoring tool within the EU economic governance framework, which tends to provide a coherent and focused approach to the efforts of Member State's fiscal, macroeconomic and structural reforms. By providing three main EU mechanisms - the Stability and Growth Pact, the Europe 2020 and the Macroeconomic Imbalance Procedure, the European Semester intends to ensure compliance and implementation of the EU's economic rules by the Member States and supports at the same time their efforts in reaching the Europe 2020 targets. Within the European Semester, the Country-Specific Recommendations (CSRs) represent the most important part for delivering reforms at the national and the EU level, as they provide the Member States with guidance in budgetary and macro-structural measures.

However, so far implementation of CSRs by the Member States has been far from satisfactory (achieving mostly limited or no progress in implementation of the key issues addressed in the CSRs). In order to support better the implementation of the CSRs, the Commission has significantly modified the European Semester in 2015, the most important changes being publishing recommendation (for the euro area) already at the beginning of the Semester's cycle, lowering the issued recommendation in number and scope as well as a stronger focus on social and employment performance. Furthermore, greater support for the implementation of reforms is made available through EU Funds as well as technical assistance. When reviewing the streamlined 2015 European Semester cycle, some authors argue that reducing the number of recommendations and focusing them on just the most important areas or issues could produce counterproductive effects in that Member States might conclude that insufficient implementation may be acceptable or simply that certain areas no longer are important at all. Another problem highlighted by scholars is the occasional overlapping of tasks of the SGP, the MIP and Europe 2020 within the European Semester, with the result that the different countries receive same recommendation but under different mechanisms. These and other shortcomings provide a strong argument for the fine tuning of the European Semester, if its efficiency is to increase. There is a distinct need to identify and articulate more clearly the priorities at European level, to raise awareness through public information and debate and to strengthen political commitment at national levels. In the absence of this it looks impossible to arrive at greater relevance of the European Semester and to achieve a true national ownership of the European Semester, taking into account the Europe 2020 targets.

The findings of our research find support in the analysis of the implementation of the European Semester by five Member States in this paper, namely Croatia, the Czech Republic, Hungary, Slovakia and Slovenia. The public finances of these countries were strained by the economic crisis in the last decade. In spite of the progress made in some of these countries, the process of economic recovery there is both slow and fragile. Reforms were undertaken in a number of areas, but the results are uneven. Whereas all five countries were concerned at some stage by the EDP, the procedure was closed just for three of them. Czech Republic and Slovakia have successfully and relatively quickly exited from the EDP, while for Hungary it was a long procedure. Croatia and Slovenia must further intensify their efforts in implementing reforms in order to be able to consolidate their public finances and to reduce remaining imbalances. This pertains particularly for Croatia because that country is considered to be in a situation of excessive imbalances. The examples of the analyzed countries follow the general pattern of reluctant implementation of CSRs. A more ambitious approach to the CSR implementation within the European Semester and delivering

structural reforms would certainly help strengthen growth potential, based on jobs and productivity and attract foreign investment.

Overall, the implementation of the European Semester in the EU over the past five years yielded some success but it has also highlighted some shortcomings. The chief accomplishment of this EU policy framework is its contribution to predictability and transparency of economic policies of the Member States, hence mitigating the potential of negative cross-country implications of national policies at the EU level. The European Semester cycle allows a better detection of the strengths and weaknesses of individual Member States as well as providing insight into the situation of the EU as a whole. In so doing, the European Semester is a useful policy guiding and monitoring instrument that enables to detect the direction that the EU as a whole is taking so as to achieve commonly agreed goals. On the other hand, the European Semester has also shown to have some weaknesses, reflected in a poor implementation and delivery of proposed structural reforms by the Member States. In response, the Commission ought to increase the transparency of its arguments for proposed CSRs in order to secure greater involvement of national stakeholders in the discussion on the reform process. A related concern is the low level of national ownership of the projects in that Member States do not consider proposed reforms appropriate solutions for their particular situation. In this connection, it would be best if the Commission put special emphasis on those polices in a given Member State that have positive (or negative) spill-over effects on the economies of other Member States. And finally, the Commission should use more of the existing tools and rules at its disposal to increase implementation at least in the most important projects. This implies the use of existing corrective mechanisms but also the encouragement of peer-pressure mechanisms between Member States. All this illustrates the need for improvement of the European Semester even if, in implementing CSRs and delivering desired results, the political will and commitment at national levels remains crucial.

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Annexes

Annex 1: Comparative overview of recommendations under the European Semester – Croatia, Czech Republic, Hungary, Slovakia, Slovenia (2014)

Country-specific recommendations 2014																	
EU Member State	**Public finances**				**Financial sector**		**Structural reforms**					**Employment and social policies**					
	Sound public finances	Pension and healthcare	Fiscal	Taxation	Banking and access to finance	Housing market	Network	Competition in service sector	Public administration	R&D and	Resource	Labor market participation	Active labour market policy	Wage setting	Labour market	Education and training	Poverty and social inclusion
Croatia																	
Czech Republic																	
Hungary																	
Slovakia																	
Slovenia																	

*Shaded cells in the table mark the field for which the selected Member State received recommendations. Source: European Commission, http://ec.europa.eu/europe2020/pdf/csr2014/overview_recommendations_2014_by_member_state_en.pdf

Annex 2: Comparative overview of recommendations under the European Semester – Croatia, Czech Republic, Hungary, Slovakia, Slovenia (2015)

Country-specific recommendations 2015														
EU Member State	**Public finances and welfare systems**				**Financial sector**		**Labour market**			**Product and services market**		**Education**	**Social inclusion**	**Administration**
	Public finances	Taxation	Pension system	Healthcare system	Banking and access to finance	Housing and private debt	Labour market	Labour taxation	Wage-setting	Services and network industries	Innovation and business environment	Education and skills	Poverty and social inclusion	Administrative modernization and rule of law
Croatia														
Czech Republic														
Hungary														
Slovakia														
Slovenia														

* Shaded cells in the table mark the field for which the selected Member State received recommendations. Source: European Commission, http://ec.europa.eu/europe2020/pdf/csr2015/csr2015-overview-table_en.pdf

Annex 3: Key economic, financial and social indicators for Croatia, Czech Republic, Hungary, Slovakia and Slovenia

CROATIA											
									forecast		
	2003-2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Real GDP (y-o-y)	4.7	2.1	-7.4	-1.7	-0.3	-2.2	-1.1	-0.4	1.8	2.1	2.1
Exports of goods and services (y-o-y)	6.1	0.8	-14.1	6.2	2.2	-0.1	3.1	7.3	8.1	5.0	5.3
Imports of goods and services (y-o-y)	7.3	4.0	-20.4	-2.5	2.5	-3.0	3.1	4.3	7.9	4.6	5.3
Contribution to GDP growth:											
Domestic demand (y-o-y)	5.7	3.1	-7.9	-5.0	-0.4	-2.7	-0.7	-1.5	1.0	1.7	2.0
Inventories (y-o-y)	0.0	0.5	-3.5	0.2	0.3	-0.7	-0.3	-0.2	0.5	0.1	-0.1
Net exports (y-o-y)	-1.0	-1.5	4.1	3.1	-0.1	1.2	0.0	1.3	0.2	0.3	0.2
Trade balance (% of GDP), balance of payments	-6.6	-8.0	-3.7	-0.4	-0.4	0.5	0.4	2.0	.	.	.
Net FDI flows (% of GDP)	-4.7	-5.5	-2.9	-2.0	-2.7	-2.7	-1.9	-3.0	.	.	.
Labour productivity (real, person employed, y-o-y)	0.9	-1.6	-6.7	2.2	3.7	1.5	1.6	-3.0	.	.	.
General government balance (% of GDP)	.	.	.	.	.	-5.3	-5.4	-5.6	-4.2	-3.9	-3.2
General government gross debt (% of GDP)	.	.	.	.	.	69.2	80.8	85.1	86.0	87.0	87.4
CZECH REPUBLIC											
									Forecast		
	2003-2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Real GDP (y-o-y)	5.5	2.7	-4.8	2.3	2.0	-0.9	-0.5	2.0	4.5	2.3	2.7
Exports of goods and services (y-o-y)	16.4	4.2	-9.8	14.8	9.3	4.3	0.0	8.9	7.2	6.0	5.8
Imports of goods and services (y-o-y)	14.4	3.2	-11.0	14.9	6.7	2.7	0.1	9.8	8.2	6.1	6.0
Contribution to GDP growth:											
Domestic demand (y-o-y)	3.9	2.3	-2.7	0.9	-0.2	-1.9	0.1	1.6	4.1	2.0	2.5
Inventories (y-o-y)	0.4	-0.4	-2.7	0.8	0.2	-0.2	-0.6	0.6	0.7	0.1	0.0
Net exports (y-o-y)	1.2	0.8	0.5	0.5	1.9	1.3	0.0	-0.2	-0.3	0.3	0.2
Trade balance (% of GDP), balance of payments	1.4	2.1	3.7	3.0	3.9	5.0	5.8	6.9	.	.	.
Net FDI flows (% of GDP)	-4.2	-0.9	-1.0	-2.4	-1.2	-3.0	0.2	-3.1	.	.	.

Labour productivity (real, person employed, y-o-y)	4.6	0.5	-3.1	3.4	2.2	-1.3	-0.8	1.4	.	.	.
General government balance (% of GDP)	-3.0	-2.1	-5.5	-4.4	-2.7	-4.0	-1.3	-1.9	-1.6	-1.1	-1.0
General government gross debt (% of GDP)	28.1	28.7	34.1	38.2	39.9	44.7	45.2	42.7	40.9	40.7	40.1

HUNGARY

								forecast		
	2003-2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Real GDP (y-o-y)	3.5	0.8	-6.6	0.7	1.8	-1.7	1.9	3.7	2.7	2.1	2.5
Exports of goods and services (y-o-y)	14.6	6.9	-11.4	11.3	6.6	-1.8	6.4	7.6	8.5	6.2	6.4
Imports of goods and services (y-o-y)	12.8	6.0	-14.7	10.1	4.5	-3.5	6.3	8.5	7.3	5.8	6.6
Contribution to GDP growth:											
Domestic demand (y-o-y)	2.8	0.3	-5.2	-3.7	0.2	-2.3	2.1	3.8	1.6	1.2	2.1
Inventories (y-o-y)	-0.1	-0.2	-4.0	3.2	-0.4	-0.6	-0.7	0.0	-0.4	0.0	0.0
Net exports (y-o-y)	0.8	0.7	2.6	1.3	2.0	1.3	0.5	-0.2	1.6	0.9	0.5
Trade balance (% of GDP), balance of payments	-1.8	0.4	4.1	5.4	6.1	6.8	7.3	7.4	.	.	.
Net FDI flows (% of GDP)	-2.1	-1.1	-0.5	-3.0	-1.6	-2.1	0.1	-2.6	.	.	.
Labour productivity (real, person employed, y-o-y)	3.6	2.9	-4.2	1.0	1.7	-1.8	0.9	-0.9	.	.	.
General government balance (% of GDP)	-7.1	-3.6	-4.6	-4.5	-5.5	-2.3	-2.5	-2.5	-2.1	-2.0	-1.9
General government gross debt (% of GDP)	61.4	71.6	78.0	80.6	80.8	78.3	76.8	76.2	75.8	74.3	72.4

SLOVAKIA

								forecast		
	2003-2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Real GDP (y-o-y)	7.3	5.7	-5.5	5.1	2.8	1.5	1.4	2.5	3.5	3.2	3.4
Exports of goods and services (y-o-y)	17.9	3.0	-16.8	15.7	12.0	9.3	6.2	3.6	6.4	4.6	5.7
Imports of goods and services (y-o-y)	14.8	3.6	-18.8	14.7	9.6	2.5	5.1	4.3	7.8	4.5	5.8
Contribution to GDP growth:											
Domestic demand (y-o-y)	5.6	4.9	-4.0	2.2	2.1	-2.9	-0.3	3.1	4.6	3.0	3.4
Inventories (y-o-y)	0.1	1.2	-3.6	2.4	-1.0	-1.3	0.6	-0.2	-0.2	0.0	0.0
Net exports (y-o-y)	1.6	-0.5	2.1	0.5	1.7	5.7	1.2	-0.4	-1.0	0.2	0.0

Trade balance (% of GDP), balance of payments	-3.6	-2.3	-1.1	-1.1	-0.4	4.0	4.7	3.9	.	.	.
Net FDI flows (% of GDP)	-7.2	-4.4	1.0	-0.9	-2.8	-3.2	0.3	0.2	.	.	.
Labour productivity (real, person employed, y-o-y)	5.9	2.4	-3.6	6.7	1.0	1.5	2.2	1.1	.	.	.
General government balance (% of GDP)	-2.7	-2.3	-7.9	-7.5	-4.1	-4.2	-2.6	-2.8	-2.7	-2.1	-1.7
General government gross debt (% of GDP)	35.4	28.2	36.0	40.8	43.3	51.9	54.6	53.5	52.3	51.9	51.2

SLOVENIA

								forecast		
	2003-2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Real GDP (y-o-y)	4.8	3.3	-7.8	1.2	0.6	-2.7	-1.1	3.0	2.5	1.8	2.3
Exports of goods and services (y-o-y)	11.1	4.2	-16.6	10.2	6.9	0.6	3.1	5.8	4.5	4.4	5.1
Imports of goods and services (y-o-y)	11.4	3.8	-18.8	6.8	5.0	-3.7	1.7	4.0	3.5	4.4	5.6
Contribution to GDP growth:											
Domestic demand (y-o-y)	4.2	4.1	-5.6	-2.7	-1.2	-3.7	-2.3	1.0	1.1	1.4	2.3
Inventories (y-o-y)	0.8	-1.0	-4.0	1.9	0.6	-2.0	0.2	0.5	0.4	0.0	0.0
Net exports (y-o-y)	-0.2	0.2	1.9	2.0	1.3	3.0	1.1	1.6	1.0	0.4	0.1
Trade balance (% of GDP), balance of payments	-0.6	-1.9	1.9	1.3	1.2	4.0	6.9	7.9	.	.	.
Net FDI flows (% of GDP)	0.5	0.3	1.4	-0.3	-1.7	-1.3	-0.1	-1.6	.	.	.
Labour productivity (real, person employed, y-o-y)	3.8	0.7	-6.1	3.4	2.4	-1.8	0.3	2.5	.	.	.
General government balance (% of GDP)	-1.4	-1.4	-5.9	-5.6	-6.6	-4.1	-15.0	-5.0	-2.9	-2.4	-1.9
General government gross debt (% of GDP)	25.7	21.6	34.5	38.2	46.4	53.7	70.8	80.8	83.5	79.8	79.5

Source: European Commission (2016) Country Report. Croatia (SWD(2016) 80 final/2, Brussels, 3.3.2016), Czech Republic (SWD(2016) 73 final, Brussels, 26.2.2016), Hungary (SWD(2016) 85 final, Brussels, 26.2.2016), Slovakia (SWD(2016) 93 final, Brussels, 26.2.2016), Slovenia (SWD(2016) 92 final, Brussels, 26.2.2016).