

European Semester

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

PURPOSE: draft Recommendation for a COUNCIL RECOMMENDATION on Estonia's 2012 national reform programme and delivering a Council Opinion on Estonia's stability 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 26 April 2012, **Estonia** submitted its stability programme covering the period 2012-2015 and its 2012 national reform programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

Based on the assessment of the stability programme, the Council is of the opinion that the **macroeconomic scenario** underpinning the budgetary projections in the programme **is plausible in 2012-13**, when GDP growth is expected to average around 2.4%. The Commission's 2012 spring forecast foresees GDP growth of 3.8% in 2013.

The objective of the budgetary strategy outlined in the programme is to ensure sustainable fiscal policy that supports balanced growth, by achieving a structural surplus while ensuring sufficient fiscal buffers and reducing the tax burden on labour. The programme aims at overachieving the medium-term budgetary objective (MTO) of a structural surplus as of 2012. In parallel, the programme aims at reaching headline surpluses as of 2014.

The debt ratio is well below 60% of GDP and, according to the programme, is likely to decrease after 2013 to about 10% in 2015.

Estonia achieved a sizeable budget surplus in 2011. The projected rate of economic growth for 2012 in the Commission's 2012 spring forecast looks much weaker than for 2011, dropping from 7.6% to 1.6 %, and therefore **further control over efficiency of spending is necessary**.

According to the Commission, the **main policy challenges** for the country are as follows:

- As regards the labour market, a number of steps have been made in the area of labour taxation. While promising efforts are made to reduce the high unemployment, long-term and youth unemployment is still high.
- The measures in the National Energy Efficiency Action Plan are still insufficient given the current trend of modal shift away from public transport.
- The fleet of new cars in Estonia is the most energy intensive in EU. Fuel excise duties are insufficient in shifting consumer patterns.
- Estonia still needs to diversify its energy supply.
- The quality and availability of vocational education has considerably improved.
- Lifelong learning participation is improving, but there is an insufficient focus on low-skilled workers.
- There are continuing problems with matching education outcomes with labour market needs. Also, cooperation between the business sector and higher education institutions continues to be weak.
- Being limited in size, the majority of local governments have difficulties to universally deliver the necessary social, health, labour market, transport and educational services.

Recommendations proposed for Estonia for the period 2012-2013:

Budgetary measures:

- preserve a sound fiscal position by implementing budgetary plans as envisaged, ensuring achievement of the medium-term budgetary objective (MTO) by 2013 at the latest, and compliance with the expenditure benchmark;
- complement the planned budget rule with more binding multi-annual expenditure rules within the medium-term budgetary framework;
- continue enhancing the efficiency of public spending and step up the fight against the shadow economy.

Labour market:

- improve incentives to work by streamlining the social benefits system and increasing flexibility in the allocation of disability, unemployment and parental benefits, while ensuring adequate social protection;
- improve delivery of social services, while better targeting family and parental benefits and removing distortionary income tax exemptions related to children;
- increase the participation of the young and the longterm unemployed in the labour market.

Training, education:

- link training and education more effectively to the needs of the labour market, and enhance cooperation between businesses and academia;
- increase opportunities for low skilled workers to improve their access to life-long learning;
- foster prioritisation and internationalisation of the research and innovation systems.

Energy efficiency:

- improve energy efficiency, in particular in buildings and transport, and strengthen environmental incentives concerning vehicles and waste, including by considering incentives such as the taxation of vehicles;
- foster renewable energy use, including through upgraded infrastructure and legislation;
- continue the development of crossborder connections to end relative market isolation.

Local bodies:

- enhance fiscal sustainability of municipalities while improving efficiency of local governments and ensure effective service provision, notably through stronger incentives for merger or increased cooperation of municipalities;
- relevant reform proposals should be put in place within a reasonable timeframe.

These recommendations should be endorsed by the European Council on 28-29 June 2012 and formally adopted by the Council in July 2012.