COUNCIL RECOMMENDATION

of 13 July 2018

on the 2018 National Reform Programme of the United Kingdom and delivering a Council opinion on the 2018 Convergence Programme of the United Kingdom

(2018/C 320/27)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ([1]), and in particular Article 9(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 22 November 2017, the Commission adopted the Annual Growth Survey, marking the start of the 2018 European Semester for economic policy coordination. It took due account of the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The priorities of the Annual Growth Survey were endorsed by the European Council on 22 March 2018. On 22 November 2017, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council ([2]), the Commission also adopted the Alert Mechanism Report, in which it did not identify the United Kingdom as one of the Member States for which an in-depth review would be carried out.

(2) The 2018 country report for the United Kingdom was published on 7 March 2018. It assessed the United Kingdom's progress in addressing the country-specific recommendations adopted by the Council on 11 July 2017 ([3]), the follow-up given to the country-specific recommendations adopted in previous years and the United Kingdom's progress towards its national Europe 2020 targets.

(3) On 29 March 2017, the United Kingdom notified the European Council of its intention to leave the European Union. Unless a ratified Withdrawal Agreement establishes another date or the European Council, in accordance with Article 50(3) of the Treaty on European Union and in agreement with the United Kingdom, unanimously decides that the Treaties cease to apply at a later date, all Union primary and secondary law will cease to apply to the United Kingdom from 30 March 2019, 00:00h (CET). The United Kingdom will then become a third country. Negotiations are on-going in order to ensure an orderly withdrawal, including a transition period until the end of 2020 during which Union law will continue to apply to and in the United Kingdom.

(4) On 30 April 2018, the United Kingdom submitted its 2018 National Reform Programme and its 2018 Convergence Programme. To take account of their interlinkages, the two programmes have been assessed at the same time.

([1]) OJ L 209, 2.8.1997, p. 1.
([2]) Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25).
([3]) OJ C 261, 9.8.2017, p. 1.

(5) Relevant country-specific recommendations have been addressed in the programming of the European Structural and Investment Funds ('ESI Funds') for the 2014-2020 period. As provided for in Article 23 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council [1], where it is necessary to support the implementation of relevant Council recommendations, the Commission may request a Member State to review and propose amendments to its Partnership Agreement and relevant programmes. The Commission has provided further details on how it would make use of that provision in guidelines on the application of the measures linking the effectiveness of the ESI Funds to sound economic governance.

(6) The United Kingdom is currently in the preventive arm of the Stability and Growth Pact and subject to the transitional debt rule. In its 2017-2018 Convergence Programme, the Government expects the headline deficit to fall from 2,2 % of GDP in 2017-2018 to 1,8 % of GDP in 2018-2019 and to 1,7 % of GDP in 2019-2020. The Convergence Programme does not include a medium-term budgetary objective. According to the Convergence Programme, the general government debt-to-GDP ratio is expected to broadly stabilise around 85,5 % from 2017-2018 to 2019-2020 before falling to 84,8 % of GDP in 2021-2022. The macroeconomic scenario underpinning those budgetary projections is plausible. While the measures needed to support the planned deficit targets are overall well specified, growing pressures on government expenditure in a number of areas pose a risk to the achievement of the planned deficit reduction.

(7) On 11 July 2017, the Council recommended the United Kingdom to ensure that the nominal growth rate of net primary government expenditure [2] does not exceed 1,8 % in 2018-2019, corresponding to an annual structural adjustment of 0,6 % of GDP. At the same time, the Council stated that consideration should be given to achieving a fiscal stance that contributes to both strengthening the ongoing recovery and ensuring the sustainability of the United Kingdom's public finances. Based on the Commission 2018 spring forecast, there is a risk of some deviation from the requirements of the preventive arm in 2018-2019.

(8) In 2019-2020, in view of the United Kingdom's general government debt ratio above 60 % of GDP and projected output gap of 0,4 %, the nominal growth rate of net primary government expenditure should not exceed 1,6 %, in line with the structural adjustment of 0,6 % of GDP stemming from the commonly agreed adjustment matrix of requirements under the Stability and Growth Pact. Under unchanged policies, the United Kingdom is forecast to comply with the requirement in 2019-2020. The United Kingdom is prima facie projected to comply with the transitional debt rule in 2018-2019 and in 2019-2020 as a result of the allowed annual deviation of 0,25 %. Overall, the Council is of the opinion that the United Kingdom needs to stand ready to take further measures as of 2018-2019 to comply with the provisions of the Stability and Growth Pact.

(9) Annual net housing supply continues to increase amid a range of government initiatives to stimulate the housing market and a cyclical recovery. However, it remains far below estimates of demand and the United Kingdom continues to face a major challenge in delivering sufficient housing. This is linked to very strict and complex regulation of the land market. Shortages of housing and high housing costs are particular issues in areas of high and growing demand, such as in and around urban centres. The Government recognises the problem and has set ambitious objectives to increase supply in the coming years. At the same time, the Government has reaffirmed its commitment to limiting development around urban centres. Home ownership has fallen significantly for younger people, contributing to intergenerational inequality.

(10) Labour productivity is low and stagnant. Large parts of the economy perform comparatively poorly on the main drivers of productivity — skills, investment and efficient business processes. The United Kingdom's road, rail and aviation networks also have significant and growing capacity pressures.

(11) Although headline labour market figures continue to be positive across most metrics, there are ongoing concerns about the quality of some employment. This is related to issues with skills development, certain atypical forms of work, earnings, productivity, labour market participation and working-age poverty. There have been significant policy announcements and developments on all of these issues. Coherence in these related policies is paramount.

[1] Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (OJ L 347, 20.12.2013, p. 320).

[2] Net primary government expenditure comprises total government expenditure excluding interest expenditure, expenditure on Union programmes fully matched by Union funds revenue and non-discretionary changes in unemployment benefit expenditure. Nationally financed gross fixed capital formation is smoothed over a four-year period. Discretionary revenue measures or revenue increases mandated by law are factored in. One-off measures on both the revenue and expenditure sides are netted out.

On skills, much of the focus thus far has been on apprenticeships and reforms to technical education. A focus on quality for both could provide a sustainable multiplier effect for the society as well as the economy. The United Kingdom is among those Member States that already meet over two-thirds of the draft criteria in the European Framework for Quality and Effective Apprenticeships, and therefore setting and monitoring quality targets, e.g. via graduate tracking, is feasible. Resources commensurate with those earmarked for apprenticeships and the new T-Levels for school leavers are needed for lifelong learning options, particularly for those trapped in entry-level employment.

(12) Social protection and inclusion issues also need attention going forward. Childcare reforms are being rolled out, but more provision may be needed, particularly for children under three. The impact of some welfare reforms and cutbacks are yet to be fully felt, particularly for in-work families.

(13) In the context of the 2018 European Semester, the Commission has carried out a comprehensive analysis of the United Kingdom's economic policy and published it in the 2018 country report. It has also assessed the 2018 Convergence Programme, the 2018 National Reform Programme and the follow-up given to the recommendations addressed to the United Kingdom in previous years. The Commission has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in the United Kingdom, but also the extent to which they comply with Union rules and guidance, given the need to strengthen the Union's overall economic governance by providing Union-level input for future national decisions.

(14) In the light of this assessment, the Council has examined the 2018 Convergence Programme and its opinion [1] is reflected in particular in recommendation (1) below,

HEREBY RECOMMENDS that the United Kingdom take action in 2018 and 2019 to:

1. Ensure that the nominal growth rate of net primary government expenditure does not exceed 1,6 % in 2019-2020, corresponding to an annual structural adjustment of 0,6 % of GDP.

2. Boost housing supply, particularly in areas of highest demand, including through additional reforms to the planning system.

3. Address skills and progression needs by setting targets for the quality and the effectiveness of apprenticeships and by investing more in upskilling those already in the labour force.

Done at Brussels, 13 July 2018.

For the Council

The President

H. LÖGER

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[1] Under Article 9(2) of Regulation (EC) No 1466/97.