## Basic information

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| **2012/2677(RSP)**<br>RSP - Resolutions on topical subjects | Procedure completed |
| European Semester<br>See also 2012/2150(INI)<br>**Subject**<br>5.05 Economic growth<br>5.10.01 Convergence of economic policies, public deficit, interest rates<br>5.20.01 Coordination of monetary policies, European Monetary Institute (EMI), Economic and Monetary Union (EMU)<br>5.20.02 Single currency, euro, euro area | |

## Key players

| | Commission DG | Commissioner |
|---|---|---|
| European Commission | Secretariat-General | BARROSO José Manuel |

## Key events

| Date | Event | Reference | Summary |
|---|---|---|---|
| 13/06/2012 | Debate in Parliament | | Summary |
| 13/06/2012 | End of procedure in Parliament | | |

## Technical information

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| **Procedure reference** | 2012/2677(RSP) |
| **Procedure type** | RSP - Resolutions on topical subjects |
| **Procedure subtype** | Resolution on statement |
| **Amendments and repeals** | See also 2012/2150(INI) |
| **Legal basis** | Rules of Procedure EP 136-p2 |
| **Stage reached in procedure** | Procedure completed |

## Documentation gateway

**European Commission**

| Document type | Reference | Date | Summary |
|---|---|---|---|
| Commission document (COM) | COM(2012)0301 | 30/05/2012 | Summary |

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| Commission document (COM) | COM(2012)0302 | 30/05/2012 | Summary |
| Commission document (COM) | COM(2012)0303 | 30/05/2012 | Summary |
| Commission document (COM) | COM(2012)0304 | 30/05/2012 | Summary |
| Commission document (COM) | COM(2012)0305 | 30/05/2012 | Summary |
| Commission document (COM) | COM(2012)0306 | 30/05/2012 | Summary |
| Commission document (COM) | COM(2012)0307 | 30/05/2012 | Summary |
| Commission document (COM) | COM(2012)0308 | 30/05/2012 | Summary |
| Commission document (COM) | COM(2012)0309 | 30/05/2012 | Summary |
| Commission document (COM) | COM(2012)0310 | 30/05/2012 | Summary |
| Commission document (COM) | COM(2012)0311 | 30/05/2012 | Summary |
| Commission document (COM) | COM(2012)0312 | 30/05/2012 | Summary |
| Commission document (COM) | COM(2012)0313 | 30/05/2012 | Summary |
| Commission document (COM) | COM(2012)0314 | 30/05/2012 | Summary |
| Commission document (COM) | COM(2012)0315 | 30/05/2012 | Summary |
| Commission document (COM) | COM(2012)0316 | 30/05/2012 | Summary |
| Commission document (COM) | COM(2012)0317 | 30/05/2012 | Summary |
| Commission document (COM) | COM(2012)0318 | 30/05/2012 | Summary |
| Commission document (COM) | COM(2012)0319 | 30/05/2012 | Summary |
| Commission document (COM) | COM(2012)0320 | 30/05/2012 | Summary |
| Commission document (COM) | COM(2012)0321 | 30/05/2012 | Summary |
| Commission document (COM) | COM(2012)0322 | 30/05/2012 | Summary |
| | COM(2012)0323 | | |

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| Commission document (COM) | | 30/05/2012 | Summary |
| Commission document (COM) | COM(2012)0324 | 30/05/2012 | Summary |
| Commission document (COM) | COM(2012)0325 | 30/05/2012 | Summary |
| Commission document (COM) | COM(2012)0326 | 30/05/2012 | Summary |
| Commission document (COM) | COM(2012)0327 | 30/05/2012 | Summary |
| Commission document (COM) | COM(2012)0328 | 30/05/2012 | Summary |

**National parliaments**

| Document type | Parliament /Chamber | Reference | Date | Summary |
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| Contribution | PT_PARLIAMENT | COM(2012)0301 | 29/06/2012 | |
| Contribution | PT_PARLIAMENT | COM(2012)0324 | 29/06/2012 | |
| Contribution | CZ_SENATE | COM(2012)0303 | 13/11/2012 | |

# European Semester

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

PURPOSE: draft recommendation for a COUNCIL RECOMMENDATION on Bulgaria's 2012 national reform programme and delivering a Council opinion on Bulgaria'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 13 April 2012, **Bulgaria** submitted its convergence 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.

Bulgaria has been successful in reducing its budget deficit as requested in the budget deficit procedure. The Commission's 2012 spring forecast projects the general government deficit to stay below the reference value of the Treaty and to further decline over the forecast period. As a result, and in line with the provisions of the Stability and Growth Pact, on 30 May the Commission adopted a recommendation for a Council decision **abrogating the decision on the existence of an excessive deficit** under Article 126(12) of the Treaty.

Based on the assessment of the 2012 convergence programme, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the programme is optimistic for the 2012-13 period, when annual growth is expected to reach 1.4% in 2012 and 2.5% in 2013. **The Commission's 2012 spring forecast foresees a GDP growth of 0.5% in 2012 and 1.9% in 2013**.

The objective of the budgetary strategy outlined in the programme is to achieve a budgetary position which is close to balance, both in terms of the structual and headline budget balances, by the end of the programme period. The medium-term budgetary objective (MTO), defined in structural terms, has been marginally revised from a deficit of 0.6% of GDP to a deficit of 0.5% of GDP. The new MTO adequately reflects the requirements of the Stability and Growth Pact. Based on the (recalculated) structural deficit8, Bulgaria plans to achieve its MTO over the programme period.

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

- The Bulgarian government has made considerable progress on some of the pension reform measures including those on the pensionable age for both men and women and on the length of service for army and police-sector employees. However, addressing the shortcomings in the adequacy of pension provision remains a key challenge in the medium term.
- Bulgaria has the highest rate of people at risk of severe material deprivation in the EU, with the elderly and children being particularly affected. Only half of the economically active Roma are employed.
- The crisis has had a particularly strong impact on low-skilled workers (who account for almost 70% of the unemployed) and has significantly raised youth unemployment. A national initiative has been launched to comprehensively address the integration of young people in the labour market. Since 2009, the increase in long-term unemployment has been significantly faster than in the rest of EU and principally reflecting an increase in skills and geographical mismatches as job cuts were concentrated in the low-skilled segment. Public employment services are still of relatively low quality.
- There exists considerable structural obstacles to ensuring quality education. The low educational achievements are linked to weak access to education of disadvantaged groups, in particular the Roma population, insufficient autonomy of schools, lack of incentives for better performance, a poor national assessment system and insufficient accountability. In higher education, progress remains very limited even though some promising efforts have been made recently.
- Bulgaria has a low level of research and innovation (R&I). R&I investment needs to be raised to reach the 2020 target and an appropriate strategy for innovation must be established. Bulgaria needs to strengthen its universities and develop a strategy to engage higher education institutions in innovation activities. Frameworks fostering collaboration between universities and the private sector do not exist, and funding should be allocated in a competitive, merit-based and transparent way. Bottlenecks remain for start-up companies and innovative SMEs seeking bank finance.
- Currently, the administrative capacity of Bulgaria is insufficient to properly manage and maintain road, rail and water infrastructures projects. The use of EU funds remains low despite consistent progress in the last two years. Significant challenges also remain in terms of further improving the business and regulatory environment and achieving progress in increasing the administrative capacity of the public sector.
- Despite initiated reforms, Bulgaria still maintains some restrictions to entry into network sectors such as rail transport, telecommunications and energy. The functioning of energy markets at both wholesale and retail levels remains problematic. Bulgaria is highly dependent on a single energy route and its domestic energy market functions inadequately, exposing it to risks of significant supply shocks.

**Recommendations proposed for Bulgaria for the period 2012-2013**:

**Budgetary measures**:

- continue with sound fiscal policies to achieve the medium-term budgetary objective by 2012 (to this end, implement the budgetary strategy as envisaged, ensuring compliance with the expenditure benchmark);
- stand ready to take additional measures in case risks to the budgetary scenario materialise;
- strengthen efforts to enhance the quality of public spending, particularly in the education and health sectors and implement a comprehensive tax-compliance strategy to improve tax revenue and address the shadow economy;
- further improve the contents of the medium-term budgetary framework and the quality of the reporting system.

**Pension system**:

- take steps to reduce risks to the sustainability and to improve adequacy of the pension system by restricting access to early retirement and by making the statutory retirement age the same for men and women with full career contributions;
- introduce tighter criteria and controls for the allocation of invalidity pensions.

**Employment**:

- accelerate the implementation of the national Youth Employment Initiative;
- ensure that the minimum thresholds for social security contributions do not discourage declared work;
- step up efforts to improve the Public Employment Service's performance;
- to alleviate poverty, improve the effectiveness of social transfers and the access to quality social services for children and the elderly;
- implement the National Roma Inclusion Strategy.

**Education**:

- speed up the reform of relevant legal acts on schools and higher education and of accompanying measures by focusing on modernising curricula, improving teacher training, and ensuring access to education for disadvantaged groups;
- improve the access to finance for start-ups and SMEs, in particular those involved in innovative activities.

**Administrative capacity**:

- step up efforts to enhance administrative capacity and reforms by reducing red tape and the cost of tax compliance and collection, and further improving the absorption of EU funds, in particular in road and rail transport and water management;
- improve the quality and independence of the judicial system and speed up the introduction of e-government. Strengthen public administrative capacity in key transport sectors and regulatory authorities;

- ensure sound implementation of public procurement legislation. Strengthen the prevention of irregularities and effectively apply the sanctions under the Public Procurement Law and those of the Law on Conflict of Interest.

**Market barriers**:

- take measures to remove market barriers, guaranteed profit arrangements and price controls;
- ensure the independence of transmission and distribution system operators;
- complete the market design in particular for the energy exchanges and balancing markets;
- improve electricity and gas connections, boost energy efficiency and enhance the capacity to cope with disruptions.

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

# European Semester

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

PURPOSE: draft recommendation for a COUNCIL RECOMMENDATION on Spain's 2012 national reform programme and delivering a Council opinion on Spain'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, **Spain** 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 stability programme, the Council is of the opinion that the macroeconomic scenario underlying the programme is broadly plausible for 2012 and optimistic thereafter. **The Commission's 2012 spring forecast projected GDP growth to reach -1.8% in 2012 and -0.3% in 2013, against -1.7% and 0.2%, respectively, in the programme**. In compliance with the Excessive Deficit Procedure, the objective of the budgetary strategy outlined in the programme is to bring the general government deficit below 3% of the GDP reference value by 2013, based mainly on expenditure restraint, but also on some revenue-increasing measures. The programme projects the government debt ratio to peak in 2013 and to start declining thereafter. **The Commission considers that the deficit and debt adjustment paths are subject to important downside risks**. Macroeconomic developments could turn out less favourable than expected. Moreover, measures are not sufficiently specified from 2013 onwards.

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

- In 2011, Spain adopted reform of its pension system. However, the worsening of the economic prospects in Spain is limiting the impact of the reform on the projected age-related public expenditure. In addition, the reform still needs to be complemented by concrete measures to underpin the Global Employment Strategy for Older Workers for 2012-2014.
- The efficiency of the tax system can be improved by increasing the share of more growth-friendly indirect taxes.
- Spain has made considerable progress regarding the restructuring of its financial sector. The restructuring needs to continue, to ensure that unviable banks are resolved. Given the weakening of macroeconomic prospects, further strengthening of the banks' capital base may be required.
- In February 2012, the Spanish government adopted a comprehensive reform of the employment protection and collective bargaining system. The effects need to be monitored, in particular as regards wage developments and reduction of segmentation.
- To tackle Spain's high youth unemployment, the Youth Action Plan should be implemented without delay, including for apprenticeship and training contracts.
- Although Spain has taken measures to combat early school leaving, the rate remains high and conceals significant disparities across regions.
- Poverty has increased with 1.1 million more people at risk in 2010 and child poverty is at an alarming high of 26.2%. The in-work poverty rate for temporary workers is more than twice as high as the one for permanent workers.
- Professional services in Spain remain protected from competition (e.g. notaries, property registry agents, court officers). In addition, in Spain it takes the longest in the EU to obtain a business licence.

**Recommandations proposed for Spain (2012-2013):**

**Budgetary measures:**

- deliver an annual average structural fiscal effort of above 1.5% of GDP over the period 2010-13 by implementing the measures adopted in the 2012 budget and adopting the announced multi-annual budget plan for 2013-14 by the end of July ;

- adopt and implement measures at regional level and strictly apply the new provisions of the Budgetary Stability Law regarding transparency and control of budget execution;
- establish an independent fiscal institution to provide analysis, advice and monitor fiscal policy, as well as to estimate the budgetary impact of proposed legislation.

**Pension system:**

- accelerate the increase in the statutory retirement age and the introduction of the sustainability factor provided for in the recent pension reform ;
- underpin the Global Employment Strategy for Older Workers with concrete measures to develop lifelong learning further, improve working conditions and foster the reincorporation of this group in the job market.

**Taxation:**

- introduce a taxation system more supportive to growth, including a shift away from labour towards consumption and environmental taxation;
- address the low VAT revenue ratio by broadening the tax base for VAT;
- ensure less tax-induced bias towards indebtedness and home-ownership (as opposed to renting).

**Financial sector**:

- implement the reform of the financial sector, in particular complement the on-going restructuring of the banking sector by addressing the situation of remaining weak institutions ;
- put forward a comprehensive strategy to deal effectively with the legacy assets on the banks' balance sheets, and define a clear stance on the funding and use of backstop facilities.

**Labour market:**

- implement the labour market reforms and take additional measures to increase the effectiveness of active labour market policies by increasing the use of training, advisory and job matching services, sharing information about job vacancies;
- youth employment, fight against poverty;
- review spending priorities and reallocate funds to support access to finance for SMEs, research, innovation and young people;
- implement the Youth Action Plan, in particular as regards the quality and labour market relevance of vocational training and education;
- reinforce efforts to reduce early school-leaving and increase participation in vocational education and training through prevention, intervention and compensation measures;
- take specific measures to counter poverty, by making child support more effective and improving the employability of vulnerable groups.

**Services:**

- take additional measures to open up professional services, including highly regulated professions, reduce delays in obtaining business licences;
- complete the electricity and gas interconnections with neighbouring countries and address the electricity tariff deficit in a comprehensive way, in particular by improving the cost efficiency of the electricity supply chain.

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

# European Semester

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

PURPOSE: draft Recommendation for a COUNCIL RECOMMENDATION on France’s 2012 national reform programme and delivering a Council opinion on France's stability programme for 2012-2016.

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 4 May 2012, **France** submitted its updated stability programme covering the period 2012-2016 and, on 13 April 2012, 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 optimistic**. The Commission's 2012 spring forecast projected GDP growth to reach 0.5% in 2012 and 1.3% in 2013, against 0.7% and 1.75%, respectively, according to the programme.

After the deficit came out better than expected at 5.2% of GDP in 2011, the programme plans to **bring it down to 3% of GDP in 2013**, which is the deadline set by the Council for correcting the excessive deficit, and to continue consolidation thereafter, with a **balanced budget to be achieved by 2016** . Starting from 85.8% of GDP in 2011, the debt ratio is expected to reach 89.2% in 2013 and to drop to 83.2% in 2016. According to the programme, **the debt reduction benchmark will be met at the end of the transition period (2016)**.

The Commission considers that **it cannot be ensured that the excessive deficit will be corrected by 2013** unless the planned measures are sufficiently specified and additional ones implemented as needed.

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

- Although additional consolidation measures were adopted in the second half of 2011 and in February 2012, implementation of fiscal consolidation remains a major challenge.
- The 2010 pension reform is gradually being applied. However, it is not certain that the system will be balanced by 2018, if employment and growth turns out lower than projected, and the system is expected to fall into deficit after 2020.
- Several measures have also been taken or are under discussion to provide flexible work arrangements for companies facing temporary difficulties (e.g. the professional security contract (CSP)). However, they do not address specifically the segmentation of the labour market.
- Measures taken to encourage the employment of older workers, including the requirement for companies to implement active age management, are steps in the right direction. However, the related action plans generally lack ambition and do not include measures such as reducing working time or offering positions that would be specifically adapted to older workers.
- Despite the measures taken, the total number of apprenticeships is still far from the objective. In addition, a recent report commissioned by the French authorities showed that 40% of SMEs consider that the skills of apprentices do not match their needs.
- The merging of the jobseekers' placement services (ANPE) and the unemployment benefits agency (UNEDIC) into a single body (*Pôle emploi*) has so far not produced the expected results in terms of effectiveness and quality of services.
- In February 2012, France adopted a 1.6 pp increase in VAT to 21.2 % and a 2 pp rise in social levies on capital income and gains to 15.5% to compensate for lower employers' social contributions. This is an appropriate measure to introduce a more balanced taxation system that shifts the tax burden away from labour. However, the focus of the reform is too narrow.
- In addition, while efforts have been made to reduce tax expenditures, the latter have also been accompanied by rate hikes which tend to increase the already high tax burden on labour. France has the second lowest share of environmental taxation in the EU in tax revenues, which indicates ample room for increasing such taxes.
- While a number of reforms have been adopted to simplify the business environment and to remove restrictions on some regulated trades and professions, they fall short of addressing barriers to entry and restrictive conduct conditions in many others (e.g. veterinarians, taxis, health sector, legal professions including notaries).
- The intensity of competition in a number of network industries (wholesale electricity, rail sector) should be reinforced as reforms conducted so far in these sectors have only yielded partial results.
- The French export market share has decreased by 19.4% between 2005 and 2010, one of the strongest declines among Member States, and much above the threshold included in the Alert Mechanism Report published by the Commission on 14 February 2012.
- In particular, increasing unit labour costs have put the profitability of French companies under pressure and have constrained their ability to grow, to make the necessary investments to improve their performance and to innovate.

**Recommendations proposed for France for the period 2012-2013:**

**Budgetary measures:**

- reinforce and implement the budgetary strategy, supported by sufficiently specified measures, for the year 2012 and beyond to ensure a timely correction of the excessive deficit; thereafter, ensure an adequate structural adjustment effort to make sufficient progress towards the medium-term budgetary objective (MTO), including meeting the expenditure benchmark, and ensure sufficient progress towards compliance with the debt reduction benchmark;
- continue to review the sustainability and adequacy of the pension system and take additional measures if needed.

**Labour market:**

- introduce further reforms to combat labour market segmentation by reviewing selected aspects of employment protection legislation, in consultation with the social partners in accordance with national practices, in particular related to the administrative procedure for individual dismissals;
- continue to ensure that any development in the minimum wage is supportive of job creation and competitiveness;
- take actions to increase adult participation in lifelong learning;
- adopt labour market measures to ensure that older workers stay in employment longer;
- improve youth employability especially for those most at risk of unemployment, by providing in particular more and better apprenticeship schemes which effectively address their needs;
- step up active labour market policies and ensure that public employment services are more effective in delivering individualised support.

**Taxation:**

- take further steps to introduce a more simple and balanced taxation system, shifting the tax burden from labour to other forms of taxation that weigh less on growth and external competitiveness, in particular environmental and consumption taxes;
- continue efforts to reduce and streamline tax expenditures (notably those providing incentives to indebtedness);

- review the effectiveness of the current reduced VAT rates in support of job creation.

**Services, industry and networks:**

- pursue efforts to remove unjustified restrictions on regulated trades and professions, in particular in services and the retail sector;
- take further steps to liberalise network industries, in particular in the electricity wholesale market, develop energy interconnection capacity and facilitate the entry of new operators into the rail freight and international passenger transport sectors.

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

# European Semester

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

PURPOSE: draft recommendation for a COUNCIL RECOMMENDATION on the implementation of the broad guidelines for the economic policies of the Member States whose currency is the euro.

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 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.

Since its creation, the **Eurogroup** has played a pivotal role and has a special responsibility in the economic governance of the euro area.

The Member States whose currency is the euro have also committed themselves to a set of far-reaching additional policy reforms under the **Euro Plus Pact**, aiming to foster competitiveness, promote employment, contribute to the sustainability of public finances and reinforce financial stability.

On 2 March 2012, the Member States whose currency is the euro and eight other Member States signed a **Treaty on Stability, Coordination and Governance** in the Economic and Monetary Union in which they agreed to ensure that all major economic policy reforms that they plan to undertake will be discussed exante and, where appropriate, coordinated among themselves.

CONTENT: the recommendations address economic challenges at the national level and at the same time are a central element in determining stability and growth in the euro area as a whole. **During 2012-2013**, Member States whose currency is the euro are called upon to:

- strengthen the working methods of the Eurogroup to allow it to take responsibility for the aggregate policy stance in the euro area, rapidly responding to changes in the economic environment, and to lead the coordination of economic policy in the context of the strengthened surveillance framework which applies to the Member States whose currency is the euro;
- engage in genuine policy cooperation in the Eurogroup by sharing information and discussing draft budgets and the plans of major reforms with potential spillover effects on the euro area : (i) ensure that such reforms are undertaken that are necessary for a stable and robust euro area, including the implementation of the recommendations which the Council has addressed to individual Member States whose currency is the euro and which, in addition to addressing challenges at national level, have an impact on the euro area as a whole;
- strengthen fiscal discipline and fiscal institutions at both national and sub-national levels, leading to enhanced market confidence in the medium- and long-term sustainability of public finances in the euro area. Following the agreement by the euro area Heads of State or Government in July and October 2011 and on 2 March 2012, advance the transposition of the Directive on national budgetary frameworks to the end of 2012 and strengthen fiscal governance further, notably by introducing in the national legislation of all euro area Member States the rules for balanced budget in structural terms and the automatic correction mechanisms;
- ensure a coherent aggregate fiscal stance in the euro area by pursuing fiscal consolidation as set out in Council recommendations and decisions, in line with the rules of the Stability and Growth Pact, which account for country-specific macrofinancial situation:

    I. Member States affected by significant and potentially rising risk premia should limit deviations from the nominal balance targets even against worse- than- expected macroeconomic conditions;

    II. other Member States should let the automatic stabilizers play along the adjustment path assessed in structural terms and stand ready to review the pace of consolidation should macroeconomic conditions deteriorate further;

    III. composition of government expenditure and revenues should reflect the growth impact of spending items and revenue sources. In particular, all the available budgetary margins should be used to foster public investment in the euro area, including by taking into account cross-country differences in the cost of funding;

- take action to improve the functioning and stability of the financial system in the euro area;
- accelerate the steps towards a more integrated financial architecture, comprising banking supervision and cross-border crisis resolution;
- implement structural reforms, which – together with the differentiated fiscal stance – would promote an orderly unwinding of intra-euro area macroeconomic imbalances.

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

# European Semester

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

PURPOSE: draft recommendation for a COUNCIL RECOMMENDATION on Germany's 2012 national reform programme and delivering a Council opinion on Germany's stability programme for 2012-2016.

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 18 April 2012, **Germany** submitted its stability programme for the period 2012- 2016 and, on 12 April 2012, its 2012 national reform programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

**The general government deficit in 2011 was below the 3% of GDP reference value of the Treaty**. Moreover, the Commission's 2012 spring forecast projects the general government deficit to stay below the reference value of the Treaty and to further decline over the forecast period.

As a result, and in line with the provisions of the Stability and Growth Pact, on 30 May the Commission adopted a recommendation for a Council decision abrogating the decision on the existence of an excessive deficit under Article 126(12) of the Treaty.

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**. The programme's projections for 2012-13 are broadly in line with the Commission's 2012 spring forecast as regards the pace and pattern of economic growth as well as labour market developments.

According to the programme, the objective of the budgetary strategy outlined in the programme is to meet **the medium-term budgetary objective (MTO) already in 2012 and to reach virtually balanced nominal budgets as from 2014**, starting from a nominal deficit of 1.0% of GDP in 2011, thus below the 3% of GDP reference value of the Treaty significantly ahead of the 2013 deadline. Gross debt is planned to increase by 0.8 pp. to 82.0% of GDP in 2012, before falling to 80% of GDP in 2013 and remaining on a downward path thereafter.

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

- Additional efforts to improve efficiency in health care are necessary to contain expected further expenditure increases. The proposed reform of long-term care is also insufficient to cope with expected future cost increases. There is scope for improving the efficiency of the tax system.
- The federal government is well on track to meet its commitment to increase growth-enhancing spending on education and research. However, it remains important that also the Länder and municipalities, which bear the bulk of expenditure on education and research, ensure adequate and efficient spending in these areas.
- The introduction of the new constitutional debt brake has further strengthened the German fiscal framework. However, there has been no significant progress in the implementation of the budgetary rule at Länder level.
- Despite the overall relatively stable financial sector and the absence of a credit crunch, there remain weaknesses, in particular, the structural problems of some Landesbanken, notably the lack of a viable business model, weak governance structures and vulnerabilities due to a high degree of dependence on wholesale funding.
- The good performance of the German labour market, with increasing employment and moderate unemployment, has not benefited all participants to the same extent and wages have not always increased in line with productivity.
- Fiscal disincentives arising from the high tax wedge, in particular due to the high social security contributions, continue to hinder the integration of low-wage earners in particular into the labour market. Extensive use of mini-jobs leads to low acquisition of pension rights. Therefore, there is a need to improve the transition from mini-jobs to more stable forms of contracts. The low full-time participation of women in the labour force is a concern.
- Germany is pursuing a major reform of the energy system. The overall economic costs of transforming the energy system should be minimised.
- Competition in the passenger and freight rail markets remains very low, mainly due to the lack of effective separation between the infrastructure manager and the railway holding. Despite progress made in recent years, inter alia through the implementation of the Services Directive, there is scope to further stimulate competition and productivity growth in some services sectors (e.g. construction).

**Recommendations proposed for Denmark for the period 2012-2013**:

**Budgetary measures**:

- continue with sound fiscal policies to achieve the medium-term budgetary objective by 2012;
- implement the budgetary strategy as envisaged, ensuring compliance with the expenditure benchmark as well as sufficient progress towards compliance with the debt reduction benchmark;

- continue the growth-friendly consolidation course through additional efforts to enhance the efficiency of public spending on health care and long-term care, and by using untapped potential to improve the efficiency of the tax system;
- use available scope for increased and more efficient growth-enhancing spending on education and research at all levels of government. Complete the implementation of the debt brake in a consistent manner across all *Länder*, ensuring timely and relevant monitoring procedures and correction mechanisms;
- address the remaining structural weaknesses in the financial sector, *inter alia* by further restructuring of those *Landesbanken* which are in need of an adequately funded viable business model while avoiding excessive deleveraging.

**Employment**:

- reduce the high tax wedge in a budgetary neutral way, in particular for low-wage earners, and maintain appropriate activation and integration measures, notably for the long-term unemployed;
- create the conditions for wages to grow in line with productivity;
- take measures to raise the educational achievement of disadvantaged groups, notably through ensuring equal opportunities in the education and training system;
- phase out the fiscal disincentives for second earners, and increase the availability of fulltime child-care facilities and all-day schools.

**Energy, markets**:

- continue efforts to keep the overall economic costs of transforming the energy system to a minimum, including by accelerating the expansion of the national and cross-border electricity and gas networks;
- ensure that the institutional set-up guarantees effective competition in railway markets;
- take measures to further stimulate competition in the services sectors, including professional services and certain crafts, in particular in the construction sector.

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

# European Semester

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

PURPOSE: draft Recommendation for a COUNCIL RECOMMENDATION on Belgium's 2012 national reform programme and delivering a Council opinion on Belgium'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 30 April 2012, **Belgium** submitted its 2012 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 2012 stability programme, the Council is of the opinion that the **macroeconomic scenario** underpinning the budgetary projections in the programme **is** plausible for the years 2012 and 2013 and optimistic for the years 2014 and 2015 as it foresees GDP growth to be substantially higher than the latest estimates of potential growth emerging from the Commission's 2012 spring forecast.

**The objective of the budgetary strategy** outlined in the programme is to bring the deficit below 3% of GDP in 2012 (to 2.8% of GDP, down from 3.7% of GDP in 2011) and to zero in 2015. However, there are risks stemming from the fact that the additional measures to be taken from 2013 onwards are not yet specified and that the macroeconomic scenario from 2014 onwards is too optimistic.

**The government debt**, which at 98.0% of GDP in 2011 is well above the 60% threshold, is planned by the programme to stabilise and then to decline to 92.3% in 2015, which would imply sufficient progress towards meeting the debt reduction benchmark of the Stability and Growth Pact. Moreover, implicit liabilities stemming from the guarantees given to the financial sector are particularly large. The rules based, multi-annual framework for general government, particularly with regard to expenditure would benefit from enforcement mechanisms and/or commitments from the regions and communities, as well as from the local level, in order to meet their allocated deficit targets.

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

- The costs associated with ageing should be addressed and a structural decline in the deficit should be achieved to reduce the high public debt.

- The Belgian financial system still faces considerable challenges. Restructuring of the Belgian banks is on-going, and state aid granted in 2008 /2009 as a response to the financial crisis has not yet been fully repaid.
- The current account is gradually deteriorating over time. Belgian exports of goods have lost ground not only with respect to expanding world trade, but also with respect to other euro area countries and the euro area as a whole.
- Given the existence of an automatic wage-indexation system, the efforts of the government to limit real wage increases to no more than 0.3 % in the period 2011-2012 may not have prevented nominal wage growth from exceeding that in the neighbouring countries.
- Although productivity levels are high, its growth is weak and also the costs of intermediary inputs, mainly energy, are high.
- Retail gas and electricity prices have been frozen in order to limit inflation, but no concrete measures have been taken with respect to reforming the wage-bargaining and wage-indexation system itself.
- The R&D intensity of the private sector has stagnated in recent years and shortage of skilled professionals, particularly in sciences and engineering, could become a major barrier in terms of further improving the innovation performance of the Belgian economy.
- Some structural measures have been taken to boost employment of younger and older workers and to bring more of the unemployed into the work force. Belgium has engaged in a wide reform of its unemployment-benefit system. However structural problems in the labour market persist and more could be done to tackle them.
- No significant headway has been made on the reduction of the tax burden on labour. No shift of the fiscal burden away from labour towards consumption and/or eco-taxes has been undertaken.
- Prices for many goods and services are generally higher than in other Member States, reflecting weak competitive pressures — especially in the retail sector and network industries — and a weak supervisory framework.
- While Belgium is on track to meet the target to increase the share of renewable energy in the economy, progress towards reaching the 15 % reduction target for greenhouse gasses (GHG) in the non-ETS sectors is forecast to be virtually non-existent. Belgium has not adopted sufficient measures or policy initiatives in 2011 to address this situation.

**Recommendations proposed for Belgium for the period 2012-2013:**

**Budgetary measures:**

- implement the budget for the year 2012 to make sure the excessive deficit is corrected by 2012;
- specify the measures necessary to ensure implementation of the budgetary strategy for the year 2013 and beyond, thereby ensuring that the excessive deficit is corrected in a durable manner and that sufficient progress is made towards the medium-term budgetary objective (MTO), including meeting the expenditure benchmark, and ensure progress towards compliance with the debt reduction benchmark;
- adjust the fiscal framework to ensure that the budgetary targets are binding at federal and sub-federal levels, and increase transparency of burden-sharing and accountability across layers of government.

**Ageing:**

- continue to improve the long-term sustainability of public finances by curbing age-related expenditure, including health expenditure;
- implement the reform of pre-retirement and pension schemes and introduce measures linking the statutory retirement age with increases in life expectancy.

**Banking sector:**

- further increase capital of the weakest banks to underpin the strength of the banking sector so that it can play its normal role in lending to the economy.

**Wages:**

- to boost job creation and competitiveness, take steps to reform, in consultation with the social partners and in accordance with national practice, the system of wage bargaining and wage indexation;
- as a first step, ensure that wage growth better reflects developments in labour productivity and competitiveness, by (i) ensuring the implementation of ex-post correction mechanisms foreseen in the 'wage norm' and promoting all-in agreements to improve cost-competitiveness and (ii) facilitating the use of opt-out clauses from sectoral collective agreements to better align wage growth and labour productivity developments at local level.

**Tax, labour market:**

- significantly shift taxes from labour to less growth-distortive taxes including for example environmental taxes;
- pursue the initiated reform of the unemployment benefit system to reduce disincentives to work and strengthen the focus of employment support and activation policies on vulnerable groups, in particular people with a migrant background;
- take advantage of the planned further regionalisation of labour market competencies to boost interregional labour mobility and to strengthen the coherence between education, life-long learning, vocational training and employment policies;
- extend existing activation efforts to all age groups.

**Competition:**

- continue to strengthen competition in the retail sector by lowering barriers to entry and reducing operational restrictions;
- introduce measures to strengthen competition in the network industries (electricity and gas, telecom, postal services and transport) by revising regulatory barriers and reinforcing the institutional arrangements for effective enforcement of state aid rules.

**Environment:**

- take measures to correct the lack of progress towards reaching the targets for reducing greenhouse gas emissions from non-ETS activities, in particular by ensuring a significant contribution to this goal from transport.

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

# European Semester

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

PURPOSE: draft Recommendation for a COUNCIL RECOMMENDATION on Slovenia's 2012 national reform programme and delivering a Council opinion on Slovenia'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, **Slovenia** submitted its stability programme covering the period 2012-2015 and, on 13 April 2012, its national reform programme for 2012. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

Based on the assessment of the 2012 stability programme, the Council is of the opinion that the **macroeconomic scenario** underpinning the budgetary projections in the programme **is optimistic when compared with the Commission's 2012 spring forecast**.

**The objective of the budgetary strategy** outlined in the programme is to bring the general government deficit below 3% of GDP in 2013, the deadline set by the Council, and to pursue further deficit reduction thereafter so as to broadly achieve Slovenia's medium-term budgetary objective (MTO) by 2015. There are risks that the **deficit outcomes could be worse than targeted**. Based on the (recalculated) structural balance8, the average annual fiscal effort over the period 2010-2013, is planned to be almost 1% of GDP, slighty above the one recommended by the Council. However, the Commission's 2012 spring forecast implies that an additional effort will have to be made in 2013 to respect the recommendation over the entire correction period.

From around 48% of GDP in 2011, general government gross debt is projected in the programme to peak by 2013 at 53% (thus remaining below the 60% of GDP reference value) before falling slightly by the end of the programme period. The debt projections are subject to upward risks from the **possibility of higher deficits** mentioned above and higher stock-flow adjustments.

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

- The Slovenian government was until now not in a position to make any systemic changes to the pension system. Short-term cost containment measures were prolonged and strengthened in December 2011 and May 2012 - these stop-gap measures are clearly insufficient to address the long-term challenge. The government envisages a new pension reform to be implemented by the end of 2013. So far, no specific measures have been implemented to increase the employment rate of older workers.
- The situation in the Slovenian banking sector now appears even more challenging than at the time of the 2011 assessment. The measures that have been introduced or announced so far lack ambition given the size of the challenge. The urgent second recapitalisation of the biggest bank (NLB) has not progressed. The new government has indicated its intention to reduce its shareholdings in major banks to a blocking minority. The Commission considers that there is a need to articulate the relationship between this longer-term aspiration and the immediate and pressing need for fresh capital.
- No concrete proposals were presented in the past year to reduce asymmetries between the protection accorded to workers on permanent and temporary contracts respectively. Negotiations with social partners on the Labour Relationship Act started in 2011 but no agreement has been reached or amendments adopted.
- The responsiveness of the education and training system to labour-market needs remains insufficient. No concrete steps have been taken to set up a system to forecast labour market demand. Some projects co-financed with the European Social Fund were launched to promote occupations in high demand in the labour market.
- The Competition Protection Office (CPO) is not yet independent. Concrete policy action on the issue of the deregulation of professions remains vague. Some aspects of the legal framework for the establishment of service providers may raise questions of compatibility with the Services Directive. The overall business environment is characterised by weaknesses that hold back domestic and foreign investors and hamper the swift cleaning of bank balance sheets. Finally, due to its growing importance as a transit country for electricity flows, the national transmission grid is starting to become a bottleneck.
- Following a strong discretionary increase in March 2010, the minimum wage as a percentage of the average wage was the highest in the EU in 2011, although the minimum wage is still below the poverty threshold. Indexation in the following two years has resulted in a further 4% nominal increase. These developments reduce the competitiveness of labour-intensive industries and exacerbate structural unemployment.

**Recommendations proposed for Slovenia for the period 2012-2013:**

**Budgetary measures:**

- implement the 2012 budget, and reinforce the budgetary strategy for 2013 with sufficiently specified structural measures, standing ready to take additional measures so as to ensure a timely correction of the excessive deficit in a sustainable manner and the achievement of the structural adjustment effort specified in the Council recommendations under the Excessive Deficit Procedure;
- thereafter, ensure an adequate structural adjustment effort to make sufficient progress towards an appropriate medium-term objective for the budgetary position, including meeting the expenditure benchmark;
- strengthen the medium-term budgetary framework, including the expenditure rule, by making it more binding and transparent.

**Pension systems:**

- take urgent steps to ensure the long-term sustainability of the pension system, while preserving the adequacy of pensions, by (i) equalising the statutory retirement age for men and women; (ii) raising the statutory retirement age in line with increasing life expectancy; (iii) reducing early retirement possibilities; and (iv) reviewing the indexation system for pensions;
- increase the employment rate of older workers also by further developing active labour market policies and lifelong learning measures.

**Banking sector:**

- take the required steps to build sufficient capital buffers in the banking sector and strongly promote the cleaning of balance sheets so that appropriate lending to productive activities can resume;
- obtain fully-fledged third party verification of systemically important banks' stress loan-loss estimates.

**Labour market:**

- adjust employment protection legislation as regards permanent contracts in order to reduce labour market segmentation, in consultation with social partners and in accordance with national practices;
- further tackle the parallel labour market caused by student work;
- improve the matching of skills with labour market demand, particularly of low-skilled workers and tertiary graduates;
- continue reforms of vocational education and training.

**Competition:**

- take further steps to strengthen market opening and speed up the reorganisation of professional services;
- improve the business environment through (i) implementing the reform of the Competition Protection Office, (ii) establishing a framework for state-owned enterprises guaranteeing arms-length management and high standards of corporate governance and (iii) improving bankruptcy procedures, in particular in terms of timeliness and efficiency.

**Wages:**

- following consultation with social partners and in accordance with national practice, ensure that wage growth, including minimum wage adaptation, supports competitiveness and job creation.

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

# European Semester

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

PURPOSE: draft Recommendation for a COUNCIL RECOMMENDATION on Luxembourg's 2012 national reform programme and delivering a Council opinion on Luxembourg'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 27 April 2012, **Luxembourg** submitted its 2012 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 2012 Stability Programme, the Council is of the opinion that the **macroeconomic scenario** underpinning the budgetary projections in the programme **is plausible**. In particular, the programme scenario for 2012 and 2013 is very close to the Commission's 2012 spring forecast. Medium-term deficit projections are made under a slightly optimistic growth scenario, above potential growth although still well below average historic rates.

**The objective of the budgetary strategy** outlined in the programme is to bring the deficit from 1.5% in 2012 to 0.9% in 2014 with a package of consolidation measures of around 1.2% of GDP and provide a wider room for manoeuvre in case of negative shocks.

The programme confirms the previous medium term objective (MTO) of a structural surplus of 0.5%. However, this MTO cannot be regarded as appropriate under the provisions of the Stability and Growth Pact because, based on current policies and projections, this MTO does not appear to take sufficiently into account the implicit liabilities related to ageing, despite the debt being below the Treaty reference value.

**The growth rate of government expenditure**, net of discretionary revenue measures, is expected to significantly exceed the expenditure benchmark as defined in the Stability and Growth Pact. At 20 % of GDP, gross government debt is below the reference value of the Treaty.

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

- On 20 January 2012, the Luxembourg government adopted a draft law to reform the pension system for both the private and the public sector. Overall, Luxembourg is taking steps into the right direction, but the proposed reform does not seem to constitute a sufficient guarantee of long-term sustainability of public finances.
- In January 2012, the national Parliament adopted a law to limit the application of the automatic indexation of wages between 2012 and 2015. However, besides a possible modification of the reference index, the government has not announced any further plans for a permanent revision of the wage-setting system.
- Luxembourg has taken some relevant and credible steps to tackle its relatively high youth unemployment. However, in order to ease young people's integration into the labour market, a coherent strategy is needed to, inter alia, strengthen collaboration between municipalities and improve the effectiveness of employment services.
- Luxembourg is expected to face difficulties in reaching its 2020 target for greenhouse gas (GHG) emission reduction. According to the latest 2020-projections based on
- existing measures, Luxembourg is expected to increase its emissions in non-ETS sectors by 9% between 2005 and 2020, compared to a reduction target of 20%.

**Recommendations proposed for Belgium for the period 2012-2013:**

**Budgetary measures:**

- preserve a sound fiscal position correcting any departure from a medium-term budgetary objective (MTO) that ensures the long-term sustainability of public finances, in particular taking into account implicit liabilities related to ageing;
- to this end, reinforce and rigorously implement the budgetary strategy, supported by sufficiently specified measures, for the year 2013 and beyond, including meeting the expenditure benchmark.

**Pension system:**

- increase the impact of the proposed pension reform by accelerating the implementation of measures that curb age-related expenditure, take additional measures to increase the participation rate of older workers, in particular by reducing early retirement, and take steps to link the statutory retirement age to life expectancy, in order to ensure the long-term sustainability of the pension system.

**Wages:**

- take further steps to reform the wage bargaining and wage indexation system, with a view to preserve the competitiveness of the Luxembourg economy in the longer term, as a first step by maintaining the current one-year indexation interval beyond 2014 and by reducing the impact of energy and other volatile items on the reference index.

**Employment:**

- continue efforts to reduce youth unemployment by reinforcing stakeholders' involvement, and by strengthening training and education measures, in particular for those with low education levels, with the aim of better matching young people's skills and qualifications to labour demand.

**Environment:**

- ensure that the targets for reducing greenhouse gas emissions from non-ETS (Emissions Trading System) activities will be met, in particular by greening the taxation system.

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

# European Semester

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

PURPOSE: draft Recommendation for a COUNCIL RECOMMENDATION on Hungary's 2012 national reform programme and delivering a Council opinion on Hungary'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 23 April 2012, **Hungary** submitted its convergence 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 2012 Convergence Programme, the Council is of the opinion that the **macroeconomic scenario** underpinning the budgetary projections in the programme **is optimistic**. The Hungarian authorities' growth projections for 2012 and 2013 are higher by around half a percentage point compared to the Commission's 2012 spring forecast.

**The objective of the budgetary strategy** outlined in the programme is to ensure the sustainable correction of the excessive deficit by the 2012 deadline set by the Council. The programme confirms the previous medium-term budgetary objective (MTO) of 1.5% of GDP, which it plans to achieve by 2013.

According to government plans, **the public debt** is continuously reduced throughout the programme period to below 73% of GDP in 2015, but will remain above the 60% of GDP reference value. According to the programme, the debt reduction benchmark would be met at the end of the transition period, in 2015, and thereby should help to reduce the accumulated external and internal indebtedness.

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

- New regulations have been adopted for the implementation of the constitutional fiscal governance framework, but some of its features remain weak.
- Policy responses to address the impact of tax reform on low wage earners (minimum wage increase, wage subsidy scheme) have not contributed to enhancing employment, whereas measures to encourage women's participation in the labour market are a small step in the right direction.
- The public employment service has been reorganised resulting in an overall downsizing, pointing in the opposite direction of what was recommended in 2011. Other measures aimed at disadvantaged groups (e.g. public works) are unlikely to be effective in improving the placement of participants in the open job market.
- Measures to improve the business environment largely go in the right direction, but there is significant room for further progress. Efforts to improve access to non-bank funding are also going in the right direction, but a comprehensive assessment of SME policies is still missing.
- Hungary ranks very low on many indicators measuring the transparency and quality of public administration.
- The ratio of reinvested profits fell dramatically in 2009 and 2010 partly on account of the crisis but also as a result of a number of controversial and unpredictable changes in the policy and fiscal environment and in the legal and institutional system.
- The recent trend in public funding for research and innovation (since mid-2010) is not in line with the 2012 Annual Growth Survey priority of differentiated growth-friendly fiscal consolidation.
- Elements of the new legislation on school education risk increasing the number of early school leavers and segregation in the Hungarian school system. The equally important issue of lifelong learning is not sufficiently addressed.
- The lack of progress in restructuring public transport has been an important reason for budget slippages in recent years.

**Recommendations proposed for Hungary for the period 2012-2013:**

**Budgetary measures:**

- correct the excessive deficit by 2012 in a durable manner, by implementing the 2012 budget and reducing the reliance on one-off measures;
- thereafter, specify all structural measures necessary to ensure a durable correction of the excessive deficit and to make sufficient progress towards the medium-term budgetary objective (MTO), including meeting the expenditure benchmark, and ensure sufficient progress towards compliance with the debt reduction benchmark;
- to mitigate the accumulated macroeconomic imbalances put the public debt ratio on a firm downward path;
- revise the cardinal law on economic stability by putting the new numerical rules into a binding medium-term budgetary framework;
- continue to broaden the analytical remit of the Fiscal Council, with a view to increasing the transparency of public finances.

**Employment, labour market:**

- make the taxation of labour more employment-friendly by alleviating the impact of the 2011 and 2012 tax changes on low earners in a sustainable, budget-neutral manner, for example by shifting part of the tax burden to energy taxes and recurrent taxes on property;
- strengthen measures to encourage women's participation in the labour market, particularly by expanding childcare and pre-school facilities;
-

- strengthen the capacity of the Public Employment Service to increase the quality and effectiveness of training, job search assistance and individualised services, with particular regard for disadvantaged groups;
- strengthen the activation element in the public work scheme through effective training and job search assistance;
- implement the National Roma Integration Strategy, and mainstream it with other policies.

**Business environment:**

- implement measures envisaged to reduce the administrative burden;
- ensure that public procurement and the legislative process support market competition and ensure a stable regulatory and business-friendly environment for financial and non-financial enterprises, including foreign direct investors;
- reduce tax compliance costs and establish a stable, lawful and non-distortive framework for corporate taxation;
- remove unjustifiable restrictions on the establishment of large-scale retail premises;
- provide specific well-targeted incentive schemes to support innovative SMEs in the new innovation strategy.

**Education:**

- prepare and implement a national strategy on early school-leaving by ensuring adequate financing;
- ensure that the implementation of the higher education reform improves access to education for disadvantaged groups.

**Public transport, energy:**

- reform the public transport system to make it more cost efficient;
- increase the crossborder capacities of the electricity network, ensure the independence of the energy regulator and gradually abolish regulated energy prices.

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

# European Semester

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

PURPOSE: draft Recommendation for a COUNCIL RECOMMENDATION on Lithuania's 2012 national reform programme and delivering a Council opinion on Lithuania'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 27 April 2012, **Lithuania** submitted its convergence programme covering the period 2012-2015 and, on 30 April 2012, 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 2012 convergence programme, the Council is of the opinion that the **macroeconomic scenario** underpinning the budgetary projections in the programme **is plausible**. It is broadly in line with the Commission's 2012 spring forecast for 2012 and 2013.

**The objective of the budgetary strategy** outlined in the programme is to correct the excessive deficit by 2012 as recommended by the Council. The programme confirms the previous MTO, i.e. a structural general government surplus of 0.5 % of GDP, which adequately reflects the requirements of the Stability and Growth Pact, and outlines a consolidation of at least 1 percentage point per year, planning a balanced budget by 2015.

**General government debt** is projected to remain below 60% of GDP over the programme period, increasing to nearly 41% of GDP in 2013, according to the Commission's 2012 spring forecast, while the convergence programme targets the debt to decrease to around 35% by 2015.

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

- Measures were implemented in 2011, which reinforced tax compliance and yielded additional revenue. However, continuing implementation will be required to advance significantly against tax evasion.
- Demographic developments cast serious doubts on the sustainability of the pension system. Although Lithuania adopted a gradual increase in the pension age to 65 years by 2026, this alone will not ensure a sustainable and adequate retirement income in the future and needs to be complemented with additional measures.

- Additional measures to enhance participation in the labour market, especially for young people, unskilled persons and older workers, and to improve labour market flexibility are necessary.
- The challenge of youth unemployment (above 30%) and low-skilled unemployment became especially evident during the crisis. The government is implementing a
- number of measures to promote youth employment, such as first job subsidies and reduced social security contributions. Nevertheless, activation rates remain too low
- and the financial allocations for active labour market policies could be used more effectively by targeting public works to the most vulnerable.
- Around one third of the Lithuanian population is facing the risk of poverty and longterm exclusion. This is the fourth highest figure in the EU.
- The government has been undertaking an ambitious reform of state-owned enterprises since 2010, aiming to restructure corporate governance, increase transparency and separate ownership and regulatory functions, and increase competition and efficiency. However, the government has postponed some parts of the reform, in particular the separation of commercial and non-commercial activities of state-owned enterprises, and intends to implement them in 2012.
- Further substantial and accelerated efforts are needed to improve energy efficiency of buildings.
- There is scope for shifting taxation towards energy use as revenue from environmental taxes is the third lowest in the EU, while transport taxes are the lowest in the EU. The implicit tax rate on energy consumption was the seventh lowest in the EU in 2010 whereas energy taxes in GDP terms are only slightly below the EU average.
- The country's energy system infrastructure lacks competition and interconnections and this is a factor that hinders growth. Insufficient interconnections hinder the emergence of competition in energy markets. Concentration remains high (above 90 %) in both the gas and electricity markets.

**Recommendations proposed for Lithuania for the period 2012-2013:**

**Budgetary measures:**

- ensure planned progress towards the timely correction of the excessive deficit;
- to this end, fully implement the budget for the year 2012 and achieve the structural adjustment effort specified in the Council recommendation under the Excessive Deficit Procedure; thereafter, specify the measures necessary to ensure implementation of the budgetary strategy for the year 2013 and beyond as envisaged, ensuring an adequate structural adjustment effort to make sufficient progress towards the medium-term budgetary objective, including meeting the expenditure benchmark, while minimising cuts in growth-enhancing expenditure;
- consider increasing taxes least detrimental to growth, such as housing and environmental taxation, including car taxation, while reinforcing tax compliance;
- strengthen the fiscal framework, in particular by introducing enforceable and binding expenditure ceilings in the medium-term budgetary framework.

**Pension system:**

- adopt legislation on a comprehensive pension system reform;
- align the statutory retirement age with life expectancy, establish clear rules for the indexation of pensions, and improve complementary savings schemes;
- underpin pension reform with active ageing measures.

**Labour market, employment:**

- tackle high unemployment, in particular among youth, low-skilled and long-term unemployed, by focusing resources on active labour market policies while improving their efficiency. enhance the effectiveness of apprenticeship schemes;
- amend the labour legislation with regard to flexible contract agreements, dismissal provisions and flexible working time arrangements;
- increase work incentives and strengthen the links between the social assistance reform and activation measures, in particular for the most vulnerable, to reduce poverty and social exclusion.

**State-owned enterprises:**

- implement all aspects of the State-Owned Enterprise reform package and in particular ensure a separation of ownership and regulatory functions and a separation of commercial and non-commercial activities;
- install appropriate monitoring tools to assess the effectiveness of the reforms and ensure compliance of all State-Owned Enterprises with the requirements of the reform.

**Energy:**

- step up measures to improve the energy efficiency of buildings, including through removing disincentives and a rapid implementation of the Holding Fund;
- promote competition in energy networks by improving interconnectivity with EU countries for both electricity and gas.

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

# European Semester

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

PURPOSE: draft Recommendation for a COUNCIL RECOMMENDATION on Latvia's 2012 national reform programme and delivering a Council opinion on Latvia'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, **Latvia** submitted its 2012 convergence 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 2012 convergence programme, the Council is of the opinion that the **macroeconomic scenario** underpinning the budgetary projections **is cautious in 2012 and plausible in 2013**. While macroeconomic projections for 2012 in the programme scenario are very close to those in the Commission's spring 2012 forecast (with GDP growth projections respectively at 2.0% and 2.2%), recent economic data indicates that the outturn may be higher.

**The objective of the budgetary strategy** outlined in the programme is to correct an excessive deficit by 2012 and to approach the medium-term budgetary objective (MTO) by the end of the programme period. The 2012 convergence programme has changed the medium-term objective from -1.0% to -0.5% of GDP; the new MTO adequately reflects the requirements of the Stability and Growth Pact. For 2013, the programme targets a headline deficit of 1.4% of GDP, although the planned expenditure reduction is not yet fully supported by measures.

**The general government debt ratio** is below 60% of GDP, increasing from 42.6% of GDP in 2011 to 46.7% of GDP in 2014, as the authorities pre-fund large repayments related to the international financial assistance programme that are due in 2014-2015, and falling to 38.9% in 2015 as these repayments are made.

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

- The relatively high tax burden on low-wage earners and the high level of undeclared work indicate the need for appropriate labour-market policies, a review of the tax and benefit system and increased efforts to tackle the shadow economy. Environmental taxes remain relatively underdeveloped and are heavily dominated by motor-fuel taxation.
- In the process of the on-going reform of fiscal governance, Latvia is invited to ensure adoption of the Fiscal Discipline Law by the Parliament and to develop a medium term budgetary framework law to support the long-term sustainability of public finances.
- So as to ensure the continuity of the pension reform, Latvia should restore contributions to the mandatory funded private pension scheme at 6% of gross wages in 2013, from the current reduced level of 2% of gross wages.
- Latvia needs to strengthen and reform the social assistance system and tackle one of the highest unemployment rates in the EU.
- In 2011, 40% of the Latvian population is facing the risk of poverty which has implications for the employability of the workforce and future growth prospects.
- The challenges of long term unemployment and of youth unemployment became especially evident during the crisis. Most of the young unemployed do not possess professional qualifications. The number of young people not in employment, education or training (NEET's) is relatively high.
- The tax system does not provide sufficient incentives for reducing energy costs and shifting consumption and investment towards energy efficient products. Energy markets in Latvia remain dominated by monopolies. For historical reasons, the gas and electricity markets are largely separated from other EU member states.
- Inefficiencies in the civil justice system have a negative impact on business and the economic environment, as the risk and cost of doing business increases. There is a large backlog of proceedings in the first and second instance courts in civil and commercial cases.
- Despite the relatively high educational attainment, a significant share of the workforce does not possess professional qualifications and has limited access to higher education. A systematic and effective research and innovation strategy is lacking.

**Recommendations proposed for Lithuania for the period 2012-2013:**

**Budgetary measures:**

- ensure planned progress towards the timely correction of the excessive deficit, to this end, implement the budget for the year 2012;
- thereafter, implement a budgetary strategy, supported by sufficiently specified structural measures, for the year 2013 and beyond;
- use better than expected cyclical revenue to reduce government debt.

**Taxation:**

- implement measures to shift taxation away from labour to consumption, property, and use of natural and other resources while improving the structural balance;
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- ensure adoption of the Fiscal Discipline Law and develop a medium term budgetary framework law to support the long-term sustainability of public finances;
- restore contributions to the mandatory funded private pension scheme at 6% of gross wages from 2013.

**Employment, labour market:**

- take measures to reduce long-term and youth unemployment by fighting early school leaving, promoting more efficient apprenticeships and VET, enhancing the quality, coverage and effectiveness of active labour market policy and its training component and through an effective wage subsidy scheme;
- tackle high rates of poverty and social exclusion by reforming the social assistance system to make it more efficient, while better protecting the poor;
- ensure better targeting and increase incentives to work.

**Energy:**

- further encourage energy efficiency by providing incentives for reducing energy costs and shifting consumption towards energy-efficient products, including vehicles, buildings and heating systems;
- promote competition in major energy networks (electricity, natural gas, heating) and improve connectivity with EU energy networks.

**Legal system:**

- take measures to improve management and efficiency of the judiciary, in particular to reduce the backlog and length of procedures;
- take steps to improve the insolvency regime and the mediation laws.

**Education, research:**

- continue reforms in higher education, inter alia, by implementing a new financing model that rewards quality, strengthens links with market needs and research institutions, and avoids fragmentation of budget resources;
- design and implement an effective research and innovation policy encouraging companies to innovate, including via tax incentives, upgrading infrastructure and rationalising research institutions.

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

# European Semester

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

PURPOSE: draft Recommendation for a COUNCIL RECOMMENDATION on Portugal's 2012 national reform programme and delivering a Council opinion on Portugal's stability programme for 2012-2016.

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 2 May 2012, **Portugal** submitted its stability programme covering the period 2012-2016 and on 7 May 2012, Portugal submitted its national reform programme.

**Economic ajustment programme**: on 17 May 2011, the Council adopted Implementing Decision 2011/344/EU to make available to Portugal medium-term financial assistance for a period of three years from 2011 to 2014 in accordance with Council Regulation (EU) No 407/2010 establishing a European financial stabilisation mechanism. The accompanying Memorandum of Understanding signed on the same day and its successive supplements lay down the economic policy conditions on the basis of which the financial assistance is disbursed.

**Progress and challenges**: Portugal has made good progress on a number of fronts (labour market, health care, housing, judiciary and the insolvency and regulatory framework including competition and privatisations), but significant challenges remain:

1. achieving the fiscal targets remains essential if the government is to regain full market access within the programme period;
2. the need for the government to focus on reforms that address Portugal's competitiveness challenges by adopting rapidly additional structural reforms in the labour and product markets with a view to reducing labour costs, increasing flexibility and lowering entry barriers. Perseverance and resolve on the part of the government will be required to overcome strong vested interests that stand in the way of reforms.

Overall, the Third Review of the Economic Adjustment Programme has concluded that Portugal's implementation of the conditionality set out in the Memorandum of Understanding remains on track:

- in particular, the fiscal deficit target for 2011 (5.9% of GDP) has been overachieved by resorting to a transfer of banks' pension funds to the state amounting to 3½ per cent of GDP;
- banks are on track to meet the capital requirements under the Programme by the end of the year but capital positions have to improve further in 2012.

The decline of GDP in 2011 was less marked than forecast, as exports and consumption performed better than foreseen. According to the Commission spring forecast, **the outlook for 2012 has deteriorated and GDP is now projected to fall by 3.3 per cent**, i.e. three percentage points more than in the autumn forecast. Economic growth in 2013 will also be more limited than originally expected. While the external adjustment has so far been remarkably fast, with Portuguese exports gaining market shares outside the EU and imports falling considerably, its persistence is still uncertain. Given the large external debt Portugal has accumulated, very substantial further adjustment of a structural nature is required.

**Budget perspectives**: the budget for 2012 targets a **government deficit of 4.5% of GDP**. Medium-term fiscal consolidation plans presented in the stability programme are also consistent with the Economic Adjustment Programme's deficit headline targets and a deficit-to-GDP ratio of 3% of GDP is expected by 2013.

The 2012 budget includes **consolidation measures amounting to more than 5% of GDP**, which are made up of permanent structural measures. Two thirds of the measures are on the expenditure side and

include a significant cut of public sector wages and pensions, a reduction in the number of government employees by 2% (full-time equivalent) and a rationalisation of state-owned enterprises.

**On the revenue side**, the budget envisages a reduction in tax exemptions, an increase in the number of goods and services taxed at the standard VAT rate, higher personal income and corporate taxes, an increase in excise taxes and enhanced efforts to fight tax evasion and fraud. The deficit is expected to decrease further to **1.8% of GDP in 2014 and 1% of GDP in 2015**.

**The main risks** to the budgetary targets are mainly related to the state-owned enterprise sector and local and regional governments. In terms of the structural balance, the fiscal structural adjustment is expected to be over 7 percentage points of GDP in 2011-2012. The MTO of -0.5% of GDP adequately reflects the requirements of the Stability and Growth Pact. As regards public debt, it is expected to peak at 115.7% of GDP in 2013 and gradually decline thereafter.

**Recommendations proposed for Portugal for the period 2012-2013:** implement the measures as laid down in Implementing Decision 2011/344/EU and further specified in the Memorandum of Understanding of 17 May 2011 and its subsequent supplements.

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

# European Semester

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

PURPOSE: draft Recommendation for a COUNCIL RECOMMENDATION on Romania’s 2012 national reform programme and delivering a Council opinion on Romania’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 23 April 2012, **Romania** submitted its 2012 national reform programme and, on 11 May 2012, its convergence programme covering the period 2012-2015.

**Financial support programme**: on 6 May 2009, the Council adopted Decision 2009/459/EC to make available to Romania medium-term financial assistance for a period of three years under the provisions of Article 143 of the Treaty. The accompanying Memorandum of Understanding signed on 23 June 2009 and its successive supplements lay down the economic policy conditions on the basis of which the financial assistance was disbursed. Decision 2009/459/EC was amended on 16 March 2010 by Decision 2010/183/EU.

Following Romania's successful implementation of the programme, and given a partial adjustment of the current account because of remaining structural weaknesses in Romania's product and labour markets which make the country sensitive to international price shocks, on 12 May 2011 the Council adopted Decision 2011/288/EU to make precautionary medium-term financial assistance available to Romania for a period of three years.

**Progress and challenges**: the second formal review of the medium-term financial assistance programme that took place in late April-early May 2012 established that **Romania's implementation of the programme remains on track**. The cash fiscal deficit target for 2011 was met. The 2012 budget remains on track to achieve a deficit below 3 % of GDP in ESA terms.

The Romanian banking sector has remained resilient, in spite of the on-going deterioration in asset quality, which has continued weighing on banking sector profitability. Progress in key structural reform areas, such as energy and transport and EU funds absorption have been uneven.

After two years of decline, **real GDP of Romania grew in 2011 by 2½%**. For 2012 growth is expected to decelerate to 1.4 %. Domestic demand is forecast to be the major driver of growth. Public investment, supported by improving EU funds absorption, is expected to play a key role in 2012.

**Assessment of the convergence programme**: based on the assessment of the 2012 convergence programme, 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 reach a budget deficit below 3% of GDP in 2012. It aims at achieving a medium-term budgetary objective (MTO) defined as a deficit of 0.7% of GDP in structural terms. Following the planned correction of the excessive deficit in 2012, the deficit is expected to decrease further to 2.2% of GDP in 2013, to 1.2% of GDP in 2014 and 0.9% of GDP in 2015. The programme foresees the achievement of the MTO in 2014.

**The main risks** to the budgetary targets are the arrears of state owned enterprises, as well as potential reaccumulation of arrears at local government level and in the health sector. As regards public debt, it was below 34% of GDP by end 2011 thus remaining substantially below 60% of GDP.

**Recommendations proposed for Romania for the period 2012-2013:** implement the measures laid down in Decision 2009/459/EC, as amended by Decision 2010/183/EU, together with the measures laid down in Decision 2011/288/EU and further specified in the Memorandum of Understanding of 23 June 2009 and its subsequent supplements, and in the Memorandum of Understanding of 29 June 2011 and its subsequent supplements.

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

# European Semester

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

PURPOSE: draft recommendation for a COUNCIL RECOMMENDATION on Denmark's 2012 national reform programme and delivering a Council opinion on Denmark'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, **Denmark** submitted its convergence programme for 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 2012 convergence programme, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the programme is plausible. **The scenario projecting GDP growth at 1.2 and 1.5% in 2012 and 2013 is broadly in line with the Commission's 2012 spring forecast of 1.1 and 1.4%**.

The objective of the budgetary strategy outlined in the programme is to correct the excessive deficit by 2013 and achieving the medium term budgetary objective (MTO) of at least a structurally balanced budget in 2020. The programme thereby confirms the previous MTO, which adequately reflects the requirements of the Stability and Growth Pact. Denmark's gross public debt is projected to fall from 46.5% of GDP in 2011 to 41.1% in 2015, well below 60% of GDP.

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

- Increasing labour supply is a key priority for Denmark in order to ensure future welfare and fiscal sustainability. In 2011, Denmark concluded an ambitious reform of the voluntary early retirement pension scheme and brought forward the previously planned increase in the statutory retirement age and its link to life expectancy. The focus now needs to shift to reforming the disability pension and subsidised employment (flex-job) schemes.

- The quality of Danish school education is only average. Furthermore, students generally finish their studies at a later age than in other Member States and the drop-out rates from vocational education institutions are relatively high. To respond to the challenges in this field, the government has announced a number of new measures for both compulsory and secondary education.
- Another potential reason for slow productivity growth is the relatively weak degree of competition in Denmark. In 2011, a competition package was adopted, mainly targeting the construction sector, the retail sector, and health and public sector services. The issue of increasing public procurement in municipalities and regions is currently being negotiated with regional and local governments. Danish competition law is in need of reinforcement, and that sanctions for infringements are currently too low to serve as a deterrent.
- While the high household gross debt to some extent is a structural feature of the Danish economy, with household assets considerably exceeding liabilities, concerns regarding high household debt arise as developments in the housing market seem to have caused the debt to move beyond levels explained by structural factors. For a given debt level, households are therefore more sensitive to interest rates hikes and fluctuations in property prices now than they were a decade ago. This poses higher potential risks in terms of financial and economic stability.

**Recommendations proposed for Denmark for the period 2012-2013**:

**Budgetary measures**:

- implement the budgetary strategy as envisaged, to ensure a correction of the excessive deficit by 2013 and achieve the annual average structural adjustment effort specified in the Council recommendations under the Excessive Deficit Procedure;
- ensure an adequate structural adjustment effort to make sufficient progress towards the medium-term budgetary objective (MTO), including meeting the expenditure benchmark.

**Employment**:

- take further steps to enhance long-term labour supply by reforming the disability pension;
- better targeting subsidised employment schemes (the ‘flex-job’ system) towards people with reduced work capacity, and improving the employability of people with migrant background.

**Education**:

- implement announced measures, without delay, to improve the cost-effectiveness of the education system, reduce drop-out rates, in particular within vocational education, and increase the number of apprenticeships.

**Competition**:

- continue efforts to remove obstacles to competition, in particular in local services, the retail and construction sector, including by further opening the municipal and regional procurement of services to competition and ensuring that competition law sanctions are sufficiently deterrent.

**Housing market**:

- consider further preventive measures to strengthen the stability of the housing market and financial system in the medium-term, including by taking account of the results of the ongoing study by the Ministry of Business and Growth on the distribution of assets and liabilities across households and by reviewing the property value and municipal land value tax system.

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

# European Semester

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

PURPOSE: draft recommendation for a COUNCIL RECOMMENDATION on Cyprus’s 2012 national reform programme and delivering a Council opinion on Cyprus’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 7 May 2012, **Cyprus** submitted its stability programme covering the period 2012-2015 and on 10 May 2012, its 2012 national reform programme. The two programmes have been assessed at the same time.

Based on the assessment of the 2012 stability programme, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the **stability programme appears optimistic** in 2012-2014. Although incorporating a major downward revision of the growth outlook, the macroeconomic scenario remains subject to downside risks, relating in particular to the evolution of domestic demand in 2012-2013. The objective of the budgetary strategy outlined in the programme is to **correct the excessive deficit by 2012 and to reach the medium term budgetary objective (MTO) by 2014, and to stay at MTO in 2015.** The programme confirms the previous MTO of a balanced budget in structural terms, which adequately reflects the requirements of the Stability and Growth Pact.

According to the programme, the debt-to-GDP ratio, which amounted to 71.6% in 2011, is to increase to 72.1% in 2012 before gradually dropping to 65.4% in 2015.

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

- Tax administration is inefficient as administrative costs in relation to revenue collection in Cyprus are very high. Tax collection is relatively low.
- Given the wide exposure of Cyprus's banking institutions to the Greek economy, total exposure of the consolidated Cypriot banking sector to Greece is very high. Progress with the strengthening of supervision of the cooperative credit societies, which hold about 40% of all domestic deposits, has so far not been satisfactory.
- Cyprus faces challenges in ensuring the long-term sustainability of public finances, notably in the area of pensions. In terms of poverty of the elderly, Cyprus has only partly addressed their high at-risk-of-poverty rate.
- Inequity and inefficiencies in the healthcare sector have not been tackled in a meaningful manner.
- The Cypriot government took some steps to respond to the 2011 recommendation on wage indexation (cost of living allowance - COLA), notably by adopting a two-year pay freeze in the broader public sector. The government and social partners also agreed to initiate a dialogue with the aim of reviewing the COLA system by the end of June 2012.
- The worsening of the macroeconomic outlook adversely affected the Cypriot labour market, raising the unemployment rate and causing a large increase in youth unemployment.
- As regards the service sector, Cyprus transposed the Services Directive by way of a horizontal law accompanied by a number of sector-specific amending laws and regulations. However, in some sectors (e.g. retail, tourism, and construction services) the adoption of sector-specific legislation is still pending.

**Recommandations proposed for Cyprus (2012-2013):**

**Budgetary measures:**

- take additional measures to achieve a durable correction of the excessive deficit in 2012 ;
- rigorously implement the budgetary strategy, supported by sufficiently specified measures, for the year 2013 and beyond to ensure the achievement of the medium-term budgetary objective (MTO) by 2014 and compliance with the expenditure benchmark and ensure sufficient progress with the debt reduction benchmark ;
- accelerate the phasing-in of an enforceable multiannual budgetary framework with a binding statutory basis and corrective mechanism ;
- take measures to keep tight control over expenditure and improve tax compliance and fight against tax evasion ;
- harmonise the supervision of the cooperative credit societies in line with the standards applied for the commercial banks ;
- strengthen regulatory provisions for the efficient recapitalisation of the financial institutions in order to limit exposure of the financial sector to external shocks.

Pensions and health care:

- further improve the long-term sustainability and adequacy of the pensions system and address the high at-risk-of-poverty rate for the elderly ;
- align the statutory retirement age with the increase in life expectancy ;
- complete and implement the national healthcare system without delay, on the basis of a roadmap, which should ensure universal coverage.

**Labour market:**

- improve the skills of the workforce to reinforce their occupational mobility towards activities of high growth and high value added ;
- take further measures to address youth unemployment, with emphasis on work placements in companies and promotion of self-employment ;
- take appropriate policy measures on the demand side to stimulate business innovation.

**Services and competitiveness:**

- remove unjustified obstacles in services markets, in particular by improving the implementation of the Services Directive in service sectors with the most growth potential (including tourism);
- improve competitiveness including through the reform of the system of wage indexation, in consultation with social partners;
- take steps to diversify the structure of the economy and redress the fiscal balance by restraining expenditure.

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

# European Semester

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

PURPOSE: draft Recommendation for a COUNCIL RECOMMENDATION on Ireland’s 2012 national reform programme and delivering a Council opinion on Ireland’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 27 April 2012, **Ireland** submitted its stability programme covering the period 2012-2015 and, its 2012 national reform programme.

**Financial assistance programme**: on 7 December 2010, the Council adopted Implementing Decision 2011/77/EU granting financial assistance to Ireland until end 2013 in accordance with Council Regulation (EU) No 407/2010 establishing a European financial stabilisation mechanism. The accompanying Memorandum of Understanding signed on 16 December 2010 and its successive supplements lay down the economic policy conditions on the basis of which the financial assistance is disbursed.

**Progress and challenges**: the Commission notes that, overall, Ireland has implemented the conditions of the financial assistance programme specified in the Memorandum of Understanding. In particular:

- the fiscal deficit target for 2011 (10.6 %) was achieved by a significant margin and the budget for 2012 targets a fiscal deficit of 8.6 % of GDP;
- medium-term fiscal consolidation plans are consistent with the programme’s deficit ceilings and a deficit below 3 % of GDP by 2015;
- the recapitalisation of domestic banks envisaged by the 2011 Prudential Capital Assessment Review of the Central Bank of Ireland has been substantively completed;
- domestic banks’ deleveraging exceeded the programme’s targets for 2011 as a whole;
- structural reforms to enhance competitiveness and allow stronger job creation are significantly advanced.

Ireland’s economy returned to modest growth of 0.7 % in 2011, broadly as expected under the programme. In 2012, growth is set to moderate to about 0.5 %, due to the adverse external environment and the continuing adjustment of domestic demand. Export-driven growth is expected to pick up, increasing to 1.9 % in 2013 and to 2.8 % by 2015.

**Assessment of the stability programme**: based on the assessment of the stability programme, the Council is of the opinion that the **macroeconomic scenario** underpinning the budgetary projections of the programme **is plausible**. Economic growth projections in the programme are similar to the Commission's spring 2012 forecast.

**The objective of the budgetary strategy** of the programme is to reduce the general government deficit **below the 3% of GDP threshold by end 2015**, which is in line with the deadline set by the Council for correcting the excessive deficit. The programme targets deficits of 8.3% of GDP in 2012, 7.5% of GDP in 2013, 4.8% of GDP in 2014 and 2.8% of GDP by the end of the programme period in 2015. This path is underpinned by consolidation measures of 2.7% of GDP implemented in the budget for 2012, and broad consolidation measures of 3.9 % of GDP in 2013-2014 and a further partly specified consolidation effort of 1.1% of GDP in 2015.

**General government debt** is above 60% of GDP and is projected to increase from 108% of GDP in 2011 to 120% in 2013 before starting to decline. According to the Commission's latest assessment, **the risks with regards to long-term sustainability of public finances appear to be high**.

**Recommendations proposed for Ireland for the period 2012-2013:** implement the measures laid down in Implementing Decision 2011/77/EU and further specified in the Memorandum of Understanding of 16 December 2010 and its subsequent supplements.

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

# European Semester

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

PURPOSE: draft Recommendation for a COUNCIL RECOMMENDATION on Italy’s 2012 national reform programme and delivering a Council opinion on Italy’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 30 April 2012, **Italy** 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** underlying the programme **is plausible, under the assumption of no further worsening in financial market conditions**. In line with the Commission's spring 2012 forecast, it expects real GDP to contract sharply this year and recover gradually in 2013.

**The objective of the budgetary strategy** outlined in the programme is to bring the general government deficit below the 3% of GDP reference value by 2012, based on further expenditure restraint and additional revenues.

The programme projects the **government debt ratio** to peak in 2012 and to start declining at an increasing pace thereafter, as the primary surplus increases. In 2013-14 Italy will be in transition period. According to plans, the debt reduction benchmark will be met at the end of the transition period (2015).

Reaching the above deficit and debt outcomes will require **strict and full budgetary implementation** of the corrective measures adopted in 2010-11.

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

- As regards the fiscal framework, the Italian Parliament approved a bill introducing a balanced budget rule in the Italian Constitution. Implementing legislation will be needed to specify key features of the rule.
- The government committed to pursue a durable improvement of the efficiency and quality of public expenditure through in-depth spending reviews at all levels of government. With the same aim, a reorientation of the use of structural funds is underway. However, important deficiencies in terms of administrative capacity continue to hamper absorption and hence the implementation of the Plan, notably in the convergence regions.
- The structure of the tax system and the high level of tax evasion and undeclared work have adversely affected the economic performance of the country. Tax compliance and governance are also affected by wide-ranging tax expenditures and complex and burdensome administrative procedures.
- The wage-bargaining system should be reformed further by allowing more flexible arrangements also at the national sectoral level. In April 2012, the government proposed an ambitious labour market reform addressing long-standing challenges in the Italian labour market, including its segmentation. This reform needs to be adopted as a matter of urgency, ensuring that its objective and level of ambition remains commensurate to the challenge of the Italian labour market. The scale and effectiveness of the liberalisation of employment services should be closely monitored.
- Despite efforts made to improve the employability of women, mainly through targeted fiscal incentives, the employment rate of Italian women is significantly lower (46.5% in 2011) than the EU 27 average (58.5% in 2011). Further action on childcare and elderly care facilities is needed.
- Youth unemployment in Italy reached 29.1% on average in 2011 and rose further in the first months of 2012. In particular, the unemployment rate among tertiary graduates is high and there is mismatch between the acquired skills and those that are needed in the labour market.
- The early school leaving rate of 18.8% at national level, with strong regional variations, has adverse effects on youth unemployment.
- Italy has adopted important measures to liberalise services, in particular professional services, and improve competition in the network industries. However, multiple challenges remain in the energy and transport sectors, in particular railways and ports, where infrastructure and market bottlenecks remain significant.
- Although some measures have already been adopted to encourage administrative simplification, the business environment in Italy remains complex.
- Access to financing by SME is difficult and venture capital intensity is weak. While some measures have been taken to foster private R&D, notably the refinancing of the tax credit for business investment in research, the intensity remains low and implementation of projects of an innovative nature is weak.

**Recommendations proposed for Italy for the period 2012-2013:**

**Budgetary measures:**

- implement the budgetary strategy as planned, and ensure that the excessive deficit is corrected in 2012;
- ensure the planned structural primary surpluses so as to put the debt-to-GDP ratio on a declining path by 2013;
- ensure adequate progress towards the medium-term budgetary objective, while meeting the expenditure benchmark and making sufficient progress towards compliance with the debt reduction benchmark.

**Budgetary framework:**

- ensure that the specification of the key features of the Constitutional balanced budget rule, including appropriate coordination across levels of government, is consistent with the EU framework;
- pursue a durable improvement of the efficiency and quality of public expenditure through the planned spending review and the implementation of the 2011 Cohesion Action Plan leading to improving the absorption and management of EU funds, in particular in the South of Italy.

**Education, employment:**

- take further action to address youth unemployment, including by improving the labour-market relevance of education and facilitating transition to work, also through incentives for business start-ups and for hiring employees;
- enforce nation-wide recognition of skills and qualifications to promote labour mobility;
- take measures to reduce tertiary-education dropout rates and fight early school leaving.

**Labour market:**

- adopt the labour market reform as a priority to tackle the segmentation of the labour market and establish an integrated unemployment benefit scheme;
- take further action to incentivise labour market participation of women, in particular through the provision of child and elderly care;
- to boost cost competitiveness, strengthen the link between wages set at sectoral level and productivity through further improvements to the wage setting framework, in consultation with social partners and in line with national practices.

**Tax:**

- pursue the fight against tax evasion;
- pursue the shadow economy and undeclared work, for instance by stepping up checks and controls;
- take measures to reduce the scope of tax exemptions, allowances and VAT reduced rates and simplify the tax code;
- take further action to shift the tax burden away from capital and labour to property and consumption as well as environment.

**Services:**

- implement the adopted liberalisation and simplification measures in the services sector;
- take further measures to improve market access in network industries, as well as infrastructure capacity and interconnections.

**Business environment:**

- simplify further the regulatory framework for businesses and enhance administrative capacity;
- improve access to financial instruments, in particular equity, to finance growing businesses and innovation;
- implement the planned reorganisation of the civil justice system, and promote the use of alternative dispute settlement mechanisms.

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

# European Semester

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

CONTENT: draft Recommendation for a COUNCIL RECOMMENDATION on Malta's 2012 national reform programme and delivering a Council opinion on Malta'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 30 April 2012, **Malta** submitted its 2012 stability programme covering the period 2012-2015 and, on 23 April 2012, 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 2012 stability programme, the Council is of the opinion that the **macroeconomic scenario** underpinning the budgetary projections **is optimistic**, especially in the outer years of the stability programme period when compared with potential growth as estimated by the Commission.

**The objective of the budgetary strategy** outlined in the programme is to gradually reduce the deficit, to 0.3% of GDP in 2015, after the planned correction of the excessive deficit in 2011. The Commission notes that there are risks that the deficit outcomes could be worse than targeted, stemming from (i) lower revenue given the slightly optimistic macroeconomic scenario; (ii) possible overruns in current primary expenditure; and (iii) the ongoing restructuring of the national airline (Air Malta) and financial situation of the energy provider (Enemalta).

After peaking at 72% of GDP in 2011, the **general government gross debt ratio** is planned in the programme to start decreasing and to reach 65.3% of GDP in 2015 (still above the 60% of GDP reference value). According to the plans in the programme, Malta is making sufficient progress towards meeting the debt reduction benchmark of the Stability and Growth Pact at the end of the transition period (2015) but this assessment is subject to risks as the debt ratio could turn out higher than planned given the possibility of higher deficits and stock-flow adjustments.

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

- Malta remains at high risk as regards the long-term sustainability of its public finances, with a projected long-term increase in age-related expenditure exceeding considerably the EU average. Proposals for further pension reform in December 2010, including a link between the retirement rate and life expectancy, as well as the introduction of additional pillars to the pension system are under consultation. This has been subject to consultation with stakeholders but the government has yet to announce its position. Moreover, the National Reform Programme does not propose a comprehensive active-ageing strategy.
- The restructuring of Malta's economy has created a mismatch between demand and supply of skills, intensified by low tertiary education attainment and high early school leaving rates. Malta still exhibits a low participation rate in its labour market for women and older workers.
- Malta remains one of the few Member States with a generalised wage indexation system. While the mechanism has features that potentially mitigate its impact, it entails a risk of wage-price spirals, particularly because imported prices are not excluded from the index, and may hamper competitiveness, especially in labour intensive sectors.
- Energy supply in Malta remains almost fully dependent on imported oil, while the contribution of renewable energy sources continues to be marginal.
- The banking system in Malta is very large in proportion to the size of the economy, with total assets standing at around 800% of GDP. The sheer size of the sector implies that disruptions to financial stability could have a disproportionate impact on the domestic economy. The large exposure to the real estate market, which accounts for over half of all loans to domestic residents, is a source of vulnerability.

**Recommendations proposed for Malta for the period 2012-2013:**

**Budgetary measures:**

- reinforce the budgetary strategy in 2012 with additional permanent measures so as to ensure adequate progress towards the medium-term budgetary objective (MTO) and keep the deficit below 3% of GDP without recourse to one-offs;
- continue fiscal consolidation at an appropriate pace thereafter, so as to make sufficient progress towards the MTO, including meeting the expenditure benchmark, and towards compliance with the debt reduction benchmark, by specifying the concrete measures to back up the deficit targets from 2013, while standing ready to take additional measures in case of slippages;
- implement, by end-2012 at the latest, a binding, rule based multi-annual fiscal framework;
- increase tax compliance and fight tax evasion, and reduce incentives towards indebtedness in corporate taxation.

**Pension system:**

- take action, without further delay, to ensure the long-term sustainability of the pension system, comprising (i) a significant acceleration of the progressive increase in the retirement age compared to current legislation, (ii) a clear link between the statutory retirement age and life expectancy and (iii) measures to encourage private pension savings;
- take measures to increase the participation of older workers in the labour force and discourage the use of early retirement schemes.

**Labour force:**

- take steps to reduce the high rate of early school leaving;
- pursue policy efforts in the education system to match the skills required by the labour market;
- enhance the provision and affordability of more childcare and out-of-school centres, with the aim of reducing the gender employment gap, and at the same time reducing the effects of parenthood on female employment.

**Wages:**

- take the necessary further steps to reform, in consultation with social partners and in accordance with national practices, the system of wage bargaining and wage indexation, so as to better reflect developments in labour productivity and reduce the impact of prices of imports on the index.

**Energy:**

- in order to reduce Malta's dependence on imported oil, step up efforts to promote energy efficiency and increase the share of energy produced from renewable sources by carefully monitoring the existing incentivising mechanisms and by prioritising the further development of infrastructure, including by completing the electricity link with Sicily.

**Banking sector:**

- strengthen the banking sector, take measures to mitigate potential risks arising from the large exposure to the real estate market;
- take measures to futher strenghten the provisions for loan impairment losses.

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

# European Semester

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

PURPOSE: draft recommendation for a COUNCIL RECOMMENDATION on Greece's 2012 national reform programme and delivering a Council opinion on Greece'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 12 April 2012, **Greece** submitted its 2012 national reform programme and incomplete information regarding their budgetary plans.

**Adjustment programme** : on 21 February 2012, the Eurogroup agreed on a **second economic adjustment programme** for Greece. The implementation of the economic policies outlined in the Memorandum of Understanding on Specific Policy Conditionality will contribute to reducing the Greek public debt to **117% of GDP by 2020.** It was agreed that the official sector financing of the programme would amount to **EUR 130 billion until 2014**, additional to the amounts committed in the first financing programme.

The release of the tranches is based on compliance with quantitative performance criteria and a positive evaluation of progress made with respect to the policy criteria laid down in Council Decision 2011/734/EU (as amended on 8 November 2011 and 13 March 2012) and the Memorandum of Understanding setting the economic policy conditionality, which was signed on 14 March 2012.

On 19 March 2012, the first instalment (EUR 5.9 billion) of the first tranche (EUR 14.5 billion) of the new financing programme was paid by the EFSF to Greece. Greece also received EUR 1.6 billion from the IMF. **By May 2012, Greece has received EUR 147.5 billion** from official financing under the first and the second programme.

Progress and challenges : in 2010 and 2011, Greece made partial progress towards the ambitious objectives of the adjustment programme. Several factors hampered implementation: political instability, social unrest and issues of administrative capacity and, more fundamentally, a recession that was much deeper than previously projected. Important fiscal targets were missed, which led to the adoption of additional consolidation measures throughout 2010 and 2011. However, Greece achieved a substantial reduction in the general government deficit: from 15.8 per cent of GDP in 2009 to 9.1 percent in 2011.

The Commission notes that the economic crisis and subsequent fiscal consolidation measures have had an impact on the ability of Greece to achieve the Europe 2020 goals, especially the socially oriented ones. Nevertheless, the structural reforms, particularly those in the labour market, the liberalisation of several sectors and a number of measures to improve the business environment, will help promote competition, spur productivity, increase employment and reduce production costs, thus contributing to an increase in employment and limiting poverty and social exclusion in the medium term.

A **strategic re-programming of the Structural Funds is underway**, with a focus on support to youth employment and competitiveness (in particular SME's). The new measures strengthen actions in the areas of employment passport, training and professional qualifications and access to finance for small and medium enterprises.

On 18 April 2012, the Commission adopted a communication on 'Growth for Greece' **highlighting the positive impact that full and effective implementation of the economic adjustment programme can have.** This Communication recalls that Greece can draw strength and concrete support from its membership of the EU and of the euro area. It emphasises the readiness of Greece's partners, and in particular the Commission to identify ways to maximise the impact of early deliverables through swift actions and EU support.

In conclusion, it is **recommended that Greece** should implement the measures laid down in Council Decision 2011/734/EU of 12 July 2011, as amended on 8 November 2011 and 13 March 2012, and the Memorandum of Understanding on specific economic policy conditionality, which was signed on 14 March 2012.

# European Semester

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

PURPOSE: draft Recommendation for a COUNCIL RECOMMENDATION on Sweden's 2012 national reform programme and delivering a Council Opinion on Sweden'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 20 April 2012, **Sweden** submitted its convergence 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 convergence programme, the Council is of the opinion that the **macroeconomic scenario** underpinning the budgetary projections in the programme **is plausible** for 2012 and optimistic in 2013-15, when GDP growth is expected to average around 3.5%. The Commission's 2012 spring forecast foresees GDP growth of 2.1% in 2013.

**The objective of the budgetary strategy** outlined in the programme is to ensure long-term sustainability by respecting the rules of the Swedish fiscal framework, including the target of having a surplus in general government net lending of 1% of GDP over the cycle. The strategy also aims at fulfilling the requirements of the Stability and Growth Pact, notably respecting the 3% of GDP reference value.

The debt ratio is below 60% of GDP and, according to the programme, is projected to continue to decrease over the programme period.

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

- The Commission's in-depth review under Regulation (EU) No 1176/2011 confirmed that Sweden has a rather high level of household debt.
- While the situation in the housing and mortgage market stabilised in 2011, several structural distortions persist that threaten the stability of these markets in the long-term. Relevant measures have been taken to strengthen the resilience of the financial sector. However, there are currently a number of policies in place that may contribute to the volatility of the Swedish housing market and mortgage debt accumulation, which have received less attention.
- Despite a general improvement on the labour market during 2011, the unemployment rates for young people and vulnerable groups remain high, in particular for people with migrant background. Sweden is currently implementing several active labour market policy measures and education reforms to address this situation. Most of these measures seem relevant and credible, although it is too early to assess their impact.
- Sweden has the second highest R&D expenditure as a share of GDP in the EU and is considered an innovation leader according to the Innovation Union Scoreboard. However, as regards the commercialisation of innovative products, Sweden performs below the EU average and shows a negative trend. Moreover, Sweden appears to be lagging behind in creating fast-growing innovative enterprises.

**Recommendations proposed for Sweden for the period 2012-2013:**

**Budgetary measures:**

- preserve a sound fiscal position in 2012 and beyond by implementing the budgetary strategy as envisaged and ensuring continued achievement of the medium-term budgetary objective, including meeting the expenditure benchmark.

**Housing market:**

- take further preventive measures to strengthen the stability of the housing and mortgage market in the medium term, including by fostering prudent lending, reducing the debt bias in the financing of housing investments, and tackling constraints in housing supply and rent regulations.

**Labour market:**

- take further measures to improve the labour market participation of youth and vulnerable groups by focusing on effective active labour market policy measures, encouraging increased wage flexibility, notably at the lower end of the wage scale, and reviewing selected aspects of employment protection legislation like trial periods to ease the transition to permanent employment;
- review the effectiveness of the current reduced VAT rate for restaurants and catering services in support of job creation.

**Research and innovation:**

- focus the upcoming research and innovation bill on measures to improve the commercialisation of innovative products and the development of new technologies to support high-growth innovative firms.

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

# European Semester

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

PURPOSE: draft recommendation for a COUNCIL RECOMMENDATION on Austria's 2012 national reform programme and delivering a Council opinion on Austria'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 24 April 2012, **Austria** submitted its stability programme covering the period 2012-2015 and on 13 April 2012, its 2012 national reform programme. The two programmes have been assessed at the same time.

Based on the assessment of the 2012 stability programme, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the programme is cautious for the years 2012 and 2013. For 2014-2016 the scenario becomes more optimistic, projecting average GDP growth of 2.1%, consistently above the current estimates of potential

growth.

The objective of the budgetary strategy outlined in the programme is to **correct the excessive deficit by 2013 and reach the medium-term budgetary objective (MTO) by 2016.** The programme envisages that the debt-to-GDP ratio, which amounted to 72.2% at the end of 2011, is going to peak at 75.3% in 2013 before gradually falling to 70.6% in 2016. Nevertheless, there are risks accompanying the fiscal targets both on the revenue and on the

expenditure side. For example, the budgetary effect of some measures is difficult to quantify because of dependence on individual uptake. Since the legislation has not yet been decided the details of the financial transaction tax are not yet known. The expenditure cuts at the sub-national level are not defined.

The measures contained in the latest fiscal consolidationpackage do not encompass significant streamlining in the fiscal relations between the federal, regional and local governments, widely acknowledged as a major source of potential savings

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

- In order to raise the effective retirement age, Austria has enacted reforms mainly aimed at restricting access to the invalidity pension scheme. Bringing forward the harmonisation of the statutory retirement age between men and women has not been addressed. Employability of older workers and active aging cultures within companies need to be further enhanced.
- The performance of the Austrian labour market has been very good. However, the country's labour force potential is projected to shrink from 2020 onwards. Therefore, Austria will have to strive to fully tap the potential of working age population by addressing the problems of the low employment rate of older workers and the widespread use of early retirement and invalidity pension schemes, the high tax and social security burden on labour income, and the relatively high concentration of women in low-wage and part-time employment.
- Steadily growing number of students, due to high incoming mobility ('mass university') and high drop-out rates (around 40 %), remain the main challenges together with a considerable gap in funding.
- Austria enjoys a favourable position in terms of competitiveness and productivity. Nevertheless, it faces relative structural weaknesses in several areas. Competition in the services sector has not been particularly supportive of domestic demand. The issues of high network access prices and the distortive behaviour of incumbent firms (hampering market entry, competition and innovation) have not been addressed. Unjustified restrictions in the liberal professions persist.
- The Austrian financial sector faces particular challenges related to the high exposure of Austrian banks to the countries of Central, Eastern and South Eastern Europe. Authorities also need to continue to closely monitor and restructure the banks which benefited from public sector support, especially the credit institutions which were nationalised.

**Recommandations proposed for Austria (2012-2013):**

**Budgetary measures:**

- implement the 2012 budget as envisaged and reinforce and rigorously implement the budgetary strategy for the year 2013 and beyond;
- sufficiently specify measures (in particular at the sub-national level), to ensure a timely correction of the excessive deficit and the achievement of the average annual structural adjustment effort specified in the Council Recommendations on the Excessive Deficit Procedure ;

- thereafter, ensure an adequate structural adjustment effort to make sufficient progress towards the medium-term budgetary objective (MTO), including meeting the expenditure benchmark ;
- take further steps to strengthen the national budgetary framework by aligning responsibilities across the federal, regional and local levels of government, in particular by implementing concrete reforms aimed at improving the organisation, financing and efficiency of healthcare and education.

**Pension system:**

- bring forward the harmonisation of the statutory retirement age between men and women.

**Labour market:**

- enhance older workers' employability and monitor closely the implementation of the recent reforms restricting access to early exit channels ;
- take steps to reduce the effective tax and social security burden on labour especially for low income earners with a view to increasing employment rates for older persons and women ;
- shift the tax burden in a budgetary neutral way, towards real estate taxes, and environmental taxes ;
- reduce the high gender pay gap and enhance full-time employment opportunities for women, notably through the provision of additional care services for dependants.

**Education:**

- take further measures to improve educational outcomes, especially of disadvantaged young people ;
- take measures to reduce drop-outs from higher education.

**Competition:**

- take further steps to foster competition, in the services sectors, by removing barriers to market entry in the communications, transport and energy retail markets ;
- remove unjustified restrictions on access to the liberal professions ;
- enhance the powers of the competition authorities and speed up the implementation of the competition law reform.

**Financial system:**

- step up the restructuring of banks which benefited from public support, while avoiding deleveraging ;
- further improve the cooperation and coordination of national policy decisions with financial sector supervisors in other countries.

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

# 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 onthe 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.

**Recommandations 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.

# 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.

# European Semester

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

PURPOSE: draft Recommendation for a COUNCIL RECOMMENDATION on Poland's 2012 national reform programme and delivering a Council Opinion on Poland'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 25 April 2012, **Poland** submitted its convergence programme covering the period 2012-2015 and, on 27 April 2012, 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 2012 convergence programme, the Council is of the opinion that the **macroeconomic scenario** underpinning the budgetary projections in the programme **is plausible and is in line with the Commission's 2012 spring forecast**.

**The objective of the budgetary strategy** outlined in the programme is to correct the excessive deficit by 2012 and reach medium-term budgetary objective (MTO) by 2015. The growth rate of government expenditure, taking into account discretionary revenue measures, is in line with the benchmark of the Stability and Growth Pact over entire programme period, but exceeds the expenditure benchmark by a small margin in 2013, according to the Commission's 2012 spring forecast. Sufficient progress towards the MTO may require additional efforts.

**General government debt** is projected to remain below 60% of GDP in Poland over the programme period. The national authorities forecast it to decrease gradually from 56.3% of GDP in 2011 to 49.7% of GDP in 2015, whereas the Commission, taking account of possible risks to the consolidation plans, expects the improvement to be slower.

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

- The Polish government has not yet taken action to implement a permanent expenditure rule by 2013. There has also been no progress on adjusting the classification of national accounts to the European system of accounts (ESA95 standards).
- Youth unemployment is above the EU average. Measures are planned to facilitate the entry of young people into the labour market. The partial abuse of self-employment and civil law contracts which are not governed by Labour Law appear to be a cause of labour market segmentation and in-work poverty, which is among the highest in the EU.
- Poland started implementing an ambitious higher education reform in the second half of 2011. The reform aims to make courses more flexible and more responsive to changing labour market needs. It also promotes self-employment. Nevertheless, there is still a need to improve the relevance and quality of teaching provision.
- The participation of women in the labour market needs to be raised by improving the childcare system.
- Poland has adopted a general pension reform. The statutory retirement age will be raised gradually from 2013 onwards to reach 67 for men in 2020 and for women in 2040. Poland has continued its efforts to limit favourable retirement conditions for uniformed services. In 2011, Poland introduced some changes to the farmers' social security fund (KRUS). However, the reform is temporary and not sufficient from the labour market perspective. Miners still benefit from a special pension scheme.
- Recent reforms aim to improve the research environment. The National Research Programme, adopted in August 2011, is an important step in this direction. However, it remains unclear how priorities in the programme are linked and taken forward in innovation and industrial policy.
- Unjustified restrictions on providing professional services are a major obstacle to further growth, in particular in construction, transport and health.
- Judicial proceedings and other legal actions are lengthy and there are a relatively high number of cases pending.

- Growth and competition in the energy sector is held back by lagging implementation of EU legislation. The need for investment in the rail network is even more pressing, given the very poor state of the infrastructure. Poland is not fully using Cohesion Fund resources available for this purpose. There are still obstacles to efficient functioning of the railway market.

**Recommendations proposed for Poland for the period 2012-2013:**

**Budgetary measures:**

- ensure planned progress towards the correction of the excessive deficit. To this end, fully implement the budget for the year 2012 and achieve the structural adjustment effort specified in the Council recommendations under the Excessive Deficit Procedure;
- thereafter, specify the measures necessary to ensure implementation of the budgetary strategy for the year 2013 and beyond as envisaged, ensuring an adequate structural adjustment effort to make sufficient progress towards the medium-term objective, including meeting the expenditure benchmark;
- minimise cuts in growth-enhancing expenditure in the future and improve tax compliance;
- speed up the reform of the fiscal framework by enacting legislation with a view to introducing a permanent expenditure rule by 2013. This rule should be consistent with the European system of accounts;
- take measures to strengthen the mechanisms of coordination among the different levels of government in the medium-term and annual budgetary processes.

**Labour market and employment:**

- reduce youth unemployment, increase the availability of apprenticeships and work-based learning, improve the quality of vocational training and adopt the proposed lifelong learning strategy;
- better match education outcomes with the needs of the labour market and improve the quality of teaching;
- combat labour market segmentation and in-work poverty, limit excessive use of civil law contracts and extend the probationary period for permanent contracts;
- reinforce efforts to increase the labour market participation of women and raise enrolment rates of children in both early childcare and pre-school education.

**Pension systems:**

- by ensuring stable funding and investment in public infrastructure, provision of qualified staff and affordable access;
- tackle entrenched practices of early retirement to increase exit ages from the labour market;
- phase out the special pension scheme for miners with a view to fully integrating them into the general scheme;
- take more ambitious, permanent steps to reform the social security fund for farmers (KRUS) to better reflect individual incomes.

**Research and innovation:**

- take additional measures to ensure an innovation-friendly business environment, by ensuring better links between research, innovation and industry, and by establishing common priority areas and instruments supporting the whole innovation cycle;
- improve access to finance for research and innovation activities through guarantees and bridge financing.

**Growth, competition and services:**

- step up efforts to improve incentives for investment in energy generation capacity and efficiency, speed up the development of cross-border electricity grid interconnections and strengthen competition in the gas sector by phasing out regulated prices and by creating a gas trading platform;
- strengthen the role and resources of the railway market regulator and ensure effective and swift implementation of railway investment projects;
- reduce restrictions on professional services and simplify contract enforcement and requirements for construction permits.

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

# European Semester

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

PURPOSE: draft recommendation for a COUNCIL RECOMMENDATION on the Czech Republic’s 2012 national reform programme and delivering a Council opinion on the Czech Republic’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 25 April 2012, the **Czech Republic** submitted its convergence programme covering the period 2012-2015 and, on 13 April 2012, 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 2012 convergence programme, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the programme is plausible. **According to the convergence programme, GDP growth is expected to reach 0.2% and 1.3% in 2012 and 2013 respectively, compared to 0% and 1.5% in 2012 and 2013 respectively in the Commission's 2012 spring forecast**. The objective of the budgetary strategy outlined in the programme is to reach a balanced budget in 2016. According to the programme, the debt-to-GDP ratio is expected to peak at 45.1% of GDP in 2013 and decline thereafter, mainly on account of the projected continuous improvement of the primary balance.

The budgetary projections of the programme are subject to **several risks**.

(1) The law on financial compensation to churches, currently discussed in Parliament, would increase the general government deficit by 1.5% of GDP in the year of entry into force;

(2) The nature and extent of the envisaged consolidation measures on both the revenue and the expenditure side entails a significant risk for the sustainability of the fiscal adjustment beyond the programme period.

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

- In 2011, the Czech authorities approved an increase in the reduced VAT rate and in excise duties on tobacco; they also approved a major tax reform affecting labour taxation which should enter into force in 2014. Further changes concern environmental and housing taxation, which are currently under-taxed. Tax compliance stillremains an issue and the current tax collection system is not based on an articulated and comprehensive tax compliance strategy.
- The Czech government approved, and partly implemented, a reform of the pension system, aimed at restoring fiscal sustainability and raising retirement savings. However, the projected fiscal imbalances in the pension system are still high relative to the EU average.
- The overall unemployment rate is below the EU average but women with children and other vulnerable groups struggle to realise their potential in the labour market. An earlier return from parental leave, which would prevent the loss in skills, is contingent on greater availability of child care, especially for children below the age of three.
- Several measures were adopted to improve the performance of the public employment service (PES). The resulting increased workload will put further strain on the PES staff, whose number declined by 12 % in 2011. Further efforts are needed to ensure better quality and effectiveness of training, job search assistance and individualised services.
- There is still ample scope for improving the efficiency of public administration, despite recent improvements in some areas, such as e-government services and the reduction of the administrative burden for businesses. Furthermore, irregularities in public procurement and sub-optimal functioning of the management and control systems for public administration have been important sources of problems with implementation of the EU Funds.
- The Czech economy needs to mobilise factors facilitating the transition to growth based on innovation, higher value added and human capital because opportunities for further real convergence based on capital-intensive growth seem rather limited. A reform of tertiary education is currently being discussed. Although it includes an overhaul of the current accreditation process, it is not sufficiently precise on the key issue of quality evaluation standards and, given the absence of systematic data collection and analysis, it lacks support from the academic community. These measures are too narrow to effectively increase the quality and equity of compulsory education.

**Recommendations proposed for the Czech Republic for the period 2012-2013**:

**Budgetary measures**:

- ensure planned progress towards the timely correction of the excessive deficit;
- ensure an adequate structural adjustment effort to make sufficient progress towards the medium-term objective, including meeting the expenditure benchmark. In this context, avoid across-the-board cuts, safeguard growth-enhancing expenditure and step up efforts to improve the efficiency of public spending;
- exploit the available space for increases in taxes least detrimental to growth;
- shift the high level of taxation on labour to housing and environmental taxation;
- reduce the discrepancies in the tax treatment of employees and the self-employed;
- take measures to improve tax collection, reduce tax evasion and improve tax compliance, including by implementing the Single Collection Point for all taxes.

**Pension system**:

- introduce further changes to the public pension scheme to ensure their long-term sustainability;
- reconsider plans to allow an earlier exit from the labour market;
- ensure broad participation of younger workers in the envisaged funded scheme to improve adequacy of pensions.

**Employment**:

- take additional measures to significantly increase the availability of affordable and quality pre-school childcare facilities;
- strengthen public employment services by increasing the quality and effectiveness of training, job search assistance and individualised services, including of outsourced services.

**Public administration**:

- adopt and implement as a matter of urgency the Public Servants Act to promote stability and effectiveness of the public administration to avoid irregularities;
- ensure adequate implementation of the new Public Procurement Act;
- address the issue of anonymous share holding;
- ensure correct implementation of EU Funds and step up the fight against corruption.

**Education**:

- adopt the necessary legislation to establish a transparent and clearly defined system for quality evaluation of higher education and research institutions;
- ensure that the funding is sustainable and linked to the outcome of the quality assessment;
- establish an improvement-oriented evaluation framework in compulsory education.

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

# European Semester

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

PURPOSE: draft Recommendation for a COUNCIL RECOMMENDATION on Finland's 2012 national reform programme and delivering a Council opinion on Finland'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 19 April 2012, **Finland** 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** for the 2012-13 period, GDP growth expected in the programme is in line with the Commission's 2012 spring forecast. Projections are also realistic for the years 2014 and 2015. **The main budgetary goal** of Finland's 2012 stability programme is to reduce the central government deficit by limiting expenditures and increasing revenues. The programme aims at balancing the general government budget by 2015 and reaching surpluses as from 2016.

**The debt ratio** is well below 60% of GDP and according to the programme, the debt level will peak in 2014 at close to 52% of GDP and then start declining.

A **notable sustainability gap still exists** in Finland's public finances, mainly stemming from a rapidly deteriorating dependency ratio caused by population ageing. The gap needs to be continuously monitored and measures adjusted accordingly.

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

- The productivity of public services has been in decline over the past decade. Finnish authorities have already implemented several reforms to address the issue, but their implementation has been slow, especially at the local government level.
- Further productivity gains and cost savings could be achieved by encouraging more competition in shielded private and public service sectors, through further product and labour market deregulation.
- Over the past year, the Finnish government has introduced new measures to reduce youth and long-term unemployment. These included a pilot programme to reduce long-term unemployment and introduction of a social guarantee for young people.
- The increase in life expectancy has been more rapid than envisaged during the 2005 pension reform, and therefore over time the current statutory retirement age range could turn out to be too low.
- Regulatory barriers in the services sector in Finland are still restrictive and market concentration is high not only in retail trade, but also in areas of production.
- Productivity growth in Finland is stagnating and Finnish exporting firms have lost market shares in foreign markets over recent years. Unit labour costs have increased, although not in the manufacturing sector.
- Finland is exporting intermediate and investment goods mainly to mature, slowly growing economies and its products have limited presence in developing economies.

- The Finnish economy needs to become more diversified both in terms of companies as in terms of export markets in order to develop multiple strong exporters in the future.
- Notwithstanding the past strong Finnish R&D and innovation performance, without a significant increase in the number of innovative high-growth firms, Finland's ranking as an EU innovation leader risks declining.

**Recommendations proposed for Finland for the period 2012-2013:**

**Budgetary measures:**

- preserve a sound fiscal position in 2012 and beyond by correcting any departure from the medium-term budgetary objective (MTO) that ensures the long-term sustainability of public finances;
- to this end, reinforce and rigorously implement the budgetary strategy, supported by sufficiently specified measures, for the year 2013 and beyond including meeting the expenditure benchmark;
- continue to carry out annual assessments of the size of the ageing-related sustainability gap and adjust public revenue and expenditure in accordance with the long-term objectives and needs;
- integrate the local government sector better in the system of multi-annual expenditure ceilings.

**Public services:**

- take further measures to achieve productivity gains and cost savings in public service provision, including structural changes and efficiency-enhancing territorial administrative reforms, also in order to respond to the challenges arising from population ageing.

**Labour market:**

- implement the ongoing measures to improve the labour market position of young people and the long-term unemployed, with a particular focus on skills development;
- take further steps to encourage the employment rate of older workers, including by reducing early exit pathways;
- take measures to increase the statutory retirement age in line with the improved life expectancy.

**Competition:**

- continue enhancing competition in product and service markets, especially in the retail sector, by ensuring the effective implementation of the new Competition Act and the new programme on promoting healthy competition;
- continue to further opening the municipal procurement of services to competitive bidding and by ensuring competition neutrality between private and public undertakings;
- take further steps to ensure that competition law fines are sufficiently deterrent.

**Growth and external competition:**

- in order to strengthen productivity growth and external competitiveness, continue efforts to diversify the business structure, in particular by hastening the introduction of planned measures to broaden the innovation base while continuing to align wage and productivity developments.

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

# European Semester

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

PURPOSE: draft Recommendation for a COUNCIL RECOMMENDATION on the Netherlands' 2012 national reform programme and delivering a Council opinion on the Netherlands' 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 27 April 2012, the **Netherlands** 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 2012 stability programme, the Council is of the opinion that the **macroeconomic scenario** underpinning the budgetary projections in the programme **is optimistic**. For 2013, the stability programme projects economic growth of 1¼% without taking into account the negative impact of the additional consolidation measures on growth, whilst, on the basis of the same no-policy change scenario, **the Commission's forecast a lower growth rate of 0.7%**.

The programme targets a headline **general government deficit of 3% of GDP in 2013** and confirms the previous MTO of a structural deficit of 0.5% of GDP. The debt ratio is thus projected to remain **well above the 60% reference value**. According to the 2012 stability programme, the debt-to-GDP ratio is expected to further rise relatively markedly in 2012, to 70.2% of GDP and to increase slightly further to 70.7% of GDP in 2013, taking into account the impact of the additional consolidation measures.

The **budgetary projections over the programme period are subject to implementation risks**. Moreover, the additional measures proposed by the government in April 2012 and their budgetary impact are not sufficiently specified and quantified. Budgetary adjustment has so far relied mostly on expenditure cuts, which also affect growth-enhancing expenditure.

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

- Social partners and the Dutch government reached a comprehensive agreement on pension reform in September 2011 and the government presented plans to increase the statutory retirement age to 66 in 2019 and 67 in 2024. After that the statutory retirement age will be coupled to life expectancy. Further concrete measures will be necessary to contribute to reducing the financial burden of the ageing society in the Netherlands.
- Fiscal disincentives for second-income earners have been reduced but not yet sufficiently. Removing remaining disincentives would further contribute to raising labour supply and make human capital allocation more efficient. The labour market integration of vulnerable groups should be improved.
- In the field of enterprise policy, the top sector agendas have been endorsed and sectoral 'innovation contracts' have been signed between the government and industry representatives. Support to private research is being increased. However, the focus on 'top sectors' should not come at the cost of fundamental research nor exclude innovative firms that do not belong to one of the 'top sectors'.
- Over the last four decades, structural distortions have built up in the Dutch housing market. Modifying the favourable tax treatment of home ownership would contribute to reducing the structural distortions on the Dutch housing market.

**Recommendations proposed for the Netherlands for the period 2012-2013:**

**Budgetary measures:**

- ensure progress towards the timely and durable correction of the excessive deficit; to this end, fully implement the budgetary strategy for 2012 as envisaged;
- specify the measures necessary to ensure implementation of the 2013 budget with a view to ensuring the structural adjustment effort specified in the Council recommendations under the Excessive Deficit Procedure;
- thereafter, ensure an adequate structural adjustment effort to make sufficient progress towards the medium-term budgetary objective (MTO), including meeting the expenditure benchmark, and ensure sufficient progress towards compliance with the debt reduction benchmark whilst protecting expenditure in areas directly relevant for growth such as research and innovation, education and training;
- submit, after the formation of a new government, an update of the 2012 stability programme with substantiated targets and measures for the period beyond 2013.

**Pension system:**

- take measures to increase the statutory retirement age, including linking it to life expectancy, and underpin these with labour market measures, whilst improving the long-term sustainability of public finances;
- adjust the second pension pillar to mirror the increase in the statutory retirement age, while ensuring an appropriate intra- and inter-generational division of costs and risks;
- implement the planned reform in longterm care and complement it with further measures, in view of an ageing population.

**Labour market:**

- enhance participation in the labour market, particularly of older people, women, and people with disabilities and migrants, including by further reducing tax disincentives for second-income earners, fostering labour market transitions, and addressing rigidities;
- promote innovation, private R&D investment and closer science-business links, as well as foster industrial renewal by providing suitable incentives in the context of the enterprise policy, while safeguarding accessibility beyond the strict definition of top sectors and preserving fundamental research.

**Housing market:**

- take steps to gradually reform the housing market, including by: (i) modifying the favourable tax treatment of home ownership, including by phasing out mortgage interest deductibility and/or through the system of imputed rents, (ii) providing for a more market-oriented pricing mechanism in the rental market, and (iii) for socialhousing, aligning rents with household income.

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

# European Semester

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

PURPOSE: draft Recommendation for a COUNCIL RECOMMENDATION on Slovakia's 2012 national reform programme and delivering a Council opinion on Slovakia'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 30 April 2012, Slovakia 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 2012 stability programme, the Council is of the opinion that the **macroeconomic scenario** underpinning the budgetary projections in the programme **is plausible**. **It is broadly in line with the Commission's 2012 spring forecast**, although the latter assumes somewhat higher real GDP growth in 2012.

**The objective of the budgetary strategy** outlined in the programme is to ensure the long-term sustainability of public finances. The intermediary steps defined to reach this are a rigorous implementation of the 2012 budget and a reduction of the headline deficit below 3% of GDP in 2013, the deadline for correction of the excessive deficit set by the Council. The achievement of the headline deficit target in 2013, however, may fall short of plans.

The target for 2013 is subject to risks, as suggested revenue measures may fall short of the objective.

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

- While Slovakia passed legislation establishing the Fiscal Council, so far it has not been set up and the legislation on expenditure ceilings has not yet been adopted.
- There is scope for measures aimed at broadening the tax base, limiting tax avoidance and improving tax compliance, without hurting near-term growth prospects. Tackling one of the largest VAT gaps in the EU could bring significant additional revenue. There is also room for increasing receipts from taxes that are least harmful to growth, including real estate taxation, and environmental taxation. Effective taxation of labour income varies according to different types of employment.
- Slovakia has only partially addressed the long-term sustainability of its public finances, as it has not implemented the envisaged changes to the pay-as-you-go pillar of its pension system. However, an unstable legal environment with frequent significant changes in the past entailed non-negligible adjustment costs and introduced uncertainty in the fully funded pillar.
- No significant measures have been taken to address Slovakia's unemployment problem. There is still a need : (i) to improve the effectiveness of active labour market policies and the capacity of the public employment service; (ii) for measures to increase the labour market participation of older workers and women, in particular through childcare provision. The tax wedge, including all compulsory payments, remains relatively high for low-income workers and a proportion of jobseekers have little incentive to move from social assistance to a low-paid job.
- Only limited measures were adopted to improve the low quality of the education and training system. To tackle Slovakia's high youth unemployment, the Youth Action Plan should be adopted and implemented without delay. An updated strategy on lifelong learning was adopted. However, no particular incentives were introduced to ensure higher participation rates.
- Marginalised communities, including the Roma, are largely excluded from the labour market and the mainstream education system, representing a significant underutilised labour potential in the Slovak economy.
- Slovakia has substantially enhanced the transparency of public procurement rules and judiciary, although judicial proceeding remains long and costly. However, the overall quality and capacity of public institutions remains weak.

**Recommendations proposed for Slovakia for the period 2012-2013:**

**Budgetary measures:**

- take additional measures in 2012 and specify the necessary measures in 2013, to correct the excessive deficit in a sustainable manner and ensure the structural adjustment effort specified in the Council recommendations under the Excessive Deficit Procedure;
- implement targeted spending cuts, while safeguarding growthenhancing expenditure, and step up efforts to improve the efficiency of public spending;
- thereafter, ensure an adequate structural adjustment effort to make sufficient progress towards the medium-term objective, including meeting the expenditure benchmark;
- accelerate the setting up of the Fiscal Council and adopt rules on expenditure ceilings.

**Taxation:**

- increase tax compliance, in particular by improving the efficiency of VAT collection;

- reduce distortions in taxation of labour across different employment types, also by limiting tax deductions;
- link real estate taxation to the market value of property;
- make greater use of environmental taxation.

**Pension system:**

- further adjust the pay-as-you-go pension pillar, mainly by changing the indexation mechanism, introducing a direct link between the statutory retirement age and life expectancy and introducing a sustainability factor in the pension calculation formula reflecting demographic change;
- ensure the stability and viability of the fully funded pillar.

**Employment:**

- enhance the administrative capacity of public employment services with a view to improve the targeting, design and evaluation of active labour market policies to ensure more individualised employment services for the young, long-term unemployed, older workers and women;
- ensure the provision of childcare facilities;
- reduce the tax wedge for low-paid workers and adapt the benefit system.

**Education, training:**

- adopt and implement the Youth Action Plan, in particular as regards the quality and labour market relevance of education and vocational training, including through the introduction of an apprenticeship scheme;
- improve the quality of higher education by strengthening quality assurance and result orientation.

**Vulnerable groups:**

- take active measures to improve access to and quality of schooling and pre-school education of vulnerable groups, including Roma;
- ensure labour market reintegration of adults through activation measures and targeted employment services, second-chance education and short-cycle vocational training.

**Public service:**

- strengthen the quality of the public service, including by improving management of human resources;
- further shorten the length of judicial proceedings and strengthen the role of the Public Procurement office as an independent body.

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