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Contents

I *Resolutions, recommendations and opinions*

RECOMMENDATIONS

Council

EN

II *Information*

INFORMATION FROM EUROPEAN UNION INSTITUTIONS, BODIES, OFFICES AND AGENCIES

Council

I

(Resolutions, recommendations and opinions)

RECOMMENDATIONS

COUNCIL

COUNCIL RECOMMENDATION

of 8 July 2014

on the National Reform Programme 2014 of Belgium and delivering a Council opinion on the Stability Programme of Belgium, 2014

(2014/C 247/01)

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 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 resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, 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, on the basis of the Commission's proposals, 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.

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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 2014 by Council Decision 2014/322/EU of 6 May 2014 on guidelines for the employment policies of the Member States for 2014 (OJ L 165, 4.6.2014, p. 49).

(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 9 July 2013, the Council adopted a Recommendation [1] on Belgium's National Reform Programme for 2013 and delivered its opinion on Belgium's updated Stability Programme for 2012-2016. On 15 November 2013, in line with Regulation (EU) No 473/2013 of the European Parliament and of the Council [2], the Commission presented its opinion on Belgium's draft budgetary plan for 2014.

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey, marking the start of the 2014 European Semester for economic policy coordination. Also, on 13 November 2013, 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) On 20 December 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.

(7) On 5 March 2014, 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 continues to experience macroeconomic imbalances, which require monitoring and policy action. In particular, developments with regard to the external competitiveness of goods continue to deserve attention as a persistent deterioration would threaten macroeconomic stability.

(8) On 30 April 2014, Belgium submitted its 2014 National Reform Programme and its 2014 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(9) The objective of the budgetary strategy outlined in the 2014 Stability Programme is to reach a balanced budget in structural terms by 2016 and to achieve the medium-term objective the year thereafter. The Stability Programme confirms the previous medium-term objective of 0,75 % of GDP, which reflects the objectives of the Stability and Growth Pact, but its achievement is postponed to 2017, one year later than the target year set in last year's Stability Programme. The planned annual progress towards the medium-term objective is in line with the adjustment required by the Stability and Growth Pact. According to the Stability Programme, the expenditure benchmark is broadly met over the programme period. The debt is above the Treaty reference value of 60 % of GDP, at 101,5 % of GDP in 2013, and is expected to gradually decline to around 93 % of GDP in 2017 according to the Stability Programme. Overall, the objectives of the Stability Programme are in line with the requirements of the Stability and Growth Pact. The macroeconomic scenario underpinning the budgetary projections in the Stability Programme, which has been prepared by an independent institution (the Federal Planning Bureau), is plausible. Growth projections are close to the projections of the Commission services 2014 spring forecast. The fiscal trajectory is not yet supported by measures. The Commission forecast shows no structural improvement in 2014 and, under the usual no-policy-change assumption, a structural deterioration in 2015. This puts the achievement of the targets at risk and could lead to a significant deviation from the adjustment towards the medium-term objective over 2014-15. Moreover, according to the Commission

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[1] OJ C 217, 30.7.2013, p. 5.

[2] 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).

forecast, Belgium will not be compliant with the debt rule in both 2014 and 2015. Based on its assessment of the Stability Programme and the Commission forecast, pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that Belgium has brought its general government deficit sustainably below 3 % of GDP in 2013, but is at risk of significantly deviating from the requirements of the preventive arm as from 2014.

(10) Belgium has made substantial progress in introducing more structural coordination arrangements. A Cooperation Agreement on Fiscal Coordination concluded at the end of 2013 introduces a structural budget balance rule (defined in line with the medium-term objective) at general government level as required by the Fiscal Compact. Furthermore, it formalises established coordination practice by making (i) the role of the inter-governmental 'Consultative Committee' in the process official and (ii) the advisory role of the High Council of Finance more explicit. In addition, the Agreement foresees a strengthening of the monitoring role of the High Council through the introduction of an explicit correction mechanism in case of significant deviation from the agreed targets. Additional arrangements might be needed to make targets beyond 2014 binding.

(11) While Belgium has recently managed to curb the rise in its public debt ratio, the public debt burden at 101,5 % of GDP is high and there are substantial liabilities and future obligations from pension commitments. If these are to be covered whilst maintaining high standards of living, future budgetary cost developments must be contained; activity and employment rates should be increased; and international competitiveness must be improved. In each of these areas, Belgium continues to face important challenges. Although Belgium has taken steps in the right direction that will produce effects in the coming years, more ambitious action will be required, all the more so as reforms are also unfolding in trading partners.

(12) The overall tax level in Belgium is among the highest in the Union and the tax burden is heavily skewed towards labour, resulting in one of the largest tax wedges in the Union. A number of specific features of the tax system are environmentally harmful, such as the tax treatment of company cars. Some targeted measures have been taken to decrease labour costs for specific groups and to reduce the gap between gross and net wages at the bottom of the pay scale. However, no significant shift of the tax burden towards bases that are less detrimental to growth has taken place. First reflections on a comprehensive tax reform to facilitate the achievement of sustainability of public finances, support competitiveness and employment growth, and preserve the environment have been launched. Such comprehensive tax reform would need to involve shifting taxes away from labour, simplifying the tax system, increasing VAT efficiency, broadening tax bases, reducing tax expenditures, closing legislative loop-holes and phasing out environmentally harmful subsidies.

(13) Belgium faces a very significant projected impact from ageing, with ageing costs projected to rise by more than 8 % of GDP between 2010 and 2060, in particular from pensions and long-term care. The recently initiated reform of social security for older people is set to have a positive impact on their employment. Nevertheless, given the magnitude of the challenge, additional efforts are required to achieve fiscal sustainability. These must take account of the need to maintain the adequacy of old age social security schemes. Measures are needed to link the retirement age to developments in life expectancy, to reduce the gap between the statutory and effective retirement age, and to improve the cost-effectiveness of public spending on long-term care.

(14) Belgium faces a chronic underutilisation of labour. Activity and employment rates are below the EU average and stagnant, while long-term unemployment as a percentage of total unemployment remains high. In most cases, the large tax wedge on labour, through interaction with the benefit system, creates significant unemployment and inactivity traps for most categories of workers. While action has been taken to reduce unemployment traps for people with low salaries, the trap has widened for most other categories and inactivity traps remain pervasive. With labour costs remaining high, recruitment policies tend to minimise risk and penalise outsiders such as the young, the low-skilled and people with a migrant background, who, together with elderly workers, show labour market participation rates well below the EU average. Strong insider protection whereby changing job implies losing entitlements (e.g. severance pay,

early retirement, seniority benefits), discourages professional mobility between jobs and sectors. Such inertia makes active labour market policies in Belgium relatively inefficient and leads to a situation where high unemployment in some areas and sectors exists alongside tight labour markets and growth-hampering skills shortages in others. Youth unemployment has increased significantly over the past year, with large differences across the regions and groups. Addressing the structural problem of skills mismatches will have to go hand in hand with fighting the pressing problem of early school leaving and of young people leaving education without qualifications. The sixth state reform offers the opportunity to improve the efficiency and targeting of employment policies, provided that cooperation between the federal and regional levels is optimised.

(15) Belgium continues to experience worsening competitiveness, including as regards non cost aspects. In particular, the ability of manufacturing to compete internationally is eroding, which is reflected in diminishing margins for producers and in job destruction. Belgium has traditionally relied on wage indexation to maintain purchasing power. However, overshoots in total wage growth have been corrected late and insufficiently. Moreover, the central wage norm does not always allow for sectorial productivity developments and local labour market conditions to be reflected adequately. Consequently, wages have grown more quickly than productivity, leading to job and competitiveness losses. In consultation with the social partners and in accordance with national practice, Belgium would need to reform its system of wage formation so as to allow for greater sectorial wage dispersion and for wages to be better aligned with productivity developments. Prices in the retail sector remain higher than in neighbouring countries, while restrictions in professional services impede the development of innovative business models and restrain investment. Distribution tariffs for electricity remain among the highest in Europe and their planned regionalisation adds to the uncertainty with regard to the future evolution of distribution costs for end-users as the currently frozen tariff does not cover distributors' rising costs. If Belgium is to maintain high wages and at the same time create new jobs, it must produce and sell more sophisticated and higher value added goods in world markets than it is doing today. Belgium lacks fast-growing firms in innovative sectors. Innovation support is well developed and covers the full innovation cycle but has become complex and is fragmented. The growth of high added value activities is often hampered by the lack of sufficient skilled human resources.

(16) Belgium is expected to fail to meet its 15 % reduction target for greenhouse gas emissions in the sectors not covered by the EU emission trading system by 2020 at least not without relying on flexibility mechanisms. While some initiatives are being undertaken, they seem to lack coherent direction and the combined impact of measures on reducing emissions, in particular from the transport sector and buildings, remains unclear. The reduction of VAT on electricity could further undermine efforts in that respect. Negotiations on a cooperation and burden-sharing agreement between federal state and regions have not resulted in a clear distribution of efforts. Road congestion is placing a heavy burden on the Belgian economy, as compared with most other countries. The severity of the problem requires a comprehensive policy response taking into account the potential of time differentiated congestion charging, reviewing the favourable tax treatment of the private use of company cars and fuel cards and increasing the efficiency of public transport.

(17) 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. 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 (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 recommendation (1) below.

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

(19) 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), (4), and (5) 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 ([1]). 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 2014-2015 to:

1. Following the correction of the excessive deficit, reinforce the budgetary measures for 2014 in the light of the emerging gap of 0,5 % of GDP based on the Commission services 2014 spring forecast, pointing to a risk of significant deviation relative to the preventive arm of the Stability and Growth Pact requirements. In 2015, significantly strengthen the budgetary strategy to ensure the required adjustment of 0,6 % of GDP towards the medium-term objective, which would also ensure compliance with the debt rule. Thereafter, until the medium-term objective is achieved, pursue the planned annual structural adjustment towards the medium-term objective, in line with the requirement of an annual structural adjustment of at least 0,5 % of GDP, and more in good economic conditions or if needed to ensure that the debt rule is met in order to put the high general government debt ratio on a sustained downward path. Ensure a balanced contribution by all levels of government to the fulfilment of fiscal rules including the structural budget balance rule, through a binding instrument with an explicit breakdown of targets within a medium-term planning perspective.

2. Improve the balance and fairness of the overall tax system and prepare a comprehensive tax reform that will allow shifting taxes away from labour towards more growth friendly bases, simplifying the tax system, closing loopholes, increasing VAT efficiency, broadening tax bases, reducing tax expenditures and phasing out environmentally harmful subsidies.

3. Contain future public expenditure growth relating to ageing, in particular from pensions and long-term care, by stepping up efforts to reduce the gap between the effective and statutory retirement age, bringing forward the reduction of early-exit possibilities, promoting active ageing, aligning the retirement age to changes in life expectancy, and improving the cost-effectiveness of public spending on long-term care.

4. Increase labour market participation, in particular by reducing financial disincentives to work, increasing labour market access for disadvantaged groups such as the young and people with a migrant background, improving professional mobility and addressing skills shortages and mismatches as well as early school leaving. Across the country, strengthen partnerships of public authorities, public employment services and education institutions to provide early and tailor-made support to the young.

5. Restore competitiveness by continuing the reform of the wage-setting system, including wage indexation, in consultation with the social partners and in accordance with national practice, to ensure that wage evolutions reflect productivity developments at sectorial and/or company levels as well as economic circumstances and to provide for effective automatic corrections when needed; by strengthening competition in the retail sectors, removing excessive restrictions in services, including professional services and addressing the risk of further increases of energy distribution costs; by promoting innovation through streamlined incentive schemes and reduced administrative barriers; and by pursuing coordinated education and training policies addressing the pervasive skills mismatches and regional disparities in early school leaving.

([1]) See page 141 of the current Official Journal.

6. Ensure that the 2020 targets for reducing greenhouse gas emissions from non-ETS activities are met, in particular as regards buildings and transport. Make sure that the contribution of transport is aligned with the objective of reducing road congestion. Agree on a clear distribution of efforts and burdens between the federal and regional entities.

Done at Brussels, 8 July 2014.

For the Council

The President

P. C. PADOAN

COUNCIL RECOMMENDATION

of 8 July 2014

on the National Reform Programme 2014 of Bulgaria and delivering a Council opinion on the Convergence Programme of Bulgaria, 2014

(2014/C 247/02)

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 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 resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, 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, on the basis of the Commission's proposals, 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 9 July 2013, the Council adopted a Recommendation [4] on Bulgaria's National Reform Programme for 2013 and delivered its opinion on Bulgaria's updated Convergence Programme for 2012-2016.

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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 2014 by Council Decision 2014/322/EU of 6 May 2014 on guidelines for the employment policies of the Member States for 2014 (OJ L 165, 4.6.2014, p. 49).
[4] OJ C 217, 30.7.2013, p. 10.

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey, marking the start of the 2014 European Semester for economic policy coordination. Also, on 13 November 2013, the Commission, on the basis of Regulation (EU) No 1176/2011, the Commission 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) On 20 December 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.

(7) On 5 March 2014, 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 continues to experience macroeconomic imbalances, which require monitoring and policy action. In particular, the protracted adjustment of the labour market warrants policy actions, while the correction of the external position and corporate deleveraging are progressing well.

(8) On 17 April 2014, Bulgaria submitted its 2014 National Reform Programme and its 2014 Convergence Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(9) The objective of the budgetary strategy outlined in the 2014 Convergence Programme is to reach the medium-term objective of a structural deficit of - 1 % of GDP by 2016. The medium-term objective is more stringent than what the Stability and Growth Pact requires. Bulgaria has benefited from the possibility of a temporary deviation from the medium-term objective by 0,6 % of GDP in 2013 and by 0,1 % of GDP in 2014 allowed for jointly financed projects. The Convergence Programme plans a deterioration in the (recalculated) structural balance by 0,3 % of GDP in 2014, to - 1,3 % of GDP, and for an improvement by 0.3 % of GDP in 2015, to - 1,0 % of GDP, ensuring the return to the medium-term objective. The growth rate of government expenditure would not exceed the relevant reference medium-term expenditure benchmark in 2014-15. Therefore the budgetary plans are in line with the requirement of the Stability and Growth Pact. The debt ratio is well below 60 % of GDP and, according to the Convergence Programme, it is expected to increase only slightly to 20,6 % of GDP by the end of the programme period. The macroeconomic scenario underpinning the budgetary projections in the Convergence Programme is optimistic for the 2014-15 period, with annual growth expected to reach 2,1 % in 2014 and 2,6 % in 2015 instead of respectively 1,7 % in 2014 and of 2,0 % in 2015 projected in the Commission services 2014 Spring forecast. According to the Commission forecast, Bulgaria's deviation from its medium-term objective in 2014 is larger than what is allowed on the basis of the temporary deviation allowed for jointly financed projects, and the required return to the medium-term objective would not be achieved in 2015. Based on its assessment of the 2014 Convergence Programme and the Commission forecast, pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that there is a risk of deviation from the medium-term objective in 2014-15.

(10) Tax compliance and the quality of the tax administration remain central challenges in Bulgaria. Available estimates point to the considerable size of the shadow economy, confirmed by data for undeclared work in Bulgaria. The administrative costs of revenue collection and the compliance costs of paying taxes are relatively high. Despite several measures taken to respond to these challenges, Bulgaria still lacks a fully-fledged tax compliance strategy, which would cover the work of all tax collection authorities and include a prior analysis of the most significant risks to tax collection as well as an evaluation of the measures already in place, including simplification measures as well as improved controls.

(11) In 2013, Bulgaria took a step back from past commitments in the area of pension reform. Early retirement schemes were not reduced as envisaged. The planned annual increase in the statutory retirement age was postponed. No progress was made with regard to harmonising the retirement age for men and women and no steps were taken to tighten eligibility criteria and controls to limit abuse in the allocation of invalidity pensions. Bulgaria has one of the most rapidly ageing populations in the Union, which

has negative implications for the labour market, for growth potential in the economy and for the financing of its pension system. Bulgaria therefore needs to continue the reform of its pension system. Bulgaria also faces important challenges in the rationalisation and management of the hospital sector, including a lack of transparency in hospital financing and insufficiently developed services for out-patient care. Furthermore, the high level of formal and informal payments borne directly by the patient effectively excludes certain segments of the population from access to healthcare. Health status indicators are weak in comparison with other Member States, indicating that structurally higher public expenditure on health may be required in the future.

(12) The labour market has been underperforming in recent years, thus limiting the adjustment capacity of the economy and undermining its growth potential. Unemployment levelled off in 2013, but the rates of youth and long-term unemployment have continued to rise. Bulgaria faces one of the highest proportions of young people who are not in employment, education or training, implying a severe underutilisation and underdevelopment of human capital. There has been only very limited progress in strengthening the capacity of the Employment Agency. There is also a need to extend the coverage and efficiency of active labour market policies. Bulgaria lacks effective measures to target the non-registered young people, including Roma, in line with the objectives of a youth guarantee. Significant proportions of the unemployed are not covered by the standard safety nets (unemployment benefits and social assistance) but rely instead on family solidarity or informal work. Bulgarians experience one of the highest risks of poverty and social exclusion in the Union. Minimum thresholds for the payment of social insurance contributions could prevent the low-skilled from participating fully in the formal economy. Some analyses have been carried out to assess the possible impact and these need to be assessed and followed up with appropriate policy action. There are no clear guidelines for transparent minimum wage setting in Bulgaria. Statutory minimum wages have been increased since 2011 which may have a negative impact on employment and should, therefore, be monitored.

(13) Bulgaria has still not adopted the School Education Act providing a framework for implementation of the necessary comprehensive reforms of the school system, including the modernisation of curricula and the improved training for teachers. There is a need to enhance the quality of vocational education and training in Bulgaria and to integrate it better into the general educational structures so as to allow for flexible pathways, reduce early school leaving and improve access to lifelong learning. Higher education, in turn, faces persistent challenges in responding better to labour market needs. The low standard of quality certification contributes to poor performance. A new strategy on higher education is being discussed, calling for the restructuring of university management through the direct involvement of interested stakeholders such as businesses and students, the consolidation of universities, and a performance-based approach to better align educational outputs with the demands of the labour market. A continuing challenge concerns the access to education for disadvantaged children, in particular Roma children. The two-year obligatory pre-school is a key measure going in the right direction and should be strictly implemented, together with measures to prevent early school leaving. There is a need to scale up existing initiatives to improve the training of teachers and reduce *de facto* segregation in schools. The rules linking the child allowance with participation in education are in force, but the measures may not yet have produced the desired effects.

(14) Broader efforts to modernise the public administration have had a limited impact due to a fragmented approach and insufficient commitment to in-depth reforms. Bulgaria needs a coordinated strategy for public administrative reform to enhance the professionalism and independence of the public administration and of its regulatory agencies, including a merit-based system of appointments and career development for civil servants and effective structures to address the risk of corruption. Continued efforts are needed to improve the general business environment. Challenges include the procedures for obtaining permits and registering businesses Resolving insolvencies takes over three years on average and the recovery rate is low. New rules on late payments were adopted in 2013 and need to be implemented. The development of e-government has stalled, and coordination to ensure interoperability of systems and creating a single point of contact is insufficient, thus limiting the efforts to increase transparency and reduce administrative burdens. In the area of public procurement a simple and codified legal framework is lacking, resulting in a complicated legal and regulatory landscape which creates uncertainty for operators. The independence of the judiciary also remains a major concern affecting the business environment

in Bulgaria. Bulgaria has taken some steps to address corruption, but overall progress has been limited and remains fragile, calling for more consistent checks and dissuasive sanctions for conflicts of interest. There is also a need to ensure better coordination among anti-corruption institutions and shield them from political influence.

(15) Competition in the electricity and gas sectors remains limited. Areas of particular concern for improving the functioning of the energy markets include the lack of electricity and gas exchanges and the absence of a transparent wholesale market. The free market in electricity is dominated by a sole supplier and its limited size means that competition cannot fulfil its function of ensuring cost efficiency. The independence and effectiveness of the national regulator remains limited. Dependency on imports from a limited number of suppliers and lack of infrastructure development create a risk of supply shocks. A comprehensive package of measures to improve energy efficiency has been proposed for EU financing in the new programming period 2014-2020.

(16) 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. It has taken into account not only their relevance for sustainable fiscal and socio-economic 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 (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.

(18) 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,

HEREBY RECOMMENDS that Bulgaria take action within the period 2014-2015 to:

1. Reinforce the budgetary measures for 2014 in the light of the emerging gap relative to the preventive arm of the Stability and Growth Pact requirements. In 2015, strengthen the budgetary strategy to ensure that the medium-term objective is reached and, thereafter, maintained. Ensure the capacity of the new fiscal council to fulfil its mandate. Implement a comprehensive tax strategy to strengthen tax collection, tackle the shadow economy and reduce compliance costs.

2. Adopt a long-term strategy for the pension system, proceeding with the planned annual increase in the statutory retirement age and setting out a mechanism to link the statutory retirement age to life expectancy in the long term, while phasing out early retirement options and equalising the statutory retirement age for men and women. Tighten eligibility criteria and procedures for the allocation of invalidity pensions, for example by taking better account of the remaining work capacity of applicants. Ensure cost effective provision of healthcare including by improving the pricing of healthcare services while linking hospitals' financing to outcomes, accelerating the optimisation of the hospital network and developing out-patient care.

3. Improve the efficiency of the Employment Agency by developing a performance monitoring system and better targeting the most vulnerable, such as low-skilled and elderly workers, the long-term unemployed and Roma. Extend the coverage and effectiveness of active labour market policies to match the profiles of jobseekers, and reach out to non-registered young people who are not in employment, education or training, in line with the objectives of a youth guarantee. Improve the effective coverage of unemployment benefits and social assistance and their links with activation measures. Take forward the comprehensive review of

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

minimum thresholds for social security contributions so as to make sure that the system does not price the low-skilled out of the labour market. Establish, in consultation with social partners, transparent guidelines for the adjustment of the statutory minimum wages taking into account the impact on employment and competitiveness. In order to alleviate poverty, further improve the accessibility and effectiveness of social services and transfers for children and older people.

4. Adopt the School Education Act and pursue the reforms of vocational and higher education in order to increase the level and relevance of skills acquired at all levels, while fostering partnerships between educational institutions and business with a view to better aligning outcomes to labour market needs. Strengthen the quality of vocational education and training institutions and improve access to lifelong learning. Step up efforts to improve access to quality inclusive pre-school and school education of disadvantaged children, in particular Roma, and implement strictly the rules linking the payment of child allowance to participation in education.

5. Continue to improve the business environment, in particular for small and medium-sized enterprises, by cutting red tape, promoting e-government, streamlining insolvency procedures and implementing the legislation on late payments. Improve the public procurement system by enhancing administrative capacity, strengthening the *ex ante* checks performed by the Public Procurement Agency and taking concrete steps for the implementation of e-procurement. Enhance the quality and independence of the judiciary and step up the fight against corruption.

6. Scale up the reform of the energy sector in order to increase competition, market efficiency and transparency, and energy efficiency, in particular by removing market barriers, reducing the weight of the regulated segment, stepping up efforts for the creation of a transparent wholesale market for electricity and gas, phasing out quotas, and strengthening the independence and administrative capacity of the energy regulator. Accelerate interconnector projects with neighbouring Member States and candidate countries, in particular for gas, and enhance the capacity to cope with disruptions.

Done at Brussels, 8 July 2014.

For the Council

The President

P. C. PADOAN

COUNCIL RECOMMENDATION

of 8 July 2014

on the National Reform Programme 2014 of the Czech Republic and delivering a Council opinion on the Convergence Programme of the Czech Republic, 2014

(2014/C 247/03)

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 the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, 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, on the basis of the Commission's proposals, 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 9 July 2013, the Council adopted a Recommendation [3] on the Czech Republic's National Reform Programme for 2013 and delivered its opinion on the Czech Republic's updated Convergence Programme for 2012-2016.

(1) OJ L 209, 2.8.1997, p. 1.
(2) Maintained for 2014 by Council Decision 2014/322/EU of 6 May 2014 on guidelines for the employment policies of the Member States for 2014 (OJ L 165, 4.6.2014, p. 49).
(3) OJ C 217, 30.7.2013, p. 14.

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey, marking the start of the 2014 European Semester for economic policy coordination. Also, on 13 November 2013, the Commission, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council [1], the Commission adopted the 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) On 20 December 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.

(7) On 16 April 2014, the Czech Republic submitted its 2014 National Reform Programme and, on 28 April 2014, its 2014 Convergence Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(8) The objective of the budgetary strategy outlined in the 2014 Convergence Programme is to keep the general government deficit below the 3 % of GDP Treaty reference value over the programme period. The Convergence Programme mentions the medium-term objective of - 1 % of GDP, which reflects the requirements of the Stability and Growth Pact. While the budgetary strategy is in line with the Stability and Growth Pact in2014, the required adjustment in structural terms is not expected to be met in 2015 as the recalculated structural balance is projected to deteriorate by 0,6 percentage points. In addition, government expenditure is expected to grow at a pace not consistent with the expenditure benchmark. The recalculated structural balance is foreseen to deviate from the required adjustment path also in 2016 and 2017 with the recalculated structural balance projected at - 1,6 % and - 1,9 % of GDP respectively. Overall, a risk of deviation from the adjustment path towards the medium-term objective is to be expected as of 2015. According to the Convergence Programme, the debt ratio, which is below the 60 % of GDP reference value, is projected to fall temporarily by 1,1 percentage points to 45 % of GDP in 2014 and to increase to 46 % of GDP in 2015. The macroeconomic scenario underpinning the budgetary projections in the Convergence Programme is plausible. The Czech economy is expected to grow by 1,7 % in 2014 and 2 % in 2015 according to the Convergence Programme compared to 2 % and 2,4 % envisaged by the Commission services 2014 Spring forecast. The main risks to the budgetary outlook stem from high uncertainty about the future development of public investment and from a potential one-off expenditure related to the planned lease contract for fighter jets with an expected deficit-increasing impact of 0,5 % of GDP in 2015.

According to the Commission forecast there is a risk of significant deviation from the medium-term objective in 2015. The difference with the Convergence Programme scenario lies in different assumptions on policies and discretionary measures in 2015. Based on its assessment of the Convergence Programme and the Commission forecast, pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that the deficit has been sustainably brought below 3 % of GDP in 2013, in line with the Council recommendation, and that while the medium-term objective is expected to be reached in 2014, there is a risk of significant deviation from it as of 2015.

(9) The Czech Republic has emerged from a two-year long recession and is now faced with the challenge of achieving sustained high-growth, in a context of rapid population ageing. Public investment has been on a steep declining path in recent years and investment in infrastructure has particularly suffered. The growth model of the Czech economy before the crisis relied on large inflows of foreign capital and a strong export orientation. As room for catching-up based on the accumulation of production factors (including foreign capital) appears limited, redirecting the economy towards domestic drivers of growth would open up new avenues to productivity gains. Essential elements of this process include supporting education, training and innovation and strengthening institutions.

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

(10) The Government has recently approved the Treaty on Stability, Coordination and Governance, although its ratification by Parliament is still pending. Work on a comprehensive reform of the fiscal framework began in 2011 but its adoption and implementation are still uncertain. The adoption of the relevant legislation ensuring compliance with Council Directive 2011/85/EU [1] has also been delayed.

(11) In the field of taxation, the key challenges for the Czech Republic are to make revenue collection more efficient and achieve a more growth-friendly tax structure. The Czech Republic took some measures to improve tax compliance, in particular in the area of indirect taxation, but the overall cost of compliance is still too high. In this context, the tax bases (income taxes, health and security contributions) have not yet been harmonised and the establishment of a single collection point foreseen in 2015 was cancelled. The Government however announced its intention to address the issue of the harmonisation of the tax bases. The 2013 recommendations regarding the taxation structure have not been followed up. Labour taxation remains high, especially for low-income earners, including part-time workers, in particular due to the elevated social security contributions. Some potential exists for a shift away from labour taxation to other areas, such as environmental and recurrent housing taxes, which are both relatively low. Significant discrepancies remain in the tax and social contributions treatment of employees and the self-employed, which lead to the narrowing of the tax base and create incentives for bogus self-employment with unfair consequences for those employed under a regular employment contract.

(12) The Czech Republic faces medium sustainability risks in the long term largely due to projected increases in pensions and healthcare expenditure. According to the current legislation, the statutory retirement age is planned to increase over the long run but too slowly in the medium term. The Government plans to introduce a revision mechanism aligning the retirement age to changes in life expectancy but this is only a partial response to the sustainability gap challenge. Furthermore, the temporarily lower indexation of pensions will be terminated in 2015, a year earlier than planned, and the standard pension indexation mechanism (prices plus a third of the rise in real wages) has not been reviewed. Limited progress has been made in promoting the employability of older workers. No progress has been made in improving the cost-effectiveness of public spending on healthcare. The in-patient sector shows excess capacity pointing to room for possible improvements in cost-effectiveness and governance.

(13) Some initial steps have been made to improve the capacity and quality of the public employment service. These steps go in the right direction but their impact needs to be evaluated. Active labour market policies remain underfunded and do not effectively target women with young children, young people and older workers. Despite the relatively high overall employment rate, these groups remain under-represented in the labour market. Limited access to affordable childcare facilities and services and a comparatively low take-up of part-time work hampers women's participation in the labour market. The gender pay gap in 2012 was still one of the largest in the Union.

(14) The quality and labour market relevance of the Czech education system are a cause for concern. Some measures were taken to improve the evaluation framework in the compulsory education, but the follow-up with schools and pupils with weaker outcomes remains a challenge. The attractiveness of the teaching professions is also an issue, which the Government intends to address. The low participation of Roma children in mainstream inclusive early childhood education and in primary education remains a challenge for their integration. The higher education reform has been delayed and no progress has been made on enhancing accreditation and funding in higher education. Only minor changes were introduced as regards the funding of research institutions. It remains crucial to create the right incentives for public researchers to strive for excellence, address societal challenges, and cooperate with the business sector.

[1] 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).

(15) The process of de-regulating the high number of regulated professions has started, but at a slow pace and not producing rapid benefits from increased competition in the service sector. The Czech Republic has taken some initial measures to increase energy efficiency, especially through public funding incentives in support of the buildings sector. The potential for energy savings remains substantial and more ambitious measures would also contribute to reducing energy dependency.

(16) The quality and efficiency of the public administration continue to represent a challenge with negative economic repercussions. The long-awaited Civil Service Act has not been adopted yet; its adoption is a key priority for the Government. Progress in the fight against corruption has been limited; major pieces of legislation from the 2013-14 anti-corruption strategy have not been adopted. A clear longer-term vision on how to address in a durable way this issue of great importance for economic and societal development has not yet been formulated. The implementation of public tenders at local and regional levels is marked by unnecessary delays. The new public procurement rules constitute a step backwards by removing some of the transparency safeguards. Limited progress has been made on improving the implementation of EU funds. Further effort is needed as shown by the high error rates reported by the audit authority for several programmes at the end of 2013.

(17) 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 socio-economic 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.

(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 the Czech Republic take action within the period 2014-2015 to:

1. Following the correction of the excessive deficit, preserve a sound fiscal position in 2014. Significantly strengthen the budgetary strategy in 2015 to ensure that the medium-term objective is achieved and remain at the medium-term objective thereafter. Prioritise growth-enhancing expenditure to support the recovery and improve growth prospects. Adopt and implement measures to strengthen the fiscal framework, and in particular establish an independent fiscal institution to monitor fiscal policies, introduce fiscal rules for local and regional governments and improve coordination between all layers of government.

2. Improve tax compliance with a particular focus on VAT and reduce the costs of collecting and paying taxes by simplifying the tax system and harmonising the tax bases for personal income tax and social and health contributions. Reduce the high level of taxation on labour, particularly for low-income earners. Shift taxation to areas less detrimental to growth, such as recurrent taxes on housing and environmental taxes. Further reduce discrepancies in the tax treatment of employees and the self-employed.

3. Ensure the long-term sustainability of the public pension scheme, in particular by accelerating the increase of the statutory retirement age and then by linking it more clearly to changes in life expectancy. Promote the employability of older workers and review the pension indexation mechanism. Take measures to improve significantly the cost-effectiveness and governance of the healthcare sector, in particular for hospital care.

4. Strengthen the efficiency and effectiveness of the public employment service, in particular by setting up a performance measurement system. Increase participation of unemployed youth in individualised services. Increase considerably the availability of affordable and quality childcare facilities and services, with a focus on children up to three years old.

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

5. Ensure that the accreditation, governance and financing of higher education contribute to improving its quality and labour market relevance. Accelerate the development and introduction of a new methodology for evaluating research and allocating funding in view of increasing the share of performance-based funding of research institutions. In compulsory education, make the teaching profession more attractive, implement a comprehensive evaluation framework and support schools and pupils with poor outcomes. Increase the inclusiveness of education, in particular by promoting the participation of socially disadvantaged and Roma children in particular in early childhood education.

6. Accelerate the reform of regulated professions, focusing on the removal of unjustified and disproportionate requirements. Step up the efforts to improve energy efficiency in the economy.

7. In 2014, adopt and implement a Civil Service Act that will ensure a stable, efficient and professional state administration service. Speed up and substantially reinforce the fight against corruption by implementing the remaining legislative measures provided for in the anti-corruption strategy for 2013-2014 and by developing plans for the next period. Further improve the management of EU funds by simplifying implementing structures, improving capacity and tackling conflicts of interest. Increase transparency of public procurement and improve the implementation of public tenders by providing appropriate guidance and supervision.

Done at Brussels, 8 July 2014.

For the Council

The President

P. C. PADOAN

COUNCIL RECOMMENDATION

of 8 July 2014

on the National Reform Programme 2014 of Denmark and delivering a Council opinion on the Convergence Programme of Denmark, 2014

(2014/C 247/04)

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 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 resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, 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, on the basis of the Commission's proposals, 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.

[1] OJ L 209, 2.8.1997, p. 1.
[2] OJ L 306, 23.11.2011, p. 25.
[3] Maintained for 2014 by Council Decision 2014/322/EU of 6 May 2014 on guidelines for the employment policies of the Member States for 2014 (OJ L 165, 4.6.2014, p. 49).

(4) On 9 July 2013, the Council adopted a Recommendation [1] on Denmark's National Reform Programme for 2013 and delivered its opinion on Denmark's updated Convergence Programme for 2013-2016.

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey, marking the start of the 2014 European Semester for economic policy coordination. Also, on 13 November 2013, 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) On 20 December 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.

(7) On 5 March 2014, 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's macroeconomic challenges related to private debt and external competitiveness were no longer identified as imbalances in the sense of the Macroeconomic Imbalance Procedure. In particular, the adjustment on the housing market and the implications of high private-sector debt for the real economy and the stability of the financial sector seem contained. However, these developments, as well as drivers of external competitiveness, deserve continued monitoring.

(8) On 15 April 2014, Denmark submitted its 2014 National Reform Programme and its 2014 Convergence Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(9) The objective of the budgetary strategy outlined in the 2014 Convergence Programme is to ensure the sustainability of the correction of the excessive deficit and to maintain the structural budget balance at or above the medium-term objective. The medium-term objective, at -0,5 % of GDP, reflects the requirements of the Stability and Growth Pact. Denmark's general government deficit has been sustainably brought below 3 % of GDP in 2013. The Convergence Programme targets a general government headline deficit of 1,3 % of GDP in 2014 and 2,9 % in 2015, which is consistent with a (recalculated) structural balance at or above the medium-term objective. Overall, the budgetary strategy outlined in the Convergence Programme is in line with the requirements of the Stability and Growth Pact. The debt level, at 44,5 % of GDP in 2013, is planned to temporarily increase in 2015 and to decline thereafter. The macroeconomic scenario underpinning the budgetary projections in the Convergence Programme is plausible. The scenario projects GDP growth at 1,6 % in 2014 and 1,9 % in 2015 and is broadly in line with the Commission services 2014 spring forecast of 1,5 % and 1,9 %. Based on the assessment of the 2014 Convergence Programme and the Commission forecast, pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that Denmark's public finances are sound and the Convergence Programme's objective can be expected to be achieved.

(10) Denmark has made some progress in addressing the situation of groups at the margins of the labour market as well as advancing the cost-effectiveness of the education system. The reform of disability pensions and flex-jobs has begun to show results, the cash benefit reform has entered into force, a sickness benefit reform has been agreed and, in April, the Government launched a reform proposal for active labour market policies. Challenges remain so as to ensure a sufficient number of apprenticeships and enhance the quality and image of this type of learning, upgrade vocational education and training systems and address high rates of school drop-out. Due to the early stage of implementation of the reforms, the full effect remains yet to be seen. Regarding vocational education and training, a reform agreement was reached in February 2014 and is expected to come into force in mid-2015, with a view to improving the quality of vocational education and training through a wide range of initiatives.

[1] OJ C 217, 30.7.2013, p. 18.

(11) Reinvigorating productivity remains a challenge for the Danish economy. The Commission's assessment is broadly in line with the Productivity Commission's findings. In April 2014, the Productivity Commission published 25 main recommendations and more than 100 concrete proposals within areas such as competition, public procurement, education, internationalisation, innovation, taxation and infrastructure. Steps towards tackling the challenge of low productivity growth should be taken through the implementation of the Productivity Commission's recommendations.

(12) 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. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in Denmark 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.

(13) 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 Denmark take action within the period 2014-2015 to:

(1) Following the correction of the excessive deficit, continue to pursue a growth-friendly fiscal policy and preserve a sound fiscal position, ensuring that the medium-term budgetary objective continues to be adhered to throughout the period covered by the Convergence Programme.

(2) Take further measures to improve the employability of people at the margins of the labour market. Improve educational outcomes, in particular for young people with a migrant background, and the effectiveness of vocational training. Facilitate the transition from education to the labour market, including through a wider use of work-based training and apprenticeships.

(3) Increase efforts to remove barriers to entry and reduce regulatory burden with a view to increasing competition in the domestic services sector, in particular in retail and construction, as recommended by the Productivity Commission.

Done at Brussels, 8 July 2014.

For the Council

The President

P. C. PADOAN

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

COUNCIL RECOMMENDATION

of 8 July 2014

on the National Reform Programme 2014 of Germany and delivering a Council opinion on the Stability Programme of Germany, 2014

(2014/C 247/05)

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 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 resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, 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, on the basis of the Commission's proposals, 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 9 July 2013, the Council adopted a Recommendation [4] on Germany's National Reform Programme for 2013 and delivered its opinion on Germany's updated Stability Programme for 2012-2017. On 15 November 2013, in line with Regulation (EU) No 473/2013 of the European Parliament and of the Council [5], the Commission presented its opinion on Germany's draft budgetary plan for 2014.

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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 2014 by Council Decision 2014/322/EU of 6 May 2014 on guidelines for the employment policies of the Member States for 2014 (OJ L 165, 4.6.2014, p. 49).
(4) OJ C 217, 30.7.2013, p. 33.
(5) 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).

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey, marking the start of the 2014 European Semester for economic policy coordination. Also, on 13 November 2013, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report, in which it identified Germany as one of the Member States for which an in-depth review would be carried out.

(6) On 20 December 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.

(7) On 5 March 2014, the Commission published the results of its in-depth review for Germany, under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that Germany is experiencing macroeconomic imbalances, which require monitoring and policy action. In particular, the current account has persistently recorded a very high surplus, which reflects the positive effects of strong competitiveness, with a large amount of savings being invested abroad. It is also a sign that domestic growth has remained subdued and economic resources may not have been allocated efficiently. Although the current account surpluses do not raise risks similar to large deficits, the size and persistence of the current account surplus in Germany deserve close attention. The need for action to reduce the risk of adverse effects on the functioning of the domestic economy and the euro area is particularly important given the size of the German economy.

(8) On 14 April 2014, Germany submitted its 2014 National Reform Programme and, on 8 April 2014, its 2014 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(9) The objective of the budgetary strategy outlined in the 2014 Stability Programme is to ensure the continued achievement of the medium-term objective. The Stability Programme confirms the medium-term objective of -0,5 % of GDP, which reflects the requirements of the Stability and Growth Pact. According to the Stability Programme, the (recalculated) structural balance will remain positive in 2014 and thereafter and gross debt is planned to fall to 76 % of GDP in 2014 and to remain on a sufficiently downward path thereafter. Therefore, the budgetary strategy outlined in the Stability Programme is in line with the requirements of the Stability and Growth Pact. The macroeconomic scenario underpinning the budgetary projections in the Stability Programme, which has not been formally endorsed by an independent body, is plausible, as it is broadly in line with the Commission services 2014 Spring forecast. Based on the assessment of the Stability Programme and the Commission forecast, pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that public finances in Germany remain sound overall as the medium-term objective is forecast to continue to be maintained and the debt rule respected.

(10) Only limited progress has been made by Germany in enhancing the cost-effectiveness of public spending on healthcare and long-term care, although new initiatives have been announced. While their aim is to improve the cost-effectiveness of healthcare, these plans might not be sufficient to contain expected future cost increases. The recently adopted pension reform aims to improve early retirement conditions (*'Rente mit 63'*) and pension levels for certain groups, the latter also including a pension supplement for those having raised children born before 1992 (*'Mütterrente'*). The reform puts an additional strain on the sustainability of the public pension system and is planned to be financed by a higher pension contribution rate, with negative implications for disposable incomes of the active labour force. The reform could also have a negative impact on take-up of complementary second and third pillar pensions. Germany has made limited progress in increasing spending on education and some progress concerning higher research spending. Further efforts appear necessary at all levels of government to meet the target for total public and private expenditure on education and research of 10 % of GDP by 2015, and even more ambitious follow-up targets should be aimed for in order to catch up with the most innovative economies. Infrastructure investment has been increased in Germany in recent years and plans exist to reinforce it further, but additional efforts appear necessary.

(11) Germany has made overall limited progress in improving the efficiency and growth-friendliness of the tax system and to reduce the high tax burden on labour. No major measures are foreseen to shift towards more growth-friendly revenue sources. The application of the reduced value-added tax (VAT) rate (currently 7 %) could be narrowed and the general VAT base broadened. Rather low revenues from recurrent property taxes suggests that there is scope for increases and the distribution of the tax burden could be fairer if the tax base for the municipal real estate tax (*Grundsteuer*) would be reassessed. Conditions for investment in Germany could be further improved by reforming the local trade tax (*Gewerbesteuer*), cutting the administrative burden linked to tax collection, and reducing the existing corporate tax bias in favour of debt-financing.

(12) The fiscal framework has been complemented by a national balanced-budget rule and the establishment of an independent advisory board. Specific rules for implementing the constitutional balanced-budget rule ('debt brake') still appear to be required in several *Länder* so as to ensure the effective application of the debt brake in the annual budgetary cycle. The planned review of fiscal relations between the federation, *Länder* and municipalities should be used to strengthen fiscal responsibility and accountability.

(13) Wages have risen in recent years after a prolonged period of wage moderation, but in 2013 real wage growth was more moderate than in 2012. Germany plans to introduce a general minimum wage of EUR 8,50/hour in 2015, which will take full effect as of 2017. The introduction of the planned general minimum wage, which is aimed at ensuring an adequate minimum income for workers, requires close monitoring of its impact, in particular on employment. Limited effort has been made to reduce the high tax wedge, in particular for low-wage earners. The adopted pension reform and current reform plans in the area of long-term care, which involve a rise in social insurance contribution rates, could again increase the tax wedge. Germany has made some progress in raising the educational achievement of disadvantaged people, but the link between educational achievement and socio-economic background remains strong and persists over people's working life. Despite some progress towards appropriate activation and integration measures, long-term unemployment remains a concern, signalling a need for additional measures. Only limited progress has been made in taking measures to facilitate the transition from mini-jobs into forms of employment subject to full mandatory social security contributions. No progress has been made to reduce fiscal disincentives to work for second earners. Germany has made some progress in expanding the availability of full-time early childhood education and care places as well as in the extension of all-day schools. At the same time, childcare facilities and all-day schools are still the subject of quality concerns and regional disparities.

(14) The government proposal for a revision of the Renewable Energy Act aims to slow down overall energy cost increases, distribute the costs more evenly across consumers, control the expansion of renewables and promote market integration. The implementation of the reform needs to be carefully monitored with regard to its impact on the cost-effectiveness of the support system. Further efforts are needed as regards network expansion and coordination with neighbouring countries.

(15) Policy action to further stimulate competition in the services sectors has been limited, even though isolated reforms in specific professions and regions have been enacted, for instance as regards authorisations and commercial communication in the construction sector. While productivity growth may be structurally lower in the service sectors than in industry, it is particularly low in some service sectors, in particular professional services. There are still barriers to entering the market and exercising professional services. These include restrictions on the legal form and shareholding, and professional qualifications requirements. The diversity of regulatory arrangements for professional services across *Länder* suggests that there is scope for identifying the least burdensome regulatory approaches and extending them throughout the country. The value of contracts published by the German authorities under EU procurement legislation remains one of the lowest in the Union. The comprehensive transition to a transparent e-procurement market could increase competition. In the retail sector, planning regulations in certain *Länder* continue to restrict new entries to the market. Progress in improving competition in the railway markets has been limited.

(16) Germany has made limited progress on measures taken to consolidate the banking sector, in particular by improving the governance framework. Commission State aid decisions have largely driven the restructuring of *Landesbanken* in recent years and the sector remains fragmented. Further efforts are needed to address structural and governance obstacles that hamper a market-driven consolidation, which would also increase the overall efficiency of the financial sector. Reviewing the legal framework of the second banking pillar could further support consolidation in the public banking sector.

(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 socio-economic 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 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 (4) 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 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 2014-2015 to:

1. Pursue growth-friendly fiscal policy and preserve a sound fiscal position, ensuring that the medium-term budgetary objective continues to be adhered to throughout the period covered by the Stability Programme and that the general government debt ratio remains on a sustained downward path. In particular, use the available scope for increased and more efficient public investment in infrastructure, education and research. Improve the efficiency of the tax system, in particular by broadening the tax base, in particular on consumption, by reassessing the municipal real estate tax base, by improving the tax administration and by reviewing the local trade tax, also with a view to foster private investment. Make additional efforts to increase the cost-effectiveness of public spending on healthcare and long-term care. Ensure the sustainability of the public pension system by (i) changing the financing of new non-insurance/extraneous benefits ('*Mütterrente*') to funding from tax revenues, also in order to avoid a further increase of social security contributions, (ii) increasing incentives for later retirement, and (iii) increasing the coverage in second and third pillar pension schemes. Complete the implementation of the debt brake consistently across all *Länder*, ensuring that monitoring procedures and correction mechanisms are timely and relevant. Improve the design of fiscal relations between the federation, *Länder* and municipalities also with a view to ensuring adequate public investment at all levels of government.

2. Improve conditions that further support domestic demand, inter alia by reducing high taxes and social security contributions, especially for low-wage earners. When implementing the general minimum wage, monitor its impact on employment. Improve the employability of workers by further raising the educational achievement of disadvantaged people and by implementing more ambitious activation and integration measures in the labour market, especially for the long-term unemployed. Take measures to reduce fiscal disincentives to work, in particular for second earners, and facilitate the transition from mini-jobs to forms of employment subject to full mandatory social security contributions. Address regional shortages in the availability of fulltime childcare facilities and all-day schools while improving their overall educational quality.

(1) Under Article 5(2) of Regulation (EC) No 1466/97.
(2) See page 141 of the current Official Journal.

3. Keep the overall costs of transforming the energy system to a minimum. In particular, monitor the impact of the Renewable Energy Act reform on the cost-effectiveness of the support system for renewable energies. Reinforce efforts to accelerate the expansion of the national and cross-border electricity and gas networks. Step up close energy policy coordination with neighbouring countries.

4. Take more ambitious measures to further stimulate competition in the services sector, including certain professional services, also by reviewing existing regulatory approaches and converging towards best practices across *Länder*. Identify the reasons behind the low value of public contracts open to procurement under EU legislation. Increase efforts to remove unjustified planning regulations which restrict new entries in the retail sector. Take action to remove the remaining barriers to competition in the railway markets. Pursue consolidation efforts in the *Landesbanken* sector, including by improving the governance framework.

Done at Brussels, 8 July 2014.

For the Council

The President

P. C. PADOAN

COUNCIL RECOMMENDATION

of 8 July 2014

on the National Reform Programme 2014 of Estonia and delivering a Council opinion on the Stability Programme of Estonia, 2014

(2014/C 247/06)

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 resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, 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, on the basis of the Commission's proposals, 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 9 July 2013, the Council adopted a Recommendation [3] on Estonia's National Reform Programme for 2013 and delivered its opinion on Estonia's updated Stability Programme for 2012-2017. On 15 November 2013, in line with Regulation (EU) No 473/2013 of the European Parliament and of the Council [4], the Commission presented its opinion on Estonia's draft budgetary plan for 2014.

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

[2] Maintained for 2014 by Council Decision 2014/322/EU of 6 May 2014 on guidelines for the employment policies of the Member States for 2014 (OJ L 165, 4.6.2014, p. 49).

[3] OJ C 217, 30.7.2013, p. 21.

[4] 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).

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey, marking the start of the 2014 European Semester for economic policy coordination. Also, on 13 November 2013, the Commission, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council [1], 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) On 20 December 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.

(7) On 8 May 2014, Estonia submitted its 2014 National Reform Programme and on 29 April 2014 its 2014 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(8) The objective of the budgetary strategy outlined in the 2014 Stability Programme is to be at the medium-term objective maintained throughout the programme and to build sufficient fiscal buffers for difficult economic times. The Stability Programme confirms the previous medium-term objective of a structural surplus, which is more stringent than what the Stability and Growth Pact requires. Estonia's recalculated structural balance is expected to worsen by 0,1 percentage points of GDP in 2014, thereby deviating from the required adjustment path, before improving by 0,4 percentage points of GDP in 2015, and remaining close to balance in 2016-2017. Furthermore, the Stability Programme points to a risk of deviation from the expenditure benchmark in 2014 and to a risk of a significant deviation in 2015. Overall, the planned adjustment path towards the medium-term objective presents risks with respect to compliance with the requirements of the Stability and Growth Pact.

(9) The macroeconomic scenario underpinning the fiscal projections in the Stability Programme, which has not been endorsed by an independent entity, is plausible and broadly in line with the Commission services 2014 Spring Forecast. According to that forecast, the structural deficit is projected to deteriorate by 0,1 % of GDP in 2014, leading to a 0,3 % of GDP gap compared to the required adjustment and a significant deviation when assessed over two years. In 2015, the Commission foresees another 0,2 % of GDP deterioration in the structural balance pointing to significant deviation from the required adjustment toward the medium-term objective. A significant deviation is expected also with respect to the expenditure benchmark over 2014-2015. Based on the assessment of the 2014 Stability Programme and the Commission forecast, pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that there is a risk of significant deviation from the medium-term objective in 2014 and 2015. The structural balance rule to comply with the Treaty on Stability, Coordination and Governance entered into force through Estonia's new State Budget Act on 23 March 2014, but the rule is still to be complemented by a strengthening of the binding nature of the multiannual expenditure targets.

(10) As regards the labour market, substantial progress has been made in reducing youth and long-term unemployment. Particular attention needs to be paid to measures that provide incentives to work for low income earners. Further efforts are necessary to address growing work-force shortages, including those caused by ageing and health-and disability-related exits from the labour market. The timely adoption and implementation of the Work Capacity Reform, while ensuring the availability of enabling services, is therefore highly relevant. The cost-effectiveness of the family policy expenditure could be further improved, including by fostering access to childcare. This is expected to foster an early return of women to the labour market and to reduce the persistently high gender pay gap. Efforts to promote entrepreneurship and job creation in regions outside Tallinn and Tartu need to be stepped up to prevent economic development differentials from widening and to reduce unemployment, especially among the low-skilled.

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

(11) In the field of education and training, reforms to align education to the requirements of the labour market have recently been adopted. Further efforts will be necessary to facilitate the transition from education to employment. Systematic efforts will be needed, in particular involving social partners, to increase participation in vocational education and training, and in work-based learning, especially apprenticeships. The implementation of the Lifelong Learning Strategy will require serious efforts to provide the much-needed up-skilling, re-skilling and qualification levels, especially for people in a weak position vis-à-vis the labour market. There is a smart specialisation framework that comprises the Entrepreneurship and Growth Strategy and the Research, Development and Innovation Strategy with a focus on shared priorities while further specialising the thematic areas. Efforts should continue towards the internationalisation and prioritisation of the research and development and innovation system, given the small size of the economy.

(12) Estonia's resource intensity continues to be very high. There has been progress in addressing the energy efficiency of public buildings, but efforts need to be sustained and increased, in particular in the residential and industrial sectors. Substantial progress has been made with respect to waste management and landfilling, while the economic viability of recycling needs to be ensured. Measures in the Transport Development Plan need to be implemented, in particular, to enable Estonia to contain CO_2 emissions in the non-ETS sector. The energy efficiency of freight transport can be improved by deploying more sustainable modes of transport. The use of public transport can be further increased through enhancing the complementarity of regional networks and interconnections between coach and passenger rail transport. The use of private cars is increasing, while the average age of the passenger car fleet is almost double the EU average and new passenger cars are among the most pollutant in the Union. Substantial strengthening of environmental incentives, including taxation, is necessary. While promising steps have been taken in cross-border energy connections, the full linking up of Estonia's energy market to the Union will require time and investment.

(13) Widening regional differences combined with negative demographic trends, inefficiencies and lack of cooperation among local governments hamper Estonia's development potential. This partly reflects the persistent mismatch between fiscal capacity and devolved responsibilities in small municipalities as well as limited economies of scale. A more efficient and accessible delivery of quality public services at local level, based on service areas and minimum service standards, especially in transport, long-term care, early childhood education and social services, is a prerequisite for activation and labour market measures to be effective.

(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 socio-economic 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 Member States whose currency is the euro [2]. As a country whose currency is the euro, Estonia should also ensure the full and timely implementation of those recommendations,

(1) Under Article 5(2) of Regulation (EC) No 1466/97.
(2) See page 141 of the current Official Journal.

HEREBY RECOMMENDS that Estonia take action within the period 2014-2015 to:

1. Reinforce the budgetary measures for 2014 in the light of the emerging gap of 0,3 % of GDP based on the Commission services 2014 spring forecast, pointing to a risk of significant deviation relative to the preventive arm of the Stability and Growth Pact requirements. In 2015, significantly strengthen the budgetary strategy to ensure that the medium-term objective is reached and, thereafter, maintained. Complement the budget rule with more binding multi-annual expenditure rules within the medium-term budgetary framework and continue to enhance the efficiency of public spending.

2. Improve incentives to work through measures targeted at low income earners. Target activation efforts by ensuring the timely adoption and implementation of the work capacity reform. Increase the efficiency and cost-effectiveness of family policy while improving the availability and accessibility of childcare. Deploy coordinated measures for fostering economic development and entrepreneurship in regions faced with high unemployment.

3. To ensure the labour-market relevance of education and training systems, improve skills and qualification levels by expanding lifelong learning measures and systematically increasing participation in vocational education and training, including in apprenticeships. Further intensify prioritisation and specialisation in the research and innovation systems and enhance cooperation between businesses, higher education and research institutions to contribute to international competitiveness.

4. Step up efforts to improve energy efficiency, in particular in residential and industrial buildings. Substantially strengthen environmental incentives for the transport sector to contribute to less resource-intensive mobility. Continue the development of cross-border connections to neighbouring Member States to diversify energy sources and promote competition through improved integration of the Baltic energy markets.

5. Better balance local government revenue against devolved responsibilities. Improve the efficiency of local governments and ensure the provision of quality public services at local level, especially social services complementing activation measures.

Done at Brussels, 8 July 2014.

For the Council

The President

P. C. PADOAN

COUNCIL RECOMMENDATION

of 8 July 2014

on the National Reform Programme 2014 of Ireland and delivering a Council opinion on the Stability Programme of Ireland, 2014

(2014/C 247/07)

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 resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, 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, on the basis of the Commission's proposals, 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.

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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 2014 by Council Decision 2014/322/EU of 6 May 2014 on guidelines for the employment policies of the Member States for 2014 (OJ L 165, 4.6.2014, p. 49).

(4) Ireland was subject to a macroeconomic adjustment programme until December 2013. Under Article 12 of Regulation (EU) No 472/2013 of the European Parliament and of the Council [1], it was thus exempt from the monitoring and assessment of the European Semester for economic policy coordination for the duration of that programme. In view of the successful completion of the Irish macroeconomic adjustment programme, Ireland should now be fully integrated in the European Semester framework.

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey, marking the start of the 2014 European Semester for economic policy coordination. Also, on 13 November 2013, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report.

(6) On 20 December 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.

(7) On 5 March 2014, the Commission published the results of its in-depth review for Ireland, under Article 5 of Regulation (EU) No 1176/2011 and taking into account the successful completion of the Irish economic adjustment programme and thus the fact that Ireland should now be fully integrated in the European Semester framework. The Commission's analysis leads it to conclude that Ireland's recently completed macroeconomic adjustment programme was instrumental in managing economic risks and reducing imbalances. However, the remaining macroeconomic imbalances require specific monitoring and decisive policy action. In particular, financial sector developments, private and public sector indebtedness, and, linked to that, the high gross and net external liabilities and the situation of the labour market mean that risks are still present.

(8) On 17 April 2014, Ireland submitted its 2014 National Reform Programme and, on 29 April 2014, its 2014 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(9) The main objectives of the budgetary strategy outlined in the 2014 Stability Programme are to correct the excessive deficit by 2015 and reach the medium-term objective by 2018. The Stability Programme targets a deficit below 3 % of GDP by 2015, in line with the Excessive Deficit Procedure recommendation. The Stability Programme confirms the medium-term objective of a balanced budgetary position in structural terms, which is consistent with the provisions of the Stability and Growth Pact. Beyond 2015, the Stability Programme sets a reduction in the headline fiscal deficit of around 1 percentage point of GDP per annum in 2016–2018. It aims to reduce debt from close to 124 % of GDP in 2013 to 107 % of GDP in 2018. The macroeconomic scenario underpinning the budgetary projections in the Stability Programme was endorsed as 'within the range of appropriate projections' by an independent body (the Irish Fiscal Advisory Council). It is broadly in line with the Commission forecast for 2014 and 2015, with some differences in the contributions of the demand components. However, the authorities' forecast for the later years of the Stability Programme is optimistic. Moreover, the achievement of the budgetary targets is not supported by sufficiently detailed measures for 2015. As a result, the Commission deficit forecast for 2015 is higher than the target recommended by the Council. Based on the assessment of the Stability Programme and the Commission forecast, pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that the Stability Programme's targets are consistent with the requirements of the Stability and Growth Pact, but need to be supported by specific measures from 2015 onward. There have been significant steps to improve important aspects of the Irish fiscal framework and the quality and timeliness of data provision. Current rules for the medium-term expenditure ceilings allow for discretionary changes by the government that are not limited to predefined contingencies.

[1] 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).

(10) Tax reforms have contributed to the fiscal adjustment, but there is further scope to improve the efficiency and growth-friendliness of the tax system. Property taxation has been shifted from a transaction tax to a recurrent tax based on residential property values, but the tax base is still relatively narrow as certain properties remain outside the tax net. Labour taxation is fragmented and complex; and the tax bases for consumption and environment taxes are narrowed by reduced rates and exemptions, while such taxes are more growth-friendly. Zero and reduced VAT rates result in a VAT efficiency below the EU average. Reduced VAT rates are widely used to achieve redistribution objectives even though they are not an efficient and well-targeted policy tool to protect vulnerable groups. There is scope to improve the effectiveness of environmental tax instruments and removing environmentally harmful subsidies.

(11) Even though Ireland has a relatively young population, public healthcare expenditure was among the highest in the Union in 2012 at 8,7 % of GNI, significantly above the EU average of 7,3 %. Given the current difficulties in managing the health budget, expected demographic pressures due to an ageing population mean that current service levels can be maintained only if value-for-money gains are achieved over the medium to long term. The increase in health-related spending to 2060 due to demographic pressures is projected at 1,2 percentage points of GDP. Challenges to the health sector are multifaceted. Financial management and accounting systems and processes are fragmented across healthcare providers. This causes delays and hurdles in collecting and processing information. It also hinders the monitoring of healthcare expenditure and efforts to achieve value-for-money and an appropriate allocation of resources. The high level of pharmaceutical expenditure is another challenge, with expenditure on out-patient drugs being comparatively high.

(12) Ireland faces challenges relating to unemployment, particularly long-term and youth unemployment, and there is still a large working age population with low skills, resulting in inequality and skills mismatches. Long-term unemployment has fallen gradually with the recent strengthening of the labour market, but it remains high as a proportion of overall unemployment, representing over 61 % of the total at the end of 2013. The unemployment rate among young people peaked above 30 % in mid 2012. Additionally, the proportion of young people not in employment, education or training increased by 8 percentage points between 2007 and 2012 to 18,7 % before ebbing to 16,1 %, but still among the highest in the Union. There is a need to cover all young people in need within a four-month period, in line with the objectives of a youth guarantee. Skills mismatches have emerged with the rebalancing of the economy, making re-skilling and up-skilling a challenge for the education and training system. In addition, participation in lifelong learning is lower than the EU average (7,3 %, as compared with 10,7 % in 2013).

(13) Ireland has one of the highest proportions of people living in households with low work intensity in the Union, which generates serious social challenges. The proportion was higher than the EU average prior to the crisis and surged from 14,3 % in 2007 to 24,2 % in 2011. Low work intensity is particularly severe among single-parent households with children. This has contributed to a growing risk of poverty or social exclusion of children in Ireland and exacerbates the issue of the unequal labour market participation of women which stood at 67,2 % in 2013, as compared with 83,4 % for men. As a result, attention has turned to access to and affordability of childcare, a significant barrier to parents finding employment and avoiding the risk of poverty. The labour market is also affected by pockets of unemployment traps. The flat structure of unemployment benefits under the Jobseeker's Benefit and Jobseeker's Allowance system, the unlimited duration of the Jobseeker's Allowance and the loss of supplementary payments (in particular, rent supplement and medical cards) upon return to employment mean that replacement rates are relatively high for the long-term unemployed with low income potential and other categories of workers depending on family circumstances.

(14) Lending to SMEs remains weak, reflecting a combination of subdued credit demand and supply constraints, as SMEs continue to be affected by excess leveraging and weak domestic demand while banks need to make further progress in achieving sustainable resolutions in their SME non-performing loans book. The latest Red C survey indicates that, of the 35 % of SMEs that requested bank credit between October 2013 and March 2014, 19 % were declined a loan. The Credit Review Office was established

at the end of 2009 to mediate disputes between lenders and prospective SME borrowers who have been refused credit. Although positive, the impact of the Credit Review Office appears to have been rather limited to date, partly because the number of appeals has been quite small. SMEs rely heavily on bank financing for investment, and non-bank sources of finances are relatively underdeveloped, although some alternatives, including loan funds, are currently being examined. As the recovery gathers momentum, however, and as domestic demand recovers supply constraints are likely to increase unless credit channels are adequately repaired, which is crucial for the growth outlook. Dedicated schemes and funds have been put in place to improve access to finance for SMEs, such as the Credit Guarantee Scheme, the Microenterprise Loan Fund Scheme and three SME funds put in place, but so far take-up has been low.

(15) Despite banking sector reforms undertaken under the recently completed programme of financial assistance, there are still significant challenges. These challenges were analysed in detail in the Commission's 2014 in-depth review of Ireland. Non-performing loans represented almost 27 % of the total as of June 2013 for the three main domestic banks. Private sector indebtedness is still among the highest in the Union in spite of recent deleveraging and this remains a risk to financial stability and a burden on the economy. Household and SME deleveraging is incomplete, and bank and SME balance sheet repair are critical to restore credit channels. Bank lending continues to fall and the banking sector still struggles with profitability, in part because of the high number of tracker mortgages (low-yielding legacy assets) on banks' balance sheets.

(16) The cost of enforcing contracts is high. Lawyer fees represent the majority of these costs, at 18,8 percentage points and high legal services costs affect the cost structure of all businesses, including SMEs. In addition, unlike for other professional services, legal services costs have failed to adjust downwards since the onset of the crisis, in part due to insufficient competition. The authorities have committed themselves to introducing reforms to the legal services sector as part of the macroeconomic adjustment programme. They published a Legal Services Regulation Bill in 2011 that remains to be enacted. Judicial and court administrative resources to implement active pre-trial case management are very limited, which may be contributing to delays in the delivery of justice and raise costs. In addition, there are significant gaps in Ireland's ability to collect data on the efficiency of the justice system.

(17) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Ireland'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 socio-economic policy in Ireland 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 Stability Programme, and its opinion [1] is reflected in particular in recommendations (1) and (2) 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 Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1), (3), (5) and (6) 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, Ireland should also ensure the full and timely implementation of those recommendations,

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

(2) See page 141 of the current Official Journal.

HEREBY RECOMMENDS that Ireland take action within the period 2014-2015 to:

1. Fully implement the 2014 budget and ensure the correction of the excessive deficit in a sustainable manner by 2015 through underpinning the budgetary strategy with additional structural measures while achieving the structural adjustment effort specified in the Council recommendation under the Excessive Deficit Procedure. After the correction of the excessive deficit, pursue a structural adjustment towards the medium-term objective of at least 0,5 % of GDP each year, and more in good economic conditions or if needed to ensure that the debt rule is met in order to put the high general government debt ratio on a sustained downward path. Enhance the credibility of the fiscal adjustment strategy, effectively implement multi-annual budgetary planning and define broad budgetary measures underlying the medium-term fiscal targets. Ensure the binding nature of the government expenditure ceiling including by limiting the statutory scope for discretionary changes. To support fiscal consolidation, consideration should be given to raising revenues through broadening the tax base. Enhance the growth and environmental friendliness of the tax system.

2. Advance the reform of the healthcare sector initiated under the Future Health strategic framework to increase cost-effectiveness. Pursue additional measures to reduce pharmaceutical spending, including through more frequent price realignment exercise for patented medicines, increased generic penetration and improved prescribing practices. Reform the financial management systems of the national health authority to streamline systems across all providers and to support better claims management. Roll out individual health identifiers starting by the end of the first quarter of 2015 at the latest.

3. Pursue further improvements in active labour market policies, with a particular focus on the long-term unemployed, the low-skilled and, in line with the objectives of a youth guarantee, young people. Advance the ongoing reform of the further education and training (FET) system, employment support schemes and apprenticeship programmes. Offer more workplace training; improve and ensure the relevance of FET courses and apprenticeships with respect to labour market needs. Increase the level and quality of support services provided by the Intreo labour offices. Put in place a seamless FET referrals system between Intreo offices and Education and Training Boards.

4. Tackle low work intensity of households and address the poverty risk of children through tapered withdrawal of benefits and supplementary payments upon return to employment. Facilitate female labour market participation by improving access to more affordable and full-time childcare, particularly for low income families.

5. Advance policies for the SME sector including initiatives to address the availability of bank and non-bank financing and debt restructuring issues, while avoiding risks to public finances and financial stability. Advance initiatives to improve SME's access to bank credit and non-bank finance. Introduce a monitoring system for SME lending in the banking sector. In parallel, work to ensure that available non-bank credit facilities, including the three SME funds co-funded by the National Pensions Reserve Fund, Microfinance Ireland and the temporary loan guarantee scheme, are better utilised. Promote the use of these and other non-bank schemes by SMEs. Enhance the Credit Review Office's visibility and capabilities in mediating disputes between banks and prospective SME borrowers who have been refused credit.

6. Monitor banks' performance against the mortgage arrears restructuring targets. Announce ambitious targets for the third and fourth quarters of 2014 for the principal mortgage banks to propose and conclude restructuring solutions for mortgage loans in arrears of more than 90 days, with a view to substantially resolving mortgage arrears by the end of 2014. Continue to assess the sustainability of the concluded restructuring arrangements through audits and targeted on-site reviews. Develop guidelines for the durability of solutions. Publish regular data on banks' SME loan portfolios in arrears to enhance transparency. Develop a strategy to address distressed commercial real-estate exposures. Establish a central credit registry.

7. Reduce the cost of legal proceedings and services and foster competition, including by adopting the Legal Services Regulation Bill by the end of 2014, including its provision allowing the establishment of multi-disciplinary practices, and by seeking to remove the solicitor's lien. Monitor its impact, including on the costs of legal services. Take executive steps to ensure that the Legal Services Regulatory Authority is operational without delay and that it meets its obligations under the legislation, including in terms of publishing regulations or guidelines for multi-disciplinary practices and the resolution of complaints. Improve data collection systems to enhance the monitoring and evaluation of the efficiency of judicial proceedings to identify issues in need of reform.

Done at Brussels, 8 July 2014.

For the Council

The President

P. C. PADOAN

COUNCIL RECOMMENDATION

of 8 July 2014

on the National Reform Programme 2014 of Spain and delivering a Council opinion on the Stability Programme of Spain, 2014

(2014/C 247/08)

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 resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, 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, on the basis of the Commission's proposals, 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.

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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 2014 by Council Decision 2014/322/EU of 6 May 2014 on guidelines for the employment policies of the Member States for 2014 (OJ L 165, 4.6.2014, p. 49).

(4) On 9 July 2013, the Council adopted a Recommendation [1] on Spain's National Reform Programme for 2013 and delivered its opinion on Spain's updated Stability Programme for 2012-2016. On 15 November 2013, in line with Regulation (EU) No 473/2013 of the European Parliament and of the Council [2], the Commission presented its opinion on Spain's draft budgetary plan for 2014.

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey, marking the start of the 2014 European Semester for economic policy coordination. Also, on 13 November 2013, 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) On 20 December 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.

(7) On 5 March 2014, the Commission published the results of its in-depth review for Spain, under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that Spain is experiencing macroeconomic imbalances which require specific monitoring and decisive policy action. In particular, in several areas, the adjustment of the imbalances identified last year as excessive has clearly advanced and the return to positive growth has reduced risks. However, the magnitude and interrelated nature of the imbalances, in particular high domestic and external debt levels and high unemployment, mean that vulnerabilities are still present.

(8) On 30 April 2014, Spain submitted its 2014 National Reform Programme and its 2014 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(9) The objective of the budgetary strategy outlined in the 2014 Stability Programme is to correct the excessive deficit by 2016 and reach the medium-term objective in 2017. The Stability Programme confirms the medium-term objective of a balanced budgetary position in structural terms, which is more stringent than what the Stability and Growth Pact requires. The Stability Programme plans to bring the deficit below 3 % of GDP in 2016, in line with the deadline set in the Council Recommendation of 21 June 2013 [3], and targets a deficit for 2014 below the one recommended (5,5 % of GDP versus 5,8 % of GDP). However, the annual improvement of the (recalculated) structural balance planned in the Stability Programme falls below the recommended effort as of 2014. For 2017, the plan envisages sufficient progress towards the medium-term objective, although this may not be enough to reach it in the same year as declared in the Stability Programme. The Stability Programme projects the government debt ratio to peak in 2015 at 101,7 % of GDP and to start declining thereafter. Overall, the budgetary strategy outlined in the Stability Programme is only partly in line with the requirements of the Stability and Growth Pact. The macroeconomic scenario underpinning the budgetary projections in the Stability Programme, which has not been produced or endorsed by an independent body, is broadly plausible for 2014 and subject to downside risks in 2015 when compared with the Commission services 2014 spring forecast. For 2016-2017, the GDP growth rates in the Stability Programme seem somewhat optimistic when seen against current estimates of the potential growth rate of the economy and the remaining post-crisis economic adjustment needs.

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(1) OJ C 217, 30.7.2013, p. 81.
(2) 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).
(3) Council Recommendation of 21 June 2013 with a view to bringing an end to the situation of an excessive government deficit in Spain (OJ C 180, 26.06.2013, p. 4).

Therefore, the deficit and debt adjustment paths are also subject to downside risks. Moreover, concrete measures to support the headline deficit targets from 2015 onwards are not yet sufficiently specified, especially regarding the changes to tax legislation within the framework of the planned tax reform. Other risks relate to contingent liabilities and the yields of planned savings at local and regional levels. Based on the Commission forecast, the fiscal effort over 2013-2014 falls short by 1,1 percentage points in terms of (corrected) change in the structural balance (although this figure is inflated by recent changes in the methodology for the estimation of potential output) and by 0,4 percentage points compared to the amount of measures estimated as necessary at the time of the recommendation under the Excessive Deficit Procedure. Based on its assessment of the Stability Programme and the Commission forecast, pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that the measures underpinning the budgetary strategy need to be specified further and that additional efforts are needed to fully comply with the Council Recommendation under the Excessive Deficit Procedure.

(10) On the fiscal structural side, there has been progress in the reporting of budgetary execution and in the application of corrective measures to non-compliant administrative bodies. However, there remains scope for implementing additional enforcement mechanisms, set out in Spain's Budgetary Stability Organic Law, for non-compliant regions. New measures have been taken to enforce an average period for payments to commercial suppliers of 30 days across all levels of government. An independent fiscal institution was set up by law in November 2013 and its president appointed in February 2014. However, the institution was not operational in time to assess the 2014 Stability Programme. The 2014 National Reform Programme also acknowledges the need to keep improving cost-effectiveness in healthcare and pharmaceutical expenditure, e.g. by centralising purchasing of pharmaceutical products, revising the basket of services, developing digital clinical records, or strengthening management of health establishments. With most of the fiscal consolidation ahead planned to come from expenditure savings, a systematic review of expenditure at all government levels, would help to identify areas where savings could be generated in a growth-friendly way while catering for the needs of the most vulnerable.

(11) In 2013, Spain adopted new measures to address the debt bias in corporate taxation. During 2013, Spain also made some progress in improving tax compliance by intensifying the fight against tax fraud and undeclared work, but important challenges remain. In 2013 and 2014, Spain also introduced reductions in social security contributions for hiring young and new employees. Following the delivery of a comprehensive report on tax reform by an Expert Committee commissioned by the Government, the authorities plan to present concrete legislative proposals in the second quarter of 2014. According to the 2014 National Reform Programme, the proposals will aim at modernising the tax system, reduce the bias against employment, foster revenue collection, favour economic development, ensure market unity and fiscal neutrality and enhance the competitiveness of the Spanish economy while contributing to fiscal consolidation. The design and implementation of this reform will be important to future economic prospects and public finances.

(12) Financial stability has been bolstered by the recapitalisation and restructuring of the banking sector and the thorough implementation of the July 2012 European Stability Mechanism (ESM) programme for the recapitalisation of financial institutions, completed on 22 January 2014. Yet, the financial sector in Spain is still faced with significant challenges that need to be carefully monitored and managed. Moreover, improvements in the funding conditions of banks are being passed on only gradually to the financing of SMEs. Going forward, it is important to ensure that credit continues to flow to viable sectors of the economy as the deleveraging of the private sector continues. The authorities have taken several measures to improve access of firms to bank and non-bank financing and facilitate corporate debt restructuring, but further policy actions are needed.

(13) The labour market is showing some signs of stabilisation and a mild recovery is expected in 2014 with growing employment and decreasing unemployment levels. However, with an annual average of 26,1 % in 2013, the unemployment rate remains very high. Of particular concern are the high youth unemployment rate of 54,3 %, and the significant peak of long-term unemployment at 49,7 % of total unemployment in 2013, the latter with particularly high rates among older workers and low-skilled workers. Available evaluations of the 2012 labour market reform conclude that the reform, together with the social partners' commitment to wage moderation in 2012-2014, has helped to provide firms with greater internal flexibility and limit job losses, prioritising collective bargaining agreements at firm level and enhancing possibilities for firms to opt out of a collective agreement. The reform has also reduced the compensation costs for unfair dismissal and contributed to lowering the number of dismissals challenged in court, and introduced a new contract to promote stable hiring in SMEs. Further measures were introduced in 2013 and early 2014 to facilitate stable part-time employment, and reduce temporarily social security contributions on new indefinite contracts. However, segmentation remains an important challenge for the Spanish labour market, the number of contract types remains high and the gap between severance costs for fixed-term and indefinite contracts remains among the highest in the Union even after the reform.

(14) Progress has been made in the reform of active labour market policies, including the approval of the annual Employment Plan (PAPE). However, action to modernise and reinforce the public employment service seems to be progressing slowly, which threatens to hinder the successful implementation of the new framework. The full operationalisation of the single job portal has suffered delays. Progress has been made in fostering cooperation with private placement agencies, but further efforts are needed.

(15) The inadequate labour-market relevance of education and training and the high proportion of unemployed without formal qualifications (35,2 %) contribute to the high youth unemployment rate, as well as to long-term unemployment. The rate of young people not in employment, education or training remains higher than the EU average. The proportion of pupils and students leaving education and training early, although decreasing, also remains very high (23,5 %). Tertiary attainment rates are sustained, but vocational education and training and apprenticeship schemes are still under-used and the proficiency of upper secondary vocational education and training graduates lags behind the EU average. Spain is also working on measures to encourage youth employment. The national 2013-2016 Youth Employment and Entrepreneurship Strategy, presented in March 2013, is now being implemented, although some measures have yet to be put in place. Building on that Strategy, Spain has undertaken steps to fight youth unemployment, in line with the objectives of a youth guarantee. Some progress has been registered in measures to fight early school leaving and to promote dual vocational education and training, but full implementation and efficient use of funding remain crucial. On dual vocational training, continued coordination among all stakeholders, including decision makers and training providers at all government levels and employers, is needed to streamline the system, favour a better match of training to labour demands and guarantee the compatibility of dual vocational education and training models across regions.

(16) 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 as regards the main indicators measuring poverty and social exclusion, with children and young adults being particularly exposed. As a result of the crisis, Spain also witnessed one of the highest falls in household disposable income and one of the highest levels of income inequality in the Union. The key challenges are to simplify procedures for social assistance claimants and improve governance and inter-institutional coordination at national, regional and local levels. The 2013-2016 National Action Plan for Social Inclusion provides an appropriate policy framework for adapting active labour market policies to those further away from the labour market, tackling child poverty and improving the efficiency of family support services. Moreover, social assistance and benefits have limited redistributive effects across different groups at risk, suggesting poor targeting. In addition, limited coordination between employment and social services (including those at regional and local levels) and the administrative burden involved in accessing minimum income schemes hinders the smooth transition between social assistance and the reintegration into the labour market.

(17) Spain made progress on structural reforms promoting growth and competitiveness broadly in line with the plans in the 2013 National Reform Programme. The law on the guarantee of market unity was adopted in December 2013 and its complex implementation is ongoing. The law on entrepreneurship adopted in autumn 2013 has also brought improvements to the framework for corporate insolvency and more flexible company forms, and as regards the rationalisation of support schemes for the internationalisation of firms. The use of the express licensing has been extended thus simplifying the opening of small-scale retail outlets, and other measures taken to facilitate business licensing. However, secondary legislation to allow private limited companies to be created through one-stop shops within the shorter deadlines set out in the September 2013 entrepreneurship law are still pending. Moreover, there is a case for the continuous review of regulatory barriers to company growth, including taxation, given Spain's gap vis-à-vis other euro area Member States as regards company size. The long-awaited reform of professional services has been experiencing delays and needs to be speeded up. No measures have been taken to remove restrictions on the establishment of large-scale retail premises.

(18) The Spanish R&I system needs to increase the quality of its scientific outputs, foster public-private co-operation and facilitate the conversion of research and innovation into commercial products. In 2013, the Government adopted a national strategy for science, technology and innovation, which still needs to be backed by public funding. Moreover, the creation of the new State Research Agency, which is tasked with the efficient management of public R&D investment, is pending.

(19) Significant steps have been taken to address the electricity tariff deficit, especially by reducing the system's costs, although the exact impact of the reform, in particular on renewables, is not yet fully clear. The Government is exploring ways to minimise negative spillover effects on public finances from insolvent toll motorways. The authorities established a database containing economic, environmental, traffic-related and other indicators supporting analysis prior to investment in infrastructure, but have not yet set up an independent body to help assess future major infrastructure projects. Effective competition in railway passenger and freight services is still prevented by technical and legal obstacles, hampering the efficient use of the extensive infrastructure stock.

(20) The reform of public administration is advancing. A reform of local public administration was passed in December 2013 and the implementation of the expert's committee on public administration reform is ongoing and will continue throughout 2014-2015. Judicial reform is at various stages of completion and/or implementation and needs to be completed. Recent efforts in the area of tackling corruption include the law on transparency, public access to information and good governance, adopted in December 2013, as well as two draft bills on supervision of party funding and accountability of high-ranking officials. The 2012-2014 National Plan against Undeclared Work and Social Security Fraud (*Plan Nacional de Lucha contra el Empleo Irregular y el Fraude a la Seguridad Social*) is being implemented. Spain has also extended its network of international agreements to exchange information relevant for tax assessments and launched a project with private firms to study potential improvements in the management of the benefits system.

(21) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Spain'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 socio-economic 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 (8) below.

(22) 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.

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

(23) 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), (6), (7) and (8) below.

(24) 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, Spain should also ensure the full and timely implementation of those recommendations,

HEREBY RECOMMENDS that Spain take action within the period 2014-2015 to:

1. Reinforce the budgetary strategy as of 2014, in particular by fully specifying the underlying measures for the year 2015 and beyond, to ensure the correction of the excessive deficit in a sustainable manner by 2016 through achieving the structural adjustment effort specified in the Council Recommendation under the Excessive Deficit Procedure. 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. After achieving the correction of the excessive deficit, pursue a structural adjustment towards the medium-term objective of at least 0,5 % each year, and more in good economic conditions or if needed to ensure that the debt rule is met in order to put the high general government debt ratio on a sustained downward path. Ensure that the new independent fiscal authority becomes fully operational as soon as possible and ensure a full implementation of the preventive, corrective and enforcement measures in the Budgetary Stability Organic Law at all levels of government, including on the elimination of public sector commercial arrears. Carry out by February 2015 a systematic review of expenditure at all levels of government to underpin the efficiency and quality of public spending going forward. Continue to increase the cost-effectiveness of the healthcare sector, in particular by further rationalising pharmaceutical spending, including in hospitals and strengthening coordination across types of care, while maintaining accessibility for vulnerable groups. Adopt by the end of 2014 a comprehensive tax reform to make the tax system simpler and more conducive to growth and job creation, preservation of the environment and stability of revenues.

   To that end, shift revenues towards less distortive taxes, such as consumption, environmental (e.g. on motor fuels) and recurrent property taxes; remove inefficient personal and corporate income tax expenditures; consider lowering employers' social security contributions, in particular for low-wage jobs; continue to tackle the debt bias in corporate taxation; take measures to avoid that taxation hinders the smooth functioning of Spain's internal market. Step up the fight against tax evasion.

2. Complete the reform of the saving banks sector, as regards the adoption of secondary legislation and complete the restructuring of state-owned savings banks in order to accelerate their full recovery and facilitate their return to private ownership. Promote banks' efforts to sustain strong capital ratios, monitor the asset management company Sareb's activity in order to ensure timely asset disposal while minimising the cost to the taxpayer. Complete the ongoing measures to widen SMEs access to finance, in particular by finalising the ongoing measures to improve non-bank financial intermediation. Remove remaining bottlenecks in the corporate insolvency framework, in particular by enhancing the expertise of insolvency administrators and the capacity of the judicial system to handle insolvency cases, and develop a permanent framework for personal insolvency, paying due attention to balanced creditor/borrower rights and financial stability considerations.

3. Pursue new measures to reduce labour market segmentation to favour sustainable, quality jobs, for instance through reducing the number of contract types and ensuring a balanced access to severance rights. Continue regular monitoring of the labour market reforms. Promote real wage developments consistent with the objective of creating jobs. Strengthen the job-search requirement in unemployment benefits. Enhance the

([1]) See page 141 of the current Official Journal.

effectiveness and targeting of active labour market policies, including hiring subsidies, particularly for those facing more difficulties in accessing employment. Reinforce the coordination between labour market and education and training policies. Accelerate the modernisation of public employment services to ensure effective personalised counselling, adequate training and job-matching, with special focus on the long-term unemployed. Ensure the effective application of public-private cooperation in placement services before the end of 2014, and monitor the quality of services provided. Ensure the effective functioning of the Single Job Portal and combine it with further measures to support labour mobility.

4. Implement the 2013-2016 Youth Entrepreneurship and Employment Strategy and evaluate its effectiveness. Provide good quality offers of employment, apprenticeships and traineeships for young people and improve the outreach to non-registered unemployed young people, in line with the objectives of a youth guarantee. Effectively implement the new educational schemes to increase the quality of primary and secondary education. Enhance guidance and support for groups at risk of early school leaving. Increase the labour-market relevance of vocational education and training and of higher education, in particular by enhancing the cooperation with employers and supporting the training of trainers and tutors.

5. Implement the 2013-2016 National Action Plan on Social Inclusion and assess its effectiveness covering the full range of its objectives. Strengthen administrative capacity and coordination between employment and social services in order to provide integrated pathways to support those at risk, and boost, among the Public Administrations responsible for the minimum income schemes, streamlined procedures to support transitions between minimum income schemes and the labour market. Improve the targeting of family support schemes and quality services favouring low-income households with children, to ensure the progressivity and effectiveness of social transfers.

6. Ensure an ambitious and swift implementation of Law No 20/2013 on Market Unity at all levels of administration. Adopt an ambitious reform of professional services and of professional associations by the end of 2014, defining the professions requiring registration in a professional organisation, and the transparency and accountability of professional bodies, opening up unjustifiably reserved activities and safeguarding market unity in the access to and exercise of professional services in Spain. Further reduce the time, cost and number of procedures required for setting up an operating business. Address unjustified restrictions to the establishment of large-scale retail premises, in particular through a revision of existing regional planning regulations. Identify sources of financing for the new national strategy for science, technology and innovation and make operational the new State Research Agency.

7. Following the reform of 2013, ensure the effective elimination of deficit in the electricity system as of 2014, including by taking further structural measures if needed. Address the problem of insolvent toll motorways so as to minimise costs for the State. Set up an independent body to contribute to the assessment of future major infrastructure projects by the end of 2014. Take measures to ensure effective competition in freight and passenger rail services.

8. Implement at all government levels the recommendations of the committee for the reform of the public administration. Strengthen control mechanisms and increase the transparency of administrative decisions, in particular at regional and local levels. Complete and monitor closely the ongoing measures to fight against the shadow economy and undeclared work. Adopt pending reforms on the structure of the judiciary and on the judicial map and ensure implementation of adopted reforms.

Done at Brussels, 8 July 2014.

For the Council

The President

P. C. PADOAN

COUNCIL RECOMMENDATION

of 8 July 2014

on the National Reform Programme 2014 of France and delivering a Council opinion on the Stability Programme of France, 2014

(2014/C 247/09)

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 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 resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, 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, on the basis of the Commission's proposals, 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.

[1] OJ L 209, 2.8.1997, p. 1.
[2] OJ L 306, 23.11.2011, p. 25.
[3] Maintained for 2014 by Council Decision 2014/322/EU of 6 May 2014 on guidelines for the employment policies of the Member States for 2014 (OJ L 165, 4.6.2014, p. 49).

(4) On 9 July 2013, the Council adopted a Recommendation [1] on France's National Reform Programme for 2013 and delivered its opinion on France's updated Stability Programme for 2012-2017. On 15 November 2013, in line with Regulation (EU) No 473/2013 of the European Parliament and of the Council [2], the Commission presented its opinion on France's draft budgetary plan for 2014.

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey, marking the start of the 2014 European Semester for economic policy coordination. Also, on 13 November 2013, 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) On 20 December 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.

(7) On 5 March 2014, the Commission published the results of its in-depth review for France, under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that France continues to experience macroeconomic imbalances, which require specific monitoring and decisive policy action. In particular, the deterioration in the trade balance and in competitiveness and the implications of the high level of public sector indebtedness deserve continuous policy attention.

(8) On 5 March 2014, the Commission recommended that France make further efforts to ensure full compliance with the Council recommendation under the Excessive Deficit Procedure.

(9) On 7 May 2014, France submitted its 2014 National Reform Programme and its 2014 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(10) The objective of the budgetary strategy outlined in the 2014 Stability Programme is to correct the excessive deficit by 2015 and reach the medium-term objective in 2017. The Stability Programme confirms the previous medium-term objective of a balanced budget in structural terms, which is more stringent than what the Stability and Growth Pact requires. The Stability Programme plans to bring the deficit to 3 % of GDP in 2015, above the target set in the Council recommendation of 21 June 2013. Thereafter, the planned (recalculated) annual progress towards the medium-term objective is lower than the minimum requirement of 0,5 % of GDP. Overall, the budgetary strategy outlined in the Stability Programme is only partly in line with the requirements of the Stability and Growth Pact. The Stability Programme projects that the government debt will peak at 95,6 % of GDP in 2014 and 2015 and then drop to 91,9 % in 2017. The macroeconomic scenario underpinning the budgetary projections in the Stability Programme is plausible for 2014 and slightly optimistic for 2015, with GDP projected to grow by 1,0 % and 1,7 % this year and next respectively, against 1,0 % and 1,5 % according to the Commission services 2014 spring forecast. In April 2014, the independent High Council for Public Finances ('Haut Conseil des finances publiques') issued an opinion on the macroeconomic scenario of the Stability Programme. The Stability Programme outlines a number of additional measures for 2014, among which the cancellation of ministerial appropriations to be adopted as part of a supplementary budget and the first effects of the EUR 50 billion savings plan announced by the Government.

On this basis, and also taking into account the fact that the fiscal effort achieved in 2013 was higher than expected at the time of the Commission recommendation, the Stability Programme can be considered to broadly respond to the Commission recommendation. The level of detail of the fiscal consolidation measures is insufficient to credibly ensure the correction of the excessive deficit situation by 2015, as supported by the Commission forecast of a deficit at 3,4 % of GDP next year and an underlying

[1] OJ C 217, 30.7.2013, p. 27.

[2] 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).

structural adjustment falling well short of the level recommended by the Council. Moreover, risks to the government's targets are tilted to the downside. In particular, part of the additional measures for 2014 announced in the Stability Programme remains to be adopted and the planned amount of savings for 2015 is very ambitious. Based on the Commission forecast, the fiscal effort over 2013-2014 falls short by 0,2 percentage points of GDP in terms of (corrected) change in the structural balance and by at least 0,1 percentage points of GDP in terms of the amount of measures estimated as necessary at the time of the Council recommendation. Based on its assessment of the Stability Programme and the Commission forecast, pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that the measures underpinning the budgetary strategy need to be specified further and that further efforts are needed to comply with the Council recommendation and to ensure an appropriate path towards the medium-term objective thereafter. In particular, additional efforts should be spelled out in the forthcoming amending budget law for 2014.

(11) Given the high and still increasing government debt and the fact that the deadline for correcting the excessive deficit was extended to 2015, it is all the more important that the 2014 budget is strictly implemented and substantial consolidation efforts are firmly pursued in 2015. In particular, public spending should grow at a much slower pace than in previous years, as planned by the Government. Hence, there is a need to further specify the strategy on reducing expenditure by intensifying the ongoing spending review and by redefining, where relevant, the scope of government action. Sizeable short-term savings cannot be achieved without reducing significantly the increase in social security spending, which accounts for nearly half of public sector expenditure.

This implies curbing healthcare and pension costs, for example through setting more ambitious annual healthcare expenditure targets and temporarily freezing pensions, as well as other social benefits, as currently envisaged by the Government. In addition, the planned new decentralisation law should streamline the various administrative layers in France to eliminate administrative overlap and achieve further synergies, efficiency gains and savings by merging or suppressing administrative layers. In this respect, not only the structural reforms outlined in the Stability Programme will take effect only in the medium term, although the planned timetable has been brought forward since the Stability Programme, but they are also subject to significant implementation risks. The control of local government expenditure should also be strengthened, including by capping the annual increase in local government tax revenue, taking into account existing ceilings on a number of local taxes, while rigorously implementing the planned reduction in grants from the central government. Beyond the need for savings in the short run, the long-term sustainability of public finances is also an issue of concern.

While public expenditure on health has been kept under control over the last few years, further efforts are needed to improve the cost-effectiveness of the health system. In particular, there is a need to implement further cost-containment policies as the health system is projected to face a significant rise in expenditure over the medium and long term. Areas where efficiency should be enhanced include pharmaceutical and administrative spending as well as hospital care. Lastly, a pension reform was adopted in December 2013 with a view to ensuring the long-term sustainability of the system. However the pension reform will not suffice to eliminate the system's deficit, in particular the deficit arising from schemes for state government officials and employees working in a number of state-controlled companies and All in all, according to projections from the French authorities, the new pension measures will only halve the system's total deficit to some 0,5 % of GDP by 2020. Moreover, the size of the adjustment is subject to significant risks as the macroeconomic scenario underpinning these projections could prove overly optimistic. The newly created pensions monitoring committee ('Comité de suivi des retraites') should ensure that the system's deficit is gradually eliminated.

(12) France is among the Member States where the cost of labour is the highest. In particular, the high tax burden on labour reduces firms' profitability and weighs on employment. In order to support cost competitiveness, the Government has taken a number of initiatives to reduce the tax burden on labour. A tax rebate for competitiveness and employment (CICE), equivalent to a decrease in the cost of labour for wages below 2,5 times the minimum wage, was adopted in December 2012. A further EUR 10 billion cut in the cost of labour was announced as part of a 'responsibility and solidarity pact' in January 2014. The two measures will account for EUR 30 billion or 1,5 % of GDP, which is commensurate

with the overall increase in corporate taxation recorded in 2010-2013 and would only bridge half of the gap between France and the euro area average in terms of employer social security contributions. Moreover, exporting firms, which tend to pay high wages, will benefit less from the CICE than non-exporting firms, thus reducing the impact of the measure on competitiveness. The responsibility and solidarity pact includes a reduction in the cost of labour for low wages and one targeting wages between 1,6 and 3,5 times the minimum wage. The latter measure, expected to enter into force from 2016, would have a more direct impact on exporting firms. Wage-setting in France tends to result in distortions of the wage structure and limit the ability of firms to adjust wages in economic downturns. The High Council for the Financing of Social Protection ('Haut Conseil du financement de la protection sociale') has assessed the impact of various scenarios for social security exemptions on employment, but limited emphasis has been put on the impact on wage developments and competitiveness.

However, although extensive exemptions were granted, for workers paid the minimum wage, the cost of labour at the minimum wage remains high. These exemptions contributed to containing labour costs in 2013, which is a positive development, but the level of the minimum wage in France remains high when compared to other Member States'. The minimum wage should therefore continue to evolve in a manner that is supportive of competitiveness and job creation. France has only few exemptions from the statutory minimum wage and additional efforts could be made to reduce the cost of labour for vulnerable groups.

(13) France's global ranking in a number of international business environment surveys has deteriorated. While efforts have been made as part of a 'simplification shock' launched in July 2013 to ease relations between firms and the administration, there is a need for further improving the business environment. In addition, a number of measures considered under the simplification plan still need to be defined and implemented. In particular, specific attention should be paid to regulations from the labour code or to accounting rules linked to specific size thresholds that hamper the growth of French firms. These may play a role in SMEs' difficulties in reaching the size that would allow them to export and to innovate. Policy initiatives to boost R&D spending and innovation by private companies, in particular the tax credit on research and the competitiveness poles, have yielded mixed results so far. The decreasing weight of the industrial sector in the French private sector translates into stagnating R&D spending by private companies despite significant efforts at the firm level. As a consequence, a large proportion of R&D spending remains financed by public money either directly through public research or indirectly through subsidies. The effectiveness of the existing tools should be further improved in order to trigger higher R&D expenditures by private firms and innovation in the private sector. In particular, resources allocated to the competitiveness poles could better foster scale effects and improve the diffusion of innovation. In addition, the effectiveness of the policy could be strengthened by enabling these poles to become real networks of firms with positive spillovers. Lastly, the cost of the tax credit on research is expected to reach EUR 5,8 billion in 2014 (close to 0,3 % of GDP). In spite of the cost of this measure, no ex post assessment of its effectiveness on R&D taking into account latest reforms is available.

(14) Although barriers on legal forms, shareholding requirements or tariffs have been removed for certain professions (e.g. veterinarians, accountants), and new measures for improving competition have been adopted through the recent Consumption Law, some professions still face significant barriers to entry or conduct today (e.g. taxis, the health sector, notaries and legal professions more generally). The principle of numerus clausus for access to many professions (doctors, pharmacists, etc.) is still hampering access to services, and could be reviewed without putting quality and safety at risk. To date no thorough assessment of the need for, and proportionality of, restrictions affecting regulated professions has taken place. In the retail sector, burdensome authorisation requirements for the opening of trade outlets, in particular resulting from urban planning regulations, and the ban on sales at a loss still remain and have an adverse impact on competition and on consumers. To date, no concrete measures have been adopted in France to remove entry barriers in the retail sector. Regarding electricity and gas distribution,

regulated prices are being phased out for non-household customers. However, prices continue to be regulated for households and for electricity, they are set below cost levels and the access by alternative suppliers is limited. Regarding energy interconnections, ongoing projects, in particular with Spain, should be completed to reinforce the electricity and gas interconnections with the neighbouring countries. In the railway sector, market entry barriers are still preventing an efficient market functioning. France has not opened up its domestic rail passenger market to competition, except for international services, where there are few new entrants. It has launched a reform of its railway system with a view to making it more financially sustainable. A draft law was presented in October 2013 and is currently being discussed by Parliament. The measures presented include the setting-up of a fully-fledged infrastructure manager within a vertically integrated structure including the incumbent operator. This new structure may hamper access to the network by alternative operators.

(15) France has a high and rising overall tax burden. In 2013, the tax-to-GDP ratio stood at 45,9 %, one of the highest in the Union and up by 3,3 percentage points since fiscal consolidation started in 2010. Against this background, a special committee ('Assises de la fiscalité') has provided input to a reform of the tax system. Little progress has been made so far in lowering the statutory rates of personal and corporate income tax and increasing VAT efficiency. Instead, a temporary surcharge on large companies has been extended until 2015 and this will result in the all-in statutory corporate income tax rate peaking at 38,1 % (the statutory rate is already one of the highest in the Union at 33,3 %). The Government has announced the progressive suppression of the corporate social solidarity contribution ('C3S') and a gradual reduction in the statutory rate to 28 % by 2020. On the latter, there is no detailed information on the exact timing of the measure. Limited progress has also been made over the last year in reducing and streamlining income tax expenditures. In spite of some progress in the area of environmental taxation (e.g. with the gradual introduction of a carbon tax or 'contribution climat énergie'), the share of environmental taxation in GDP continues to remain low. In particular, excise duties in France are not indexed with inflation and some important environmentally-harmful subsidies, such as the preferential rate of excise duty for diesel, remain. Lastly, no additional measures were taken in 2013 to address the debt bias in corporate taxation with a view to preventing a further increase in private indebtedness.

(16) Although a number of policy measures were taken in France, the situation on the labour market continued to deteriorate in 2013 and significant challenges remain. Unemployment continued to increase to 10,3 % in 2013 (against 7,5 % in 2008). France's labour market remains segmented with very low levels of transitions from temporary to permanent contracts (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 Union). The inter-professional agreement on securing employment was translated into a law adopted in July 2013. Although this reform is a positive step, its impact remains uneven at this stage. In particular, very few companies have made use of the arrangements for company-level agreements created by the law to increase the flexibility of work conditions in the event of temporary economic difficulties. However, the rate of effective dismissals brought to court has been significantly reduced. While negotiations took place in 2014 between social partners to reform the unemployment benefit system, the new agreement is not expected to substantially reduce the deficit of the system. The cumulated deficit of the unemployment benefit system, which was close to 1 % of GDP in 2013, calls for additional structural measures to ensure its sustainability. 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 were only marginally modified following the last agreement between social partners in March 2014, and they should be further adapted to ensure that incentives to work are adequate. Thanks to successive pension reforms, the employment rate of workers between 55 and 64 years of age has seen a constant increase in the past three years.

However, the employment rate among older workers in France (45,6 % in 2013) remains well below the average in the Union (- 4,5 percentage points below) and only 55 % of older workers in France retire directly after employment (2008-2011). As a result, the unemployment rate for this group has increased strongly over the last few years. Hence, there is a need to strengthen measures to improve their employability while reviewing incentives for them to stay in or return to work.

(17) The 2013 Programme for International Student Assessment survey showed that educational inequality in France is amongst the highest in OECD countries. 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 25,5 % at the end of 2013 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. Some progress in addressing this issue was made through the launch of the reform of compulsory education in July 2013 and the adoption of a law on vocational education and lifelong learning in March 2014. However, it is too early to assess whether these measures will effectively reduce inequalities in the education system and a new plan targeting lower-secondary education schools in disadvantaged areas announced in January 2014, still needs to be implemented. Lastly, the transition from school to work has been facilitated but the number of apprentices decreased in 2012 and the schemes increasingly benefitted students in higher education.

(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. It has taken into account not only their relevance for sustainable fiscal and socio-economic 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 (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 (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 2014-2015 to:

1. Reinforce the budgetary strategy, including by further specifying the underlying measures, for the year 2014 and beyond to ensure the correction of the excessive deficit in a sustainable manner by 2015 through achieving the structural adjustment effort specified in the Council recommendation under the Excessive Deficit Procedure. 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. After the correction of the excessive deficit, pursue a structural adjustment towards the medium-term objective of at least 0,5 % of GDP each year, and more in good economic conditions or if needed to ensure that the debt rule is met in order to put the high general government debt ratio on a sustained downward path. Step up efforts to achieve efficiency gains across all sub-sectors of general government, including by redefining, where relevant, the scope of government action. In particular, take steps to reduce significantly the increase in

(1) Under Article 5(2) of Regulation (EC) No 1466/97.
(2) See page 141 of the current Official Journal.

social security spending as from 2015 as planned, by setting more ambitious annual healthcare spending targets, containing pension costs, and streamlining family benefits and housing allowances. Set a clear timetable for the ongoing decentralisation process and take first steps by December 2014, with a view to eliminating administrative duplication, facilitating mergers between local governments and clarifying the responsibilities of each layer of local government. Reinforce incentives to streamline local government expenditure, by capping the annual increase in local government tax revenue while reducing grants from the central government as planned. Beyond the need for short-term savings, take steps to tackle the increase in public expenditure on health projected over the medium and long term, including in the area of pharmaceutical spending, and take additional measures when and where needed to bring the pension system into balance by 2020 in a sustainable manner covering all schemes, with a special focus on existing special schemes and complementary schemes.

2. Ensure that the labour cost reduction resulting from the 'crédit d'impôt compétitivité emploi' is sustained. Take action to further lower employer social security contributions in line with commitments under the responsibility and solidarity pact, making sure that no other measures offset its effect and that the targeting currently envisaged is maintained. Further evaluate the economic impact of social security contribution exemptions, putting the emphasis on employment, wage developments and competitiveness and take appropriate measures if necessary. Further reduce the cost of labour in a budget neutral way, namely at the lower end of the wage scale in particular through targeted reductions in employer social security contributions taking into account the various wage support schemes.

3. Simplify companies' administrative, fiscal and accounting rules and take concrete measures to implement the Government's ongoing 'simplification plan' by December 2014. Eliminate regulatory impediments to companies' growth, in particular by reviewing size-related criteria in regulations to avoid thresholds effects. Take steps to simplify and improve the efficiency of innovation policy, in particular through evaluations taking into account latest reforms and if necessary an adaptation of the 'crédit d'impôt recherche'. Ensure that resources are focused on the most effective competitiveness poles and further promote the economic impact of innovation developed in the poles.

4. Remove unjustified restrictions on the access to and exercise of regulated professions and reduce entry costs and promote competition in services. Take further action to reduce the regulatory burden affecting the functioning of the retail sector, in particular by simplifying authorisations for the opening of trade outlets and removing the ban on sales at a loss. While maintaining affordable conditions for vulnerable groups, ensure that regulated gas and electricity tariffs for household customers are set at an appropriate level which does not represent an obstacle to competition. Strengthen electricity and gas interconnection capacity with Spain; in particular, increase the gas interconnections capacity to fully integrate the Iberian gas market with the European market. In the railway sector, ensure the independence of the new unified infrastructure manager from the incumbent operator and take steps to open domestic passenger transport to competition in line with the provisions of, and the calendar that will be decided by, the forthcoming directives.

5. Reduce the tax burden on labour and step up efforts to simplify and increase the efficiency of the tax system. To this end, starting in the 2015 budget, take measures to: remove inefficient personal and corporate income tax expenditures on the basis of recent assessments and the 'Assises de la fiscalité' initiative while reducing the statutory rates; take additional measures to remove the debt bias in corporate taxation; broaden the tax base, in particular on consumption; phase out environmentally-harmful subsidies.

6. Take further action to combat labour-market rigidity, in particular take measures to reform the conditions of the 'accords de maintien de l'emploi' to increase their take up by companies facing difficulties. Take additional measures to reform the unemployment benefit system in association with social partners, in order to guarantee its sustainability while ensuring that it provides adequate incentives to return to work. Ensure that older workers benefit from adequate counselling and training and re-assess the relevant specific unemployment benefit arrangements with respect to their situation on the labour market.

7. Pursue the modernisation of vocational education and training, implement the reform of compulsory education, and take further actions to reduce educational inequalities in particular by strengthening measures on early school leaving. Ensure that active labour market policies effectively support the most vulnerable groups. Improve the transition from school to work, in particular by stepping up measures to further develop apprenticeship with a specific emphasis on the low-skilled.

Done at Brussels, 8 July 2014.

For the Council

The President

P. C. PADOAN

COUNCIL RECOMMENDATION

of 8 July 2014

on the National Reform Programme 2014 of Croatia and delivering a Council opinion on the Convergence Programme of Croatia, 2014

(2014/C 247/10)

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 resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, 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, on the basis of the Commission's proposals, 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) Croatia participated in the 2013 European Semester on a voluntary and informal basis by submitting an economic programme; there were no country-specific recommendations. On 21 June 2013, the Council adopted conclusions welcoming Croatia's economic programme, emphasising that Croatia is expected to progress towards meeting the requirements of the Stability and Growth Pact and that it needs to embark on a credible consolidation path, whilst safeguarding growth-enhancing expenditure and ensuring room for co-financing the inflow of EU funds.

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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 2014 by Council Decision 2014/322/EU of 6 May 2014 on guidelines for the employment policies of the Member States for 2014 (OJ L 165, 4.6.2014, p. 49).

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey, marking the start of the 2014 European Semester for economic policy coordination. Also, on 13 November 2013, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report, in which it identified Croatia as one of the Member States for which an in-depth review would be carried out.

(6) On 20 December 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.

(7) On 5 March 2014, the Commission published the results of its in-depth review for Croatia, under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that Croatia is experiencing excessive macroeconomic imbalances, which require specific monitoring and strong policy action. In particular, policy action is required in view of the vulnerabilities arising from sizeable external liabilities, declining export performance, highly leveraged firms and fast-increasing general government debt, all within a context of low growth and poor adjustment capacity.

(8) On 24 April 2014, Croatia submitted its 2014 National Reform Programme and its 2014 Convergence Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(9) The objective of the budgetary strategy outlined in the 2014 Convergence Programme is to correct the excessive deficit by 2016, whilst at the same time moving back to a path of sustainable economic growth. This is projected to be achieved by a continuous reduction in the deficit from 4,9 % of GDP in 2013 to below 3 % of GDP by 2016, the deadline for the correction of the excessive deficit. The Convergence Programme projects that government debt will peak at around 72 % of GDP in 2014, slightly drop in the following year and level off thereafter. The macroeconomic scenario underpinning the budgetary projections in the Convergence Programme is optimistic over the entire programme period. According to the Convergence Programme scenario, GDP would stagnate in 2014, whilst moderate growth of 1,2 % is projected in 2015; against a decline of 0,6 % and growth of 0,7 %, respectively, in the Commission services 2014 Spring Forecast. The Convergence Programme's budgetary forecast figures deviate from the standards of the European System of National and Regional Accounts (ESA), giving rise to inconsistency with past data and the macroeconomic scenario and hindering an appropriate comparison with the Commission services 2014 Spring forecast. Moreover, the Convergence Programme does not provide a sufficient level of detail on the consolidation measures for 2015 and 2016, in particular on the expenditure side. According to the Commission services 2014 Spring forecast, the headline balance is expected to reach 3,8 % and 3,1 % of GDP in 2014 and 2015 respectively. After the necessary adjustment to make these projections comparable to the targets set in the context of the Excessive Deficit Procedure (i.e. excluding the impact of the transfer of second pillar pension assets), the Commission projection for the deficit in 2014 would be 4,6 % of GDP and 3,8 % in 2015.

As the Convergence Programme constitutes the first report on the action taken by the authorities following the opening of the Excessive Deficit Procedure on 28 January 2014, the Commission assessed the action taken by Croatia in a Communication published on 2 June 2014. In particular, the headline target is projected to be met in 2014, while the deficit is expected to be somewhat above target in 2015. The improvement in the structural government balance falls marginally short of what is required both in 2014 and 2015. Finally, while the change in the adjusted structural balance is below the recommended effort, the effort measured by the underlying amount of discretionary measures is estimated to be delivered both in 2014 and 2015. In order to reduce the negative impact on growth and enhance the sustainability of the consolidation, greater attention to the quality of the measures and a transition to expenditure-based measures are warranted. Based on its assessment of the Convergence Programme and the Commission forecast, pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that, while Croatia took effective action by 30 April 2014 to correct its excessive deficit as recommended, additional efforts are needed in order to comply with the recommendation under the Excessive Deficit Procedure to correct the excessive deficit by 2016 and ensure the credibility of the correction.

(10) Budgetary consolidation measures should be geared towards enhancing the quality of public finances, with a view to achieving efficiencies, in particular in wage, social security and subsidy outlays, and to providing sufficient fiscal space for prioritising growth-enhancing expenditure and investments, including in projects funded by the Union. Croatia has implemented significant reforms in its fiscal framework in recent years. However, weaknesses remain in relation to budgetary planning, effective control over expenditure and consistent application of budgetary constraints, which negatively impact on fiscal policy-making. Although recently changed, the design of the fiscal rules should be further improved. In particular, the effectiveness of the fiscal framework is undermined by the absence of preventive mechanisms and weak compliance with the debt rule, and an ambiguous formulation of the structural balanced-budget rule. While the establishment of the Fiscal Policy Commission is welcome, additional measures are deemed necessary to strengthen its position in the budget planning and monitoring, most notably its independence from all budgetary authorities.

(11) Croatia faces the challenge of pursuing fiscal consolidation without harming competitiveness and prospects of economic recovery. Against such background, the revenue side of public finances is constrained by a narrow definition of the bases for taxes that offer a stable tax yield and have little distortionary impact on growth. In this context, the National Reform Programme announces a plan to introduce a recurrent property tax in 2016 but its operational design, including that of the tax base, is yet to be specified. Croatia is also determined to take measures to improve tax compliance by reducing the grey economy. Steps have been taken on this front. The gradual introduction of fiscal cash registries has increased tax receipts by enhanced oversight of transactions. The reorganisation of the tax administration is expected to improve the efficiency and effectiveness of tax collection while lowering compliance burdens for taxpayers. However, in light of fiscal consolidation needs, and also taking into account data pointing to significant amounts of uncollected taxes, there seems to be scope to increase further the efficiency of tax collection and continued efforts are needed to improve tax compliance by providing more e-services to taxpayers.

(12) Croatia has taken measures with a view to improving the sustainability and adequacy of pensions: since November 2010, the statutory retirement age, the early retirement age and the qualifying period for women have been gradually increased and are set to be fully harmonised by 2030. The amendments to the Pension Insurance Act adopted in December 2013 raise the statutory retirement age from 65 to 67 and the early retirement age from 60 to 62. However, this increase will become effective only as of 2031, which is insufficiently ambitious taking account of demographic trends. Despite reforms implemented over recent years, various possibilities for early retirement still exist. Considering the extent of exemptions, the penalties for early retirement and the late retirement bonus create little incentive to work until the statutory retirement age, impacting negatively on the labour supply and the sustainability of the pension system. The Act on the Single Forensic Expertise Body was adopted in 2013 to help limit the inflow of disability pensioners and reduce fraud by unifying disability assessments. Together with increased inspections, this addresses a definite need but the effect on expenditure will depend on how measures are implemented and the extent to which decisions are enforced. Pensions under special schemes that were above a certain threshold were cut by 10 %, albeit on a temporary basis, while their indexation has been tied to a GDP trigger. Despite recent attempts to curb expenditure and increase transparency, the pace and extent of convergence of pensions under special schemes towards general rules are slow and overall progress is still limited.

(13) The health sector achieves reasonably good health outcomes and, with some regional variation, services are accessible, but the system contributes significantly to pressure on the public finances. The authorities identified remediable inefficiencies in the hospital network. The master plan presented in March 2014 for the reorganisation of hospital care provides for measures that would improve cost-effectiveness, such as rationalisation of the hospital network, reduced average lengths of hospital stays, a better allocation of hospital beds, including for long-term care, and further changes in hospital financing. Strong monitoring and implementation capacities in both hospitals and central government should be ensured to put the plan into practice. Long-term care is characterised by dispersed services between the health and the social welfare systems, low coverage rates and formal care, high costs of provision and long waiting lists.

(14) Employment and activity rates are amongst the lowest in the Union, and are particularly low for young people and older people. Beyond cyclical developments, these labour market outcomes are partly related to institutional and policy settings. Croatia has embarked on labour market reforms to increase flexibility on the labour market. A first phase of the reform, completed in 2013, focused on regulation of fixed-term employment contracts. The Government adopted a second legislative proposal in January 2014 which provides for reducing dismissal costs by shortening and simplifying procedures and increasing working-time flexibility. In addition, more flexible forms of employment such as part-time contracts would be introduced. These changes would put Croatia broadly on a par with its peers, as far as the employment protection index is concerned. Although these reforms are expected to have a positive effect on overall employment, they also entail an increased risk of labour market segmentation, including the development of fixed-term contracts. Meanwhile, no changes are foreseen to the wage-setting institutions despite Croatia's particular combination of relatively high average wages and very low employment. Despite further rising unemployment, spending and coverage of active labour market policy measures to enable improved access to, and longer stay in, the labour market are still below average, especially as regards young people, the long-term unemployed and older workers. The administrative capacity of the Croatian public employment service is under severe pressure, including at regional level. An overall system to monitor and evaluate developments on the labour market and labour market needs including skills forecasting does not exist nor is there a regular evaluation of active labour market policy measures. There is a high proportion of undeclared paid activity.

(15) The situation on the labour market is of particular concern for young people as youth unemployment increased drastically and reached almost 50 % in 2013, while the proportion of young people not in education, employment or training continues to increase. Important challenges include outreach to non-registered youth and mobilisation of the private sector to offer more apprenticeships, in line with the objectives of a youth guarantee. Croatia also faces serious challenges in education as regards labour-market relevance and quality of provision across all educational sectors. Work-based learning and career guidance across secondary and tertiary education are lacking while employers' engagement with vocational education and training, and secondary and tertiary education is low. Employment rates among recent graduates are significantly lower than in the rest of the Union. The outdated vocational education and training system is undergoing reform in the form of piloting new school curricula. The implementation of the Croatian Qualifications Framework and the Strategy on Education, Science and Technology is pending but should improve educational outcomes and align them with labour market needs.

(16) High unemployment and low labour market participation have led to a deterioration of the social situation in Croatia. The proportion of persons at risk of poverty and social exclusion has increased in recent years and is significantly above the EU average. The design of the social benefit system makes it possible for recipients to accumulate overlapping cash transfers. When recipients move into work, they lose the benefit of some of these social transfers, thereby creating disincentives for them to enter the labour market. There is scope to make the social protection system more efficient and transparent: currently, the allocation of income support schemes and benefits is scattered across many institutions and levels of government, with inconsistent application of criteria and overlaps. The 2013 Social Welfare Act introduced stricter means testing and merged four of more than 70 benefits at national level, including some targeting specific groups, into the General Minimum Income. A national 'one-stop shop', through which all national level cash benefits will be administered, is being implemented gradually until 2016. However, systematic monitoring and evaluation will be difficult as the income support schemes and programmes at local and regional levels and the various non-means tested cash benefits targeting specific categories of the population, have not been integrated. Despite several legislative reforms since 2011, the design of the social benefit systems failed to effectively target, people most in need.

(17) The current regulatory framework for doing business in Croatia imposes a high burden on businesses, including lack of legal certainty, non-transparent decision-making in particular at local level, and numerous para-fiscal charges. Moreover, high fragmentation of public administration responsibilities at regional and local levels and a complex split of competencies between ministries and agencies at central level complicate business decisions and lengthen administrative procedures. A structured approach has been

put in place at central government level to identify obstacles for business; however, a consistent methodology for measuring administrative burden is not applied, which decreases the effectiveness of measures already taken. The existing one-stop shop for businesses covers limited functionalities only. There is a need to rationalise and improve control over public subsidies and guarantees; a central register of supported companies and individuals would represent a first step in this area. Croatia has initiated reforms of the public administration to strengthen its administrative capacities and to improve the client-orientation of public services for citizens and businesses. However, the quality of public governance remains low, with weak coordination across different levels of government and little or overformalistic use of evidence-based policy-making and assessment. The adoption of the public administration reform strategy is a step in the right direction; the strategy should be thoroughly implemented at all levels of government. The experience of the implementation of the pre-accession funds points to deficiencies in terms of strategic planning and institutional capacity and weaknesses in project elaboration and follow-up.

(18) State-owned or state-controlled companies are negatively affected by weak governance while the implementation of the new strategy for the management of public assets and enterprises has encountered delays. Currently, there is no competitive selection procedure for supervisory board members and management, and appointments are not published. While measures have been taken to improve the anti-corruption framework, more efforts are required in the prevention of corruption, at all layers of government. The key elements currently missing in the anti-corruption framework include effective verification mechanisms for conflict of interest and asset disclosure of public officials, as well as specific safeguards for state-owned and state-controlled enterprises. The verification powers of the Commission for the Resolution of Conflict of Interest rely on the competences and pro-activeness of other authorities. Despite the progress made to increase transparency of public procurement procedures, risk assessment tools are not being systematically used and vulnerable sectors appear to be insufficiently prioritised. The oversight over the effective implementation of public procurement rules needs to be reinforced, also in view of the allocation of EU funds in the coming years.

(19) The wide-spread application of the pre-bankruptcy procedure in 2013 met with some success in addressing debt-servicing problems faced by companies in the context of complex, expensive and lengthy bankruptcy procedures. However, there is scope to considerably strengthen the instrument by addressing various shortcomings, such as insufficient clarification of the role of the State in the process, strengthening the role of commercial courts in validating claims and sound restructuring plans, extending the scope of the procedure to allow for effective restructuring before the debtor becomes insolvent, and addressing deficiencies in implementation of the law. Despite a number of reforms to improve the effectiveness of the justice system, judicial proceedings in litigious civil, commercial and administrative cases are unduly long, particularly in first instance. The backlog of cases increased in 2013 and is very high, particularly as regards civil and commercial proceedings. Continued effort to create and enforce the right incentives to resolve proceedings in a timely manner and to promote out-of-court settlements, especially in the case of small claims, is needed to address these issues, as they hamper business activity and reduce Croatia's attractiveness for foreign direct investment.

(20) The conservative approach adopted by the Croatian National Bank to macro-prudential regulation, in particular in relation to capital levels, has meant that banks have built up a degree of resilience that has proven to be useful given the challenges they now face from the weak economy. However, with the economy entering its sixth year of recession and increasing non-performing loans, there are risks to banks' asset quality. It is welcome that certain portfolios of the four largest Croatian banks, which are foreign-owned, will be covered by the euro area asset quality review/stress test of the new Single Supervisory Mechanism. Nevertheless, the exercise excludes some materially important portfolios from a Croatian perspective, as portfolios are selected based on their relevance at a banking group level. Furthermore, the exercise does not cover mid-size and smaller banks, which may have lower capital levels and less robust asset quality, and which are potentially important for financial stability. Complementing the Single Supervisory Mechanism exercise by an additional supervisory diagnostic exercise designed specifically for the Croatian financial system (and which would cover significant portfolios of Croatian subsidiaries that are not part of the Single Supervisory Mechanism exercise, as well as key mid-size and smaller banks) would improve the overall understanding of banks' loan classification and the adequacy of their loan loss provisions.

(21) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Croatia'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 socio-economic policy in Croatia 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.

(22) 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.

(23) 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) to (8) below.

HEREBY RECOMMENDS that Croatia take action within the period 2014-2015 to:

1. Fully implement the budgetary measures adopted for 2014. Reinforce the budgetary strategy, further specifying announced measures for 2015 and 2016, and considering additional permanent, growth-friendly measures in order to ensure a sustainable correction of the excessive deficit by 2016. At the same time, ensure that the structural adjustment effort as specified in the Council recommendation under the Excessive Deficit Procedure is delivered. Align programme projections with ESA standards and Stability and Growth Pact requirements. Take measures to reinforce control over expenditure. By March 2015, carry out a thorough expenditure review. Reinforce the budgetary planning process, in particular by improving the accuracy of macroeconomic and budgetary forecasts and strengthening the binding nature of the annual and medium-term expenditure ceilings and improve the design of fiscal rules. By October 2014, ground in law the newly established Fiscal Policy Commission, strengthen its independence from all budgetary authorities, broaden its mandate, in particular with respect to the monitoring of all fiscal rules and the ex ante and ex post assessment of forecasts, and ensure adequate resourcing. Building on plans outlined in the National Reform Programme, present a concrete strategy to reform recurrent property taxation. Initiate a process of reporting and reviewing of tax expenditures. Improve tax compliance, in particular by further enhancing the efficiency of the tax administration; present an action plan to this end by the end of 2014.

2. Reduce access to early retirement. Adopt legislation by March 2015 to accelerate the planned harmonisation of statutory retirement ages of women and men and to advance the planned increase of the statutory retirement age to 67 years. Ensure enforcement of tighter disability pensions assessments and controls and accelerate the integration of pensions under special schemes into the general pension system. Strengthen the cost-effectiveness of the healthcare sector, including hospitals.

3. Implement the second phase of the labour law reform, following consultation with the social partners, in particular as regards conditions for dismissals and working time, and with a view to preventing further labour market segmentation including for young people, by March 2015. Review the wage-setting system with a view to better aligning productivity developments and wage conditions. Present the conclusions of this review by the end of 2014. Strengthen the effectiveness and reach of active labour market policies by reinforcing the administrative capacities of the public employment services, including at regional level, and by increasing the coverage of the young, long-term unemployed and older workers. Prioritise outreach to non-registered youth and mobilise the private sector to offer more apprenticeships, in line with the objectives of a youth guarantee. Outline plans, by the end of 2014, to address undeclared work. Implement measures to improve the labour market relevance and quality of education outcomes by modernising the qualification systems, by putting in place quality assurance mechanisms and by improving school-to-work transitions, in particular through strengthening vocational education and work-based learning.

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

4. Review tax and benefits systems by the end of 2014, and present an action plan to improve the reactivation of inactive and unemployed persons. Strengthen the effectiveness and transparency of the social protection system by further consolidating benefits, unifying eligibility criteria and linking data from all relevant levels and government entities in the 'one-stop shop'. Improve the effectiveness and adequacy of social assistance benefits through their better targeting.

5. Take further measures to improve the business environment. In particular, by March 2015 set a target for considerably lowering administrative requirements, including para-fiscal charges. Address the high level of fragmentation and overlapping responsibilities by streamlining administrative processes and by clarifying the decision-making and accountability framework across various levels of government and at central government level between ministries and agencies. Improve administrative capacity and strategic planning of units entrusted with the management of European Structural and Investment Funds and provide them with adequate and stable staffing levels.

6. Present, by October 2014, a detailed plan for public property management for 2015. Ensure that companies under state control are governed in a transparent and accountable manner, in particular, strengthen the competency requirements for members of management and supervisory boards nominated by the State and introduce a public register for appointments. Reinforce prevention of corruption in public administration and state-owned and state-controlled enterprises, including by increasing the verification powers of the Conflict of Interest Commission. Strengthen transparency and efficiency of public procurement at both central and local levels, and the capacity to monitor implementation and to detect irregularities.

7. By the end of 2014, reinforce the role of commercial courts in the monitoring of transparency and legality in the application of the corporate pre-bankruptcy procedure. Review the compulsory test of insolvency/illiquidity to access pre-bankruptcy settlement proceedings and streamline the insolvency/liquidation process to reduce its length. Improve the quality and efficiency of the judicial system, in particular by providing incentives to resolve proceedings in litigious civil and commercial cases and in administrative cases in a timely manner and to resort to out-of-court settlement especially for smaller claims.

8. Complement the 2014 European Central Bank's asset quality reviews and stress test exercises, undertake a comprehensive portfolio screening exercise designed specifically for the Croatian financial sector, with a focus on important portfolios that are not covered by the European Central Bank exercise and including key mid-size and smaller banks.

Done at Brussels, 8 July 2014.

For the Council

The President

P. C. PADOAN

COUNCIL RECOMMENDATION

of 8 July 2014

on the National Reform Programme 2014 of Italy and delivering a Council opinion on the Stability Programme of Italy, 2014

(2014/C 247/11)

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 resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, 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, on the basis of the Commission's proposals, 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.

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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 2014 by Council Decision 2014/322/EU of 6 May 2014 on guidelines for the employment policies of the Member States for 2014 (OJ L 165, 4.6.2014, p. 49).

(4) On 9 July 2013, the Council adopted a Recommendation [1] on Italy's National Reform Programme for 2013 and delivered its opinion on Italy's Stability Programme for 2012-2017. On 15 November 2013, in line with Regulation (EU) No 473/2013 of the European Parliament and of the Council [2], the Commission presented its opinion on Italy's draft budgetary plan for 2014.

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey [3], marking the start of the 2014 European Semester for economic policy coordination. Also, on 13 November 2013, 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) On 20 December 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.

(7) On 5 March 2014, 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 excessive macroeconomic imbalances, which require specific monitoring and strong policy action. In particular, the persistently high level of the public debt coupled with weak external competitiveness on account of sluggish productivity growth, and further exacerbated by protracted dismal growth, warrant decisive policy action and attention.

(8) On 22 April 2014, Italy submitted its 2014 National Reform Programme and its 2014 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(9) The objective of the budgetary strategy outlined in the Stability Programme is the achievement of the medium-term objective of a balanced budgetary position in structural terms by 2016, while complying with the debt rule in the 2013-2015 transition period. The Stability Programme confirms the medium-term objective of a balanced budgetary position in structural terms, which reflects the requirements of the Stability and Growth Pact. The (recalculated) structural adjustment planned in the Stability Programme is 0,2 percentage points of GDP in 2014 and 0,4 percentage points in 2015. According to the Stability Programme, this limited adjustment towards the medium-term objective is justified by the severe economic conditions and the effort needed to implement an ambitious programme of structural reforms. In particular, several structural reforms are planned, which would have a positive impact on potential economic growth and eventually reduce the government debt-to-GDP ratio in the coming years. The structural adjustment planned in the Stability Programme would allow Italy to comply with the debt reduction benchmark over the 2013-2015 transition period, partly thanks to an ambitious privatisation plan to be implemented over 2014-2017 (amounting to 0,7 percentage points of GDP each year). The macroeconomic scenario underpinning the budgetary projections in the Stability Programme, which has not been endorsed by an independent body, is slightly optimistic, in particular for the later years of the Stability Programme.

A deviation from the adjustment path towards the medium-term objective is planned in 2014; if repeated the following year, it could be assessed as significant, including on the basis of the expenditure benchmark. Moreover, the achievement of the budgetary targets is not fully supported by sufficiently

[1] OJ C 217, 30.7.2013, p. 42.

[2] 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).

[3] COM(2013) 800 final.

detailed measures, in particular as of 2015. The Commission services 2014 spring forecast points to non-compliance with the debt reduction benchmark in 2014 as the projected structural adjustment (only 0,1 percentage points of GDP) falls short of the required structural adjustment of 0,7 percentage points of GDP. Based on the assessment of the Stability Programme and the Commission forecast pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that additional efforts, including in 2014, are needed to be in compliance with the requirements of the Stability and Growth Pact.

(10) Recent action to alleviate taxation on the factors of production has been somewhat limited. There is thus scope to further shift the tax burden towards consumption, property and the environment, in strict compliance with the budgetary targets. As regards consumption, improving the structure of the tax system also crucially requires a revision of VAT reduced rates and of direct tax expenditures, with due attention to the need to lessen possible distributional impact. As regards property, a revision of cadastral values in line with current market values would allow for fairer recurrent taxation on immovable property. A recently adopted enabling law for tax reform represents an opportunity to carry out such necessary reforms. Given the size of the challenge, action on the composition of the tax structure needs to be complemented by additional measures to improve tax administration and tax compliance and decisive measures to combat tax evasion, the shadow economy and undeclared work, which continue to weigh both on public finances and on the tax burden for compliant taxpayers. In this respect, the enabling law for tax reform foresees several measures to strengthen tax administration: a comprehensive estimation of and monitoring system for the tax gap, simplification measures, actions to improve the relationship with taxpayers, measures to improve local tax debt recovery and reinforcement of tax controls. The decision to introduce pre-filled tax returns as from 2015 is an additional positive step to enhance tax compliance.

(11) Thorough and swift implementation of the measures adopted remains a key challenge for Italy, both in terms of addressing existing implementation gaps and preventing the accumulation of further delays. One of the key levers to improve the implementation performance of Italy, and more generally ensure smoother policy action, lies in enhanced coordination and a more efficient allocation of competences among the various levels of government. This could in turn be beneficial for the management of EU funds, where only partial and incomplete action has been undertaken so far, especially in southern regions. The management of EU funds also continues to suffer from deficient administrative capacity and lack of transparency, evaluation and quality control. The quality of public service would also gain from increased efficacy and service orientation, and corresponding changes in human resource management. Corruption continues to weigh significantly on Italy's productive system and on trust in the political and institutional landscape. There is a need to review the statute of limitations. An effective fight against corruption also requires adequate empowering of the National Anti-Corruption Authority for the Evaluation and Transparency of Public Administrations. Inefficiencies in civil justice persist and the impact of the measures adopted needs to be carefully monitored.

(12) Drawing on the targeted asset quality review carried out last year under the patronage of the Bank of Italy, it remains important to improve the management of impaired assets and foster their disposal to revive banks' capacity to expand the supply of credit to the real economy. As regards access to finance, the main action taken so far has focused on easing firms' access to credit, but the development of funding instruments other than bank loans remains limited, especially for small and medium-sized enterprises. The initiatives taken in the field of banks' corporate governance — in particular the new principles issued recently by the Bank of Italy — are welcome. At the same time, their impact will depend on their proper implementation by the banks and enforcement. In particular, close monitoring of some of the largest cooperative banks ('banche popolari') remains warranted.

(13) The labour market situation further deteriorated in 2013, with unemployment rising to 12,2 % and youth unemployment reaching 40 % in Italy. Ensuring proper implementation and careful monitoring of the effect of the labour market and wage-setting reforms adopted is key to guaranteeing that the expected benefits in terms of enhanced exit flexibility, better regulated entry flexibility, a more comprehensive system of unemployment benefits and better alignment of wages on productivity materialise. Plans for

improving effectiveness of placement services through the reinforcement of public employment services have been subject to delays and need to be accelerated. Measures aimed at fostering job creation in the short term need to be complemented with measures addressing segmentation. Globally, the Italian labour market continues to be marked by segmentation and low participation, which affects women and young people in particular. Therefore, the limited steps taken so far need to be extended, including in line with the objectives of a youth guarantee. Italy is witnessing declining household disposable income combined with rising poverty and social exclusion, affecting families with children in particular. Social expenditure in Italy remains largely oriented towards the elderly and with little focus on activation, limiting the scope to address the risk of social exclusion and poverty. The recently introduced pilot social assistance scheme aims at providing a social safety net. Its envisaged extension to the whole country will require improving the effectiveness of social spending and services throughout the territory.

(14) Efforts to upgrade educational performance and human capital endowment need to be made at all educational levels, i.e. primary, secondary and tertiary. The teaching profession is characterised by a single career pathway and currently offers limited prospects in terms of professional development. Diversifying teachers' careers and better linking their career trajectories to merit and performance, coupled with the generalisation of school evaluation, could translate into better school outcomes. To ensure a smooth transition between education and the labour market, strengthening and broadening practical training, through increased work-based learning and vocational education and training, appear crucial at the upper secondary and tertiary levels. Following the 2013 legislative decree on this issue, establishing a national register of qualifications is essential in order to ensure the nation-wide recognition of skills. Building on initial action in this direction, bringing forward the allocation of public funding to universities and research institutes on the basis of research and teaching performance would have the merit of both contributing to upgrading the quality of universities and potentially increasing research and innovation capacity, where it is still lagging behind.

(15) Some steps were made to achieve a more business- and citizen-friendly environment, but their impact is hampered by delays in their final approval and implementation gaps. There are still a number of bottlenecks to competition (reserved areas of activity, concessions/authorisation schemes, etc.) in professional services, insurance, fuel distribution, retail and postal services. A series of weaknesses affecting the public procurement system also need to be tackled. Enhancing competition in the area of local public services is another priority. In particular, it is necessary to implement the current legislation stipulating that existing contracts not complying with EU law on in-house criteria need to be rectified by 31 December 2014.

(16) Infrastructure bottlenecks hamper the proper functioning of the energy market. In transport, the lack of intermodal infrastructure and the shortage of synergies and connections with the hinterland for Italian ports warrant particular attention and action. In terms of broadband coverage, Italy has underserved non-urban areas.

(17) 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 the Stability Programme. It has taken into account not only their relevance for sustainable fiscal and socio-economic 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 (8) 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 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 (8) below.

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

(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 [1]. 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 2014-2015 to:

1. Reinforce the budgetary measures for 2014 in the light of the emerging gap relative to the Stability and Growth Pact requirements, namely the debt reduction rule, based on the Commission services 2014 spring forecast and ensure progress towards the MTO. In 2015, significantly strengthen the budgetary strategy to ensure compliance with the debt reduction requirement and thus reaching the MTO. Thereafter, ensure that the general government debt is on a sufficiently downward path; carry out the ambitious privatisation plan; implement a growth-friendly fiscal adjustment based on the announced significant savings coming from a durable improvement of the efficiency and quality of public expenditure at all levels of government, while preserving growth-enhancing spending like R&D, innovation, education and essential infrastructure projects. Guarantee the independence and full operationalisation of the fiscal council as soon as possible and no later than September 2014, in time for the assessment of the 2015 Draft Budgetary Plan.

2. Further shift the tax burden from productive factors to consumption, property and the environment, in compliance with the budgetary targets. To this end, evaluate the effectiveness of the recent reduction in the labour tax wedge and ensure its financing for 2015, review the scope of direct tax expenditures and broaden the tax base, in particular on consumption. Ensure more effective environmental taxation, including in the area of excise duties, and remove environmentally harmful subsidies. Implement the enabling law for tax reform by March 2015, including by adopting the decrees leading to the reform of the cadastral system to ensure the effectiveness of the reform of immovable property taxation. Further improve tax compliance by enhancing the predictability of the tax system, simplifying procedures, improving tax debt recovery and modernising tax administration. Pursue the fight against tax evasion and take additional steps against the shadow economy and undeclared work.

3. As part of a wider effort to improve the efficiency of public administration, clarify competences at all levels of Government. Ensure better management of EU funds by taking decisive action to improve administrative capacity, transparency, evaluation and quality control both at national and regional level, especially in southern regions. Further enhance the effectiveness of anti-corruption measures, including by revising the statute of limitations by the end of 2014, and strengthening the powers of the national anti-corruption authority. Monitor in a timely manner the impact of the reforms adopted to increase the efficiency of civil justice with a view to securing their effectiveness and adopting complementary action if needed.

4. Reinforce the resilience of the banking sector and ensure its capacity to manage and dispose of impaired assets to revive lending to the real economy. Foster non-bank access to finance for firms, especially small and medium-sized businesses. Continue to promote and monitor efficient corporate governance practices in the whole banking sector, with particular attention to large cooperative banks ('banche popolari') and the role of foundations, with a view to improving the effectiveness of financial intermediation.

5. Evaluate, by the end of 2014, the impact of the labour market and wage-setting reforms on job creation, dismissals' procedures, labour market duality and cost competitiveness, and assess the need for additional action. Work towards a more comprehensive social protection for the unemployed, while limiting the use of wage supplementation schemes to facilitate labour re-allocation. Strengthen the link between active and passive labour market policies, starting with a detailed roadmap for action by December 2014, and reinforce the coordination and performance of public employment services across the country. Adopt effective action to promote female employment, by adopting measures to reduce fiscal disincentives for second earners by

(1) See page 141 of the current Official Journal.

March 2015 and providing adequate care services. Provide adequate services across the country to non-registered young people and ensure stronger private sector commitment to offering quality apprenticeships and traineeships by the end of 2014, in line with the objectives of a youth guarantee. To address exposure to poverty and social exclusion, scale-up the new pilot social assistance scheme, in compliance with budgetary targets, guaranteeing appropriate targeting, strict conditionality and territorial uniformity, and strengthening the link with activation measures. Improve the effectiveness of family support schemes and quality services favouring low-income households with children.

6. Implement the National System for Evaluation of Schools to improve school outcomes in turn and reduce rates of early school leaving. Increase the use of work-based learning in upper secondary vocational education and training and strengthen vocationally-oriented tertiary education. Create a national register of qualifications to ensure wide recognition of skills. Ensure that public funding better rewards the quality of higher education and research.

7. Approve the pending legislation or other equivalent measures aimed at simplifying the regulatory environment for businesses and citizens and address implementation gaps in existing legislation. Foster market opening and remove remaining barriers to, and restrictions on, competition in the professional and local public services, insurance, fuel distribution, retail and postal services sectors. Enhance the efficiency of public procurement, especially by streamlining procedures including through the better use of e-procurement, rationalising the central purchasing bodies and securing the proper application of pre- and post-award rules. In local public services, rigorously implement the legislation providing for the rectification of contracts that do not comply with the requirements on in-house awards by 31 December 2014.

8. Ensure swift and full operationalisation of the Transport Authority by September 2014. Approve the list of strategic infrastructure in the energy sector and enhance port management and connections with the hinterland.

Done at Brussels, 8 July 2014.

For the Council

The President

P. C. PADOAN

COUNCIL RECOMMENDATION

of 8 July 2014

on the National Reform Programme 2014 of Latvia and delivering a Council opinion on the Stability Programme of Latvia, 2014

(2014/C 247/12)

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 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, 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, on the basis of the Commission's proposals, 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 9 July 2013, the Council adopted a Recommendation [3] on Latvia's National Reform Programme for 2013 and delivered its opinion on Latvia's updated Convergence Programme for 2012-2016.

[1] OJ L 209, 2.8.1997, p. 1.
[2] Maintained for 2014 by Council Decision 2014/322/EU of 6 May 2014 on guidelines for the employment policies of the Member States for 2014 (OJ L 165, 4.6.2014, p. 49).
[3] OJ C 217, 30.7.2013, p. 47.

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey, marking the start of the 2014 European Semester for economic policy coordination. Also, on 13 November 2013, the Commission, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council [1], 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) On 20 December 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.

(7) On 29 April 2014, Latvia submitted its 2014 National Reform Programme and on 30 April 2014 its 2014 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(8) The objective of the budgetary strategy outlined in the 2014 Stability Programme is to gradually reduce the headline deficit and to maintain a structural balance which is consistent with the medium-term objective when taking into account the allowed temporary deviation from the medium-term objective due to the impact of the systemic pension reform. The Stability Programme has changed the medium-term objective from - 0,5 % to - 1,0 %; the new medium-term objective reflects the objectives of the Stability and Growth Pact. The planned path of the headline balance in the Stability Programme implies a gradual deterioration of the (recalculated) structural balance, although still within the margin allowed by the implementation of the pension reform. Taking into account the allowed deviation from the medium-term objective, the planned structural deficit is in line with the requirement of the Stability and Growth Pact until 2016. However, the planned increase in the recalculated structural deficit in 2017 leads to a deviation from the required adjustment path towards the medium-term objective. Overall, the budgetary strategy outlined in the Stability Programme is mostly in line with the requirements of the Stability and Growth Pact. Government debt is set to remain well below 60 % of GDP over the whole programme period, declining to 31 % of GDP by 2017. The macroeconomic scenario underpinning the budgetary projections in the Stability Programme, which has not been formally endorsed by an independent institution, is plausible. Economic growth is expected to remain around 4 % per year over the programme period, and projected price increases are moderate.

(9) The Stability Programme's budgetary scenario envisages a steep decline in the share of government's revenue and expenditure in GDP, reflecting several revenue-reducing measures against targeted expenditure restraint. Increasing spending demands in several policy fields represent a risk to the projected expenditure reductions in the Stability Programme. The Commission services 2014 spring forecast shows that while fiscal policy in 2014 is in line with the requirement of the Stability and Growth Pact, there is a risk of a deviation in 2015. Based on its assessment of the Stability Programme and the Commission forecast, pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that in 2014 the deviation of the structural deficit from the medium-term objective reflects the impact of the systemic pension reform, while as of 2015 there is a risk of a deviation from the required adjustment path.

(10) Latvia has taken steps to lower the tax burden for low-income earners and families with dependants and to strengthen property and environmental taxation, but the level and design of these taxes does not sufficiently affect the behaviour of economic operators, and some environmentally harmful subsidies remain in place. While the authorities have made some progress in improving tax compliance and reducing the proportion of undeclared economic activity, in particular by improving risk assessment and tightening sanctions against fraudulent behaviour, challenges in the fight against tax fraud and evasion remain. In particular, despite representing a significant proportion of total taxation, revenue from consumption taxes has ample potential for further increase if tax compliance is improved.

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

(11) Despite an originally ambitious plan to reform higher education, Latvia has made no progress in setting up an internationally approved accreditation system, plans to introduce a new financing model are indicatively foreseen for 2016, consolidation of higher education institutes has been weakened and restrictions on the use of foreign languages remain unchanged. This is despite the fact that there is significant room for reforming the higher education system, which is too large in view of the declining population, offers too many distinct study programmes and has a limited attraction for foreign students and teaching staff. The results of the first independent assessment of research institutions show that 21 % of full-time equivalent scientists work for those 10 % of the evaluated that can be considered as high-level international research centres. Moreover, Latvia had an R&D intensity of only 0,66 % of GDP in 2012 and is not on track to achieve its Europe 2020 objective of devoting 1,5 % of GDP to R&D.

(12) Latvia has made progress in tackling unemployment, which has fallen considerably. However, youth unemployment is still relatively high and there is a need for outreach measures for non-registered inactive youth. Although Latvia has taken measures to address skills mismatches and the quality of vocational education, these still require attention, in particular in improving the quality of apprenticeships and in developing comprehensive career guidance. Active labour market policies are still limited in scope and over rely on public works.

(13) Working age poverty remains very high in Latvia. Latvia has taken some steps to reform social assistance and has completed a large-scale assessment of the social security system providing a solid basis for an evidence-based reform. It has significantly increased various child-related benefits, and raised the non-taxable thresholds in personal income tax for dependants. However, the effectiveness of social protection in terms of poverty reduction remains poor and designing an effective social safety net remains a challenge. Overall, a high proportion of the population is at risk of poverty or social exclusion, and even more so for children. Families with children, the unemployed, people with disabilities and people living in rural areas are at a particularly high risk of poverty and social exclusion. Latvia's spending on social protection as a percentage of GDP is the lowest in the Union. Access to healthcare is hampered by costs, including high out-of-pocket payments and prevalent informal payments, leaving a high proportion of the population with unmet healthcare needs. There is room for improvement to enhance the efficiency of the system, ensure cost-effective financing and promote disease-prevention activities.

(14) Latvia has made some progress in opening its electricity market to competition and this will be extended to the household sector in early 2015. Latvia joined the regional Scandinavian-Baltic Nord Pool Spot market for electricity contracting in June 2013. Further reinforcement of interconnections with the EU energy market is needed, as Latvia is currently import-dependent and the cross-border electricity connection with Estonia is mostly congested. Development of infrastructure is therefore essential and Latvia faces considerable challenges in closing infrastructure gaps. Some progress was also achieved in the natural gas sector as the Parliament approved amendments to the Energy law, setting out gradual opening up of the gas market from April 2014; however, the full market opening has been postponed until 2017. Latvia has put forward a balanced mix of policy measures addressing energy savings for the main sectors of the economy and in coming years more than 70 % of energy savings will be generated in the buildings sector. However, efficiency in transport, buildings and heating systems still needs to be improved.

(15) Latvia has taken significant action to improve capacities in the judiciary to reduce the backlog and length of proceedings. However, the high judicial backlog still poses a threat to business and reforms to improve the efficiency and quality of the judiciary need to be completed, including as regards insolvency, mediation and arbitration. Latvia has proposed ambitious public administration reforms; however their implementation is slow and not applied to local governments and the reform of state-owned enterprises has been significantly delayed. Amendments to the Competition Law are needed to give the Competition Council greater institutional and financial independence to intervene effectively against actions of public and private bodies restricting competition.

(16) 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 Stability Programme. It has taken into account not only their relevance for sustainable fiscal and socio-economic 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 (5) 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 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, Latvia should also ensure the full and timely implementation of those recommendations,

HEREBY RECOMMENDS that Latvia take action within the period 2014-2015 to:

1. Preserve a sound fiscal position in 2014 and strengthen the budgetary strategy as of 2015, ensuring that the deviation from the medium-term objective remains limited to the impact of the systemic pension reform. Pursue efforts to further reduce the tax burden on low-income earners in the context of a shift towards more growth-friendly property and environmental taxes and by improving tax compliance and collection.

2. Step up implementation of the higher education reform, in particular through the establishment of an independent accreditation agency and a financing model that rewards quality. Provide career guidance at all education levels, improve the quality of vocational education and training, including by strengthening apprenticeship, and make progress as regards the employability of young people including by putting in place outreach measures for non-registered youth not in employment, education or training. Take steps for a more integrated and comprehensive research system also by concentrating financing towards internationally competitive research institutions.

3. Reform social assistance and its financing further to ensure better coverage, adequacy of benefits, strengthened activation and targeted social services. Increase coverage of active labour market policies. Improve the cost-effectiveness, quality and accessibility of the healthcare system.

4. Accelerate the development of gas and electricity interconnections to neighbouring Member States to diversify energy sources and promote competition through improved integration of the Baltic energy markets. Pursue efforts to further increase energy efficiency in transport, buildings and heating systems

5. Complete judicial reforms including the pending reforms of insolvency, arbitration and mediation frameworks to ensure a more business- and consumer-friendly legal environment. Step up public administration reforms, including by implementing state-owned enterprise management reform and increasing institutional and financial independence of the Competition Council.

Done at Brussels, 8 July 2014.

For the Council

The President

P. C. PADOAN

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

[2] See page 141 of the current Official Journal.

COUNCIL RECOMMENDATION

of 8 July 2014

on the National Reform Programme 2014 of Lithuania and delivering a Council opinion on the Convergence Programme of Lithuania, 2014

(2014/C 247/13)

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 resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, 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, on the basis of the Commission's proposals, 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 9 July 2013, the Council adopted a Recommendation [3] on Lithuania's National Reform Programme for 2013 and delivered its opinion on Lithuania's updated Convergence Programme for 2012-2016.

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(1) OJ L 209, 2.8.1997, p. 1.
(2) Maintained for 2014 by Council Decision 2014/322/EU of 6 May 2014 on guidelines for the employment policies of the Member States for 2014 (OJ L 165, 4.6.2014, p. 49).
(3) OJ C 217, 30.7.2013, p. 51.

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey, marking the start of the 2014 European Semester for economic policy coordination. Also, on 13 November 2013, the Commission, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council [1], 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) On 20 December 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.

(7) On 1 April 2014, Lithuania submitted its 2014 National Reform Programme and on 22 April 2014 its 2014 Convergence Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(8) The objective of the budgetary strategy outlined in the 2014 Convergence Programme is to reach the medium-term objective by 2015 and to achieve a structural surplus of 0,9 % of GDP at the end of the Convergence Programme in 2017. The Convergence Programme confirms the previous medium-term objective of - 1 % of GDP, which reflects the requirements of the Stability and Growth Pact. Based on the (recalculated) structural budget balance, annual progress towards the medium-term objective is at least 0,5 % of GDP in 2014 and 2015. At the same time, there is a risk of deviation from the expenditure benchmark in 2015. Overall, the adjustment path towards the medium-term objective is broadly in line with the requirements of the Stability and Growth Pact. The Convergence Programme shows the debt decreasing substantially over the programme period to around 35 % by 2017. The macroeconomic scenario underpinning the budgetary projections in the Convergence Programme is broadly plausible. At the same time, for the years 2015-2017, consolidation measures have yet to be specified. According to the Commission services 2014 spring forecast, the structural adjustment in 2014 and 2015 is expected to be at 0,2 % and 0,6 % of GDP respectively, and thus for 2014 0,3 % of GDP below the required tightening of 0,5 % of GDP. Furthermore, the expenditure benchmark is at risk of a significant deviation in 2014, with an additional albeit more limited deviation in 2015. Based on its assessment of the Convergence Programme and the Commission forecast, pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that there is a risk of a significant deviation from the adjustment path towards the medium-term objective as of 2014.

(9) The relative importance of taxes considered less detrimental to growth, such as property and environmental taxes, remains low. Tax revenues rely to a large extent on indirect and labour taxation while the proportion accounted for by environmental taxation remains low. Increased revenue from more growth-friendly taxes could be used to alleviate the tax burden on low-income earners, in particular the low-skilled. A partial review of the tax system was undertaken at the beginning of 2013 and the Government decided to adjust capital taxation, raise the taxable income threshold implying increased progressivity of personal income taxation for the benefit of low-income earners and increase excise duties for tobacco and alcohol. Overall, however, these measures will have a rather negative effect on revenues. Further steps to improve the sustainability of public finances and strengthen the revenue side therefore remain crucial. No major measures were taken following the 2013 country-specific recommendation on environmental taxation. There was limited progress in strengthening the fiscal framework, as expenditure ceilings remain insufficiently binding and legislative changes have not yet been approved. Lithuania continues to face challenges in terms of tax compliance, in particular to tackle VAT fraud by, among others, strengthening risk management measures. The 2013-2014 tax compliance action plan is being implemented and first estimates suggest some positive effects. In 2013, a set of measures was taken to strengthen tax compliance in the field of VAT and excise duties. For 2014-2015 a new targeted strategy has been launched.

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

(10) Unfavourable demographic developments cast doubts on Lithuania's long-term fiscal sustainability. Pension spending is projected to increase substantially and is estimated, over 50 years, to reach almost double the EU average. The gradual increase of the statutory retirement age that started in 2012 is not enough to keep up with shrinkage in the labour force and rising life expectancy. In addition, the sharp rise in poverty and severe material deprivation among older people points to problems linked to pension adequacy. Lithuania has made important but isolated steps in the right direction and more significant changes are needed to implement a comprehensive reform. It has completed the reform of the second pension pillar, but neither occupational schemes nor voluntary pension accumulation are widely used. Alongside the increase in the statutory retirement age, measures that ensure the employability of older workers and age-friendly working environments are also necessary.

(11) Overall unemployment has gone down but structural unemployment remains high, suggesting skills mismatches, in particular for the low-skilled. Youth unemployment and the rates of young people not in education, employment or training are decreasing, but are still high. The limited coverage of active labour market policies remains a challenge, and its effectiveness and timeliness needs to be improved. Skilled labour shortages are forecast to become even more pronounced in the future. To improve young people's employability, it is important to improve the labour-market relevance of vocational and higher education, improve the quality of apprenticeship schemes and work-based learning, in partnership with the private sector including SMEs. Increased participation in lifelong learning remains insufficient. A comprehensive review of the labour law, with the involvement of social partners, is needed to find ways of alleviating the administrative burden on employers. Primarily it will be essential to identify and eliminate unnecessary restrictions affecting flexible contractual agreements, dismissal provisions and working time arrangements.

(12) Despite recent improvement, working-age poverty remains above the EU average. Increases in the minimum monthly wage and non-taxable threshold have helped to address poverty. However, old-age poverty and severe material deprivation have risen steeply in recent years. In 2012-2013, the cash social assistance reform pilot resulted in a lower number of social beneficiaries and expenditure on cash social benefits. In 2014, the pilot was expanded to all municipalities. There is a need to ensure monitoring and evaluation as regards the effects of the reform on the most needy. The coverage of activation measures for long-term unemployed social assistance beneficiaries is insufficient. Moreover, the measures are still focused on public works schemes, and thus provide income support, but do not help to improve the beneficiaries' employability. The impact of the reform on those on low incomes needs to be assessed. Lithuania adopted the 2014-2020 Action Plan for Enhancing Social Inclusion. However, there remains a need to establish the main target groups, the budget and concrete measures, specifying how the targets will be achieved and how the various ministries, local governments and civil society actors implementing the Action Plan will cooperate.

(13) The Government has been undertaking an ambitious reform of state-owned enterprises since 2010. Final legal acts were approved in December 2013, amending the transparency guidelines requiring all state-owned enterprises, as of 2014, to provide separate data for commercial and non-commercial functions in their annual reports. A first report detailing this breakdown is envisaged for August 2014. It should allow a more detailed assessment of the success of this change. However, the number of independent board members in state-owned enterprises remains small, partly due to legal constraints applying to state and municipal enterprises. Legal changes are being proposed that would allow for independent members to be appointed to the boards of all state-owned enterprises. The effectiveness of separation commercial and non-commercial functions and the professionalisation of boards will have to be assessed once fully implemented.

(14) Electricity and gas links to neighbouring Member States remain underdeveloped, resulting in limited competition and high prices. Competition in the domestic markets has been strengthened through the liberalisation of the gas and electricity markets, but so far customers have not exercised their rights to change suppliers. While the Government has made energy interconnections a priority, these have yet to be finalised. An important gas pipeline has been commissioned and the LNG terminal in Klaipeda is expected to

become operational by December 2014. Some progress has been achieved with regard to the interconnections of the Lithuanian energy network with the EU energy market. Furthermore, energy efficiency needs to improve. Lithuania has made some progress on the energy efficiency of buildings, including with respect to investments under the JESSICA holding fund. In 2013 legislative measures were taken to accelerate the absorption of the holding fund. At the beginning of 2014, projects had been finalised, and initial applications have increased considerably. Legal changes involve heating subsidies being reduced if residents reject renovation, thus removing disincentives to renovation.

(15) 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 socio-economic 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.

(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,

HEREBY RECOMMENDS that Lithuania take action within the period 2014-2015 to:

1. Reinforce the budgetary measures for 2014 in the light of expenditure growth exceeding the benchmark and the emerging gap of 0,3 % of GDP in terms of structural effort based on the Commission services 2014 spring forecast, pointing to a risk of significant deviation relative to the preventive arm of the Stability and Growth Pact requirements. In 2015, strengthen the budgetary strategy to ensure the required adjustment of 0,5 % of GDP towards the medium-term objective. Thereafter ensure that the medium-term objective is adhered to. Complement the budgetary strategy with a further strengthened fiscal framework, in particular by ensuring binding expenditure ceilings when setting the medium-term budgetary framework. Further review the tax system and consider increasing those taxes that are least detrimental to growth, such as recurrent property and environmental taxation, while continuing to improve tax compliance.

2. Adopt and implement legislation on a comprehensive pension system reform. In particular, 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. Underpin pension reform with measures that promote the employability of older workers.

3. Better target active labour market policy measures to the low-skilled and long-term unemployed. Improve coverage and adequacy of unemployment benefits and link them to activation. Address persistent skills mismatches by improving the labour-market relevance of education inter alia based on skills forecast systems and promote life-long learning. In order to increase the employability of young people, prioritise offering quality apprenticeships, other forms of work-based learning, and strengthen partnership with the private sector. Review the appropriateness of labour legislation, in particular with regard to the framework for labour contracts and for working-time arrangements, in consultation with social partners.

4. Ensure adequate coverage of those most in need and continue to strengthen the links between cash social assistance and activation measures.

5. Complete the implementation of the reform of state-owned enterprises as planned; in particular by finalising the separation of commercial and non-commercial activities, further professionalising executive boards and closely monitoring 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, through a rapid implementation of the holding fund. Continue the development of cross-border connections to neighbouring Member States for both electricity and gas to diversify energy sources and promote competition through improved integration of the Baltic energy markets.

Done at Brussels, 8 July 2014.

For the Council

The President

P. C. PADOAN

COUNCIL RECOMMENDATION

of 8 July 2014

on the National Reform Programme 2014 of Luxembourg and delivering a Council opinion on the Stability Programme of Luxembourg, 2014

(2014/C 247/14)

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 resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, 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, on the basis of the Commission's proposals, 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 9 July 2013, the Council adopted a Recommendation [3] on Luxembourg's National Reform Programme for 2013 and delivered its opinion on Luxembourg's updated Stability Programme for 2012-2016. On 15 November 2013, in line with Regulation (EU) No 473/2013 of the European Parliament and of the Council [4], the Commission presented its opinion on Luxembourg's draft budgetary plan for 2014.

(1) OJ L 209, 2.8.1997, p. 1.
(2) Maintained for 2014 by Council Decision 2014/322/EU of 6 May 2014 on guidelines for the employment policies of the Member States for 2014 (OJ L 165, 4.6.2014, p. 49).
(3) OJ C 217, 30.7.2013, p. 55.
(4) 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).

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey, marking the start of the 2014 European Semester for economic policy coordination. Also, on 13 November 2013, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report, in which it identified Luxembourg as one of the Member States for which an in-depth review would be carried out.

(6) On 20 December 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.

(7) On 5 March 2014, the Commission published the results of its in-depth review for Luxembourg, under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that Luxembourg is not experiencing macroeconomic imbalances in the sense of the Macroeconomic Imbalance Procedure. In particular, the analysis of the current account surplus shows that it does not stem from anaemic domestic demand, but is rather the result of Luxembourg's particular growth model, which is strongly based on financial services. Risks to the domestic financial stability stemming from the presence of a large financial sector exist but they are relatively contained as the sector is diversified and specialised at the same time. The high level of indebtedness in the private sector, in particular among the non-financial corporations mainly reflects the presence of a large number of multinational firms that use their branches or subsidiaries in Luxembourg for intra-group financing operations. Finally, the current favourable position of public finances is highly dependent on the sustainability of a growth model based on a buoyant financial sector and presents a high sustainability risk in the long term.

(8) On 28 April 2014, Luxembourg submitted its 2014 National Reform Programme and, on 25 April 2014, its 2014 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(9) The objective of the medium-term budgetary strategy outlined in the 2014 Stability Programme is to return to the medium-term objective in 2016, after significantly deviating from it in 2015. The Stability Programme confirms the previous medium-term objective of a surplus of 0,5 % of GDP, which reflects the requirements of the Stability and Growth Pact. The (recalculated) structural general government surplus is foreseen to decline from 1,4 % of GDP in 2013 to 1,1 % in 2014, before turning into a deficit of 0,1 % of GDP in 2015. Thereafter, gradually increasing structural surpluses are planned to be achieved. Therefore, Luxembourg is expected to remain at its medium-term objective in 2014, but to significantly deviate from it in 2015. According to the Stability Programme, the growth rate of government expenditure, net of discretionary revenue measures, would be above the reference medium-term rate of potential GDP growth in 2015. Overall, the programme objectives are partly in line with the requirements of the preventive arm of the Stability and Growth Pact, with a deviation in particular in 2015. The debt ratio, which stood at 23,1 % of GDP in 2013, well below the 60 %-of-GDP reference value, is projected to further decline over the programme period. The macroeconomic scenario underpinning the budgetary projections in the Stability Programme, which has been prepared by an independent body (STATEC) is slightly optimistic for 2014 and 2015. The Government projects a GDP growth rate of 3,2 % in both 2014 and 2015, whereas the Commission services 2014 spring forecast foresees 2,6 % and 2,7 %, respectively. Furthermore, the measures underpinning the fiscal trajectory for the period 2015-18 have not yet been fully specified by the authorities. According to the Commission forecast, which does not take into account the most recently announced measures, the structural surplus is estimated to decline to 0,6 % of GDP in 2014 and turn to a deficit of 1,3 % of GDP in 2015. The growth rate of government expenditure, net of discretionary revenue measures, is estimated to be above the reference medium-term rate of potential GDP in 2015, when a significant deviation is expected. Based on its assessment of the Stability Programme and the Commission forecast, pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that there are risks to the achievement of the targets of the Stability Programme, which are only partly in line with the requirements preventive arm of the Stability and Growth Pact, in particular as of 2015.

(10) The Government submitted to Parliament in July 2013 a draft bill on the transposition of the provisions of Council Directive 2011/85/EU [1] and the Treaty on Stability, Coordination and Governance. While the draft law was expected to enter into force on 1 January 2014, its adoption was delayed by the resignation of the Government in July. According to the draft bill, a new Multiannual Finance Programme Law is introduced covering the same time horizon as the forthcoming update of the Stability Programme. The Multiannual Finance Programme Law would be updated annually on a rolling basis, together with the annual budget. It would detail plans to achieve the medium-term budgetary objective at the level of the general government. The draft bill introduces multi-annual ceilings in the Multiannual Finance Programme Law that would cover the central government sector only, but there is no specification on the consequences in case ceilings are exceeded. The draft bill does not foresee a national expenditure rule that would guide the setting of multi-annual expenditure targets. However, it contains provisions for the adjustment path to the medium-term objective to be respected. A revised draft of the law was submitted to the Parliament in March 2014, and inter alia provides for the allocation of the task for the independent monitoring of fiscal rules to a newly created institution, the 'Conseil National des Finances Publiques'.

(11) In addition, tax revenues from VAT will be hit by the new rules on VAT revenues generated from e-commerce activities. As from 2015, such revenues will be transferred from the country where the supplier is located to that of the residence of the customer. The Government has announced that the VAT rates will be increased by 2 percentage points, which should partially compensate for the revenue loss. However, given the widespread use of reduced and super reduced rates, additional revenue can be raised by extending the application of the standard rate and thereby compensate more largely for the above-mentioned losses.

(12) Gross public pension expenditure as a proportion of GDP in Luxembourg is to increase, according to figures of the Commission's 2012 Ageing Report, from 9,2 % of GDP to 18,6 % in 2060. This is mostly due to age-related spending and in particular to pensions. The 2012 pension reform was limited in scope and did not substantially address the threat posed to the long-term sustainability of the public finances. Short-term financing of the pension system is currently guaranteed by a low old-age dependency ratio and relies on the contributions paid by the relatively young population of cross-border workers. In the future, this trend is expected to reverse and pension costs, as well as long-term care costs, will probably increase substantially. In order to guarantee the viability of the pension system, a substantial increase in the contribution rate would be necessary after 2020, in addition to the built-in moderation of the adaptation of pensions to the standard of living. This would entail a significant increase in the burden on labour supported by the future active population and, consequently, a loss of cost competitiveness. Given the currently high level of the replacement rate, some different measures could have been taken so as to ensure a fairer distribution of the burden across generations. The introduction of a cap on pension adjustments based on real wage increases would increase pension reserves. In addition, increasing the effective retirement age, currently situated at the age of 59, by aligning it to change in life expectancy would help to ensure the long-term sustainability of the pension system. Also, the possibilities for early retirement should be reduced. Financial incentives to prolong working careers, as provided for in the pension reform, may contribute to the sustainability of the pension system, but the employability of older workers should be further improved by reinforcing vocational education and lifelong learning. Luxembourg needs to curb the future need for, and related costs of, long-term care to ensure its sustainability. Long-term care services could also be made more cost-effective by strengthening coordination between healthcare and social care, improving service delivery and better supporting family carers.

(13) Luxembourg's large current account surplus is driven by financial services and masks a persistent and gradually increasing deficit in the trade balance for goods, which stems from slow export growth. While this trend reflects the increasing importance of the service sector in the economy, it is also due to a more structural loss of cost-competitiveness. The recent steady increase in the unit labour cost has undermined the competitiveness of Luxembourg's industrial fabric. The modulation of the wage indexation mechanism adopted by the Government in 2012 will be terminated by the end of 2014. While

[1] 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).

different avenues could be explored, it is important that wages are more closely tied to productivity by means of a reform of the wage indexation system, allowing for sectoral differentiation. The heavy dependence on the financial sector represents a structural risk for the economy. Therefore, Luxembourg needs to focus on the development of highly specialised firms as a springboard for innovation-driven growth. While the quadrupling of public sector R&D intensity since 2000 reflects the resolve to build up public research capacities, Luxembourg is not on track to reach its 2020 R&D intensity target of 2,3-2,6 % of GDP, due to the sharp decrease in business R&D intensity (from 1,53 % of GDP in 2000 to 1 % in 2012). Its performance on the indicators on cooperation between public research institutions and firms should be further improved. The reform launched in 2013 on the reinforcement of innovative clusters should be pursued.

(14) Although various measures have been adopted, youth unemployment is persistently high, at 17,4 % of the active population in 2013, albeit decreasing from 18 % in 2012. It depends heavily on the educational level and is lower among those with a higher educational attainment. Luxembourg's education system faces a number of specific challenges, such as multilingualism and the specific skills required by a highly specialised labour market with a big financial sector. The results of the OECD's 2012 students' skills survey confirmed that further measures are needed to counteract young people's relatively weak performance in basic skills, as observed since 2006. In this respect, the primary and secondary school reforms should be pursued. In addition, the quality and attractiveness of vocational and educational training should be further improved in order to provide the labour market with a qualified workforce, including in particular people with a migrant background. The design of the tax and benefit system is at the origin of very high labour-market traps, among the highest in the Union, for all wage levels and family compositions. Also, despite recent reform efforts, activation policies have remained weak; and participation in active labour market policies has not been compulsory at any point during the period of unemployment.

(15) Luxembourg is committed to reducing its greenhouse gas emissions in the non-ETS sectors by 20 % in 2020, but is expected to miss this target by 23 percentage points. In addition, 2013 emissions are expected to be 1 % higher than the target set for 2013 in the Effort Sharing Decision. Around 70 % of transport-related emissions are connected to fuel exports, inter alia as a result of very low excise duties on fuels. The recognition of fuel export as a key challenge in the second National Climate Action Plan adopted in May 2013 is a step forward. However, more specific and long-term measures are needed to address this issue. Environmental taxation accounted for 2,4 % of GDP in 2012, whereas in 2004 it accounted for 3,1 %. This drop is driven in particular by lower energy tax revenues influenced by the absence of indexation on energy taxes. Transport taxes, excluding fuels, represented 0,2 % of GDP in 2012. Taxes on fuel used for transport are high at 2,2 % of GDP, in spite of the preferential tax treatment of diesel, mostly owing to cross-border purchase of fuel. With environmental taxation accounting for a below-average proportion of total tax revenue, the design of its environmental taxes can be improved, in particular by increasing taxation on energy products for transport.

(16) 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 the Stability Programme. It has taken into account not only their relevance for sustainable fiscal and socio-economic 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 (5) 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.

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

(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 ([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 2014-2015 to:

1. Preserve a sound fiscal position in 2014; significantly strengthen the budgetary strategy in 2015 to ensure that the medium-term objective is achieved and remain at the medium-term objective thereafter, in order to protect the long-term sustainability of public finances, in particular by taking into account implicit liabilities related to ageing. Strengthen fiscal governance by speeding up the adoption of a medium-term budgetary framework covering the general government and including multi-annual expenditure ceilings, and by putting into place the independent monitoring of fiscal rules. Further broaden the tax base, in particular on consumption.

2. In view of ensuring fiscal sustainability, curb age-related expenditure by making long-term care more cost-effective, pursue the pension reform so as to increase the effective retirement age, including by limiting early retirement, by aligning retirement age or pension benefits to change in life expectancy. Reinforce efforts to increase the participation rate of older workers, including by improving their employability through lifelong learning.

3. Speed up the adoption of structural measures, in consultation with the social partners and in accordance with national practices, to reform the wage setting system including wage indexation with a view to improving the responsiveness of wages to productivity developments, in particular at sectoral level. Pursue the diversification of the structure of the economy, including by fostering private investment in research and further developing cooperation between public research and firms.

4. Pursue efforts to reduce youth unemployment for low-skilled jobs seekers, including those with a migrant background, through a coherent strategy, including by further improving the design and monitoring of active labour market policies, addressing skills mismatches, and reducing financial disincentives to work. To that effect, accelerate the implementation of the reform of general and vocational education and training to better match young people's skills with labour demand.

5. Develop a comprehensive framework and take concrete measures to meet the 2020 target for reducing greenhouse gas emissions from non-ETS activities, especially through the taxation of energy products for transports.

Done at Brussels, 8 July 2014.

For the Council

The President

P. C. PADOAN

([1]) See page 141 of the current Official Journal.

COUNCIL RECOMMENDATION

of 8 July 2014

on the National Reform Programme 2014 of Hungary and delivering a Council opinion on the Convergence Programme of Hungary, 2014

(2014/C 247/15)

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 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 resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, 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, on the basis of the Commission's proposals, 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 9 July 2013, the Council adopted a Recommendation [4] on Hungary's National Reform Programme for 2013 and delivered its opinion on Hungary's updated Convergence Programme for 2013-2016.

(1) OJ L 209, 2.8.1997, p. 1.
(2) OJ L 306, 23.11.2011, p. 25.
(3) Maintained for 2014 by Council Decision 2014/322/EU of 6 May 2014 on guidelines for the employment policies of the Member States for 2014 (OJ L 165, 4.6.2014, p. 49).
(4) OJ C 217, 30.7.2013, p. 37.

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey, marking the start of the 2014 European Semester for economic policy coordination. Also, on 13 November 2013, 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) On 20 December 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.

(7) On 5 March 2014, 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 continues to experience macroeconomic imbalances, which require monitoring and decisive policy action. In particular, the ongoing adjustment of the highly negative net international position, the high level of public and private debt in the context of a fragile financial sector and deteriorating export performance continue to deserve very close attention with a view to reducing the important risks of adverse effects on the functioning of the economy.

(8) On 30 April 2014, Hungary submitted its 2014 National Reform Programme and its 2014 Convergence Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(9) The objective of the budgetary strategy outlined in the 2014 Convergence Programme is to bring down the headline deficit from 2,9 % of GDP in 2014 to 1,9 % by the end of the programme period. This is to be achieved with a strongly back-loaded consolidation path, while the deficit targets have been significantly revised upwards compared to the previous Convergence Programme. The Convergence Programme confirms the medium-term objective of - 1,7 % of GDP, which reflects the objectives of the Stability and Growth Pact. However, on the basis of the recalculated structural balance, the medium-term objective is not expected to be attained by the end of the programme period. The (recalculated) structural balance is expected to deteriorate by 1,5 percentage points in 2014, thereby significantly deviating from the medium-term objective, and is set to stabilise in 2015, implying a shortfall of 0,5 % of GDP from the required improvement towards the medium-term objective. The expenditure benchmark shows a significant deviation in both 2014 and 2015. The (recalculated) structural balance is expected to deteriorate further in both 2016 and 2017. Overall, a significant deviation from the adjustment path towards the medium-term objective is expected as of 2014. The Convergence Programme projects a gradual but continuous decrease in government debt from 79 % of GDP in 2013 to around 75 % of GDP in 2017. The macroeconomic scenario underpinning the budgetary projections in the Convergence Programme is broadly plausible for 2014-2016, with GDP projected to grow by 2,3 % and 2,5 % in 2014 and 2015 respectively, against 2,3 % and 2,1 % according to the Commission services 2014 spring forecast. However, the Convergence Programme is too optimistic for 2017.

Risks to the budgetary targets are broadly balanced in 2014, but there are increasing risks that the deficit may turn out higher than targeted as from 2015. Particular risks stem from the fact that the planned reduction in the expenditure ratio is foreseen to be achieved by instituting across-the-board nominal freezes or restraining increases below the inflation rate for most of the discretionary spending items. The Commission services 2014 spring forecast projects a headline deficit for 2014 and 2015 identical to the targets of the Convergence Programme. With a projected structural deficit of 2,2 % of GDP in 2014 and 2,3 % in 2015, the Commission forecast confirms the risk of significant deviation from the medium-term objective as from 2014. Moreover, the Commission forecast also points to non-compliance with the debt reduction benchmark in 2014 and 2015. In 2014, the projected deterioration of the structural balance (- 1,4 % of GDP) is larger than what is allowed to comply with the debt rule (- 0,5 % of GDP). Based on its assessment of the Convergence Programme and the Commission forecast, pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that there is a need for additional structural consolidation efforts in view of the risks of significant deviation from the medium-term objective as well as of non-compliance with the debt rule as from 2014.

(10) The medium-term budgetary framework has been strengthened by extending the planning horizon beyond the current budget year. Its effectiveness and binding nature are however not yet ensured. New numerical fiscal rules have been introduced, but design weaknesses have not been corrected, linked mainly to the absence of systematic ex post monitoring, the lack of a maximum permissible deviation levels and sound correction mechanisms. The Fiscal Council's narrow list of mandatory tasks and its analytical capacity are still not commensurate with its budgetary veto right. Further strengthening the medium-term budgetary framework and broadening the Fiscal Council's mandatory mandate would help improve the credibility, transparency and effectiveness of the overall fiscal framework.

(11) Notwithstanding the Central Bank's subsidised 'Funding for Growth' scheme for small and medium-sized enterprises, normal lending to the economy has not picked-up in a sustainable manner. The regulatory burden on the financial sector has been further increased, thus limiting the capacity for capital accumulation. Measures like the increase of the financial transaction duty have contributed to a pick-up in the cash usage of the economy. The household portfolio has further deteriorated and the high proportion of non-performing loans currently represents one of the biggest challenges for the financial sector. Portfolio cleaning is hindered by the weak efficiency of resolution proceedings. No substantial new measure has been taken to remove bad assets from banks' balance sheets. The combination of a heavy regulatory burden and a high share of non-performing loans have led to a squeeze on available credits. The Government repeatedly announced its intention to introduce a new relief scheme to assist foreign currency borrowers; in most cases, these have not targeted distressed borrowers and have a negative impact on the payment culture of households, due to the expectation of further government help. Financial regulation and supervision has been strengthened by integrating the Financial Supervisory Authority into the central bank structure and giving the central bank the responsibility for macroprudential oversight. Preparatory work has started on establishing a bank resolution regime.

(12) Although the frequency of tax changes has decreased compared to the previous year, no substantial progress was made in making the corporate tax system more balanced. Some of the existing sector-specific taxes were even increased. The application of different tax rates across sectors is an obstacle to the effective allocation of resources and thus negatively affects growth. To make taxation more employment-friendly, Hungary has widened eligibility for the personal income tax family tax credit, which can help wage earners. The tax wedge on single low-income earners is one of the highest in the Union. Despite some broadening of the scope for mothers with three or more children the eligibility criteria for the Job Protection Act have remained in essence unchanged, even though a significant proportion of low earning workers remain outside the scope of the measure. It will be important to evaluate the impact and cost-effectiveness of the scheme and to adapt it as necessary to enhance its capacity to bring people into employment. Some progress was made in shifting taxation away from labour towards environmental taxes, but additional measures are needed. The online connection of cash-registers to the tax authority is gradually being implemented, after repeated delays in the past. However, Hungary still suffers from a high level of tax non-compliance, with a sustained level of undeclared work and a VAT compliance gap. Control measures should be strengthened in particular with a view to improving the efficiency of combatting VAT fraud.

(13) The youth unemployment rate has decreased in 2013, while the rate of young people who are not in employment, education or training has increased. An efficient coordination of the Public Employment Service branch offices with educational institutions and local stakeholders could increase outreach. Capacity-building in the public employment service, including preparation of a client profiling system, has started, while active labour market policies for the open labour market should be evaluated to assess their efficiency and effectiveness and if necessary adapted to improve access to the labour market for some disadvantaged groups. The activation element in different labour market and social measures (Public Work Scheme, unemployment benefits, and social assistance) needs to be strengthened. The Public Work Scheme attracts the bulk of budgetary resources available for employment measures, but in 2013 11,54 % of its participants were able to return to the open labour market after exiting the scheme. This raises the question of whether the scheme should be adapted, for example by building stronger links to activation, training and job search support, to secure a more lasting employment impact. Women's labour market participation has been encouraged by increased flexibility in the paid parental leave system and the provision of childcare capacities, but further efforts are needed as employment levels among women remain below 60 %. The period of eligibility for unemployment benefit is shorter than

the average time required by job seekers to find employment. The number of people at risk of poverty or social exclusion in Hungary is growing steadily and currently represents close to a third of the whole population. Poverty continues disproportionately to affect disadvantaged groups, in particular children and the Roma. While a National Social Inclusion Strategy is in place, policy measures in most fields do not systematically promote the goals defined by that strategy. Integrated and streamlined policy measures are needed to reduce poverty effectively.

(14) The business environment in Hungary is characterised by frequent changes in the regulatory framework and limited competition in an increasing number of sectors. New barriers have been introduced in the services sector and existing ones have not been removed (e.g. pharmacies, waste management, mobile payment, retail tobacco and textbooks). Investment has declined particularly strongly in those sectors where sector-specific surtaxes have been imposed in recent years. Between 2010 and 2013, nominal investment declined by 44 % in energy, 28 % in finance and 18 % in the communication sectors, while increasing by 3,4 % overall. Some progress has been made in improving competition in public procurement, but further efforts are needed. For example, greater reliance on e-procurement could generate significant cost savings, improve the transparency of public procurement and increase competition. Steps have been taken to implement integrity strategies and to promote better transparency standards in the public administration, but further efforts are needed to tackle corruption effectively.

(15) The proportion of early school leavers is on the rise and the adoption of an early school leaving prevention strategy has been repeatedly delayed. Further efforts are needed to equip pupils with basic skills, competences and qualifications that are relevant for the labour market. Equal access to mainstream quality education still remains a major problem for disadvantaged children, in particular Roma. A new law on vocational training, which inter alia introduces a new ‘dual model’, has been enacted to reduce the still-difficult transition from education to the labour market, the effects of which need to be closely monitored.

(16) Hungary continued to implement reductions in end-user electricity and gas prices in 2013 and 2014. These price cuts, coupled with the extra tax burden on energy companies, have negatively affected energy providers’ capacity to recover costs and energy investments and network maintenance. At present, households’ energy intensity is among the highest in the Union and energy efficiency could be improved in particular in the residential sector. The lack of independence of the energy regulator in setting access-to-network conditions and tariffs still raises concerns. Some steps have been taken to streamline the organisation of public transport companies, but sustainability could be further improved by tackling operating costs and changing the tariff system.

(17) 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. It has taken into account not only their relevance for sustainable fiscal and socio-economic 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.

(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.

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

(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 (1), (2), (3) and (5) below,

HEREBY RECOMMENDS that Hungary take action within the period 2014-2015 to:

1. Reinforce the budgetary measures for 2014 in the light of the emerging gap relative to the Stability and Growth Pact requirements, namely the debt reduction rule, based on the Commission 2014 spring forecast. In 2015, and thereafter significantly strengthen the budgetary strategy to ensure reaching the medium-term objective and compliance with the debt reduction requirements in order to keep the general government debt ratio on a sustained downward path. Ensure the binding nature of the medium-term budgetary framework through systematic ex-post monitoring of compliance with numerical fiscal rules and the use of corrective mechanisms. Improve the transparency of public finances, including through broadening the mandatory remit of the Fiscal Council, by requiring the preparation of regular macro-fiscal forecasts and budgetary impact assessments of major policy proposals.

2. Help restore normal lending flows to the economy, inter alia by improving the design of and reducing the burden of taxes imposed on financial institutions. Adjust the financial transaction duty in order to avoid diverting savings from the banking sector and enhance incentives for using electronic payments. Investigate and remove obstacles to portfolio cleaning inter alia by tightening provisioning rules for restructured loans, removing obstacles to collateral foreclosure as well as increasing the speed and efficiency of insolvency proceedings. In this respect, closely consult stakeholders on new policy initiatives and ensure that these are well-targeted and do not increase moral hazard for borrowers. Further enhance financial regulation and supervision.

3. Ensure a stable, more balanced and streamlined tax system for companies, including by phasing out distortive sector-specific taxes. Reduce the tax wedge for low-income earners, inter alia by improving the efficiency of environmental taxes. Step up measures to improve tax compliance — in particular to reduce VAT fraud — and reduce its overall costs.

4. Strengthen well-targeted active labour market policy measures, inter alia by accelerating the introduction of the client profiling system of the Public Employment Service. Put in place the planned youth mentoring network and coordinate it with education institutions and local stakeholders to increase outreach. Review the public works scheme to evaluate its effectiveness in helping people find subsequent employment and further strengthen its activation elements. Consider increasing the period of eligibility for unemployment benefits, taking into account the average time required to find new employment and link to activation measures. Improve the adequacy and coverage of social assistance while strengthening the link to activation. In order to alleviate poverty, implement streamlined and integrated policy measures to reduce poverty significantly, particularly among children and Roma.

5. Stabilise the regulatory framework and foster market competition, inter alia by removing barriers in the services sector. Take more ambitious steps to increase competition and transparency in public procurement, including better use of e-procurement and further reduce corruption and the overall administrative burden.

6. Implement a national strategy on early school leaving prevention with a focus on drop-outs from vocational education and training. Put in place a systematic approach to promote inclusive mainstream education for disadvantaged groups, in particular Roma. Support the transition between different stages of education and towards the labour market, and closely monitor the implementation of the vocational training reform. Implement a higher-education reform that enables greater tertiary attainment, particularly by disadvantaged students.

7. Review the impact of energy price regulation on incentives to invest and on competition in the electricity and gas markets. Take further steps to ensure the autonomy of the national regulator in establishing network tariffs and conditions. Take measures to increase energy efficiency in particular in the residential sector. Further increase the sustainability of the transport system, inter alia by reducing operating costs and reviewing the tariff system of state-owned enterprises in the transport sector.

Done at Brussels, 8 July 2014.

For the Council

The President

P. C. PADOAN

COUNCIL RECOMMENDATION

of 8 July 2014

on the National Reform Programme 2014 of Malta and delivering a Council opinion on the Stability Programme of Malta, 2014

(2014/C 247/16)

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 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 resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, 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, on the basis of the Commission's proposals, 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.

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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 2014 by Council Decision 2014/322/EU of 6 May 2014 on guidelines for the employment policies of the Member States for 2014 (OJ L 165, 4.6.2014, p. 49).

(4) On 9 July 2013, the Council adopted a Recommendation [1] on Malta's National Reform Programme for 2013 and delivered its opinion on Malta's updated Stability Programme for 2012-2016. On 15 November 2013, in line with Regulation (EU) No 473/2013 of the European Parliament and of the Council [2], the Commission presented its opinion on Malta's draft budgetary for 2014.

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey, marking the start of the 2014 European Semester for economic policy coordination. Also, on 13 November 2013, 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) On 20 December 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.

(7) On 5 March 2014, 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 no longer experiencing macroeconomic imbalances in the sense of the Macroeconomic Imbalance Procedure. Although indebtedness remains high, risks to the sustainability of private and public sector debt and the stability of the financial sector appear contained, even if they deserve continued monitoring. In particular, financial stability indicators remain sound. Still, in light of the structural nature of the risks in the sector, a continuation of the current prudent supervisory and risk-taking practices is key. The housing market has stabilised and thus risks arising from over-exposure to property are limited. Private debt is on the decrease; the corporate deleveraging is taking place in an orderly manner and credit market pressures are limited.

(8) On 16 April 2014, Malta submitted its 2014 National Reform Programme which was updated on 8 May 2014 and, on 30 April 2014, its 2014 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(9) The objective of the budgetary strategy outlined in the 2014 Stability Programme is to correct the excessive deficit in a sustainable manner by 2014 and to gradually progress toward the medium-term objective of a balanced budgetary position in structural terms, which is more stringent than what the Stability and Growth Pact requires. However, the achievement of the medium-term objective is not planned within the programme period. In 2014, the planned (recalculated) structural adjustment is narrowly missing the recommended effort. After the planned correction of the excessive deficit, a small deviation from the adjustment path towards the medium-term objective is planned in 2015. Thereafter, the planned annual progress towards the medium-term objective is broadly in line with the requirement of at least 0,5 % of GDP. The Stability Programme projects that the government debt, at 73 % of GDP in 2013, will be put on a downward path, compliant with the debt reduction benchmark, as from 2014. Overall, the programme objectives are largely in line with the requirements of the Stability and Growth Pact. The macroeconomic scenario underpinning the budgetary projections in the Stability Programme, which has been endorsed by an independent body (the National Audit Office), is plausible for 2014 and 2015 since the economic growth projections are marginally lower than those in the Commission services 2014 Spring forecast for these years.

However, risks to the budgetary targets are tilted to the down-side, as the structural revenue increase planned over the programme period is not fully underpinned by measures and expenditure overruns

(1) OJ C 217, 30.7.2013, p. 59.
(2) 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).

could require higher than budgeted disbursements. According to the Commission forecast, Malta is expected to sustainably correct its excessive deficit in 2014. At the same time, based on the Commission forecast, the fiscal effort over the period 2013-2014 falls short by 1,6 % of GDP in terms of (corrected) change in the structural balance and by 1,25 % of GDP in terms of the amount of required measures estimated as necessary at the time of the Excessive Deficit Procedure recommendation. While there is no margin with respect to the compliance with the debt reduction benchmark in 2014, risks to the debt scenario are tilted to the positive side.

(10) In 2015, there is a risk of significant deviation from the required progress towards the medium-term objective. Based on its assessment of the Stability Programme and the Commission forecast, pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that, while Malta's planned headline deficit and general government debt comply with the Excessive Deficit Procedure recommendation, additional efforts are needed to bring the structural adjustment in line with the recommended one in 2014 and to ensure an appropriate path towards the medium-term objective as of 2015.

(11) The non-binding nature of Malta's fiscal framework and the short horizon of fiscal planning are not supportive of a sound fiscal position. The adoption of the legislation meant to come into force by the end of 2013 and aimed at fulfilling the requirements of Council Directive 2011/85/EU [1] and the Fiscal Compact has been delayed. However, according to the Stability Programme the Government has recently endorsed a Fiscal Responsibility Act, which will be submitted for the Parliament's approval. The draft act foresees the introduction of a balanced-budget rule in structural terms, a debt rule, a three-year rolling budgetary framework and a gradual setting up of a Fiscal Council which would be charged with endorsing the government's official macroeconomic and fiscal forecasts as well as ex ante and ex post monitoring of the respect of fiscal rules.

(12) Malta's revenue departments are due to be merged into a single authority, which would streamline tax collection processes and counter tax evasion. In order to improve tax compliance and encourage the recovery of amounts due, the penalties in VAT legislation and the interest on taxes due have been revised. Various other measures have been introduced that are also expected to consolidate Malta's tax system. These measures go in the right direction, but their impact has yet to become apparent.

(13) Despite still facing challenges regarding the long-term sustainability of Malta's public finances, little progress can be registered as yet on its pensions system reforms and the sustainability of its healthcare services. While a Pensions Strategy Group has been set up to assess all options for reforming the pension system, the Maltese authorities have given a commitment not to raise the statutory retirement age beyond the increases outlined in the 2006 pension reform. While Malta intends to address these shortcomings with labour market measures and in particular its recently adopted active ageing strategy, it is unlikely that this will solve the problem. The sustainability of the healthcare system adds to the challenge in view of a projected increase in age-related expenditure. A draft national health systems strategy has just been launched, but it is unclear how this will be implemented and what gains it will bring in terms of cost-effectiveness and sustainability. There is a need to strengthen public primary care.

(14) Malta's early school leaving rate is still very high, but measures are being taken to reduce it and a comprehensive monitoring system is being set up. Basic skill attainment remains low, however, thereby contributing to low literacy and early school leaving. Proper implementation of the recently adopted National Literacy Strategy is expected to support efforts addressing this shortcoming. This is to be complemented by further measures, which are expected to increase the labour-market relevance of training and education. These include the reform of the apprenticeship framework, establishing a lifelong learning strategy, the introduction of work-based learning in vocational educational and training, and a specific programme financed through the European Social Fund.

[1] 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).

(15) Malta is currently implementing a number of significant measures that seek to increase the participation of women in the labour market, in particular through the provision of free childcare services to households in which parents are in employment or pursuing further education. Effective implementation will be crucial. The authorities are also helping to provide after-school care and offering opportunities to send children to school before the stipulated opening hours, so that parenthood can be better reconciled with working life. Tax incentives are also envisaged to encourage parents to send children to childcare facilities already running under previous schemes. Little is being done, however, to provide and promote the use of flexible working arrangements, such as teleworking and flexitime, which would help the reintegration of women into the labour market.

(16) In order to further improve its international competitiveness, in addition to avoiding the potentially negative impact of a misalignment between wage and productivity developments, Malta still needs to address infrastructure shortcomings in the energy and transport sectors that dampen its potential, in particular in view of elevated energy costs. The electricity interconnector with Italy is due to be completed this year, which will enhance security of supply and may contribute to the diversification of supply and the use of externally generated renewable energy. The Delimara LNG terminal and the planned link-up with the European gas network will also add to Malta's energy mix, making it less reliant on one main source of energy and thereby increasing its attractiveness as a place for business. Home-grown renewable energy sources, with the exception of some success as regards the use of photovoltaic energy, represent a potential that remains to be tapped.

(17) Certain public administration inefficiencies are limiting the further development of the business climate in Malta. While improvements in public procurement go in the right direction, procurement procedures remain excessively long, resulting in inefficient public expenditure. These measures are not accompanied by targets making an assessment of their effectiveness difficult. The lack of alternatives to debt financing leads to a high cost of funding for companies, which puts pressure on their economic activity. This corporate debt bias may also lead to excessively high corporate leverage and insufficient allocation of capital. Further opportunities for non-debt financing therefore need to be pursued. The inefficiencies in the judicial system highlighted in the 2013 country-specific recommendations for Malta remain. While it is expected that a number of the numerous reform proposals delivered by the Commission for the Reform of Justice in November 2013 will be implemented by the end of 2014, a clear timeline and prioritisation of measures still needs to be announced. It also remains to be seen how these will address the backlog, in particular as regards the shortcomings identified above.

(18) Malta has strengthened regulatory oversight to ensure the stability of the financial sector. Macro-prudential supervision has been added to the functions of the Central Bank of Malta, and special emphasis is being placed on financial stability issues, while the Joint Financial Stability Board is now enshrined in legislation. Satisfactory measures have been taken to improve loan-loss provisioning, mainly through the introduction of a revision of Banking Rule 9.

(19) 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. It has taken into account not only their relevance for sustainable fiscal and socio-economic 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.

(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 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, Malta should also ensure the full and timely implementation of those recommendations,

(1) Under Article 5(2) of Regulation (EC) No 1466/97.
(2) See page 141 of the current Official Journal.

HEREBY RECOMMENDS that Malta take action within the period 2014-2015 to:

1. Correct the excessive deficit in a sustainable manner by 2014. In 2015, significantly strengthen the budgetary strategy to ensure the required structural adjustment of 0,6 % of GDP towards the medium-term objective. Thereafter, pursue a structural adjustment of at least 0,5 % of GDP each year, and more in good economic conditions or if needed to ensure that the debt rule is met in order to keep the general government debt ratio on a sustained downward path. Finalise the adoption of the Fiscal Responsibility Act with a view to putting in place a binding, rule-based multiannual fiscal framework and establishing an independent institution charged with the monitoring of fiscal rules and endorsing macroeconomic forecasts underpinning fiscal planning. Continue improving tax compliance and fighting tax evasion by ensuring the continued roll-out and evaluation of measures taken so far, while taking additional action, in particular by promoting the use of electronic means of payment.

2. To ensure the long-term sustainability of public finances continue the ongoing pension reform, such as by accelerating the already enacted increase in the statutory retirement age and by consecutively linking it to changes in life expectancy. Ensure that a comprehensive reform of the public health system delivers a cost-effective and sustainable use of available resources, such as strengthening primary care.

3. Continue policy efforts to address the labour-market relevance of education and training by stepping up efforts on the reform of the apprenticeship system. Further improve basic skills attainment and reduce early school leaving, in particular by finalising and implementing the announced national literacy strategy. Further improve the labour-market participation of women, in particular those wishing to re-enter the labour market by promoting flexible working arrangements.

4. Diversify the energy mix in the economy, including by increasing the share of energy produced from renewable sources.

5. Continue efforts to increase the efficiency and reduce the length of public procurement procedures; encourage alternatives to debt-financing of companies through facilitating access to capital markets and developing venture capital funds; and increase the efficiency of the judicial system by ensuring a timely and efficient implementation of the planned judicial reform.

Done at Brussels, 8 July 2014.

For the Council

The President

P. C. PADOAN

COUNCIL RECOMMENDATION

of 8 July 2014

on the National Reform Programme 2014 of the Netherlands and delivering a Council opinion on the Stability Programme of the Netherlands, 2014

(2014/C 247/17)

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 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 resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, 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, on the basis of the Commission's proposals, 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 9 July 2013, the Council adopted a Recommendation [4] on the Netherland's National Reform Programme for 2013 and delivered its opinion on the Netherlands' updated Stability Programme for 2012-2017. On 15 November 2013, in line with Regulation (EU) No 473/2013 of the European Parliament and of the Council [5], the Commission presented its opinion on the Netherlands' draft budgetary plan for 2014.

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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 2014 by Council Decision 2014/322/EU of 6 May 2014 on guidelines for the employment policies of the Member States for 2014 (OJ L 165, 4.6.2014, p. 49).
[4] OJ C 217, 30.7.2013, p. 89.
[5] 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).

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey, marking the start of the 2014 European Semester for economic policy coordination. Also, on 13 November 2013, 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) On 20 December 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.

(7) On 5 March 2014, 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 continues to experience macroeconomic imbalances, which require monitoring and policy action. In particular, macroeconomic developments regarding private sector debt and ongoing deleveraging, coupled with remaining inefficiencies in the housing market, deserve attention. Although the large current account surplus does not pose risks similar to large deficits, and is partly linked to the need for deleveraging, the Commission will follow current account developments in the Netherlands in the context of the European Semester.

(8) On 29 April 2014, the Netherlands submitted its 2014 National Reform Programme and, on 30 April 2014, its 2014 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(9) The objective of the budgetary strategy outlined in the 2014 Stability Programme is to ensure that the correction of the excessive deficit in 2013 is sustainable, and to reach a budgetary position close to the medium-term objective by 2015. The medium-term objective is a structural deficit of no more than 0,5 % of GDP, reflecting the requirements of the Stability and Growth Pact. Additional sizeable fiscal measures were implemented, but the (recalculated) structural balance in 2014 is planned to remain constant compared to 2013, which points to a significant deviation from the required minimum adjustment of 0,5 % of GDP. In 2015, the (recalculated) structural balance is planned to improve by 0,3 percentage points of GDP. Expenditure would grow at a pace consistent with the expenditure benchmark both in 2014 and 2015. Following an overall assessment of the Netherland's budgetary strategy, the adjustment path towards the medium-term objective is partly in line with the requirements of the Stability and Growth Pact. According to the Stability Programme, general government gross debt is stabilising in 2015 and decreasing thereafter. The macroeconomic scenario underpinning the budgetary projections in the Stability Programme is plausible, and was prepared by the independent Netherlands Bureau for Economic Policy Analysis. Risks to the budgetary targets appear to be sizeable but broadly balanced. The Commission services 2014 spring forecast expects a stabilisation of the structural balance in 2014 and an improvement of 0,5 % of GDP in 2015. According to the Commission forecast, the Netherlands would comply with the expenditure benchmark in 2014, but not in 2015. In order to enhance the growth potential of the Netherlands, it is of paramount importance that the required consolidation safeguards growth-enhancing expenditure, such as innovation and research, including fundamental research, education and training. Based on its assessment of the Stability Programme and the Commission forecast, pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that the Netherlands has brought its general government deficit sustainably below 3 % of GDP in 2013, but is at risk of significantly deviating from the requirements of the preventive arm as from 2014.

(10) 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. Households' tendency to leverage up gross mortgage debt against housing wealth largely reflects long-standing fiscal incentives, in particular the full tax deductibility of mortgage interest. Since April 2012, a series of measures have been implemented to partly address these incentives. Some of these involve adjustments to the fiscal treatment of housing finance. The gradual move to limit mortgage interest tax deductibility and increase the incentive to amortise is warranted, but the phasing-in of this measure is too slow to significantly influence amortising behaviour. The loan-to-value ratio of 100 %, to be reached in 2018, is still high. 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 more income-based rent differentiation in the social housing sector is a step in the right direction, but its impact is limited. Social housing corporations are still allowed to build dwellings with a monthly rent above the social rent ceiling. Even though the 2013 recommendations called for a focus on support for households most in need, this redirection is work in progress. Therefore, while the proposed measures are steps in the right direction, the overall pace of reforms is slow in addressing underlying problems and thus needs to be stepped up when the economy allows for it, while continuing to ensure that social housing is available to disadvantaged citizens unable to obtain housing at market conditions, including in high demand locations.

(11) The long-term sustainability of the pension system has been improved through the gradual increase in the statutory retirement age from 65 years in 2012 to 67 years in 2023. The Netherlands has initiated comprehensive reforms in the public- and private-funded pillars of the pension system and in the long-term care system. This is complemented by reforms encouraging older workers to work longer and increase labour market mobility. Long-term care reforms shifted responsibilities to municipalities, with a reduction in overall expenditure and a focus on efficiency gains. Parts of these substantial reforms still have to be adopted. Remaining challenges include an appropriate intra- and inter-generational distribution of costs and risks, and the quality and accessibility of long-term care needs to be monitored. Implementation of the plans to reform long-term care would help curb the fast-rising costs of ageing and thus support the sustainability of public finances. In this regard, the quality and accessibility of long-term care should be maintained at an adequate level.

(12) The labour market reforms proposed by the Government aim to increase labour market participation and mobility. The Participation Act aims at boosting labour market participation. However, the reforms are not yet enshrined in law. In addition, further measures are needed to reduce fiscal disincentives to work and 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, including a tax incentive to increase participation. However, while these measures point in the right direction, they cannot be fully assessed until actually implemented. Accelerating the removal of remaining disincentives for second earners to increase the number of hours worked has the potential of further alleviating future labour supply shortages. Finally, making better use of existing flexibility in the institutional framework for more differentiated wage increases can support overall household income and thus domestic demand without damaging competitiveness.

(13) 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. It has taken into account not only their relevance for sustainable fiscal and socio-economic 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.

(14) 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.

(15) 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 (4) 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 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,

(1) Under Article 5(2) of Regulation (EC) No 1466/97.
(2) See page 141 of the current Official Journal.

HEREBY RECOMMENDS that the Netherlands take action within the period 2014-2015 to:

1. Following the correction of the excessive deficit, reinforce the budgetary measures for 2014 in the light of the emerging gap of 0,5 % of GDP based on the Commission services 2014 spring forecast, pointing to a risk of significant deviation relative to the preventive arm of the Stability and Growth Pact requirements. In 2015, significantly strengthen the budgetary strategy to ensure reaching the medium-term objective and maintain it thereafter, and ensure that the debt rule is met in order to keep the general government debt ratio on a sustained downward path. Protect expenditure in areas directly relevant for growth such as education, innovation and research.

2. When the economic environment allows, step up efforts to reform the housing market by accelerating the reduction in mortgage interest tax deductibility, 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. Monitor the effects of the social housing reforms in terms of accessibility and affordability for low-income households. Continue efforts to refocus social housing policies to support households most in need.

3. Implement reforms of the second pillar of the pension system, ensuring an appropriate intra- and inter-generational distribution of costs and risks. Underpin the gradual increase of the statutory retirement age with measures to improve the employability of older workers. Implement the envisaged reform in the area of long-term care with a view to ensure sustainability, while ensuring fair access and the quality of services and monitor its effects.

4. Take further measures to enhance labour market participation particularly among people at the margins of the labour market and to reduce tax disincentives on labour. Implement reforms of employment protection legislation and the unemployment benefit system, and further address labour market rigidities. In consultation with the social partners and in accordance with national practice, allow for more differentiated wage increases by making full use of the existing institutional framework.

Done at Brussels, 8 July 2014.

For the Council

The President

P. C. PADOAN

COUNCIL RECOMMENDATION

of 8 July 2014

on the National Reform Programme 2014 of Austria and delivering a Council opinion on the Stability Programme of Austria, 2014

(2014/C 247/18)

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 resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, 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, on the basis of the Commission's proposals, 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 9 July 2013, the Council adopted a Recommendation [3] on Austria's National Reform Programme for 2013 and delivered its opinion on Austria's updated Stability Programme for 2012-2017. On 15 November 2013, in line with Regulation (EU) No 473/2013 of the European Parliament and of the Council [4], the Commission presented its opinion on Austria's draft budgetary plan for 2014.

[1] OJ L 209, 2.8.1997, p. 1.
[2] Maintained for 2014 by Council Decision 2014/322/EU of 6 May 2014 on guidelines for the employment policies of the Member States for 2014 (OJ L 165, 4.6.2014, p. 49).
[3] OJ C 217, 30.7.2013, p. 1.
[4] 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).

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey, marking the start of the 2014 European Semester for economic policy coordination. Also, on 13 November 2013, the Commission, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council (1), 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.

(6) On 20 December 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.

(7) On 8 April 2014, Austria submitted its 2014 National Reform Programme and, on 29 April 2014, its 2014 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(8) The objective of the budgetary strategy outlined in the 2014 Stability Programme is to meet the medium-term objective of a structural deficit of no more than 0.45 % of GDP by 2016, which reflects the requirements of the Stability and Growth Pact. The general government deficit has been sustainably brought below 3 % of GDP in 2013. The (recalculated) structural balance was planned to remain constant in 2014 and to improve by 0,3 percentage points of GDP in 2015, falling significantly short of the required adjustment in both years. Expenditure growth will also deviate significantly from the expenditure benchmark over 2014-15. On 12 May 2014, Austria announced a set of additional revenue and expenditure measures. Provided that these measures are strictly and timely implemented, Austria's budgetary strategy no longer implies a planned significant deviation from the adjustment path towards the medium-term objective in 2014. At the same time, the planned adjustment path towards the medium-term objective still presents risks with respect to compliance with the requirements of the Stability and Growth Pact. According to the Stability Programme, general government gross debt will significantly increase from close to 74,5 % of GDP in 2013 to 79 % of GDP in 2014, due to the impact of the establishment of a Liquidation Entity for the assets of Hypo Alpe Adria, while the debt will start decreasing from 2015 onwards.

The macroeconomic scenario underpinning the budgetary projections in the Stability Programme is plausible and was prepared by an independent body, the Austrian Institute of Economic Research (WIFO). The Commission services 2014 Spring forecast expects that the deficit will remain below 3 % in 2014 and 2015. However, it projects a deterioration of the structural balance in 2014 and an improvement by only 0,1 % of GDP in 2015. Based on its assessment of the Stability Programme and the Commission forecast as well as its assessment of the additional measures announced on 12 May, pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that Austria has sustainably corrected its excessive deficit, but that a risk of significant deviation from the adjustment path towards the medium-term objective in 2014 and 2015 remains.

(9) In line with the Treaty on Stability Coordination and Governance, Austria has strengthened its fiscal framework in 2012 through a reform of the Austrian Internal Stability Pact. The mandate of the Austrian Fiscal Council was expanded as from November 2013 in response to the requirements of the Fiscal Compact. The need for a thorough reform of the relations of different levels of government to better streamline their respective responsibilities, remains, however, as recognised in the coalition agreement.

(10) Medium and long-term pension and healthcare expenditures and to a lesser degree those for long-term care pose a risk to the sustainability of public finances. In 2014, some measures to limit access to early retirement schemes and to increase incentives for staying longer in employment have entered into force. Still, the effective retirement age of 58,4 years in 2012 is well below the EU average. It remains considerably below the statutory retirement age (by 5,6 years for men and by 2,6 years for women in 2012).

(1) Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25).

The National Reform Programme contains relatively ambitious short-term targets to raise the effective retirement age by 1,6 years between 2012 and 2018, and their implementation will have to be closely monitored. 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. There are however no plans to introduce measures with a more structural and long-term effect, such as accelerating the harmonisation of the statutory retirement age for men and women and aligning the retirement age with changes in life expectancy, which would additionally contribute to longer working lives and the financial sustainability of the pension system.

(11) Efficient allocation of resources in the Austrian health system is hampered by a complex governance structure and a relatively strong focus on the large and costly hospital sector. Some measures have been taken to implement healthcare reform and to increase the cost-effectiveness of public spending. However, they may not be sufficient to address structural weaknesses in the sector and there remains a need to set more ambitious targets for shifting from inpatient to outpatient care and to reinforce preventive healthcare, for which public spending is below the EU average. The measures announced to strengthen primary care provision and to develop integrated care programmes for chronic diseases are welcomed. The long-term care fund, which was extended to 2016 with an additional EUR 650 million and is planned to be further extended to 2018 with an extra EUR 700 million, provides an interim solution for the financing of care services. The financial sustainability of long-term care will require attention also beyond this timeline.

(12) Austria's tax system continues to be characterised by a high tax and social security burden on labour, in particular for low-income earners. Labour taxes account for 24,7 % of GDP in 2012, one of the highest in the Union. The tax wedge amounts to almost 50 % of labour costs. High social contributions and entry income taxes are likely to lower incentives to work for individuals with low earnings potential and for second earners.

The recently adopted tax package includes limited measures to reduce the tax burden on labour but does not exploit the potential for a tax shift towards taxes less detrimental to growth, such as recurrent taxes on immovable property, where estimates of taxable values are outdated.

(13) The Austrian labour market continues to perform well with the lowest unemployment rate in the Union (2013: 4,9 %). However, the future challenges resulting from population ageing and a potentially shrinking work force call for a better use of the underutilised labour market potential of older workers, women and migrants. The employment rate of older workers remains below the EU average (44,9 % as against 50,3 %), although this rate has increased substantially since 2000, by almost 15 percentage points to 44,9 % in 2013. Measures to curb early retirement are becoming effective in 2014 and further measures to strengthen incentives for exiting the labour market later are in preparation. Nevertheless, difficulties for older workers to stay in or re-enter employment remain. Migrants continue to face obstacles to full integration in the labour market and significantly higher unemployment rates, partly due to remaining barriers to the recognition of their qualifications, while they constitute an increasing part of the labour force. While the female employment rate of 70,8 % in 2013 is relatively high, it is far less favourable in full-time equivalents (55,6 % in 2012). Austria has one of the highest percentages of women in part-time employment and a high concentration of women in low-pay employment. As a consequence, the gender pay and pension gap is one of the highest in the Union. Although some measures have been taken to improve childcare and long-term care services, availability is still limited.

(14) Austria has improved educational outcomes in all categories as measured by the OECD's 2012 students' skills survey, but reading achievements still remain below the EU average and the socio-economic background continues to have significant influence on educational achievements. While overall the early school leaving target has been met, the rate for foreign born pupils, who constitute a growing number of pupils, was more than three times higher than for those born in Austria (18,5 % as against 5,7 % in 2012). Insufficient emphasis is put on prevention of early school leaving and a nationwide strategic approach for high-quality early childhood education still needs to be developed. Some reforms to various aspects of the school system, in particular the roll-out of the New Middle School programme,

are ongoing or have just been adopted. The potential of New Middle School to mitigate the negative effects of early assignment of pupils to different school types after four years of elementary school ('early tracking') for the socially disadvantaged and to improve learning outcomes has to be monitored closely. In higher education, increasing numbers of enrolled students put pressure on finances and organisation, while the percentage of students completing their programmes remains below the EU average. Improving educational outcomes remains highly important in order to facilitate the pathway from education to employment.

(15) There are still significant regulatory barriers which hamper companies and individual professionals in offering their services in Austria. Legislation regulating specific professions limits company forms and imposes shareholding requirements, while at the same time access to individual professions is subject to specific professional qualifications and the establishment of interdisciplinary service companies remains difficult. The combination of these requirements creates barriers to entering the market and exercising professional services which limits competition. With respect to professional qualification requirements, Austria is participating in the EU-wide mutual evaluation exercise and has updated its database of regulated professions as a first step to assessing the justification and proportionality of professional qualification requirements.

(16) Publication requirements in EU procurement legislation aim at ensuring competition and equal-treatment through better information about contract opportunity, which is a key condition for market access. A higher degree of competition among bidders generally results in more favourable offerings for procuring entities including substantial cutting of prices. However, the value of calls for tenders published by Austrian authorities and entities under EU procurement legislation was 1,5 % of GDP and 6,6 % of total public expenditure on works, goods and services in 2012, well below the EU averages of 3,4 % and 17,7 %, respectively. This situation creates considerable costs for the Austrian taxpayer and for businesses in terms of foregone business opportunities.

(17) Despite increases in the budget of the Austrian Federal Competition Authority, it remains significantly understaffed in comparison with the authorities of other Member States of a similar or smaller size. The Austrian freight and passenger railway markets would benefit from further efforts to foster competition, as recommended by the Council in 2013.

(18) While overall banking sector capitalisation continued to improve in 2013, further efforts to strengthen capital buffers appear warranted considering the risk profile of banks. The Council recommended in 2013 that Austria speed up the restructuring of nationalised and partly nationalised banks. Currently, the legal framework for the wind-down of Hypo Alpe Adria is to be presented for adoption by Parliament by summer. The organisational preparation of setting up the respective asset management company (AMC) is in progress. The AMC is expected to become operational in autumn. Österreichische Volksbanken AG and the bad bank of Kommunalkredit, KA Finanz, continue their restructuring or their wind down, respectively, in line with EU state aid decisions. Transparent and decisive steps to complete the restructuring of nationalised banks would be essential to safeguard financial stability and to minimise the negative effects on public finances.

(19) 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 socio-economic 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 (5) 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.

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

(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 [1]. 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 2014-2015 to:

1. Following the correction of the excessive deficit, reinforce the budgetary measures for 2014 in the light of the emerging gap of 0,5 % of GDP based on the Commission services 2014 Spring forecast and after taking into account additional consolidation measures announced by Austria, pointing to a risk of significant deviation relative to the preventive arm of the Stability and Growth Pact requirements. In 2015, significantly strengthen the budgetary strategy to ensure that the medium-term objective is reached and, thereafter, maintained, and ensure that the debt rule is met in order to keep the general government debt ratio on a sustained downward path. Further streamline fiscal relations between layers of government, for example by simplifying the organisational setting and aligning spending and funding responsibilities.

2. Improve the long-term sustainability of the pension system, in particular by bringing forward the harmonisation of the statutory retirement age for men and women, by increasing the effective retirement age and by aligning the retirement age to changes in life expectancy. Monitor the implementation of recent reforms restricting access to early retirement. Further improve the cost effectiveness and sustainability of healthcare and long-term care services.

3. Reduce the high tax wedge on labour for low-income earners by shifting taxation to sources less detrimental to growth, such as recurrent taxes on immovable property, including by updating the tax base. Reinforce measures to improve labour market prospects of people with a migrant background, women and older workers. This includes further improving childcare and long-term care services and the recognition of migrants' qualifications. Improve educational outcomes in particular for disadvantaged young people including those with a migrant background, 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 dropouts.

4. Remove excessive barriers for services providers, including as regards legal form and shareholding requirements and with respect to setting up interdisciplinary services companies. Review whether restrictions on entry into and conduct in regulated professions are proportionate and justified by general interest. Identify the reasons behind the low value of public contracts open to procurement under EU legislation. Substantially strengthen the resources of the Federal Competition Authority.

5. Continue to closely oversee and advance effectively the orderly restructuring of the nationalised and partly nationalised banks.

Done at Brussels, 8 July 2014.

For the Council

The President

P. C. PADOAN

[1] See page 141 of the current Official Journal.

COUNCIL RECOMMENDATION

of 8 July 2014

on National Reform Programme 2014 of Poland and delivering a Council opinion on the Convergence Programme of Poland, 2014

(2014/C 247/19)

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 9(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, 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, on the basis of the Commission's proposals, 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 9 July 2013, the Council adopted a Recommendation [3] on Poland's National Reform Programme for 2013 and delivered its opinion on Poland's updated Convergence Programme for 2012-2016.

(1) OJ L 209, 2.8.1997, p. 1.
(2) Maintained for 2014 by Council Decision 2014/322/EU of 6 May 2014 on guidelines for the employment policies of the Member States for 2014 (OJ L 165, 4.6.2014, p. 49).
(3) OJ C 217, 30.7.2013, p. 63.

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey, marking the start of the 2014 European Semester for economic policy coordination. Also, on 13 November 2013, the Commission, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council [1], the Commission 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) On 20 December 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.

(7) On 24 April 2014, Poland submitted its 2014 National Reform Programme and its 2014 Convergence Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(8) The objective of the budgetary strategy outlined in the 2014 Convergence Programme is to bring the deficit below the 3 % of GDP Treaty reference value by 2015 and reach the medium-term objective by 2018. The medium-term objective (-1 % of GDP in structural terms) is more stringent than what the Stability and Growth Pact requires. The targets for the headline deficit presented in the 2014 Convergence Programme are consistent with a timely correction of the excessive deficit. Moreover, while the (recalculated) structural adjustment in 2014 is in line with the Council recommendation under the Excessive Deficit Procedure, it is below the required improvement in 2015. In the years after the planned correction of the excessive deficit, the planned (recalculated) annual progress towards the medium-term objective is lower than the requirement of the Stability and Growth Pact. Therefore, the programme objectives are partly in line with the requirements of the Stability and Growth Pact. The general government debt is projected to remain below 60 % of GDP over the programme period. The Polish authorities project it to fall sharply from 57,1 % of GDP in 2013 to 49,5 % in 2014, mainly due to the large, one-off transfer of pension fund assets, and remain at this level in 2015. The macroeconomic scenario underpinning the budgetary projections in the Convergence Programme is plausible for 2014 and optimistic for 2015 with a higher rate of real GDP growth of 3,8 % compared to 3,4 % in the Commission services 2014 Spring forecast. Based on its assessment of the Convergence Programme and the Commission forecast, pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that while Poland is expected to stay within the ceiling of the headline deficit recommended by the Council for 2014, there are risks to a sustainable correction of the excessive deficit in 2015 and, thereafter, to the appropriate adjustment path towards the medium-term objective.

(9) To ensure the success of the fiscal consolidation strategy, it is important that the fiscal consolidation is backed by comprehensive structural reforms. A low share of growth-enhancing expenditure (education, research and innovation) hampers long-term growth prospects. Healthcare spending is expected to grow considerably in the medium to long term because of an aging society. The burden on public finances could be lowered and the access to healthcare improved through strengthening primary care and referral systems and exploiting the potential for cost-efficiency gains in hospital care. Low tax compliance remains an issue, in particular in terms of efficiency of tax administration and in the level of administrative burden on taxpayers. At the same time Poland has recently published an Action Plan for the improvement of tax compliance and tax administration efficiency in the years 2014-2017. Poland has a system of reduced VAT rates which contributes to the highest VAT policy gap in the Union. It leads to revenue losses and increased tax compliance costs. The level of energy taxation is relatively low. Steps have been taken in the recent past to improve the Polish fiscal framework. Nevertheless, the framework would benefit from the introduction of a fully-fledged independent fiscal council, responsible for ex ante checks of compliance with fiscal rules, an assessment of macroeconomic and budgetary forecasts and an analysis of the long-term sustainability of public finances as well as an ex post assessment of compliance with fiscal rules.

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

(10) Youth unemployment has been gradually increasing over the last year, which partly results from the ongoing mismatch between education outcomes and labour market needs as well as the growing proportion of young people who are not in education, employment or training. Despite ongoing efforts to reform the vocational education and training system, there is a need to further facilitate access to good quality apprenticeships and work-based learning, to strengthen cooperation between schools and employers and to reach out non-registered youth, in line with the objectives of a youth guarantee. Adjustment of skills to labour market requirements is also particularly important in the context of lifelong learning, where participation remains very low, especially with regard to older workers, whose competencies are often outdated. Labour market segmentation persists with the extensive use of fixed-term employment contracts as well as civil law contracts. The incidence of fixed-term employment is particularly high among the young. While fixed-term contracts are often regarded as an instrument for the unemployed to enter the labour market with a view to later moving on to a permanent contract, this seems not to be the case for the majority of workers in Poland, given that the transition rate from fixed-term employment to permanent employment is low, which tends to negatively influence productivity and the quality of human capital.

(11) Female labour market participation remains low. Poland has taken several measures to enhance female employment, including an increase in the availability of early childcare services (nurseries), and an increase in public funding for kindergartens to encourage parents to enrol their children in pre-school education. Nevertheless, availability of early childcare services is still low, especially in rural areas, and disparities in access to pre-school education remain. Labour market participation of older workers in Poland remains low. Early retirement possibilities have been reduced significantly but further efforts are needed to increase the employability of older workers and the effective duration of working life. Reforming the special pension schemes for miners and farmers remains a challenge. The farmers' scheme (KRUS) creates incentives for small-scale farmers to remain in the agricultural sector, resulting in hidden unemployment in rural areas and stimulating the informal economy. Miners continue to enjoy privileges in terms of pension rights and minimum work record required. Both pension schemes impede sectoral and territorial labour mobility.

(12) Poland is among the Member States with the lowest level of R&D expenditure and is one of the worst performers in broader innovation indicators. Private R&D expenditure is especially low. Low R&D spending is coupled with weak research and innovation activity by companies and an insufficiently innovation-friendly business environment. The innovation support system in Poland has been risk-averse, based mostly on grants, supporting technology absorption and transfer without a big impact on genuinely new innovation. Existing tax incentives for R&D are ineffective in promoting internal R&D by the private sector and are used only by big companies. Polish enterprises have relied largely on technology absorption. While this has been successful in ensuring productivity gains and economic growth, Poland now needs a transition towards a more indigenous innovation-based model. Raising the innovation capacity of Polish companies, improving links between science and industry and developing targeted instruments adapted to the whole innovation cycle remains a challenge.

(13) There are still very high potential gains from improvements in energy efficiency in all sectors of Poland's economy and such gains could support growth, improve competitiveness and contribute to reducing Poland's energy dependency. Domestic energy generation capacity is ageing and the electricity grid is still congested but projects to create more interconnection capacity to neighbouring Member States are advancing. The key problem in the natural gas market remains the lack of diversification and competition.

(14) Poland's underdeveloped transport and fixed broadband infrastructure remains a major bottleneck to growth. In particular, significant investments are needed in the degraded railway network to increase the competitiveness of the rail sector and achieve a better balance between road and rail transport. Only around one third of the total of about 20 000 km of operated railway lines is in good technical condition. Problems with the timely implementation of railway projects continue. Resource efficiency can be increased by improving waste management.

(15) Contract enforcement in Poland is lengthy and the procedure to obtain construction permits is long and burdensome. Tax compliance costs are high, which is a major problem in the business environment. Poland has made substantial progress in implementing an ambitious reform facilitating access to regulated professions.

(16) 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 socio-economic 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 (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 Poland take action within the period 2014-2015 to:

1. Reinforce the budgetary strategy to ensure the correction of the excessive deficit in a sustainable manner by 2015 through achieving the structural adjustment effort specified in the Council recommendation under the Excessive Deficit Procedure. After the correction of the excessive deficit and until the medium-term objective is achieved, pursue an annual structural adjustment of 0,5 % of GDP as a benchmark. 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. In that regard, minimise cuts in growth-enhancing investment, improve the targeting of social policies and the cost effectiveness of spending and the overall efficiency of the healthcare sector, broaden the tax base for example by addressing the issue of an extensive system of reduced VAT rates, and improve tax compliance, in particular by increasing the efficiency of the tax administration. Establish an independent fiscal council.

2. Strengthen efforts to reduce youth unemployment, in particular by further improving the relevance of education to labour market needs, increasing the availability of apprenticeships and work-based learning places and by strengthening outreach to unregistered youth and the cooperation between schools and employers, in line with the objectives of a youth guarantee. Increase adult participation in lifelong learning in order to adjust skills supply to skills demand. Combat labour market segmentation by stepping up efforts to ensure a better transition from fixed-term to permanent employment and by reducing the excessive use of civil law contracts.

3. Continue efforts to increase female labour market participation, in particular by taking further steps to increase the availability of affordable quality childcare and pre-school education and ensuring stable funding. Include farmers in the general pension system, starting by speeding up the creation of the system for the assessment and recording of farmers' incomes. Phase out the special pension system for miners with a view to integrating them into the general scheme. Underpin the general pension reform by stepping up efforts to promote the employability of older workers to raise exit ages from the labour market.

4. Improve the effectiveness of tax incentives in promoting R&D in the private sector as part of the efforts to strengthen the links between research, innovation and industrial policy, and better target existing instruments at the different stages of the innovation cycle.

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

5. 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 to neighbouring Member States, and develop the gas interconnector with Lithuania. Ensure effective implementation of railway investment projects without further delay and improve the administrative capacity in this sector. Accelerate efforts to increase fixed broadband coverage. Improve waste management.

6. Take further steps to improve the business environment by simplifying contract enforcement and requirements for construction permits. Step up efforts to reduce costs and time spent on tax compliance by businesses. Complete the ongoing reform aimed at facilitating access to regulated professions.

Done at Brussels, 8 July 2014.

For the Council

The President

P. C. PADOAN

COUNCIL RECOMMENDATION

of 8 July 2014

on the National Reform Programme 2014 of Portugal and delivering a Council opinion on the Stability Programme of Portugal, 2014

(2014/C 247/20)

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 the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, 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, on the basis of the Commission's proposals, 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) Portugal was subject to a macroeconomic adjustment programme until 17 May 2014 in line with Article 1(2) of Council Implementing Decision 2011/344/EU [3], which provided that the financial

[1] OJ L 209, 2.8.1997, p. 1.
[2] Maintained for 2014 by Council Decision 2014/322/EU of 6 May 2014 on guidelines for the employment policies of the Member States for 2014 (OJ L 165, 4.6.2014, p. 49).
[3] Council Implementing Decision 2011/344/EU of 30 May 2011 on granting Union financial assistance to Portugal (OJ L 159, 17.6.2011, p. 88).

assistance would be made available for three years. On 23 April 2014, the Council decided [1] to extend the availability of the financial assistance by six weeks, to allow for a comprehensive and thorough assessment of compliance with the programme conditionality and an orderly disbursement of the last loan tranche. Under Article 12 of Regulation (EU) No 472/2013 of the European Parliament and of the Council [2] Portugal was thus exempt from the monitoring and assessment of the European Semester for economic policy coordination for the duration of the programme. Having exited the programme, Portugal should now be fully re-integrated into the European Semester framework.

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey, marking the start of the 2014 European Semester for economic policy coordination. Also, on 13 November 2013, the Commission, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council [3], adopted the Alert Mechanism Report.

(6) On 20 December 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.

(7) Pursuant to Regulation (EU) No 472/2013, Portugal was exempted from the obligation to submit its National Reform Programme and its Stability Programme for the duration of the macroeconomic adjustment programme. Nevertheless, it submitted an updated Fiscal Strategy Document on 30 April 2014 (*Documento de Estratégia Orçamental*) and a letter from the Government providing an update on developments on the Europe 2020 targets. On 17 May 2014, the Government presented its ongoing reform programme and new initiatives towards sustainable growth in a document entitled 'The Road to Growth, a medium-term reform strategy for Portugal'.

(8) The objective of the budgetary strategy outlined in the 2014 Fiscal Strategy Document is to correct the excessive deficit by 2015 in a sustainable manner and reach the medium-term objective by 2017. The strategy plans to bring the government deficit to 4,0 % of GDP in 2014 and to lower it further to 2,5 % of GDP in 2015, in line with the targets set in the Excessive Deficit Procedure Recommendation of 21 June 2013 and re-confirmed by the 12th review of the macroeconomic adjustment programme. However, on 30 May 2014 the Constitutional Court annulled consolidation measures estimated to impact the budgetary results in 2014 by around 0,4 % of GDP, with possible follow-on effects in 2015. In order to achieve the agreed targets, the Government will have to introduce replacement measures of equivalent size. There are, however, two rulings of the Constitutional Court still pending which prevents a complete quantification of the measures to be taken. In view of the limited time available, the Government may need to resort to measures of a less growth-friendly nature, particularly on the revenue side. Beyond 2015, the strategy confirms the aim of achieving the medium-term objective by 2017 by way of delivering a structural effort of 0,5 % of GDP in 2016 and achieving a structural deficit of 0,5 % in 2017. According to the strategy, general government gross debt will peak at around 130,2 % of GDP in 2014 and will gradually start declining as from 2015. The macroeconomic scenario underlying the budgetary projections of the strategy is in line with the Commission spring forecast and was analysed by the Public Finance Council. Following the constitutional court ruling the fiscal strategy in 2014 will have to be revised in order to achieve the deficit target of 4 % of GDP. Nevertheless, downside risks to the target remain, in particular due to legal uncertainties and the statistical impact of operations aimed at a more efficient management of the debt overhang of some state-owned enterprises.

(1) Council Implementing Decision 2014/234/EU of 23 April 2014 amending Implementing Decision 2011/344/EU of 30 May 2011 on granting Union financial assistance to Portugal (OJ L 125, 26.4.2014, p. 75).
(2) 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).
(3) Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25).

The 2015 budgetary adjustment is underpinned by fiscal consolidation measures amounting to 0,8 % of GDP which is considered to be sufficient to achieve the target of 2,5 % of GDP. Based on the assessment of the Governments' fiscal strategy and the Commission forecast, pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that the strategy's targets are consistent with the requirements of the Stability and Growth Pact.

(9) Fiscal consolidation needs to be underpinned by further reforms of the system of public financial management. In particular, despite progress made under the macroeconomic adjustment programme, the comprehensive reform of the Budget Framework Law needs to be completed and further efforts are necessary to strictly ensure expenditure control by enforcing the commitment control law and to prevent the further accumulation of public sector arrears. Continued restructuring of state-owned enterprises, ensuring their financial sustainability and tightly controlling pension and healthcare expenditure will be crucial. On the revenue side, there is scope for making the tax system more growth-friendly and further fostering tax compliance.

(10) Portugal faces challenges relating to unemployment which, notwithstanding the recent decline, remains very high, particularly for young people. The unemployment rate stood at 16,4 % in 2013 and youth unemployment at 38,1 %, substantially above the EU average, as was the percentage of young people not in education, employment, or training. Portugal's traditionally high employment rate among 20-64 years old, has declined markedly since the start of the economic crisis, from 73,1 % in 2008 to 65,6 % in 2013. As regards youth unemployment, in line with the objectives of a youth guarantee, the main challenges include weak outreach to non-registered young people, and a need to better align education and training with labour market needs. Under the macroeconomic adjustment programme, Portugal has implemented a wide range of labour market reforms aimed at easing overly restrictive employment protection legislation, making wage-setting mechanisms more flexible and improving the functioning of the public employment services and activation policies. Challenges remain, however, in particular the need to tackle labour market segmentation and improve the responsiveness of wages to the economic conditions. An independent evaluation of the effects of the recent reforms in the employment protection system would help to assess, in particular, their impact on job creation, precariousness, overall labour costs and on the number of court appeals against dismissals and their outcome. Despite efforts to alleviate the negative social impact, the necessary economic adjustment following the crisis has had negative repercussions in terms of poverty.

(11) Portugal has made significant progress in reforming its education system by means of several measures to fight early school leaving, and improve tertiary attainment rate and labour market matching. However, the full implementation and efficient use of funding remain crucial. In particular, further work is necessary to reduce skills mismatches, including by increasing the quality and attractiveness of vocational education and training, including dual vocational education and training, fostering employers' involvement in helping to design programmes and providing adequate in job trainings and apprenticeships. There is also a need to effectively implement career guidance and counselling services for secondary and tertiary students in line with labour market needs and skills anticipation, and strengthen links with the business sector.

(12) Portugal has taken significant steps under the macroeconomic adjustment programme to improve the capital base of the banking sector and to strengthen its supervision and resolution framework. However, important challenges remain and need to be carefully monitored and managed; these include the profitability of the Portuguese banks. Data for the first quarter of 2014 show that some of the assisted banks registered positive results. Asset quality is still a major problem, with impairment levels remaining high at about 6 % of total gross loans and non-performing loans at elevated levels (10,6 %), in particular in the corporate segment (over 16 %) according to the data available at end 2013. Portugal has adopted

a number of measures to facilitate lending to viable companies, but financing conditions remain difficult, particularly for SMEs, and the range of financing alternatives for the corporate sector, other than bank-based finance, remains limited. Freshly granted loans to SMEs fell by 4,8 % in 2013 as compared with 2012. The average interest rates on new loans to Portuguese firms have come down somewhat since early 2013, but remain significantly above the euro area average. Given the high corporate debt overhang and the need for a further deleveraging of the banking sector, banks' ability to extend credit to viable firms at reasonable cost remains constrained.

(13) With a view to ensuring the efficiency and sustainability of the energy sector and lowering the energy cost for the economy, two packages of measures have been enacted under the macroeconomic adjustment programme. Rents in the energy sector must, however, be further reduced and the high and rising tariff debt tackled. To this end, Portugal has recently announced a third package of measures, including the extension to 2015 of the 2014 special levy on the energy operators. In addition, improving cross-border integration of the energy networks and speeding up implementation of the electricity and gas interconnection projects remain outstanding issues and necessitate robust follow-up in view of ending the isolation of the Iberian peninsula from the EU energy market. In the transport sector, progress has been made under the programme, in particular in enhancing the competitive position of the Portuguese ports, drawing up a comprehensive long-term transport plan, after weaknesses and gaps had been addressed, and improving the regulatory framework. However, further measures remain necessary to effectively implement the comprehensive long-term transport plan and the reform action plan for ports. Steps are also needed to ensure the independence and capacity of the transport regulator, and the financial sustainability of the state-owned enterprises in the sector and enhance efficiency and competition in rail transport.

(14) A landmark reform has been implemented in the urban lease market with a view to making the housing market more dynamic including by better balancing rights and obligations of landlords and tenants, introducing more flexibility in the choice of contract duration, and incentivising renovation works. More work is still required to comprehensively evaluate the impact of this reform on the basis of data on key drivers of the market and on the shadow economy in the Portuguese rental market. Portugal has made substantial progress in enhancing its business environment, in particular by fostering better framework conditions, promoting entrepreneurial culture and improving insolvency proceedings for firms in distress. Attention should now be shifted to implementation. The simplification of administrative and licensing procedures has made progress but a number of measures still require completion. Further efforts are necessary to remove obstacles to competition in the services sector, in particular by adopting sectoral amendments, and in professional services, by adopting legislation on the remaining professional bodies. As regards regulation and competition, follow-up measures are necessary to ensure the independence and autonomy of the national sectoral regulators and the Competition Authority. Significant delays still affect payments by public authorities.

(15) Good progress has been made under the macroeconomic adjustment programme in rationalising and modernising the public administration in terms of employment, remuneration policy, working conditions, organisational efficiency and quality of services. However, some of the envisaged reform measures still need to be completed and transparency improved. Despite significant progress made to improve the efficiency of the judicial system, further improvements are called for in particular in terms of the length of proceedings, the clearance rate, the number of pending cases, and the monitoring and evaluation process.

(16) The Commission's analysis leads it to conclude that the successful implementation of the macroeconomic adjustment programme was instrumental in managing economic and financial risks and reducing imbalances. Portugal has adopted a wide range of challenging structural reforms under the programme, which are starting to bear fruit in terms of enhanced competitiveness and resuming economic growth, but more work is needed to assess the reforms' impact on the functioning of the economy. Continued monitoring of all implemented reforms is therefore essential to assess whether they contribute to boosting competitiveness, output and employment growth.

(17) Since after the end of the macroeconomic adjustment programme, which will be legally concluded on 28 June 2014, Portugal will be fully re-integrated in the European Semester exercise, the Commission, on this basis has assessed the documents submitted by Portugal. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in Portugal 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 for future national decisions. Its recommendations for Portugal under the European Semester are reflected in recommendations (1) to (8) below.

(18) In the light of this assessment, the Council has examined the Government's fiscal strategy, and its opinion [1] is reflected in particular in recommendation (1) below. These recommendations were prepared in the wake of the conclusion of the macroeconomic adjustment programme and therefore build on that programme's achievements to secure its lasting implementation.

(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, Portugal should also ensure the full and timely implementation of these recommendations,

HEREBY RECOMMENDS that Portugal take action within the period 2014-2015 to:

1. Implement the necessary fiscal consolidation measures for 2014 so as to achieve the fiscal targets and prevent the accumulation of new arrears. For the year 2015, implement a revised budgetary strategy in order to bring the deficit to 2,5 % of GDP, in line with the target set in the Excessive Deficit Procedure Recommendation, while achieving the required structural adjustment. Replace consolidation measures which the Constitutional Court considers unconstitutional by measures of similar size and quality as soon as possible. The correction of the excessive deficit should be done in a sustainable and growth-friendly manner, limiting recourse to one-off/temporary measures. After the correction of the excessive deficit, pursue the planned annual structural adjustment towards the medium-term objective, in line with the requirement of an annual structural adjustment of at least 0,5 % of GDP, more in good times, and ensure that the debt rule is met in order to put the high general debt ratio on a sustainable path. Prioritise expenditure-based fiscal consolidation and increase further the efficiency and quality of public expenditure. Maintain tight control of expenditure in central, regional and local administration. Continue the restructuring of the state-owned enterprises. Develop by the end of 2014 new comprehensive measures as part of the ongoing pension reform, aimed at improving the medium-term sustainability of the pension system. Control healthcare expenditure growth and proceed with the hospital reform. Review the tax system and make it more growth-friendly. Continue to improve tax compliance and fight tax evasion by increasing the efficiency of the tax administration. Strengthen the system of public financial management by swiftly finalising and implementing the comprehensive reform of the Budgetary Framework Law by the end of 2014. Ensure strict compliance with the Commitment Control Law. Effectively implement single wage and supplements' scales in the public sector from 2015 onwards.

2. Maintain minimum wage developments consistent with the objectives of promoting employment and competitiveness. Ensure a wage setting system that promotes the alignment of wages and productivity at sectoral and/or firm level. Explore, in consultation with the social partners and in accordance with national practice, the possibility of mutually agreed firm-level temporary suspension of collective agreements. By September 2014, present proposals on mutually agreed firm-level temporary suspension of collective agreements and on a revision of the survival of collective agreements.

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

[2] See page 141 of the current Official Journal.

3. Present, by March 2015, an independent evaluation of the recent reforms in the employment protection system, together with an action plan for possible further reforms to tackle labour market segmentation. Pursue the ongoing reform of active labour market policies and Public Employment Services aimed at increasing employment and labour participation rates, specifically by improving job counselling/job search assistance and activation/sanction systems with a view to reducing long-term unemployment and integrating those furthest away from the labour market. Address the high youth unemployment, in particular by effective skills anticipation and outreach to non-registered young people, in line with the objectives of a youth guarantee. Ensure adequate coverage of social assistance, including the minimum income scheme, while ensuring effective activation of benefit recipients.

4. Improve the quality and labour-market relevance of the education system in order to reduce early school leaving and address low educational performance rates. Ensure efficient public expenditure in education and reduce skills mismatches, including by increasing the quality and attractiveness of vocational education and training and fostering cooperation with the business sector. Enhance cooperation between public research and business and foster knowledge transfer.

5. Monitor banks' liquidity position and potential capital shortfalls, including by on-site thematic inspections and stress-testing. Assess the banks' recovery plans and introduce improvements to the evaluation process where necessary. Implement a comprehensive strategy to reduce the corporate debt overhang and reinforce efforts to widen the range of financing alternatives, including for early stages of business developments, by enhancing the efficiency of the debt restructuring tools (particularly PER and SIREVE) for viable companies, introducing incentives for banks and debtors to engage in restructuring processes at an early stage and improving the availability of financing via the capital market. Ensure that the identified measures support the reallocation of financing towards the productive sectors of the economy, including to viable SMEs, while avoiding risks to public finances and financial stability. Implement, by end September 2014, an early warning system mainly with supervisory purposes, to identify firms, including SMEs, with a high probability of default due to an excessive level of indebtedness, and which can, indirectly, promote early corporate debt restructuring.

6. Implement the second and third packages of measures in the energy sector aimed at reducing energy costs for the economy, while eliminating the electricity tariff debt by 2020, and closely monitor implementation. Improve the cross-border integration of the energy networks and speed up implementation of the electricity and gas interconnection projects. Implement the comprehensive long-term transport plan and the 'chronogram' setting out the ports sector reforms. Complete the transports concessions for the metropolitan areas of Lisbon and Oporto. Ensure that the renegotiations of the existing port concessions and the new authorisation schemes are performance-oriented and in line with internal market principles, in particular procurement rules. Ensure that the national regulatory authority for transport (AMT) is fully independent and operational by the end of September 2014. Ensure the financial sustainability of the state-owned enterprises in the transport sector. Strengthen efficiency and competition in the railways sector, by implementing the plan for the competitiveness of CP Carga, after the transfer of the freight terminals while ensuring the management independence of the state-owned infrastructure manager and railway undertakings.

7. Further improve the evaluation of the housing market, including by setting up, by the end of 2014, a more systematic monitoring and reporting framework and issue a comprehensive report on the shadow economy in that market. Continue efforts to carry out further inventories of regulatory burdens with a view to including, by March 2015, sectors not yet covered. Adopt and implement, by the end of September 2014, the outstanding licensing decrees and sectoral amendments. Remove, by the end of September 2014, remaining restrictions in the professional services sector and enact the professional bodies' amended by-laws which have not yet been adopted under the macroeconomic adjustment programme. Eliminate payment delays by the public sector. Ensure adequate resources of the national regulators and competition authority.

8. Continue to rationalise and modernise central, regional and local public administration. Implement the reforms to enhance the efficiency of the judicial system and increase transparency. Step up efforts to evaluate the implementation of reforms undertaken under the macroeconomic adjustment programme as well as planned and future reforms. In particular, insert mandatory systematic *ex ante* and *ex post* assessments in the legislative process. Set up a functionally independent central evaluation unit at government level, which assesses and reports every six months on the implementation of these reforms, including consistency with the *ex ante* impact assessment, with corrective action if needed.

Done at Brussels, 8 July 2014.

For the Council

The President

P. C. PADOAN

COUNCIL RECOMMENDATION

of 8 July 2014

on the National Reform Programme 2014 of Romania and delivering a Council opinion on the Convergence Programme of Romania, 2014

(2014/C 247/21)

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 the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, 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, on the basis of the Commission's proposals, 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 9 July 2013, the Council adopted a Recommendation [3] on Romania's 2013 National Reform Programme and delivered its opinion on Romania's 2013 Convergence Programme for 2012-2016.

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey, marking the start of the 2014 European Semester for economic policy coordination. Also, on 13 November 2013, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report.

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(1) OJ L 209, 2.8.1997, p. 1.
(2) Maintained for 2014 by Council Decision 2014/322/EU of 6 May 2014 on guidelines for the employment policies of the Member States for 2014 (OJ L 165, 4.6.2014, p. 49).
(3) OJ C 217, 30.7.2013, p. 67.

(6) On 20 December 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.

(7) On 6 May 2014, Romania submitted its 2014 National Reform Programme and, on 5 May 2014, its 2014 Convergence Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(8) On 22 October 2013, the Council adopted Decision 2013/531/EU [1] providing medium-term financial assistance to Romania of up to EUR 2 billion until September 2015. Precautionary medium-term financial assistance for Romania under the balance-of-payments facility for non-euro-area Member States was considered appropriate due to unstable capital flows affecting in particular emerging markets, risks to the macroeconomic scenario, and remaining vulnerabilities in the banking sector. While, under present market conditions, Romania does not intend to request the disbursement of any instalment, the precautionary assistance is expected to help consolidate macroeconomic, budgetary and financial stability and, through the pursuit of structural reforms, to increase the resilience and the growth potential of the economy. The Memorandum of Understanding of 6 November 2013 and its subsequent supplements laying down the conditions to be fulfilled under the EU precautionary assistance complement and support the country-specific recommendations of the European Semester. The EU precautionary assistance will be conditional upon the implementation of a comprehensive economic policy programme, with a particular focus on structural reform measures including those country-specific recommendations relating to administrative capacity, product market reforms, the business environment, labour markets, pensions, state-owned enterprises, and healthcare. This agenda does not exempt the Government from fully implementing all the country-specific recommendations. The policy prioritisation, implementation and coordination necessary for implementing the Memorandum of Understanding and the country-specific recommendations, should be dealt with where priority decisions are made, in a coherent way.

(9) The objective of the budgetary strategy outlined in the 2014 Convergence Programme is to achieve the medium-term objective of a structural deficit of 1 % of GDP in 2015, which reflects the requirement of the Stability and Growth Pact, and to remain at it thereafter. Romania is benefitting in 2014 from the possibility of a temporary deviation from the adjustment path towards the medium-term objective allowed for jointly financed projects. The temporary deviation has to be compensated for in the following year. The Convergence Programme plans a stabilisation of the (recalculated) structural balance in 2014 and an improvement of 0,8 % of GDP in 2015. Expenditure is forecast to grow at a pace consistent with the expenditure benchmark in both 2014 and 2015. The debt to GDP ratio is forecast to reach 40 % in 2015, and to decrease in 2016-2017. Overall, the budgetary strategy outlined in the Convergence Programme is in line with the requirements of the Stability and Growth Pact. The macroeconomic scenario underpinning the budgetary projections is plausible. It is broadly in line with the Commission services 2014 spring forecast. However the potential GDP estimate underlying the Convergence Programme is slightly higher, mainly on account of a more optimistic labour market outlook. There are downside risks to the 2014 budgetary plans related to expenditure control and lower-than-envisaged tax collection. Moreover, for 2015 and beyond, the measures underpinning the proposed fiscal path are not yet specified.

According to the Commission forecast, despite a small deterioration in the structural balance in 2014, Romania is compliant with the Stability and Growth Pact requirements in 2014, taking into account the temporary deviation allowed for jointly financed projects. For 2015, there is a risk of a significant deviation from the required structural adjustment, taking into account the necessary compensation for the temporary deviation allowed for jointly financed projects). Moreover, Romania is forecast to deviate from the expenditure benchmark in 2015. Based on its assessment of the Convergence Programme and the Commission forecast, pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that the Convergence Programme presents risks of a significant deviation from the requirements of the preventive arm in 2015.

[1] Council Decision 2013/531/EU of 22 October 2013 providing precautionary Union medium-term financial assistance to Romania (OJ L 286, 29.10.2013, p. 1).

(10) Tax fraud and tax avoidance in the areas of VAT, including cross-border schemes, excises, social security contributions and income taxation remain a major challenge. Tangible progress in fighting undeclared work is limited, while the effectiveness of the tax compliance strategy is hampered by the lack of realistic and binding implementation measures and insufficient focus on prevention. A reform of the tax administration to increase its efficiency is ongoing; cross-border administrative cooperation, in particular in the VAT area, remains weak. The tax wedge on low and middle-income wage earners remains high and encourages undeclared work and under-declared earnings. There has been some progress in the field of environmental taxation, as the vehicle taxation system was improved and excise duties on fuel were increased and are now automatically indexed. Romania faces long-term sustainability risks, mainly 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 has taken steps to equalise the pensionable age for women and men as of 2035.

(11) Inefficient use of resources and poor management increase the fiscal sustainability risk in the health sector. Widespread informal payments in the public healthcare further hinder the accessibility, efficiency and quality of the system. Reforms to improve the efficiency of the healthcare sector and its financial sustainability have begun but continuous efforts are needed. Some of the measures are incurring delays and suffer from insufficient funding and the services' low capacity. Reducing the excessive use of hospital in-patient care and strengthening primary care and referral systems will increase cost-effectiveness. Further reforms of the healthcare system aimed at improving the health of the population by promoting, among other things, equitable access to quality health services has been launched.

(12) High inactivity, insufficient utilisation of labour potential and the need to increase the quality and productivity of the work force remain key challenges of the Romanian labour market. The quality of public job search and retraining services is still low, despite some small-scale measures. Limited resources within the public employment service and a lack of measurement of performance constrain the efficient delivery of personalised services to jobseekers, employer services and the integration of active and passive labour market policies. Romania has a high and increasing percentage of young people not in employment, education or training (17,3 % in 2013). A national Active Ageing Strategy to support an increase in the employment rate of older workers has been delayed and now is due by the end of 2014.

(13) There is no transparent guideline for minimum wage setting involving social partners aiming at supporting employment and competitiveness and safeguarding labour income in a sustainable way.

(14) The Education Reform of 2011, which set a long-term agenda for upgrading the quality of education at all levels, is not yet fully operational, due to insufficient financial and human resources. Following a sharp decline in vocational education and training in the last 20 years, several reforms and pilot projects have been initiated in recent years but the availability of vocational education and training, its relevance to the labour market and business involvement in work-based learning and apprenticeships remains low. Important skills mismatches persist for tertiary graduates and the link between business and academia remains weak, as shown by a high unemployment rate and many university graduates being employed either in professions not corresponding to their training or in jobs requiring lower levels of qualification. Participation in lifelong learning activities continues to be among the lowest in the Union. The early school leaving rate continues to be one of the highest in the Union and is now higher than prior to 2010, affecting in particular Roma. Female employment is hindered by low provision of, and limited access to, affordable quality childcare facilities, in particular for the 0 to 3-year olds.

(15) Poverty reduction remains a major challenge. Despite the relatively stable employment situation, gross household incomes have been declining and income inequalities have been growing. Families with children are particularly exposed. There was only limited progress in speeding up the transition from institutional to alternative care for children deprived of parental care. There is still a high number of persons with disabilities in large residential institutions, while community services for the disabled are not sufficiently developed. The low take-up, coverage and adequacy of social benefits remain a challenge for the efficiency of social benefits in reducing poverty. The introduction of the Minimum Insertion Income combining three existing social benefits (the Guaranteed Minimum Income, the family allowance and the heating benefits) planned for 2015 has been delayed. The implementation of the National Roma Integration Strategy started in 2012, but financial allocation for the implementation of key action plans was insufficient and the results are modest. The revision of the Strategy and the implementation of the revised action plans are delayed.

(16) The weak capacity of the public administration to develop and implement policies remains a core challenge for Romania, hampering overall development of the country, the business environment and the capacity for public investment, while not allowing for the provision of public services of sufficient quality. The structural causes that led to a low administrative capacity were analysed in 2013. Based on this, a 2014-2020 strategy on strengthening public administration is currently under preparation and is expected to be finalised by mid-2014.

(17) Despite important progress, the absorption rate for EU funds remains one of the lowest in the Union. Continuously weak management and control systems and public procurement practices may negatively impact the preparations for and implementation of the next generation of programmes. Strategic planning and policy prioritisation at the centre of government as well as policy prioritisation and multi-annual budgetary planning at the level of line ministries with important investment portfolios remain a challenge. Public procurement legislation suffers from instability and a lack of coherence. The institutional set-up, with multiple actors and frequently overlapping responsibilities is not equipped to tackle the shortcomings and provide appropriate guidance to contracting authorities. Corruption and conflicts of interests continue to be concerns for contracting authorities. A system for ex ante checks for conflicts of interest in the award process of public procurement contracts is expected to become operational by the end of 2014.

(18) The poor quality of regulations and the lack of transparency and predictability of the regulatory framework hinder businesses and citizens. Procedures for obtaining electricity, dealing with construction permits and paying taxes are still complex. Unclear land ownership rights represent a further challenge for Romania's business environment; less than 50 % of real estate is recorded in the land book system and only around 15 % of real estate records are verified and registered digitally. Romania has made some progress in improving the quality, independence and efficiency of the justice system and in the fight against corruption, but these issues remain a concern for businesses seeking effective redress. Resistance to integrity and anti-corruption measures at political and administrative levels is still strong.

(19) Price regulation in the electricity market for industrial customers ended in 2013 and the phasing-out of gas and electricity price regulation is ongoing. Efficiency and transparency of governance of the state-owned enterprises in these sectors represent a major challenge. Energy price deregulation is expected to bring incentives to enhance energy efficiency, although concrete measures and resource commitments are needed to further improve energy efficiency in the housing, district heating, industry and urban transport sectors. The integration of Romania's electricity and gas markets in the EU markets remains incomplete and substantial barriers remain for the implementation of cross-border connections for gas, which would contribute to enhancing diversification of supply.

(20) The underdeveloped basic transport infrastructure continues to be a bottleneck to growth in Romania. High growth of the vehicle fleet and the low quality of the road infrastructure hamper businesses and the economy. Poor maintenance of the railway network has affected safety and reliability. Freight transport on inland waterways remains far below its potential, particularly on the Danube. The inefficiency and non-transparent governance of state-owned enterprises in the transport sector hinder the development of network infrastructures.

(21) 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 the Convergence Programme. It has taken into account not only their relevance for sustainable fiscal and socio-economic 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.

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

HEREBY RECOMMENDS that Romania take action within the period 2014-2015 to:

1. Implement the EU/IMF financial assistance programme by fully addressing the policy conditionality - included in the Memorandum of Understanding of 6 November 2013 and its subsequent supplements - that complements and supports the implementation of these country-specific recommendations.

2. Implement the budgetary strategy for 2014, significantly strengthen the budgetary effort to ensure reaching the medium-term objective in 2015 in line with commitments under the Balance of Payments programme and as reflected in the 2014 Convergence Programme, in particular by specifying the underlying measures, and remain at the medium-term objective thereafter. Improve tax collection by continuing to implement a comprehensive tax compliance strategy, stepping up efforts to reduce VAT fraud. Fight undeclared work. Reduce tax burden for low- and middle-income earners in a budget-neutral way. Finalise the pension reform started in 2010 by equalising the pensionable age for men and women.

3. Step up reforms in the health sector to increase its efficiency, quality and accessibility, including for disadvantaged people and remote and isolated communities. Increase efforts to curb informal payments, including through proper management and control systems.

4. Strengthen active labour-market measures and the capacity of the National Employment Agency. Pay particular attention to the activation of unregistered young people. Strengthen measures to promote the employability of older workers. Establish, in consultation with social partners, clear guidelines for transparent minimum wage setting, taking into account economic and labour market conditions.

5. Increase the quality and access to vocational education and training, apprenticeships, tertiary education and of lifelong learning and adapt them to labour market needs. Ensure better access to early childhood education and care.

6. In order to alleviate poverty, increase the efficiency and effectiveness of social transfers, particularly for children, and continue reform of social assistance, strengthening its links with activation measures. Step up efforts to implement the envisaged measures to favour the integration of Roma in the labour market, increase school attendance and reduce early school leaving, through a partnership approach and a robust monitoring mechanism.

7. Step up efforts to strengthen the capacity of public administration, in particular by improving efficiency, human resource management, the decision-making tools and coordination within and between different levels of government; and by improving transparency, integrity and accountability. Accelerate the absorption of EU funds, strengthen management and control systems, and improve capacity of strategic planning, including the multi annual budgetary element. Tackle persisting shortcomings in public procurement. Continue to improve the quality and efficiency of the judicial system, fight corruption at all levels, and ensure the effective implementation of court decisions.

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

8. Promote competition and efficiency in energy and transport industries. Accelerate the corporate governance reform of state-owned enterprises in the energy and transport sectors and increase their efficiency. Improve and streamline energy efficiency policies. Improve the cross-border integration of energy networks and enable physical reverse flows in gas interconnections as a matter of priority.

Done at Brussels, 8 July 2014.

For the Council

The President

P. C. PADOAN

COUNCIL RECOMMENDATION

of 8 July 2014

on the National Reform Programme 2014 of Slovenia and delivering a Council opinion on the Stability Programme of Slovenia, 2014

(2014/C 247/22)

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 resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, 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, on the basis of the Commission's proposals, 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.

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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 2014 by Council Decision 2014/322/EU of 6 May 2014 on guidelines for the employment policies of the Member States for 2014 (OJ L 165, 4.6.2014, p. 49).

(4) On 9 July 2013, the Council adopted a Recommendation [1] on Slovenia's National Reform Programme for 2013 and delivered its opinion on Slovenia's updated Stability Programme for 2012-2016. On 15 November 2013, in line with Regulation (EU) No 473/2013 of the European Parliament and of the Council [2], the Commission presented its opinion on Slovenia's draft budgetary plan for 2014.

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey, marking the start of the 2014 European Semester for economic policy coordination. Also, on 13 November 2013, the Commission, on the basis of Regulation (EU) No 1176/2011, the Commission 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) On 20 December 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.

(7) On 5 March 2014, the Commission published the results of its in-depth review for Slovenia, under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that Slovenia continues to experience excessive macroeconomic imbalances, which require monitoring and continuing strong policy action. While imbalances have been unwinding over 2013 due to macroeconomic adjustment and policy action by Slovenia, the magnitude of the necessary correction means that substantial risks are still present. More specifically, the risks stemming from an economic structure characterised by weak corporate governance, a high level of state involvement in the economy, losses in cost competitiveness, a corporate debt overhang and a considerable increase in government debt warrant very close attention. While considerable progress has been made in repairing the banks' balance sheets, determined action with respect to full implementation of a comprehensive banking sector strategy, including restructuring, privatisation and enhanced supervision, is still required.

(8) On 5 March 2014, the Commission addressed an Autonomous Recommendation to Slovenia requesting the authorities to make further efforts to ensure full compliance with the Council recommendation under the EDP and to report on the additional measures in a dedicated section of the 2014 Stability Programme.

(9) On 15 April 2014, Slovenia submitted its 2014 National Reform Programme and, on 24 April 2014, its 2014 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(10) The objective of the budgetary strategy outlined in the 2014 Stability Programme is to correct the excessive deficit by 2015 and reach the medium-term objective by 2017. The Stability Programme confirms the previous medium-term objective of a balanced budget, which is in line with the requirements of the Stability and Growth Pact. However, the (recalculated) structural balance is not expected to reach the medium-term objective by 2017. The Stability Programme plans to bring the deficit below 3 % of GDP in 2015, in line with the target set in the Excessive Deficit Procedure recommendation. Beyond 2015, the Stability Programme envisages a steady decline in the deficit before turning to a surplus of 0,3 % of GDP in 2018. The Stability Programme projects that the government debt will peak at 81,1 % of GDP in 2015 before dropping to 76 % in 2016. Overall, the budgetary strategy outlined in the Stability Programme is in line with the requirements of the Stability and Growth Pact. The macroeconomic scenario underpinning the budgetary projections in the Stability Programme, which has been produced by an independent body (the Institute for Macroeconomic Analysis and Development), is cautious. The Stability Programme identifies some additional measures that assist in narrowing the gap with the required fiscal

[1] OJ C 217, 30.7.2013, p. 75.

[2] 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).

effort. Based on this, it is considered that the Stability Programme has partially responded to the Autonomous Commission Recommendation. Nevertheless, downside risks remain as the measures underpinning the Stability Programme are insufficiently detailed, and many of them have yet to be adopted.

Any potential additional bank recapitalisation needs, stemming from the 2013 asset quality review and stress test in Slovenia, would increase the deficit and debt ratios, while any proceeds from the successful privatisation of state owned entities or banks that have not been incorporated in programme projections would reduce the debt burden. Based on the Commission forecast, the fiscal effort over the period 2013-2014 falls short by 1,4 % of GDP in terms of (corrected) change in the structural balance and by 0,5 % of GDP in terms of the amount of required measures estimated as necessary at the time of the Excessive Deficit Procedure recommendation. For 2015, while the Stability Programme projects a deficit in line with the Excessive Deficit Procedure recommendation, the Commission services 2014 Spring forecast estimates a deficit of 3,1 % of GDP.

(11) Moreover, based on the Commission forecast, the fiscal effort measured both by the (corrected) change in structural balance and by the underlying amount of discretionary measures to be implemented is expected to fall somewhat short of the level recommended by the Council for 2015. Based on its assessment of the Stability Programme and the Commission forecast, pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that additional efforts, in 2014 and thereafter, are required in order to ensure full compliance with the Excessive Deficit Procedure recommendation, including the required structural effort.

(12) With respect to the fiscal rules, in 2013 the Parliament approved a constitutional basis for establishing a general government budget balance/surplus rule in structural terms. However, the necessary implementing legislation, namely the Fiscal Rule Act, which was supposed to be in place by November 2013, has yet to be adopted. In particular, the necessary legal basis has to be established in order to define the role, remit and independence of a functioning Fiscal Council. The timely completion of a comprehensive expenditure review of all budgetary users in the key expenditure area of health could identify measures to underpin the fiscal consolidation and identify options for enhancing efficiency and cost effectiveness.

(13) In 2013, it was recommended that Slovenia strengthen the long-term sustainability of the pension system and improve the efficiency, cost effectiveness and quality of the long-term care sector. Slovenia has made limited progress on measures taken to address this recommendation. An evaluation of the 2012 pension reform was completed in April 2014 and the first findings are positive. While certain fiscal savings have been realised, the level of pensions remained unchanged. Slovenia faces high fiscal sustainability risks in the medium and long term mainly due to an increase in ageing-related spending implied by Slovenia's demographics. Thus the pension and long-term care systems will need to be reformed in the medium term if overall expenditure is to be stabilised over the medium and long term while ensuring the adequacy of pensions and access to long-term care services. The authorities plan to prepare a White Paper for a comprehensive pension reform. A blueprint for a long-term care reform was adopted at the end of 2013 and the related legislation is expected by the end of 2014. However, it risks being delayed because the ongoing reorganisation of healthcare insurance is lagging behind.

(14) The situation on the labour market has worsened. Unemployment reached 10,3 % in 2013 and youth unemployment climbed to 21,6 % in 2013 while the proportion of young people not in employment, education or training increased by 2,1 percentage points between 2011 and 2013. The evaluation of the labour market reform adopted in 2013 points towards decreasing segmentation between permanent and fixed-term contracts, albeit on the back of an increased use of other non-permanent contractual forms, while the effect of incentives for the employment of older and younger people are still unclear. Labour market segmentation is also being addressed through better regulation of student work. While a new act is pending approval, concerns remain about whether it will adequately address shortcomings of previous rules. The Government has made limited progress in implementing last year's recommendation on the minimum wage, which continues to be indexed only to inflation, while the act on minimum wage allows for indexation to other economic conditions. Limited progress has been made in developing effective tailor-made active labour market policy measures and addressing skills mismatches.

(15) The Government has made substantial progress in addressing the recommendations regarding stability in the banking sector, conducting a credible Asset Quality Review and Stress Test, prompt recapitalisations, and the transfer of non-performing loans to the Bank Asset Management Company. However, work is far from complete and determined action to finalise and implement a comprehensive banking sector strategy as announced in December 2013, including restructuring, privatisation and enhanced supervision, is required. The level of non-performing loans in the banking system remains high. It is therefore important for the banks to build internal work-out capacity for non-performing loans including strengthening the internal asset management and restructuring units, to accelerate the processing of non-performing loans while maximising recovery value and preserving viable businesses. Any further transfer of non-performing loans to the Bank Asset Management Company needs to be carefully designed in order to facilitate swift and efficient restructuring of corporate credits, particularly in the case of complex, inter-connected group loans. A comprehensive management strategy and business plan that would substantiate redemption targets for the Bank Asset Management Company is awaited. Building on the lessons from the asset quality review and stress test, further decisive measures to improve governance and supervision for all banks, and particularly for those remaining in State ownership, are warranted by strengthening risk management, enhancing credit approval processes and improving data quality and availability, with the objective of reducing the levels of non-performing loans and to contain future risks.

(16) The Government has made limited progress in implementing the recommendations on corporate governance of state-owned enterprises, which account for one sixth of total value added and form a complex nexus of domestic banks, insurance groups and non-financial corporations, with significant cross-shareholding. The level of State influence creates significant risks for the public finances both directly and indirectly, through liabilities from guarantees. A coherent strategy for the management of state-owned enterprises coupled with improved corporate governance would create a more favourable environment for attracting foreign direct investment. Although first steps were taken by compiling an initial list of 15 companies for accelerated privatisation in May 2013, progress to date has been mixed and there is a significant risk that deadlines will not be met. After some delay, the new legislation underpinning the Slovenia Sovereign Holding, a vehicle for consolidating the management of state ownership, was introduced in April 2014. A comprehensive strategy and a precise classification of core and non-core assets, including those earmarked for privatisation, are expected. There is a need to identify and implement appropriate measures to secure the restructuring process and the attainment of its goals including inter alia maximising the recovery value for creditors and establish a list of the most urgent restructuring cases for rapid work out.

(17) The insolvency framework was amended in 2013 in order to facilitate the timely resolution of non-performing loans but the new framework remains largely untested. A high level of indebtedness and financial distress has limited the corporate sector's capacity to invest in future projects. The urgently needed financial and operational restructuring of the corporate sector has yet to begin on a large scale. A consolidated view of the various credit exposures in the banking system is required to accelerate work-out of non-performing loans and to facilitate restructuring negotiations, particularly in the case of complex, inter-connected group loans. A centralised task force with experienced representatives of all stakeholders could take the initiative in supporting and accelerating this process. In the meantime, swift and efficient closure of several on-going urgent cases under the Bank Asset Management Company is crucial.

(18) Despite its potential, Slovenia has one of the lowest stocks of foreign direct investment in the Union (34,1 % of GDP as against 47,1 % of GDP on average in the Union in 2012). While privatisation and corporate restructuring offer many new possibilities for private investors, there is evidence that the insufficiently developed business environment and culture hinder Slovenia from taking full advantage of it. In 2012, a process of deregulation of regulated professions started and, until now, the number of regulated professions decreased from 323 to 262. Further deregulation of regulated professions would contribute to increasing the number of domestic and foreign services providers and thus contribute to increased competitiveness. There is a potential to increase the coherence of measures devised to improve the business environment and entrepreneurial activities. In this context, the upcoming Smart Specialisation Strategy under the European Investment and Structural Funds for 2014-20 will provide an opportunity to focus on key measures such as creating tradable, innovative products.

(19) Slovenia is in the early stages of preparing comprehensive public sector reform proposals (to be adopted by January 2015). In this context, Slovenia has to restore the quality and credibility of public administration. Slovenia has made some progress in improving the quality of the judicial system and has reduced the number of pending cases. A reform of case management in commercial and civil justice has improved the functioning of the court system. Recent positive trends in litigious civil and commercial cases have been maintained.

(20) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Slovenia'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 socio-economic 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 (8) 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 (8) 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, Slovenia should also ensure the full and timely implementation of those recommendations,

HEREBY RECOMMENDS that Slovenia take action within the period 2014-2015 to:

1. Reinforce the budgetary strategy with sufficiently specified structural measures for the year 2014 and beyond, to ensure correction of the excessive deficit in a sustainable manner by 2015 through the achievement of the structural adjustment effort specified in the Council recommendation under the Excessive Deficit Procedure. 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. After the correction of the excessive deficit, pursue a structural adjustment of at least 0,5 % of GDP each year, and more in good economic conditions or to ensure that the debt rule is met in order to put the high general government debt ratio on a sustained downward path. To improve the credibility of fiscal policy, 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 establish the necessary legal basis for a functioning fiscal council defining its remit within the budgetary process and introducing clear procedural arrangements for monitoring budgetary outcomes as soon as possible. Launch a comprehensive review of expenditure covering state and local government levels, direct and indirect budget users and municipality-owned providers of utilities and services in the area of healthcare by the end of 2014 with a view to realising budgetary savings in 2015 and beyond.

2. Based on the public consultation, agree measures to ensure the sustainability of the pension system and adequacy of pensions beyond 2020, encompassing adjustments of key parameters, such as linking the statutory retirement age to gains in life expectancy and encouraging private contributions to the second pillar of the pension system. Contain age-related expenditure on long-term care by targeting benefits to those most in need and refocusing care provision from institutional to home care.

(1) Under Article 5(2) of Regulation (EC) No 1466/97.
(2) See page 141 of the current Official Journal.

3. Following consultation with social partners and in accordance with national practices, develop a comprehensive Social Agreement by the end of 2014 ensuring that wage developments, including the minimum wage, support competitiveness, domestic demand and job creation. Redefine the composition of the minimum wage and review its indexation system. Take measures for further decreasing segmentation, in particular addressing the efficiency of incentives for hiring young and older workers and the use of civil law contracts. Adopt the Act on Student Work. Prioritise outreach to non-registered young people ensuring adequate public employment services capacities. To increase employment of low-skilled and older workers, adapt the working environment to longer working life and focus resources on tailor-made active labour market policy measures, while improving their effectiveness. Address skills mismatches by improving the attractiveness of vocational education and training and by further developing cooperation with the relevant stakeholders in assessing labour market needs.

4. Complete the privatisation of NKBM in 2014 as planned, prepare Abanka for privatisation in 2015, continue the prompt implementation of restructuring plans of the banks in receipt of State aid and the necessary consolidation of the banking sector. Based on the lessons from the asset quality review and stress test finalise the comprehensive action plan for banks in August 2014, including specific measures to improve governance, supervision, risk management, credit approval process and data quality and availability. Reinforce banks' capacity to work out non-performing loans by strengthening the internal asset management and restructuring units. Clarify the mandate of the Bank Asset Management Company by publishing a comprehensive management strategy and business plan by September 2014, detailing its role in restructuring of its assets, redemption targets, budgets, asset management plans and expected returns, while ensuring adequate resources.

5. Continue to implement the privatisations announced in 2013 with the time-frames set. Adopt a strategy for the Slovenian Sovereign Holding with a clear classification of assets in line with the timeline and definitions established in the 2014 Slovenian Sovereign Holding Act. By November 2014, commit to a short-term (one- to two- year horizon) divestment schedule for a number of well-targeted assets with a clear time scale. Make it fully operational as a vehicle for the management of assets remaining in State ownership and divestment of the assets earmarked according to the management acts, within the time frame stipulated by the law. By September 2014, adopt and implement a corporate governance code for state-owned enterprises to ensure professional, transparent and independent management.

6. Finalise a corporate restructuring master plan by the end of 2014 within clear priorities and effective implementation process. Set up a central corporate restructuring task force monitoring and coordinating the overall restructuring process, providing the necessary expertise, guidance and advice, and facilitating the negotiation process between all stakeholders involved. Establish a list of the most urgent restructuring cases, while maximising the recovery value for creditors. Promote the use of the available legal mechanisms and international best practices to all stakeholders in the restructuring process. Evaluate recent changes in the insolvency legislation by September 2014, being ready to introduce any additional necessary measure. Further reduce the length of judicial proceedings at first instance in litigious civil and commercial cases including cases under the insolvency legislation, and the number of pending cases, in particular enforcement and insolvency cases.

7. Reduce obstacles to doing business in Slovenia in key areas for economic development rendering the country more attractive to foreign direct investment particularly through accelerated liberalisation of regulated professions, reduction of administrative burden including leaner authorisation schemes. Ensure sufficient budgetary autonomy for the Competition Protection Agency and increase its institutional independence. Streamline priorities and ensure consistency between the 2011 Research and Innovation and the 2013 Industrial Policy Strategies with the upcoming strategies on Smart Specialisation and Transport, ensure their prompt implementation and assessment of effectiveness.

8. Take effective measures to fight corruption, enhancing transparency and accountability, and introducing external performance evaluation and quality control procedures.

Done at Brussels, 8 July 2014.

For the Council

The President

P. C. PADOAN

COUNCIL RECOMMENDATION

of 8 July 2014

on Slovakia's 2014 national reform programme and delivering a Council opinion on the Stability Programme of Slovakia, 2014

(2014/C 247/23)

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 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, 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, on the basis of the Commission's proposals, 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 9 July 2013, the Council adopted a Recommendation [3] on Slovakia's National Reform Programme for 2013 and delivered its opinion on Slovakia's updated Stability Programme for 2012-2016. On 15 November 2013, in line with Regulation (EU) No 473/2013 of the European Parliament and of the Council [4], the Commission presented its opinion on Slovakia's draft budgetary plan for 2014.

(1) OJ L 209, 2.8.1997, p. 1.
(2) Maintained for 2014 by Council Decision 2014/322/EU of 6 May 2014 on guidelines for the employment policies of the Member States for 2014 (OJ L 165, 4.6.2014, p. 49).
(3) OJ C 217, 30.7.2013, p. 71.
(4) 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).

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey, marking the start of the 2014 European Semester for economic policy coordination. Also, on 13 November 2013, the Commission, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council [1], the Commission 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) On 20 December 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.

(7) On 23 April 2014, Slovakia submitted its 2014 National Reform Programme and its 2014 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(8) The objective of the budgetary strategy outlined in the 2014 Stability Programme is to ensure the sustainability of the correction of the excessive deficit and to reach the medium-term objective of a structural deficit of around 0,5 % of GDP by 2017. This medium-term objective is more stringent than what the Stability and Growth Pact requires. Slovakia's general government deficit was sustainably brought below 3 % of GDP in 2013. The planned (recalculated) change in the structural balance for 2014 would imply that Slovakia deviates significantly from the adjustment path toward its medium-term objective. In 2015, the planned improvement of 0,3 % of GDP would be in line with Stability and Growth Pact rules. In the later years, the Stability Programme would not ensure adequate adjustment towards the medium-term objective. Expenditure would grow at a pace consistent with the expenditure benchmark both in 2014 and 2015. The Stability Programme envisages that the largest part of the consolidation effort to reach the medium-term objective would take place in 2016 and 2017. Overall, the adjustment path towards the medium-term objective presents risks with respect to compliance with the requirements of the Stability and Growth Pact. The Stability Programme foresees the general government debt to remain below the 60 %-of-GDP reference value during the whole programming period. The macroeconomic scenario underpinning the budgetary projections in the Stability Programme, which has been endorsed by an independent body (Macroeconomic Forecasting Committee), is plausible.

The already quantified measures do not ensure that the fiscal targets defined by the authorities will be reached. Moreover, not all revenue measures are sufficiently specified and cost-saving reforms of the State administration remain subject to implementation risks while the public wage bill may miss the budgeted values, as in the past. On the other hand, the figures presented in the Stability Programme do not yet take into account the savings stemming from the activation of the domestic debt brake. According to the Commission services 2014 Spring forecast, which incorporates the impact of the expenditure savings due to the debt brake, the deviation from the adjustment path would be smaller in 2014 than foreseen in the Stability Programme, while a sufficient structural adjustment is projected in 2015, with the expenditure benchmark being met both in 2014 and 2015.

(9) While both the Stability and National Reform Programmes declare an intention to increase growth-enhancing spending, this does not appear to be fully supported by the underlying plans. Spending on education from the State budget increases in 2014 but declines in the following years. Based on the assessment of the Stability Programme and the Commission forecast, pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that there is a risk of deviation from the adjustment path towards the medium-term objective in 2014 whereas an appropriate correction is expected in 2015.

(10) In response to requirements of the Treaty on Stability Coordination and Governance, Slovakia introduced a balanced budget rule in November 2013. The budgetary framework is, however, weakened by the lack of binding and enforceable expenditure ceilings. While their introduction was envisaged by the 2013

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

Stability Programme, the commitment has, so far, not been implemented Slovakia remains a country with a medium risk with respect to the sustainability of public finances and healthcare expenditure is projected to be the main driver of the rising costs of ageing contributing 2 % of GDP, the second highest projected increase in healthcare expenditure of all the Member States. The problems are felt mainly in in-patient care and primary care. In December 2013, the Government adopted a 2014-30 Strategic Framework for Health to improve cost-effectiveness. The Strategy now requires detailed implementation plans.

(11) Slovakia has made progress in improving tax compliance and the implementation of the Action plan to combat tax fraud is in progress with around half of the measures in place. As a result the efficiency of the Slovak tax system appears to have improved in 2013, especially for VAT, although the need to consolidate efforts and strengthen the analytical and audit capacity of the tax administration remains and the unification of the collection of taxes, customs duties and social insurance contributions is behind schedule. To continue growth-friendly fiscal consolidation, Slovakia could rely more on taxes less detrimental to growth, in particular recurrent property and environmental taxation. In this respect, there has been no progress in reforming recurrent property taxation and linking it to the market value of the property. The revenues from this tax remain low and unchanged in relative terms since 2000. In 2013, the Government implemented measures to reduce a large discrepancy in the tax wedge between employees and self-employed people, but the substantial gap in the effective tax rates of the two groups observed in 2012 persists.

(12) The labour market continues to face a number of challenges. Most unemployment, which remains at around 14 %, is long term, pointing to the structural nature of the unemployment problem in Slovakia. Slovakia made some progress towards reducing the tax wedge for low-paid workers who enter the labour market after long-term unemployment, but the effectiveness of the measures needs to be monitored and assessed. Only limited progress has been made in other areas, namely enhancing the capacity of the public employment services to provide personalised services and strengthening the link between activation measures and social assistance. As regards youth unemployment, the public employment service has limited capacity for early intervention and for tailoring services to job-seekers profiles and for reaching out to non-registered youth. There is thus a need to act in these areas, in line with the objectives of a youth guarantee. More targeted measures are needed for the most disadvantaged jobseekers, including Roma, whose employment rate remains very low. 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) The limited labour market relevance of education hampers the supply of skilled labour. The performance of pupils in compulsory education is below the EU average and has decreased significantly. Public expenditure on education remains low despite recent increases in teachers' salaries; initial training of teachers is being strengthened and practical experience reinforced, but these efforts need to continue. Despite government efforts to reform vocational education and training and subsidise jobs for young people, the youth unemployment rate remains among the highest in the Union and school-to-job transition remains cumbersome. The relatively low percentage of job-oriented bachelor-level programmes and insufficient cooperation with employers reduces the labour market relevance of tertiary education. Improving the quality of higher education and of cooperation between businesses and education institutions would also help to enhance the innovation capacity of the economy. The plans in the Smart Specialisation Strategy go in the right direction, but need to be effectively implemented. The persistently low provision of good quality early childhood education and care weighs on educational achievements, in particular for Roma. So far, initiatives aimed at improving educational outcomes for Roma pupils are overly reliant on EU co-financed projects.

(14) In energy, Slovakia has made progress on work for more electricity and gas interconnections with neighbouring countries; however, measures to make the Slovak energy market function better, and in particular to improve the transparency of the tariff-setting mechanism, are still needed. A package of measures to improve energy efficiency has been proposed for EU financing in the new programming period.

(15) The ongoing reform of public administration will improve client-orientation, however, the public administration continues to underperform in terms of both quality and efficiency. Persistently high staff turnover linked to the political cycle together with weak human resource management and weak analytical capacity impairs evidence-based policy-making. Slovakia continues to score poorly in international indicators of corruption and it has made little progress in improving the efficiency and transparency of its judicial system. The quality of the business environment in Slovakia has deteriorated and support for fast-growing firms has stagnated. Slovakia recently reformed its public-procurement rules with the aim to improve transparency and efficiency, but application of these rules remains a challenge and the impact of the 2013 public procurement reform remains limited.

(16) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Slovakia'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 socio-economic 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.

(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 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 2014-2015 to:

1. Following the correction of the excessive deficit, reinforce the budgetary measures for 2014 in the light of the emerging gap of 0,3 % of GDP relative to the preventive arm of the Stability and Growth Pact requirements based on the Commission services 2014 Spring forecast. In 2015, ensure the required adjustment of 0,1 % of GDP towards the medium-term objective taking into account the expected weak economic conditions. Thereafter, until the medium-term objective is achieved, pursue an annual structural adjustment of 0,5 % of GDP as a benchmark. Further strengthen the fiscal framework, also by ensuring binding and enforceable expenditure ceilings. Improve the long-term sustainability of public finance by increasing the cost-effectiveness of the healthcare sector, in particular by rationalising hospital care and management and by strengthening primary care.

2. Improve the efficiency of the tax administration by strengthening its audit, risk assessment and debt collection capacity. Link the basis for real-estate taxation to the market value of the property.

3. More effectively address long-term unemployment through activation measures, second-chance education and tailored quality training. Enhance the capacity of public employment services for case management, personalised counselling and activation of jobseekers, and strengthen the link between activation and social assistance. Effectively tackle youth unemployment by improving early intervention, in line with the objectives of a youth guarantee. Improve incentives for women's employment, by enhancing the provision of childcare facilities, in particular for children below three years of age.

4. Take measures to increase the quality of teaching in order to raise educational outcomes. Reinforce the provision of work-based learning in companies in vocational education and training. Adapt accreditation, funding and governance measures to encourage the creation of profession-oriented bachelor-level programmes. Improve the quality and relevance of the science base and implement plans to foster effective knowledge transfer and cooperation between academia, research and business. Adopt systemic measures to improve access to high quality and inclusive pre-school and school education for marginalised communities, including Roma and take steps to increase their wider participation in vocational training and higher education.

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

(2) See page 141 of the current Official Journal.

5. Step up efforts to make the energy market function better, in particular by increasing the public transparency of the regulatory framework and by exploring the determinants of the high electricity network charges, in particular for industrial consumers. Building on the progress made so far, further develop interconnections with neighbouring countries, including with Ukraine, in accordance with the Memorandum of Understanding signed in April.

6. Take measures, including by amending the Act on Civil Service, to increase the independence of the public service. Adopt a strategy to improve the management of human resources in public administration. Step up efforts to strengthen analytical capacity in key ministries with a view to adopting evidence-based policies, and improving the quality of policy impact assessment. Take steps to fight corruption and accelerate efforts to improve the efficiency and quality of the judicial system. Introduce measures to improve the business environment including for SMEs. Step up efforts to improve the efficiency of public procurement.

Done at Brussels, 8 July 2014.

For the Council

The President

P. C. PADOAN

COUNCIL RECOMMENDATION

of 8 July 2014

on the National Reform Programme 2014 of Finland and delivering a Council opinion on the Stability Programme of Finland, 2014

(2014/C 247/24)

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 resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, 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, on the basis of the Commission's proposals, 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.

[1] OJ L 209, 2.8.1997, p. 1.
[2] OJ L 306, 23.11.2011, p. 25.
[3] Maintained for 2014 by Council Decision 2014/322/EU of 6 May 2014 on guidelines for the employment policies of the Member States for 2014 (OJ L 165, 4.6.2014, p. 49).

(4) On 9 July 2013, the Council adopted a Recommendation [1] on Finland's National Reform Programme for 2013 and delivered its opinion on Finland's updated Stability Programme for 2012-2017. On 15 November 2013, in line with Regulation (EU) No 473/2013 of the European Parliament and of the Council [2], the Commission presented its opinion on Finland's draft budgetary plan for 2014.

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey, marking the start of the 2014 European Semester for economic policy coordination. Also, on 13 November 2013, 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) On 20 December 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.

(7) On 5 March 2014, 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 continues to experience macroeconomic imbalances, which require monitoring and policy action. In particular, its weak export performance in recent years, driven by industrial restructuring and by cost and non-cost competitiveness factors, deserves continued attention.

(8) On 17 April 2014, Finland submitted its 2014 National Reform Programme and its 2014 Stability Programme. In order to take account of their interlinkages, the two Programmes have been assessed at the same time.

(9) The objective of the budgetary strategy outlined in the 2014 Stability Programme is to return to the medium-term objective in 2015, to keep the structural balance above this target during the rest of the Stability Programme horizon and to balance the general government budget from 2017 onwards. Finland's medium-term objective of a 0,5 %-of-GDP structural deficit reflects the requirements of the Stability and Growth Pact. Finland attained its medium-term objective in 2013 and plans to stay close to it in 2014, being also compliant with the expenditure benchmark. Finland plans to be above its medium-term objective in 2015 and continues to be compliant with the expenditure benchmark. Overall, this is broadly in line with the requirements of the Stability and Growth Pact. At the same time, the gross debt ratio is on an increasing path and is expected to breach temporarily the 60 %-of-GDP threshold in 2015, mainly due to a weak macroeconomic outlook. The macroeconomic scenario underpinning the budgetary projections in the Stability Programme, which has not been produced independently, is plausible, although slightly more optimistic than the Commission services 2014 spring forecast regarding economic growth in 2014 and 2015. The Commission services 2014 spring forecast projects a deterioration of the structural balance by 0,3 % of GDP in 2014, entailing a deviation from the medium-term objective, and an improvement of 0,6 % of GDP in 2015, while the expenditure benchmark is projected to be adhered to in both years. Based on its assessment of the Stability Programme and on the Commission forecast, pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that Finland can be expected to achieve the aims of its Stability Programme, which are broadly in line with Stability and Growth Pact.

(10) Finland is at high sustainability risk in the long term due to the budgetary impact of the cost of ageing. Finland has recognised the sustainability gap and produced a structural policy programme in 2013 aimed at closing the gap and re-launching growth. Another major step is the central government spending

[1] OJ C 217, 30.7.2013, p. 24.

[2] 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).

limits and the general government fiscal plan for 2015–2018 of March 2014 which foresees adjustment measures, structural reforms and investments in growth. Revenue side adjustment measures mainly concern the income and product tax increases.

(11) The efficiency of public services has not kept up with productivity developments in the private sector. Finland is preparing administrative reforms on municipal structure and on healthcare and social services. The municipality reform is built on the voluntary merger of municipalities, with financial incentives from the State. The outcome of the voluntary mergers is as yet uncertain. Social welfare and healthcare services are to be delivered by five regional providers, and municipalities will continue to participate in the provision of the services. Details are not yet known, and a legislative proposal is planned for autumn 2014. New structures should be in place at the beginning of 2017. The July 2013 act on supporting the functional capacity of older people with a stronger focus on prevention, rehabilitation and independent living should contribute to reducing the need for institutional care and contain the future costs of long-term care.

(12) The key labour market challenge for Finland continues to be long-term labour supply, as the number of people exiting the labour market is now higher than the number of entering. Lengthening working careers and improving labour supply are necessary to meet the demand for labour in future. The Government's 2013 structural policy programme includes measures to extend working careers and improve the labour supply, also increasing the incentives to accept jobs. Finland is reducing early exit but some pathways such as the so-called 'unemployment tunnel', where older unemployed persons can, under certain conditions, continue to draw unemployment benefits until they retire, remain. The recently introduced life-expectancy coefficient and the tripling of the entitlement accrual rate seem to have a limited effect on retirement practices. Moreover, as life expectancy is increasing faster than foreseen and people fail to work longer, there is a risk that pension adequacy will fall. Finland has set itself the target of raising the effective retirement age to at least 62,4 years by 2025. It is questionable whether the target can be achieved without new measures such as raising the statutory retirement age and strengthened efforts to enhance the employability of older workers. The social partners are working on their proposal for the pension reform to be implemented by the new government after the general election in spring 2015 and to enter into force in the beginning of 2017. Finland has taken relevant and ambitious measures to tackle youth and long-term unemployment. A permanent improvement in the job-relevant skills of the target groups and their labour market prospects will take time.

(13) Finland has taken measures to improve the overall competition climate and some progress has been made in implementing the programme on healthy competition. The competition and consumer authorities have merged and the new structure is in the early stages of implementation. The Competition Act now imposes a dominant position threshold for the consumer goods retail sector, and specific powers have been given to the Finnish Competition and Consumer Authority to intervene under certain conditions against economic activities engaged in by public bodies which distort competition in the market. The retail market in Finland is highly concentrated, and there are some factors in relevant rules that make competition potentially less efficient and strengthen the position of the two retail market leaders. Examples include urban planning requirements, which are strict, in particular for large commercial establishments. Land use and planning regulation is currently under review, presenting an opportunity to make it more supportive of 'healthy' competition. The retail sector continues to be among the most regulated in the Member States, including obstacles to competition created by regulation of large retail premises.

(14) Restoring growth and competitiveness is a key challenge for the Finnish economy. Finland is very strong in international competitiveness rankings but nevertheless lost export market shares at the fastest pace in the Union in 2007-2012. Business R&D intensity is on a downward path and the national target for R&D expenditure seems further out of reach. The efficiency of the Finnish research and innovation system in turning investments in R&D into new innovative products and services is a critical issue. Currently, there are not sufficient investments to turn the R&D potential into new products. A limited number of large exporting firms selling a narrow product range as well as the lower propensity of Finnish

small companies to export weigh on trade performance and on potential growth. The export potential could be boosted by providing further tailored support for the internationalisation of smaller companies. Finland has launched reforms to address the capacity to deliver innovative products and support the diversification of industry, including a comprehensive reform of the research institutes and research funding. The 2013 structural policy programme and the government spending limits and fiscal plan for 2015-2018 of March 2014 not only contain adjustment measures and structural reforms, but also include initiatives to promote growth and innovation. Finland could also benefit from diversifying its energy supply, particularly as it relies on a single gas source.

(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 the Stability Programme. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in Finland 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 the Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (2), (4) and (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 2014-2015 to:

1. Limit the emerging gap relative to the medium-term objective, ensure to return to it in 2015 and respect it thereafter as planned. Ensure that the debt criterion is fulfilled, while pursuing a growth-friendly fiscal policy. Implement rapidly the reforms set out in the structural policy programme and government spending limits and fiscal plan for 2015-2018 in order to reduce the fiscal sustainability gap and strengthen conditions for growth.

2. Ensure effective implementation of the ongoing administrative reforms concerning municipal structure and social and healthcare services, in order to increase the cost-effectiveness in the provision of public services.

3. Improve the use of the full labour force potential in the labour market, including by improving the employment rate and the employability of older workers, and increasing the effective retirement age, by reducing early exit pathways and aligning the retirement age or pension benefits to changes in life expectancy. Improve the labour-market prospects of young people and the long-term unemployed, with a particular focus on vocational education and targeted activation measures.

4. Continue efforts to enhance competition in product and service markets, especially in the retail sector, by implementing the programme on promoting healthy competition, including amendments of the land use and building act to make it more supportive to healthy competition.

(1) Under Article 5(2) of Regulation (EC) No 1466/97.
(2) See page 141 of the current Official Journal.

5. Continue to boost Finland's capacity to deliver innovative products, services and high-growth companies in a rapidly changing environment, and continue the diversification of industry, in particular by improving the business environment to strengthen investment in Finland and further facilitating smaller firms' entry into export markets. Step up the development of cross-border gas connection to Estonia.

Done at Brussels, 8 July 2014.

For the Council

The President

P. C. PADOAN

COUNCIL RECOMMENDATION

of 8 July 2014

on the National Reform Programme 2014 of Sweden and delivering a Council opinion on the Convergence Programme of Sweden, 2014

(2014/C 247/25)

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 resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, 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, on the basis of the Commission's proposals, 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 9 July 2013, the Council adopted a Recommendation [4] on Sweden's National Reform Programme for 2013 and delivered its opinion on Sweden's updated Convergence Programme for 2012-2016.

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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 2014 by Council Decision 2014/322/EU of 6 May 2014 on guidelines for the employment policies of the Member States for 2014 (OJ L 165, 4.6.2014, p. 49).
[4] OJ C 217, 30.7.2013, p. 86.

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey, marking the start of the 2014 European Semester for economic policy coordination. Also, on 13 November 2013, 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) On 20 December 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.

(7) On 5 March 2014, 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 continues to experience macroeconomic imbalances, which require monitoring and policy action. In particular, developments regarding household indebtedness, coupled with inefficiencies in the housing market, continue to warrant attention. Although the large current account surplus does not pose risks similar to large deficits, and is partly linked to the need for deleveraging, the Commission will follow the current account developments in Sweden in the context of the European Semester.

(8) On 16 April 2014, Sweden submitted its 2014 National Reform Programme and its 2014 Convergence Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(9) The objective of the budgetary strategy outlined in the 2014 Convergence Programme is to ensure a general government surplus of 1 % of GDP on average over the business cycle, as foreseen by the Swedish fiscal framework. The Convergence Programme confirms the medium-term objective set in the previous Convergence Programme of a structural deficit of 1 % of GDP, which reflects the requirements of the Stability and Growth Pact. Based on the (recalculated) structural balance, the Convergence Programme plans an outcome that more than fulfils the medium-term objective throughout the programme period. According to the Convergence Programme, government debt, which remains well below the 60 %-of-GDP reference value, is projected to decrease from 41,5 % of GDP in 2014 to 35 % in 2017. Overall, the budgetary strategy outlined in the Convergence Programme is in line with the requirements of the Stability and Growth Pact. The macroeconomic scenario underpinning the budgetary projections in the Convergence Programme is plausible. Regarding the long-term sustainability of public finances, a high share of GDP is spent on long-term care and a significant increase in spending is foreseen over the long term to take sufficient account of the ageing of the population, bringing spending in Sweden in 2060 to 6,4 % of GDP. Sweden would need to address this by ensuring sufficient primary surpluses and further containing age-related expenditure growth to ensure long-term fiscal sustainability. Based on its assessment of the 2014 Convergence Programme and the Commission forecast, pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that Sweden's Convergence Programme is in compliance with the rules of the Stability and Growth Pact and that the risks to the budgetary targets are limited.

(10) The high indebtedness of the private sector, and in particular of Swedish households, remains a matter of concern. Moreover, the financial sector's exposure to households, as opposed to the corporate sector, has been increasing in line with household sector debt, which currently stands at 83 % of GDP or roughly 160 % of disposable income. The indebtedness is spurred by continued credit growth and a slow pace of mortgage amortisation. In the event of interest rate increases, house price falls and/or an adverse macroeconomic development, the high household sector indebtedness would be a risk factor. Such evolutions would affect households and their consumption patterns. It could also have adverse second-round effects on the banking sector, by increasing the number of non-performing loans and the cost of market funding. Sweden has neither announced nor adopted any measures to address the debt bias in taxation linked to housing which could be done in the context of a tax shift, without increasing the overall tax burden. However, Sweden has taken some action to foster prudent lending through the introduction of the 15 % risk-weight floor for mortgage exposures in May 2013 and a further increase has also been announced. Nevertheless, amortisation practices remain relaxed with very long amortisation periods below

75 % loan-to-value ratios and strong measures in this regard have not been taken, considering the voluntary nature of the October 2013 recommendation on individual amortisation plans. The Swedish Bankers' Association strengthened its recommendation in March 2014, calling for amortisation down to 70 % of the loan-to-value ratio. Finally, Sweden has addressed the corporate taxation debt bias by further strengthening restrictions on interest deductibility, extending them to all types of intra-group loans as of January 2013 and introducing a so-called investors' deductibility that might alleviate the debt bias in taxation. The corporate income tax was also lowered from 26,3 % to 22 % as from the beginning of 2013.

(11) The Swedish housing market, characterised by sharp price increases over the last two decades, remains a potential source of instability. Inefficiencies still weigh on the housing supply, particularly as a result of complex planning processes, limited competition within the construction sector and a high degree of rent control. Together with debt-inducing taxation, these inefficiencies tend to create upward bias in house prices. Sweden has taken some measures in the rental market, but these measures appear insufficient to address the underlying structural problem linked to the high degree of rigidity of the rent system. No measures addressing the rental market were included in the spring bill presented by the Government on 9 April 2014. Sweden has adopted measures to address the inefficiencies of the zoning and planning process, as well as municipalities' planning monopoly, by requiring municipalities to take a regional perspective when defining housing needs. These measures go in the right direction; not all of them have been implemented yet, and no penalties are set out for failing municipalities.

(12) Despite high funding levels, there is evidence that learning outcomes in compulsory school as measured by international student assessments are worse than in the early 2000s, with Sweden now performing below both the EU and OECD averages in all three areas tested (reading, mathematics and science). Moreover, the relationship between socio-economic background and performance has become stronger, and differences between schools have increased. While the measures put forward by the Government are steps in the right direction, it appears that more radical structural changes will be necessary. To that end, Sweden is about to carry out a review of the effectiveness of the school system to restore a high level of performance.

(13) The labour market situation of young people, the low-skilled and people with a migrant background remains weak. Youth unemployment remains above the EU average. While the Government has taken steps to address these points, it appears that difficulties may be linked to problems in the education field, with the education system failing to supply a proportion of young people with the necessary skills for successful integration into the labour market. As regards labour market integration and education and training, Sweden has adopted measures to facilitate the transition from school to work (apprenticeships reform, including an 'apprentice salary') and help young people get work experience ('vocational introduction employment'). The transition has been de facto strengthened through the introduction of early measures for those most in need. However, coverage and outreach to unregistered people who are not in education, employment or training remains weak. Sweden is also working to speed up the integration of people with a migrant background, while challenges persist in particular with people with a migrant background from outside the Union. Finally, Sweden is in the process of evaluating the effectiveness of the current reduced VAT rate for restaurants and catering services in support of job creation. The final evaluation is expected to be ready in January 2016.

(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 National Reform Programme and the Convergence Programme. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in Sweden 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.

(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.

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

(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 2014-2015 to:

1. Continue to pursue a growth-friendly fiscal policy and preserve a sound fiscal position, ensuring that the medium-term budgetary objective is adhered to throughout the period covered by the Convergence Programme, also with a view to the challenges posed on the long-term sustainability of public finances by an ageing population.

2. Moderate household sector credit growth and private indebtedness. To this end, reduce the effects of the debt bias in personal income taxation by gradually limiting tax deductibility of interest payments on mortgages and/or by increasing recurrent property taxes. Take further measures to increase the pace of amortisation of mortgages.

3. Further improve the efficiency of the housing market through continued reforms of the rent-setting system. In particular, allow more market-oriented rent levels by moving away from the utility value system and further liberalising certain segments of the rental market, and greater freedom of contract between individual tenants and landlords. Decrease the length and complexity of the planning and appeal processes, by reducing and merging administrative requirements, harmonising building requirements and standards across municipalities and increasing transparency for land allotment procedures. Encourage municipalities to make their own land available for new housing developments.

4. Take appropriate measures to improve basic skills and facilitate the transition from education to the labour market, including through a wider use of work-based training and apprenticeships. Reinforce efforts to target labour market and education measures more effectively towards low-educated young people and people with a migrant background. Increase early intervention and outreach to young people who are unregistered with the public services.

Done at Brussels, 8 July 2014.

For the Council

The President

P. C. PADOAN

COUNCIL RECOMMENDATION

of 8 July 2014

on the National Reform Programme 2014 of the United Kingdom and delivering a Council opinion on the Convergence Programme of the United Kingdom, 2014

(2014/C 247/26)

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 resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, 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, on the basis of the Commission's proposals, 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 9 July 2013, the Council adopted a Recommendation [4] on the United Kingdom's National Reform Programme for 2013 and delivered its opinion on the United Kingdom's updated Convergence Programme for 2012-13 to 2017-18.

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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 2014 by Council Decision 2014/322/EU of 6 May 2014 on guidelines for the employment policies of the Member States for 2014 (OJ L 165, 4.6.2014, p. 49).
[4] OJ C 217, 30.7.2013, p. 93.

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey, marking the start of the 2014 European Semester for economic policy coordination. Also, on 13 November 2013, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report, in which it identified the United Kingdom as one of the Member States for which an in-depth review would be carried out.

(6) On 20 December 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.

(7) On 5 March 2014, the Commission published the results of its in-depth review for the United Kingdom, under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that the United Kingdom continues to experience macroeconomic imbalances, which require monitoring and policy action. In particular, developments in the areas of household debt, linked to the high levels of mortgage debt and structural characteristics of the housing market, as well as unfavourable developments in export market shares, continue to warrant attention. The risks in the housing sector relate to a continuing structural undersupply of housing; intrinsic supply constraints, particularly in London, and the relatively slow response of supply to increases in demand continues to drive house prices higher, particularly in London and the southeast, and also leads to buyers taking on high mortgages. While the declining export market share is unlikely to pose short-term risks, taken together with the current account deficit, it still points to structural challenges. These are related to skills gaps and infrastructure deficiencies. As regards public finances, the United Kingdom is not projected to comply with the deadline for correcting the excessive deficit set by the Council and the average annual fiscal effort falls short of the recommendation.

(8) On 30 April 2014, the United Kingdom submitted its 2014 National Reform Programme and its 2014 Convergence Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(9) Pursuant to Article 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 United Kingdom. Article 5 of the Protocol provides that the United Kingdom 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 United Kingdom.

(10) The objective of the budgetary strategy outlined in the 2014 Convergence Programme is to balance the cyclically-adjusted current budget by the end of a five-year rolling period, currently ending in 2018-19. The Convergence Programme does not include a medium-term objective as foreseen by the Stability and Growth Pact. The general government deficit is estimated at 5,0 % of GDP in 2014-15, having fallen from a peak of 11,4 % of GDP in 2009-10. This does not comply with the deadline for correcting the excessive deficit set by the Council. According to the Convergence Programme, the excessive deficit will be corrected in 2016-17 at 2,4 % of GDP, two years after the deadline set by the Council. The Convergence Programme implies that the (recalculated) general government structural deficit will improve by 0,3 percentage points to 4,4 % of GDP over the year to 2014-15. The budgetary plans are not sufficient to attain the annual average fiscal effort recommended to correct the excessive deficit. Thereafter, the Convergence Programme foresees an annual improvement of the (recalculated) structural balance of 0,8 percentage points in 2015-16 and 1,3 percentage points in 2016-17. Overall, the Convergence Programme is only partly in line with the requirements of the Stability and Growth Pact.

(11) The consolidation has until now been mainly delivered through expenditure cuts, therefore the potential revenue contribution from a broadening of the tax base could be considered. The United Kingdom has a high level of foregone taxes, particularly with regard to indirect taxation. According to the Convergence Programme, the debt-to-GDP ratio is projected to increase to 93,1 % in 2015-16 before falling back to 86,6 % in 2018-19. The United Kingdom's macroeconomic scenario underpinning the budgetary

projections in the Convergence Programme is plausible. Potential risks to the budgetary projections stem from lower-than-expected growth due to constrained wages curtailing private consumption and uncertainty hindering investment. Nevertheless, the projections are consistent with the Commission services 2014 spring forecast, which also does not foresee that the excessive deficit will be corrected by the deadline set by the Council. Furthermore, based on the Commission forecast, the (corrected) change in the structural balance over 2010-2014 falls short by on average 0,6 % of GDP per year compared to the recommendation and is projected to fall short in 2015 as well. Based on its assessment of the Convergence Programme and the Commission forecast, pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that additional measures are needed to ensure compliance with the recommendation under the excessive deficit procedure.

(12) The United Kingdom has taken both demand and supply side measures in the area of housing. Although the supply of new properties has risen, it remains low and has fallen short of demand by a considerable margin. This has combined with low interest rates and easier terms for mortgage lending (such as higher loan-to-income multiples) to push up house prices in certain parts of the United Kingdom, particularly in London. A shortage of supply has long been a structural phenomenon and is likely to extend into the medium term. Action is needed to further boost the supply of houses by creating appropriate incentives to raise supply at the local level. The authorities should continue to monitor house prices and mortgage indebtedness and stand ready to deploy appropriate measures, including adjusting the Help to Buy 2 (loan guarantee) scheme, if deemed necessary. There is a need to increase the transparency of the use and impact of the macro-prudential regulation of the housing sector by the Financial Policy Committee that could be deployed to address excessive house price rises and increases in mortgage indebtedness. Reforms to the taxation of land and property should be considered to alleviate distortions in the housing market.

(13) The United Kingdom continues to address the challenges of unemployment and underemployment as well as the specific issues related to youth unemployment. There are important challenges with equipping young people with the skills and work experience required by the labour market and increasing the supply of apprenticeships. This helps to explain the fact that the take-up of wage subsidies provided for by the Youth Contract remains lower than forecast. The labour market suffers from skill mismatches and the authorities are attempting to re-skill the workforce to address both unemployment and a shortage of high-quality vocational and technical skills. While there have been efforts to improve the quality of apprenticeship programmes, further efforts are needed. Moreover, the qualifications system remains complex and needs to be streamlined to facilitate universal recognition and a higher level of engagement by employers.

(14) The authorities are addressing the problem of weak work incentives, especially for recipients of social benefits 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. The focus on getting back into work has also been reflected in limiting the annual adjustment to many working-age benefits and tax credits to 1 % per annum until 2016.

(15) The United Kingdom continues to tackle challenges to increasing parental employment by increasing access to high-quality, affordable childcare. It continues to introduce schemes to make childcare affordable for both part-time and full-time employed parents, taking into account different levels of earnings. Childcare costs, however, remain among the highest in the Union and continue to pose problems particularly for second earners and for single parents.

(16) In terms of access to finance, while conditions in credit markets have improved in 2013, credit growth remains weak and existing policies need more time to show that they have been successful. Particular challenges regarding access to credit remain for SMEs. While large firms can finance themselves directly in wholesale markets and profit from the well-developed financial services offer of the United Kingdom,

SMEs largely rely on banks to obtain their external funding. Good progress has been made to address last year's recommendation on competition in banking by the creation of new banks, referred to as challenger banks (one such example is TSB, which, however, is not yet fully independent).

(17) In December 2013, the United Kingdom published an updated national infrastructure plan: a long-term and strategic approach to the planning, funding, finance and delivery of infrastructure. The plan sets out a 'pipeline' of forward-looking capital investment to 2020 and beyond of GBP 375 billion in total (approximately EUR 460 billion). A large proportion of the 'pipeline' (GBP 340 billion, i.e. approximately EUR 420 billion) concerns investment in the energy and transport sectors. Around three-quarters of the funding is projected to be privately-sourced, while the rest is projected to be publicly funded. Although the plan is an appropriate initiative, there remain concerns about the private sector element of financing, regulatory certainty and timely planning permission. There is a need for stringent mechanisms to mitigate financing and execution risks while ensuring transparency on projected and actual expenditure on infrastructure.

(18) In the context of the European Semester, the Commission has carried out a comprehensive analysis of the United Kingdom'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 socio-economic policy in the United Kingdom 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 United Kingdom's 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 (2), (3), (5) and (6) below,

HEREBY RECOMMENDS that the United Kingdom take action within the period 2014-2015 to:

1. Reinforce the budgetary strategy, endeavouring to correct the excessive deficit in a sustainable manner in line with the Council recommendation under the Excessive Deficit Procedure. Pursue a differentiated, growth-friendly approach to fiscal tightening by prioritising capital expenditure. To assist with fiscal consolidation, consideration should be given to raising revenues through broadening the tax base. Address structural bottlenecks related to infrastructure, skills mismatches and access to finance for SMEs to boost growth in the export of both goods and services.

2. Increase the transparency of the use and impact of macro-prudential regulation in respect of the housing sector by the Bank of England's Financial Policy Committee. Deploy appropriate measures to respond to the rapid increases in property prices in areas that account for a substantial share of economic growth in the United Kingdom, particularly London, and mitigate risks related to high mortgage indebtedness. Monitor the Help to Buy 2 scheme and adjust it if deemed necessary. Consider reforms to the taxation of land and property including measures on the revaluation of property to alleviate distortions in the housing market. Continue efforts to increase the supply of housing.

3. Maintain commitment to the Youth Contract, especially by improving skills that meet employer needs. Ensure employer engagement by placing emphasis on addressing skills mismatches through more advanced and higher level skills provision and furthering apprenticeship offers. Reduce the number of young people with low basic skills.

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

4. Continue efforts to reduce child poverty in low-income households, by ensuring that the Universal Credit and other welfare reforms deliver adequate benefits with clear work incentives and support services. Improve the availability of affordable quality childcare.

5. Continue efforts to improve the availability of bank and non-bank financing to SMEs. Ensure the effective functioning of the Business Bank and support an increased presence of challenger banks.

6. Follow up on the National Infrastructure Plan by increasing the predictability of the planning processes as well as providing clarity on funding commitments. Ensure transparency and accountability by providing consistent and timely information on the implementation of the Plan.

Done at Brussels, 8 July 2014.

For the Council

The President

P. C. PADOAN

COUNCIL RECOMMENDATION

of 8 July 2014

on the implementation of the broad guidelines for the economic policies of the Member States whose currency is the euro

(2014/C 247/27)

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 current economic environment of the euro area is characterised by a gradual, but still fragile economic recovery. In 2013 and in early 2014, euro area inflation declined markedly and is expected to increase only very gradually over the forecast horizon, reflecting the existing slack together with the ongoing relative price adjustments in the vulnerable economies and the past appreciation of the euro exchange rate. Furthermore, while the recovery is becoming more broad-based, divergences between Member States whose currency is the euro ('euro area Member States') remain high.

(2) The euro area is more than just the sum of its members. The economic and financial crisis clearly exposed the close interrelations in the euro area and underscored the need for stronger coordination of fiscal, financial and structural policies among euro area Member States to ensure a coherent policy stance for the euro area as a whole. The euro area Member States have committed themselves to a set of far-reaching policy reforms and policy coordination by signing the Treaty on Stability, Coordination and Governance (TSCG) in the Economic and Monetary Union on 2 March 2012. The entry into force of the so-called two pack Regulations [3] ('two pack') in 2013 has further deepened budgetary and economic policy coordination within the euro area. Euro area Member States have a specific responsibility for an effective implementation of the new governance framework. This calls for increased peer pressure to support national reform implementation and fiscal prudence, greater assessment of national reforms from a euro area perspective, internalising potential spillovers and stimulating policies of particular importance for a well functioning EMU. This also calls for appropriate communication about the euro area strategy.

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(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).

(3) Given the high interdependence between euro area Member States, there are potentially large spillovers related to the implementation of structural reforms which need to be taken into account in order to secure optimal policy design and implementation for euro area Member States individually and for the euro area as a whole. For example, more concerted action in the implementation of reforms would facilitate the necessary convergence between Member States. Early discussion of reform plans of the euro area Member States, building on existing practices and effective implementation of the macroeconomic imbalances procedure are of key importance in this regard.

(4) One of the key policy challenges facing the euro area is to reduce government debt by pursuing differentiated, growth-friendly fiscal policies while boosting the growth potential of the euro area and tackling the social consequences of the crisis. Thanks to the consolidation efforts of the past years, the euro area fiscal situation has improved but a number of euro area Member States still need to continue with fiscal adjustment to bring down very high levels of debt. All euro area Member States should improve the quality of public finances with the aim of boosting productivity and employment.

(5) Investment in the euro area fell strongly in the initial phase of the crisis and has not yet recovered to its long-term average. Sluggish investment trends are being driven by the combined impact of private sector deleveraging, financial fragmentation, and necessary fiscal consolidation efforts which have led to a reduction in public investment. Increasing investment in infrastructure and skills is essential to sustain the recovery and boost potential growth. Much of the investment must come from the private sector, but public authorities can play an important role in creating supporting conditions.

(6) In the euro area, the flow of credit to the real economy remains subdued and financial market fragmentation is still high in spite of reduced stress on sovereign debt. Access to finance, in particular for SMEs, remains challenging in many Member States which risks undermining economic recovery. This calls for initiatives aimed at restoring credit flows, deepening capital markets and boosting the long-term financing of the economy. Actions such as completing banks' balance sheets repair, continuing to strengthen equity buffers, where needed, asset quality reviews and stress tests help identify any remaining pockets of vulnerability and reinforce confidence in the sector as a whole. Significant progress has been achieved as regards the Banking Union, in particular with the establishment of the Single Supervisory Mechanism and the agreement on the Single Resolution Mechanism.

(7) The financial crisis has exposed gaps in the architecture of Economic and Monetary Union. On 28 November 2012, the Commission presented a blueprint for a deep and genuine economic and monetary union with the aim of launching a European debate. On 5 December 2012, the President of the European Council in close collaboration with the President of the European Commission, the President of the Eurogroup and the President of the European Central Bank, presented a report building on a number of ideas from the Commission's blueprint, and including a timeframe and a stage-based process towards the completion of the Economic and Monetary Union. The European Parliament expressed its views in its resolution of 20 November 2012. Significant steps have been taken since then. The European Council provided further views in December 2013. Further developing EMU will require a step by step approach combining discipline with solidarity. The so-called six-pack [1] and the two-pack foresee a first review of their implementation by the end of 2014.

(1) Council Regulation (EU) No 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 306, 23.11.2011, p. 33); 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); Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area (OJ L 306, 23.11.2011, p. 1); Regulation (EU) No 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area (OJ L 306, 23.11.2011, p. 8); Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (OJ L 306, 23.11.2011, p. 12); Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25).

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 2014-2015 to:

1. Promote and monitor, in close cooperation with the Commission, the implementation of structural reforms in those areas most relevant for the smooth functioning of the euro area in order to foster growth and convergence and adjustment of internal and external imbalances. Assess and stimulate progress in delivering on reform commitments in euro area Member States experiencing excessive imbalances and in reform implementation in the euro area Member States with imbalances requiring decisive action, to limit negative spillovers to the rest of the euro area. Foster appropriate policies in countries with large current account surpluses to contribute to positive spillovers. Regularly hold thematic discussions on structural reforms in the labour and product markets with potentially large spillovers, focussing on reducing the high tax wedge on labour and reforming services markets.

2. Coordinate fiscal policies of the euro area Member States, in close cooperation with the Commission, in particular when assessing draft budgetary plans to ensure a coherent and growth-friendly fiscal stance across the euro area. Improve the quality and sustainability of public finances by prioritising material and immaterial investment at national and EU levels. Ensure that national fiscal frameworks, including national fiscal councils, are strong.

3. Ensure the resilience of the banking system, in particular by taking the necessary action in the follow up of the asset quality review and the stress tests, and by implementing the Banking Union regulations and taking forward the further work foreseen in the SRM transition period. Stimulate private sector investment and increase the flow of credit to the economy via actions to improve access to credit by SMEs, deepening of capital markets, restarting the securitisation market, based on the proposals and the calendar in the Commission Communication on long-term financing of the European economy.

4. Take forward work on deepening Economic and Monetary Union and contribute to the improvement of the economic surveillance framework in the context of the reviews foreseen for end 2014.

Done at Brussels, 8 July 2014.

For the Council

The President

P. C. PADOAN

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 2014

(2014/C 247/28)

Article 2ab(2) of Council Regulation (EC) No 1466/97 [1] on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, 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 2014 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 [*].

BELGIUM

CSR 3

Commission text:

Contain future public expenditure growth relating to ageing, in particular from pensions and long-term care, by stepping up efforts to reduce the gap between the effective and statutory retirement age, bringing forward the reduction of early-exit possibilities, promoting active ageing, aligning the statutory retirement age and career length requirements to changes in life expectancy, and improving the cost-effectiveness of public spending on long-term care.

Agreed text:

Contain future public expenditure growth relating to ageing, in particular from pensions and long-term care, by stepping up efforts to reduce the gap between the effective and statutory retirement age, bringing forward the reduction of early-exit possibilities, promoting active ageing, aligning the ~~statutory~~ retirement age ~~and career length requirements~~ to changes in life expectancy, and improving the cost-effectiveness of public spending on long-term care.

(1) 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 (OJ L 209, 2.8.1997, p. 1).

(*) Text which has been modified appears in *italics* and deleted text in ~~strikethrough~~.

Explanation:

It was agreed that the main challenge in Belgium remains increasing the effective retirement age, given the gap between the effective and the statutory retirement age. The minimum age and career length required for early retirement are being raised by an important on-going reform; increasing the statutory retirement age in the short run would increase this gap and be therefore a mistimed reform.

BULGARIA

No changes were introduced to the recommendations on which the Commission disagrees.

CZECH REPUBLIC

No changes were introduced to the recommendations on which the Commission disagrees.

DENMARK

No changes to the recommendations.

GERMANY

No changes were introduced to the recommendations on which the Commission disagrees.

ESTONIA

No changes were introduced to the recommendations on which the Commission disagrees.

IRELAND

No changes were introduced to the recommendations on which the Commission disagrees.

SPAIN

CSR 5

Commission text:

Implement the 2013-2016 National Action Plan on Social Inclusion and assess its effectiveness covering the full range of its objectives. Strengthen administrative capacity and coordination between employment and social services in order to provide integrated pathways to support those at risk and streamline procedures to support transitions between minimum income schemes and the labour market. Improve the targeting of family support schemes and quality services favouring low-income households with children, to ensure the progressivity and effectiveness of social transfers.

Agreed text:

Implement the 2013-2016 National Action Plan on Social Inclusion and assess its effectiveness covering the full range of its objectives. Strengthen administrative capacity and coordination between employment and social services in order to provide integrated pathways to support those at risk, ~~and streamline procedures~~ *and boost, among the Public Administrations responsible for the minimum income schemes, streamlined procedures* to support transitions between minimum income schemes and the labour market. Improve the targeting of family support schemes and quality services favouring low-income households with children, to ensure the progressivity and effectiveness of social transfers.

Explanation:

This wording is more in line with the distribution of powers among the Public Administration in the field of Social Services and Minimum Income Schemes where the State collaborates at a technical and political level with the regions which can lead to improved processes.

FRANCE

No changes were introduced to the recommendations on which the Commission disagrees.

CROATIA

No changes were introduced to the recommendations on which the Commission disagrees.

ITALY

No changes were introduced to the recommendations on which the Commission disagrees.

LATVIA

No changes to the recommendations.

LITHUANIA

CSR 3

Commission text:

Better target active labour market policy measures to the low-skilled and long-term unemployed. Improve coverage and adequacy of unemployment benefits and link them to activation. Address persistent skills mismatches by improving the labour-market relevance of education and promote life-long learning. In order to increase employability of young people, prioritise offering quality apprenticeships and strengthen partnership with the private sector. Review the appropriateness of labour legislation, in particular with regard to the framework for labour contracts and for working-time arrangements, in consultation with social partners.

Agreed text:

Better target active labour market policy measures to the low-skilled and long-term unemployed. Improve coverage and adequacy of unemployment benefits and link them to activation. Address persistent skills mismatches by improving the labour-market relevance of education *inter alia based on skills forecast systems* and promote life-long learning. In order to increase employability of young people, prioritise offering quality apprenticeships, *other forms of work-based learning,* and strengthen partnership with the private sector. Review the appropriateness of labour legislation, in particular with regard to the framework for labour contracts and for working-time arrangements, in consultation with social partners.

Explanation:

The conclusions of EMCO's Multilateral surveillance work recognised the role of work-based training reforms in Lithuania and the need for and the development of plans to raise the effectiveness of VET.

LUXEMBOURG

CSR 2

Commission text:

In view of ensuring fiscal sustainability, curb age-related expenditure by making long-term care more cost-effective, pursue the pension reform so as to increase the effective retirement age, including by limiting early retirement and linking the statutory retirement age to life expectancy. Reinforce efforts to increase the participation rate of older workers, including by improving their employability through lifelong learning.

Agreed text:

In view of ensuring fiscal sustainability, curb age-related expenditure by making long-term care more cost-effective, pursue the pension reform so as to increase the effective retirement age, including by limiting early retirement ~~and linking the statutory retirement age~~, *by aligning retirement age or pension benefits* to change in life expectancy. Reinforce efforts to increase the participation rate of older workers, including by improving their employability through lifelong learning.

Explanation:

This change was agreed as with the statutory retirement age being fixed at age 65, and the effective retirement being below 60, it is essential to first close the gap between the effective and statutory retirement age.

CSR 4

Commission text:

Pursue efforts to reduce youth unemployment for low-skilled jobs seekers with a migrant background, through a coherent strategy, including by further improving the design and monitoring of active labour market policies, addressing skills mismatches, and reducing financial disincentives to work. To that effect, accelerate the implementation of the reform of general and vocational education and training to better match young people's skills with labour demand.

Agreed Text:

Pursue efforts to reduce youth unemployment for low-skilled jobs seekers *including those* with a migrant background, through a coherent strategy, including by further improving the design and monitoring of active labour market policies, addressing skills mismatches, and reducing financial disincentives to work. To that effect, accelerate the implementation of the reform of general and vocational education and training to better match young people's skills with labour demand.

Explanation:

The Employment Performance Monitor indicates a challenge for LU in terms of youth unemployment. The EMCO multilateral surveillance welcomed the setting up of the Youth Guarantee and its increased focus on people with migrant background.

HUNGARY

No changes were introduced to the recommendations on which the Commission disagrees.

MALTA

CSR 2

Commission text:

Step up the ongoing pension reform, notably by significantly accelerating the planned increase in the statutory retirement age and by consecutively linking it to changes in life expectancy. Ensure that a comprehensive reform of the public health system delivers a cost-effective and sustainable use of available resources, such as strengthening primary care.

Agreed text:

To ensure the long-term sustainability of public finances, continue ~~Step up~~ the ongoing pension reform, *such as by* ~~notably by significantly~~ accelerating the ~~planned~~ *already enacted* increase in the statutory retirement age and by consecutively linking it to changes in life expectancy. Ensure that a comprehensive reform of the public health system delivers a cost-effective and sustainable use of available resources, such as strengthening primary care.

Explanation:

Pension reform is an ongoing process in Malta. Specifically, Malta reiterates that the outcome of the Pensions Working Group is due in October 2014. The Group will draw a holistic strategy aimed at addressing the adequacy and sustainability of pensions in Malta. While Malta agrees with the aim of ensuring long-term sustainability, more latitude is required in relation to measures to achieve it as prescriptions will be counterproductive as they would stifle rather than enable the pension reform to continue to move forward. The proposed amendment is in line with the language contained in the 2013 CSR, which provided a measure of discretion as opposed to the overly prescriptive language being proposed in the 2014 CSR.

THE NETHERLANDS

CSR 2

Commission text:

Step up efforts to reform the housing market by accelerating the reduction in mortgage interest tax deductibility, 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. Monitor the effects of the social housing reforms in terms of accessibility and affordability for low-income households. Continue efforts to refocus social housing policies to support households most in need.

Agreed text:

When the economic environment allows, s~~S~~tep up efforts to reform the housing market by accelerating the reduction in mortgage interest tax deductibility, 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. Monitor the effects of the social housing reforms in terms of accessibility and affordability for low-income households. Continue efforts to refocus social housing policies to support households most in need.

Explanation:

It was agreed that fast implementation of the reform to mortgage interest deductibility poses risks in the current economic circumstances, notably with more than 1 million households having a negative home equity position (higher mortgage loan than value of their house). A reference to the economic environment in which such reforms would take place was therefore considered particularly relevant in this recommendation.

AUSTRIA

CSR 2

Commission text:

Improve the long-term sustainability of the pension system, notably by bringing forward the harmonisation of the statutory retirement age for men and women and by linking the statutory retirement age to life expectancy. Monitor the implementation of recent reforms restricting access to early retirement. Further improve the cost effectiveness and sustainability of health care and long-term care services.

Agreed text:

Improve the long-term sustainability of the pension system, notably by bringing forward the harmonisation of the statutory retirement age for men and women, *by increasing the effective retirement age* and by ~~linking~~ *aligning* the ~~statutory~~ retirement age to *changes in* life expectancy. Monitor the implementation of recent reforms restricting access to early retirement. Further improve the cost effectiveness and sustainability of health care and long-term care services.

Explanation:

The text of the recommendation contains similar wording as agreed for other Member States. It was agreed that there are different channels to raise the effective retirement age and hence, to address challenges to the pension system and sustainability of public finances. The original COM 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.

POLAND

No changes were introduced to the recommendations on which the Commission disagrees.

PORTUGAL

CSR 3

Commission text:

Address the high youth unemployment, notably by effective skills anticipation and outreach to non-registered young people, in line with the objectives of a youth guarantee. Increase the threshold for the eligibility for the minimum income scheme. Ensure adequate coverage of social assistance, while ensuring effective activation of benefit recipients.

Agreed Text:

Address the high youth unemployment, notably by effective skills anticipation and outreach to non-registered young people, in line with the objectives of a youth guarantee. ~~Increase the threshold for the eligibility for the minimum income scheme.~~ Ensure adequate coverage of social assistance, *including the minimum income scheme,* while ensuring effective activation of benefit recipients.

Explanation:

This is an area of Member State competence and the compromise text is the promotion of the adequacy of the coverage of social assistance.

ROMANIA

No changes were introduced to the recommendations on which the Commission disagrees.

SLOVENIA

CSR 2

Commission text:

Based on the public consultation, agree measures to ensure the sustainability of the pension system beyond 2020, encompassing adjustments of key parameters, such as linking the statutory retirement age to gains in life expectancy and encouraging private contributions to the second pillar of the pension system. Contain age-related expenditure on long-term care by targeting benefits to those most in need and refocusing care provision from institutional to home care.

Agreed text:

Based on the public consultation, agree measures to ensure the sustainability of the pension system *and adequacy of pensions* beyond 2020, encompassing adjustments of key parameters, such as linking the statutory retirement age to gains in life expectancy and encouraging private contributions to the second pillar of the pension system. Contain age-related expenditure on long-term care by targeting benefits to those most in need and refocusing care provision from institutional to home care.

Explanation:

It was agreed to reflect in the recommendation that a further decrease of the replacement rate would risk additionally increase the poverty rate of people aged 65+ and put a burden the social expenditure.

SLOVAKIA

No changes were introduced to the recommendations on which the Commission disagrees.

FINLAND

CSR 3

Commission text:

Improve the use of the full labour force potential in the labour market, including by improving the employment rate and the employability of older workers, reducing early exit pathways and aligning statutory retirement age to changes in life expectancy. Improve the labour-market prospects of young people and the long-term unemployed, with a particular focus on vocational education and targeted activation measures.

Agreed text:

Improve the use of the full labour force potential in the labour market, including by improving the employment rate and the employability of older workers, *and increasing the effective retirement age,* reducing early exit pathways and aligning ~~statutory~~ *the* retirement age *or pension benefits* to changes in life expectancy. Improve the labour-market prospects of young people and the long-term unemployed, with a particular focus on vocational education and targeted activation measures.

Explanation:

The text of the recommendation contains similar wording as agreed for other Member States. It was agreed that there are different channels to rise the effective retirement age and hence, to address challenges to the pension system and sustainability of public finances. The original COM text focusing only on rising 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

SWEDEN

No changes to the recommendations.

THE UK

No changes were introduced to the recommendations on which the Commission disagrees.

EURO AREA

No changes were introduced to the recommendations on which the Commission disagrees.

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