Contributions from the Sherpas of the Member States to the Five Presidents' Report

POLAND

Second Contribution

Warsaw, May 14th 2015

Poland's contribution to a debate on strengthening of the European Semester

After discussion during Sherpas meetings and the subsequent written contributions from the 28 EU Member States on issues raised in the Analytical Note, we see that there is a general recognition of the need to improve economic governance, especially through streamlining the European Semester.

Therefore, as a follow–up, we would like to present our position on further strengthening of the European Semester. We believe that the implementation of below mentioned proposals will make the European Semester more effective instrument of economic policy coordination, both in the euro area and the EU. We are ready to discuss these proposals.

The EU still faces the consequences of the economic crisis. Economic growth is low and unemployment is very high, there is no risk of deflation any longer however deflation fears remain high and many countries will have to continue the painful process of fiscal consolidation. The key to break the deadlock is: to pursue process of structural reforms, to coordinate economic policy and to stimulate investment.

Effective economic policy coordination is a prerequisite for the smooth functioning not only of the euro area but also of the EU. Previous attempts to strengthen economic policy coordination in the EMU with new instruments yielded no breakthrough. The ongoing review of the economic governance and the "Europe 2020" strategy is a good opportunity to make necessary changes that need to be formulated with the involvement of all EU Member States.

There is still untapped potential in the European Semester. Its advantages are: application to all Member States of the EU, rich analytical tools and flexibility (the ability to address the issue of strong economic ties among Eurozone by making recommendations to its members). Main weakness is the unsatisfactory level of implementation of the country-specific recommendations (CSR). The reason for this is, among others, insufficient ownership of the Member States for the recommended structural reforms, which is due to:

- Excess of strategic plans and recommendations and lack of clear definition of the priorities;
- Insufficient level of communication between all participants of the process.

We appreciate the recent efforts taken by the Commission to improve and streamline the European Semester. It is a step in a right direction. In particular we welcome the Commission's decision to present country-specific recommendations earlier and to limit substantially their number. However the enhancement of the European Semester should be continued.

Bearing in mind all above mentioned issues we propose to strengthen the European Semester by :

Focussing and prioritizing of the CSRs

- **Limit the number of CSRs** – while formulating CSR the European Commission should reduce their number and identify 2-3 priority reform areas for each Member State in a given year, taking into account its current economic situation. The criteria for prioritization of the problem areas should be identified on the basis of the *Country Reports* (including an *In-Depth Review* on the prevention and correction of macroeconomic imbalances where appropriate). The Commission, in cooperation with the Member States, should identify recommendation to be implemented firstly and as a priority (to ensure appropriate sequential reform process). Only the measures taken jointly would strengthen the ownership of the process and the consistency of the CSRs. In each case the Commission should present economic estimates showing the potential costs and benefits of recommended reforms for the Member States and the EU, including the Single Market[1].

- **Partnerships arrangements for priority CSRs** – Member States should have the opportunity to sign, on the voluntary basis legally binding partnerships arrangements with the European Commission. Such an arrangement would include the obligation to implement structural reforms in the areas identified in the *Country Reports* and set out in CSRs. On the incentive side, the arrangement should provide a possibility to fully deduct direct and indirect costs (jointly estimated and agreed between the Commission and the Member State) of the agreed reforms when calculating the deficit under the rules of the Stability and Growth Pact. This should exceed the requirements defined in the so-called structural reform clause.

Improving the level of communication

- **Fair dialogue between the Commission and the Member State** – increasing participation of Member States in drafting the CSR will improve the chance for their implementation. The dialogue between the Commission and the Member States should start in autumn, when Member States could provide information on the plans for the implementation of CSR and be continued until the official approval of CSR. Such a partnership and in-depth dialogue, especially in the first phase of the European Semester, combined with the possibility to sign contract for priority CSRs, will enhance the implementation of CSRs in political, legal and economic terms and national ownership.
- **Dialogue with the parliaments and the socio-economic partners** – we should continue the good practice of presenting draft CSR by the Commissioners in the parliaments of the Member States. Additionally, we can consider a similar debate in the selected European Parliament committee. The recommendations should be also consulted with socio-economic partners, but it would require a change in the schedule of the European Semester and publication of draft CSR by the European Commission no later than 15 May of each year (this would allow the extension of the period for comments by written procedure).

Additionally, CSR for the euro area formulated within the framework of the European Semester, gives the opportunity to address the issue of strong economic ties among Eurozone Member States. We see the potential in this area and, therefore, we propose to consider the possibility that Eurozone Member States provide a plans for implementation of CSR for the euro area and present it together with the plans of the budget (15 October). This will contribute to greater political accountability of governments for the implementation of CSR for the euro area.

[1] Assessment of measures/reforms taken or not on the basic indicators (GDP, employment, etc.).