

The European Semester's Key Role for a Green Recovery

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The EU Member States agreed on a 750 bn € recovery package coined 'NextGenerationEU' including **672.5 bn €** for the Member States' **Recovery and Resilience Facility**. To access the funds, Member States will **prepare Recovery and Resilience Plans**. Included measures should address in particular the country-specific recommendations as identified in the **European Semester**. While the Recovery and Resilience Facility regulation thereby features (more or less prominently) some important **governance mechanisms required for ensuring a green recovery**, close scrutiny, monitoring and the governance of the funds' implementation will be of utmost importance. This constitutes an **opportunity to reform governance processes** that can deal with the new realities, including radically changing fiscal realities and political priorities, posed by the COVID-19 crisis. The European Semester and its established processes and instruments should be at the centre of a reformed, integrated governance regime.

A. What is the European Semester?

B. How is the European Semester doing on environmental aspects?

C. Reforming the European Semester to serve fulfilling the EU's climate goals

D. In what way does the European Semester need to be reformed to support the delivery of the EU Green Deal?

A. What is the European Semester?

The **European Semester serves as a well-established governance regime**. It constitutes a cycle of economic and fiscal policy coordination within the EU. During the European Semester, the member **states align their budgetary and economic policies** with the objectives and rules agreed at the EU level. The European Semester process fosters a continuous, multi-annual dialogue between the European Commission and Member States about crucial economic reforms.

Established in 2010 by the European Council as part of the Stability and Growth Pact, the European Semester is structured around the **two principles: surveillance ('preventive arm')** and **coordination and guidance ('corrective arm')**. The **main goals** of the European Semester are:

- I. ensuring **sound public finances** (avoiding excessive government debt);
- II. **preventing excessive macroeconomic imbalances** in the EU;
- III. **supporting structural reforms**, to create more jobs and growth; and
- IV. **boosting investment**.

B. How is the European Semester doing on environmental aspects?

Over the years, the European Semester has undergone various adjustments, e.g. the integration of social aspects (poverty, risk, social exclusion, etc.); yet, the **integration of climate change-related indicators has remained slow**. In spite of the EU's new climate ambition, the European Semester framework is not using its full potential to address the climate and sustainability crisis, even though it is in a unique position to incorporate targets and reporting requirements for all Member States. Notably, since 2019, the Commission has made a **first attempt and included sustainability aspects in its 'Annual Sustainable Growth Strategy'**. The result: For the first time in 2020, the country reports include a **separate section on environmental sustainability** and an annex on the national performance to achieve the Sustainable Development Goals.

In the **'Annual Sustainable Growth Strategy' for 2021**, the **European Semester's whole structure has changed** to address the challenges associated with the COVID-19 crisis. The **Recovery and Resilience Facility fund** with its declared goals to deliver a green and digital recovery is **at the heart of the new European Semester structure**. **It puts the goals of achieving competitive sustainability, cohesion and the EU Green Deal with its twin goals of green and digital transitions at its centre.**

Yet, its overall integration in the wider (climate and sustainability) governance framework, its environmental analytics, and the specificity in country specific recommendations remain too weak.

Processes and mechanisms within the framework of the European Semester

The **European Semester process is divided in three blocks: autumn package** (November), **winter package** (February), and **spring package** (May-July).

As part of the autumn package, the Commission formulates the **'Annual Sustainable Growth Strategy'**, presenting priorities and guidelines for the following year. The **guidance** for Member States is structured around **three strands: investment, structural reform, and fiscal consolidation**. It further comprises the **Alert Mechanism Report** to detect economic imbalances in Member States underpinned by the Macroeconomic Scoreboard. In case of imbalances, the **Macroeconomic Imbalances Procedure** is launched to identify possible strategies to address the issues. In the winter package, the Commission publishes **'Country Reports'** for each Member States providing an in- depth look at the Member States' budgetary situation and areas of macroeconomic importance, and assessing the progress on **'country specific recommendations'** from previous year(s). The spring package presents the 'country specific recommendations' to be achieved within the next 12-18 months. The European Council first discusses the recommendations, before finance ministers adopt the recommendations. Member States lay out how they will address the 'country specific recommendations' as part of their **'National Reform Programmes'**, **'Annual Draft Budgetary Plans'** (annual plan for Eurozone countries) **'Stability Programmes'** (3-year budget plan for Eurozone countries), and **'Convergence Programmes'** (3-year budget plan, non-Eurozone countries). The Commission assesses the different plans and programmes at multiple stages (e.g. before and after implementation) to identify (the risk of) non-compliance and offer additional support where necessary.

C. Reforming the European Semester to serve fulfilling the EU's climate goals

The European Semester was developed as an implementation mechanism for the Europe 2020 strategy. Now, the **EU has a new economic growth paradigm – the EU Green Deal**. The **EU's economic governance regime does not integrate or reflect these important new and emerging policy challenges** as well as financing mechanisms and processes yet. To succeed with the COVID-19 recovery effort and the EU's commitment to climate neutrality and the Sustainable Development Goals, it is necessary to explore and mobilise the synergies between the various governance regimes, national plans, and policy objectives.

The European Semester's prominent role in the Recovery and Resilience Facility constitutes an opportunity to emerge from the background of EU governance to become a more visible link in fulfilling the EU's climate goals. Given the relatively weak guidance on the usage of Recovery and Resilience Facility funds, the European Semester's role in the monitoring of funds will be even more critical. Some of the **European Semester's basic elements fit this role well**:

- I. Its **annual cycle** fits with the structure of the Recovery and Resilience Plans (funds in the Recovery and Resilience Facility will be disbursed against the review of milestones and targets maximum twice per year);
- II. it **brings together Ministers of Finance** from Member States with other key European policy makers, therefore **ensuring ownership** at the highest level;
- III. the annual process of consultations, the thorough annual country reports (from a non-partisan body like the Commission) have shown to **increase awareness, transparency and legitimacy** of key economic policy challenges;
- IV. the **European Semester Officer network** – network of local experts in Member States - can help to bridge the European Semester activities in Brussels and the development and implementation of economic policies and create a link to the Reform Support Programme (DG Reform); and
- V. The **budgetary surveillance regime** offers an important precedent for Member States: 1) having to explain their budgetary priorities and coherence with key economic and fiscal policy objectives; 2) serving as a starting point for a more comprehensive discussion about investment needs for the green transition; 3) putting the role of Recovery and Resilience Plans into context; and 4) starting to explore synergies and complementarities with national financial resources and the emerging work of the Commission on developing green budgeting frameworks.

D. In what way does the European Semester need to be reformed to support the delivery of the EU Green Deal?

The European Semester has the potential to play a crucial role in monitoring the Member States' use of the Recovery and Resilience Facility funds, especially: 1) The climate mainstreaming delivery of the Member States (30% of the funds for a green transition) and 2) the climate monitoring of the annual Member States Recovery and Resilience Plans following the do-no-significant-harm principles and the EU Taxonomy¹. Possible approaches to strengthen the European Semester in delivering the EU Green Deal are:

- I. **Foster the European Semester's integration with other governance processes within the EU** (e.g. greater policy coherence at Member States level, alignment with other review processes). For example, the Governance Directive with its National Energy and Climate Plans, in place since 2018, is at the heart of national climate action, as it unites several climate and energy directives. It could

¹ See e.g. Germanwatch (2019): [Factsheet Sustainable Finance](#), EU COM (2021): [EU taxonomy for sustainable activities](#)

serve as valuable input for future European Semester cycles, providing i.a. an overview of investment needs.

- II. **Develop a green budgeting approach.** In the event of a Member State deviating from the climate target achievement path, an automatic increase in the climate quota in these various EU funding programs (Recovery and Resilience Plans, Just Transition Plans, Operational Programme for EU Structural Investment Funds) should be examined to enable the essential additional investments that are necessary for a return to the path. It should also be examined to what extent reference is made to the achievement of climate targets in a more comprehensive green budgeting approach that the Commission could develop.
- III. **Using the European Semester's surveillance arm:** If Recovery and Resilience Plans will have the same low quality as most National Energy and Climate Plans (especially in regard to investment needs analysis and financing sources), there is a large risk that the green element will not materialize. The 'surveillance arm' of the European Semester represents a unique instrument that can offer an alternative avenue if the climate evaluation criteria of the Recovery and Resilience Plans turn out weak. The Recovery and Resilience Plans will (at least in part) be managed through the European Semester process, constituting a unique 'entry point'.
- IV. **Adopt a scoreboard for environmental and climate proofing.** On EU level, more than 60 quantitative targets and 12 policy targets measure progress on climate and environmental issues. The European Semester incorporates none of these systematically. A scoreboard for environmental and climate proofing could change that and complement indicators that reveal the need for additional policy action. The European Green Deal flagships and goals as presented in the 'Annual Sustainable Growth Strategy' for 2021 could serve to establish a direct link. It would also link the respective strengths of the different governance mechanisms (Recovery and Resilience Plans, National Energy and Climate Plans, and European Semester). The scoreboard could serve similarly to the Macroeconomic Imbalances Procedure as an early warning system to track whether Member States are on track to meet climate and sustainability targets ('Environmental imbalances procedure'). With the European Semester Officer network and the link to the Reform Support Programme (DG Reform) already in place, the European Semester is in a position to coordinate policy support if necessary.
- V. **Integrate climate mainstreaming and climate-proof-focused criteria in the regular Semester cycle.** These dimensions include i.a. climate change risks, investments in green research and development and innovation, and sustainable public and private investments.

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