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I

(Resolutions, recommendations and opinions)

RECOMMENDATIONS

COUNCIL

COUNCIL RECOMMENDATION

of 9 July 2013

on the National Reform Programme 2013 of Austria and delivering a Council opinion on the Stability Programme of Austria, 2012-2017

(2013/C 217/01)

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 5(2) thereof,

Having regard to the recommendation of the European Commission,

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 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, it adopted a decision on guidelines for the employment policies of the Member States [2], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Member States' Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 strategy and to implementing the country-specific recommendations.

(4) On 10 July 2012, the Council adopted a Recommendation [3] on Austria's National Reform Programme for 2012 and delivered its opinion on Austria's Stability Programme for 2011-2016.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey, marking the start of the 2013 European Semester for economic policy coordination. Also on 28 November 2012, the Commission, on the basis of 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 [4], adopted the Alert Mechanism Report, in which Austria was not identified as one of the Member States for which an in-depth review would be carried out.

[1] OJ L 209, 2.8.1997, p. 1.

[2] Maintained for 2013 by Council Decision 2013/208/EU of 22 April 2013 on guidelines for the employment policies of the Member States (OJ L 118, 30.4.2013, p. 21).

[3] OJ C 219, 24.7.2012, p. 1.

[4] OJ L 306, 23.11.2011, p. 25.

(6) The European Parliament has been duly involved in the European Semester, in accordance with Regulation (EC) No 1466/97, and, on 7 February 2013, adopted a resolution on employment and social aspects in the Annual Growth Survey 2013 and a resolution on the contribution to the Annual Growth Survey 2013.

(7) On 14 March 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(8) On 16 April 2013, Austria submitted its 2013 National Reform Programme and its Stability Programme for the period 2012-2017. In order to take account of their interlinkages, the two Programmes have been assessed at the same time.

(9) Based on the assessment of the Stability Programme pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that Austria undertook considerable consolidation efforts to bring the budget on a path to correct the excessive deficit. With regard to the Stability Programme, the macroeconomic scenario underpinning the budgetary projections is optimistic. The main objective of the budgetary strategy outlined in the Stability Programme is to gradually reduce the general government deficit to reach a balanced budget in nominal terms by 2016 and to meet the medium-term objective (MTO) by 2017. The Stability Programme confirms the previous MTO of a structural deficit of 0,45 % of GDP. The MTO is in line with the requirements of the Stability and Growth Pact. Based on current projections, Austria is on track to correct its excessive deficit by 2013 given that the general government deficit is at 2,5 % of GDP in 2012 and is expected to further decrease to 2,2 % of GDP in 2013 and to 1,8 % of GDP in 2014 according to the Commission services forecast. However, there are possible additional costs relating to the unwinding of a large bank which could have a significant deficit-increasing impact. After a strong improvement exceeding the adjustment path required in the excessive deficit procedure (EDP) in 2012, the structural balance deficit is projected to increase in 2013 up to 1,8 %. A slight increase of the structural deficit in 2013 is confirmed also by the Commission services forecast. According to the information of the Stability programme from 2014 onwards, the recalculated structural balance foresees a structural adjustment exceeding 0,5 % in 2014 and 2015 that could enable Austria to reach the MTO 2 years in advance in comparison to the scenario presented in the Stability Programme, namely in 2015 instead of 2017.

As for the expenditure benchmark of the Stability and Growth Pact according to the information provided in the Stability Programme the growth rate of government expenditure, net of discretionary measures, over years 2014 and 2016 is expected to contribute to an annual structural adjustment towards the MTO by 0,5 % of GDP. However, the projected significant decline in the expenditure/GDP ratio in the Stability Programme scenario is very ambitious since expenditure is estimated to attain in terms of GDP one of the lowest level in more than 15 years. Austria can be expected to be in transitional period from 2014 to 2016 regarding compliance with the debt criterion and plans would ensure sufficient progress towards compliance.

The strengthening of the budgetary framework has left the fiscal relations between layers of government largely unchanged and overlapping responsibilities and inconsistencies between funding and spending responsibilities remain a challenge. The complex mechanism of continuous agreements between the national government, social insurance providers and the sub-federal level, constitute an implementation risk to measures aimed at containing health expenditure. In education, the negotiations on a 6-point proposal including the abolition of school authorities at district level are a welcome step towards streamlining of responsibilities between different layers of government, but further simplification would be needed to reduce fragmentation more substantially.

(10) The Austria's labour force potential is projected to shrink from 2020 and the economy is becoming more skills-intensive. There is scope to optimise the use of its working-age population, in particular women, migrants and older workers.

(11) Older workers still have an employment rate below the EU average (43,1 % v 48,8 %), even though it is improving markedly and approaching the EU average, and almost 30 % of people spend between 1,5 and 3 years in unemployment or on sick leave just before retiring. The still relatively widespread use of early retirement and invalidity pension schemes as well as a relatively low statutory retirement age for women (60), which is going to increase only very gradually in the future, has a negative impact on the labour supply of older workers. A number of measures were adopted in 2012 to increase the effective retirement age, mainly by reducing the use of early retirement and invalidity pensions.

(12) Although the female employment rate in Austria is relatively high (70,3 % compared to 62,4 % at EU level in 2012), there is still scope for increasing it by reducing

gender segmentation in the labour market. The share of women in part-time employment is among the highest in the Union and availability of childcare and long-term care services is limited. Female employment rates measured in full-time equivalents suggest that Austria has particular difficulties in fully tapping the potential of its female labour force. Moreover, women are found almost twice as often in marginal employment and are highly concentrated in low-wage employment. This pattern results in a gender pay gap of 24 %, which is the third highest in the Union. A reduction of the tax burden for low income earners could provide higher incentives to increase labour market participation. The structure of the Austrian tax system provides the space to shift taxation towards other sources which are less detrimental to growth. In fact, property tax revenues in Austria account for 0,5 % of GDP and are significantly below the EU average of 2,1 % of GDP. In particular, revenues from recurrent taxes on immovable property which are considered to be the least detrimental to growth are the third lowest in the Union, representing 0,2 % of GDP in 2011 (EU average: 1,3 %).

(13) With 19 % of the working age population in 2011 being foreign born, Austria has one of the largest shares of working-age immigrants among the countries of the Organisation for Economic Cooperation and Development (OECD). Migrants often face difficulties on the labour market and have significantly higher unemployment rates (9,7 % v 3,6 %) and lower employment rates (non-EU 27 nationals: 62,8 % v Austrians: 76,4 %) Additionally, people with a migrant background are three times more often employed and paid below their actual qualification levels than Austrians (2008: 27,5 % v 9,7 %). Also their education outcomes are lower and their poverty risk is twice as high (26,6 % v 12,6 %).

(14) Medium and long-term pension and healthcare expenditure projections pose a risk to the sustainability of public finances. Long-term care expenditure projections also point to a sustainability risk, although to a lesser extent. The recent reforms to the pension system are likely to reduce the sustainability risks to some degree, if accompanied by improvements in labour market conditions that allow older workers to stay longer in employment. However, an accelerated harmonisation of retirement ages between men and women as well increasing of the effective retirement age by aligning retirement age or pension benefits to changes in life expectancy is still missing. The issue of the fiscal sustainability of the healthcare and long-term care system has to be addressed, also in view of the increasing need and demand for long-term care provision. The recent policy measures taken in the health sectors are likely to go in the right direction, although careful assessment of their effectiveness has to be carried out in the coming years. There is scope to enhance prevention, rehabilitation and independent living to contain future costs of long-term care.

(15) According to comparative international studies and tests, education outcomes in Austria are below average for 10 to 15-year-olds despite the fact that Austria's spending on education stood in 2009 at 6,01 % of GDP, well above the EU average of 5,41 %. More than 25 % of young people aged 15 have poor reading skills and outcomes are only slightly better in mathematics. Achievement gaps between young people with a migration background and their native peers are among the highest in the Union. In higher education increasing student numbers are putting pressure on financial and organisational systems but the share of students completing their studies successfully is low. The division of responsibilities in the management and funding of the education system is also fragmented.

(16) Austria is one of the Member States that would see most benefit (in GDP) from reduced barriers to cross-border service provision. However, there are still significant barriers to entry and effective competition in the services sector. These barriers are especially pronounced in the liberal professions and railway transport. Professional services play an important role in the business service markets, accounting for 10 % of GDP and 11 % of total employment. Restrictions on gaining access to and practising professions in the services sector, for example, as regards legal form and shareholding requirements, persist. There is a strong case for assessing how justified these restrictions are and if the same public interest objectives cannot be reached with lighter regulatory regimes. While a recent change in competition law will strengthen the powers of the Austrian competition authority, its financial and human resources are still below the levels observed in economies of a similar or even smaller size.

(17) Austria has made progress in the cross-border home-host financial supervisory cooperation. Moreover, further headway has been made with the restructuring of nationalised or partly nationalised banks which have benefitted from restructuring aid. However, due to risks associated with a further deterioration in asset quality of these banks, there are still remaining pockets of vulnerability which need to be closely monitored.

(18) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Austria's economic policy. It has assessed the National Reform Programme and the Stability Programme. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Austria but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (7) below.

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

(20) In the context of the European Semester the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On this basis the Council has issued specific recommendations addressed to the Member States whose currency is the euro [2]. As a country whose currency is the euro, Austria should also ensure the full and timely implementation of those recommendations,

HEREBY RECOMMENDS that Austria take action within the period 2013-2014 to:

1. Implement the budget for the year 2013 as envisaged so as to correct the excessive deficit in a sustainable manner and achieve the average annual structural adjustment effort specified in the Council recommendations under the EDP. After correction of the excessive deficit, pursue the structural adjustment effort at an appropriate pace so as to reach the MTO by 2015. Streamline fiscal relations between layers of government, for example simplifying the organisational setting and aligning spending and funding responsibilities.

2. Bring forward the harmonisation of pensionable age for men and women, increasing the effective retirement age by aligning the retirement age or pension benefits to changes in life expectancy, implement and monitor the recent reforms restricting access to early retirement and further improve older workers' employability in order to raise the effective retirement age and the employment rate of older workers.

3. Take new measures to increase the labour market participation of women, namely by further improving childcare and long-term care services and address the high gender pay and pension gaps. Fully use the labour market potential of people with a migrant background by continuing to improve the recognition of their qualifications and their education outcomes. Reduce the effective tax and social security burden on labour for low-income earners in a budget-neutral way by relying more on other sources of taxation less detrimental to growth, such as recurrent property taxes.

4. Effectively implement the recent reforms of the healthcare system to make sure that the expected cost efficiency gains materialise. Develop a financially sustainable model for the provision of long-term care and put a stronger focus on prevention, rehabilitation and independent living.

5. Improve educational outcomes, in particular of disadvantaged young people, including by enhancing early childhood education and reducing the negative effects of early tracking. Further improve strategic planning in higher education and enhance measures to reduce drop-outs.

6. Further strengthen the powers and resources of the federal competition authority and monitor the implementation of the competition law reform. Remove excessive barriers for service providers. This includes reviewing whether existing restrictions on entry and conduct in regulated professions are justified by general interest and fostering competition notably in the railway sector.

7. With a view to maintaining financial stability continue to closely oversee the nationalised and partly nationalised banks and speed up their restructuring.

Done at Brussels, 9 July 2013.

For the Council

The President

R. ŠADŽIUS

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[1] Under Article 5(2) of Regulation (EC) No 1466/97.

[2] See page 97 of the current Official Journal.

COUNCIL RECOMMENDATION

of 9 July 2013

on the National Reform Programme 2013 of Belgium and delivering a Council opinion on the Stability Programme of Belgium, 2012-2016

(2013/C 217/02)

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 5(2) thereof,

Having regard to 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 [2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

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 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, it adopted a decision on guidelines for the employment policies of the Member States [3], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Member States' Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 strategy and to implementing the country-specific recommendations.

(4) On 10 July 2012, the Council adopted a recommendation [4] on Belgium's National Reform Programme for 2012 and delivered its opinion on Belgium's Stability Programme for 2012-2015.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey, marking the start of the 2013 European Semester for economic policy coordination. Also on 28 November 2012, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report, in which it identified Belgium as one of the Member States for which an in-depth review would be carried out.

(6) The European Parliament has been duly involved in the European Semester, in accordance with Regulation (EC) No 1466/97, and, on 7 February 2013, adopted a resolution on employment and social aspects in the Annual Growth Survey 2013 and a resolution on the contribution to the Annual Growth Survey 2013.

(7) On 14 March 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(8) On 10 April 2013, the Commission published the results of its in-depth review for Belgium, under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that Belgium is experiencing macroeconomic imbalances, which deserve monitoring and require policy action. In particular, macroeconomic developments in the areas of external competitiveness of goods, and indebtedness, especially concerning the implications of the high level of public debt for the real economy, continue to deserve attention.

[1] OJ L 209, 2.8.1997, p. 1.
[2] OJ L 306, 23.11.2011, p. 25.
[3] Maintained for 2013 by Council Decision 2013/208/EU of 22 April 2013 on guidelines for the employment policies of the Member States (OJ L 118, 30.4.2013, p. 21).
[4] OJ C 219, 24.7.2012, p. 5.

(9) On 29 April 2013, Belgium submitted its 2013 National Reform Programme and its Stability Programme for the period 2012-2016. In order to take account of their interlinkages, the two Programmes have been assessed at the same time.

(10) Based on the assessment of the Stability Programme pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the Programme is plausible. In comparison to the Commission services 2013 spring forecast, which projects GDP growth to be flat in 2013 and to increase to 1,2 % in 2014, it is slightly more optimistic (projecting 0,2 % and 1,5 %, respectively). Since 2010, and particularly in 2012, Belgium has implemented consolidation measures and, also in 2012, it introduced structural reforms in the pension system, the unemployment benefit system and product markets. However, the fiscal effort was not sufficient to be in line with the Council Recommendation of 2 December 2009 to end the excessive deficit situation. Also in light of the recapitalisation of the banking group Dexia, which had a negative impact of 0,8 % of GDP on the deficit outcome, and the worse than expected economic developments in the second half of 2012, the 2012 deadline for correction of the excessive deficit has been missed. Due to this, it is now foreseen that the deficit will be brought below the 3 % of GDP Treaty reference value as of 2013. The objective of the budgetary strategy outlined in the Stability Programme is to reach a balanced budget in structural terms by 2015 and to achieve the medium-term objective (MTO) in 2016. The Stability Programme has changed the MTO from a surplus of 0,5 % to 0,75 % of GDP. The new MTO is in line with the requirements of the Stability and Growth Pact. The Stability Programme is compatible with the new excessive deficit procedure deadline of 2013, but according to the Commission services 2013 spring forecast the safety margin against breaching the 3 % of GDP Treaty reference value is narrow, with a deficit projected at 2,9 % of GDP in 2013.

The planned annual progress towards the MTO, which is projected to be reached by 2016, is higher than 0,5 % of GDP (in structural terms). No consolidation measures have been specified beyond 2013. According to the information provided in the Stability Programme, the growth rate of government expenditure, net of discretionary revenue measures, over 2014-2016 is expected to contribute to an annual structural adjustment towards the MTO by 0,5 % of GDP. According to the Stability Programme, the debt ratio will peak at 100 % of GDP in 2013 and will decline gradually to 93 % of GDP by 2016. From 2014 to 2016, Belgium can be expected to be in a transitional period regarding compliance with the debt criterion. According to the plans, the debt benchmark will be met at the end of the transitional period. Based on the Commission services 2013 spring forecast, which projects the debt ratio to reach 101,4 % in 2013 and to rise further to 102,1 % of GDP in 2014 under a no-policy-change assumption, the transition towards the debt reduction rule will not be respected in 2014, which indicates that progress towards the MTO is not sufficient. The Stability Programme does not explain how the planned adjustment will be shared between the different layers of government, an issue also addressed in last year's Country Specific Recommendation. In addition to a rules-based multi-annual framework for general government, it is necessary to design and agree on explicit coordination arrangements to secure and enforce more robust, automatic commitments from the regions, communities and local authorities, in order to meet budgetary targets.

(11) Belgium faces a very significant projected increase in age-related expenditure (+2,0 percentage points of GDP) already in the 2010-2020 period, in particular in the areas of pensions and long-term care. The initiated reform of old age social security is set to have a positive impact on the employment of older people. Nevertheless, forecasts show that Belgium will fall short of the 2020 target it set for itself in this area. Given the magnitude of the challenge, additional efforts will be required to close the gap between the effective and the statutory retirement age. Measures to link the statutory retirement age to developments in life expectancy would make it possible to safeguard the sustainability of the pension system in the long term. The need to achieve financial sustainability will have to be balanced against the need to maintain the adequacy of the old-age social security schemes. In long-term care, improved cost-efficiency of public spending on long-term care services, cost-saving measures such as health prevention and rehabilitation, and the creation of better conditions for independent living should be explored in the light of the relatively high cost of institutional care in Belgium.

(12) Belgium's long term loss of competitiveness is caused by several factors, including the wage-setting system, malfunctions in the markets for inputs, and non-cost factors related to the innovation capacity of the economy. The wage norm of 1996, intended to preserve competitiveness vis-à-vis the main trading partners, has not always fulfilled its role. The immediate measures taken so far to bring wage evolutions more in line with productivity levels are steps in the right direction, but are not sufficient to ensure long-term compatibility between wage and productivity developments. Structural improvements to the wage-bargaining framework are still needed. These include automatic corrections in case the wage norm is not respected or where the health index increase exceeds wage increases in the main trading partners. The wage-bargaining system should ensure that wage developments follow subregional and local level productivity dynamics. Belgium specialises in intermediate products for which international competition is severe, making it difficult to include variations in input prices in the end price. While the strengths of the Belgian research and innovation (R&D) system have played a mitigating role as

regards cost-competitiveness, business R&D remains very concentrated and broader uptake by businesses lags behind. The framework conditions for speeding up the transition towards a more knowledge-intensive economy should be reinforced, focusing on entrepreneurship, facilitating firm dynamics and the formation of human capital.

(13) Prices for electricity and many other goods and services are higher in Belgium than in other Member States, reflecting weak competition and structural barriers. Prices in the retail sector remain above the euro area average, while restrictions on professional services impede the development of innovative business models and restrain investment. Belgium has made only limited progress in improving competition in the network industries and the establishment of strong and independent regulators remains incomplete. Belgium has the second-lowest rate of mobile broadband penetration in the Union, largely due to regulatory and coordination problems with regard to spectrum availability. While higher consumer switching has diminished the dominance in generation of the traditional energy operator, competition at retail level for electricity and gas and at wholesale level for electricity remains a challenge with high distribution costs disproportionately contributing to net price levels for industrial users when compared with neighbouring countries. Belgium's decision to control end user retail prices for electricity and gas may hamper capacity investments and new market entry. Licensing conditions in the postal sector still raise concerns. Domestic rail passenger transport is not open to competition and port labour legislation has not been modernised. Given the importance of all of the above-mentioned sectors for competitiveness, these measures are urgently needed.

(14) The Belgian taxation system relies disproportionately on direct taxes and contains loopholes that diminish its fairness. While Belgium has made some efforts to reduce the overall tax burden on labour, the implicit tax rate is still among the highest in the Union for most types of workers. Belgium continues to be one of the countries with the lowest share of environmental taxation in total tax revenues. There is scope for simplifying the tax system and improving its efficiency, including by reducing and streamlining tax expenditures, as well as removing unjustified or ineffective reduced VAT rates.

(15) Belgium suffers from below-average and stagnating labour-market participation and high employment and unemployment disparities across regions and population subgroups. The population groups with the lowest participation in the labour market include those with a migrant background, the elderly and low-skilled youth in all regions. These groups are also exposed to higher risks of poverty and social exclusion. The reform of the unemployment benefits system is a move in the right direction but does not in itself guarantee more effective matching of labour supply and demand unless it is associated with effective job-search assistance and training opportunities. The interaction between the targeted reductions at the federal level and the employment support schemes implemented by the regions generates considerable complexity. Although the measures aimed at low-skilled youth are likely to also benefit migrants, an encompassing strategy specifically aimed at this target group is called for. In addition, it would seem difficult to solve certain labour mismatches without significantly increasing interregional labour mobility. A more fundamental assessment is needed of how to make the provision of education and training more transparent and efficient and how to reinforce the synergy between the different training providers.

(16) Projections for greenhouse gas emissions until 2020 indicate that Belgium will fail to meet its 15 % reduction target. It remains unclear how the isolated initiatives taken by the different authorities will ensure that the target is met, or how the burden will be shared between the regions. The impact of the combined measures on reducing emissions, in particular from the transport sector and buildings, remains unclear. Congestion is placing a heavy burden on the Belgian economy, estimated to be as high as 2 % of GDP and one of the highest in Europe, but the implementation of the new traffic tax system in the three regions has been delayed until 2016.

(17) The coordination issues inherent in a highly regionalised structure put emphasis on an efficient organisation of public governance, as the presence of multiple networks, layers and actors may lead to duplication of structures with weakened governance and higher administrative costs. These issues come to the fore with regard to taxation and the burden sharing of budgetary efforts including for education and social security, which, in general, requires more cooperation and coordination.

(18) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Belgium's economic policy. It has assessed the National Reform Programme and the Stability Programme, and presented an in-depth review. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in Belgium but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the Union by providing EU-level input

into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (7) below.

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

(20) In the light of the Commission's in-depth review and this assessment, the Council has examined the National Reform Programme and the Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1) to (5) below.

(21) In the context of the European Semester the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On this basis the Council has issued specific recommendations addressed to the Member States whose currency is the euro [2]. As a country whose currency is the euro, Belgium should also ensure the full and timely implementation of those recommendations,

HEREBY RECOMMENDS that Belgium take action within the period 2013-2014 to:

1. Adopt additional measures to achieve the structural adjustment effort specified in the Council Decision to give notice to correct the excessive deficit by 2013 and to enhance the sustainability and credibility of the consolidation. A durable correction of the fiscal imbalances requires the credible implementation of ambitious structural reforms which would increase the adjustment capacity and boost potential growth. After the correction of the excessive deficit, pursue the structural adjustment at an appropriate pace so as to reach the MTO by 2016 and ensure that the high debt ratio is put on a firm downward path. To this end, present, by 15 October 2013, growth-friendly structural measures for 2014 which ensure a sustainable correction of the excessive deficit and sufficient progress towards the MTO. Ensure that the adjustment path is balanced over time or even front-loaded. Adopt explicit coordination arrangements to ensure that budgetary targets are binding at federal and sub-federal levels within a medium-term planning perspective, including through the prompt adoption of a rule on the general government budget balance/surplus that complies with the requirements of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union and to increase the transparency of burden sharing and accountability across government layers.

2. Step up efforts to close the gap between the effective and statutory retirement age, including by pursuing the ongoing reforms to reduce the early-exit possibilities. Underpin reforms of the old-age social security systems with employment-support measures and labour-market reforms conducive to active ageing. Increase the effective retirement age by aligning retirement age or pension benefits to changes in life expectancy. Continue to improve the cost-efficiency of public spending on long term institutional care.

3. To restore competitiveness, pursue the ongoing efforts to reform the wage-setting system, including wage indexation, in particular by taking structural measures, in consultation with the social partners and in accordance with national practice, to ensure that wage setting is responsive to productivity developments, reflects subregional and local differences in productivity and labour-market conditions, and provides automatic corrections when wage evolution undermines cost-competitiveness.

4. Present concrete and time-specific structural measures to improve competition in the services sector, by removing barriers in retail and excessive restrictions in professional services, and improve the provision of mobile broadband. Continue to improve the functioning of the energy sector by reducing distribution costs and monitoring retail prices, and strengthen the independence of the regulators in the energy, telecoms and the transport sectors (railway, airport). Remove remaining regulatory barriers in the postal sector.

5. Establish concrete and time-specific proposals for shifting taxes from labour to less growth-distortive tax bases, notably by exploring the potential of environmental taxes, for example on diesel, heating fuels and the taxation of the private use of company cars. Simplify the tax system by reducing tax expenditures in income taxation, increasing VAT efficiency and improving tax compliance by closing existing loopholes.

6. Further reduce disincentives to work by ensuring effective enforcement of job-search requirements and personalised job search assistance for all unemployed. Take measures to increase interregional labour mobility. Simplify and reinforce coherence between employment incentives, activation policies, labour matching, education, lifelong learning and vocational training policies for older people and youth. Develop comprehensive social-inclusion and labour market strategies for people with a migrant background.

[1] Under Article 5(2) of Regulation (EC) No 1466/97.
[2] See page 97 of the current Official Journal.

7. Take concrete measures and agree a clear division of efforts between the federal and regional authorities to ensure progress towards reaching the targets for reducing greenhouse gas emissions from non-Emissions Trading Scheme activities, in particular from transport and buildings.

Done at Brussels, 9 July 2013.

For the Council

The President

R. ŠADŽIUS

COUNCIL RECOMMENDATION

of 9 July 2013

on the National Reform Programme 2013 of Bulgaria and delivering a Council opinion on the Convergence Programme of Bulgaria, 2012-2016

(2013/C 217/03)

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 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 [2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

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 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, it adopted a decision on guidelines for the employment policies of the Member States [3], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Member States' Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 strategy and to implementing the country-specific recommendations.

(4) On 10 July 2012, the Council adopted a Recommendation [4] on Bulgaria's National Reform Programme for 2012 and delivered its opinion on Bulgaria's Convergence Programme for 2012-2015.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey, marking the start of the 2013 European Semester for economic policy coordination. Also on 28 November 2012, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report, in which it identified Bulgaria as one of the Member States for which an in-depth review would be carried out.

(6) The European Parliament has been duly involved in the European Semester, in accordance with Regulation (EC) No 1466/97, and, on 7 February 2013, adopted a resolution on employment and social aspects in the Annual Growth Survey 2013 and a resolution on the contribution to the Annual Growth Survey 2013.

(7) On 14 March 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(8) On 10 April 2013, the Commission published the results of its in-depth review for Bulgaria, under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that Bulgaria is experiencing macroeconomic imbalances, which deserve monitoring and policy action. In particular, the impact of deleveraging in the corporate sector as well as the continuous adjustment of external positions, competitiveness and labour markets deserve continued attention.

[1] OJ L 209, 2.8.1997, p. 1.

[2] OJ L 306, 23.11.2011, p. 25.

[3] Maintained for 2013 by Council Decision 2013/208/EU of 22 April 2013 on guidelines for the employment policies of the Member States (OJ L 118, 30.4.2013, p. 21).

[4] OJ C 219, 24.7.2012, p. 9.

(9) On 19 April 2013, Bulgaria submitted its 2013 National Reform Programme and its Convergence Programme for the period 2012-2016. In order to take account of their interlinkages, the two Programmes have been assessed at the same time.

(10) Based on the assessment of the Convergence Programme pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that public finances in Bulgaria have overall been sound. The medium-term objective (MTO) was reached in 2012. The macroeconomic scenario underpinning the budgetary projections in the Convergence Programme is plausible for the period 2013-2014, when annual growth is expected to reach 1,0 % in 2013 and 1,8 % in 2014. The Commission services 2013 spring forecast foresees a GDP growth of 0,9 % in 2013 and of 1,7 % in 2014. The objective of the budgetary strategy outlined in the Convergence Programme is to keep the structural budget balance close to the MTO throughout the programme period. The Convergence Programme confirms the previous MTO of -0,5 % of GDP which is more ambitious than required by the Stability and Growth Pact. Based on the (recalculated) structural budget balance, which is estimated to weaken slightly from a deficit of 0,4 % of GDP in 2012 to between 0,7-0,8 % of GDP over 2013-2016. Bulgaria falls marginally below its MTO over the Convergence Programme period. In 2013-2015, the growth rate of government expenditure, taking into account discretionary revenue measures, would respect the expenditure benchmark of the Stability and Growth Pact, yet breach it in 2016. The debt ratio is below 60 % of GDP and, according to the Convergence Programme, it is expected to peak at 20,4 % of GDP in 2014 and then to decrease over the programme period. Similarly, the Commission services 2013 spring forecast foresees the debt ratio to amount to 20,3 % of GDP in 2014.

(11) Bulgaria has substantially strengthened its fiscal framework in recent years which has contributed to maintaining fiscal discipline and increasing fiscal policy credibility. The new Public Finance Law which will enter into force in 2014 retains the existing numerical fiscal rules, introduces new ones and expands the coverage to all government subsectors, further strengthens requirements at the municipal level and reforms the three-year medium-term budgetary framework. It is important that the authorities maintain the reform momentum and prepare the ground for implementation of the new Public Finance Law, in particular by establishing the envisaged independent fiscal institution and giving it a clear mandate, functional autonomy and adequate resources. There is considerable scope for improvement in tax compliance and progress in this area would allow Bulgaria to support higher growth-enhancing expenditure. While Bulgaria has taken some recognisable steps to reduce compliance costs and to improve revenue collection, the tax system remains characterised by significant tax evasion and low administrative efficiency. Administrative costs for tax collection are high, as are the costs for businesses associated with paying taxes. Despite the measures taken to improve tax compliance, the share of the shadow economy is still estimated to be high and reducing it requires sustained long-term efforts.

(12) Reducing early labour market exit is a key challenge for improving the adequacy of the pension system, as well as for the supply of labour. The employment rate of older workers, in particular of older women, is below the EU average and results in inadequate pension entitlements for a large share of the beneficiaries. Whilst important reforms are already being undertaken in this area, the remaining special schemes for certain professions are among the factors contributing to lowering the effective retirement age. Continuing the progress achieved in raising the pension age, Bulgaria should also prepare and set a date for the introduction of the same statutory retirement age for men and women with full career contributions. A review of the criteria and controls for the allocation of invalidity pensions (such as the introduction of ability to work as a criterion) would be an important contribution to effectively limiting abuse.

(13) Bulgaria suffers from below-average and declining employment as well as high unemployment disparities across regions and population subgroups. The crisis has had a particularly strong impact on low-skilled workers and has significantly raised youth unemployment. Long-term unemployment is higher than the EU average. A reformed Employment Agency would have the potential to play a prominent role in matching supply and demand in Bulgaria's labour market through more effective counselling, targeted employment measures and better identifying future skills requirements. An early evaluation of the ongoing Youth Employment Initiative could help to ensure that resources are directed to those actions that generate the highest job-creation returns. It remains a challenge to ensure that the system of minimum social security contributions attains the objective of reducing the shadow economy, while not pricing out low-skilled workers. Bulgarian citizens experience the highest risk of poverty or social exclusion in the Union. The implementation of the National Strategy for Reducing Poverty and Promoting Social Inclusion 2020 should be treated as priority. There is a need to improve the accessibility and effectiveness of social transfers and to enhance the efficiency and access to social services, in particular for children and older people. The Action plan to the National Roma Integration Strategy should indicate specific measures, appropriate funding and the establishment of a monitoring mechanism for measuring the impact of actions.

(14) Bulgaria is facing the challenge of improving the overall quality and efficiency of its education system. The final adoption of the School and Pre-School Education Act before the end of 2013 would provide a framework for progress on the necessary reforms, including modernising curricula and implementing improvements to teachers' training and incentives. In higher education, reforms have made very limited progress. The existence of an important disparity between higher education outcomes and labour-market demand worsens structural unemployment and hampers the development of high-value, innovative sectors. The poor performance of higher education is linked to a lack of incentives at institutional level as well as to the standard of individual researchers and teachers. Improving the quality and coverage of the healthcare system is a long-standing challenge for Bulgaria. Increased transparency in healthcare financing would contribute to growth and competitiveness in the sector. The share of healthcare spending on ambulatory care is low, limiting access to cost-effective healthcare services. The high rate of out-of-pocket payments effectively excludes certain segments of the population from healthcare services. Bulgaria faces important challenges in the rationalisation and management of the hospital sector.

(15) The competitiveness of domestic companies and the attraction of foreign investments would benefit greatly from improvements to Bulgaria's business environment, including increased efficiency of public services. A speedier, systematic introduction of e-government offers considerable potential and could, inter alia, reduce compliance costs and the administrative burden for business. Moreover, full implementation and enforcement of corporate legislation, including late-payments and insolvency procedures, would considerably improve the framework conditions, not least for small and medium-sized enterprises (SMEs). Inadequate access to finance remains a brake on SME development. There remains considerable scope to better use Union funded SME support programmes. A well-functioning, independent judicial system is a prerequisite for sustainable economic development. Bulgaria has over recent years made progress in reforming the judicial system, in particular in modernising the legal and institutional framework. At the same time, there remains considerable potential for making full use of this framework, securing the sustainability of results and enhancing the ownership of reforms at all levels. Enhanced efforts to fight corruption would likewise constitute a positive contribution to improving the business environment.

(16) Effective implementation of Union funds remains critical to necessary public investment. The 2011 reform of public-procurement legislation was a significant step towards improving the monitoring, prevention and punishment of irregularities. While new rules covering, inter alia, EU co-funded projects have entered into force, giving broader powers to the Public Procurement Agency would further enhance the effectiveness of *ex ante* control.

(17) The capacity and independence of regulators in key economic sectors are important framework conditions for competitiveness. Bulgaria's transport infrastructure has experienced some improvements over recent years, whilst considerable potential remains for making service provision and maintenance sufficiently efficient. Bulgaria has yet to fully implement its obligations under the Internal Energy Market. Considerable challenges remain at both wholesale and retail levels. Persistent market barriers, guaranteed profit arrangements and regulated prices, together with the absence of a wholesale market for electricity and natural gas, constitute areas of particular concern. Given its considerable dependence on a single energy route, Bulgaria is highly exposed to the risk of supply shocks. The implementation of electricity and gas interconnector projects should be speeded up to improve diversification and security of supply. Low energy efficiency remains a significant economic burden on both business and private consumers. In particular, the energy efficiency of buildings, both public and private, holds considerable potential.

(18) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Bulgaria's economic policy. It has assessed the National Reform Programme and the Convergence Programme, and has presented an in-depth review. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Bulgaria but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (7) below.

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

(20) In the light of the Commission's in-depth review and this assessment, the Council has examined the National Reform Programme and the Convergence Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (3), (4) and (5) below,

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

HEREBY RECOMMENDS that Bulgaria take action within the period 2013-2014 to:

1. Preserve a sound fiscal position by ensuring compliance with the MTO and pursue a growth-friendly fiscal policy as envisaged in the Convergence Programme. Implement a comprehensive tax strategy to strengthen all aspects of the tax law and collection procedures with a view to increase revenue, in particular by improving tax collection, tackling the shadow economy and reducing compliance costs. Establish an independent institution to monitor fiscal policy and provide analysis and advice.

2. Phase out early retirement options, introduce the same statutory retirement age for men and women and implement active labour-market policies that enable older workers to stay longer in the labour market. Tighten the eligibility criteria and controls for the allocation of invalidity pensions to effectively limit abuse.

3. Accelerate the national Youth Employment Initiative, for example through a Youth Guarantee [1]. Further strengthen the capacity of the Employment Agency with a view to providing effective counselling to jobseekers and develop capacity for identifying and matching skill needs. Enhance active labour-market policies, in particular concerning national employment schemes. Undertake a review of the minimum thresholds for social security contributions to ensure that the system does not price the low-skilled out of the labour market. Ensure concrete delivery of the National Strategy for Reducing Poverty and Promoting Social Inclusion 2020 and the National Roma Integration Strategy. Improve the accessibility and effectiveness of social transfers and services, in particular for children and older people.

4. Adopt the School Education Act and pursue the reform of higher education, in particular through better aligning outcomes to labour-market needs and strengthening cooperation between education, research and business. Improve access to inclusive education for disadvantaged children, in particular Roma. Ensure effective access to healthcare and improve the pricing of healthcare services by linking hospitals' financing to outcomes and developing out-patient care.

5. Take further steps to improve the business environment, by cutting red tape, implementing an e-government strategy and implementing the legislation on late payments. Improve the quality and independence of the judicial system and fight corruption more effectively. Improve the access to finance for SMEs and start-ups.

6. Accelerate the absorption of EU funds. Ensure sound implementation of public-procurement legislation by extending *ex ante* control by the Public Procurement Agency to prevent irregularities.

7. Strengthen the independence of national regulatory authorities and the administrative capacity in particular in the energy and transport sectors, as well as for waste and water management. Remove market barriers, quotas, territorial restrictions and regulated prices, and complete the market design by setting up a transparent wholesale market for electricity and natural gas. Accelerate electricity and gas interconnector projects and enhance the capacity to cope with disruptions. Step up efforts to improve energy efficiency.

Done at Brussels, 9 July 2013.

For the Council

The President

R. ŠADŽIUS

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[1] Established by Council Recommendation of 22 April 2013 (OJ C 120, 26.4.2013, p. 1.).

COUNCIL RECOMMENDATION

of 9 July 2013

on the National Reform Programme 2013 of the Czech Republic and delivering a Council opinion on the Convergence Programme of the Czech Republic, 2012-2016

(2013/C 217/04)

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 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 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, it adopted a decision on guidelines for the employment policies of the Member States [2], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Member States' Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 strategy and to implementing the country-specific recommendations.

(4) On 10 July 2012, the Council adopted a Recommendation [3] ('the 2012 Recommendation') on the Czech Republic's National Reform Programme for 2012 and delivered its opinion on the Czech Republic's Convergence Programme for 2012-2015.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey, marking the start of the 2013 European Semester for economic policy coordination. Also on 28 November 2012, the Commission, on the basis of 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 [4], adopted the second Alert Mechanism Report, in which the Czech Republic was not identified as one of the Member States for which an in-depth review would be carried out.

(6) The European Parliament has been duly involved in the European Semester, in accordance with Regulation (EC) No 1466/97, and, on 7 February 2013, adopted a resolution on employment and social aspects in the Annual Growth Survey 2013 and a resolution on the contribution to the Annual Growth Survey 2013.

(7) On 14 March 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(8) On 17 April 2013, the Czech Republic submitted its 2013 National Reform Programme and, on 26 April 2013, its Convergence Programme for the period 2012-2016. In order to take account of their interlinkages, the two Programmes have been assessed at the same time.

(9) Based on the assessment of the Convergence Programme pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that the Czech Republic has reduced the headline deficit by 1,4 % [5] of GDP from 2009 to 2012

[1] OJ L 209, 2.8.1997, p. 1.

[2] Maintained for 2013 by Council Decision 2013/208/EU of 22 April 2013 on guidelines for the employment policies of the Member States (OJ L 118, 30.4.2013, p. 21).

[3] OJ C 219, 24.7.2012, p. 17.

[4] OJ L 306, 23.11.2011, p. 25.

[5] The general government deficit for 2012 includes the one-off deficit-increasing impact of the adoption of the Law on Financial Compensation to Churches (1,5 % of GDP).

due to substantial consolidation efforts and that, based on current expectations, it is on track to correct the excessive deficit. The macroeconomic scenario underpinning the budgetary projections in the Convergence Programme is plausible. According to the Convergence Programme, real GDP growth is expected to be at 0 % and 1,2 % in 2013 and 2014, respectively, compared to -0,4 % and 1,6 % in 2013 and 2014 respectively in the Commission services 2013 spring forecast. The objective of the budgetary strategy outlined in the Convergence Programme is to keep the general government deficit below the 3 % of GDP Treaty reference value. The general government deficit target of 2,8 % of GDP in 2013 is in line with the deadline for correcting the excessive deficit set out in the Council Recommendation of 2 December 2009. The Commission services 2013 spring forecast projects the government deficit at 2,9 % and 3 % of GDP in 2013 and 2014, respectively. There is a risk of worse-than-expected budgetary outcome in 2013 stemming from additional corrections in EU funds reimbursements. On the positive side, one-off revenues related to the planned auction of new telecom frequency bands could result in a better-than-expected budgetary outcome in 2013.

The Convergence Programme confirms the previous medium-term objective (MTO) of a deficit of 1 % of GDP, which adequately reflects the requirements of the Stability and Growth Pact. The (recalculated) structural budget deficit is projected to increase by 0,3 %, 0,2 % and 0,5 % of GDP in 2014, 2015 and 2016 respectively; therefore no adjustment towards the MTO is foreseen in the Convergence Programme, which is not in line with the Stability and Growth Pact. The rate of growth of government expenditure complies with the expenditure benchmark of the Stability and Growth Pact in 2014 but deviates by 0,3 % and 0,5 % of GDP in 2015 and 2016 respectively, assuming improvements of 0,5 % of GDP towards the MTO judged as appropriate by the Commission. According to the Convergence Programme, the debt-to-GDP ratio is forecast to continue to increase over the programme period, albeit at a slowing pace, and to reach 51,9 % of GDP in 2016.

(10) Swift and durable recovery is hindered in the Czech Republic by repeated cuts in public investment expenditure. Safeguarding growth-enhancing expenditure with a high multiplicative effect, including projects co-financed by EU funds, would not only help buttress recovery but could also contribute to tackling the long-term challenges. Substantial growth effects could follow from prioritising expenditure on measures aiming at increasing employment, research and innovation, education, childcare facilities and infrastructure projects. At the same time, ensuring legality, regularity and efficiency of such spending is the key.

(11) Limited progress was made in 2012 on tax reform. While the real estate transfer tax was increased, no steps were taken to raise the very low level of recurrent property taxes. Plans to introduce a CO_2 tax and abolish exemptions from excise duties on natural gas for heating have been dropped. The implicit tax rate on energy is below the EU average and vehicle circulation taxes remain very low. Structural challenges also remain in taxation of labour, in particular affecting low-income earners and part-time workers. Only marginal steps were taken to reduce discrepancies in the tax treatment of employees and the self-employed. The Czech Republic also has room to further improve the efficiency of its tax administration. As regards personal and company income taxes, the Government is planning to establish a Single Collection Point in 2015, which could effectively streamline the tax administration and help reduce the complexity of the current system. However, a drawback of the reform is that the tax bases for personal income tax, health and social contributions will not be harmonised, thereby leaving a large part of the potential benefits of the reform unexploited.

(12) The Czech Republic has a sustainability gap of 5,0 % of GDP, which is above the EU average. This gap largely reflects the projected long-term cost of ageing, which is driven by the expected increases in pension expenditure and in healthcare and long-term care spending. The statutory retirement age is rising slowly in particular for men. Increasing the effective retirement age by better aligning the retirement age or pension benefits to changes in life expectancy, compared to current legislation would significantly strengthen the sustainability of the system. Complementing these changes with a review of the indexation formula basing it on prices, would generate savings when implemented over the long run.

(13) Contrary to the 2012 Recommendation, the Government introduced a pre-retirement scheme in 2013, which offers the possibility of drawing a pension up to five years before reaching the statutory retirement age. The pre-retirement pensions are going to be paid from the (third) pension savings pillar. However, the pillar enjoys a substantial state subsidy through direct co-payments and tax deductibility of contributions. Irrespective of whether the eligibility criteria for gaining access to the scheme will be effectively met by only a limited number of persons, as the Government expects, the measure allows beneficiaries to use the previously accrued public subsidy for a purpose that goes against policies to promote longer working lives.

(14) The expected increase in healthcare and long-term care spending also provides a substantial contribution to the

cost of ageing and a large sustainability gap. Reforms aimed at improving the efficiency of the healthcare system via cost containment and more market-oriented solutions have been implemented in recent years in the Czech Republic. However, problems still exist. Compared to other Member States, the Czech healthcare system tends to be excessively centred on hospital care, which gives rise to inefficiencies. There is scope to improve the provision of care in the most clinically appropriate and cost-effective way, for example by moving to day-of-surgery admission and reducing inappropriate lengths of stay in acute care hospitals.

(15) Recent projections of the Organisation for Economic Cooperation and Development (OECD) show that full convergence of the female and male employment rates would halt the projected decline of the total labour force and increase GDP per capita by as much as 16,5 % by 2030. On 22 May 2013, the Government proposed a draft Act to introduce 'child groups' led by professional nannies, accompanied by tax subsidies for care providers and participating families. This is a step in the right direction but is only a partial response to the issue. Because of a continued shortage of childcare facilities, in particular for under three year olds, there is a need for further increase of budgetary support to public pre-school childcare facilities. The employability and labour-market participation of disadvantaged people also remains a problem: there is scope for increasing the efficiency and effectiveness of public employment services.

(16) The recommendation in the 2012 Recommendation on public administration specifically mentioned the need to increase the efficiency of public administration and step up the fight against corruption. However, only limited progress has been made in adopting the priority legal acts under the Czech anti-corruption strategy for 2011-2012. A new anti-corruption strategy for 2013-2014, adopted by the Government in January 2013, needs to be followed up by the urgent adoption of outstanding priority acts, such as the Public Servants Act. This new Act will need to adequately separate political appointees from non-political staff, guarantee independence of state officials and create a well-functioning career system to reduce high staff turnover. The Czech Republic has made substantial progress in implementing the Public Procurement Act, which came into force in April 2012. However, difficulties in implementing the Public Procurement Act have been reported by local authorities. As regards the implementation of EU funds, most of the measures included in the action plan to strengthen the management and control system were implemented by the end of 2012. However, the Czech authorities will need to ensure continuous monitoring of the action plan.

(17) At the level of compulsory education, Czech pupils attain broadly average results in international comparisons. In mathematics and science, however, the education outcomes have worsened rapidly over time. The Czech authorities have responded with a set of measures which entails the development of minimum education standards, which are to be used for nationwide testing of pupils. However, a more integrated system should be developed, ensuring that pupils, teachers and schools that underperform in the tests receive systematic support would further raise the level of ambition of the reform. The main challenge facing the Czech higher education system is to ensure that the rising number of students is equipped with the skills needed to succeed in the labour market. A reform of the Higher Education Act is being discussed to introduce differentiated funding arrangements and enhance accreditation. These are relevant and ambitious proposals, although their actual impact will depend on the final design of the reform. The authorities also plan to adopt revised evaluation standards for funding of research institutions. Increasing the share of quality indicators, including enhancing the collaboration with the business sector, would help the Czech research and innovation system reach a higher level of excellence.

(18) The Czech Republic is amongst the Member States with the highest number of regulated professions. A public consultation on the review of the regulatory framework for professions was conducted in 2012 and results are to be presented in 2013. This is an important step in order to reduce or eliminate barriers to those professions for which regulation is not proven necessary or considered excessive (including the length of mandatory traineeships) and for which an easier access could unlock further employment and growth. Despite improvements in recent years, the Czech Republic has still one of the highest energy intensities in the Union and low efficiency in buildings.

(19) In the context of the European Semester, the Commission has carried out a comprehensive analysis of the Czech Republic's economic policy. It has assessed the National Reform Programme and the Convergence Programme. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in the Czech Republic but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (7) below.

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

HEREBY RECOMMENDS that the Czech Republic take action within the period 2013-2014 to:

1. Implement as envisaged the budget for the year 2013 so as to correct the excessive deficit in 2013 in a sustainable manner and achieve the structural adjustment effort specified in the Council recommendations under the EDP. For the year 2014 and beyond, reinforce and rigorously implement the budgetary strategy, supported by sufficiently specified measures, in order to ensure an adequate fiscal effort to make sufficient progress towards the MTO. Prioritise growth-enhancing expenditure including committing on time remaining projects co-financed by EU funds under the current financial framework.

2. Reduce the high level of taxation on labour by shifting taxation to areas less detrimental to growth, such as recurrent taxes on housing and vehicle circulation taxes. Further reduce discrepancies in the tax treatment of employees and the self-employed. Improve tax compliance and reduce compliance costs by establishing a Single Collection Point and harmonising the tax bases for personal income tax and health and social contributions.

3. Increase the effective retirement age by aligning retirement age or pension benefits to changes in life expectancy, and review the indexation mechanism. Accompany the increase in retirement age with measures promoting employability of older workers and reduce early exit pathways. In particular, remove the public subsidy for the pre-retirement scheme. Take measures to significantly improve cost-effectiveness of healthcare expenditure, in particular for hospital care.

4. Make additional efforts to strengthen the efficiency and effectiveness of the public employment service. Increase significantly the availability of inclusive childcare facilities with a focus on children up to three years old, and the participation of Roma children, in particular by adopting and implementing the law on provision of childcare services and strengthening the capacities of both public and private childcare services.

5. Ensure implementation of the anti-corruption strategy for 2013-2014. Adopt the Public Servants Act that should ensure a stable, efficient and professional state administration service. Improve the management of EU funds in view of the 2014-2020 programming period. Strengthen the capacity for implementation of public tenders at local and regional level.

6. Establish a comprehensive evaluation framework in compulsory education and take targeted measures to support schools that rank low in educational outcomes. Adopt measures to enhance accreditation and funding of higher education. Increase the share of performance-based funding of research institutions.

7. Drawing on the ongoing review, proceed with a reform of regulated professions, by reducing or eliminating entry barriers and reserves of activities where they are unjustified. Take further measures to improve energy efficiency in the buildings and industry sectors.

Done at Brussels, 9 July 2013.

For the Council

The President

R. ŠADŽIUS

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

COUNCIL RECOMMENDATION

of 9 July 2013

on the National Reform Programme 2013 of Denmark and delivering a Council opinion on the Convergence Programme of Denmark, 2013-2016

(2013/C 217/05)

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 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 [2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

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 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, it adopted a decision on guidelines for the employment policies of the Member States [3], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Member States' Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 strategy and to implementing the country-specific recommendations.

(4) On 10 July 2012, the Council adopted a recommendation [4] on Denmark's National Reform Programme for 2012 and delivered its opinion on Denmark's Convergence Programme for 2012-2015.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey, marking the start of the 2013 European Semester for economic policy coordination. Also on 28 November 2012, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report, in which it identified Denmark as one of the Member States for which an in-depth review would be carried out.

(6) The European Parliament has been duly involved in the European Semester, in accordance with Regulation (EC) No 1466/97, and, on 7 February 2013, adopted a resolution on employment and social aspects in the Annual Growth Survey 2013 and a resolution on the contribution to the Annual Growth Survey 2013.

(7) On 14 March 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(8) On 10 April 2013, the Commission published the results of its in-depth review for Denmark, under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that Denmark is experiencing macroeconomic imbalances, although these are not excessive.

(9) On 30 April 2013, Denmark submitted its 2013 National Reform Programme and its Convergence Programme for the period 2013-2016. In order 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] OJ L 306, 23.11.2011, p. 25.
[3] Maintained for 2013 by Council Decision 2013/208/EU of 22 April 2013 on guidelines for the employment policies of the Member States (OJ L 118, 30.4.2013, p. 21).
[4] OJ C 219, 24.7.2012, p. 21.

(10) Based on the assessment of the Convergence Programme pursuant to 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 scenario projecting GDP growth at 0,7 % and 1,6 % in 2013 and 2014 is broadly in line with the Commission services 2013 spring forecast of 0,7 % and 1,7 %. The Convergence Programme outlines a budgetary strategy aimed at correcting the excessive deficit and fulfilling its medium-term objective (MTO) of a structural deficit of no more than 0,5 % of GDP by 2013, reflecting the objectives of the Pact. The Convergence Programme targets a general government deficit of 1,7 % of GDP in 2013 and 1,8 % in 2014, which is in line with the excessive deficit procedure (EDP) deadline proposed by the Commission. The average annual fiscal effort over the period 2011-2013, based on the structural budget balance calculations, is in line with the Council recommendation under the excessive deficit procedure. In the Convergence Programme, net discretionary measures are estimated to yield a consolidation broadly in line with the recommendation issued under the EDP. The real government expenditure (including discretionary income measures) is estimated to show zero growth in 2013 and to be at 0,4 % in 2014, thus meeting the expenditure benchmark of the Stability and Growth Pact in both years. Public finances are generally sound and the country has already reached its MTO. However, also because the country has an ageing population and ambitious welfare policies, it is crucial for Denmark to maintain a sound and sustainable framework for fiscal policies and to keep the deficit below the 3 % of GDP Treaty reference value.

(11) In 2012, Denmark concluded the reform of the disability pension and subsidised employment schemes (the 'flex-job' system), which came into effect on 1 January 2013. These reforms constitute important measures to enhance the Danish labour supply. However, improving the employability of those furthest away from employment, including people with a migrant background, the long-term unemployed and low-skilled workers, remains a challenge. While acknowledging the ambitious reform agenda of the Government, it is important to ensure that the renowned Danish 'flexicurity' model continues to facilitate a smooth transition between unemployment and work, while also limiting marginalisation and social exclusion. The role of education, training and skills upgrading is important in this respect.

(12) For Denmark, education is rightly a clear priority. Continued efforts are nonetheless needed to improve the quality and cost-effectiveness of its education and training systems, including by carrying through initiated reforms. The proposed reform of the primary and lower secondary education system points in the right direction and can be expected to have a positive impact on the cost-effectiveness of the school system and the quality of education, including pupils' attainment levels. As regards vocational training, in 2012 the Government took steps to strengthen the quality of youth vocational training and secure the necessary private apprenticeships. A committee has been set up between the Government, municipalities, regions and social partners to find a permanent solution to securing the necessary provision of apprenticeships and increasing the quality of the vocational education and training system. Finding lasting and ambitious solutions to both the lack of apprenticeships and the high drop-out rates in the vocational youth educational system would indeed prepare Denmark better for future skill demands on the labour market and improve productivity performance.

(13) Denmark could generate more economic growth by removing obstacles to competition in local and retail services, given the importance of this sector in the Danish economy. In 2012, the Danish Government presented a new competition act, which constitutes an important step in the right direction. The revision of its competition legislation introduced more effective mechanisms to enforce competition regulation, which fully responds to the corresponding part of the 2012 Recommendation. However, more can be done to ensure the effectiveness of measures taken in sectoral and public services areas to enhance competition and market functioning. Various policy initiatives in this field are still at an early stage and continued efforts are needed to ensure effective implementation.

(14) There has been significant analysis in the past year of household indebtedness at national and EU levels to assess the threats to financial and economic stability. For the moment, risks to financial stability seem contained, but require continuous monitoring. The Danish authorities have taken a number of measures to improve the robustness of the mortgage credit system. These include a risk labelling scheme for housing mortgage loans and restrictions on variable-interest and/or deferred-amortisation loans. The mortgage credit institutes have taken, on their own initiative, measures to reduce the need for additional collateral. All these measures go in the right direction, but close monitoring will be required in order to ascertain whether they are having the desired impact. The Commission will examine Denmark's regular reports on the impact of the measures taken in this context. Over time, property taxation in Denmark should be reviewed to reduce distortions and strengthen its countercyclical features.

(15) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Denmark's economic policy. It has assessed the National Reform Programme and the Convergence Programme, and presented an in-depth review. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (3) below.

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

(17) In the light of the Commission's in-depth review and this assessment, the Council has examined the National Reform Programme and the Convergence Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendation (3) below,

HEREBY RECOMMENDS that Denmark take action within the period 2013-2014 to:

1. Implement the budgetary strategy in 2013 as envisaged, so as to ensure the correction of the excessive deficit by 2013. Furthermore, implement the budgetary strategy for 2014 and beyond to ensure an adequate fiscal effort to remain at the MTO.

2. Take further steps to improve the employability of people at the margins of the labour market, including people with a migrant background, the long-term unemployed and low-skilled workers. Improve the quality of vocational training to reduce drop-out rates and increase the number of apprenticeships. Implement the reform of primary and lower secondary education in order to raise attainment levels and improve the cost-effectiveness of the education system.

3. Continue efforts to remove obstacles to competition in the services sector, including in the retail and construction sectors, and enhance effectiveness in the provision of public services.

Done at Brussels, 9 July 2013.

For the Council

The President

R. ŠADŽIUS

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

COUNCIL RECOMMENDATION

of 9 July 2013

on the National Reform Programme 2013 of Estonia and delivering a Council opinion on the Stability Programme of Estonia, 2012-2017

(2013/C 217/06)

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 5(2) thereof,

Having regard to the recommendation of the European Commission,

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 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, it adopted a decision on guidelines for the employment policies of the Member States [2], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Member States' Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 strategy and to implementing the country-specific recommendations.

(4) On 10 July 2012, the Council adopted a Recommendation [3] on Estonia's National Reform Programme for 2012 and delivered its opinion on Estonia's Stability Programme for 2012-2015.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey, marking the start of the 2013 European Semester for economic policy coordination. Also on 28 November 2012, the Commission, on the basis of 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 [4], adopted the Alert Mechanism Report, in which Estonia was not identified as one of the Member States for which an in-depth review would be carried out.

(6) The European Parliament has been duly involved in the European Semester, in accordance with Regulation (EC) No 1466/97, and, on 7 February 2013, adopted a resolution on employment and social aspects in the Annual Growth Survey 2013 and a resolution on the contribution to the Annual Growth Survey 2013.

(7) On 14 March 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(8) On 30 April 2013, Estonia submitted its 2013 National Reform Programme and its Stability Programme for the period 2012-2017. In order to take account of their interlinkages, the two Programmes have been assessed at the same time.

(9) Based on the assessment of the Stability Programme pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the Programme is plausible in 2013-2014 when real GDP growth is expected to average around 3,3 %. The Commission services 2013 spring forecast foresees growth of 3,5 % in 2013-2014. Estonia achieved a headline budget deficit of 0,3 % of GDP in 2012. The

[1] OJ L 209, 2.8.1997, p. 1.

[2] Maintained for 2013 by Council Decision 2013/208/EU of 22 April 2013 on guidelines for the employment policies of the Member States (OJ L 118, 30.4.2013, p. 21).

[3] OJ C 219, 24.7.2012, p. 25.

[4] OJ L 306, 23.11.2011, p. 25.

Stability Programme confirms the previous medium-term objective (MTO) of a structural surplus. This is more ambitious than required by the Stability and Growth Pact. As Estonia's structural balance was in surplus in 2012, Estonia achieved its MTO one year earlier than foreseen in its Stability Programme for 2012-2015. The objective of the budgetary strategy outlined in the Stability Programme for 2012-2017 is to ensure sustainable fiscal policy that supports balanced growth, by staying at the MTO while ensuring sufficient fiscal buffers and reducing the tax burden on labour. The planned headline budget deficit, 0,5 % of GDP in 2013, is envisaged by the Stability Programme to improve over the forecast horizon, reaching balance in 2014 and moving into surplus thereafter. Following an overall assessment of the recalculated structural balance, including an analysis of expenditure benchmark of the Stability and Growth Pact, Estonia does not deviate significantly from the MTO in 2013, returning to a structural surplus in 2014. The debt ratio is well below 60 % of GDP and, according to the Stability Programme, is likely to decrease after 2013 to about 9 % in 2015-2016. Estonia plans to introduce a structural budget balance rule in 2013, in line with the requirements of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, signed on 2 March 2012 in Brussels. The structural budget balance rule should be complemented by strengthening the binding nature of the multiannual expenditure targets as soon as that rule is in place.

(10) As regards the labour market, while employment continues to grow, there are remaining bottlenecks to growth, including persistent youth and long-term unemployment, skills mismatches, and growing workforce shortage, including labour-force losses due to long-standing health problems. The social-benefit system should be made more flexible and targeted, providing support services and incentives for the unemployed and for inactive persons who could be re-employed, while activation measures should be strengthened to make sure that they reach those most in need. The cost efficiency of family policy expenditure could be improved in a budget-neutral way, including by reallocating financing from parental benefit to more efficient measures such as childcare services with an expected positive effect on female employment. Economic development in the regions has to be addressed in a more coordinated way to provide more visible results.

(11) In the field of education and training, Estonia has partially implemented the 2012 Council recommendations: the higher education reform was adopted in 2012 and a new comprehensive vocational education and training reform is set to be adopted in 2013. A particular attention will be needed to ensure a sufficient involvement of social partners to ensure a sufficient number of apprenticeships in vocational education. The rationalised provision of secondary education remains an important commitment which is not yet fulfilled. The still relatively high youth unemployment needs to be addressed in light of the high share of persons without professional or vocational education. The access to lifelong learning for low-skilled workers is still not sufficiently addressed and measures for the young unemployed do not always credibly meet labour-market needs. The existing disconnection between the public research sector and the economy remains a challenge for productivity growth and competitiveness. In addition, the internationalisation and prioritisation of the research and innovation system remains a challenge given the small size of the economy.

(12) Estonia's energy intensity continues to be very high. While the Government has taken certain steps the efforts need to be continued and increased, with additional emphasis on the renovation of residential buildings. The fleet of new cars in Estonia is the most energy intensive in the Union and consumer patterns are not changing in spite of the increased fuel excise duties. In the absence of additional measures, Estonia is unlikely to meet its greenhouse gas emission target, in particular if no measures are taken in the field of transport and housing. Estonia's energy market remains relatively isolated given that cross-border connections are insufficient.

(13) Provision of the services that local government is legally obliged to furnish is in most sectors ineffective, in particular in long-term care, family-support services, education and transport; the same applies for local support measures necessary to ensure effective healthcare service provision. This is due to the low administrative capacity of local governments and the mismatch between local government revenue and devolved responsibilities. No viable plan for improving the local administration has yet been established.

(14) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Estonia's economic policy. It has assessed the National Reform Programme and the Stability Programme. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Estonia but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (5) below.

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

(16) In the context of the European Semester the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On this basis the Council has issued specific recommendations addressed to the

[1] Under Article 5(2) of Regulation (EC) No 1466/97.

Member States whose currency is the euro [1]. As a country whose currency is the euro, Estonia should also ensure the full and timely implementation of those recommendations,

HEREBY RECOMMENDS that Estonia take action within the period 2013-2014 to:

1. Pursue a growth-friendly fiscal policy and preserve a sound fiscal position as envisaged, ensuring compliance with the MTO over the Stability Programme horizon. Complement the planned structural budget balance rule with more binding multiannual expenditure rules within the medium-term budgetary framework and continue enhancing the efficiency of public spending.

2. Improve incentives to work by making the various existing social-benefit systems more consistent and by increasing the flexibility and targeting of benefit allocation. Improve the delivery of social services, including childcare, while increasing the efficiency and cost-effectiveness of family policy. Strengthen activation measures to facilitate the return to the labour market of the long-term unemployed and people receiving disability benefits and incapacity-for-work benefits. Establish coordinated measures for fostering economic development in regions affected by high unemployment.

3. Continue efforts to improve the labour-market relevance of education and training systems, including further involvement of social partners and implementation of targeted measures to address youth unemployment. Significantly increase the participation of low-skilled workers in lifelong learning. Intensify efforts to prioritise and internationalise the research and innovation systems and enhance cooperation between businesses, higher education and research institutions.

4. Improve energy efficiency, in particular in buildings and transport, and strengthen environmental incentives concerning vehicles and waste. Step up the development of cross-border energy connections to diversify energy sources and promote competition in the energy market.

5. Better balance local government revenue against devolved responsibilities. Improve the efficiency of local governments and ensure provision of quality local public services.

Done at Brussels, 9 July 2013.

For the Council

The President

R. ŠADŽIUS

[1] See page 97 of the current Official Journal.

COUNCIL RECOMMENDATION

of 9 July 2013

on the National Reform Programme 2013 of Finland and delivering a Council opinion on the Stability Programme of Finland, 2012-2017

(2013/C 217/07)

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 5(2) thereof,

Having regard to 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 [2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

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 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, it adopted a decision on guidelines for the employment policies of the Member States [3], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Member States' Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 strategy and to implementing the country-specific recommendations.

(4) On 10 July 2012, the Council adopted a recommendation [4] on Finland's National Reform Programme for 2012 and delivered its opinion on Finland's Stability Programme for 2012-2015.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey, marking the start of the 2013 European Semester for economic policy coordination. Also on 28 November 2012, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report, in which it identified Finland as one of the Member States for which an in-depth review would be carried out.

(6) The European Parliament has been duly involved in the European Semester, in accordance with Regulation (EC) No 1466/97, and, on 7 February 2013, adopted a resolution on employment and social aspects in the Annual Growth Survey 2013 and a resolution on the contribution to the Annual Growth Survey 2013.

(7) On 14 March 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(8) On 10 April 2013, the Commission published the results of its in-depth review for Finland, under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that Finland is experiencing macroeconomic imbalances, which deserve monitoring and require policy action. In particular, the substantial deterioration in the current account position and the weak export performance, driven by industrial restructuring, as well as cost and non-cost competitiveness factors, deserve continued attention.

(9) On 18 April 2013, Finland submitted its 2013 National Reform Programme and its Stability Programme for the period 2012-2017. In order 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] OJ L 306, 23.11.2011, p. 25.
[3] Maintained for 2013 by Council Decision 2013/208/EU of 22 April 2013 on guidelines for the employment policies of the Member States (OJ L 118, 30.4.2013, p. 21).
[4] OJ C 219, 24.7.2012, p. 28.

(10) Based on the assessment of the Stability Programme pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that the public finances in Finland have been overall sound and efforts have been made to increase revenues and to control expenditures in order to move towards the medium-term objective (MTO). The macroeconomic scenario underpinning the budgetary projections in the Stability Programme is plausible. The growth projection for 2013 is similar to the Commission services 2013 spring forecast, whereas the one for 2014 is 0,6 percentage points higher than in the Commission services 2013 spring forecast. The objective of the budgetary strategy outlined in the Stability Programme is to balance the central government finances and to bring the central government debt to GDP ratio on a declining path by 2015. The Stability Programme incorporates a change in the MTO from 0,5 % to – 0,5 %. The new MTO is in line with the requirements of the Stability and Growth Pact. The Stability Programme foresees reaching the MTO by 2014 and staying at the MTO until 2017. Based on the (recalculated) structural balance on the basis of information in the Stability Programme, in 2012 Finland did not meet the previously applicable MTO and would not meet the new MTO in 2013.

The Stability Programme projects the (recalculated) structural budget balance to improve from – 1 % of GDP in 2012 to – 0,9 % of GDP in 2013. Between 2014 and 2017, it would remain between – 0,6 % and – 0,7 % of GDP. In 2012, Finland's net expenditure increased by 0,4 %, which remains below the applicable reference rate of the expenditure benchmark of the Stability and Growth Pact. Due to the negative real GDP growth in 2012, the low structural adjustment is deemed sufficient. In 2013, Finland's (recalculated) structural budget balance is improving and its net expenditure is projected to deviate by only 0,1 % of GDP from the expenditure benchmark. In the light of Finland's large negative output gap, this is deemed to be appropriate. In 2014, Finland's (recalculated) structural budget balance is forecast to improve further, reaching – 0,6 % of GDP, thus getting sufficiently close to the MTO. Moreover, according to the Commission services 2013 spring forecast, Finland would fully reach it in 2014. Overall, this would entail compliance with the preventive arm of the Stability and Growth Pact. General government gross consolidated debt was 53 % of GDP in 2012 and will remain, according to the Stability Programme, below 60 % of GDP over the Programme horizon. The Stability Programme foresees reductions in the debt level in 2016 and 2017. Long-term sustainability continues to be the most important challenge for fiscal policy. The ageing related sustainability gap, concerning pensions, healthcare and long-term care, has been recognised and needs constant monitoring.

(11) The productivity growth in public services has not matched the productivity growth in the wider economy whilst the burden linked to an ageing population is increasing. Whereas the principles for reforming municipalities have been established, mergers will remain voluntary although financial incentives from central government will be available. It is expected that the ongoing reform of social and health services will not lead to any significant reduction in the current number of healthcare districts.

(12) Measures have been implemented to reduce youth and long-term unemployment such as the Youth Guarantee, the temporary skills programme for young adults and the pilot programme for the long-term unemployed. These programmes were supplemented in 2013 by additional financial support for apprenticeships as part of the Youth Guarantee and are welcome in the context of an expected increase in the rate of unemployment. These measures now need to be implemented with a clear focus on improving the skills level and labour-market position of the target groups. Raising the employment rate of older workers is important to ensure sustainable public finances and to meet the demand for labour in the future. The size of the working age population is declining in Finland. Several measures have been agreed to address pathways to early retirement such as raising the age for access to part-time pension, removal of the reduced pension possibility and raising the age for retirement following unemployment. However, the increase in life expectancy has been more rapid than was envisaged during the 2005 pension reform, and over time the current statutory retirement age range could turn out to be too low and pensions insufficient. In its Stability Programme, the Government committed itself to increasing the effective retirement age to 62,4 years by 2025, which remains low in the context of life expectancy and demographic challenges. Implementing these agreed lines of action remains a priority in the short term.

(13) Regulatory barriers in the services sector in Finland are still restrictive and market concentrations are high in important sectors such as retail. The envisaged changes to the Competition Act in respect of the dominant position of grocery trade operators, the objectives of the programme on healthy competition in terms of greater supervision of this sector, and the removal of unnecessary restrictions on competition in existing legislation, such as that on spatial planning and construction, should help tackle current problems. The merger of the Competition Authority with the Consumer Agency, along with an increase in its budget and wider powers to cover competition neutrality between public and private actors, should also improve the effectiveness and benefits of competition policy, more generally. Competition law

fines in Finland have traditionally been low and the survey planned for 2013 should provide a basis for further reforms to improve their deterrent effect.

(14) Productivity growth in Finland continues to lag behind the growth in wages while international competitiveness has weakened, as is shown by a decreasing market share for Finnish exports. Whilst investment in research, development and innovation continues to be high, a critical issue remains the efficiency with which this research is translated into innovations and new high-growth companies, which can penetrate fast-growing export markets and strengthen international competitiveness. In the short term, Finland should implement recently adopted policies and measures to improve the research and innovation system such as the new action plan, and propose further reforms, where relevant, based upon existing evaluations and the foresight report currently under preparation. Prices for energy and labour have been identified among the input prices increasing the costs for the Finnish producers. Wage growth in recent years has been modest due to the current tripartite wage agreement which expires in 2013. It is of concern, therefore, that no new agreement has yet been concluded by the social partners.

(15) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Finland's economic policy. It has assessed the National Reform Programme and Stability Programme, and presented an in-depth review. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (5) below.

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

(17) In the light of the Commission's in-depth review and this assessment, the Council has examined the National Reform Programme and Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (3) to (5) below,

(18) In the context of the European Semester the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On this basis, the Council has issued specific recommendations addressed to the Member States whose currency is the euro [2]. As a country whose currency is the euro, Finland should also ensure the full and timely implementation of those recommendations,

HEREBY RECOMMENDS that Finland take action within the period 2013-2014 to:

1. Pursue a growth-friendly fiscal policy and preserve a sound fiscal position as envisaged, ensuring compliance with the MTO over the Programme horizon. Continue to carry out annual assessments of the size of the ageing-related sustainability gap and adjust public revenue and expenditure in accordance with long-term objectives and needs. Ensure the cost-effectiveness and sustainability of long-term care and put a stronger focus on prevention, rehabilitation and independent living.

2. Ensure effective implementation of the on-going administrative reforms concerning the municipal structure, in order to deliver productivity gains and cost savings in the provision of public services, including social and healthcare services.

3. Take further steps to increase the employment rate of older workers, including by improving their employability and reducing early exit pathways, increasing the effective retirement age by aligning the retirement age or pension benefits to changes in life expectancy. Implement and monitor closely the impact of ongoing measures to improve the labour-market position of young people and the long-term unemployed, with a particular focus on the development of job-relevant skills.

4. Continue efforts to enhance competition in product and service markets, especially in the retail sector, by implementing the new programme on promoting healthy competition.

5. Boost Finland's capacity to deliver innovative products, services and high-growth companies in a rapidly changing environment, and continue the diversification of the industry; continue to improve overall energy efficiency in the economy. In the current low-growth environment, support the alignment of real wage and productivity developments whilst fully respecting the role of social partners, and in line with national practices.

Done at Brussels, 9 July 2013.

For the Council
The President
R. ŠADŽIUS

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[1] Under Article 5(2) of Regulation (EC) No 1466/97.

[2] See page 97 of the current Official Journal.

COUNCIL RECOMMENDATION

of 9 July 2013

on the National Reform Programme 2013 of France and delivering a Council opinion on the Stability Programme of France, 2012-2017

(2013/C 217/08)

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 5(2) thereof,

Having regard to 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 [2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

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 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, it adopted a decision on guidelines for the employment policies of the Member States [3], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Member States' Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 strategy and to implementing the country-specific recommendations.

(4) On 10 July 2012, the Council adopted a Recommendation [4] ('the 2012 Recommendation') on France's National Reform Programme for 2012 and delivered its opinion on France's Stability Programme for 2012-2016.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey, marking the start of the 2013 European Semester for economic policy coordination. Also on 28 November 2012, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report, in which it identified France as one of the Member States for which an in-depth review would be carried out.

(6) The European Parliament has been duly involved in the European Semester, in accordance with Regulation (EC) No 1466/97, and, on 7 February 2013, adopted a resolution on employment and social aspects in the Annual Growth Survey 2013 and a resolution on the contribution to the Annual Growth Survey 2013.

(7) On 14 March 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(8) On 10 April 2013, the Commission published the results of its in-depth review for France, under Article 5 of

[1] OJ L 209, 2.8.1997, p. 1.

[2] OJ L 306, 23.11.2011, p. 25.

[3] Maintained for 2013 by Council Decision 2013/208/EU of 22 April 2013 on guidelines for the employment policies of the Member States (OJ L 118, 30.4.2013, p. 21).

[4] OJ C 219, 24.7.2012, p. 31.

Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that France is experiencing macroeconomic imbalances, which require monitoring and decisive policy action. In particular, developments related to a deterioration in the trade balance and competitiveness, driven both by cost and non-cost factors, also in the context of a deteriorating external position and high public debt deserves continued attention so as to reduce the risk of adverse effects on the functioning of the French economy and of the Economic and Monetary Union, in particular given the size of the French economy.

(9) On 30 April 2013, France submitted its 2013 National Reform Programme and its Stability Programme for the period 2012-2017. In order to take account of their interlinkages, the two Programmes have been assessed at the same time.

(10) Based on the assessment of the Stability Programme pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that despite considerable consolidation efforts that brought the headline deficit down from 7,5 % of GDP in 2009 to 4,8 % in 2012, France is not expected to correct its excessive deficit by 2013 as recommended by the Council on 2 December 2009. This is linked in particular to a worse economic environment than expected at the time the Council Recommendation of 2 December 2009 was adopted which was only partly compensated by windfall revenues, while the effort was somewhat backloaded. The macroeconomic scenario underpinning the budgetary projections in the Stability Programme is plausible for 2013 but overly optimistic for 2014. In particular, the authorities anticipate that after a standstill in 2012 (0 %) and in 2013 (+0,1 %), GDP will grow by 1,2 % in 2014 while assuming that fiscal measures are taken to bring the general government deficit to 2,9 % of GDP in 2014. By comparison, the Commission forecasts that GDP will grow by 1,1 % in 2014 based on a no-policy-change assumption, a scenario which only takes into account measures that have been adopted or sufficiently specified and hence forecasts a deficit of 4,2 % of GDP in 2014. The main objective of the budgetary strategy outlined in the Stability Programme is to achieve the medium-term objective (MTO), which is a balanced budget in structural terms, as in Stability Programme for 2012-2016. This is more ambitious than required by the Stability and Growth Pact. The target year for reaching the MTO is 2016, compared with 2015 in the Stability Programme for 2012-2016.

The planned headline deficit set by the Stability Programme is consistent with a correction of the excessive deficit by 2014, one year after the revised deadline set by the Council under the excessive deficit procedure (EDP) on 2 December 2009. Given the overly optimistic growth forecast in the Stability Programme for 2014, unless additional measures are taken to substantially reinforce the effort for that year, the Council considers that the fiscal effort envisaged by the authorities is not compatible with an actual correction of the excessive deficit by 2014. Planned savings and additional revenue also lack specifics. In these circumstances, measures need to be specified for both 2014 and 2015 to credibly ensure that the excessive deficit is corrected by 2015 at the latest as recommended by the Council. In 2016, the structural balance, as recalculated by the Commission, is expected to be -0,4 % of GDP (-0,3 % in 2017) and thus the MTO would not be reached by the end of the programme horizon. Progress towards the MTO in 2016 is expected to represent 0,3 % of GDP, which is below the 0,5 % of GDP benchmark. The general government debt has increased substantially since the beginning of the crisis. Starting from 64,2 % in 2007, the ratio of debt-to-GDP reached 90,2 % in 2012 and is projected to increase further to 96,2 % by 2014 according to the Commission services 2013 spring forecast. The authorities expect the debt ratio to peak at 94,3 % of GDP in 2014 and then to drop to 88,2 % in 2017. France will be in a transitional period from 2016 regarding compliance with the debt criterion.

(11) Given the high and still increasing debt and the fact that the deadline to correct the excessive deficit is postponed again, to 2015, it is all the more important that the 2013 budget is strictly implemented and substantial consolidation efforts are firmly pursued in subsequent years. In particular, it is crucial that France's public spending grows significantly less rapidly than potential GDP as improvements in the structural deficit have so far been mainly revenue based. In this respect, the on-going public spending review ('Modernisation de l'action publique'), whose scope includes local governments and social security administrations in addition to central government, should provide indications to further improve the efficiency of public expenditure. There is also room for further streamlining of the different administrative layers and competences in order to achieve further synergies, efficiency gains and savings. The planned new Decentralisation Law should address this issue. In view of the expected increase over the medium and long term in public healthcare expenditure, future public expenditure on healthcare requires greater scrutiny and efficiency, in particular in pharmaceutical spending. The most recent projections by the Pensions Advisory Council ('Conseil d'orientation des retraites') point to persistent deficits of the pensions system by 2018, contrary to the 2010 reform objective to achieve a balanced system by that time. In addition, the partial rollback of the 2010 reform goes against the 2012 Recommendation. Hence, the pension system will still face large deficits by 2020 and new policy measures are urgently needed to remedy this situation while preserving the adequacy of the system.

Such measures could include further increasing both the minimum and the full-pension retirement ages as well as the contribution period to obtain a full pension, adapting the indexation rules and reviewing the currently numerous exemptions to the general scheme for specific categories of workers. The French Government has decided to fully associate the social partners to design the reform and enhance its ownership. Given its negative impact on the cost of labour, an increase in the level of social security contributions should be avoided. In light of the public finance challenge faced by France, it is of critical importance that fiscal measures are complemented by increased efforts to pursue structural reforms in order to support and increase the long-term growth potential of the French economy.

(12) As shown by the 2013 in-depth review, competitiveness of France remains a significant challenge, as the strong erosion of its export markets shares in recent years shows. The Government proposed in November 2012 several policy measures in the context of the 'Competitiveness Pact'. The introduction of a corporate income tax credit (crédit d'impôt pour la compétitivité et l'emploi — CICE), with a planned full-year impact of EUR 20 billion, is a significant step which should contribute to lowering labour costs. There is room for further action as the new tax credit does no more than halve the gap between the French tax wedge and the OECD average at the level of the median wage. In addition, the fiscal measures affecting companies, including reductions in tax expenditures, adopted since 2010 result in an overall increase in business taxation, even when corrected for CICE. The increase in the minimum wage decided in July 2012, while limited, may have a negative impact on job creation and competitiveness, as stressed by the 2012 Recommendation. Between 2002 and 2012, the hourly minimum wage increased by 38% (16% in real terms). The high level of the minimum wage, which represents 60% of the median wage, is compensated for employers by a number of social security contribution exemptions for employers. The related cost for public finances has increased rapidly between 1992 and 2002 and stabilised since then at close to 1 % of GDP. In addition, alternative instruments such as income support schemes (the 'Prime pour l'emploi' and the 'Revenu de solidarité active') are more efficient instruments than the minimum wage to address in-work poverty.

(13) As regards non-price competitiveness, while the Government has recently renewed its export strategy, supporting the development of export-oriented networks and partnerships would promote the internationalisation of small and medium-sized enterprises (SMEs). More generally, measures could be taken to ensure that the business environment is conducive to SMEs' growth. Despite considerable efforts deployed by firms in research and development-intensive sectors and sizeable government support (namely, the research tax credit), high and medium-high-tech sectors represent only a modest and declining share of the French economy. Hence, there is a need to further foster the creation and growth of SMEs and mid-tier companies (ETI) in these sectors by improving the framework conditions that encourage innovation and entrepreneurship. The cluster policy that has been developed to link public research and private companies might also be further geared towards commercial exploitation of research, development and innovation (R&D&I), positive externalities between private companies located closely to one another and internationalisation of SMEs. In addition, PhD studies and research experience should be made sufficiently attractive to further foster linkages between private companies and research institutions.

(14) With regard to services, only limited progress was seen in the course of 2012. In particular, no horizontal reform was initiated to remove unjustified restrictions in regulated sectors and professions. Many professional service providers still face restrictions as regards their legal form and shareholding structure (such as restrictions on capital ownership for veterinarians and lawyers). Other significant barriers to entry or practice (such as commercial communications, quotas or territorial restrictions) remain in a number of sectors (such as taxis, certain health professions, notaries and other legal professions). The retail sector is still subject to a number of regulations, such as cumbersome and time-consuming authorisation procedures for the establishment of retail outlets. In addition, the existing ban on selling below costs induces a number of distortions while the objective of supporting producers and small distribution outlets could be effectively achieved through less distortionary measures. These excessive restrictions in regulated sectors and professions weigh on competition and tend to raise their prices. As the in-depth review shows, higher prices in intermediary services, which account for close to a quarter of production costs in the manufacturing sector, ultimately impact on the external competitiveness of French firms. Limited progress was achieved in 2012 on network industries. The French electricity market remains one of the most concentrated in the Union. Regulated prices in electricity and gas distort competition and continue to act as a barrier for new entrants. Regulated tariffs for non-household customers should be removed according to the timetable agreed with the French authorities. More interconnection capacity with neighbouring countries and the launch of the tenders for hydro-concessions would also contribute to fostering competition in the electricity market.

In the railway sector, the rail-freight market has been in decline for several years (such as volume in tones/km contracted by 17 % between 2006 and 2011), while rail passenger transport is not open to competition, except for international services. The forthcoming reform should ensure that any new 'unified infrastructure manager' remains independent of the incumbent operator to guarantee new entrants fair and non-discriminatory access.

(15) The French tax system remains complex and lacks efficiency due to the wide range of exemptions, special allowances, but also frequent changes in legislation. Despite efforts to reduce and streamline tax expenditures, the amount of foregone revenue from these remains high. The choice of a broad base-low rate approach for corporate and personal income taxation would be more conducive to growth and social welfare. The intermediate value added tax (VAT) rate is set to increase from 7 % to 10 % from January 2014. This is a move in the right direction but additional efforts are necessary. Overall, the cost of tax and social-security exemptions remains very high up to 10 % of GDP. Despite the demonstrated ineffectiveness of some reduced VAT rates, such as those for restaurant services, no sufficiently differentiated policy measures have been taken. The introduction of the CICE tax credit, financed partly through the above-mentioned increase in the intermediate but also standard VAT rates, shifts the tax burden away from labour. Further scope for action is however needed, in particular to rebalance the share of environmental taxes. Last year, France adopted some measures to address tax incentives to indebtedness in corporate taxation. Interest deduction is limited above EUR 3 million and 15 % of the interest above that limit will be disallowed for tax deductibility in 2013, a share which will be brought to 25% in 2014. However, there is scope for further improvement.

(16) The unemployment rate increased from 9,7 % in 2010 to 10,2 % in 2012. The Commission forecasts that the unemployment rate will increase to 10,6 % in 2013 and 10,9 % in 2014 due to persistently weak economic growth. Against this background, the segmentation of the French labour market continues to be a source of concern. The likelihood of moving from a temporary to a permanent job was only 10,6 % in 2010, as against 25,9 % on average in the EU. As a result, low-skilled workers in precarious forms of employment tend to bear the brunt of any adjustment process in the labour market. A law was adopted in May 2013, based on the inter-professional agreement (ANI) on securing jobs concluded between the social partners in January 2013. It foresees increased rights for workers, addresses the legal uncertainty of dismissals and provides greater flexibility for employers. The law is a positive step towards a more fluid labour market. On some specific issues the actual implementation of this reform, as well as its impact, is linked to the adoption of further branch/enterprises agreements which will be needed before the agreement can fully enter into force.

(17) A sixth of young people in France leave education and training without a qualification. This is particularly worrying as the unemployment rate of young people was of 25,4 % at the end of 2012 and as the risk of being unemployed was almost two times higher for the least qualified young people. Schemes to promote apprenticeships should reach in particular the least qualified young people. The alignment of national schemes to the Youth Guarantee established by the Council Recommendation of 22 April 2013 [1] should play a structuring role in responding to these challenges. Despite reforms initiated in 2009, the French participation rate of adults in lifelong learning (5,7 % in 2012, for low-skilled adults: 2,5 %) is below the EU average. The planned transfer of competences to the regional Councils might provide an opportunity to address the weaknesses of the current system. Despite its significant rising trend, the employment rate for workers aged 55-64 is still low, at the median of the EU Member States (45,7 % in the fourth quarter of 2012), and it has closed by only half the gap with EU average since 2008 (from 7,4 points in 2008 to 3,8 points in 2012). Unemployment is rising among older people, at the same rate as overall unemployment. Although a step in the right direction, it is not clear to what extent the 'generation contracts' will contribute to the employment of older workers and facilitate a return to work by older jobseekers. French public spending on unemployment benefits rose by 5,3 % in 2012 and are expected to further increase by 6,1 % in 2013 according to the Stability Programme. The cumulated deficit of the unemployment regime, which would be close to 1 % of GDP by 2013, calls for a reform of the unemployment benefit system.

In particular, some elements, such as the eligibility conditions, the degressivity of benefits over time or the replacement rates for workers with the highest wages should be adapted to ensure that incentives to work are adequate. The new tripartite convention of the public employment service (Pôle emploi) foresees a differentiated follow-up of jobseekers. The job counsellor's portfolio has however further increased due to the rising unemployment level and the reorientation of the Pôle emploi strategy is hampered by the weak economic

[1] OJ C 120, 26.4.2013, p. 1.

situation. All in all, there is a need to take further action in view of the negative economic prospects and the expected further increase in unemployment in France.

(18) In the context of the European Semester, the Commission has carried out a comprehensive analysis of France's economic policy. It has assessed the National Reform Programme and the Stability Programme, and has presented an in-depth review. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in France but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (6) below.

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

(20) In the light of the Commission's in-depth review and this assessment, the Council has examined the National Reform Programme and the Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1), (2), (3), (4), (5) and (6) below.

(21) In the context of the European Semester the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On this basis the Council has issued specific recommendations addressed to the Member States whose currency is the euro [2]. As a country whose currency is the euro, France should also ensure the full and timely implementation of those recommendations,

HEREBY RECOMMENDS that France take action within the period 2013-2014 to:

1. Reinforce and pursue the budgetary strategy in 2013. Enhance the credibility of the adjustment by specifying, by autumn 2013, and implementing the necessary measures for the year 2014 and beyond to ensure a correction of the excessive deficit in a sustainable manner by 2015 at the latest and the achievement of the structural adjustment effort specified in the Council recommendations under the EDP. Use all windfall gains for deficit reduction. A durable correction of the fiscal imbalances requires a credible implementation of ambitious structural reforms to increase the adjustment capacity and boost growth and employment. Maintain a growth-friendly fiscal consolidation course and further increase the efficiency of public expenditure, in particular by proceeding as planned with a review of spending categories across all sub-sectors of general government. Take action through the forthcoming Decentralisation Law to achieve better synergies and savings between central and local government levels. After the correction of the excessive deficit, pursue the structural adjustment effort at an adequate pace so as to reach the MTO by 2016. Take measures by the end of 2013 to bring the pension system into balance in a sustainable manner no later than 2020, for example by adapting indexation rules, by increasing the full-pension contribution period, by further increasing the effective retirement age, by aligning the retirement age or pension benefits to changes in life expectancy and by reviewing special schemes, while avoiding an increase in employers' social contributions, and increase the cost-effectiveness of healthcare expenditure, including in the areas of pharmaceutical spending.

2. Ensure that the reduction in the labour cost resulting from the 'credit d'impôt pour la compétitivité et l'emploi yields the planned amount and that no other measure will offset its effect. Take further action to lower the cost of labour, in particular through further measures to reduce employers' social-security contributions, in association with social partners. Ensure that developments in the minimum wage are supportive of competitiveness and job creation, taking into account the existence of wage support schemes and social contribution exemptions.

3. Take further measures to improve the business environment and develop the innovation and export capacity of firms, in particular SMEs and enterprises of intermediate size. In particular, launch the announced simplification initiative of the regulatory framework, and improve the framework conditions for innovation, by enhancing technology transfer and the commercial exploitation of research, including through a reorientation of the competitiveness poles.

4. Take action to enhance competition in services; remove unjustified restrictions in the access to and exercise of professional services, notably regarding legal form, shareholding structure, quotas and territorial restrictions; take action to simplify authorisation for the opening of trade outlets and to remove the ban of sales at a loss; remove regulated gas and electricity tariffs for non-household customers and strengthen interconnection capacity with neighbouring countries; in the railway sector, open domestic passenger transport to competition.

5. Pursue efforts to simplify the tax system and improve its efficiency, while ensuring continuity of tax rules over time. Take additional measures to remove the debt bias in corporate taxation. Step up efforts to reduce and streamline personal and corporate income tax expenditures while reducing statutory rates; bring reduced VAT rates closer to the standard rate and remove inefficient reduced rates. Take further measures shifting the tax burden from labour to environmental taxation or consumption.

[1] Under Article 5(2) of Regulation (EC) No 1466/97.
[2] See page 97 of the current Official Journal.

6. Implement fully, without delay and in consultation with the social partners the inter-professional agreement of January 2013. Take further action to combat labour-market segmentation, in particular to address the situation of interim agency workers. Launch urgently a reform of the unemployment benefit system in association with the social partners and in accordance with national practices to ensure sustainability of the system while ensuring that it provides adequate incentives to return to work. Enhance the employment rate of older workers and stimulate their participation in the labour market. Take specific action to improve the employment perspective of older unemployed people in particular through specific counselling and training. Increase adult participation in lifelong learning, especially of the least qualified and of the unemployed. Ensure that public employment services effectively deliver individualised support to the unemployed and that active labour market policies effectively target the most disadvantaged. Take further measures to improve the transition from school to work through, for example, a Youth Guarantee [1] and promotion of apprenticeship.

Done at Brussels, 9 July 2013.

For the Council

The President

R. ŠADŽIUS

[1] Established by Council Recommendation of 22 April 2013 (OJ C 120, 26.4.2013, p. 1.).

COUNCIL RECOMMENDATION

of 9 July 2013

on the National Reform Programme 2013 of Germany and delivering a Council opinion on the Stability Programme of Germany, 2012-2017

(2013/C 217/09)

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 5(2) thereof,

Having regard to the recommendation of the European Commission,

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 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, it adopted a decision on guidelines for the employment policies of the Member States [2], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Member States' Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 strategy and to implementing the country-specific recommendations.

(4) On 10 July 2012, the Council adopted a Recommendation [3] on Germany's National Reform Programme for 2012 and delivered its opinion on Germany's Stability Programme for 2012-2016.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey, marking the start of the 2013 European Semester of economic policy coordination. Also on 28 November 2012, the Commission, on the basis of 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 [4], adopted the second Alert Mechanism Report, in which Germany was not identified as one of the Member States for which an in-depth review would be carried out.

(6) The European Parliament has been duly involved in the European Semester, in accordance with Regulation (EC) No 1466/97, and, on 7 February 2013, adopted a resolution on employment and social aspects in the Annual Growth Survey 2013 and a resolution on the contribution to the Annual Growth Survey 2013.

(7) On 14 March 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(8) On 12 April 2013, Germany submitted its 2013 National Reform Programme and, on 17 April 2013, its Stability Programme for the period 2012-2017. In order 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) Maintained for 2013 by Council Decision 2013/208/EU of 22 April 2013 on guidelines for the employment policies of the Member States (OJ L 118, 30.4.2013, p. 21).
(3) OJ C 219, 24.7.2012, p. 35.
(4) OJ L 306, 23.11.2011, p. 25.

(9) Based on the assessment of the Stability Programme pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that public finances in Germany have been overall sound and the medium-term budgetary objective (MTO) has been achieved. The macroeconomic scenario underpinning the budgetary projections in the Programme is plausible. The Stability Programme's macroeconomic projections are broadly in line with the Commission services 2013 spring forecast as regards the pace and pattern of economic growth in 2013 and 2014 as well as with the Commission's estimate of Germany's medium-term potential growth rate. The objective of the budgetary strategy outlined in the Stability Programme is to ensure continued achievement of the MTO. The Stability Programme confirms the previous MTO of -0,5 % of GDP. The MTO is in line with the requirements of the Stability and Growth Pact. Germany achieved a structural budgetary surplus and, hence, the MTO in 2012. According to the Stability Programme, the (recalculated) [1] structural balance will remain positive in 2013 and 2014, which is broadly in line with the Commission services 2013 spring forecast and has, consequently, created space for automatic stabilisers to play freely. Germany also complied with the expenditure benchmark of the Stability and Growth Pact in 2012. According to the information provided in the Stability Programme, the growth rate of government expenditure, net of discretionary revenue measures, would exceed the expenditure benchmark in 2013 while respecting it in 2014. According to the Stability Programme, gross debt is planned to fall to 80½ % of GDP in 2013 and to remain on a downward path thereafter.

Following the correction of the excessive deficit in 2011, Germany is in a transitional period regarding compliance with the debt criterion and made sufficient progress towards compliance with the debt criterion in 2012. If the Stability Programme is implemented as planned, it is also making sufficient progress towards compliance with the debt criterion in 2013 and the debt benchmark will be met at the end of the transitional period in 2014. Overall, the deficit and debt targets appear realistic.

(10) Germany has made only limited efforts to improve the efficiency of public spending on healthcare and long-term care. Past reform efforts in the health sector as well as this year's reform of long-term care appear insufficient to contain expected future cost increases. Germany appears on track with respect to the national target on education and research expenditure but should envisage even more ambitious follow-up targets with a view to catching up with the most innovative economies.

(11) Germany is not sufficiently tapping growth-friendly revenue sources. The application of the reduced VAT rate, currently at 7 %, to what is now quite a wide range of goods and services could be narrowed and VAT administration reviewed in an effort to increase efficiency, improve tax collection and fight fraud. Revenues from recurrent property taxes are particularly low in Germany, standing at 0,5 % of GDP in 2011 as opposed to 1,3 % in the EU-27. This may leave room for increasing revenues from the municipal real estate tax (*Grundsteuer*), in particular by reassessing the tax base.

(12) There has been some progress in the implementation of the constitutional balanced-budget rule (debt brake) since last year's Recommendation. However, specific implementing rules appear still to be required in most *Länder* so as to ensure the effective application of the debt brake in the annual budgetary procedure.

(13) The financial sector has undergone significant adjustment and the regulatory and supervisory framework has been strengthened. Commission state aid decisions have continued to drive the restructuring of *Landesbanken*. However, there still appear to be governance obstacles to market-driven consolidation in the banking sector, which affect the overall efficiency of the financial sector.

(14) Germany has taken only limited action to remove significant disincentives faced by second earners and the availability of full time childcare facilities and all-day schools should be further increased. Germany has made some progress in raising the educational achievement of disadvantaged people, but all *Länder* should continue pursuing ambitious efforts to create a school system that provides equal opportunities for all. Policy action to reduce the high tax wedge for low-wage earners has been limited so far. Measures to integrate the long-term unemployed into the labour market should be enhanced. Germany should do more to reduce the high taxes and social security contributions levied on low wages. Further efforts are needed to improve transition from certain types of contracts, such as mini-jobs, into more sustainable forms of contracts, thus avoiding labour-market segmentation. While real wages are still below their level in the year 2000, which contributed to the structural reduction in the unemployment rate from 8 % to 5,5 %, they have started to grow dynamically since then, without adversely affecting competitiveness. At the same time, wage disparities have increased.

[1] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the Programme, using the commonly agreed methodology.

(15) Germany is aiming at minimising the overall economic costs of transforming the energy system. This has led to some first results but overall costs have continued to increase and major risks and potential inefficiencies remain. Germany is making significant efforts to accelerate the expansion of energy networks. Coordination of its national energy policy with the policies of neighbouring countries is insufficient.

(16) The situation in the services sectors has not changed significantly since 2012 and there are still restrictions on entering and exercising certain professions. Germany should do more to open up the services sectors by removing unjustified restrictions and barriers to entry, thereby leading to lower price levels and more affordable services for lower income groups. In many craft sectors, including in the construction sector, there is still a requirement to hold a master craftsman's certificate (*Meisterbrief*) or an equivalent qualification in order to run a business. The construction sector also faces restrictions as regards commercial communication and authorisation procedures. Many professional services are also subject to legal form and shareholding requirements. Germany could assess whether the same public interest objectives could not be reached with lighter regulation. The diversity of regulatory regimes across *Länder* also suggests there is scope for further efforts to identify the least burdensome regulatory approaches and extend them throughout the country, thus cutting red tape for businesses. The level of effective competition in the railway sector remains low. Regarding public procurement, the value of the contracts published by German authorities under Union procurement law is significantly low. The legislative process involving the revision of the Act against Competition Restrictions has not yet been concluded. In the retail sector, planning regulations significantly restrict new entries in the market.

(17) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Germany's economic policy. It has assessed the National Reform Programme and the Stability Programme. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Germany, but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (4) below.

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

(19) In the context of the European Semester the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On this basis, the Council has issued specific recommendations addressed to the Member States whose currency is the euro [2]. As a country whose currency is the euro, Germany should also ensure the full and timely implementation of those recommendations,

HEREBY RECOMMENDS that Germany take action within the period 2013-2014 to:

1. Preserve a sound fiscal position, as envisaged, which ensures compliance with the MTO over the Programme horizon. Pursue a growth-friendly fiscal policy through additional efforts to enhance the cost-effectiveness of public spending on healthcare and long-term care through better integration of care delivery and a stronger focus on prevention and rehabilitation and independent living. Improve the efficiency of the tax system, in particular by broadening the VAT base and by reassessing the municipal real estate tax base. Use the 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 that monitoring procedures and correction mechanisms are timely and relevant.

2. Sustain conditions that enable wage growth to support domestic demand. To this end, reduce high taxes and social security contributions, especially for low-wage earners and raise the educational achievement of disadvantaged people. Maintain appropriate activation and integration measures, especially for the long-term unemployed. Facilitate the transition from non-standard employment such as mini-jobs into more sustainable forms of employment. Take measures to improve incentives to work and the employability of workers, in particular for second earners and low-skilled workers, also with a view to improving their income. To this end, remove disincentives for second earners and further increase the availability of full time childcare facilities and all-day schools.

3. Improve the coordination of its energy policy with neighbouring countries and keep the overall costs of transforming the energy system to a minimum, in particular, by further reviewing the cost-effectiveness of energy policy instruments designed to achieve renewable energy targets and by continuing efforts to accelerate the expansion of the national and cross-border electricity and gas networks.

(1) Under Article 5(2) of Regulation (EC) No 1466/97.

(2) See page 97 of the current Official Journal.

4. Take measures to further stimulate competition in the services sectors, including certain crafts, in particular in the construction sector, and professional services to boost domestic sources of growth. Take urgent action to significantly increase the value of public contracts open to procurement. Adopt and implement the announced legislative reform to improve the enforcement of competition law regarding competition restrictions. Remove planning restrictions which unduly restrict new entries in the retail sector. Take further measures to eliminate the remaining barriers to competition in the railway markets. Pursue efforts for consolidation in the banking sector, including by improving the governance framework.

Done at Brussels, 9 July 2013.

For the Council

The President

R. ŠADŽIUS

COUNCIL RECOMMENDATION

of 9 July 2013

on the National Reform Programme 2013 of Hungary and delivering a Council opinion on the Convergence Programme of Hungary, 2012-2016

(2013/C 217/10)

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 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 [2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

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 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, it adopted a decision on guidelines for the employment policies of the Member States [3], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Member States' Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 strategy and to implementing the country-specific recommendations.

(4) On 10 July 2012, the Council adopted a Recommendation [4] on Hungary's National Reform Programme for 2012 and delivered its opinion on Hungary's Convergence Programme for 2012-2015.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey, marking the start of the 2013 European Semester for economic policy coordination. Also on 28 November 2012, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report, in which it identified Hungary as one of the Member States for which an in-depth review would be carried out.

(6) The European Parliament has been duly involved in the European Semester, in accordance with Regulation (EC) No 1466/97, and, on 7 February 2013, adopted a resolution on employment and social aspects in the Annual Growth Survey 2013 and a resolution on the contribution to the Annual Growth Survey 2013.

(7) On 14 March 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(8) On 10 April 2013, the Commission published the results of its in-depth review for Hungary, under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that Hungary is experiencing macroeconomic imbalances, which deserve monitoring and require decisive policy action. In particular, the ongoing adjustment of the highly negative net international investment position, largely driven by private sector deleveraging in a context of high general government debt and a weak business environment continues to deserve very close attention so as to reduce the significant risks of adverse effects on the functioning of the economy.

[1] OJ L 209, 2.8.1997, p. 1.

[2] OJ L 306, 23.11.2011, p. 25.

[3] Maintained for 2013 by Council Decision 2013/208/EU of 22 April 2013 on guidelines for the employment policies of the Member States (OJ L 118, 30.4.2013, p. 21).

[4] OJ C 219, 24.7.2012, p. 40.

(9) On 22 April 2013, Hungary submitted its 2013 National Reform Programme and, on 24 April 2013, its Convergence Programme for the period 2012-2016. In order to take account of their interlinkages, the two Programmes have been assessed at the same time.

(10) Based on the assessment of the Convergence Programme pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the Programme is somewhat optimistic. The Hungarian authorities' growth projections for 2013 and 2014 of 0,7 % and 1,9 % respectively, are higher by around half a percentage point compared to the Commission services 2013 spring forecast. The objective of the budgetary strategy outlined in the Convergence Programme is to ensure the sustainable correction of the excessive deficit by the 2012 deadline set by the Council in line with the Council Recommendation under the excessive deficit procedure of 13 March 2012 and the continued respect of the medium-term objective (MTO). Hungary has undertaken significant fiscal efforts in 2012 and with a budget deficit outcome of 1,9 % of GDP over-achieved the deficit target of 2,5 % of GDP recommended by the Council, partly on account of additional one-off revenues of 0,2 % of GDP on top of those which were acknowledged already at the time of that Council Recommendation. However, the corrective measures for 2012 and beyond, in particular those announced in the autumn of 2012 were mainly concentrated on the revenue side, primarily focusing on selected sectors, raising questions about the sustainability of the consolidation efforts. According to the Commission services 2013 spring forecast further efforts are needed for both 2013 and 2014 in order to correct the excessive deficit in a sustainable manner. Following the publication of the Commission services 2013 spring forecast the Government adopted a new corrective package focusing on the expenditure side, and based on the updated assessment of the Commission, the deficit is projected to remain below the 3 % of GDP threshold with the new measures in both 2013 and 2014.

The Convergence Programme has changed the MTO from a structural balance of –1,5 % to –1,7 % of GDP. The new MTO is in line with the requirements of the Stability and Growth Pact. Hungary recorded a structural balance of –0,7 % of GDP in 2012, namely well above its revised MTO, and the Commission services 2013 spring forecast foresees the structural balance to stay in line with the MTO over the forecast horizon and to stand at –1,1 % in 2013 and –1,8 % in 2014. Based on the measures adopted after the Commission services 2013 spring forecast the structural balance could remain above the MTO in 2014 as well. The growth rate of government expenditure in 2013 and 2014, net of discretionary revenue measures, will be broadly in line with the reference medium-term rate of potential GDP growth, but is expected to significantly exceed it in 2015 and 2016. Thus, the expenditure benchmark of the Stability and Growth Pact will not be met in those two years. According to government plans, the public debt-to-GDP ratio will continuously decrease throughout the programme period from 79,2 % in 2012 to 77,2 % in 2014 and further to 73,4 % in 2016, namely it will remain above the 60 % of GDP reference value. In contrast, the Commission services 2013 spring forecast, taking account of risks to the consolidation plans, expected only a marginal decrease to 78,9 % of GDP in 2014 which should be around 0,5 percentage points lower with the new corrective measures. Hungary will be in a transitional period from 2013 regarding compliance with the debt criterion, and according to the Commission services 2013 spring forecast it is making sufficient progress towards compliance with the debt criterion in 2013 and 2014.

(11) The medium-term budgetary framework is still merely indicative so the horizon of fiscal planning is focusing only on the actual budget year. In addition, despite some recent improvements, the mandatory tasks and the analytical resources of the Fiscal Council are still not commensurate with its unprecedented veto power and the need for the systematic *ex post* assessment of compliance with numerical fiscal rules. Strengthening the medium-term budgetary framework and widening the mandatory remit of the Fiscal Council would help to improve the solidity and credibility of the recently revamped fiscal governance framework.

(12) The Hungarian financial sector is deleveraging at a very quick pace, partly due to some policy measures that have had a strong negative impact on the profitability of banks and contribute to tight credit conditions. Managing the deteriorating portfolio quality represents one of the biggest challenges for the financial sector, associated with an increasing number of non-performing loans. In the last years, the Government adopted several measures to help foreign currency borrowers, in several cases without a consultation of stakeholders in the banking sector. However, those measures were not always targeted toward distressed borrowers. The adoption of a series of measures in a short time might increase moral hazard among borrowers due to the continuous expectation of further government help. The global financial crisis demonstrated to which extent the existing banking system may force national authorities to act to safeguard financial stability. The first financial assistance programme to Hungary advocated the need for a state-of-the-art supervision including effective emergency powers to the financial supervisor and the establishment of a resolution mechanism. While over the past three years the powers of the Hungarian Financial Supervisory Authority have been substantially increased, the legislator has not equipped it with sufficient monitoring powers.

(13) Hungary has not followed the 2012 recommendation to establish a non-distortive and stable framework for the taxation of corporations and has increased the tax burden on selected corporate sectors by introducing further permanent sectoral surtaxes. While the new small business tax introduced as part of the Job Protection Act has a favourable design, the existence of several different tax rates across corporate sectors hampers effective allocation of resources and affects investment and lending. The introduction of reduced social security contribution rates under the Job Protection Act is a step in the right direction to reduce the tax wedge on labour. However, the tax wedge on low wage earners is still high and a refining of the system to better target this group would be desirable. Hungary also plans to tackle tax non-compliance with several measures, such as the compulsory connection of all cash registers with tax authorities. Regarding energy taxation, measures taken do not provide incentives to reduce energy consumption and have distortionary effects.

(14) In spite of recent improvements, the low employment rate is associated with a very low rate of labour-market participation. Youth unemployment has increased from 11 % in 2001 to 28,1 % in 2012. The Public Work Scheme uses the bulk of budgetary resources to provide the long-term unemployed with work-related income instead of social benefits, while its long-term benefits on employability are yet to be proven. Hungary has strengthened active labour-market policies but certain disadvantaged people should have more access to them. Adult participation in lifelong learning is still one of the lowest in the Union. In the last five years, the employment rate of women remained approximately at the same low level. In order to encourage women to participate in the labour market, the Government expanded childcare facilities and promoted flexible working arrangements. The social situation continues to worsen: 31 % of the population is at risk of poverty or social exclusion and a high percentage of people face severe material deprivation. Poverty continues to disproportionately affect disadvantaged territories and communities, in particular Roma.

(15) The business environment in Hungary has constantly deteriorated in the last three years due to a series of measures including restrictions on investors and an unstable regulatory framework. Recent restrictions which affect disproportionately foreign investors are focussed mainly on the services sector, including retail. The Simple State Programme included 114 measures to reduce the administrative burden on businesses by approximately HUF 500 billion but its implementation has been somewhat delayed. Low levels of competition in public procurement persist, although a new law entered into force on 1 January 2012. The Anti-Corruption Programme is a central element of the Magyary Programme. However, as the Anti-Corruption Programme is focusing on public administration, it does not tackle either the issue of insufficient law-enforcement in this area or the stricter checks on party financing, a key area of concern. Although the implementation of some key actions is already in progress, many of the announced steps have not yet been undertaken. Lack of monitoring of implemented measures also remains problematic. The developments in Hungary in 2012 and 2013 have increased concerns about the judiciary's independence. The Innovation Union Scoreboard ranks Hungary as a moderate innovator. Business investments in research and development (R&D) are driven primarily by foreign-owned enterprises.

(16) Hungary succeeded in reducing the number of early school leavers. Since there are still major regional differences, the new elements of the centralised public education system, if not implemented carefully, might have a negative impact and increase social inequalities and segregation. Although the number of students entering higher education has grown significantly in recent years, further work is needed to reach the EU average and the national Europe 2020 target. It should be ensured that the ongoing higher education reform improves access for disadvantaged pupils.

(17) Implementation of the measures included in the Szell Kalman Plan, which is aimed at improving the cost-efficiency and performance of public transport, is prone to considerable delays and the lack of a comprehensive transport strategy hinders the financial sustainability of the transport system. While Hungary has adequately increased power grid interconnections with its neighbours as recommended in 2012, the lack of independence of the energy regulator in setting energy tariffs and the high share of regulated energy prices among household consumers and small and medium-sized enterprises (SMEs) still raise concerns.

(18) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Hungary's economic policy. It has assessed the National Reform Programme and the Convergence Programme and has presented an in-depth review. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Hungary but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the Union by providing EU-level input

into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (7) below.

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

(20) In the light of the Commission's in-depth review and this assessment, the Council has examined the National Reform Programme and the Convergence Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1), (2), (3), (4), (5), (7) below,

HEREBY RECOMMENDS that Hungary take action within the period 2013-2014 to:

1. Implement a credible and growth-friendly fiscal strategy by specifying the necessary measures focusing on expenditure savings and preserve a sound fiscal position in compliance with the MTO over the Convergence Programme horizon. Building on the above steps, put the general government debt ratio on a firm downward path, also with a view to mitigating the accumulated macroeconomic imbalances. Enhance the medium-term budgetary framework by making it more binding and by closely linking it to numerical fiscal rules. Broaden the mandatory remit and enhance the transparency of the Fiscal Council, including through systematic *ex post* monitoring of compliance with numerical fiscal rules as well as the preparation of regular macro-fiscal forecasts and budgetary impact assessments of major policy proposals.

2. Help restore normal lending to the economy primarily by improving the capacity for capital accumulation in the financial sector, inter alia by lowering the extra burden currently imposed on it. Improve portfolio quality by removing bad assets from banks' balance sheets, closely consult stakeholders on new policy initiatives and make sure that new policy measures do not increase moral hazard among borrowers. Enhance financial regulation and supervision, in particular by giving more effective emergency powers to the Hungarian Financial Supervisory Authority and by establishing a bank resolution regime.

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

3. Ensure a stable, more balanced and predictable corporate tax system. Streamline corporate taxation and minimise distortions of resource allocation created by sector-specific taxes, so as to foster growth and employment. Continue making taxation of labour more employment-friendly by alleviating the tax burden on low wage earners, inter alia by refining the eligibility criteria for the Job Protection Act, and by shifting taxation away to environmental taxes. Fully implement and step up the already announced measures to improve tax compliance and reduce the cost of tax compliance.

4. Address youth unemployment, for example through a Youth Guarantee [2]. Strengthen active labour market policy measures and enhance the client profiling system of the Public Employment Service. Reduce the dominance of the public works scheme within employment measures and strengthen its activation elements. Reinforce training programmes to boost participation in lifelong learning. Continue to expand child-care facilities to encourage women's participation. Ensure that the objective of the National Social Inclusion Strategy is mainstreamed in all policy fields in order to reduce poverty, particularly among children and Roma.

5. Create a supportive business environment, in particular restore an attractive environment for foreign direct investors, by making the regulatory framework more stable and by fostering market competition. Ensure the full implementation of measures envisaged to reduce the administrative burden, improve competition in public procurement and take further adequate measures to tackle corruption. Strengthen further the judiciary. Remove recently introduced barriers in the services sector, including in retail services. Provide targeted incentives to support innovative enterprises.

6. Implement a national strategy on early school-leaving and ensure that the education system provides all young people with labour-market-relevant skills, competences and qualifications. Improve access to inclusive mainstream education, for those with disadvantages, in particular Roma. Support the transition between different stages of education and towards the labour market. Implement a higher-education reform that enables greater tertiary attainment, in particular by disadvantaged students.

[2] Established by Council Recommendation of 22 April 2013 (OJ C 120, 26.4.2013, p. 1.).

7. Gradually abolish regulated energy prices while ensuring the effective protection of economically vulnerable consumers. Take further steps to ensure the independence of the national regulator. Ensure the financial sustainability of state-owned enterprises in the transport sector by reducing operating costs and increasing revenues.

Done at Brussels, 9 July 2013.

For the Council

The President

R. ŠADŽIUS

COUNCIL RECOMMENDATION

of 9 July 2013

on the National Reform Programme 2013 of Italy and delivering a Council opinion on the Stability Programme of Italy, 2012-2017

(2013/C 217/11)

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 5(2) thereof,

Having regard to 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 [2] and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

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 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, it adopted a decision on guidelines for the employment policies of the Member States [3], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Member States' Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 strategy and to implementing the country-specific recommendations.

(4) On 10 July 2012, the Council adopted a recommendation [4] on Italy's National Reform Programme for 2012 and delivered its opinion on Italy's Stability Programme for 2012-2015.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey, marking the start of the 2013 European Semester of economic policy coordination. Also on 28 November 2012, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report, in which it identified Italy as one of the Member States for which an in-depth review would be carried out.

(6) The European Parliament has been duly involved in the European Semester, in accordance with Regulation (EC) No 1466/97, and, on 7 February 2013, adopted a resolution on employment and social aspects in the Annual Growth Survey 2013 and a resolution on the contribution to the Annual Growth Survey 2013.

(7) On 14 March 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

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[1] OJ L 209, 2.8.1997, p. 1.
[2] OJ L 306, 23.11.2011, p. 25.
[3] Maintained for 2013 by Council Decision2013/208/EU of 22 April 2013 on guidelines for the employment policies of the Member States (OJ L 118, 30.4.2013, p. 21).
[4] OJ C 219, 24.7.2012, p. 46.

(8) On 10 April 2013, the Commission published the results of its in-depth review for Italy, under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that Italy is experiencing macroeconomic imbalances, which require determined policy action. In particular, the loss of external competitiveness as well as high public indebtedness in an environment of protracted subdued growth continue to be identified as Italy's main macroeconomic imbalances.

(9) On 11 April 2013, Italy submitted its 2013 National Reform Programme and its Stability Programme for the period 2012-2017. Following this submission, the new Government appointed on 28 April indicated the intention to strengthen the structural reform agenda, while confirming the budgetary targets put forward in the Stability Programme. On 17 May, a decree law was adopted containing new provisions on real estate taxation and the extension of the wage supplementation scheme for under-employed workers. In order to take account of their interlinkages, the two Programmes and the new measures taken by the Government have been assessed at the same time.

(10) Based on the assessment of the Stability Programme pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the Programme is optimistic for 2014, when compared with the Commission services 2013 spring forecast. That scenario is plausible as of 2015. However, this is under the assumption of the full implementation of the adopted structural reforms, which remains challenging. The budgetary strategy outlined in the Stability Programme was confirmed by the new Government and endorsed by Parliament. It aims at maintaining the deficit below the 3 % of GDP Treaty reference value throughout the Programme period, reaching the medium-term objective (MTO) in 2013 and putting the debt to GDP ratio on a declining path as from 2014. The Stability Programme confirms the MTO of a balanced budgetary position in structural terms, which is in line with the Stability and Growth Pact. The deficit was brought to the 3 % of GDP Treaty reference value in 2012 and, according to the Commission services 2013 spring forecast, it is expected to remain below the Treaty reference value in 2013-14. The provisions adopted by the Italian government on 17 May are assessed as having no significant impact on the deficit, if consistently implemented. As described in the Decision abrogating the excessive deficit procedure adopted by the Council on 21 June 2013, two safeguard clauses have been enacted in legislation to ensure the achievement of the budgetary targets. After improving by 2,7 percentage points of GDP in cumulative terms between 2009 and 2012, and assuming no further policy changes, the structural balance as a share of GDP is forecast to improve by a further percentage point in 2013, to -0,5 %, and then deteriorate marginally in 2014. The structural primary balance would reach nearly 5 % of GDP in 2014. The forecast structural adjustment for 2013 is appropriate, also based on an analysis of expenditure net of discretionary revenue measures, while for 2014, on the basis of the Commission services 2013 spring forecast, it shows a deviation from the adjustment path towards the MTO. The Stability Programme projects the government debt ratio to peak in 2013 and to start declining thereafter, also thanks to foreseen privatisation proceeds amounting to 1 percentage point of GDP per year. In the forecast however, the debt to GDP ratio continues increasing to 132,2 % of GDP by 2014 on a no-policy change assumption, also due to the settlement of commercial debt, which adds around 2,5 percentage points over 2013-2014, while no privatisation proceeds are included as the details have not yet been specified. As of 2013, Italy is in a three-year transitional period regarding compliance with the debt criterion and the debt trajectory in the Stability Programme ensures sufficient progress towards compliance with it. However, the deficit and debt projections in the Stability Programme are predicated upon full implementation of the budgetary measures and adoption of structural reforms, which are essential to anchor market confidence and boost growth and jobs.

(11) While important reforms have been adopted to foster fiscal sustainability and to spur growth, their full implementation remains a challenge and there is scope for further action. A number of key proposed measures have not yet been approved or still require enacting legislation and there are risks that their concrete application is not consistently followed up through all levels of government. Despite the action undertaken, public administration efficiency in terms of the regulatory and procedural framework, quality of governance and administrative capacity, continue to suffer from weaknesses that affect the implementation of reforms and the business environment.

(12) Completing the civil justice reform by swiftly implementing the revision of the courts' organisation and reducing the excessive duration of case-handling, court backlogs and the high level of litigation is necessary to improve the business environment. Following a Constitutional Court ruling on mediation in October 2012, action is needed to promote the use of out-of-court dispute-settlement mechanisms. Corruption represents a serious concern implying costs estimated at 4 % of GDP, which severely hinders the potential for economic recovery. The Anti-Corruption Law of November 2012 requires follow-up action, and the effectiveness of the repression of corruption could be further improved, in particular with regard to the statute of limitations currently characterised by short prescription terms.

(13) The ambitious fiscal consolidation strategy enacted so far has been accompanied by the introduction of a balanced budget rule in the Constitution in April 2012 and action to improve the efficiency and quality of public expenditure. However, gaps in implementation have hampered the full effectiveness of the action taken. Political stalemate has blocked the necessary reduction of the number of provinces. The Cohesion Action Plan made it possible to speed up the absorption of structural funds accounting for about EUR 11,9 billion in three consecutive phases. Nevertheless, the improvement of the overall management of funds continues to lack ambition especially in the South of Italy raising serious concerns in view of the 2014-2020 programming period. This leaves ample scope for enhancing the efficiency of public expenditure.

(14) Banks traditionally play a decisive role in supporting Italian economic activity, notably through lending to small firms, but their ability to take on this role has been weakened due to the prolonged economic recession. Increased credit risk, with a large and rising stock of non-performing loans, has contributed to a contraction in lending and exacerbates the banks' low profitability. In response, the Bank of Italy is assessing the adequacy of provisioning for impaired loans with on-site inspections. Specific corporate governance features of some Italian banks may limit the effectiveness of their financial intermediation. Measures were adopted to encourage the use of non-bank financing channels, in particular equity financing and corporate bond financing, and to foster innovation capacity, but their scope remains limited and they have not yet been fully implemented. The transposition of Directive 2000/35/EC of the European Parliament and of the Council of 29 June 2000 on combating late payment in commercial transactions [1] and the planned settlement of the accumulated stock of commercial debt will contribute to improving the liquidity of firms.

(15) A wide-ranging labour-market reform was adopted in June 2012, addressing the rigidities and segmentation of the labour market. The reform needs to be completed by adopting pending implementing legislation and its concrete operationalisation on the ground, carefully monitored. Moreover, public employment services have yet to be integrated with the unemployment benefit administration to support the implementation of efficient activation strategies. A new wage-setting framework was defined by social partners in successive agreements over 2011-2013. It is supported by tax incentives to foster better alignment of wages with productivity and with local labour-market conditions. This framework should be effectively implemented and progressively adjusted on the basis of the monitoring of results.

(16) Youth unemployment and the proportion of young people not in employment, education or training continued to increase, reaching 37 % and 21,1 % respectively by the end of 2012. Both the tertiary education attainment and the employment rate for young tertiary graduates are the lowest in the Union, which shows that the skills of young graduates are not properly aligned to job market requirements. Although moderately declining, early school leaving remains high. This raises concerns as regards the performance of the education system. One of the key elements in this regard is the teaching profession, which is currently characterised by a single career pathway and offers limited prospects in terms of professional development. The participation of women in the labour market remains weak and the employment gender gap is one of the highest in the Union. The risk of poverty and social exclusion, and in particular severe material deprivation, are markedly on the rise, while the social protection system has increasing difficulties coping with social needs since it is dominated by pension expenditure.

(17) The structure of the tax system remains complex and weighs heavily on labour and capital. After the effort undertaken in 2010-2011, additional measures adopted to shift the tax burden from the productive factors onto consumption, property and the environment have been more limited. Action is still needed to simplify the tax system, streamline tax expenditures, align the property tax base with market values, enhance compliance and discourage evasion. Pending a revision of cadastral values, the envisaged reform of real estate taxation will aim at improving its fairness, within the constraints of the budgetary strategy laid out in the Stability Programme. Reducing the shadow economy and undeclared work can benefit public finances and have positive implications for equity. The review of VAT exemptions or reduced rates and of direct tax expenditures may require some adjustment in social transfers to minimise its distributional impact.

(18) Notable efforts have been made towards liberalisation in the services sector. However, the reform of regulated professions should be taken further to address remaining restrictions, and its key principles should be safeguarded against possible setbacks, particularly stemming from the reform of the legal profession. Following the ruling of the Constitutional Court in July 2012, action to open local public services to competition is also important. Following up on proposals from the Italian Competition Authority as foreseen by the Italian legislation will help address these issues.

[1] OJ L 200, 8.8.2000, p. 35.

(19) The reform of the network industries is ongoing in terms of opening market access and improving infrastructure capacity but important challenges remain. The unbundling in the gas sector is nearly completed and the March 2013 National Strategy for Energy needs to be further pursued. Opening telecommunications to competition is a further potential field of action. The new transport authority responsible for highways, airports, ports and railways has not yet been set up. It should be independent, supplied with the resources it needs to function and have powers to sanction. There is also a serious problem of internal and cross-border shortcomings in infrastructure, with North-South disparities, contributing to high energy prices, low broadband penetration and transport bottlenecks.

(20) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Italy's economic policy. It has assessed the National Reform Programme and Stability Programme and presented an in-depth review. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Italy, but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (6) below.

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

(22) In the light of the Commission's in-depth review and this assessment, the Council has examined the National Reform Programme and the Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1) to (6) below.

(23) In the context of the European Semester the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On this basis, the Council has issued specific recommendations addressed to the Member States whose currency is the euro [2]. As a country whose currency is the euro, Italy should also ensure the full and timely implementation of those recommendations,

HEREBY RECOMMENDS that Italy take action within the period 2013-2014 to:

1. Ensure that the deficit remains below the 3 % of GDP Treaty reference value in 2013, by fully implementing the adopted measures. Pursue the structural adjustment at an appropriate pace and through growth-friendly fiscal consolidation so as to achieve and maintain the MTO as from 2014. Achieve the planned structural primary surpluses in order to put the very high debt-to-GDP ratio on a steadily declining path. Continue pursuing a durable improvement of the efficiency and quality of public expenditure by fully implementing the measures adopted in 2012 and taking the effort forward through regular in depth spending reviews at all levels of government.

2. Ensure timely implementation of on-going reforms by swiftly adopting the necessary enacting legislation, following it up with concrete delivery at all levels of government and with all relevant stakeholders, and monitoring their impact. Reinforce the efficiency of public administration and improve coordination between layers of government. Simplify the administrative and regulatory framework for citizens and business and reduce the duration of case-handling and the high levels of litigation in civil justice, including by fostering out-of-court settlement procedures. Strengthen the legal framework for the repression of corruption, including by revising the rules governing limitation periods. Adopt structural measures to improve the management of EU funds in the southern regions with regard to the 2014-2020 programming period.

3. Extend good corporate governance practices to the whole banking sector conducive to higher efficiency and profitability to support the flow of credit to productive activities. Take forward the ongoing work as regards asset-quality screening across the banking sector and facilitate the resolution of non-performing loans on banks' balance sheets. Promote further the development of capital markets to diversify and enhance firms' access to finance, especially into equity, and in turn foster their innovation capacity and growth.

4. Ensure the effective implementation of the labour-market and wage-setting reforms to allow better alignment of wages to productivity. Take further action to foster labour-market participation, especially of women and young people, for example through a Youth Guarantee. Strengthen vocational education and training, ensure more efficient public employment services and improve career and counselling services for tertiary students. Reduce financial disincentives for second earners to work and improve the provision of care, especially child- and long-term care, and out-of-school services. Step up efforts to prevent early school leaving. Improve school quality and outcomes, also by enhancing teachers' professional development and diversifying career development. Ensure the effectiveness of social transfers, notably through better targeting of benefits, especially for low-income households with children.

[1] Under Article 5(2) of Regulation (EC) No 1466/97.
[2] See page 97 of the current Official Journal.

5. Shift the tax burden from labour and capital to consumption, property and the environment in a budgetary neutral manner. To this purpose, review the scope of VAT exemptions and reduced rates and of direct tax expenditures, and reform the cadastral system to align the tax base of recurrent immovable property to market values. Pursue the fight against tax evasion, improve tax compliance and take decisive steps against the shadow economy and undeclared work.

6. Ensure the proper implementation of the measures aimed at market opening in the services sector. Remove remaining restrictions in professional services and foster market access, for instance, in the provision of local public services where the use of public procurement should be advanced, instead of direct concessions. Pursue the deployment of measures taken to improve market access conditions in network industries, in particular by setting up the Transport Authority as a priority. Upgrade infrastructure capacity with a focus on energy interconnections, intermodal transport and high-speed broadband in telecommunications, also with a view to tackling the North-South disparities.

Done at Brussels, 9 July 2013.

For the Council

The President

R. ŠADŽIUS

COUNCIL RECOMMENDATION

of 9 July 2013

on the National Reform Programme 2013 of Latvia and delivering a Council opinion on the Convergence Programme of Latvia, 2012-2016

(2013/C 217/12)

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 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 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, it adopted a decision on guidelines for the employment policies of the Member States [2], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Member States' Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 strategy and to implementing the country-specific recommendations.

(4) On 10 July 2012, the Council adopted a recommendation [3] on Latvia's National Reform Programme for 2012 and delivered its opinion on Latvia's Convergence Programme for 2012-2015.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey, marking the start of the 2013 European Semester of economic policy coordination. Also on 28 November 2012, the Commission, on the basis of 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 [4], adopted the Alert Mechanism Report, in which Latvia was not identified as one of the Member States for which an in-depth review would be carried out.

(6) The European Parliament has been duly involved in the European Semester, in accordance with Regulation (EC) No 1466/97, and, on 7 February 2013, adopted a resolution on employment and social aspects in the Annual Growth Survey 2013 and a resolution on the contribution to the Annual Growth Survey 2013.

(7) On 14 March 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(8) On 29 April 2013, Latvia submitted its Convergence Programme for the period 2012-2016 and, on 2 May 2013, its 2013 National Reform Programme. In order to take account of their interlinkages, the two Programmes have been assessed at the same time.

(9) Based on the assessment of the Convergence Programme pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the Programme is

[1] OJ L 209, 2.8.1997, p. 1.

[2] Maintained for 2013 by Council Decision 2013/208/EU of 22 April 2013 on guidelines for the employment policies of the Member States (OJ L 118, 30.4.2013, p. 21).

[3] OJ C 219, 24.7.2012, p. 50.

[4] OJ L 306, 23.11.2011, p. 25.

plausible. Economic growth is expected to slow down somewhat, to around 4 % per year, over the Programme period, while price increases are projected to remain moderate. The general government deficit declined in 2012 to a level well below the 3 % of GDP Treaty reference value and the medium-term objective (MTO) was reached in that year, considerably earlier than what was foreseen in Latvia's Convergence Programme for 2012-2015. The Convergence Programme confirms the previous MTO of -0,5 %, which adequately reflects the objectives of the Stability and Growth Pact. The objective of the budgetary strategy outlined in the Convergence Programme is to maintain a structural budgetary position which is based on the MTO, with any deviation limited to the incremental impact of systemic pension reform. This reform entails a gradual increase in the share of social security contributions which is diverted to a funded pension scheme and is implemented in 2013, 2015 and 2016. However, following an overall assessment with the recalculated structural balance as a reference, including an analysis of expenditure net of discretionary measures, it appears that the structural balance is set to deviate from the MTO by 1,0 percentage point of GDP in 2013, which is significantly more than the incremental impact of the systemic pension reform, and by a further 0,2 percentage point in 2014. Government debt is set to remain well below 60 % over the whole Programme period, increasing from 40,7 % of GDP in 2012 to 44,5 % in 2013, as the Government accumulates assets for debt repayments, and is declining from 2014 as repayments take effect, reaching 34,6 % by the end of the Programme period. The Fiscal Discipline Law was approved by the Latvian Parliament in January 2013 and entered into force in March 2013. If effectively implemented, the new law would considerably strengthen the fiscal framework in Latvia, providing an effective mechanism to limit expenditure growth in good economic times and serving as a basis for rules-based multi-annual budgeting.

(10) Latvia has reduced taxes on labour and plans to take further steps in this regard in 2014 and 2015. However, the tax wedge for low-wage earners is still among the highest in the Union, indicating a need for appropriate calibration of tax policy to stimulate employment for low-skilled workers. Moreover, shifting taxation from labour to recurrent property taxes and taxes on the use of natural and other resources should improve the structural balance. Environmental taxes remain relatively underdeveloped and are heavily dominated by motor-fuel taxation, while taxation of other energy sources, pollution and the use of natural resources is below the EU average. Further broadening of the tax base to include other sources of environmental taxation would help in achieving environmental goals. The Government has stepped up efforts to combat the informal economy and these efforts should be maintained.

(11) While the post-crisis structural adjustment has been successful, the experience of a pronounced boom-bust cycle calls for monitoring future credit growth and the stability of the bank funding base related to foreign deposit inflows by appropriate micro- and macro-prudential policies.

(12) Latvia has taken a number of steps to tackle high long-term and youth unemployment. Funding and coverage of active labour-market policies was increased in 2013 as compared to 2012, and new measures are being implemented, including profiling of the unemployed and improved job search assistance. Nevertheless, long-term unemployment and youth unemployment are still high, activation of the unemployed and benefit recipients is low and access to social services is poor. There are concerns that vocational education and training is failing to provide sufficient quality of skills for the workforce and there is limited availability of quality work-based training. The establishment of comprehensive career guidance and continued implementation of reforms in vocational education and training, including improving the quality and the accessibility of its work-based learning and apprenticeship components are necessary.

(13) A high proportion (40 %) of the Latvian population is at risk of poverty or social exclusion and for children it is even higher, standing at 43,6 %. Overall, the at-risk-of-poverty rate increased slightly in 2012, suggesting that growth does not automatically translate into less poverty, and that targeted policies are necessary. Latvia has taken some steps to address the poverty of unemployed people and children. However, there has been less direct action to address the problems of the social assistance system in particular in relation to transparency, benefit adequacy and coverage, and insufficient activation measures for benefit recipients. Lack of fiscal space has led Latvia to decrease the level of guaranteed minimum income (GMI) and to abolish the state budget financing of the GMI benefit. These decisions are likely to aggravate extreme poverty and exacerbate the existing inequality in access to social assistance across local governments, while reducing central government incentives to invest in policy development and control of social assistance. It is important to monitor the effects of these decisions to prevent any deterioration in the situation.

(14) Latvia has proposed an ambitious reform that can be expected to have a significant positive impact on the quality of its higher education system. Reform plans cover an overhaul of the accreditation process, the separation of academic and management functions of the universities, the development of a new financing model, and a consolidation of the higher education institutions. However, the plans are still at an early stage and need to be properly implemented to ensure that the foreseen positive impacts materialise. Moreover, in 2013, an evaluation will be carried out of the effectiveness of scientific institutions and their development strategies. This important assessment should help

underpin future reform and funding of scientific institutions, in support of increased innovation activity in Latvia.

(15) Latvia has put forward policy measures addressing energy savings for the main sectors of the economy. It is expected that, in the coming years, more than 70 % of energy savings will be generated in the buildings sector. However, the implementation of housing insulation projects has been slow, and the number of completed projects remains small relative to the stock of buildings, with large energy losses. The potential for efficiency gains in this field is significant as the energy intensity of Latvian households was the highest in the Union in 2010. In 2012, Latvia made progress in opening its electricity market to competition and participation in regional markets. Direct contracting with electricity suppliers is fully enforced in the business sector and is introduced on a voluntary basis for households. Latvia is set to join Nord Pool Spot trading in June 2013. However, there has been no progress in opening the natural gas market and a single-source dependency prevails. The authorities are also facing difficult negotiations on the ownership and management of the gas storage facility, which is of high importance for the proper functioning of the regional gas market.

(16) The Latvian judicial system is characterised by inefficiencies in the civil justice system. The system combines several unfavourable factors such as lengthy proceedings to solve civil and commercial cases at first instance and low clearance rates leading to a backlog of court cases. Disposition times are particularly long for insolvency proceedings. Moreover, many cases do not get settled at first instance, which creates delays at all levels, up to the Supreme Court. Positive steps to improve the efficiency and quality of the system have been taken recently, but it is too early to assess their impact. It is particularly important to devote sufficient attention to human resources management policies within the judiciary. Stronger involvement of the Judicial Council, rethinking of the role of management positions within the judiciary and more training of judges could contribute to a higher quality judiciary. Amendments to the Law on Insolvency were proposed by the end of 2012. However, it remains to be seen whether the proposed amendments are sufficient to address the shortcomings of the law in a comprehensive way. For instance, problems have been identified in relation to the practical implementation of the law, in particular with regard to the role of insolvency practitioners, their responsibilities with regard to the judges and the effective liquidation of assets, as well as issues with personal insolvencies, which also need to be addressed.

(17) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Latvia's economic policy. It has assessed the National Reform Programme and the Convergence Programme. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Latvia but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (7) below.

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

HEREBY RECOMMENDS that Latvia take action within the period 2013-2014 to:

1. Reinforce the budgetary strategy to ensure that the deviation from the MTO only reflects the incremental impact of the systemic pension reform. Within this strategy, reduce taxation of low-income earners by shifting taxation to areas such as excise duties, recurrent property taxes and/or environmental taxes. Maintain efforts to improve tax compliance and combat the shadow economy. Continue strengthening the fiscal framework through effective implementation of the Fiscal Discipline Law and multi-annual budgeting.

2. Continue to use micro and macro prudential policies to prevent possible vulnerabilities that could arise from future credit growth and non-resident banking activities.

3. Tackle long-term and youth unemployment by increasing coverage and effectiveness of active labour-market policies and targeted social services. Improve the employability of young people, for example through a Youth Guarantee, establish comprehensive career guidance, implement reforms in the field of vocational education and training, and improve the quality and accessibility of apprenticeships.

4. Tackle high rates of poverty by reforming social assistance for better coverage, by improving benefit adequacy and activation measures for benefit recipients. Reinforce the delivery mechanisms to effectively reduce child poverty.

5. Implement the planned reforms of higher education concerning, in particular, the establishment of a quality-rewarding financing model, reform of the accreditation system, consolidation of the institutions and promotion of

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

internationalisation. Take further steps to modernise research institutions based on the ongoing independent assessment.

6. Continue improving energy efficiency, especially of residential buildings and district heating networks, provide incentives for reducing energy costs and shift consumption towards energy-efficient products. Improve connectivity with EU energy networks and take steps towards liberalisation of the natural gas market, including the provision of clear rules for third-party access to storage capacities.

7. Complete pending reforms to improve the efficiency and quality of the judiciary and reduce the backlog and length of proceedings, including as regards insolvency. Put in place a comprehensive human resources policy and take steps to implement the mediation laws and streamline the arbitration court system.

Done at Brussels, 9 July 2013.

For the Council

The President

R. ŠADŽIUS

COUNCIL RECOMMENDATION

of 9 July 2013

on the National Reform Programme 2013 of Lithuania and delivering a Council opinion on the Convergence Programme of Lithuania, 2012-2016

(2013/C 217/13)

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 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 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, it adopted a decision on guidelines for the employment policies of the Member States [2], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Member States' Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 strategy and to implementing the country-specific recommendations.

(4) On 10 July 2012, the Council adopted a recommendation [3] on Lithuania's National Reform Programme for 2012 and delivered its opinion on Lithuania's Convergence Programme for 2012-2015.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey, marking the start of the 2013 European Semester of economic policy coordination. Also on 28 November 2012, the Commission, on the basis of 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 [4], adopted the Alert Mechanism Report, in which Lithuania was not identified as one of the Member States for which an in-depth review would be carried out.

(6) The European Parliament has been duly involved in the European Semester, in accordance with Regulation (EC) No 1466/97, and, on 7 February 2013, adopted a resolution on employment and social aspects in the Annual Growth Survey 2013 and a resolution on the contribution to the Annual Growth Survey 2013.

(7) On 14 March 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(8) On 9 April 2013, Lithuania submitted its 2013 National Reform Programme and, on 26 April 2013, its Convergence Programme for the period 2012-2016. In order to take account of their interlinkages, the two Programmes have been assessed at the same time.

(9) Based on the assessment of the Convergence Programme pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the Programme is plausible and broadly in line with the assessment in the Commission services 2013 spring forecast. Following an ambitious fiscal consolidation since 2009, the general

[1] OJ L 209, 2.8.1997, p. 1.

[2] Maintained for 2013 by 2013/208/EU of 22 April 2013 on guidelines for the employment policies of the Member States (OJ L 118, 30.4.2013, p. 21).

[3] OJ C 219, 24.7.2012, p. 54.

[4] OJ L 306, 23.11.2011, p. 25.

government deficit was brought down to 3,2 % of GDP in 2012, which is considered sufficient for the abrogation of the decision on the existence of an excessive deficit, taking into account the cost of the systemic pension reform. The deficit reduction was to some extent also based on robust economic growth and temporary expenditure freezes. The Convergence Programme has changed the medium-term objective (MTO) from 0,5 % to – 1,0 %, which is still in line with the objectives of the Stability and Growth Pact.

The budgetary strategy outlined in the Convergence Programme aims to reach the MTO by 2016. Based on the (recalculated) structural budget balance, annual progress towards the MTO in structural terms is higher than 0,5 % of GDP. The expenditure benchmark of the Stability and Growth Pact over the Programme period is met. The adjustment is slightly front-loaded and relies mainly on expenditure restraint, but is only partially supported by concrete measures, including one-offs that are not always specified. According to the Commission services 2013 spring forecast, the structural adjustment in 2013 and 2014 is expected to be at 0,3 % and 0,0 % of GDP respectively and thus below the required progress of 0,5 % of GDP, which also casts doubt on the Convergence Programme's adjustment path. Further consolidation measures have yet to be specified, and structural reforms including a shift to revenue based measures, should be considered. General government debt remains below 60 % of GDP with 40,7 % in 2012 and is expected to drop slightly over the Programme period. While the Convergence Programme expects debt to ease to 39,7 % in 2013 and to decline further to 34,5 % by 2016, the Commission services 2013 spring forecast projects a drop to 40,1 % of GDP in 2013 and 39,4 % in 2014. Differences are above all the result of lower assumed deficits in the Convergence Programme.

(10) Although its deficit position has improved over the years, Lithuania still lacks sufficient fiscal space to react to adverse shocks. There is, however, scope for less-distortive taxation and further improvements in tax compliance. Lithuania continues to have the lowest tax-to-GDP ratio in the Union and consolidation has mainly been focused on the expenditure side. There is still scope to look at additional tax revenue sources that are least detrimental to growth, such as environmental and recurrent immovable property taxation. While Lithuania has taken steps to increase recurrent property tax revenue, there seems to be scope for further effort. Lithuania's revenues from environmental taxes are on a downward trend and were the second lowest in the Union in 2011, also due to the lowest level of transport taxes in the Union; this does not facilitate reductions in the high energy intensity of the Lithuanian economy. At the same time, growth-enhancing expenditure, for example on research and education, should be prioritised in fiscal consolidation. The implementation of laws strengthening the fiscal framework has been delayed. Lithuania's fiscal framework has failed to prevent pro-cyclical fiscal policy in years of positive output gap. The amendment of the Law on Budget Structure in 2012 is a step in the right direction. There is a need to improve monitoring, accountability and the execution of the budgetary process, in particular of municipalities, and to secure the binding character of the medium-term framework.

(11) Demographic developments are a challenge for Lithuania's long-term fiscal sustainability. A comprehensive pension reform, targeting both sustainability and adequacy of pensions, therefore remains important. Adequacy of pensions is a challenge as the older population is at a high risk of poverty and exclusion. The 2012 reform of the pension accumulation system encourages second pillar pension accumulation with financial incentives from the state budget. It also introduces the possibility to opt out from private pension accumulation and to return to the state social insurance fund during a transitional period, as well as a gradual increase of the retirement age. The reform will enter into force on 1 January 2014. These are important but isolated steps in the right direction and more significant changes are needed, particularly within the first pension pillar. In addition, measures that promote the employability of older workers and age friendly working environments are necessary.

(12) Tackling unemployment and low labour-market participation of the low-skilled remains a key challenge. Young and unskilled workers in particular suffer from high unemployment rates. Skill mismatches became especially evident during the crisis and represent a growing problem, hinting at structural shortcomings in education and labour-market policies. Ensuing shortages of skilled labour are compounded by high emigration rates. Hence, additional measures to improve labour-market flexibility and to boost participation in the labour market, especially for young people, unskilled persons and older workers, are necessary. The overall coverage of active labour-market measures, and the financial allocation per individual measure, remain insufficient and measures are poorly targeted for low skilled and the long-term unemployed. A comprehensive review of labour law, with the involvement of social partners, could identify unnecessary restrictions and administrative hurdles affecting flexible contractual agreements, dismissal provisions and flexible working time arrangements. To ensure a better transfer from education to the labour market, apprenticeships and internships could be made more attractive.

(13) Poverty and social exclusion are still worryingly high. In particular, the increase in child poverty is of concern. Cash social assistance reform measures designed to increase work incentives (in-work benefits for the long-term unemployed, gradual reduction of social benefits for people of working age who are inactive) and reduce poverty were launched in 2012. A pilot project in five municipalities delivered impressive results on saving expenditure and better targeting beneficiaries. It is now necessary to put in place a monitoring system to assess its efficiency in, and impact on, tackling poverty and exclusion. The reform should also be linked with activation measures that enhance participation, in particular for long-term social beneficiaries. Measures taken to reduce poverty include increased coverage of social benefits and a new method for calculating the benefit amounts. Moreover, on 1 January 2013, the minimum wage increased by 18 %, which might help reduce the inactivity trap and in-work poverty. However, these measures appear insufficient given the size of the challenge, and a comprehensive strategy or action plan to fight poverty is lacking.

(14) The government has been undertaking an ambitious reform of state-owned enterprises (SOEs) since 2010. The reform is relevant and credible, involving legislative as well as organisational changes. The regulatory aspects of the reform have been put in place and broad compliance with reporting requirements has been achieved. The challenge now is to avoid conflicts of interest, with respect to regulatory and non-regulatory functions, and to distinguish between commercial and non-commercial activities of SOEs. Once fully implemented, the reform could help to boost competitiveness and growth. Monitoring of compliance will, therefore, be key.

(15) Electricity and gas links to neighbours remain underdeveloped. As a result, competition in the energy sector is very limited and energy prices are high. Furthermore, energy efficiency continues to be an issue. Progress has been sluggish as regards the renovation of buildings, including with respect to investments under the JESSICA holding fund, and major challenges in the renovation of private housing remain.

(16) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Lithuania's economic policy. It has assessed the National Reform Programme and the Convergence Programme. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Lithuania but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (6) below.

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

HEREBY RECOMMENDS that Lithuania take action within the period 2013-2014 to:

1. Ensure growth friendly fiscal consolidation and implement the budgetary strategy as planned, pursuing a structural adjustment effort that will enable Lithuania to reach the MTO. Prioritise growth-enhancing expenditure. Continue to strengthen the fiscal framework, in particular by securing enforceable and binding expenditure ceilings in the medium-term budgetary framework. Review the tax system and consider increasing those taxes that are least detrimental to growth, such as recurrent property and environmental taxation, including the introduction of car taxation, while continuing to reinforce tax compliance.

2. Adopt and implement legislation on a comprehensive pension system reform. Align the statutory retirement age with life expectancy, restrict access to early retirement, establish clear rules for the indexation of pensions, and promote the use of complementary savings schemes while ensuring implementation of ongoing reforms. Underpin pension reform with measures that promote the employability of older workers.

3. Tackle high unemployment amongst the low-skilled and the long-term unemployed by refocusing resources on active labour-market policies while improving their coverage and efficiency. Improve the employability of young people, for example through a Youth Guarantee, enhance the implementation and effectiveness of apprenticeship schemes, and address persistent skill mismatches. Review the appropriateness of labour legislation with regard to flexible contract agreements, dismissal provisions and flexible working time arrangements, in consultation with social partners.

4. Implement concrete targeted measures to reduce poverty and social exclusion. Continue to strengthen the links between the cash social assistance reform and activation measures.

5. Complete the implementation of the reform of the SOEs, in particular to ensure separation of ownership and regulatory functions, and closely monitor compliance with the requirements of the reform.

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

6. Step up measures to improve the energy efficiency of buildings, including through removing disincentives and rapid implementation of the holding fund. Promote competition in energy networks by improving interconnectivity with other Member States for both electricity and gas.

Done at Brussels, 9 July 2013.

For the Council

The President

R. ŠADŽIUS

COUNCIL RECOMMENDATION

of 9 July 2013

on the National Reform Programme 2013 of Luxembourg and delivering a Council opinion on the Stability Programme of Luxembourg, 2012-2016

(2013/C 217/14)

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 5(2) thereof,

Having regard to the recommendation of the European Commission,

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 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a Recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, it adopted a decision on guidelines for the employment policies of the Member States [2], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Member States' Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 strategy and to implementing the country-specific recommendations.

(4) On 10 July 2012, the Council adopted a Recommendation [3] on Luxembourg's National Reform Programme for 2012 and delivered its opinion on Luxembourg's Stability Programme for 2012-2015.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey, marking the start of the 2013 European Semester for economic policy coordination. Also on 28 November 2012, the Commission, on the basis of 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 [4], adopted the Alert Mechanism Report, in which Luxembourg was not identified as one of the Member States for which an in-depth review would be carried out.

(6) The European Parliament has been duly involved in the European Semester, in accordance with Regulation (EC) No 1466/97, and, on 7 February 2013, adopted a resolution on employment and social aspects in the Annual Growth Survey 2013 and a resolution on the contribution to the Annual Growth Survey 2013.

(7) On 14 March 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(8) On 26 April 2013, Luxembourg submitted its 2013 National Reform Programme and its Stability Programme for the period 2012-2016. In order to take account of their interlinkages, the two Programmes have been assessed at the same time.

(9) Based on the assessment of the Stability Programme pursuant to Regulation (EC) No 1466/97, the Council

[1] OJ L 209, 2.8.1997, p. 1.

[2] Maintained for 2013 by Council Decision2013/208/EU of 22 April 2013 on guidelines for the employment policies of the Member States (OJ L 118, 30.4.2013, p. 21).

[3] OJ C 219, 24.7.2012, p. 58.

[4] OJ L 306, 23.11.2011, p. 25.

is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the Programme is plausible. In particular, the Stability Programme scenario for 2013 is very close to the 2013 Commission services 2013 spring forecast, while for 2014 it is slightly more optimistic. Medium-term deficit projections are made under a slightly optimistic growth scenario, above potential growth. The objective of the budgetary strategy outlined in the Stability Programme is to bring the deficit from 0,8 % of GDP in 2012 to 0,6 % of GDP in 2014. However in the outer years of the programme period, the deficit is forecast to deteriorate to 1,3 % of GDP both in 2015 and 2016. This is the result of the introduction of the new VAT rules regarding electronic services, entering into force on 1 January 2015. According to these rules, the VAT revenues generated from e-commerce activities will be transferred from the country where the supplier is located to that of the residence of the customer. The impact of the new rules is estimated by the authorities to lower tax revenues from VAT by 1,4 % of GDP. The Government has already announced that the standard VAT rate will be increased, with a view to make up a part of the revenue loss. The Stability Programme confirms the previous medium-term budgetary objective (MTO) of a structural surplus of 0,5 % of GDP. The MTO is in line with the requirements of the Stability and Growth Pact. Based on both the Commission services 2013 spring forecast as well as on the (recalculated) structural budget balance in the Stability Programme, Luxembourg is expected to be at a structural surplus of 0,1 % of GDP, which is below the MTO, in 2012, and is projected to achieve its MTO in 2013. However, Luxembourg is projected to depart again from its MTO starting from 2014 by 0,3 % of GDP and even further in 2015 and 2016. The national authorities have reiterated their objective to return to the MTO at the latest in 2017 so as to provide greater room for manoeuvre. At 20,8 % of GDP in 2012, gross government debt is well below the Treaty reference value.

(10) Luxembourg has been able to keep its public deficit below the 3 % of GDP threshold over the past years, therefore avoiding entering the excessive deficit procedure. This has been due more to buoyant revenues rather than to expenditure restraint. Specifically, in 2012, the growth rate of government expenditure, net of discretionary revenue measures, is estimated to have exceeded the expenditure benchmark of the Stability and Growth Pact. The deviation of the growth rate of government expenditure from the expenditure benchmark is estimated to reach 1,3 % of GDP, above the threshold of 0,5 % of GDP defined in Regulation (EC) 1466/97. However, to qualify this deviation, an overall assessment needs to be conducted, taking into account other factors: (i) the deficit deteriorated in structural terms by only 0,2 % of GDP in 2012; (ii) the economy of Luxembourg, given the small size of the country and its degree of openness, is very volatile; and (iii) according to the Commission services spring 2013 forecast, Luxembourg should attain its MTO already in 2013. All these elements point to a non-structural nature of the deviation. Still, the high volatility of the revenues collected by Luxembourg's general government, up to now resulting in higher-than-planned revenues, represents a risk for the sustainability of public finances. To better address these risks, both the debt and expenditure constraints should be established in law. Moreover, there should be an identified monitoring body and predefined action in case of non-compliance. The entry into force on 1 January 2015 of the above-mentioned VAT package and its subsequent strong negative impact on tax collection illustrates the importance for Luxembourg to introduce a medium-term budgetary framework. Specifically, this would call for a particularly prudent fiscal stance in 2014.

(11) Currently, less than a third of tax revenues are raised from consumption taxes, partially owing to moderate standard and reduced VAT rates. Luxembourg ranks first in the EU in terms of the number of categories of goods and services covered by reduced VAT rates. The presence of a large financial sector, exempted from VAT, also contributes to the low VAT to GDP ratio. Overall, Luxembourg has scope to raise revenue by extending the standard VAT rate. In addition, the corporate tax system in Luxembourg is characterised by a large tax bias towards indebtedness, which contributes to a high private debt to GDP ratio.

(12) The Luxembourg pension reform adopted in December 2012 can only be considered an important first step in the right direction. Even when taking into account most of the aspects of the adopted pension reform, Luxembourg would still need to implement long-term sustainability-enhancing policies equivalent to a permanent improvement of 8,6 percentage points of GDP in the primary balance to close the fiscal gap. Luxembourg therefore needs to go further in its pension reform. The introduction of a cap on pension adjustments based on real wage increases would increase pension reserves and increasing the effective retirement age by aligning the retirement age or pension benefits to change in life expectancy would help ensure the long-term sustainability of the pension system. Moreover, the possibilities for early retirement should be reduced and it should be made more attractive to work longer than the minimum required. In addition, the impact on fiscal sustainability of long-term care expenditure is projected to contribute by 2,1 percentage points to Luxembourg's sustainability gap. The expected increase in both the number of elderly and the number of dependants in Luxembourg is high compared to the EU average.

(13) Luxembourg's current productivity is rather high. However, the room for manoeuvre in terms of productivity gains is getting smaller. Therefore, the growth of unit labour costs should be limited by ensuring a better correlation between wages and productivity. Luxembourg

has taken measures to moderate wage growth by modulating the indexation system between 2012 and 2014. However, this reform is only temporary and does not guarantee that wages will over time evolve in line with productivity. Productivity is not the same across all economic sectors, and the level of productivity in the financial sector is almost twice as high as in the remaining part of the economy. There will be a significant risk to Luxembourg's competitiveness from 2015 onward, when the automatic indexation system will again be applied in the normal way. Additional measures should thus be taken to reform the wage setting system in a more permanent way to avoid a further deterioration of competitiveness in the future.

(14) Luxembourg's economy is heavily dependent on its financial sector, which accounts for about 30 % of total value added and 25 % of collected fiscal revenues. To safeguard the country's future competitiveness, alternative "competence niches" would need to be developed. However, the Luxembourgish research and innovation system remains very weak and Luxembourg is not on track to reach its research and development (R&D) intensity target for 2020. The performance of Luxembourg on the indicators on cooperation between public research institutions and firms is well below the EU average, reflecting the current disconnections between the private sector R&D and the public research system. Luxembourg should counteract the declining trend of its R&D intensity, in particular by helping boost business R&D intensity. The development of a more targeted smart specialisation strategy could play a crucial role in maximising the economic impacts of public research funding, in particular through ensuring a leverage effect on private investments. Such a targeted approach should be complemented by a comprehensive horizontal policy focused on the development and growth of innovative firms.

(15) Youth unemployment remains persistently high at 18 % and depends heavily on the educational level. Young residents face intense competition for jobs from non-residents, who are often more skilled. While Luxembourg has demonstrated a strong commitment to combating youth unemployment, further efforts are needed. In order to maximise returns, measures taken should be made part of a comprehensive reform strategy, including enhanced activation policies to combat benefit dependency. Luxembourg's PISA [1] performance testing on basic skills of young people is relatively weak. Further measures are needed to counteract the negative tendency in reading, mathematics and science observed since 2006. Further efforts should be made to improve and target education resources for schools with disadvantaged students and increase resources available for language support and remedial classes. The specific challenges faced by people with a migrant background on the labour market should be further examined and addressed by targeted measures, including in respect of language skills. Vocational education and training should be given particular attention in this context. Further measures should be taken to improve early childhood education and reduce early school leaving, in particular for the migrant population. The employability of older workers should be improved, including through skills upgrading.

(16) Luxembourg is committed to reducing its greenhouse gas emissions in the non-ETS (emissions trading system) sectors by 20 % in 2020 compared to 2005 but is expected to fail to meet its target by 23 percentage points according to the latest 2020 projections based on existing measures. The transport sector was responsible for 68 % of non-ETS emissions in 2011 and represents a key challenge for Luxembourg. Measures currently in place would only contribute to approximately a third of the greenhouse gas emission reduction necessary to meet the target. Consequently, measures need to be significantly stepped up, in particular by increasing fuel taxation so as to reduce the taxation gap with neighbouring countries. The vehicle tax reform should also be accelerated. Luxembourg should continue with the implementation of projects which favour the use of public transport. It should introduce congestion charging on roads to encourage a shift towards public transport. Better public transport connections with neighbouring regions should be promoted.

(17) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Luxembourg's economic policy. It has assessed the National Reform Programme and Stability Programme. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Luxembourg but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (6) below.

(18) In the light of this assessment, the Council has examined the Stability Programme, and its opinion [2] is reflected in particular in recommendation (1) below.

[1] PISA is the OECD Programme for International Student Assessment.

[2] Under Article 5(2) of Regulation (EC) No 1466/97.

(19) In the context of the European Semester, the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On this basis, the Council has issued specific recommendations addressed to the Member States whose currency is the euro [1]. As a country whose currency is the euro, Luxembourg should also ensure the full and timely implementation of those recommendations,

HEREBY RECOMMENDS that Luxembourg take action within the period 2013-2014 to:

1. Preserve a sound fiscal position and remain at the MTO so as to ensure the long-term sustainability of public finances, in particular by taking into account implicit liabilities related to ageing. Strengthen fiscal governance by adopting a medium-term budgetary framework covering the general government and including multi-annual expenditure ceilings, and by putting in place the independent monitoring of fiscal rules.

2. Take measures to address the debt-bias in corporate taxation and extend the application of the standard VAT rate.

3. Curb age-related expenditure by making long-term care more cost effective, in particular through a stronger focus on prevention, rehabilitation and independent living, strengthening the recently adopted pension reform, taking additional measures to curb early retirement and increasing the effective retirement age by aligning the retirement age or pension benefits to changes in life expectancy.

4. Beyond the current freeze, take further structural measures, in consultation with the social partners and in accordance with national practices, to reform the wage setting system, including wage indexation, to improve its responsiveness to productivity and sectoral developments and labour market conditions and foster competitiveness. Step-up efforts to diversify the structure of the economy, fostering private investment in research, in particular by developing cooperation between public research and firms.

5. Step up efforts to reduce youth unemployment by improving the design and monitoring of active labour market policies. Strengthen general and vocational education to better match young people's skills with labour demand, in particular for people with a migrant background. Reinforce efforts to increase the participation rate of older workers, including by improving their employability through lifelong learning.

6. Step up measures to meet the target for reducing non-ETS greenhouse gas emissions, in particular by increasing taxation on energy products for transport.

Done at Brussels, 9 July 2013.

For the Council

The President

R. ŠADŽIUS

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[1] See page 97 of the current Official Journal.

COUNCIL RECOMMENDATION

of 9 July 2013

on the National Reform Programme 2013 of Malta and delivering a Council opinion on the Stability Programme of Malta, 2012-2016

(2013/C 217/15)

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 5(2) thereof,

Having regard to 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 [2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

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 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, it adopted a decision on guidelines for the employment policies of the Member States [3], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Member States' Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 strategy and to implementing the country-specific recommendations.

(4) On 10 July 2012, the Council adopted a Recommendation [4] on Malta's National Reform Programme for 2012 and delivered its opinion on Malta's Stability Programme for 2012-2015.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey, marking the start of the 2013 European Semester for economic policy coordination. Also on 28 November 2012, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report, in which it identified Malta as one of the Member States for which an in-depth review would be carried out.

(6) The European Parliament has been duly involved in the European Semester, in accordance with Regulation (EC) No 1466/97, and, on 7 February 2013, adopted a resolution on employment and social aspects in the Annual Growth Survey 2013 and a resolution on the contribution to the Annual Growth Survey 2013.

(7) On 14 March 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(8) On 10 April 2013, the Commission published the results of its in-depth review for Malta, under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that Malta is experiencing macroeconomic imbalances, which deserve monitoring and require policy action. In particular, the banking sector and real estate market developments justify close monitoring. The long-term sustainability of public finances requires policy attention.

(9) On 30 April 2013, Malta submitted its 2013 National Reform Programme and its Stability Programme for the

[1] OJ L 209, 2.8.1997, p. 1.
[2] OJ L 306, 23.11.2011, p. 25.
[3] Maintained for 2013 by Council Decision 2013/208/EU of 22 April 2013 on guidelines for the employment policies of the Member States (OJ L 118, 30.4.2013, p. 21).
[4] OJ C 219, 24.7.2012, p. 61.

period 2012-2016. In order to take account of their interlinkages, the two Programmes have been assessed at the same time.

(10) Based on the assessment of the Stability Programme pursuant to 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 Council abrogated its decision on the existence of an excessive deficit in Malta on 4 December 2012 [1], on account of its correction in 2011, which based on the Commission services 2012 autumn forecast appeared durable. However, in 2012 Malta recorded a general government deficit of 3,3 % of GDP, again above the reference value of 3 % of GDP. The objective of the budgetary strategy outlined in the Stability Programme is to gradually reduce the deficit from 3,3 % of GDP in 2012 to 0,8 % of GDP in 2016, implying gradual progress towards the medium-term objective (MTO). The Stability Programme confirms the MTO of a balanced position in structural terms, which is more ambitious than required by the Stability and Growth Pact, but its achievement is not planned within the Stability Programme period. The 2013 deficit target in the Stability Programme relies on relatively high growth in tax revenues, which does not appear to be fully explained by the underlying macroeconomic scenario. In addition, it is not sufficiently supported by detailed measures, as is also the case for the subsequent years. As a result, the change in the planned (recalculated) structural balance is significantly higher than in the Commission services forecast. According to the latter, the structural balance improves by just ¼ percentage points of GDP in 2013 and only marginally in 2014, on a no-policy-change basis.

General government debt is projected to remain above the 60 % of GDP threshold over the whole Stability Programme horizon. The national authorities project the debt to increase to 74,2 % of GDP in 2014 and subsequently to start decreasing to 70 % by 2016. In the Commission services 2013 spring forecast, the debt-to-GDP ratio is expected to increase slightly faster, to 74,9 % in 2014, as the primary deficit is expected to continue expanding. Given the correction of the excessive deficit in 2011, Malta is in a three-year transitional period as regards the applicability of the debt reduction benchmark, starting in 2012. Malta did not make sufficient progress towards compliance with the debt criterion in 2012 and is not projected to do so in 2013-2014. While Malta's fiscal framework is quite flexible, its non-binding nature and the short horizon of fiscal planning are not supportive of a sound fiscal position. Directive 2011/85/EU [2] on budgetary frameworks has not yet been transposed and a structural budget balance rule, as provided for in the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, signed on 2 March 2012 in Brussels, has not yet been introduced into national law. The Stability Programme states the intention of the Government to set up a Fiscal Council, but no concrete plans are laid out.

(11) Tax compliance and evasion continue to pose a challenge to the quality of public finances. The authorities have introduced a number of relevant measures and additional ones are in the pipeline, but implementation needs to be monitored closely as concrete results are yet to materialise. Tax incentives for companies to take on debt are still very high. In 2012, Malta stood out as the country with the second highest gap between the tax treatment of debt and equity financing of new investment. This debt bias may lead to excessively high corporate leverage and inefficient allocation of capital. Malta is among the few Member States without any provisions to counter the debt bias.

(12) Malta still faces challenges regarding the sustainability of its public finances in view of the budgetary impact of ageing which is projected to considerably exceed the EU average. The increase in pension expenditure accounts for more than half of the total projected increase in age-related expenditure, while when compared to other Member States the statutory retirement age remains low and the increase legislated with the 2006 reform is slow. A further reform is necessary to ensure sustainability while safeguarding adequacy and addressing intergenerational equity concerns. While discussions were held with social partners no concrete proposals for further pension reform were put forward. The employment rate of older workers is low and a comprehensive active ageing strategy has still to be finalised. Limited primary care provision, combined with the projected ageing of the population may lead to high healthcare costs in the long term. The administrative capacity in the area of public procurement is weak, leading to complicated and lengthy procedures.

(13) Measures taken to reduce the rate of early school leaving, including the recent launch of the preparatory process leading to an early school leaving strategy are welcome, also with a view to reducing the mismatch between the demand and supply of skills. The effectiveness of the policy efforts made will depend on proper and timely implementation which will have to be closely monitored. However, the insufficient link of education and training to the needs of the labour market is a major bottleneck. The envisaged creation of a single apprenticeship scheme

[1] Council Decision 2012/778/EU of 4 December 2012 (OJ L 342, 14.12.2012, p. 43).

[2] Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States (OJ L 306, 23.11.2011, p. 41).

covering more qualification levels is also expected to contribute to fostering a workforce geared to the needs of the labour market.

(14) Malta has also taken significant steps to increase participation by women in the labour force, mainly aimed at improving reconciliation of work and family life. Also benefitting from a favourable cohort effect, the employment rate of women continues to rise. However, there is room for improvement: the employment rate of women still remains low, parenthood still has a significant effect on the participation of women on the labour market, and the gender employment gap is the highest in the Union. Reinforcing the promotion of flexible working arrangements and increasing the provision of affordable childcare and afterschool facilities to a wider segment of the population can contribute to further increasing the employment rate of women.

(15) Malta's cost-of-living adjustment mechanism has specific characteristics which appear to mitigate its negative effect on overall labour-market performance and wage adjustment: the mechanism grants a fixed amount increase, thus representing only partial compensation for inflation to wages above the 'reference' basic wage, micro- and macro-level derogation clauses are available, and wage bargaining is fully decentralised. Nevertheless in the event of very adverse phases of the economic cycle, the system still poses a potential challenge to the flexibility of real wages, thereby hindering labour market adjustment and hampering competitiveness. The volatility of prices of some components of the price index used in the mechanism, in particular energy prices could put pressure on inflation through wage-price spirals. Therefore, the collection of wage and productivity data on sectoral level, and a close monitoring of the impact of the wage indexation system will be essential to mitigate potential risks. The Maltese authorities should closely monitor the impact of the mechanism on the economy and stand ready to reform it as appropriate.

(16) Malta's competitiveness remains at risk in view of the very limited diversification and poor environmental performance of its energy supply leading to high electricity tariffs. The dire financial state of the main energy provider (*Enemalta*), adds to this insecurity, but the electricity connector with Sicily is expected to provide relief after 2014. While a number of initiatives have been further pursued, such as the uptake of photovoltaic power, the share of renewable energy sources remains particularly low and the feasibility of major projects, such as the development of wind farms, seems to be at stake. Progress was registered in energy efficiency, notably for public buildings, supported through Union funding. The environmental performance of Malta's transport system is also poor. Malta would benefit from a comprehensive transport strategy that seeks to improve public transport, the road network, the system's carbon performance and to further encourage the use of other types of transport than passenger cars.

(17) The banking sector in Malta is very large when compared to the domestic economy. While this is notably due to non-core domestic and international banks, which have limited exposure to the domestic economy, continued strict supervision of them is justified to prevent negative impact on financial stability from their activities. Domestic banks remain highly exposed to the property market while specific loan-loss provisions are relatively low. Policy discussions have taken place but this still has to translate into appropriate regulatory action. The judicial system suffers from inefficiencies that pose a further risk to financial stability. The long time needed to resolve insolvency cases obstructs the efficient enforcement of collateral rights. In times of economic stress, this may additionally burden banks' balance sheets and increase losses, resulting in recapitalisation needs.

(18) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Malta's economic policy. It has assessed the National Reform Programme and the Stability Programme, and has presented an in-depth review. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Malta but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (5) below.

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

(20) In the light of the Commission's in-depth review and this assessment, the Council has examined the National Reform Programme and the Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (2) and (5) below.

(21) In the context of the European Semester the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On this basis the Council has issued specific recommendations addressed to the

(1) Under Article 5(2) of Regulation (EC) No 1466/97.

Member States whose currency is the euro [1]. As a country whose currency is the euro, Malta should also ensure the full and timely implementation of those recommendations,

HEREBY RECOMMENDS that Malta take action within the period 2013-2014 to:

1. Specify and implement the measures needed to achieve the annual structural adjustment effort set out in the Council recommendations under the excessive deficit procedure in order to correct the excessive deficit by 2014 in a sustainable and growth-friendly manner, limiting recourse to one-off/temporary measures. After correcting the excessive deficit, pursue the structural adjustment effort at an appropriate pace so as to reach the MTO by 2019. Put in place a binding, rule-based multiannual fiscal framework in 2013. Ensure concrete delivery of measures taken to increase tax compliance and fight tax evasion, and take action to reduce the debt bias in corporate taxation.

2. To ensure the long-term sustainability of public finances, continue to reform the pension system to curb the projected increase in expenditure, including by measures such as accelerating the increase in the statutory retirement age, increasing the effective retirement age by aligning the retirement age or pension benefits to changes in life expectancy and by encouraging private pension savings. Take measures to increase the employment rate of older workers by finalising and implementing a comprehensive active ageing strategy. Pursue healthcare reforms to increase the cost-effectiveness of the sector, in particular by strengthening public primary care provision. Improve the efficiency and reduce the length of public procurement procedures.

3. Continue to pursue policy efforts to reduce early school leaving, notably by setting up a comprehensive monitoring system, and increase the labour-market relevance of education and training to address skills gaps, including through the announced reform of the apprenticeship system. Continue supporting the improving labour-market participation of women by promoting flexible working arrangements, in particular by enhancing the provision and affordability of childcare and out-of-school centres.

4. Continue efforts to diversify the energy mix and energy sources, in particular through increasing the take-up of renewable energy and the timely completion of the electricity link with Sicily. Maintain efforts to promote energy efficiency and reduce emissions from the transport sector.

5. Take measures to further strengthen the provisions for loan-impairment losses in the banking sector to mitigate potential risks arising from exposure to the real estate market. Maintain policy effort to ensure strict banking sector supervision, including for the non-core domestic and internationally-oriented banks. Improve the overall efficiency of the judicial system, for example by reducing the time needed to resolve insolvency cases.

Done at Brussels, 9 July 2013.

For the Council

The President

R. ŠADŽIUS

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[1] See page 97 of the current Official Journal.

COUNCIL RECOMMENDATION

of 9 July 2013

on the National Reform Programme 2013 of Poland and delivering a Council opinion on the Convergence Programme of Poland, 2012-2016

(2013/C 217/16)

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 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 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, it adopted a decision on guidelines for the employment policies of the Member States [2], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Member States' Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 strategy and to implementing the country-specific recommendations.

(4) On 10 July 2012, the Council adopted a Recommendation [3] on Poland's National Reform Programme for 2012 and delivered its opinion on Poland's Convergence Programme for 2012-2015.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey, marking the start of the 2013 European Semester for economic policy coordination. Also on 28 November 2012, the Commission, on the basis of 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 [4], adopted the Alert Mechanism Report, in which Poland was not identified as one of the Member States for which an in-depth review would be carried out.

(6) The European Parliament has been duly involved in the European Semester, in accordance with Regulation (EC) No 1466/97, and, on 7 February 2013, adopted a resolution on employment and social aspects in the Annual Growth Survey 2013 and a resolution on the contribution to the Annual Growth Survey 2013.

(7) On 14 March 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(8) On 30 April 2013, Poland submitted its 2013 National Reform Programme and its Convergence Programme for 2012-2016. In order 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) Maintained for 2013 by Council Decision 2013/208/EU of 22 April 2013 on guidelines for the employment policies of the Member States (OJ L 118, 30.4.2013, p. 21).
(3) OJ C 219, 24.7.2012, p. 65.
(4) OJ L 306, 23.11.2011, p. 25.

(9) Poland undertook considerable consolidation efforts in 2011-2012 in line with the Council recommendation. However, in view of a deteriorating global economic situation the deadline to correct the excessive deficit has been missed and more time is needed to correct it. Based on the assessment of the Convergence Programme pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the Programme is optimistic. In particular, private consumption and private investment is expected to increase more strongly than in the Commission services 2013 spring forecast, leading to an overall higher growth rate in 2013 (1,5 % against 1,1 %). The objective of the budgetary strategy outlined in the Convergence Programme is to bring the deficit to 3,5 % of GDP by 2013 (one year after the original 2012 EDP deadline) and reach the medium-term budgetary objective (MTO) by 2016. However, the Convergence Programme plans to bring the headline deficit below 3 % of GDP only by 2015. Given the overly optimistic growth forecast and revenue projections in the Convergence Programme, the Council considers that the fiscal effort envisaged by the authorities is not compatible with an actual correction of the excessive deficit by 2013 unless significant additional measures are taken to reinforce the effort for this year. The Convergence Programme is based on an optimistic scenario and not sufficiently supported by detailed measures in order to credibly ensure the correction of the deficit at the latest by 2014. Additional efforts are therefore required based on detailed measures for both 2013 and 2014.

The authorities have not sufficiently exploited the pre-crisis growth environment to reform the structure of public spending to prioritise growth-enhancing items. The Convergence Programme confirms the previous MTO of −1 % of GDP, which reflects the objectives of the PACT. Based on the (recalculated) structural deficit, the MTO is not projected to be attained by 2016, as planned in the Convergence Programme, as the planned annual progress towards the MTO of 0,3 % of GDP (in structural terms) in 2015 and 0,7 % of GDP in 2016 is not sufficient. 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 the entire programme period. Additional efforts as well as changes in the composition of the adjustment may be required also in the outer years of the Convergence Programme as the progress towards the MTO predominantly relies on sizeable cuts in public investment expenditure and is not sufficiently supported by detailed measures. General government debt is projected to remain below 60 % of GDP in Poland over the programme period. The national authorities forecast it to remain broadly constant at slightly above 55,5 % of GDP until 2014/2015 (and decrease in 2016), whereas the Commission, taking account of possible risks to the consolidation plans and debt decreasing items, expects an increase to around 59 % of GDP in 2014. Tax compliance remains a key issue in terms of combating tax evasion, which also requires reducing the administrative burden on taxpayers and improving the efficiency of tax administration. To ensure the success of the fiscal consolidation strategy, it is important that the fiscal consolidation is backed by comprehensive structural reforms.

(10) A low share of growth-enhancing expenditure (education, research and innovation) and declining public investments hamper long-term growth prospects. The health sector in Poland is confronted with limitations in access to care and cost-inefficiencies, while healthcare spending is expected to grow considerably in the medium to long term because of an aging society, increasing the burden on public finances. The system could be improved by strengthening primary care and referral systems and exploiting the potential for cost-efficiency gains in hospital care.

(11) The Government has not yet implemented a permanent expenditure rule consistent with the European System of Accounts (ESA). Furthermore, Poland has made only limited progress in medium-term planning and improving coordination among different levels of government when it comes to the budgetary process.

(12) Youth unemployment is growing which is inter alia the result of the insufficient match between education outcomes and labour market needs. While implemented reforms of education systems are meant to address the job-skills mismatch, there is still a need to increase the availability of apprenticeships and work-based learning, to strengthen the cooperation between schools and employers and to improve the quality of teaching. The implementation of a Youth Guarantee, building upon current efforts, would contribute to supporting young people in obtaining employment. The proportion of adults participating in lifelong learning remains very low and the adoption of the lifelong learning strategy is pending.

(13) With respect to early childcare, government efforts have concentrated on implementing the 'Toddler programme'. As a result, the number of nurseries has almost doubled over the last two years, but is still low in relative terms and does not satisfy demand. Poland took only minor steps to address the extensive use of temporary employment. Poland has the third-highest share in the Union of involuntary fixed-term employment of all persons employed, in particular in the age group 15-24. While it is often argued that fixed-term contracts are an instrument for the unemployed to enter the labour market with a view to later moving into a permanent contract, this seems not to be the case for the majority of workers in Poland. Instead, the extensive use of such contracts appear to have a negative impact on the quality of human capital and on productivity, as temporary employees tend to have less access to vocational training. The wage penalty on fixed-term contracts is also relatively high, contributing to one of the highest in-work poverty rates in the Union. In addition, the use of revolving civil law contracts with significantly reduced social protection rights is widespread. According to the

government report 'Youth 2011', over 50 % of young workers are employed on the basis of such contracts.

(14) Poland faces low employment rates of older workers. Whereas possibilities for early retirement have been significantly reduced and general pension reform has been carried out, a special pension scheme for miners remains. In addition, the social security system for farmers (KRUS) creates incentives for small-scale farmers to remain in the agricultural sector mainly because individual farmers' incomes are not accurately traced in the system. This results in hidden unemployment in rural areas, holding back productivity growth and keeping regional and sectoral labour mobility at bay.

(15) Poland is among the Member States with the lowest level of R&D expenditure and is one of the worst performers in broader innovativeness indicators. The overall ratio of R&D expenditures to GDP in Poland, at 0,77 % in 2011, was among the lowest in the Union. In particular, private R&D expenditure is low (0,2 % of GDP in 2011). Polish enterprises have relied largely on technology absorption, i.e. application of already existing technologies through fixed capital investment. While this has been successful in ensuring productivity gains and economic growth, Poland now needs a transition towards a more indigenous innovation-based model. Reforms of the science and higher education system have initiated a major restructuring to induce science-industry cooperation. No evaluation of these reforms is available yet. A more holistic approach is needed to align efforts in research, innovation and industrial policy and ensuring that there are adequate instruments supporting the whole innovation cycle.

(16) There are still very high potential gains from improvements in energy efficiency in all sectors of Poland's economy, in particular by insulating buildings, and such gains could support growth. The domestic electricity grid is still congested, but plans are advancing to create more interconnection capacity to neighbouring markets. Competition in the gas market is still hampered by a number of factors, in particular the phasing out of regulated prices is still to be completed, the incumbent holding a market share of around 97 % in retail and whole sale markets, and 90 % of natural gas imports are from Russia.

(17) Despite some progress, Poland's underdeveloped transport infrastructure remains a major bottleneck to growth. Major road infrastructure projects have advanced, but railway investment projects are still largely delayed. Degraded rail infrastructure requires substantial, growing investment, since only 36 % of approximately 20 000 km of rail lines in operation are in good technical condition. Despite recent efforts, Poland still lags considerably behind other Member States when it comes to seizing the growth potential of information and communication technologies (ICT). Fixed broadband coverage is among the lowest in the Union, both at national level and for rural areas. Investment in water networks remains insufficient.

(18) Poland's public administration performs below the EU average. Key problems include transparency, the complexity of the tax system and compliance costs, the increasing average length of proceedings in civil and commercial cases, and long insolvency proceedings and low recovery rates. The use of eGovernment in the public administration also remains below the EU average. Poland initiated a reform to facilitate access to regulated professions that is behind the initially announced schedule.

(19) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Poland's economic policy. It has assessed the National Reform Programme and the Convergence Programme. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Poland but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (7) below.

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

HEREBY RECOMMENDS that Poland take action within the period 2013-2014 to:

1. Reinforce and implement the budgetary strategy for the year 2013 and beyond, supported by sufficiently specified measures for both 2013 and 2014, to ensure a timely correction of the excessive deficit by 2014 in a sustainable manner and the achievement of the fiscal effort specified in the Council recommendations under the EDP. A durable correction of the fiscal imbalances requires credible implementation of ambitious structural reforms, which would increase the adjustment capacity and boost potential growth and employment. After the correction of the excessive deficit, pursue the structural adjustment effort that will enable Poland to reach the MTO by 2016. With a view to improving the quality of public finances, minimise cuts in growth-enhancing investment, and reassess expenditure policies improving the targeting of social policies and increasing the cost effectiveness and efficiency of

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

spending in the healthcare sector. Improve tax compliance, in particular by increasing the efficiency of the tax administration.

2. Ensure the enactment of a permanent expenditure rule in 2013 consistent with the rules of the ESA. Take measures to strengthen annual and medium-term budgetary coordination mechanisms among different levels of government.

3. Strengthen efforts to reduce youth unemployment, for example through a Youth Guarantee, increase the availability of apprenticeships and work-based learning, strengthen cooperation between schools and employers and improve the quality of teaching. Adopt the proposed lifelong learning strategy. Combat in-work poverty and labour market segmentation including through a better transition from fixed-term to permanent employment and by reducing the excessive use of civil law contracts.

4. Continue efforts to increase female labour market participation, in particular by investing in affordable quality childcare and pre-school education, and by ensuring stable funding and qualified staff. With a view to improving sectoral labour mobility, take permanent steps to reform the KRUS. Phase out the special pension system for miners with a view to integrating them into the general scheme. Underpin the general pension reform with measures promoting the employability of older workers to raise exit ages from the labour market.

5. Take additional measures to ensure an innovation-friendly business environment by strengthening the links between research, innovation and industrial policy, by further developing revolving instruments and tax incentives and by better targeting existing instruments to the different stages of the innovation cycle.

6. Renew and extend energy generation capacity and improve efficiency in the whole energy chain. Speed up and extend the development of the electricity grid, including cross-border interconnections, and eliminate obstacles in electricity cross-border exchange. Reinforce competition in the gas sector by phasing out regulated prices. Strengthen the role and resources of the railway market regulator and ensure effective implementation of railway investment projects without further delay. Accelerate efforts to increase broadband coverage. Improve waste and water management.

7. Take further steps to improve the business environment by simplifying contract enforcement and requirements for construction permits and by reducing tax compliance costs. Adopt and implement the planned liberalisation of access to professional services.

Done at Brussels, 9 July 2013.

For the Council

The President

R. ŠADŽIUS

COUNCIL RECOMMENDATION

of 9 July 2013

on the National Reform Programme 2013 of Romania and delivering a Council opinion on the Convergence Programme of Romania, 2012-2016

(2013/C 217/17)

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 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 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, it adopted a decision on guidelines for the employment policies of the Member States [2], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Member States' Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 strategy and to implementing the country-specific recommendations.

(4) On 10 July 2012, the Council adopted a recommendation [3] on Romania's National Reform Programme for 2012 and delivered its opinion on Romania's Convergence Programme for 2012-2015.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey, marking the start of the 2013 European Semester of economic policy coordination. Also on 28 November 2012, the Commission, on the basis of 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 [4], adopted the Alert Mechanism Report, in which Romania was not identified as one of the Member States for which an in-depth review would be carried out.

(6) The European Parliament has been duly involved in the European Semester, in accordance with Regulation (EC) No 1466/97, and, on 7 February 2013, adopted a resolution on employment and social aspects in the Annual Growth Survey 2013 and a resolution on the contribution to the Annual Growth Survey 2013.

(7) On 14 March 2012, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(8) On 30 April 2013, Romania submitted its 2013 National Reform Programme and its Convergence Programme for the period 2012-2016. In order to take account of their interlinkages, the two Programmes have been assessed at the same time.

(9) Based on the assessment of the Convergence Programme pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario

[1] OJ L 209, 2.8.1997, p. 1.

[2] Maintained for 2013 by Council Decision 2013/208/EU of 22 April 2013 on guidelines for the employment policies of the Member States (OJ L 118, 30.4.2013, p. 21).

[3] OJ C 219, 24.7.2012, p. 72.

[4] OJ L 306, 23.11.2011, p. 25.

underpinning the budgetary projections in the Programme is plausible and in line with the assessment in the Commission services 2013 spring forecast. Due to its substantial consolidation efforts, and in line with the Council Recommendation, Romania reduced its general government deficit to below 3 % in 2012. The Convergence Programme aims at a medium-term budgetary objective (MTO) of -1 % of GDP (previously -0,7 % of GDP), which is in line with the requirements of the Stability and Growth Pact. The Programme outlines a budgetary strategy aimed at reaching the MTO by 2014 which, when recalculated by the Commission on the basis of the commonly agreed methodology, corresponds to reaching the MTO by 2015. The progress in structural terms towards the MTO is higher than 0,5 % of GDP in 2013 and stands at about 0,4 % in 2014. The expenditure benchmark of the Stability and Growth Pact over the Programme period was met. Adjustment is front-loaded in 2013, with revenue-enhancing measures including reductions in tax-deductible items, an improvement in the taxation of agriculture, the introduction of a windfall levy following the deregulation of gas prices and the introduction of a special tax on the transmission of electricity and gas. The main risks to the Convergence Programme relate to further possible financial corrections linked to the absorption of EU funds, or the financing from the national budget of priority projects, renewed accumulation of arrears, especially at local government level, and limited progress in the restructuring of state-owned enterprises. Romania's public debt remains relatively low, at 37,8 % of GDP in 2012. It is expected to rise to 38,6 % in 2014 but will remain well below the 60% of GDP threshold over the Programme period.

(10) Following a request by Romania on 17 February 2011, the Commission and the IMF negotiated a precautionary economic adjustment programme with the Romanian authorities. In the context of the Union's precautionary assistance, Romania undertook to implement a comprehensive economic-policy programme with a particular focus on structural reform measures to improve the functioning of labour and product markets and increase the resilience and growth potential of the Romanian economy. In parallel, that programme has ensured that fiscal consolidation continues, that management and control of public finances improve, and that reforms are implemented in its external, monetary, financial stability, and financial market policies. In March 2013, Romania formally requested a three-month extension of the IMF programme. While the possibility to draw on funds under the EU programme expired at the end of March 2013, the final programme review will take place by the end of June 2013.

(11) Romania's fiscal position has been improving with the budget deficit decreasing below 3% in 2012 and a further fiscal consolidation expected for 2013. Low tax compliance represents a major challenge for Romania's tax system, in particular in the areas of VAT and labour taxation. Environmental taxes are below the EU average. While Romania does not face a risk of fiscal stress in the short or medium-term, it is at medium risk in the long-term due to age-related expenditure. There are concerns as regards the sustainability and adequacy of the pension system due to the low ratio of employed contributors to people drawing pensions. Romania is now one of the two Member States that have not yet decided to equalise the pensionable age for women and men, and the employment rate of older workers (41,4 % in 2012) is substantially below the EU average. The Romanian Government has decided to continue the pension reform and associate the social partners in designing the reform and enhance its ownership.

(12) The health sector in Romania features major inequities in terms of access to services provided and their quality. This is due, inter alia, to the inefficient use of resources and to poor management. Reforms to improve the efficiency of the healthcare sector have begun but continuous efforts are needed. The cost-effectiveness of the system could be increased by reducing the excessive use of hospital in-patient care and by strengthening primary care and referral systems.

(13) Romania continued to have a low employment rate of 63,8 % in 2012 although a slight improvement was registered from 62,8 % in the year before. The country's Europe 2020 target of 70 % by 2020 remains a challenge. Romanian labour productivity is still one of the lowest in the Union. The quality of public employment activation, job search and retraining services is still relatively low. Limited administrative capacity does not allow for the efficient delivery of active labour-market policies through quality personalised services, nor for the better integration of active and passive labour-market policies. Adult participation in lifelong learning remains stagnant at very low levels, which at 1,6 % in 2011, is significantly lower than the EU average of 8,9 %. The youth employment and activity rates were among the lowest in the Union in 2012, at 23,9 % and 30,9 % respectively, whereas the youth unemployment rate was high at 22,7 % in 2012. Romania's share of young people who are neither in employment nor in education and training, which stood at 16,8 % in 2012, is high and increasing.

(14) Poverty reduction continues to be a major challenge. In 2011, 40,3 % of the population were at risk of poverty and social exclusion, about two thirds more than the EU average of 24,2 %. Children are particularly affected (49,1 %). The impact of social transfers, excluding pensions, in reducing poverty remains significantly

below the average efficiency of transfers in the Union, both for the population as a whole (23,7 % in Romania as against 37,5 % for the EU in 2011) and for children (22 % compared to 42,8 % for the Union). The low take-up, coverage and adequacy of social benefits remain a challenge for the efficiency of social benefits in reducing poverty. In the field of social assistance, several pieces of legislation were adopted in 2012 as follow-up to the reform of 2011. The adoption of the remaining legislation would be an important step towards completing the reform. However the link with activation measures could be further strengthened. The implementation of the National Roma Integration Strategy started in 2012, but the results are modest. Better coordination between different stakeholders is needed for an effective implementation of the strategy, including the allocation of financing.

(15) The education law of 2011, a major reform that set a long-term agenda for upgrading the quality of education at all levels, is not yet fully operational. For a successful implementation of the education reform, the necessary financial and human resources will have to be devoted to building up administrative capacity and policy making. Romania faces a major challenge in raising the quality of its education and training system. Early school leaving is a significant challenge. At 17,4 % in 2012, the Romanian early school leaving rate is well above both the EU average of 13,5 % and the national target of 11,3 %. Problems persist especially in rural and remote areas and for the Roma. Romania also lacks an adequate data collection mechanism regarding early school leavers; a comprehensive strategy, to be adopted this year, should help in this regard. Access to quality affordable early childhood education and care remains problematic. Mismatches between skills and labour-market demand are characteristic of a large proportion of vocational and tertiary education programmes, with the poor level of vocational skills being a specific challenge. The high unemployment rate among tertiary graduates and the rate of over-qualification make a further alignment of tertiary education with the labour market a high priority. Positive but slow progress was registered in the transition from institutional to alternative care for children deprived of parental care, but further efforts are needed.

(16) Poor administrative capacity is a core concern for Romania. Public administration is characterised by an inconsistent legal framework, frequent recourse to emergency ordinances, low levels of inter-ministerial cooperation and excessive bureaucracy. It is also undermined by a lack of skills, a lack of transparency in staff recruitment and high management turnover rates. Poor administrative capacity contributes to low absorption of EU funds. The end-2012 absorption target agreed under the EU Financial Assistance Programme was missed by a wide margin. Cumulative absorption by the end of 2012 stood at EUR 5,53 billion or 20,2 % of the total available structural, cohesion and agricultural funds. This was EUR 2,47 billion short of the Programme's end-2012 target of EUR 8 billion. The absorption rate of structural and cohesion funds improved from 7,5 % at the end of April 2012 to 15,2 % at the end of May 2013.To further improve absorption and reduce the risk of de-commitment in 2013, the Romanian authorities have to focus, inter alia, on measures that would make the EU funds' managing and control systems more efficient and that would strengthen the administrative capacity of the public procurement system.

(17) Romania faces a number of challenges in economic competitiveness with productivity in industry and services remaining low. Major challenges are a weak business environment and low support for research and development (R&D). Improvements to the business environment should be integrated into a wider, coherent e-government strategy to promote an administrative culture of transparency and legal certainty and provide for better public online services. Romania should also undertake efforts to ease access to finance and to reduce the administrative burden on small and medium-sized enterprises (SMEs). R&D intensity is extremely low, at 0,48 % in 2011, and the efficiency and effectiveness of investment need to be substantially improved. Investors in R&D need to prioritise activities that have the potential to attract private investment. Romania should also strengthen the intellectual property rights framework with a view to increasing the commercialisation of research results.

(18) Romania has a low degree of competition and efficiency in the energy and transport industries. Inefficiency and lack of transparency in the governance of state-owned enterprises in these sectors represent a major challenge. Increasing energy efficiency in buildings, district heating, industry and transport is a further key challenge. Romania is the third most energy-intensive economy in the Union whose energy intensity is 2,5 times higher than the EU average. It is also the third most carbon-intensive economy in the Union. Residential buildings in Romania use eight times more energy than the EU-15 average due to an inefficient district heating system and the fact that buildings are not insulated appropriately. The integration of Romania's electricity and gas markets in the EU markets remains incomplete and cross-border connections for gas still have to be implemented.

(19) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Romania's economic policy. It has assessed the National Reform Programme and Convergence Programme. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Romania but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the Union by

providing EU level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (8) below.

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

HEREBY RECOMMENDS that Romania take action within the period 2013-2014 to:

1. Complete the EU/IMF financial assistance programme.

2. Ensure growth-friendly fiscal consolidation and implement the budgetary strategy for the year 2013 and beyond as envisaged, thus ensuring achieving the MTO by 2015. Improve tax collection by implementing a comprehensive tax compliance strategy and fight undeclared work. In parallel, explore ways to increase reliance on environmental taxes. Continue the pension reform started in 2010 by equalising the pensionable age for men and women and by promoting the employability of older workers.

3. Pursue health sector reforms to increase its efficiency, quality and accessibility, in particular for disadvantaged people and remote and isolated communities. Reduce the excessive use of hospital care, including by strengthening outpatient care.

4. Improve labour-market participation, as well as employability and productivity of the labour force, by reviewing and strengthening active labour-market policies, providing training and individualised services, and promoting lifelong learning. Enhance the capacity of the National Employment Agency to increase the quality and coverage of its services. In order to fight youth unemployment, implement rapidly the National Plan for Youth Employment, including for example through a Youth Guarantee. To alleviate poverty, improve the effectiveness and efficiency of social transfers with a particular focus on children. Complete the social assistance reform by adopting the relevant legislation and strengthening its link with activation measures. Ensure concrete delivery of the National Roma Integration Strategy.

5. Speed up the education reform including the building up of administrative capacity at both central and local levels and evaluate the impact of the reforms. Step up reforms in vocational education and training. Further align tertiary education with the needs of the labour market and improve access for disadvantaged people. Implement a national strategy on early school leaving focusing on better access to quality early childhood education, including for Roma children. Speed up the transition from institutional to alternative care for children deprived of parental care.

6. Strengthen governance and the quality of institutions and public administration, in particular by improving the capacity for strategic and budgetary planning, by increasing the professionalism of the public service through improved human resource management and by strengthening the mechanisms for coordination between the different levels of government. Significantly improve the quality of regulations through the use of impact assessments, and systematic evaluations. Step up efforts to accelerate the absorption of EU funds in particular by strengthening management and control systems and improving public procurement.

7. Improve and simplify the business environment in particular through reducing administrative burdens on SMEs and implementing a coherent e-government strategy. Ease and diversify access to finance for SMEs. Ensure closer links between research, innovation and industry, in particular by prioritising research and development activities that have the potential to attract private investment. Step up efforts to improve the quality, independence and efficiency of the judicial system in resolving cases, and fight corruption more effectively.

8. Promote competition and efficiency in network industries by ensuring the independence and capacity of national regulatory authorities, and by continuing the corporate governance reform of state-owned enterprises in the energy and transport sectors. Adopt a comprehensive long-term transport plan and improve broadband infrastructure. Continue to remove regulated gas and electricity prices and improve energy efficiency. Improve the cross-border integration of energy networks and speed up implementation of the gas interconnection projects.

Done at Brussels, 9 July 2013.

For the Council

The President

R. ŠADŽIUS

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

COUNCIL RECOMMENDATION

of 9 July 2013

on the National Reform Programme 2013 of Slovakia and delivering a Council opinion on the Stability Programme of Slovakia, 2012-2016

(2013/C 217/18)

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 5(2) thereof,

Having regard to the recommendation of the European Commission,

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 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, it adopted a decision on guidelines for the employment policies of the Member States [2], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Member States' Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 strategy and to implementing the country-specific recommendations.

(4) On 10 July 2012, the Council adopted a Recommendation [3] on Slovakia's National Reform Programme for 2012 and delivered its opinion on Slovakia's Stability Programme for 2012-2015.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey, marking the start of the 2013 European Semester for economic policy coordination. Also on 28 November 2012, the Commission, on the basis of 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 [4], adopted the Alert Mechanism Report, in which Slovakia was not identified as one of the Member States for which an in-depth review would be carried out.

(6) The European Parliament has been duly involved in the European Semester, in accordance with Regulation (EC) No 1466/97, and, on 7 February 2013, adopted a resolution on employment and social aspects in the Annual Growth Survey 2013 and a resolution on the contribution to the Annual Growth Survey 2013.

(7) On 14 March 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(8) On 24 April 2013, Slovakia submitted its 2013 National Reform Programme and, on 30 April 2013, its Stability Programme for the period 2012-2016. In order to take account of their interlinkages, the two Programmes have been assessed at the same time.

(9) Based on the assessment of the Stability Programme pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that Slovakia has reduced the general government deficit from 7,7 % of GDP in 2010 to 4,3 % of GDP in 2012 due to a substantial consolidation effort and, based on current expectations, is on track to correct

[1] OJ L 209, 2.8.1997, p. 1.

[2] Maintained for 2013 by Council Decision 2013/208/EU of 22 April 2013 on guidelines for the employment policies of the Member States (OJ L 118, 30.4.2013, p. 21).

[3] OJ C 219, 24.7.2012, p. 74.

[4] OJ L 306, 23.11.2011, p. 25.

the excessive deficit. The macroeconomic scenario underpinning the budgetary projections in the Stability Programme is plausible. Compared to the Commission forecasts, the authorities assume similar growth rates of GDP with a slightly different composition. The objective of the budgetary strategy outlined in the Stability Programme is to achieve a fiscal position that ensures long-term sustainability of public finances. To achieve this, the Government confirms the objective of reducing the headline deficit below the 3 % of GDP reference value in 2013, in line with the Council recommendation under the excessive deficit procedure (EDP). The adjusted average annual fiscal effort in 2010-2013 amounts to 1,4 % of GDP, well above the required effort of 1 % of GDP recommended by the Council. A large part of the expenditure savings in 2013 is expected from the local governments and other general government units over which the central government does not have a direct influence. Achieving the target may therefore be at risk, also in light of expenditure overruns recorded in the past.

The Stability Programme confirms the previous medium-term objective (MTO) of – 0,5 % to be achieved by 2018. The MTO is in line with the requirements of the Stability and Growth Pact. For the years following the expected date of correction of the excessive deficit the projected improvement in the (recalculated) structural budget balance is appropriate in 2014 and 2015 (0,6 percentage points and 0,7 percentage points of GDP respectively) but it would be insufficient in 2016 (0,3 percentage points of GDP). Slovakia is expected to comply with the expenditure benchmark of the Stability and Growth Pact. According to the Stability Programme, the government debt is expected to remain below the 60 % of GDP reference value until 2016. The Commission services 2013 spring forecast projects an increase in the debt ratio to 54,6 % of GDP in 2013 and 56,7 % of GDP in 2014.

In order to ensure the sizeable reduction in the headline deficit since 2011, the authorities have also relied on reductions in investment financed from the general government budget, which may not be sustainable or desirable in a medium to long-run perspective, as well as on one-off measures. Looking ahead, the on-going consolidation and convergence process will need to safeguard expenditure on growth-enhancing categories, such as education, innovation and transport infrastructure.

(10) Slovakia has scope to raise additional resources by broadening the tax base, limiting the scope for tax non-compliance and evasion and by increasing recourse to taxes that are less detrimental to growth, such as property taxation and environmental taxation. An action plan to fight tax fraud, with a particular focus on VAT was adopted in 2012. For the strategy to be successful, further measures are needed, in particular to improve the IT infrastructure, broaden the competences and audit capacity of the authorities and ensure judicial follow-up.

(11) Slovakia adopted a pension reform in 2012 to enhance the long-term sustainability of its public finances. This has reduced the estimated long-term sustainability gap by 2 % of GDP; however, at of 4,9 % of GDP, the gap remains well above the EU average of 3 % of GDP. It largely reflects the impact of population ageing with pension expenditure contributing 1,5 percentage points of GDP and healthcare spending 2 percentage points of GDP. Given that Slovakia's healthcare expenditure is projected to increase significantly in the long term, the progress achieved in improving pension sustainability will need to be allied with healthcare reform in order to place public finances on a sustainable footing. The introduction of effective incentive structures and control mechanisms would help to improve cost effectiveness of the healthcare system.

(12) The persistence of high unemployment, in particular in the context of a slow pace of post-crisis recovery, remains one of the main challenges for the Slovak economy. In recent months, Slovakia has taken steps to reform active labour market policies. However, the success of the reform will largely depend on the capacity of public employment services to implement it effectively. Additional, more targeted measures for the most disadvantaged jobseekers are needed. The provision of social assistance should be better linked to activation, and there is a need to remove disincentives in the tax-benefit system for those taking up a low-paid job. Increasing labour-market participation of women and older people would help to increase the overall employment rate and reach the 2020 national employment target of 72 %. However, the lack of adequate childcare facilities, in particular for children under three, makes it more difficult for mothers to return to the labour market.

(13) Slovakia has one of the highest youth unemployment rates in the Union. In spite of reform steps in 2012 to improve the quality and labour-market relevance of education, school-to-job transition remains difficult and the education system does not respond readily to labour-market needs. Per capita funding of education favours quantity over quality and the share of funding allocated to teaching activities (teachers, material, and equipment) is low. Improving the quality of higher education and the cooperation between businesses and education institutions would also help developing a well-functioning knowledge triangle, greater effectiveness and attractiveness of investment in R&D, and enhancing the innovation capacity of the Slovak economy.

(14) Under-utilised labour potential also concerns marginalised communities that face significant barriers when seeking to enter the labour market and the education system. After adopting the Strategy of the Slovak Republic for Integration of Roma up to 2020, no effective action was taken in 2012 and the living conditions of marginalised communities, including Roma, remain difficult. It is important to accelerate efforts to improve educational outcomes of marginalised groups, as well as to ensure provision of targeted activation measures for adults.

(15) Despite notable progress, Slovakia ranks fifth amongst the most energy-intensive Member States, partially explained by having the greatest share of industry in its economy (25,9 % of GDP). At the same time, electricity prices are relatively high, in particular for small and medium-sized industrial customers. Slovakia has made efforts in recent years to partially liberalise the energy market but there is still scope to improve the way the market functions; in particular through greater transparency — including in setting network tariffs — and improving the economic underpinning and predictability of the regulatory decisions. There is also scope to improve security of supply and to set more ambitious targets for energy efficiency.

(16) In 2012, Slovakia launched a major reform of public administration to improve the client-orientation of public services for citizens and businesses. At this stage, with the exception of local agencies, the reform does not focus on the central government and its overall quality and effectiveness. As there has been no progress in reforming the judicial system, judicial proceedings remain lengthy, in particular in insolvency cases, and alternative dispute resolution is not sufficiently used. Slovakia recently reformed its public-procurement rules, also enhancing the independence of the Public Procurement Office, but experience in the implementation of the EU structural funds suggests that the effective application of the public-procurement rules remains a challenge.

(17) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Slovakia's economic policy. It has assessed the Stability Programme and National Reform Programme. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Slovakia but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (6) below.

(18) In the light of this assessment, the Council has examined the Stability Programme, and its opinion [1] is reflected in particular in recommendations (1) and (2) below.

(19) In the context of the European Semester the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On this basis, the Council has issued specific recommendations addressed to the Member States whose currency is the euro [2]. As a country whose currency is the euro, Slovakia should also ensure the full and timely implementation of those recommendations,

HEREBY RECOMMENDS that Slovakia take action within the period 2013-2014 to:

1. Implement as envisaged the budget for the year 2013, so as to correct the excessive deficit in a sustainable manner and achieve the fiscal effort specified in the Council recommendations under EDP. After the correction of the excessive deficit, pursue the structural adjustment effort that will enable Slovakia to reach the MTO by 2017. Avoid cuts in growth enhancing expenditure and step up efforts to improve the efficiency of public spending. Building on the pension reform already adopted, further improve the long-term sustainability of public finance by reducing the financing gap in the public pension system and increasing the cost-effectiveness of the healthcare sector.

2. Speed up the implementation of the action plan to combat tax fraud and continue efforts to improve VAT collection, in particular by strengthening the analytical and audit capacity of the tax administration. Improve tax compliance. Link real-estate taxation to the market value of property.

3. Take measures to enhance the capacity of public employment services to provide personalised services to jobseekers and strengthen the link between activation measures and social assistance. More effectively address long-term unemployment through activation measures and tailored training. Improve incentives for women in employment, by enhancing the provision of childcare facilities, in particular for children below three years of age. Reduce the tax wedge for low-paid workers and adapt the benefit system.

4. Step up efforts to address high youth unemployment, for example through a Youth Guarantee. Take steps to attract young people to the teaching profession and raise educational outcomes. In vocational education and training, reinforce the provision of work-based learning in companies. In higher education, create more job-oriented bachelor programmes. Foster effective knowledge transfer by promoting cooperation between academia, research and the business sector. Step up efforts to improve access to high-quality and inclusive pre-school and school education for marginalised communities, including Roma.

5. Step up efforts to make the energy market function better; in particular, to increase the transparency of the tariff-setting mechanism, enhance the accountability of the regulator. Strengthen interconnections with neighbouring countries. Improve energy efficiency in particular in buildings and industry.

[1] Under Article 5(2) of Regulation (EC) No 1466/97.
[2] See page 97 of the current Official Journal.

6. Take measures, including by amending the Act on Civil Service, to strengthen the independence of the public service. Improve the management of human resources in public administration. Step up efforts to strengthen analytical capacities in key ministries, also with a view to improving the absorption of EU funds. Implement measures to improve the efficiency of the judicial system. Promote alternative dispute resolution procedures and encourage their greater use.

Done at Brussels, 9 July 2013.

For the Council

The President

R. ŠADŽIUS

COUNCIL RECOMMENDATION

of 9 July 2013

on the National Reform Programme 2013 for Slovenia and delivering a Council opinion on the Stability Programme of Slovenia, 2012-2016

(2013/C 217/19)

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 5(2) thereof,

Having regard to 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 [2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

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 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, it adopted a decision on guidelines for the employment policies of the Member States [3], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Member States' Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 strategy and to implementing the country-specific recommendations.

(4) On 10 July 2012, the Council adopted a Recommendation [4] on Slovenia's National Reform Programme for 2012 and delivered its opinion on Slovenia's Stability Programme for 2012-2015.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey, marking the start of the 2013 European Semester for economic policy coordination. Also, on 28 November 2012, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report, in which it identified Slovenia as one of the Member States for which an in-depth review would be carried out.

(6) The European Parliament has been duly involved in the European Semester, in accordance with Regulation (EC) No 1466/97, and, on 7 February 2013, adopted a resolution on employment and social aspects in the Annual Growth Survey 2013 and a resolution on the contribution to the Annual Growth Survey 2013.

(7) On 14 March 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(8) On 10 April 2013, the Commission published the results of its in-depth review for Slovenia, under Article 5 of

[1] OJ L 209, 2.8.1997, p. 1.

[2] OJ L 306, 23.11.2011, p. 25.

[3] Maintained for 2013 by Council Decision 2013/208/EU of 22 April 2013 on guidelines for the employment policies of the Member States (OJ L 118, 30.4.2013, p. 21).

[4] OJ C 219, 24.7.2012, p. 77.

Regulation (EU) No 1176/2011. The Commission's analysis led it to conclude that Slovenia is experiencing excessive macroeconomic imbalances. Urgent policy action is required to halt the rapid build-up of these imbalances and to manage their unwinding. Until now, the levels of private and public debt are below the alert thresholds of the scoreboard and also net external debt is relatively contained. However, the problem is not in the debt level but in its structure, which is highly concentrated in the corporate sector. In the context of accelerating negative economic trends, this undermines financial sector stability and complicates the deleveraging process, including through interlinkages with the level of sovereign debt. These risks are compounded by limited adjustment capacity in labour and capital markets and by an economic structure dominated by state-ownership. Periods of policy uncertainty and legal obstacles to reforms have prevented Slovenia from addressing its imbalances adequately and enhancing its adjustment capacity, thus increasing its vulnerability at a time of heightened sovereign funding stress.

(9) On 9 May 2013, Slovenia submitted its 2013 National Reform Programme and its Stability Programme for the period 2012-2016. In order to take account of their interlinkages, the two Programmes have been assessed at the same time.

(10) On 23 May 2013 the Slovene authorities sent a letter to the Commission recapitulating, amending and clarifying key commitments in the National Reform Programme.

(11) Based on the assessment of the Stability Programme pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that despite considerable although back-loaded consolidation efforts that have brought the deficit down from 6,2 % of GDP in 2009 to 4,0 % of GDP in 2012, Slovenia is not expected to correct its excessive deficit by 2013 as recommended by the Council in late 2009. This is linked, in particular, to a worse economic environment than expected at the time. The macroeconomic scenario underpinning the budgetary projections in the Stability Programme is broadly plausible for 2013, but optimistic for 2014. In particular, the authorities anticipate that after a fall in GDP by 2,3 % in 2012 and 1,9 % in 2013, GDP will grow by 0,2 % in 2014, while assuming that fiscal measures are taken to reduce the general government deficit from 4,2 % of GDP (excluding bank recapitalisations) in 2013 to 2,6 % of GDP in 2014. However, the Commission forecasts that GDP will fall by 0,1 % in 2014 based on a no-policy-change assumption, a scenario which only takes into account measures that were adopted by mid-April 2013, and forecasts a deficit of 4,9 % of GDP for 2014. The main objectives of the budgetary strategy outlined in the Stability Programme are to correct the excessive deficit by 2014, one year after the deadline set by the Council in late 2009, to achieve a balanced structural position by 2017 and stabilise the debt ratio below 55 % of GDP. The Stability Programme confirms the medium-term objective (MTO), which is a balanced budget in structural terms. This MTO is not in line with the requirements of the Stability and Growth Pact because it does not adequately take into account the implicit liabilities related to ageing. The planned headline deficit targets in the Stability Programme are consistent with a correction of the excessive deficit by 2014.

However, given the optimistic growth forecast for that year, significant risks to revenue projections as well as insufficiently specified expenditure measures, the Council considers that it is not likely that the excessive deficit will be corrected by 2014. In these circumstances, additional structural consolidation measures should be specified, adopted and implemented to ensure that the excessive deficit is corrected by 2015, at the latest in a credible and sustainable manner as recommended by the Council on 21 June 2013. The general government debt-to-GDP ratio more than doubled from 22,0 % in 2008 to 54,1 % in 2012 and is projected to increase further to 66,5 % by 2014 according to the Commission services 2013 spring forecast. The authorities expect the debt-to-GDP ratio to peak at 63,2 % in 2014 and 2015 and then drop to 62,8 % in 2016. Risks to the debt-to-GDP ratio are tilted towards a higher ratio, also due to large contingent liabilities and likely stock-flow adjustments from asset transfers to the Bank Asset Management Company ("BAMC"), which is not included in programme projections.

(12) In May 2013, the authorities made important steps towards the consolidation of public finances. They achieved an agreement with social partners on an additional 1¼ % reduction in basic gross wages in the public sector, on top of the 3 % reduction that was agreed in the May 2012 Act on Balancing Public Finances. Furthermore, Parliament approved a constitutional basis for establishing a general government budget balance/surplus rule in structural terms. However, the complete transposition of the provisions of the Fiscal Compact will be made in a special constitutional implementation act, scheduled for parliamentary approval by November 2013. Finally, Parliament almost unanimously tightened the constitutional rules to call and win a referendum, which is expected to facilitate the introduction of fiscal consolidation measures. Given the rapidly increasing debt, it is all the more important that the 2013 budget strategy is reinforced and strictly implemented, and that substantial consolidation efforts are firmly pursued in subsequent years. While some taxes are below the EU average, reliance on tax increases cannot indefinitely postpone the need to tackle expenditure dynamics. It therefore seems appropriate to complement the revenue increasing measures with additional fiscal efforts through structural expenditure cuts. The medium-term budgetary framework and expenditure rule remain insufficiently focused on achieving the MTO and securing long-term sustainability. In addition, budget constraints on certain general government units, especially indirect budgetary users, do not appear to be fully enforced. Finally, international and domestic estimates suggest that the size of the shadow economy in Slovenia is above the EU average, which indicates room for improving tax compliance as also recognised by envisaged measures in the Stability Programme.

(13) A pension reform was passed in December 2012 and entered into force in January 2013. It addresses challenges identified in the 2012 recommendations, though not sufficiently as it is expected to have only a medium-term impact on public finances (until 2020). While this pension reform is an important step, it does not provide specific measures to contain age-related costs beyond 2020. Further reform efforts are required to improve the sustainability of pension expenditure in the long term, including through aligning the statutory retirement age with gains in life expectancy and by further restricting early retirement. In the area of long term care, demand for services outstrips supply while expenditure is still relatively low. Demand for long-term care and related expenditures are projected to rise substantially in light of the ageing trends. Further evaluations of existing measures would contribute to more evidence-based policy making in this area.

(14) While the size of the Slovenian banking sector is relatively small and less than half of the euro area average, the largest banks experience sustained pressure on capital buffers, which remain low in regional comparison, and their dependence on the state for capital is a substantial threat to the economy. Repeated recapitalisation needs are concentrated in state-owned domestic banks. While the levels of total private debt are below the euro-area average and the alert thresholds of the macroeconomic imbalances scoreboard, the issue is of structural nature. Most of the debt is concentrated in the corporate sector and many companies are over-indebted, which leads to further rises in non-performing loans. At the end of 2012, 23,7 % of corporate loans were in arrears of 90 days or more. Reviving credit to the corporate sector and deleveraging of enterprises are needed to facilitate investment, enhance productivity and competitiveness. Further recapitalisations are foreseen in the Stability Programme. The authorities have confirmed in writing the commitment to provide additional capital if needed. Credit is contracting and the interaction between weak banks and the sovereign has intensified. The interest rate on corporate credit (for loans above EUR 1 million) is more than 2 percentage points higher in Slovenia than in the euro area as a whole and this margin has increased again in 2012. Framework legislation for bank restructuring was passed but still needs to be implemented effectively. The BAMC remains the central institutional platform for bank rehabilitation. The National Reform Programme, complemented by recent information provided by the government describes plans for transfers to the BAMC based on bottom-up stress tests performed by the Bank of Slovenia.

The authorities have confirmed in writing that they stand ready to work with the Commission and the European Central Bank (ECB) to ensure that independent asset quality reviews are conducted for a selection of banks. The exercise should be system-wide to ensure lasting stability of the banking sector. In other countries such an approach proved to be key to regain confidence, credibility and market access. Information gained from a thorough, external assessment is a necessary basis for an overall financial sector strategy.

(15) The National Reform Programme does not describe any additional steps to strengthen bank supervision, which was identified as necessary in the 2013 in-depth review. In terms of supervisory actions vis-à-vis banks, the only new information in the National Reform Programme relates to the new Bank of Slovenia stress tests. A further examination of measures such as appropriate macro-prudential policies has not been provided. A review of microprudential supervision by an independent expert would also facilitate some of the above recommendations.

(16) A labour market reform was adopted in March 2013 to reduce labour market segmentation and increase flexibility on the labour market. The reform reduces protection of permanent contracts by simplifying dismissal procedures in case of individual and collective dismissals and by reducing dismissal costs. Regulation of fixed-term contracts has been further tightened to reduce misuse, while the use of temporary agency work is restricted. Although the reform goes in the right direction, it remains to be seen whether it is sufficiently ambitious to have a significant impact on labour market segmentation and flexibility, and on Slovenia's attractiveness for foreign direct investment. No sufficient measure has yet been taken to address the dual labour market caused by student work regulation. The National Reform Programme proposes measures in the right direction. The youth unemployment rate in Slovenia increased strongly, by 4,9 percentage points to 20,6 % in 2012, while the unemployment rate increased by 0,7 percentage points to 9 % in 2012. Despite rising unemployment, the number of unemployed people participating in active labour market policy measures, co-financed by the European Social Fund, decreased considerably in 2012 according to the preliminary national data. No measures have been taken to adapt work environments to longer working lives and only initial tailor-made lifelong learning or active labour market measures have been adopted to increase employment of young tertiary graduates, older workers and low-skilled workers. Slovenia has taken some measures to improve matching of skills to labour market needs. A pilot project on how to evaluate those needs is being carried out by the Public Employment Service but the cooperation with stakeholders needs to be further developed.

More is needed to improve the attractiveness of relevant vocational education and training programmes. Additional career orientation measures in SMEs are also being implemented. The role of employers in vocational

education and training still needs to be strengthened. Improvements in these areas would increase productivity and competitiveness.

(17) Policy action to improve cost-competitiveness has only been partial. In 2012, the government cut nominal gross wages per employee in the public sector by around 3 %. A further reduction of labour costs in the public sector was agreed with social partners in mid-May 2013. The minimum wage is among the highest in the EU as a percentage of the average wage, is indexed to inflation, and was subject to a large discretionary increase in 2010. Although the growth rate of nominal compensation per employee was negative in 2012 (– 0,4 %) nominal unit labour cost (NULC) registered a moderate positive growth in 2012 (0,7 %) due to more negative productivity growth (– 1,1 %). Measures to lift productivity growth and sustained progress in reducing unit labour costs would help to regain competitiveness.

(18) State ownership has a significant role in the Slovenian economy with many features remaining unchanged since the transitional period of the 1990s. The privatisation and corporate restructuring tools adopted during the 1990s resulted in the state remaining dominant, especially in the financial sector. In 2011, state-owned enterprises accounted for one sixth of total value added of the Slovenian economy, around half of the total losses in the corporate sector, and employed one out of eight people. Moreover, state-controlled funds and enterprises have an impact on public finances through the interaction of elevated debt levels, recapitalisation needs and significant government guarantees. The size and weakness of state-owned enterprises hold back economic development and growth and contribute to existing imbalances. State dominance and a frequently malfunctioning governance of state assets impede private domestic and foreign investment, lowering productivity and competitiveness. The cross-ownership of state-owned enterprises in the non-financial sector with state-owned financial institutions creates contagion risks, limits adjustment and distorts resource allocation, especially with regards to new investment.

(19) The National Reform Programme outlines policy priorities in the areas of state ownership and corporate deleveraging, but it does not provide details of measures planned. The 2013 in-depth review outlined the economic outcomes in relation to state ownership, in terms of direct and contingent fiscal costs, and in terms of distortion of normal commercial operations. However, the National Reform Programme cites only the lack of coordination as a drawback to the state's conduct as an owner of non-financial enterprises. Overall, while the National Reform Programme contains positive elements, it does not provide sufficient information regarding the strategic orientation for companies that will remain in state ownership, and detailed, time-bound commitments to improve their financial performance and management. Some first steps have been taken to improve corporate governance, as recommended in the 2012 country-specific recommendations, and to privatise some state-owned enterprises. Legislation providing for the establishment of the future Slovenia Sovereign Holding (SSH) was enacted, but still needs to be implemented effectively. A register of management and supervisory board appointments in state-owned enterprises with requirements for disclosure of interests could help to increase transparency. The National Reform Programme announces the preparation of a privatisation strategy by the final quarter of 2013, which will be brought forward to the third quarter, following the letter of 23 May 2013. In the meantime, the Government has proposed to Parliament a list of 15 companies for privatisation. Besides minority stakes and SMEs, this list includes also important companies like the second largest bank, NKBM.

(20) Slovenia has a high number of regulated professions and there is scope for a significant reduction of entry barriers which would have a positive effect on employment and competition. The Slovenian authorities launched a reform process in 2012 to review numerous regulated professions with the objective of better defining existing regulated professions, reducing administrative costs and simplifying access to professions. A first set of laws in the field of craft, tourism and construction was due to be adopted by Parliament in early 2013. However, the reform is behind schedule except for the craft sector. Slovenia has set the legal pre-conditions for an independent Competition Protection Agency but still needs to ensure that appropriate staff levels will be continuously ensured. The legislation should be further amended to give the agency a separate budget line, as this is necessary to ensure its financial independence. First instance judicial proceedings in litigious civil and commercial cases as well as bankruptcy procedures are unduly long. Despite a visible positive trend in shortening lengths of civil and commercial cases continued effort is needed to address these issues, as they hamper business activity and reduce Slovenia's attractiveness for foreign direct investment. In this context, the foreseen cut in the number of judges per inhabitant as set out in the National Reform Programme would have to be counterbalanced by significant increases in effectiveness.

(21) The National Reform Programme asserts the need to restructure non-financial corporations in financial distress but the policy challenge and the policy response regarding corporate restructuring need further elaboration focusing on market-based solutions. Additional measures are needed to attract private investment, including foreign direct investment, and to ensure sufficient private burden-sharing preserving

taxpayer resources. The restructuring process should lead to the sale of the restructured companies without involvement of public funding.

(22) Slovenia is in the process of amending legislation to increase the efficiency of insolvency procedures. The Government amended the law on Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act in April 2013. The amendments refine the definition of insolvency and introduce incentives for managers to file for insolvency on time. The current insolvency framework has insufficient incentives and sanctions to ensure that companies file for insolvency at an early stage. The compulsory settlement procedures (in-court reorganisation) are complex and debtor-friendly, particularly for SMEs and micro companies. There are insufficient incentives for early out-of-court settlement, which could help to ensure the continuation of viable businesses. New legislation has been announced to allow for financial restructuring of over-indebted companies early in the process, and the Ministry of Justice envisaged proposing legal changes to facilitate out-of-court restructuring and debt conversion by end of May 2013. A suitable legal framework developed according to an agreed timetable which provides compatible incentives for creditors, owners and management would be essential to facilitate the financial restructuring of illiquid but viable companies.

(23) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Slovenia's economic policy. It has assessed the Stability Programme and National Reform Programme, and presented an in-depth review. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Slovenia but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (9) below.

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

(25) In the light of the Commission's in-depth review and this assessement, the Council has examined the National Reform Programme and the Stability Programme. Its recommendations under Article 6 of Regulation (EU) No. 1176/2011 are reflected in all recommendations below.

(26) In the context of the European Semester the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On this basis, the Council has issued specific recommendations addressed to the Member States whose currency is the euro [2]. As a country whose currency is the euro, Slovenia also should ensure the full and timely implementation of those recommendations,

HEREBY RECOMMENDS that Slovenia take action within the period 2013-2014 to:

1. For the year 2013 and beyond, implement and reinforce the budgetary strategy, supported by sufficiently specified structural measures, to ensure the correction of the excessive deficit by 2015 in a sustainable manner and the improvement of the structural balance specified in the Council recommendation under the EDP. After the correction of the excessive deficit, pursue a structural adjustment effort that will enable Slovenia to reach the MTO which should be set in line with the Stability and Growth Pact by 2017. Durable correction of the fiscal imbalances requires the implementation of ambitious structural reforms, which would increase the adjustment capacity of the economy and boost potential growth and employment. Safeguard growth-friendly spending, adopt measures to improve tax compliance and implement measures on the expenditure side underpinned by systematic reviews of public expenditure at all government levels. To improve the credibility of consolidation, complete the adoption of a general government budget balance/surplus rule in structural terms, make the medium-term budgetary framework binding, encompassing and transparent, and strengthen the role of independent bodies monitoring fiscal policy by end 2013. Take measures to gradually reduce the contingent liabilities of the state.

2. Strengthen the long-term sustainability of the pension system beyond 2020 by further adjusting all relevant parameters, including through linking the statutory retirement age to gains in life expectancy, while preserving the adequacy of pensions. Contain age-related expenditure on long-term care and improve access to services by refocusing care provision from institutional to home care, sharpening targeting of benefits, and reinforcing prevention to reduce disability/dependency.

3. Ensure that wage developments, including the minimum wage, support competitiveness and job creation. Monitor closely the effects of the recent labour market reform and if necessary identify the areas where further action is needed to foster job creation and tackle segmentation, including through the regulation for student work. Take further measures to increase employment of young tertiary graduates, older persons and the low-skilled by focusing resources on tailor-made active labour market policy measures while improving their effectiveness. Address the skills mismatch by improving the attractiveness of the

[1] Under Article 5(2) of Regulation (EC) No 1466/97.

[2] See page 97 of the current Official Journal.

relevant vocational education and training programmes and by further developing cooperation with the relevant stakeholders in assessing labour market needs.

4. Take the necessary steps, with input from European partners, to contract an independent external adviser in June 2013 to conduct a system-wide bank asset quality review. Complete this exercise in 2013, with faster progress in the cases of the two banks already subject to the State aid procedure, to accelerate their balance sheet repair. Stand ready to provide additional capital should the asset transfer or asset quality review reveal additional shortfalls. All measures, including objective assessments of capital needs, transfer of assets to Bank Asset Management Company, asset protection scheme, operational implementation of the restructuring measures should be implemented in full compliance with State aid rules in case State aid is involved. In parallel, develop by March 2014 and implement a comprehensive sector strategy to ensure arms-length management of reformed banks and to substantially improve governance, risk management and profitability in the sector, including through consolidation where appropriate. Swiftly proceed with preparations for the announced privatisation of NKBM and establish, by September 2013, an ambitious timetable for the divestment of direct and indirect state shareholdings of banks.

5. Review the bank regulatory framework by end 2013, and based on this review, strengthen supervisory capacity, transparency and statistical disclosure.

6. Accelerate the reform of regulated services, including a significant reduction of entry barriers. Improve the business environment, including through ensuring the independence of and providing sufficient and autonomous financing to the Competition Protection Agency.

7. Build on previous efforts to further reduce the length of judicial proceedings at first instance in litigious civil and commercial cases and the number of pending cases, in particular enforcement cases.

8. As part of the planned strategy of the Government, to be completed by September 2013, classify core and non-core state assets according to economic criteria, with a view to divesting non-core assets. Make the Slovenia Sovereign Holding (SSH) fully operational in a timely manner, and transfer both ownership and management of all stakes to the SSH, potentially excluding those that are on the list for immediate full privatisation. Ensure professional management of the SSH from the outset, potentially including international expertise, and a clearly defined arms' length relationship with the companies involved. For core stakes, develop sector-specific strategies to improve profitability and corporate governance. Introduce an obligatory and publicly available register of management and supervisory board appointments in state-owned enterprises with requirements for disclosure of interests. Ensure that the regulatory framework facilitates divestment of non-core state assets and that administrative hurdles are minimised.

9. Identify and start to work on removing all existing legal and administrative impediments to sustainable restructuring of over-indebted/undercapitalised but viable companies through market-based solutions. In this context, take measures to ensure sufficient private burden sharing, to increase private investment, including foreign direct investment, and to achieve efficiency gains in troubled companies as part of the restructuring process. Adopt the necessary legal framework for out-of-court restructuring by September 2013, ensuring that it is coherent with the existing provisions on insolvency and provides incentives for both creditors and shareholders to reach out-of-court restructuring agreements. Improve the enforcement of corporate insolvency procedures and in-court settlements, including swiftly resolving pending court cases related to bankruptcy procedures, in order to maximise recovery value and to facilitate the timely and efficient resolution of non-performing loans.

Done at Brussels, 9 July 2013.

For the Council

The President

R. ŠADŽIUS

COUNCIL RECOMMENDATION

of 9 July 2013

on the National Reform Programme 2013 of Spain and delivering a Council opinion on the Stability Programme of Spain, 2012-2016

(2013/C 217/20)

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 5(2) thereof,

Having regard to 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 [2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

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 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a Recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, it adopted a decision on guidelines for the employment policies of the Member States [3], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Member States' Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieve the objectives of the Europe 2020 strategy and to implement the country-specific recommendations.

(4) On 10 July 2012, the Council adopted a Recommendation [4] on Spain's National Reform Programme for 2012 and delivered its opinion on Spain's Stability Programme for 2012-2015.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey, marking the start of the 2013 European Semester for economic policy coordination. On 28 November 2012, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report, in which it identified Spain as one of the Member States for which an in-depth review would be carried out.

(6) The European Parliament has been duly involved in the European Semester, in accordance with Regulation (EC) No 1466/97, and, on 7 February 2013, adopted a resolution on employment and social aspects in the Annual Growth Survey 2013 and a resolution on the contribution to the Annual Growth Survey 2013.

(7) On 14 March 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(8) On 10 April 2013, the Commission published the results of its in-depth review for Spain, under Article 5 of

[1] OJ L 209, 2.8.1997, p. 1

[2] OJ L 306, 23.11.2011, p. 25.

[3] Maintained for 2013 by Council Decision 2013/208/EU of 22 April 2013 on guidelines for the employment policies of the Member States (OJ L 118, 30.4.2013, p. 21).

[4] OJ C 219, 24.7.2012, p. 81.

Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that Spain is experiencing excessive macroeconomic imbalances. In particular, very high domestic and external debt levels continue to pose risks for growth and financial stability; the banking sector is undergoing a process of recapitalisation and restructuring, including with public money; rigidities in product and labour markets contribute to high and rising unemployment, and more generally hinder the adjustment of the economy. Although adjustment is taking place, the magnitude of the necessary correction requires continuous strong policy action, in the areas of product and service markets, labour market, financial sector, and public finances.

(9) On 30 April 2013, Spain submitted its 2013 National Reform Programme and its Stability Programme for the period 2012-2016. In order to take account of their interlinkages, the two Programmes have been assessed at the same time.

(10) Based on the assessment of the Stability Programme pursuant to Article 5(1) of Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the Programme is broadly plausible for 2013 and subject to some downside risks in 2014 and beyond compared with the Commission services 2013 spring forecast. Although the Stability Programme projects growth to be lower over the 2014-2016 period compared to the Commission services 2013 spring forecast, the latter is based on a no-policy-change assumption and hence does not take into account the fiscal consolidation that will be needed to attain the budgetary targets in the Stability Programme. The objective of the budgetary strategy outlined in the Stability Programme is to bring the general government deficit below the 3 %-of-GDP reference value by 2016. The consolidation relies mainly on expenditure restraint with the expenditure ratio decreasing by 3,7 percentage points over the 2012-16 period, but also on some revenue-increasing measures. Based on the (recalculated) structural balance [1] the annual improvement of the structural deficit planned in the Stability Programme is 1,2 %, 0,4 %, 0,9 % and 0,9 % of GDP for the years 2013 to 2016. Following the correction of the excessive deficit, the Stability Programme confirms the medium-term objective (MTO) of a balanced budgetary position in structural terms, which would be achieved by 2018. The MTO is more ambitious than required by the Stability and Growth Pact. The envisaged pace of adjustment in structural terms in 2017-2018 represents sufficient progress towards the MTO. The Stability Programme projects the government debt ratio to peak in 2016 and to start declining thereafter. The deficit and debt adjustment paths are subject to downside risks. Measures to support the deficit targets are not sufficiently specified, especially at regional level. For 2016, the Stability Programme does not present any measures and previous temporary measures are extended only to 2014. Planned savings from the local government reform are subject to significant implementation risks. Moreover, there are uncertainties surrounding the economic, labour market and financial situation as well as revenue developments in the context of persisting large macroeconomic imbalances. Fully implementing the adopted early retirement reform and reaching an agreement on the sustainability factor would mitigate risks in the social security system. A further risk stems from contingent liabilities linked with asset protection schemes/guarantees. There has been major progress in the reporting of budgetary execution, but there is scope for a more transparent and timely implementation of the Budgetary Stability Law's preventive and corrective mechanisms. Systematic and timely reporting on government arrears, whose large outstanding stock required an ad-hoc repayment scheme, is missing. The establishment of an independent fiscal council has been lagging behind schedule. A proposed revision of indexation rules for all public revenues and expenditures would bring budgetary savings and a higher responsiveness of prices to economic conditions. The National Reform Programme also acknowledges the need to further improve cost-effectiveness in healthcare and pharmaceutical expenditure, for example by revising reference prices and centralising purchasing of pharmaceutical products, or extending co-payments.

(11) While significant rebalancing of the relative tax burden towards consumption and environmental taxes took place in 2012, the Spanish tax-to-GDP ratio remains among the lowest in the Union. The efficiency of the tax system can be improved further by increasing the share of more growth-friendly indirect taxes and by tackling tax fraud and evasion, in line with the fiscal consolidation efforts. Spain took some measures to address the debt bias in corporate taxation, but further efforts are necessary in the context of high private indebtedness.

(12) The financial sector adjustment programme is on track. In particular, the necessary recapitalisations have been carried out, and the asset management company Sareb has been set up. The restructuring of banks, in accordance with the decisions taken under State aid rules, will require continued attention in the coming years. To alleviate the funding and liquidity constraints on companies, Spain implemented, in 2012, a large plan for payment of regional and local governments' commercial debt to companies (EUR 27,3 bn) and launched various initiatives to widen the financing options for firms. An extension of that plan is foreseen for 2013.

[1] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the programme, using the commonly agreed methodology.

(13) The situation in the labour market remains critical. The readjustment of the economy away from domestic demand and construction in a context of market rigidities and skills mismatch, among other things, have contributed to the increase in the unemployment rate to 27 % in early 2013. Of particular concern is the marked increase of the youth unemployment rate to 56 % and the rise of long-term unemployment to 44,4 % of total unemployment at the end of 2012. Available data suggest that the 2012 labour market reform has started to lead to higher internal (within the firm) flexibility, to some reduction of dismissal costs and to increasing wage moderation. An official assessment of the reform against its stated objectives, with a view to complementing it where needed, has been announced in the National Reform Programme for July 2013. Reforms in the field of active labour market policies have lagged behind and actions to modernise and reinforce the Public Employment Service itself are still needed and the recently adopted opening for private placement agencies remains to be made fully operational as well as the cooperation between national and regional public employment services (Single Job Portal).

(14) A high share of unemployed without formal qualifications (35 %) and inadequate labour market relevance of education and training contribute to the high youth unemployment rate, as well as to long-term unemployment. The national Youth Employment and Entrepreneurship Strategy 2013-2016, presented in March 2013, incorporates a range of short- and longer-term measures intended to improve employment opportunities for young people. At the same time, dual vocational training has been introduced and pilot projects already started in 2012. The 2013 National Reform Programme also highlights the importance of a swift implementation of the reform of the educational system and improving the overall quality of education and training.

(15) Mainly as a result of the labour market situation, but also due to the limited effectiveness of social protection in reducing poverty, Spain is below the EU average in the main key indicators measuring poverty and social exclusion, with children being particularly exposed. Overall, no major improvements were registered in the development of new policy measures. The National Reform Programme does not include information on the content or the timeframe for the approval of the National Action Plan on Social Inclusion 2013-2016. The key challenges lie in the need to rationalise targets and resources under an adequate policy framework, improve governance and inter-institutional coordination at national, regional and local levels, simplify procedures for social assistance claimants and review mobility barriers. Some progress was registered in measures to tackle child poverty and improve the efficiency of family support services.

(16) Weaknesses in the business environment such as segmentation of the domestic market or entry barriers in services' industries, hold back job creation and reform progress in this area is taking longer than envisaged in the September 2012 reform plan. The first draft of the Law on Market Unity was adopted by the Government in January 2013 and its final approval by Parliament is foreseen by end-2013. The reiterated commitments in the 2013 National Reform Programme foresee a first draft of the law on professional services by the end of June 2013 and final adoption of the Law on entrepreneurship and on company internationalisation before the end of 2013. In spite of the expected effects of these reforms, there is still scope to further ease market entry and exit conditions, in particular by reducing the time needed for business licensing and by reviewing the insolvency framework. Moreover, regulatory and other barriers to firms' growth should be tackled. In spite of recent reforms, barriers to entry for large-surface outlets continue to limit competition in the retail sector. In September 2012 the Government adopted a draft law to merge the national competition authority with supervisory and regulatory authorities in six sectors, thus creating a single body — the National Commission for Markets and Competition (CNMC). This reform aims at a consistent application of competition principles across the various economic sectors. Removing the tax deductibility of mortgage interest payments and re-payments in 2012 was essential to shifting incentives away from home ownership, but efforts to create a larger and more efficient rental market, which would also support labour mobility, are still at an early stage.

(17) The electricity tariff deficit, which implies a potentially sizeable contingent liability for the budget and non-negligible macroeconomic risks, has not yet been tackled conclusively, as the measures presented during 2012 and in early 2013 have been insufficient. In the 2013 National Reform Programme, the Government announced that a draft law further reforming the electricity sector will be presented by the end of June 2013. There is scope for further improving competition in the retail electricity market. The transport infrastructure is abundant but there is scope to make the selection of investment more stringent and prioritise efficient maintenance of existing networks. Setting up an independent observatory, as planned, would help in this respect. At the same time, technical and legal obstacles prevent competition in railway freight and passenger transport.

(18) The highly decentralised setting calls for enhanced coordination between the various public administrations, both to reduce costs and to limit the administrative burden on companies and households. To this end, several initiatives have been undertaken or are ongoing. In particular in February 2013 the Government presented a draft Law on Local Administration Reform (to be adopted by Parliament before end-2013) and

a committee for the reform of the public administration was established. It will present proposals for a reform of the Spanish public administration by the end of June 2013. Reforms to improve the working of the judicial system are on-going, although some measures are accumulating delays and scope still exists to improve the efficiency of the Spanish judiciary.

(19) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Spain's economic policy. It has assessed the Stability Programme and National Reform Programme. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Spain but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (9) below.

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

(21) In the light of the Commission's in-depth review and this assessment, the Council has examined the National Reform Programme and the Stability Programme. The assessment concludes that the proposed reform agenda is comprehensive and goes in the right direction. At the same time, the assessment underscores the urgency of adopting and effectively implementing the missing reforms so that they can start deploying the expected positive effects. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1), (2), (3), (4), (5), (7), (8) and (9) below.

(22) In the context of the European Semester, the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On this basis, the Council has issued specific recommendations addressed to the Member States whose currency is the euro [2]. As a country whose currency is the euro, Spain should also ensure the full and timely implementation of those recommendations,

HEREBY RECOMMENDS that Spain take action within the period 2013-2014 to:

1. Deliver the structural fiscal effort as required by the Council recommendation under the EDP to ensure correction of the excessive deficit by 2016. To this end, implement the measures adopted in the 2013 budget plans at all levels of government, reinforce the medium-term budgetary strategy with sufficiently specified structural measures for the years 2014-2016. A durable correction of the fiscal imbalances is predicated upon the credible implementation of ambitious structural reforms which would increase the adjustment capacity and boost potential growth and employment. After achieving the correction of the excessive deficit, pursue the structural adjustment at an appropriate pace so as to reach the MTO by 2018. Ensure a strict and transparent enforcement of the preventive and corrective measures provided for in the Budgetary Stability Organic Law. Establish an independent fiscal authority before the end of 2013 to provide analysis, advice and monitor compliance of fiscal policy with national and EU fiscal rules. Improve the efficiency and quality of public expenditure at all levels of government, and conduct a systematic review of major spending items by March 2014. Increase the cost-effectiveness of the health-care sector, while maintaining accessibility for vulnerable groups, for example by reducing hospital pharmaceutical spending, strengthening coordination across types of care and improving incentives for an efficient use of resources. Take measures to reduce the outstanding amount of government arrears, avoid their further accumulation and regularly publish data on outstanding amounts. Adopt the dis-indexation law to reduce the degree of price inertia in public expenditures and revenues, in time to have it in force by the beginning of 2014 and consider additional steps to limit the application of indexation clauses. Finalise by end-2013 the regulation of the sustainability factor so as to ensure the long-term financial stability of the pension system, including by increasing the effective retirement age by aligning the retirement age or pension benefits to changes in life expectancy.

2. Conduct a systematic review of the tax system by March 2014. Consider further limiting tax expenditure in direct taxation, explore the scope to further limit the application of the reduced VAT rates and take additional steps in environmental taxation, in particular, as regards excise duties and fuel taxes. Take further measures to address the debt bias in corporate taxation. Intensify the fight against the shadow economy and undeclared work.

3. Implement the financial sector programme for the recapitalisation of the financial institutions, including the measures promoting non-bank intermediation adopted in November 2012.

4. Finalise the evaluation of the 2012 labour market reform covering the full range of its objectives and measures by July 2013, and present amendments, if necessary, by September 2013. Adopt the 2013 national Employment Plan by July 2013 and enact swiftly a result-oriented reform of active labour market policies, including by strengthening the targeting and efficiency of guidance. Reinforce and modernise public employment services to ensure effective individualised assistance to the unemployed according to their profiles and training needs. Reinforce the effectiveness of re-skilling training programmes for older and low-skilled workers. Fully operationalise the Single Job Portal

[1] Under Article 5(2) of Regulation (EC) No 1466/97.

[2] See page 97 of the current Official Journal.

and speed up the implementation of public-private cooperation in placement services to ensure its effective application already in 2013.

5. Implement and monitor closely the effectiveness of the measures to fight youth unemployment set out in the Youth Entrepreneurship and Employment Strategy 2013-2016, for example through a Youth Guarantee. Continue with efforts to increase the labour market relevance of education and training, to reduce early school leaving and to enhance life-long learning, namely by expanding the application of dual vocational training beyond the current pilot phase and by introducing a comprehensive monitoring system of pupils' performance by the end of 2013.

6. Adopt and implement the necessary measures to reduce the number of people at risk of poverty and/or social exclusion by reinforcing active labour market policies to improve employability of people further away from the labour market and by improving the targeting and increasing efficiency and effectiveness of support measures including quality family support services.

7. Urgently adopt and implement the draft Law on Market Unity and speed up all complementary actions needed for its swift implementation. Ensure the effectiveness, autonomy and independence of the newly created regulatory authority. By the end of 2013, adopt and implement the Law on professional associations and services, so as to remove any unjustified restriction on access to, and exercise of, professional activities, and the Law on Entrepreneurship. Regroup and concentrate support schemes for the internationalisation of firms. Reduce the number and shorten licensing procedures, including for industrial activities, and spread the use of the 'express licence' approach to activities other than retail. Review insolvency frameworks for companies and individuals, including through limiting personal liability of entrepreneurs and easing second chances for failed businesses. Remove unjustifiable restrictions to the establishment of large-scale retail premises. By March 2014, review the effectiveness of the regulatory framework to support the development of the housing rental market.

8. Tackle the electricity tariff deficit by adopting and implementing a structural reform of the electricity sector by the end of 2013. Intensify efforts to complete the electricity and gas interconnections with neighbouring countries. Reduce the contingent liability for public finances stemming from unprofitable transport infrastructure. Set up an independent observatory to contribute to the assessment of future major infrastructure projects. Take measures to ensure effective competition in freight and passenger rail services.

9. Adopt, in line with the presented timetable the reform of the local administration and define by October 2013, a plan to enhance the efficiency of the overall public administration. Adopt and implement the ongoing reforms to enhance the efficiency of the judicial system.

Done at Brussels, 9 July 2013.

For the Council
The President
R. ŠADŽIUS

COUNCIL RECOMMENDATION

of 9 July 2013

on the National Reform Programme 2013 of Sweden and delivering a Council opinion on the Convergence Programme of Sweden, 2012-2016

(2013/C 217/21)

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 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 [2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

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 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a Recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, it adopted a decision on guidelines for the employment policies of the Member States [3], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Member States' Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 strategy and to implementing the country-specific recommendations.

(4) On 10 July 2012, the Council adopted a Recommendation [4] on Sweden's National Reform Programme for 2012 and delivered its opinion on Sweden's Convergence Programme for 2012-2015.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey, marking the start of the 2013 European Semester for economic policy coordination. Also on 28 November 2012, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report, in which it identified Sweden as one of the Member States for which an in-depth review would be carried out.

(6) The European Parliament has been duly involved in the European Semester, in accordance with Regulation (EC) No 1466/97, and, on 7 February 2013, adopted a resolution on employment and social aspects in the Annual Growth Survey 2013 and a resolution on the contribution to the Annual Growth Survey 2013.

(7) On 14 March 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(8) On 10 April 2013, the Commission published the results of its in-depth review for Sweden, under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that Sweden is experiencing macroeconomic imbalances, which deserve monitoring and policy action. In particular, macroeconomic developments regarding private sector debt and deleveraging, coupled with remaining inefficiencies in the housing market deserve continued attention. Although the large current account surplus does not raise risks similar to large deficits the Commission will continue monitoring the developments of the current account in Sweden.

[1] OJ L 209, 2.8.1997, p. 1.
[2] OJ L 306, 23.11.2011, p. 25.
[3] Maintained for 2013 by Council Decision 2013/208/EU of 22 April 2013 on guidelines for the employment policies of the Member States (OJ L 118, 30.4.2013, p. 21).
[4] OJ C 219, 24.7.2012, p. 85.

(9) On 19 April 2013, Sweden submitted its Convergence Programme for the period 2012-2017 and its 2013 National Reform Programme. In order to take account of their interlinkages, the two Programmes have been assessed at the same time.

(10) Based on the assessment of the Convergence Programme pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the Programme is plausible for 2013. The Government projects GDP growth of 1,2 % and 2,2 % in 2013 and 2014, respectively, whereas the Commission forecasts 1,5 % and 2,5 %. The objective of the budgetary strategy outlined in the Convergence Programme is to ensure long-term sustainability of public finances 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 on average over the business cycle. General government balance slipped from a small surplus of 0,2 % of GDP in 2011 to a deficit of 0,5 % in 2012. The Convergence Programme confirms the previous medium-term budgetary objective (MTO) of -1,0 % of GDP. The MTO is in line with the requirements of the Stability and Growth Pact. The Convergence Programme foresees a structural general government balance, as recalculated by the Commission, to improve from a minor deficit around 0,4 % of GDP in 2012-13 to a surplus in 2014 and onwards. Therefore, the MTO is likely to be met over the programme period. According to the information in the Convergence Programme, the growth rate of government expenditure, net of discretionary revenue measures, would exceed the reference medium-term rate of potential GDP growth in 2012 and 2013, but would be below that rate in 2014. Even taking into account the possibility of further expansionary discretionary measures in 2014, the risks to the budgetary targets are limited. According to the Convergence Programme, the debt ratio, which is below the 60 %-of-GDP reference value, is projected to increase temporarily to 42 % of GDP in 2013, but fall back below 40 % of GDP in 2015. The Commission forecasts the debt ratio to decline to 39 % in 2014.

(11) The high indebtedness of the private sector (at 235 % of GDP in 2012) continues to be a matter of concern. Household debt, hovering around 80 % of GDP or roughly 170 % of disposable income, has only recently stabilised and is not likely to decline in the near future given continued credit growth and a slow pace of mortgage amortisation. The current tax deductibility of interest payments and low recurrent property taxes contribute to a debt bias in Swedish housing taxation, contributing to high debt levels. Moreover, the relatively big gap between the effective marginal tax rate on debt and on equity for new investment suggests a continued bias towards debt-financing for corporations. Sweden has recently restricted the deductibility of intra-group interest expenses but has no comprehensive system to correct the debt-equity tax bias. Corporate debt remains substantial at 149 % of GDP.

(12) Although the Swedish housing market has been stable in the recent past, it remains a potential source of instability. On the supply side, the Swedish housing market is characterised by some inefficiencies which may contribute to driving house prices upwards and creating undesirable lock-in effects. Swedish construction investments are only half of those of other Nordic countries, both in relation to GDP as well as population. At present, it often takes several years to launch a new project, due to lengthy processes at the municipal level. Streamlining these processes would increase the flexibility of housing supply, foster competition in the construction sector and decrease construction costs. Further reforms to the rent-setting system are needed to allow market forces to establish an optimal supply of rental housing at an adequate price. Addressing the inefficiencies of the housing market is likely to also help reduce household debt levels, as these issues are interlinked.

(13) In Sweden, unemployment rates for young people, people with a migrant background, and the low-skilled in general remain far above those of the rest of the working-age population and above the EU average. Sweden has taken a large number of new relevant measures to address this issue. Measures targeting the integration of people with a migrant background into the labour market have already produced initial results in lowering the unemployment rate, but continued efforts are needed to reduce the gap between them and the rest of the population. So far, young people have not noticeably benefited from the measures. However, a number of promising measures have been put in place or are in the pipeline; these include supporting work introduction agreements within the context of the Swedish model of wage setting by fully independent social partners. Efforts to strengthen apprenticeships and other types of work-based vocational education are also fully relevant but these will have to be more ambitious if they are to have the desired impact. Continued progress would be warranted in reviewing employment-protection legislation and exploiting the benefits of the job guarantee for young people. More narrowly-defined measures targeting those in most need should be preferred to general subsidies. Under the Swedish Job Guarantee, young people who are seeking work through the Public Employment Service and who have already been unemployed for 90 days are offered targeted services to help them to improve their chances of finding employment and education opportunities. However, the guarantee currently seems less effectively targeted towards young people who are not in education or training, nor registered with the Public Employment Service. In line with the 2012 Recommendation, Sweden has commissioned a review of the effects of the reduced VAT rate for restaurants and catering services on prices, wages and employment of young people, which should deliver preliminary results in

January 2014 and final conclusions in 2016. This review will be important, given the concerns raised about the cost-effectiveness of this measure.

(14) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Sweden's economic policy. It has assessed the Convergence Programme and National Reform Programme, and presented an in-depth review. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Sweden but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the European Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (4) below.

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

(16) In the light of the Commission's in-depth review and this assessment, the Council has examined the National Reform Programme and the Convergence Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (2) and (3) below,

HEREBY RECOMMENDS that Sweden take action within the period 2013-2014 to:

1. Implement the measures necessary to pursue a growth-friendly fiscal policy and preserve a sound fiscal position ensuring compliance with the MTO over the programme horizon.

2. Continue addressing risks related to private debt by reducing the debt bias in housing taxation by phasing out tax deductibility of interest payments on mortgages or/and increasing property taxes. Take further measures to foster prudent lending by measures promoting amortisation of mortgages. Further reduce the debt-bias in corporate taxation.

3. Improve the efficiency of the housing market by continued reforms of the rent setting system and strengthening the freedom of contract between individual tenants and landlords. Promote increased competition in the construction sector and review the planning, zoning and approval processes with the aim of increasing transparency, shortening lead times and reducing entry barriers for construction companies.

4. Reinforce efforts to improve the labour-market integration of low-skilled young people and people with a migrant background by stronger and better targeted measures to improve their employability and the labour demand for these groups. Step up efforts to facilitate the transition from school to work, including via a wider use of work-based learning, apprenticeships and other forms of contracts combining employment and education. Complete the Youth Guarantee to better cover young people not in education or training. Complete and draw conclusions from the review of the effectiveness of the current reduced VAT rate for restaurants and catering services in support of job creation.

Done at Brussels, 9 July 2013.

For the Council

The President

R. ŠADŽIUS

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

COUNCIL RECOMMENDATION

of 9 July 2013

on the National Reform Programme 2013 of the Netherlands and delivering a Council opinion on the Stability Programme of the Netherlands, 2012-2017

(2013/C 217/22)

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 5(2) thereof,

Having regard to 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 [2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

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 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, it adopted a decision on guidelines for the employment policies of the Member States [3], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, Member States' Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 strategy and to implementing the country-specific recommendations.

(4) On 10 July 2012, the Council adopted a Recommendation [4] on the Netherlands' National Reform Programme for 2012 and delivered its opinion on the Netherlands' Stability Programme for 2012-2015.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey, marking the start of the 2013 European Semester for economic policy coordination. Also on 28 November 2012, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report, in which it identified the Netherlands as one of the Member States for which an in-depth review would be carried out.

(6) The European Parliament has been duly involved in the European Semester, in accordance with Regulation (EC) No 1466/97, and, on 7 February 2013, adopted a resolution on employment and social aspects in the Annual Growth Survey 2013 and a resolution on the contribution to the Annual Growth Survey 2013.

(7) On 14 March 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(8) On 10 April 2013, the Commission published the results of its in-depth review for the Netherlands, under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that the Netherlands is experiencing macroeconomic imbalances, although these are not excessive.

[1] OJ L 209, 2.8.1997, p. 1.
[2] OJ L 306, 23.11.2011, p. 25.
[3] Maintained for 2013 by Council Decision 2013/208/EU of 22 April 2013 on guidelines for the employment policies of the Member States (OJ L 118, 30.4.2013, p. 21).
[4] OJ C 219, 24.7.2012, p. 88.

(9) On 29 April 2013, the Netherlands submitted its 2013 National Reform Programme and its Stability Programme for the period 2012-2017. In order to take account of their interlinkages, the two Programmes have been assessed at the same time.

(10) Based on the assessment of the Stability Programme pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that the Netherlands implemented sizeable consolidation measures over 2011-2013, but that the fiscal effort is likely not to be sufficient to correct the excessive deficit by 2013, mainly in light of worse than expected economic developments. The macroeconomic scenario underpinning the budgetary projections in the Stability Programme is broadly plausible. For 2013 and 2014, the Stability Programme projects real economic growth of – 0,4 % and 1,1 %, respectively, which is fairly close to the Commission services 2013 spring forecast of – 0,8 % and 0,9 %. The stated objective of the Stability Programme is to reduce the headline deficit to below 3 % of GDP from 2014 in a sustainable manner. The Stability Programme does not contain an explicit reference to the medium-term objective (MTO), suggesting that the MTO of – 0,5 %, as communicated in last year's Stability Programme, is confirmed. The MTO is in line with the requirements of the Stability and Growth Pact. In addition, while in 2015 the Stability Programme plans a reduction in the structural balance of 0,5 % of GDP in structural terms, in line with the minimum annual structural requirement, in 2016 the structural balance is expected to deteriorate by 0,4 % of GDP and to improve by 0,1 % of GDP in 2017, thereby falling short from the appropriate adjustment path. Based on the Commission services 2013 spring forecast, the average annual fiscal effort of around 0,7 % of GDP over the period 2010-2013 is in line with the fiscal effort of ¾ % of GDP recommended by the Council. The budgetary adjustment in 2011 and 2012 was predominantly geared to the expenditure side, yet in 2013 relied largely on revenue measures. The planned headline deficit set by the Stability Programme is consistent with a correction of the excessive deficit by 2014, one year after the deadline set by the Council under the excessive deficit procedure (EDP) on 2 December 2009. The Council considers that the fiscal effort envisaged by the authorities is not compatible with an actual correction of the excessive deficit by 2014. Possible additional consolidation measures specified in the Stability Programme have been temporarily withdrawn and at any rate would not be sufficient. The Netherlands needs to define additional measures to bring the headline general government deficit below the 3 % of GDP threshold in 2014 in a sustainable manner. According to the Stability Programme, the debt-to-GDP ratio is expected to rise further to 74 % of GDP in 2013 and to increase slightly further to 75 % of GDP in 2014. The debt ratio is thus projected to remain well above the 60 % reference value. For 2015, the Stability Programme expects the debt ratio to decline to 71,4 % of GDP and to decline slightly thereafter, reaching 70,8 % in 2017. This decline in the debt ratio after 2014, however, is insufficiently underpinned by policy measures.

(11) In order to enhance the future growth potential of the Netherlands, it is of paramount importance that the required consolidation, to ensure a sustainable correction of the excessive deficit and achieving the MTO in the short to medium-term, safeguards growth-enhancing expenditure. In particular, efforts to promote innovation and research, including fundamental research, education and training, will be key to a balanced adjustment. This would not only help to support the economic recovery, but could also help buttress innovation and human capital, improve competitiveness and the medium and long-term growth prospects.

(12) A key challenge lies in the housing market, where rigidities and distortive incentives have built up over decades to shape house financing and sectoral savings patterns. The tendency of households to leverage up gross mortgage debt against housing wealth to a large extent reflects long-standing fiscal incentives, in particular full mortgage interest tax deductibility. Since April 2012, a series of measures have been partly implemented. Some of these concern adjusting the fiscal treatment of housing finance. The gradual move to limit mortgage interest tax deductibility and increase the incentive to amortise is justified, but the phasing-in of this measure is too slow to significantly influence amortising behaviour. The rental market is restrained by regulation and the presence of a very large social housing sector that also has to cope with long waiting lists. The recent introduction of some differentiation of rents in the social housing sector based on income is a step in the right direction, but its impact is limited. Therefore, while the measures proposed are steps in the right direction, the overall pace of reforms is slow in addressing underlying problems and thus needs to be stepped up, while taking into account the impact in the current economic environment and at the same time continuing to ensure that social housing is available to disadvantaged citizens, who are unable to obtain housing at market conditions, including in high demand locations.

(13) The long-term sustainability of the pension system has been strengthened through the gradual increase in the statutory retirement age from 65 years in 2012 to 67 in 2021. Hence, the Netherlands has fully addressed that part of the 2012 recommendation on increasing the statutory retirement age and linking it to life expectancy, for both the first and the second pension pillar. Remaining challenges include an appropriate intra- and inter-generational division of costs and risks. Moreover, an overhaul of the governance of the second-pillar pension funds is overdue in order to help underpin resilience to ageing. Implementation of the plans to reform long-term care would help curb the fast-rising costs of ageing and would thus support the sustainability

of public finances. In this regard, the quality and accessibility of long-term care has to be maintained at an adequate level.

(14) The labour market reforms proposed by the Government aim to increase labour market participation and mobility. The reform of the Participation Act is ambitious and relevant to boost labour-market participation. However, the reforms are not yet enshrined in law. In addition, further measures are needed to improve the employability of people at the margin of the labour market, including women, people with a migrant background, people with a disability and the elderly. The Netherlands has announced reforms to the unemployment benefit scheme and its relatively strict employment protection legislation. Those reforms, in combination with a mobility tax credit ('mobiliteitsbonus') for employers to hire social security beneficiaries aged 50 or above or people with a labour disability, are well targeted at the lower participation end of the labour market. However, while those measures point in the right direction, they can only be fully assessed once adopted. Finally, accelerating the removal of remaining disincentives for second-income earners to increase the number of hours worked would have the potential of further alleviating future labour supply shortages.

(15) Substantial progress has been made on the 2012 recommendation on innovation and science-business links. The enterprise policy 'To the Top', including its sectoral approach for public-private partnerships in the area of research, innovation and education ('top sector') is now in the implementation phase. Apart from sectoral innovation policies, it is important to pursue horizontal research and innovation policies and to preserve an adequate level of public funding for not-earmarked fundamental research.

(16) In the context of the European Semester, the Commission has carried out a comprehensive analysis of the Netherlands' economic policy. It has assessed the National Reform Programme and the Stability Programme, and has presented an in-depth review. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in the Netherlands but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (4) below.

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

(18) In the light of the Commission's in-depth review and this assessment, the Council has examined the National Reform Programme and the Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendation (2) below.

(19) In the context of the European Semester the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On this basis the Council has issued specific recommendations addressed to the Member States whose currency is the euro [2]. As a country whose currency is the euro, the Netherlands should also ensure the full and timely implementation of those recommendations,

HEREBY RECOMMENDS that the Netherlands take action within the period 2013-2014 to:

1. Reinforce and implement the budgetary strategy, supported by sufficiently specified measures, for the year 2014 and beyond to ensure a timely correction of the excessive deficit by 2014 in a sustainable manner and achieve the structural adjustment effort specified in the Council recommendations under the EDP. Protect expenditure in areas directly relevant for growth such as education, innovation and research. After the correction of the excessive deficit, pursue the structural adjustment effort that will enable the Netherlands to reach the MTO by 2015.

2. Step up efforts to gradually reform the housing market by accelerating the planned reduction in mortgage interest tax deductibility, while taking into account the impact in the current economic environment, and by providing for a more market-oriented pricing mechanism in the rental market, and by further relating rents to household income in the social housing sector. Refocus social housing corporations to support households most in need.

3. Adjust the second pension pillar, in consultation with social partners, to ensure an appropriate intra- and inter-generational division of costs and risks. Underpin the gradual increase of the statutory retirement age with measures to increase the employability of older workers. Implement the planned reform of the long-term care system to ensure its cost-effectiveness and complement it with further measures to contain the increase in costs, with a view to ensure sustainability.

[1] Under Article 5(2) of Regulation (EC) No 1466/97.

[2] See page 97 of the current Official Journal.

4. Take further measures to enhance participation in the labour market, particularly of people at the margin of the labour market. Continue to reduce tax disincentives on labour, including by the phasing-out of transferable tax credits for second-income earners. Foster labour-market transitions and address labour-market rigidities, including by reforming employment protection legislation and the unemployment benefit system.

Done at Brussels, 9 July 2013.

For the Council

The President

R. ŠADŽIUS

COUNCIL RECOMMENDATION

of 9 July 2013

on the National Reform Programme 2013 of the United Kingdom and delivering a Council opinion on the Convergence Programme of the United Kingdom, 2012/13 to 2017/18

(2013/C 217/23)

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 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 [2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

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 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, it adopted a decision on guidelines for the employment policies of the Member States [3], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Member States' Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 strategy and to implementing the country-specific recommendations.

(4) On 10 July 2012, the Council adopted a Recommendation [4] on the UK's National Reform Programme for 2012 and delivered its opinion on the UK's Convergence Programme for 2012-2017.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey, marking the start of the 2013 European Semester for economic policy coordination. Also on 28 November 2012, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report, in which it identified the UK as one of the Member States for which an in-depth review would be carried out.

(6) The European Parliament has been duly involved in the European Semester, in accordance with Regulation (EC) No 1466/97, and, on 7 February 2013, adopted a resolution on employment and social aspects in the Annual Growth Survey 2013 and a resolution on the contribution to the Annual Growth Survey 2013.

(7) On 14 March 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(8) On 10 April 2013, the Commission published the results of its in-depth review for the UK, under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that the UK is experiencing macroeconomic imbalances, which deserve monitoring and policy action. In particular, macroeconomic developments in the area of household debt, linked to the high levels of mortgage debt and the characteristics of the housing market, as well as unfavourable developments in external competitiveness, especially as regards goods exports and weak productivity growth, continue to deserve attention.

[1] OJ L 209, 2.8.1997, p. 1.
[2] OJ L 306, 23.11.2011, p. 25.
[3] Maintained for 2013 by Council Decision 2013/208/EU of 22 April 2013 on guidelines for the employment policies of the Member States (OJ L 118, 30.4.2013, p. 21).
[4] OJ C 219, 24.7.2012, p. 91.

(9) On 30 April 2013, the UK submitted its Convergence Programme for the period 2012/13 to 2017/18 and its 2013 National Reform Programme. In order to take account of their interlinkages, the two Programmes have been assessed at the same time.

(10) Pursuant to paragraph 4 of the Protocol (No 15) on certain provisions relating to the United Kingdom of Great Britain and Northern Ireland, the obligation in Article 126(1) of the Treaty on the Functioning of the European Union to avoid excessive general government deficits does not apply to the UK. Paragraph 5 of the Protocol provides that the UK is to endeavour to avoid an excessive government deficit. On 8 July 2008 the Council decided, in accordance with Article 104(6) of the Treaty establishing the European Community, that an excessive deficit exists in the UK.

(11) Based on the assessment of the Convergence Programme pursuant to 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 Convergence Programme is to achieve a cyclically-adjusted current budget of close to balance at the end of a five-year rolling period. The general government deficit peaked at 11,5 % of GDP in 2009/10 [1] and was reduced to 5,6 % of GDP in 2012/13, due to one-off measures that reduced the deficit by 2 percentage points in 2012/13. However, the Convergence Programme shows that the Government is projected to miss the deadline of 2014/15 for correction of the excessive deficit set by the Council as the deficit is estimated at 6,0 % of GDP that year. According to programme projections, the year in which the excessive deficit will be corrected is in 2017/18 at 2,3 % of GDP, three years after the deadline set by the Council in December 2009. The Convergence Programme implies that the structural general government deficit, as recalculated by the Commission, improving marginally from 5,6 % of GDP in 2013/14 to 5,1 % of GDP in 2014/15. Over the period 2010/11 to 2012/13, the average non-adjusted fiscal effort is estimated at 1,1 % of GDP, well below the 1¾ % of GDP recommended by the Council, before correcting for the impact of any revisions to potential output growth, or revenue windfalls or shortfalls. The main risks to the budgetary projections stem from lower-than-expected growth due to persistently high inflation curtailing private consumption and a potential deterioration in the international environment that could affect trade and investment. The Convergence Programme does not include a medium-term budgetary objective (MTO) as foreseen by the Stability and Growth Pact. The Government has continued with its fiscal consolidation strategy but, because of higher-than-expected expenditure due to the operation of automatic stabilisers and lower-than-expected tax revenues, the deficit is higher than forecast. Also, the consolidation measures taken so far have not been sufficient in attaining the annual average fiscal effort recommended to correct the excessive deficit. Moreover, the potential revenue contribution from structural reform, e.g. aiming to increase the efficiency of the tax system through revisions of the VAT rate structure, remains relatively under-exploited. Government debt as a percentage of GDP rose from 56,1 % in 2008/09 to 90,7 % in 2012/13. According to the Convergence Programme, the general government debt ratio is projected to increase to 100,8 % in 2015/16 and 2016/17 before falling back to 99,4 % in 2017/18.

(12) Household deleveraging continued in 2012, but at 96 % of GDP, UK household debt remains well above the euro area average and deleveraging may not be sustained once the economy improves and housing transactions return to more normal levels. House prices remain high and volatile in the context of a housing shortage. Because of a combination of high house prices and the widespread use of variable-rate mortgages, households are particularly exposed to interest rate changes, as well as to rises in unemployment. The Government has taken action to reform the spatial planning laws but residential construction remains at a low level and the planning system, including green belt restrictions, continues to be an important constraint on the supply of housing. Government interventions that stimulate housing demand more than supply, including the recently announced Help-to-Buy scheme, could potentially exacerbate this situation by increasing house prices and household debt. The UK property tax system combines a regressive recurring tax (Council Tax) with a progressive transaction tax (Stamp Duty Land Tax). A combination of high house prices, stretched household finances and more responsible lending criteria are likely to continue to prevent many middle-income households from becoming home owners. In this context, private renting could be made a more attractive and viable long-term alternative to home ownership.

(13) The UK faces the challenges of both unemployment and underemployment, especially among the young.

[1] The period '2009/10' refers to the financial year which starts on 1 April 2009 and ends on 31 March 2010.

Unemployment stood at 7,8 % at the beginning of 2013, compared with the EU average of 10,9 %, and is expected to remain broadly flat through 2013 and 2014. Youth unemployment is much higher, at 20,7 % and it has steadily increased since 2007, when it stood at 14,3 %. The proportion of young people not in education, employment or training is 14,0 %. Private sector employment has grown strongly in the last year, given the slow GDP growth, but productivity and wage growth have been weak. The UK also has an oversupply of low-skilled workers for whom demand is falling. At the same time, the UK has a shortage of workers with high-quality vocational and technical skills which contributes to a lack of external competitiveness. Despite some progress in recent years, a significant proportion of young people do not have the skills and qualifications they need to compete successfully in the labour market. The unemployment rate of low skilled 15-25 year olds is 37,2 %, significantly above the EU average. Existing vocational education and training policy has been too focused on basic skills and level 2 qualifications, while the economy increasingly demands more advanced qualifications. While there have been efforts to improve the quality of apprenticeship programmes, further efforts are needed. In particular, the qualifications system remains very complex, which may negatively impact on businesses' involvement in apprenticeship programmes. The UK could build on the current Youth Contract to implement a Youth Guarantee and address the problem of youth unemployment and those not in education, employment or training.

(14) Weak work incentives have been a persistent problem in the UK. The authorities plan to address this with the introduction of the Universal Credit, which will allow individuals to keep more of their benefit income as they move into work. Whilst Universal Credit could have a positive impact on employment much will depend on effective implementation and support services, including the interaction with other benefits. In parallel, many working-age benefits and tax credits will be increased by 1 % a year until 2016 which is below the projected inflation rate but should also improve work incentives. A range of other reforms to welfare benefits were also introduced in April 2013. There is a risk of increased poverty, including more child poverty for those in households that do not find employment. In contrast, the scope, level and uprating of both universal and means-tested payments to pensioners have been largely exempt from cuts. Early results from the Work Programme suggest scope to improve the delivery and outcomes. The UK also faces ongoing challenges to increase parental employment and improve access to high-quality, affordable childcare. At 17,3 %, the proportion of UK children living in workless households is the second highest in the Union. Currently, childcare costs in the UK are among the highest in the Union, which poses particular problems for second earners in couples, and for single parents. In 2010, only 4 % of children under three used formal childcare on a full-time basis, well below the EU average of 14 %.

(15) The stock of UK corporate debt is fairly high, yet some firms are having difficulty accessing credit, and business investment remains at very low levels. An unprecedented drop in business investment after 2007 caused gross fixed capital formation to fall to 14,2 % of GDP in 2012. This is the third lowest level in the Union. The UK has a low level of business expenditure on R&D, which fell from 1,17 % of GDP in 2001 to 1,09 % in 2011. Business investment has started to pick up slightly, with an annual increase of 4,9 % in 2012, but remains low. Net lending to the corporate sector remained negative in 2012. While larger firms with strong balance sheets are able to borrow at a historically low cost, many other firms, particularly SMEs, are having difficulty accessing credit. This is exacerbated by limited competition in the banking industry. Proper implementation of the Financial Policy Committee's recommendations on prudent reckoning of bank capital requirements and on addressing identified capital shortfalls without hindering lending to the economy should help reinforce the financial stability of the UK banking system.

(16) The UK has a challenge to renew and upgrade its energy and transport infrastructure. Furthermore, the UK needs substantial investment in new electricity generation capacity by 2020, both to replace old plants that are due to close, and to meet the renewables obligation and tighter carbon emissions standards. At 3,8 %, the share of renewable energy sources in final energy consumption ranks 25th out of 27 Member States (EU average 13,0 %). Regulatory certainty will be required to facilitate adequate and timely investment. Shortcomings in the capacity and quality of the UK's transport networks are a structural problem for the economy, especially for goods producers, distributors and exporters. There is currently a significant gap between committed funding, public and private, and the pipeline of transport investment needs which the Government is seeking to address by prioritising public spending towards infrastructure and by attracting additional private

investment. Unit costs in transport construction and maintenance also remain high in the UK.

(17) In the context of the European Semester, the Commission has carried out a comprehensive analysis of the UK's economic policy. It has assessed the Convergence Programme and National Reform Programme, and presented an in-depth review. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in the UK but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (6) below.

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

(19) In the light of the Commission's in-depth review and this assessment, the Council has examined the National Reform Programme and the Convergence Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (2), (3), (5) and (6) below,

HEREBY RECOMMENDS that the United Kingdom take action within the period 2013-2014 to:

1. Implement a reinforced budgetary strategy, supported by sufficiently specified measures, for the year 2013/14 and beyond. Ensure the correction of the excessive deficit in a sustainable manner by 2014/15, and the achievement of the fiscal effort specified in the Council recommendations under the EDP and set the high public debt ratio on a sustained downward path. A durable correction of the fiscal imbalances requires the credible implementation of ambitious structural reforms which would increase the adjustment capacity and boost potential growth. Pursue a differentiated, growth-friendly approach to fiscal tightening, including through prioritising timely capital expenditure with high economic returns and through a balanced approach to the composition of consolidation measures and promoting medium and long-term fiscal sustainability. In order to raise revenue, make greater use of the standard rate of VAT.

2. Take further action to increase housing supply, including through further liberalisation of spatial planning laws and an efficient operation of the planning system. Ensure that housing policy, including the Help-to-Buy scheme does not encourage excessive and imprudent mortgage lending; and promote greater supply to avoid higher house prices. Pursue reforms including to land and property taxation to reduce distortions and promote timely residential construction. Take steps to improve the functioning of rental markets, in particular by making longer rental terms more attractive to both tenants and landlords.

3. Building on the Youth Contract, step up measures to address youth unemployment, for example through a Youth Guarantee. Increase the quality and duration of apprenticeships, simplify the system of qualifications and strengthen the engagement of employers, particularly in the provision of advanced and intermediate technical skills. Reduce the number of young people aged 18-24 who have very poor basic skills, including through effectively implementing the Traineeships programme.

4. Enhance efforts to support low-income households and reduce child poverty by ensuring that the Universal Credit and other welfare reforms deliver a fair tax-benefit system with clearer work incentives and support services. Accelerate the implementation of planned measures to reduce the costs of childcare and improve its quality and availability.

5. Take further steps to improve the availability of bank and non-bank financing to the corporate sector, while ensuring that the measures primarily target viable companies, especially SMEs. Reduce barriers to entry in the banking sector, lower switching costs and facilitate the emergence of challenger banks through a divestiture of banking assets. Effectively implement the Financial Policy Committee's recommendations on prudent assessment of bank capital requirements and on addressing identified capital shortfalls.

6. Take measures to facilitate a timely increase in network infrastructure investment, especially by promoting more efficient and robust planning and decision-making processes. Provide a stable regulatory framework for investment in new energy capacity, including in renewable energy. Improve the capacity and quality of transport networks by providing greater predictability and certainty on planning and funding and by harnessing the most effective mix of public and private capital sources.

Done at Brussels, 9 July 2013.

For the Council

The President

R. ŠADŽIUS

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

COUNCIL RECOMMENDATION

of 9 July 2013

on the implementation of the broad guidelines for the economic policies of the Member States whose currency is the euro

(2013/C 217/24)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 136 in conjunction with Article 121(2) 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 5(2) thereof,

Having regard to 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 [2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the conclusions of the European Council,

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

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) The Eurogroup has a special responsibility in the economic governance of the euro area. The economic and financial crisis clearly exposed the close interrelations in the euro area, underscoring the need for a coherent aggregate policy stance which reflects the strong spillovers between Member States whose currency is the euro ('euro area Member States'), for effective arrangements for policy coordination to swiftly respond to changes in the economic environment.

(2) The euro area Member States have committed themselves to a set of far-reaching additional policy reforms and policy coordination by signing, on 2 March 2012, the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. The entry into force of the so-called two pack Regulations [3] ('two pack') in 2013 will further deepen budgetary and economic policy coordination within the euro area.

(3) Work is ongoing to deepen further the economic and monetary union ('EMU'). On 28 November 2012, the Commission presented a communication on a blueprint for a deep and genuine economic and monetary union. The blueprint identifies a rationale and objectives of a genuine EMU as well as instruments and steps that would make it possible to reach them. The blueprint intended to launch the European debate. On 12 September 2012, the Commission presented a roadmap towards a Banking Union. This proposal was accompanied by a proposal for two regulations needed to establish the single supervisory mechanism. On 5 December 2012, the President of the European Council issued a report which was developed in close collaboration with the President of the Commission, the President of the Eurogroup and the President of the ECB, and which contained a specific and time-bound road map for the achievement of a genuine EMU. It was structured around the areas of an integrated financial, budgetary and economic policy framework and democratic legitimacy and accountability.

On 14 December 2012, the Member States' Heads of State or Government decided on work to be taken forward on a roadmap for the completion of EMU, recognising the interdependence between the economies of the euro area Member States and the benefits that stability in the euro area can bring to its members and to the Union as a whole.

(4) The European Parliament has been duly involved in the European Semester and, in its resolution of 20 November 2012 'Towards a genuine Economic and Monetary Union', expressed its views on the deepening of the EMU.

(5) Crisis management in the euro area has been characterised by strong resolve. The commitment of all Member States and EU institutions to safeguarding the integrity of the euro area has been clearly put beyond question. However, the effectiveness of euro area governance as well as the conduct of crisis management

(1) OJ L 209, 2.8.1997, p. 1.
(2) OJ L 306, 23.11.2011, p. 25.
(3) Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability (OJ L 140, 27.5.2013, p. 1); Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area (OJ L 140, 27.5.2013, p. 11).

by the Eurogroup need to be further improved to fully ensure effective coordination at the euro area level. Strengthened coordination is also needed to reach a coherent aggregate policy stance in the euro area and to ensure that the necessary policy measures are implemented. Achieving these goals will bolster the confidence of citizens and markets, and thereby contribute to economic recovery and financial stability in the euro area.

(6) The implementation of the two pack will further strengthen budgetary surveillance in the euro area. The two pack assigns a role to the Eurogroup in discussing the draft budgets of individual Member States as well as the budgetary prospects for the euro area as a whole, with a view to ensuring an appropriate overall fiscal stance. These discussions take place on the basis of the Commission's opinions on the draft budgetary plans of the euro area Member States and of the overall euro area assessment by the Commission on the draft budgetary plans and their interaction. For fiscal consolidation across the euro area, the challenge is to put the debt-to-GDP ratio on a steadily declining path over time. This can be done by pursuing differentiated, growth-friendly fiscal consolidation policies while boosting the growth potential of the euro area.

The corrective arm of the Stability and Growth Pact foresees budgetary adjustment as defined in structural terms towards the nominal reference value taking into account cross-country differences in risks to sustainability, both in the short and medium terms, and allows the automatic stabilisers to function along the adjustment path. The preventive arm of the Stability and Growth Pact foresees a gradual adjustment towards the medium-term objectives with the annual structural improvement of 0,5 % as a benchmark. This can be modulated on a country-specific basis taking into account cyclical conditions and debt sustainability risk. The credibility of fiscal policy over the medium-term would be reinforced if the composition of government expenditure and revenues were to better reflect the growth impact of the different spending items and revenue sources. Furthermore, the growth potential of the economy could be enhanced by further structural reforms and by exploiting the possibilities offered by the EU's existing fiscal framework to balance productive public investment needs with fiscal discipline objectives in the preventive arm of the Stability and Growth Pact.

(7) Most risk indicators related to EU financial markets and market sentiment have improved compared to 2012 as the intensity of self-fulfilling and destructive confidence spirals has dissipated. However, significant market fragmentation remains. Improved funding conditions for banks are yet to feed through to a pick-up of credit for the real economy and significant differences persist across Member States as regards bank lending activity and cost of funding to the private sector. Facilitating an orderly deleveraging of both the banking sector and the non-financial private sector while sustaining the flow of new credit for productive uses in the real economy and particularly small and medium-sized enterprises (SMEs), are the key challenge at the current conjuncture.

(8) Further repairing banks' balance sheets and continuing the strengthening of equity buffers, where needed, would contribute to repairing the credit channel. In this context, asset quality reviews and stress tests by the Single Supervisory Mechanism (SSM) and the European Banking Authority (EBA) will provide transparency of banks' balance sheets, help identify any remaining pockets of vulnerability, and, thus, reinforce confidence in the sector as a whole. The risk of further financial-market fragmentation and financial turmoil illustrates the importance for the euro area of rapidly moving ahead with the creation of the Banking Union while avoiding ad hoc approaches to bank resolution.

(9) Structural reforms are needed across the euro area to improve the functioning of product and labour markets in order to promote competitiveness, to strengthen the ongoing adjustment process and to guarantee a sustainable reallocation of resources. Moreover, structural reforms play an essential role in facilitating the rebalancing and deleveraging process. For deficit Member States, competitiveness gains will increase net exports, which help in rebalancing the growth pattern towards more productive, less labour-intensive tradable sectors, while supporting economic recovery and bringing down debt ratios. At the same time, reforms to improve competition in Member States with a current account surplus could contribute to the reallocation of resources and help boosting investment in non-tradable sectors. This would strengthen the role of domestic demand in the composition of growth making the adjustment in the euro area more symmetric. At the same time, the crisis had largely asymmetric effects on euro-area Member States' employment, with Member States most hit being those with the most severe compression of domestic demand linked to current account reversals. In the absence of an effective and quick absorption of cyclical unemployment, hysteresis effects, whereby unemployment becomes entrenched and less sensitive to wage dynamics, may materialise. Structural reforms in the labour market therefore remain of particular importance to mitigate risks for social cohesion and future growth potential in the euro area. By signing the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, on 2 March 2012, the euro area Member States committed themselves to discussing *ex ante*, and where appropriate coordinate, their national plans for major economic reforms with a view to benchmarking best practices and working towards a more closely coordinated economic policy. The impact of the measures already adopted should be monitored by the Eurogroup, with a

view of encouraging further action where necessary, and to step up the ambition of reforms in line with the country-specific recommendations,

HEREBY RECOMMENDS that euro area Member States take action, individually and collectively, without prejudice to the competences of the Council as regards the coordination of economic policies of the Member States, but in particular in the context of economic policy coordination in the framework of the Eurogroup, within the period 2013-2014, to:

1. Take responsibility for the aggregate policy stance in the euro area in order to ensure the good functioning of the euro area to increase growth and employment, and to take forward the work on deepening economic and monetary union. Allow the Eurogroup to play a central role in the strengthened surveillance framework applicable to euro area Member States to coordinate and monitor reforms at national level and at the euro area level that are necessary for a stable and robust euro area and to ensure policy coherence, and in the preparation of the Euro Summits.

2. Ensure that the Eurogroup monitors and coordinates fiscal policies of the euro area Member States and the aggregate fiscal stance for the euro area as a whole to ensure a growth friendly and differentiated fiscal policy. To this end, the Eurogroup should discuss the Commission opinions of the draft budgetary plans of each of the euro area Member States, and the budgetary situation and prospects for the euro area as a whole on the basis of the overall assessment by the Commission of the draft budgetary plans and their interaction. The coordination should contribute to ensuring that the pace of fiscal consolidation is differentiated according to the fiscal and economic situation of the euro area Member States with the budgetary adjustment defined in structural terms in line with the Stability and Growth Pact, allowing the automatic stabilisers to function along the adjustment path and that, in view of reinforcing the credibility of fiscal policy over the medium term, fiscal consolidation is supported by an overall efficient and growth-friendly mix of expenditure and revenue and by appropriate structural reforms which enhance the economic growth potential.

3. Assess, in the framework of the Eurogroup, the reasons behind the differences in lending rates especially to SMEs across the euro area Member States; explore the consequences of the fragmentation of the financial markets in the euro area, and contribute to ways to overcome it.

4. Building on the recapitalisation and the restructuring of the past years, promote further balance-sheet repair among banks as a means to reverse fragmentation in the single market and improve the flow of credit to the real economy, particularly SMEs. To this end: (a) ensure that the balance sheet assessments and stress tests to be conducted by the Single Supervisory Mechanism (SSM) in cooperation with the European Banking Authority (EBA) are concluded in accordance with the agreed timeline; (b) ensure a level playing field in applying burden-sharing requirements in the recapitalisation of banks; (c) ensure the availability of credible fiscal backstops in the context of balance sheet assessments and stress tests; (d) remove supervisory incentives for banks to match asset and liabilities within national borders; and (e) accelerate the necessary steps to establish the Banking Union, as outlined by the European Council.

5. Coordinate *ex ante* the major economic reform plans of the euro area Member States. Monitor the implementation of structural reforms, in particular in the labour and product markets and assess their impact on the euro area, taking into account the Council recommendations to individual euro area Member States. Promote further adjustment in the euro area, ensuring a correction of external and internal imbalances, inter alia by following thoroughly the reforms that address distortions to saving and investment behaviour in Member States with both current account deficits and surpluses. Take the necessary steps for an effective implementation of the Macroeconomic Imbalances Procedure, in particular by assessing progress in reform commitments in Member States experiencing excessive imbalances and in reform implementation in Member States with imbalances requiring decisive action to limit negative spillovers to the rest of the euro area.

6. In line with the AGS 2013 and by taking collective and significant measures, tackle the social consequences of the crisis and the rising unemployment levels. The situation of unemployed young people is particularly worrying and bold action is recommended along the lines of the Compact for Growth and jobs and the EU Youth Guarantee. Further reforms to facilitate access to employment, prevent early withdrawals from the labour market, reduce the cost of labour, combat labour market segmentation and support innovation are recommended.

Done at Brussels, 9 July 2013.

For the Council

The President

R. ŠADŽIUS

II

(Information)

INFORMATION FROM EUROPEAN UNION INSTITUTIONS, BODIES, OFFICES AND AGENCIES

COUNCIL

EXPLANATORY NOTE

Accompanying document to Council Recommendations to Member States under the European Semester 2013

(2013/C 217/25)

Article 2-ab(2) of Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ([1]), which makes part of the section on 'Economic dialogue', states that 'The Council is expected to, as a rule, follow the recommendations and proposals of the Commission or explain its position publicly.'.

In respect of this 'comply or explain rule' the Council hereby presents the following explanations to changes agreed to Commission Recommendations for Country-Specific Recommendations (CSRs) on Member States in the context of the 2013 European semester on which the Commission is in disagreement.

The Council has also agreed to a number of additions as well as factual or technical changes to recommendations with the full support of the Commission ([2]) (*).

BELGIUM

CSR 2

Commission text:

Step up efforts to close the gap between the effective and statutory retirement age, including by quickly phasing out early-exit systems. Underpin reforms of the old-age social security systems with employment-support measures and labour-market reforms conducive to active ageing. Accelerate the adoption of a decision to link the statutory retirement age to life expectancy. Continue to improve the cost-efficiency of public spending on long term institutional care.

Agreed text:

Step up efforts to close the gap between the effective and statutory retirement age, including by *pursuing the on-going reforms to reduce the* ~~quickly phasing out~~ early-exit *possibilities* ~~systems~~. Underpin reforms of the old-age social security systems with employment-support measures and labour-market reforms conducive to

([1]) OJ L 209, 2.8.1997, p. 1.

([2]) CSRs with no changes or for which changes have been made but in agreement with the Commission: BU, DK, DE, HU, PL, RO, SL, SK, SV, UK, Euro area.

(*) Text which has been modified appears in *italics* and deleted text in ~~strikethrough~~.

active ageing. *Increase the effective retirement age by aligning retirement age or pension benefits to changes in life expectancy.* ~~Accelerate the adoption of a decision to link the statutory retirement age to life expectancy.~~ Continue to improve the cost-efficiency of public spending on long term institutional care.

Explanation:

Belgium appears to be well on track in reaching its 50 % employment target to be achieved in 2020. The current rate stands at 39,5 %, with annual average increase of 1,4 percentage points over the period 2010-2012.

The text of the recommendation contains horizontally agreed text. It was agreed that there are different channels to raise the effective retirement age and, hence, to address challenges to the pension system and the sustainability of public finances. The original Commission text, focusing only on raising the (statutory) retirement age, appeared too prescriptive and narrowly defined. The new text recalls the text previously adopted by the Council, most recently on the 2012 Sustainability Report, on 12 February 2013.

CZECH REPUBLIC

CSR 3

Commission text:

Speed up the increase of the statutory retirement age compared to current legislation, introduce a clear link between the statutory retirement age and life expectancy, and revise the indexation mechanism. Accompany the increase in retirement age with measures promoting employability of older workers and reduce early exit pathways. In particular, remove the public subsidy for the pre-retirement scheme. Take measures to significantly improve cost-effectiveness of healthcare expenditure, in particular for hospital care.

Agreed text:

Increase the effective retirement age by aligning retirement age or pension benefits to changes in life expectancy, ~~Speed up the increase of the statutory retirement age compared to current legislation, introduce a clear link between the statutory retirement age and life expectancy~~ and ~~revise~~ *review* the indexation mechanism. Accompany the increase in retirement age with measures promoting employability of older workers and reduce early exit pathways. In particular, remove the public subsidy for the pre-retirement scheme. Take measures to significantly improve cost-effectiveness of healthcare expenditure, in particular for hospital care.

Explanation:

The text of the recommendation contains horizontally agreed text. It was agreed that there are different channels to raise the effective retirement age and, hence, to address challenges to the pension system and the sustainability of public finances. The original Commission text, focusing only on raising the (statutory) retirement age, appeared too prescriptive and narrowly defined. The new text recalls the text previously adopted by the Council, most recently on the 2012 Sustainability Report, on 12 February 2013.

CSR 4

Commission text:

Take measures to strengthen the efficiency and effectiveness of the public employment service. Increase significantly the availability of inclusive childcare facilities with a focus on children up to three years old, and the participation of Roma children, notably by adopting and implementing the law on private childcare facilities and strengthening the capacities of public childcare facilities.

Agreed text:

Make *additional efforts* ~~measures~~ to strengthen the efficiency and effectiveness of the public employment service. Increase significantly the availability of inclusive childcare facilities with a focus on children up to three years old, and the participation of Roma children, in particular by adopting and implementing the law on *provision of* ~~private~~ childcare *services* ~~facilities~~ and strengthening the capacities of *both* public *and private* childcare *services* ~~facilities~~.

Explanation:

The Employment Committee's multilateral surveillance review on this issue concludes that the Czech Republic has taken actions in line with the CSR but should continue efforts to further strengthen the Public Employment Services (PES) capacities given the high number of unemployed and should further improve the effectiveness of active labour market policies (ALMPs).

ESTONIA

CSR 4

Commission text:

Improve energy efficiency, in particular in buildings and transport, and strengthen environmental incentives concerning vehicles and waste, through considering car taxation and/or higher excise duties on motor fuels. Step up the development of cross-border energy connections to diversify energy sources and promote competition in the energy market.

Agreed text:

Improve energy efficiency, in particular in buildings and transport, and strengthen environmental incentives concerning vehicles and waste ~~through considering car taxation and/or higher excise duties on motor fuels~~. Step up the development of cross-border energy connections to diversify energy sources and promote competition in the energy market.

Explanation:

The recommendation should provide more opportunity to the Member State to choose measures to address the challenge. According to the Estonian authorities, investment in public transport, as well as in multimodal transport, together with investment in more energy-efficient buildings, would better address the pollution problem in Estonia. This view is shared by the Council.

SPAIN

CSR 1

Commission text:

Finalise by end-2013 the regulation of the sustainability factor so as to ensure the long-term financial stability of the pension system, including by providing that the retirement age will rise in line with gains in life expectancy.

Agreed text:

[…] Finalise by end-2013 the regulation of the sustainability factor so as to ensure the long-term financial stability of the pension system, including by *increasing the effective retirement age by aligning the retirement age or pension benefits to changes in life expectancy*~~providing that the retirement age will rise in line with gains in life expectancy~~.

Explanation:

The text of the recommendation contains horizontally agreed text. It was agreed that there are different channels to raise the effective retirement age and, hence, to address challenges to the pension system and the sustainability of public finances. The original Commission text, focusing only on raising the (statutory) retirement age, appeared too prescriptive and narrowly defined. The new text recalls the text previously adopted by the Council, most recently on the 2012 Sustainability Report, on 12 February 2013.

FRANCE

CSR 1

Commission text:

Reinforce and pursue the budgetary strategy in 2013. Enhance the credibility of the adjustment by specifying by autumn 2013 and implementing the necessary measures for the year 2014 and beyond to ensure

a correction of the excessive deficit in a sustainable manner by 2015 at the latest and the achievement of the structural adjustment effort specified in the Council Recommendations under the EDP. Use all windfall gains for deficit reduction. A durable correction of the fiscal imbalances requires a credible implementation of ambitious structural reforms to increase the adjustment capacity and boost growth and employment. Maintain a growth-friendly fiscal consolidation course and further increase the efficiency of public expenditure, in particular by proceeding as planned with a review of spending categories across all sub-sectors of general government. Take action through the forthcoming decentralisation law to achieve better synergies and savings between central, regional and local government levels. After the correction of the excessive deficit, pursue the structural adjustment effort at an adequate pace so as to reach the MTO by 2016. Take measures by the end of 2013 to bring the pension system into balance in a sustainable manner no later than 2020, for example by adapting indexation rules, further increasing the statutory retirement age and full-pension contribution period and reviewing special schemes, while avoiding an increase in employers' social contributions, and increase the cost-effectiveness of healthcare expenditure, including in the areas of pharmaceutical spending.

Agreed text:

[…]Take action through the forthcoming Decentralisation Law to achieve better synergies and savings between central, ~~regional~~ and local government levels. After the correction of the excessive deficit, pursue the structural adjustment effort at an adequate pace so as to reach the MTO by 2016. Take measures by the end of 2013 to bring the pension system into balance in a sustainable manner no later than 2020, for example by adapting indexation rules, *by increasing the full-pension contribution period, by* further increasing the *effective* ~~statutory~~ retirement age, *by aligning the retirement age or pension benefit to changes in life expectancy* ~~and full-pension contribution period~~ and *by* reviewing special schemes, while avoiding an increase in employers' social contributions, and increase the cost-effectiveness of healthcare expenditure, including in the areas of pharmaceutical spending.

Explanation:

The text of the recommendation contains horizontally agreed text. It was agreed that there are different channels to raise the effective retirement age and, hence, to address challenges to the pension system and the sustainability of public finances. The original Commission text, focusing only on raising the (statutory) retirement age, appeared too prescriptive and narrowly defined. The new text recalls the text previously adopted by the Council, most recently on the 2012 Sustainability Report, on 12 February 2013. Considering the specific challenges faced by France, the Council agrees that the more specific elements of the recommendation referring to pension reform should be kept.

ITALY

CSR 1

Commission text:

Ensure that the deficit remains below 3 % of GDP in 2013, by fully implementing the adopted measures. Pursue the structural adjustment at an appropriate pace and through growth-friendly fiscal consolidation so as to achieve and maintain the MTO as from 2014. Achieve the planned structural primary surpluses in order to put the very high debt-to-GDP ratio (forecast to be 132,2 % of GDP in 2014) on a steadily declining path. Continue pursuing a durable improvement of the efficiency and quality of public expenditure by fully implementing the measures adopted in 2012 and taking the effort forward through regular in depth spending reviews at all levels of government.

Agreed text:

Ensure that the deficit remains below 3 % of GDP Treaty reference value in 2013, by fully implementing the adopted measures. Pursue the structural adjustment at an appropriate pace and through growth-friendly fiscal consolidation so as to achieve and maintain the MTO as from 2014. Achieve the planned structural primary surpluses in order to put the very high debt-to-GDP ratio ~~(forecast to be 132,2 % of GDP in 2014)~~ on a steadily declining path. Continue pursuing a durable improvement of the efficiency and quality of public expenditure by fully implementing the measures adopted in 2012 and taking the effort forward through regular in depth spending reviews at all levels of government.

Explanation:

Considering that mentioning the forecast debt-to-GDP ratio in 2014 does not add value to the recommendation, and that such forecasts have not been included in the Recommendations for any other Member State, it was agreed to delete the figure from the recommendation and to include it in the relevant recital.

LATVIA

CSR 4

Commission text:

Tackle high rates of poverty by reforming social assistance for better coverage, by improving benefit adequacy and strengthening activation measures for benefit recipients. Reinforce the delivery mechanisms to effectively reduce child poverty.

Agreed text:

Tackle high rates of poverty by reforming social assistance for better coverage, by improving benefit adequacy and ~~strengthening~~ activation measures for benefit recipients. Reinforce the delivery mechanisms to effectively reduce child poverty.

Explanation:

The conclusions of the Employment Committee (EMCO) and the Social Protection Committee (SPC) multilateral surveillance review of Latvia's activation and poverty reduction policies demonstrated that a number of key 2013 measures will be put in place and that it is planned to strengthen activation and ensure a better cooperation between public employment services and municipal social assistance services, with improved linkage of social assistance benefits to ALMPs to achieve better labour-market outcomes of the activation of benefit recipients. In 2012, Latvia reformed the social assistance system and undertook measures to achieve better activation. On this basis, new measures may be envisaged to improve the effectiveness and coverage of the social benefit system. Some key elements of the Latvian response are thus currently still proposals or at an early stage of design, so their implementation will be important in order to meet the CSR.

LITHUANIA

CSR 4

Commission text:

Implement concrete targeted measures to reduce poverty and social exclusion. Strengthen the links between the cash social assistance reform and activation measures.

Agreed text:

Implement concrete targeted measures to reduce poverty and social exclusion. *Continue to* ~~S~~strengthen the links between the cash social assistance reform and activation measures.

Explanation:

The results of the EMCO and SPC multilateral surveillance review notes that in Lithuania, work with the municipalities is ongoing on a project for the period 2012-2014 to return as many long-term unemployed persons (beneficiaries of social benefits) as possible into the labour market. It is highlighted that, in 2012, Lithuania passed the law on cash social assistance for poor residents aimed at targeting better assistance to those most in need.

LUXEMBOURG

CSR 3

Commission text:

Curb age-related expenditure by making long-term care more cost effective, in particular through a stronger focus on prevention, rehabilitation and independent living, strengthening the recently adopted pension reform, taking additional measures to curb early retirement and increasing the effective retirement age, including by linking the statutory retirement age to life expectancy.

Agreed text:

Curb age-related expenditure by making long-term care more cost effective, in particular through a stronger focus on prevention, rehabilitation and independent living, strengthening the recently adopted pension reform, taking additional measures to curb early retirement and increasing *the effective retirement age by aligning the retirement age or pension benefits to changes in life expectancy*. ~~the effective retirement age, including by linking providing that the statutory retirement age to will rise in line with gains in life expectancy~~

Explanation:

The text of the recommendation contains horizontally agreed text. It was agreed that there are different channels to raise the effective retirement age and, hence, to address challenges to the pension system and the sustainability of public finances. The original Commission text, focusing only on raising the (statutory) retirement age, appeared too prescriptive and narrowly defined. The new text recalls the text previously adopted by the Council, most recently on the 2012 Sustainability Report, on 12 February 2013.

CSR 5

Commission text:

Step up efforts to reduce youth unemployment by improving the design and monitoring of active labour market policies. Strengthen general and vocational education to better match young people's skills with labour demand, in particular for people with migrant background. Take resolute action to increase the participation rate of older workers, including by improving their employability through lifelong learning.

Agreed text:

Step up efforts to reduce youth unemployment by improving the design and monitoring of active labour market policies. Strengthen general and vocational education to better match young people's skills with labour demand, in particular for people with migrant background. ~~Take resolute action~~ *Reinforce efforts* to increase the participation rate of older workers, including by improving their employability through lifelong learning.

Explanation:

The conclusions of the EMCO multilateral surveillance review notes that a draft bill including a set of measures aimed at increasing the employment of older workers has been prepared. Firms hiring more than 150 workers will have to set up an 'age management plan' including measures to develop the skills of older workers, prevent health problems at work, and better manage the transition from work to retirement. A new white book, agreeing on a set of measures to be taken to strengthen lifelong learning, was approved in late 2012. Overall, most of the measures presented, although appearing to go in the right direction, remain vague and EMCO thus concluded that further efforts were needed in this area. White paper?

MALTA

CSR 2

Commission text:

To ensure the long-term sustainability of public finances, reform the pension system to curb the projected increase in expenditure, including by accelerating the increase in the statutory retirement age, by introducing a link between the statutory retirement age and life expectancy and by encouraging private pension savings. Take measures to increase the employment rate of older workers by developing and implementing a comprehensive active ageing strategy. Pursue health-care reforms to increase the cost-effectiveness of the sector, in particular by strengthening public primary care provision. Improve the efficiency and reduce the length of public procurement procedures.

Agreed text:

To ensure the long-term sustainability of public finances, *continue to* reform the pension system to curb the projected increase in expenditure, including by *measures such as* accelerating the increase in the statutory retirement age, *increasing the effective retirement age by aligning the retirement age or pension benefits to changes in life expectancy and by encouraging private pension savings* ~~by introducing a link between the statutory retirement age and life expectancy and by encouraging private pension savings~~. Take measures to increase the

employment rate of older workers by ~~developing~~ *finalising* and implementing a comprehensive active ageing strategy. Pursue healthcare reforms to increase the cost-effectiveness of the sector, in particular by strengthening public primary care provision. Improve the efficiency and reduce the length of public procurement procedures.

Explanation:

The recommendation has been adjusted to reflect the fact that pension reform is an ongoing process in Malta, made up of a series of parametric reforms approved in 2006 and 2007, and scheduled to enter into effect over the following 15 years. Notwithstanding the positive impacts of this reform, Malta acknowledges that more has to be done to ensure the long-term adequacy and sustainability of pensions, and, following the elections in March 2013, the new Government has reconfirmed its commitment to the continuation of the pension reform process in Malta.

With this aim, two consultation processes took place in 2011 and 2012 and following the feedback received from the social partners, a final report was presented to the Government. With regard to the introduction of third pillar private pensions, the Retirement Pensions Act has already been approved by Parliament. This Act will be supported by a number of Legal Notices covering different aspects as well as by Directives/Rules to be issued by the Malta Financial Services Authority, which were submitted for consultation on 1 April 2013. It is foreseen that the Retirement Pensions Act will enter into force concurrently with these rules and procedures.

Looking ahead, the Government has indicated that over the next weeks they will be setting up an-Inter Ministerial Strategy Group tasked with reviewing the work carried out by the Pensions Working Group, in particular, the recommendations outlined in the Post-Consultation Report submitted to Government in March 2012, outlining a comprehensive strategy which addresses the adequacy and sustainability of pensions in Malta by the third quarter of 2014. A communication strategy will also be developed by the fourth quarter of 2013 aimed at raising the level of public awareness on pensions issues.

The text of the recommendation contains horizontally agreed text. It was agreed that there are different channels to raise the effective retirement age and, hence, to address challenges to the pension system and the sustainability of public finances. The original Commission text focusing, only on raising the (statutory) retirement age, appeared too prescriptive and narrowly defined. The new text recalls the text previously adopted by the Council, most recently on the 2012 Sustainability Report, on 12 February 2013.

Finally, it was agreed to adjust the text to reflect the fact that the strategy aimed at increasing the employment rate of older workers is under finalisation. After Malta received a CSR in 2011 to draw up a 'comprehensive active ageing strategy', an Inter Ministerial Committee was set up in February 2012 with the mandate to propose a comprehensive active ageing strategy to the Government. Following the recent change in government, the new administration has indicated that they are giving top priority to finalising this strategy, including by appointing a Parliamentary Secretariat for Rights of Persons with Disability and Active Ageing aimed at giving the work new political direction and impetus, and to work towards its finalisation. The final draft strategy is planned to be presented to the Government by the end of September. Following Cabinet approval, it is expected that the National Policy will be launched in October 2013.

THE NETHERLANDS

CSR 2

Commission text:

Step up efforts to gradually reform the housing market by accelerating the planned reduction in mortgage interest tax deductibility and by providing for a more market-oriented pricing mechanism in the rental market, and by further relating rents to household income in the social housing sector. Refocus social housing corporations to support households most in need.

Agreed text:

Step up efforts to gradually reform the housing market by accelerating the planned reduction in mortgage interest tax deductibility, *while taking into account the impact in the current economic environment*, and by

providing for a more market-oriented pricing mechanism in the rental market, and by further relating rents to household income in the social housing sector. Refocus social housing corporations to support households most in need.

Explanation:

Faster implementation may pose a risk to the economic recovery, given the current fragile economic environment in the Netherlands. Almost 1 million households are currently in a negative equity position regarding their house (higher mortgage than the value of the house). A faster reduction of the deductibility may put further downward pressure on house prices, and thereby pose a risk for financial stability. It may also further depress private consumption. According to the *Centraal Planbureau*, more than half of the current fall back in private consumption in the Netherlands is due to the tensions in the housing market.

CSR 4

Commission text:

Take further measures to enhance participation in the labour market, particularly of people at the margin of the labour market. Continue to reduce tax disincentives on labour, including by a faster phasing-out of transferable tax credits for second income earners. Foster labour market transitions and address labour market rigidities, including by accelerating the reform of employment protection legislation and the unemployment benefit system.

Agreed text:

Take further measures to enhance participation in the labour market, particularly of people at the margin of the labour market. Continue to reduce tax disincentives on labour, including by ~~a faster~~ the phasing-out of transferable tax credits for second income earners. Foster labour-market transitions and address labour-market rigidities, including by ~~accelerating the reform of~~ *reforming* employment protection legislation and the unemployment benefit system.

Explanation:

Regarding the first change, the accelerated phasing out of the transferability of the general tax credit does not affect the (dis)incentive to increase the number of hours worked for second income earners who have already entered the labour market.

As regards the second change, the Dutch Government has agreed with social partners upon essential labour-market reforms, such as reforming employment protection legislation and the unemployment benefit system. Both the substance and pace of the reforms have been agreed with employers and employees, creating clarity and broad social support. This is an essential condition for succeeding in effectively implementing the envisaged reforms.

AUSTRIA

CSR 2

Commission text:

Bring forward the harmonisation of pensionable age for men and women, link the statutory retirement age to life expectancy, implement and monitor the recent reforms restricting access to early retirement and improve older workers' employability in order to raise the effective retirement age and the employment rate of older workers.

Agreed text:

Bring forward the harmonisation of pensionable age for men and women, *increasing the effective retirement age by aligning the retirement age or pension benefits to changes in life expectancy* ~~link the statutory retirement age to life expectancy~~, implement and monitor the recent reforms restricting access to early retirement and *further* improve older workers' employability in order to raise the effective retirement age and the employment rate of older workers.

Explanation:

The text of the recommendation contains horizontally agreed text. It was agreed that there are different channels to raise the effective retirement age and, hence, to address challenges to the pension system and the sustainability of public finances. The original Commission text, focusing only on raising the (statutory) retirement age, appeared too prescriptive and narrowly defined. The new text recalls the text previously adopted by the Council, most recently on the 2012 Sustainability Report, on 12 February 2013.

The recommendation was also adjusted to reflect the fact that due to a major pension reforms and accompanying labour-market protection measures (such as labour market initiatives for older and health-impaired people, the preventive programme fit2work, age-friendly work environments), the employment rate of older workers has increased from 27,4 % to 43,1 % since 2004. The conclusions of the EMCO multilateral surveillance review indicate that reforms have been introduced to encourage and enable a longer and healthy working.

FINLAND

CSR 3

Commission text:

Take further steps to increase the employment rate of older workers, including by improving their employability and reducing early exit pathways, and align the minimal statutory retirement age with increased life expectancy. Implement and monitor closely the impact of on-going measures to improve the labour-market position of young people and the long-term unemployed, with a particular focus on the development of job-relevant skills.

Agreed text:

Take further steps to increase the employment rate of older workers, including by improving their employability and reducing early exit pathways, *increasing the effective retirement age by aligning retirement age or pension benefits to changes in life expectancy* ~~and align the minimal statutory retirement age with increased life expectancy~~. Implement and monitor closely the impact of on-going measures to improve the labour-market position of young people and the long-term unemployed, with a particular focus on the development of job-relevant skills.

Explanation:

The text of the recommendation contains horizontally agreed text. It was agreed that there are different channels to raise the effective retirement age and, hence, to address challenges to the pension system and the sustainability of public finances. The original Commission text, focusing only on raising the (statutory) retirement age, appeared too prescriptive and narrowly defined. The new text recalls the text previously adopted by the Council, most recently on the 2012 Sustainability Report, on 12 February 2013. In Finland, linking the old-age pension age to life expectancy would also not be suitable without a major change to pension system criteria.

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