

European Semester

2012/2677(RSP) - 30/05/2012 - Follow-up document

PURPOSE: draft recommendation for a COUNCIL RECOMMENDATION on the United Kingdom's 2012 national reform programme and delivering a Council opinion on the United Kingdom's convergence programme for 2012-2015.

BACKGROUND: the European Commission has adopted a **package of recommendations for budgetary measures and economic reforms** to enhance financial stability, boost growth and create employment across the EU.

The recommendations are **country-specific**, taking account of the individual situation of each Member State. The Commission has also issued recommendations for the euro area as a whole. The country-specific recommendations put forward by the Commission give operational guidance for Member States while preparing their budgetary policies and for economic reforms that should be enacted over the coming twelve months to boost competitiveness and facilitate job creation.

The adoption of the recommendations marks the **concluding of the second phase of the European Semester** of economic policy coordination, which was launched with the Commission's [Annual Growth Survey](#) on 23 November 2011.

The basis for these recommendations is a thorough assessment of the implementation of those adopted in 2011, combined with a detailed analysis of the national reform programmes and stability or convergence programmes that Member States submitted by 30 April 2012. The analysis underpinning the recommendations is presented in 28 Commission staff working documents.

CONTENT: on 30 April 2012, **the United Kingdom** submitted its stability programme covering the period 2012-2015 and its 2012 national reform programme. The two programmes have been assessed at the same time.

Based on the assessment of the 2012 convergence programme pursuant to Council Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the programme is plausible. The objective of the budgetary strategy outlined in the programme is to implement the necessary fiscal consolidation to achieve the government's fiscal targets on net debt and cyclically-adjusted current balance.

According to the convergence programme, the general government deficit is expected to be 8.3% of GDP in 2011-12, 5.9% in 2012-13, 6.0% of GDP in 2013-14, 4.4% of GDP in 2014-15, 2.9% of GDP in 2015-16 and 1.2% of GDP in 2016-17. These estimates are somewhat lower than those by Commission services, who in its 2012 spring forecast expect a deficit of **6.1% of GDP in 2012-13** (which would be 7.9% without an upcoming one-off pension fund transfer) and **6.5% of GDP in 2013-14**. Government debt, forecast at 94.7% in 2013-14, is expected to peak in 2014-15.

The Commission states that the **main challenges facing the United Kingdom** are as follows:

- The run-up to the crisis saw the housing market overheat, with house price-to-income ratios reaching historic highs in the context of a growing housing supply shortage, leading to the accumulation of high levels of mortgage debt. According to the Commission's in-depth review, high household debt constitutes an internal imbalance in the United Kingdom's economy.

- The UK has growing challenges of unemployment and labour market participation. Unemployment in the UK currently stands at 8.4%. Youth unemployment is much higher, at 22.2%, and more than 38% of the unemployed in the UK are under 25. 17.7% of young people (16-24 year olds) are not in employment, education or training. Private sector employment has been growing modestly, but not enough to offset reductions in public sector employment and the growth of the workforce.
- Considerable risks remain that there will be declining amounts available for benefits, so poverty, particularly for families with children, risks increasing. Independent estimates forecast that in 2020-21 absolute child poverty will reach its highest level since 2001-02. Insufficient access to childcare, in particular for low earners, still causes significant problems. Cuts to support for childcare also risk exacerbating the problem.
- Financing conditions remain tight, particularly for SMEs. Net lending to the corporate sector was negative in 2011, while survey evidence shows that a significant number of SMEs are credit constrained. Additionally, access to non-bank lending remains largely restricted to bigger firms, and competition in the banking industry is limited.
- The UK has a challenge to improve its energy and transport infrastructure. It needs substantial investment to upgrade its electricity generation capacity. The UK's transport sector faces shortcomings in the capacity and quality of its networks, which could work against the government's aim of rebalancing the UK economy towards investment and exports.

Recommendations proposed for the United Kingdom (2012-2013):

Budgetary measures:

- fully implement the budgetary strategy for the financial year 2012/13 and reinforce the budgetary strategy for the financial year 2013/14 and beyond, supported by sufficiently specified measures, to ensure a timely correction of the excessive deficit in a sustainable manner and to set the high public debt ratio on a sustained downward path.
- prioritise growth enhancing expenditure.

Housing sector:

- address the destabilising impact of high and volatile house prices and high household debt by implementing a comprehensive housing reform programme to increase housing supply and alleviate problems of affordability and the need for state subsidy of housing ;
- pursue further reforms to the mortgage and rental markets, financial regulation and property taxation to prevent excessive volatility and distortions in the housing market.

Jobs and the labour market:

continue to improve the employability of young people, in particular those not in education, employment or training, including by using the Youth Contract ;

- ensure that apprenticeship schemes are taken up by more young people, have a sufficient focus on advanced and higher-level skills, and involve more small- and medium sized businesses ;
- take measures to reduce the high proportion of young people leaving school with very poor basic skills ;
- step up measures to facilitate the labour market integration of people from jobless households ;
- ensure that planned welfare reforms do not translate into increased child poverty and fully implement measures aiming at facilitating access to childcare services.

Access to finance:

- further improve the availability of bank and non-bank financing to the private sector, in particular to SMEs ;
- support competition within the banking sector, and explore ways to improve access to venture and risk capital and other forms of non-bank lending.

Infrastructure:

- pursue a long-term strategy for improving the capacity and quality of the UK's network infrastructure, including measures to address pressures in transport and energy networks by promoting more efficient and robust planning and decision-making processes, and harnessing appropriate public-private financing arrangements.

The recommendations are to be endorsed by the European Council on 28-29 June and formally adopted by the Council in July 2012.