Official Journal of the European Union

C 299

English edition

Information and Notices

Volume 59

18 August 2016

Contents

I *Resolutions, recommendations and opinions*

RECOMMENDATIONS

Council

EN

I

(Resolutions, recommendations and opinions)

RECOMMENDATIONS

COUNCIL

COUNCIL RECOMMENDATION

of 12 July 2016

on the 2016 National Reform Programme of Italy and delivering a Council opinion on the 2016 Stability Programme of Italy

(2016/C 299/01)

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 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester of economic policy coordination. The priorities of the Annual Growth Survey were endorsed

([1]) OJ L 209, 2.8.1997, p. 1.
([2]) OJ L 306, 23.11.2011, p. 25.

by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011, the Commission 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. On the same day, the Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area. That recommendation was endorsed by the European Council on 18-19 February 2016 and adopted by the Council on 8 March 2016 [1]. As a country whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, Italy should ensure the full and timely implementation of the recommendation.

(2) The 2016 country report for Italy was published on 26 February 2016. It assessed Italy's progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015 and Italy's progress towards its national Europe 2020 targets. It also included the in-depth review under Article 5 of Regulation (EU) No 1176/2011. On 8 March 2016, the Commission presented the results of the in-depth review. The Commission's analysis leads it to conclude that Italy is experiencing excessive macroeconomic imbalances. In particular, the sluggish productivity growth hampers the recovery of competitiveness and makes it more difficult to reduce the high public debt ratio. The need for action to reduce the risk of adverse effects on the Italian economy and, given its size, of negative spillovers to the economic and monetary union is particularly important.

(3) On 28 April 2016, Italy submitted its 2016 National Reform Programme and its 2016 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(4) Relevant country-specific recommendations have been addressed in the programming of the European Structural and Investment Funds for the 2014-2020 period. As foreseen in Article 23 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council [2], where it is necessary to support the implementation of relevant Council recommendations, the Commission may request a Member State to review and propose amendments to its Partnership Agreement and relevant programmes. The Commission has provided further details on how it would make use of this provision in guidelines on the application of the measures linking the effectiveness of the European Structural and Investment Funds to sound economic governance.

(5) Italy is in the preventive arm of the Stability and Growth Pact and subject to the transitional debt rule over 2013-2015 and to the debt rule as of 2016. According to the Stability Programme, the government debt-to-GDP ratio is projected to peak in 2015 at 132,7 % and to gradually decline to 123,8 % in 2019. The Commission 2016 spring forecast expects the debt-to-GDP ratio to stabilise in 2016 and start a slight decline only as of 2017. The implementation of the substantial privatisation programme presented by the Italian authorities is a key challenge for Italy, given its expected contribution to the debt-reduction effort. While privatisations were implemented in line with the plans in 2015, the target of 0,5 % privatisation proceeds per year over 2016-2018 and of 0,3 % in 2019 seems very ambitious, also given the delays incurred by some privatisation projects. The macroeconomic scenario underpinning the budgetary projections is plausible.

(6) On 18 May 2016, the Commission issued a report under Article 126(3) TFEU, as Italy did not make sufficient progress towards compliance with the debt rule in 2015. The analysis included all the relevant factors and concluded that the debt criterion should be considered as complied with. The Commission will review its assessment in a new report under Article 126(3) of the Treaty based on the Commission 2016 autumn forecast, as further information on the resumption of the adjustment path towards the medium-term budgetary objective for 2017 becomes available.

(7) In spring 2015, Italy was granted a temporary deviation of 0,4 percentage points of GDP from the required adjustment path towards the medium-term budgetary objective in 2016 to take account of major structural reforms with a positive impact on the long-term sustainability of public finances. In its 2016 Draft Budgetary

[1] OJ C 96, 11.3.2016, p. 1.

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

Plan, Italy requested an additional deviation of 0,1 percentage points of GDP from the required adjustment path towards the medium-term budgetary objective in 2016 to take account of other structural reforms with a positive impact on the long-term sustainability of public finances. The details underpinning all these reforms have been set out in Italy's 2016 National Reform Programme, which broadly confirms the reform agenda. The areas of reform put forward in the programme as having an impact on public finance sustainability include: (i) public administration and simplification; (ii) product and service markets; (iii) the labour market; (iv) civil justice; (v) education; (vi) a tax shift; (vii) measures to reduce the stock of non-performing loans and reform insolvency procedures; and (viii) spending review as financing measure. The impact of all these reforms on real GDP is estimated by the authorities at 2,2 percentage points by 2020, which seems to be plausible. If fully implemented in a timely manner, these reforms will have a positive impact on the sustainability of public finances. Italy can currently be assessed as qualifying for the full requested temporary deviation of 0,5 percentage points of GDP in 2016, provided that it adequately implements the agreed reforms, which will be monitored under the European Semester, and subject to the conditions outlined in recital 10.

(8) In its 2016 Draft Budgetary Plan, Italy requested an additional deviation of 0,3 percentage points of GDP from the required adjustment path towards the medium-term budgetary objective in 2016 to take account of national investment expenditure in projects co-financed by the EU. The information provided by the 2016 Stability Programme seems to confirm that Italy's deviation from the adjustment path towards the medium-term budgetary objective in 2016 is being effectively used for the purposes of increasing investments. However, there are still some doubts on the feasibility of the whole projected amount of co-financed investment in the course of 2016. Italy can currently be assessed as qualifying for a temporary deviation of 0,25 percentage points of GDP in 2016, provided that it adequately carries out the intended investments and subject to the conditions outlined in recital 10. The Commission will carry out an *ex post* assessment in order to verify the actual amount of the national expenditure in co-financed investment projects and of the related allowance to which Italy is eligible under the so-called 'investment clause'.

(9) The 2016 Stability Programme indicates that the budgetary impact of the exceptional inflow of refugees as well as of exceptional security measures is significant and that these should be considered as an unusual event outside the control of the Government, as defined in Article 5(1) and Article 6(3) of Regulation (EC) No 1466/97. According to the Commission, the additional impact is in line with the estimations provided by the Stability Programme and amounts to 0,03 % of GDP in 2015 and 0,04 % in 2016 for refugee-related expenditure and at 0,06 % of GDP in 2016 for security measures. In relation to this, Italy requested a temporary deviation from the adjustment path towards the medium-term budgetary objective. The provisions defined in Article 5(1) and Article 6(3) of Regulation (EC) No 1466/97 cater for this additional expenditure, in that the inflow of refugees as well as the severity of the terrorist threat are exceptional events, their impact on Italy's public finances is significant and sustainability would not be compromised by allowing for a deviation from the adjustment path towards the medium-term budgetary objective. Therefore, the required adjustment towards the medium-term budgetary objective for 2015 has been reduced to take into account additional refugee-related costs. Regarding 2016, a final assessment, including on the eligible amounts, will be made in spring 2017 on the basis of observed data as provided by Italian authorities.

(10) In its opinion on Italy's 2016 Draft Budgetary Plan, the Commission indicated that, in the context of the 'overall assessment' of a possible deviation from the adjustment path towards the medium-term budgetary objective, it would take into account Italy's possible eligibility for flexibility under the Stability and Growth Pact, paying particular attention to whether a deviation from the adjustment path would be effectively used for the purposes of increasing investments; to the existence of credible plans for the resumption of the adjustment path towards the MTO; and to progress with the structural reform agenda, taking into account the Council recommendations. The Commission assesses that Italy is eligible for a further allowance of 0,35 percentage points of GDP for 2016, taking into account the progress with the structural reform agenda, the planned investments, as well as the government commitment to ensure compliance with the adjustment path towards the MTO in 2017, which the Commission will reassess in the autumn.

(11) Based on the Commission 2016 spring forecast, the projected structural deterioration of -0,7 % of GDP in 2016 points to a risk of some deviation from Italy's obligations under the preventive arm of the Stability and Growth

Pact, after taking into account the deviation allowed for investments and the implementation of structural reforms. In 2017, under the no-policy-change assumption, the Commission's forecast shows a zero structural effort in 2017, as a result of which there would be a risk of significant deviation from the required 0,6 % of GDP structural adjustment. Italy is forecast not to comply with the debt rule in 2016 and in 2017.

(12) Overall, based on its assessment of the 2016 Stability Programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that Italy is at risk of non-compliance with the provisions of the Stability and Growth Pact. The Commission will reassess Italy's compliance with the required adjustment towards the medium-term budgetary objective based on its 2016 autumn forecast as further information on Italy's resumption of the adjustment path towards the MTO for 2017 becomes available, including the 2017 Draft Budgetary Plan.

(13) Although initiatives to reform the fiscal framework are under way, only limited steps have been taken so far to secure the contribution of the spending review to fiscal consolidation. In particular, the spending review targets have been further reduced and the fact that the spending reviews are not fully integrated into the budgetary process weighs on the overall efficiency of the exercise. The finalisation of the comprehensive reform of the budgetary process in the making since 2009 is expected to address this shortcoming and to endow the budgetary process with a more performance-oriented approach. To improve public debt sustainability, it is also important to accelerate the deployment of the privatisation plan. Italy's taxation system hinders economic efficiency and continues to face several challenges. These are linked to very low tax compliance and an overdue reform of tax expenditures, in particular with respect to the reduced value-added tax rates, and of the old system of cadastral values. These were all aspects of the enabling law for the reform of the tax system that have not been implemented, or have been implemented only partially. In addition, recent developments such as the abolition of the property tax on first residences, appear at odds with the goal of broadening the tax base and shifting the tax burden from productive factors onto property and consumption.

(14) The reform of the public administration is an important step which, if the required legislative decrees are adopted and implemented, would allow Italy to grasp the expected benefits in terms of increased efficiency and quality in the public sector. The legislative decrees proposed by the Government in January 2016 on state-owned enterprises and local public services, as well as the forthcoming decree on public employment, are of particular importance for addressing the root causes of inefficiencies. While recent measures have been taken to step up the fight against corruption, including by raising penalties and prescription terms for specific corruption offences, the long-recommended systematic revision of the statute of limitations is still on hold. Accounting fraud is also an important issue. In the justice system, lengthy court proceedings and a high number of pending civil and commercial cases remain major challenges. Closely monitoring the impact of the measures taken in recent years to address these issues will help the assessment of whether it is necessary to complement them by additional action.

(15) Some progress has been made towards improving asset quality in the banking sector. Although the inflow of new non-performing loans has slowed down in recent months, their stock remains at a very high level and continues to put pressure on profitability and banks' resources. In addition, Italy's insolvency system and debt collection frameworks are insufficiently conducive to a swift work-out of impaired loans. Since mid-2015, several laws were adopted to simplify and accelerate insolvency and foreclosure procedures, and a draft enabling law for an organic reform of the bankruptcy framework has been proposed. However, the effects of these reforms on the length of procedures and recovery values are still to be seen. Since the beginning of 2015, Italy has adopted several measures to tackle weaknesses in the corporate governance of its banks, particularly regarding larger cooperative banks, banks with foundations as shareholders and small mutual banks. Fully implementing these reforms would help to make the sector more resilient and ensure a more efficient allocation of credit to the real economy. Whereas low cost efficiency in the banking sector hinders profitability and internal capital generation, the low-growth low-interest rate environment constitutes an additional challenge. The new EU bank resolution framework ([1]) has changed the risk profile of bonds issued by banks, of which significant amounts are held by Italian retail clients, underlining the importance of financial literacy among the general public.

([1]) Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council (OJ L 173, 12.6.2014, p. 190).

(16) In 2015, Italy deeply reformed its labour market rules and institutions through the so-called 'Jobs act' reform. Implementing the reform of active labour market policies is key to activating those further away from the labour market, in particular the long-term unemployed and young people. There is currently a range of administrative, political and resource-related challenges. In particular, this requires a strengthening of public employment services and close monitoring of service delivery. The apprenticeships system has been reformed to also include adults made redundant and to broaden opportunities for young people, but implementation is still under way. Second-level bargaining is not sufficiently developed in Italy, hampering the adoption of innovative solutions at firm level that could improve productivity and make wages more responsive to labour market conditions. Action in this area needs to be taken in consultation with social partners and in accordance with national practices. Social partners have not yet reached an agreement on the reform of collective bargaining. A reform is expected by the end of 2016, according to the National Reform Programme. The labour participation rate of women is one of the lowest in the EU. Women are predominant in atypical and precarious jobs, constitute the majority of non-standard workers and risk being particularly affected by the informal economy. The tax and benefit system discourages second earners from working and the Jobs Act did not address this issue effectively. The limited availability of affordable care services also hampers participation in the labour market by women with children and elderly relatives. Poverty levels are high — more than a quarter of Italians are at risk of poverty or social exclusion — and the provision of social assistance remains weak and fragmented. Adopting and implementing the national antipoverty strategy and rationalising social spending could be first steps towards a gradual roll-out of an adequate social assistance scheme based on the principle of active inclusion, at the national level in an overall budgetary neutral way. Substantial progress has been made on the reform of education. The school reform was adopted in July 2015 and implementing decrees are to be adopted by January 2017.

(17) Limited progress has been made towards fostering competition in services. The 2015 annual competition law is currently still under discussion in the Parliament. A number of provisions, for instance on legal professions, have been weakened during the parliamentary process. A number of areas are still over-protected or regulated, in particular the regulated professions, the health sector, local public transport and taxis, ports and airports. The retail sector is hampered by a number of inefficiencies caused by the strictness of market regulation. The public process of granting rights on public domain for economic activities does not promote competition, in particular due to the awarding of permit schemes without competitive and transparent procedures. Market-opening measures need to be supported by a business-friendly environment. Some progress has been made on simplification under the 2015-2017 simplification agenda, which allows for easier and more streamlined cooperation between central and regional governments. However, the Italian business environment is still not sufficiently conducive to growth and investment and suffers from a fragmented and stratified system of laws and regulations emanating from different levels of government. The administrative and regulatory burden still weighs on economic operators. Strengths in terms of starting a company or insolvency resolution are offset by weaknesses in terms of dealing with construction permits, contract enforcement, tax payment or getting credit. The implementation of the national public procurement strategy adopted in early 2016 could also help to tackle some systemic and widespread weaknesses.

(18) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Italy's economic policy and published it in the 2016 country report. It has also assessed the Stability Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Italy in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Italy but also their compliance with EU rules and guidance, given the need to strengthen the EU's overall economic governance by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) to (5) below.

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

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

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

HEREBY RECOMMENDS that Italy take action in 2016 and 2017 to:

1. In 2016, limit the temporary deviation from the required 0,5 % of GDP adjustment towards the medium-term budgetary objective to the amount of 0,75 % of GDP allowed for investments and the implementation of structural reforms, subject to the condition of resuming the adjustment path towards the medium-term budgetary objective in 2017. Achieve an annual fiscal adjustment of 0,6 % or more of GDP towards the medium-term budgetary objective in 2017. Finalise the reform of the budgetary process in the course of 2016 and ensure that the spending review is an integral part of it. Ensure the timely implementation of the privatisation programme and use the windfall gains to accelerate the reduction of the general government debt ratio. Shift the tax burden from productive factors onto consumption and property. Reduce the number and scope of tax expenditures and complete the reform of the cadastral system by mid-2017. Take measures to improve tax compliance, including through electronic invoicing and payments.

2. Implement the reform of the public administration by adopting and implementing all necessary legislative decrees, in particular those reforming publicly-owned enterprises, local public services and the management of human resources. Step up the fight against corruption including by revising the statute of limitations by the end of 2016. Reduce the length of civil justice proceedings by enforcing reforms and through effective case-management.

3. Accelerate the reduction in the stock of non-performing loans, including by further improving the framework for insolvency and debt collection. Swiftly complete the implementation of ongoing corporate governance reforms in the banking sector.

4. Implement the reform of active labour market policies, in particular by strengthening the effectiveness of employment services. Facilitate the take-up of work for second earners. Adopt and implement the national antipoverty strategy and review and rationalise social spending.

5. Swiftly adopt and implement the pending law on competition. Take further action to increase competition in regulated professions, the transport, health and retail sectors and the system of concessions.

Done at Brussels, 12 July 2016.

For the Council

The President

P. KAŽIMÍR

COUNCIL RECOMMENDATION

of 12 July 2016

on the 2016 National Reform Programme of Spain and delivering a Council opinion on the 2016 Stability Programme of Spain

(2016/C 299/02)

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ([1]), and in particular Article 5(2) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances ([2]), and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the 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 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011, the Commission 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. On the same day, the Commission also adopted a recommendation for a Council Recommendation on the economic policy of the euro area. This Recommendation was endorsed by the European Council on 18-19 February 2016 and adopted by the Council on 8 March 2016 ([3]). As a country whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, Spain should ensure the full and timely implementation of the Recommendation.

(2) The 2016 country report for Spain was published on 26 February 2016. It assessed Spain's progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015 and Spain's progress towards its national Europe 2020 targets. It also included the in-depth review under Article 5 of Regulation (EU) No 1176/2011. On 8 March 2016, the Commission presented the results of the in-depth review. The

([1]) OJ L 209, 2.8.1997, p. 1.
([2]) OJ L 306, 23.11.2011, p. 25.
([3]) OJ C 96, 11.3.2016, p. 1.

Commission analysis leads it to conclude that Spain is experiencing macroeconomic imbalances. In particular, high external and internal debt, both public and private, continue to constitute vulnerabilities in a context of high unemployment. The need for action to reduce the risk of adverse effects on the Spanish economy and, given its size, of negative spillovers to the economic and monetary union, is important. Despite improvement in the current account balance, net external liabilities are not projected to reach prudent levels in the short term. Private sector deleveraging is on track, supported partly by favourable growth conditions, but deleveraging needs are large and public debt remains high. Measures have been taken in the financial sector and in corporate and personal insolvency frameworks, but further action is needed on innovation and skills and on compliance with the Stability and Growth Pact.

(3) On 29 April 2016, Spain submitted its 2016 National Reform Programme and on 30 April 2016 it submitted its 2016 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

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

(5) Spain is currently in the corrective arm of the Stability and Growth Pact. In its 2016 Stability Programme, Spain plans to achieve headline deficit targets of 3,6 % of GDP in 2016 and 2,9 % of GDP in 2017. The excessive deficit is thus planned to be corrected one year later than currently recommended by the Council, the fiscal effort and headline targets having been missed in 2014 and 2015. These targets assume the full implementation of 0,4 % of GDP in permanent savings at central and regional government level announced in response to the Autonomous Commission recommendation of 9 March 2016. The deficit is planned to continue declining thereafter, to 1,6 % of GDP in 2019. However, the medium-term objective of a balanced budgetary position in structural terms is not planned to be reached within the time horizon of the Stability Programme. In particular, the recalculated structural balance is projected to improve only marginally in 2016 and 2017 to around -2½ % of GDP, and decline slowly to reach -2¾ % of GDP in 2019. The government debt-to-GDP ratio declined only marginally in 2015 to 99,2 % of GDP and is expected to decline slightly in 2016 and 2017 and more decisively in the following two years, to 96 % of GDP in 2019, as the primary balance turns into a surplus. The macroeconomic scenario underpinning these budgetary projections is plausible for 2016 and 2017 and somewhat optimistic thereafter; it has been endorsed by Spain's Independent Fiscal Institution (AIReF). The Commission 2016 spring forecast projects the deficit at 3,9 % of GDP in 2016 and 3,1 % of GDP in 2017, above the headline targets in the Stability Programme. Spain is thus not projected to correct the excessive deficit by 2016 as recommended by the Council. Risks to the deficit targets in the programme largely stem from uncertainties surrounding the implementation of the savings from the March/April 2016 measures. As the structural deficit is projected to slightly increase in both years, the fiscal effort is not in line with the requirements of the Stability and Growth Pact. Based on its assessment of the Stability Programme and taking into account the Commission's 2016 spring forecast, the Council is of the opinion that there is a risk that Spain will not comply with the provisions of the Stability and Growth Pact. Therefore, further measures are needed to ensure compliance in 2016 and 2017.

(6) Pursuant to Article 10(1) of Council Regulation (EC) No 1467/97 [2], the Commission will regularly monitor the implementation of action taken by Spain in response to the last recommendation made by the Council under Article 126(7) TFEU: the Commission will therefore recommend to the Council the appropriate steps to be taken in the framework of the excessive deficit procedure.

(7) Since 2012, Spain's fiscal framework has been strengthened in order to, among other things, prevent deviations and ensure compliance by all government levels with their respective deficit, debt and expenditure targets. In

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

[2] Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6).

addition, a rule for application (on a voluntary basis and, in 2016, made compulsory for most regions) at regional level was approved in mid-2015 to limit growth in expenditure on healthcare and pharmaceutical products, and an agreement between the Government and the pharmaceutical industry was signed in November 2015 to help rationalise spending on pharmaceuticals. Despite this, in 2015, most regions as well as the social security sector fell significantly short of meeting their domestic fiscal targets. The stability law's expenditure rule was not observed by the central, regional and local government subsectors and growth in expenditure of pharmaceutical products, namely in hospitals, strengthened further, even excluding the impact of new anti-hepatitis C treatments.

(8) In the field of public procurement, Spain performs well concerning the quality of the legislation and the availability of review procedures. Efforts have been made to rationalise public purchasing, in particular via joint procurement mechanisms. However, there are disparities in the implementation of public procurement across administrations and insufficient control mechanisms hinder the correct application of public procurement rules. The number of presumed breaches of EU public procurement legislation brought to the Commission's attention in recent years has been relatively high. Furthermore, the Spanish Court of Auditors has pointed to some weaknesses such as the frequent use of the negotiated procedure without publication, the repeated modification of contracts, the splitting of contracts into smaller ones and the insufficient precision and clarity of some tender documents and administrative decisions.

(9) Spain has made substantial progress in restructuring the financial sector. The law on savings banks to strengthen their governance and reduce controlling stakes held by banking foundations has been implemented. The implementation of plans for restructuring state-aided banks is well advanced. The Bank of Spain has amended the existing accounting regime for credit institutions and adopted a new framework for SAREB, the Spanish asset management company. The new framework will allow SAREB to achieve a proper treatment of impairments and help in adapting its deleveraging policies to credible market assumptions.

(10) Labour market reforms undertaken in recent years have made employment more responsive to growth and job creation has resumed, supported by increased flexibility and continued wage moderation. Collective agreements have been supportive of this trend, also owing to the inter-professional agreement signed in June 2015. The recent increase in overall employment has been driven mainly by temporary contracts, although the number of newly signed open-ended contracts is slowly rising. However, the take-up of incentives for new permanent hiring remains limited, and the proportion of temporary workers remains one of the highest in the Union, while the opportunities for temporary workers to move to a permanent contract remain low. The short duration of temporary contracts limits incentives to invest in human capital, hampering productivity growth. Although decreasing rapidly, unemployment remains very high, in particular among young people and its average duration is also very high. Persistently high long-term unemployment implies that unemployment risks becoming entrenched, negatively affecting working and social conditions. Nearly 60 % of the long-term unemployed are low-skilled, which calls for appropriate active and passive labour market and training policies to tackle pervasive skills mismatches and prevent skills depreciation among this group. Interaction with employers in the design of training programmes is still weak..

(11) The effectiveness of activation and active labour market measures depends heavily on the capacity of employment services to design and offer individualised support to beneficiaries. The implementation of recent reforms of active labour market policies is progressing slowly and the capacity of the public employment services to provide effective, individualised counselling and job search assistance is still limited. Cooperation between the regional public employment services and private placement agencies remains limited. Moreover, cooperation between employment and social services is uneven across regions, hampering the provision of coordinated assistance for those further away from the labour market, in particular minimum income beneficiaries. There are significant disparities across regions as regards income support schemes, for example in delivery arrangements, eligibility requirements, coverage and adequacy, while difficulties in transferring social benefits hamper inter-regional job mobility. In addition, information about the transition to employment from minimum income schemes is quite limited. Spain is currently preparing a map of national and regional income support schemes in the country, covering national and regional levels. While some measures have been introduced, the effectiveness of family and housing benefits in reducing poverty remains limited, and the lack of adequate and affordable child care and long-term care provision discourages women, in particular, from taking up a job.

(12) The increasingly rapid change in the sectoral composition of employment that Spain has been witnessing since 2008 has been accompanied by an increase in skills mismatches. The low overall skills level constrains the

transition towards higher value-added activities and hampers productivity growth. Despite a high level of tertiary education attainment, skills supply is not sufficiently aligned with labour market needs and employability rates for recent tertiary graduates are among the lowest in Europe, with a significant proportion employed in jobs that do not require a university degree. Furthermore, despite a slight improvement over the past five years, partly supported by initiatives to increase business representation on university governing boards, cooperation between universities and businesses remains weak. The reduced mobility of academics, the rigidity of the university governance system and the administrative barriers faced by the Offices for the Transfer of Research outcomes (*Oficinas de transferencia de resultados de investigación*) compound obstacles to closer cooperation.

(13) Research and innovation policy in Spain faces several challenges. Interaction between public and private research is weak. Spain's R & D intensity (spending on R & D relative to GDP) and innovation performance keeps declining, against the backdrop of a relatively low number of innovative firms and limited incentives for collaboration between public research and business. Spain underperforms in respect of most business innovation indicators. The gap on spending on R & D intensity compared to the Union as a whole is especially significant as regards investment in R & D by the private sector (0,6 % in Spain compared to 1,3 % in the Union as a whole). Venture capital is still not widely used in Spain, in particular at seed stage. Weak coordination of R&I policies in Spain and a fragmented regional landscape of bodies and programmes to promote innovation activities and foster science-business cooperation create significant challenges for businesses, especially for smaller firms. Low business involvement in innovation activities could point to a lack of absorptive capacity, innovation-friendly framework conditions and incentives. As highlighted in the 2014 ERAC (European Research Area Committee) Peer Review of the Spanish Research and Innovation System, most successful public research systems are driven by higher degrees of evaluation and accountability than are found in Spain. In this context, the allocation of public institutional funding for universities and public research bodies is usually not based on R&I performance, thus reducing the incentives to improve the quality and relevance of scientific outputs.

(14) The small average size of Spanish firms helps explain the economy's persistently low productivity. Firm growth, combined with improvements in human capital, innovation, technology, access to finance and efficient justice could spur aggregate productivity. In 2015, business investment strengthened, underpinned by dynamic demand conditions, low borrowing costs and ongoing balance sheet repair by the corporate sector and households. Spain has taken various measures to ease business growth. For example, a recent law on business financing is expected to facilitate access to finance for small and medium-sized enterprises (SMEs). Furthermore, prior assessment of the potential impact of new legislation on SMEs has now become compulsory. However, the time and number of permits required for starting up a business and launching certain economic activities remains relatively high.

(15) Spain's considerable differences across regions in regulatory practices, including on business licencing, may limit firms' capacity to grow. The law on market unity aims to reduce barriers to access to and the exercise of economic activities across Spanish regions and to improve regulation. It could potentially have a significant impact on removing barriers to investment and facilitate business licensing, business operations and company growth. The implementation of the law on market unity requires full involvement of all administrations. However, in its third year of application, it is being implemented slowly by regional governments. Likewise, the benefits of the retail sector reform of 2014 depend on regional governments adopting the necessary implementing acts. Furthermore, tackling obstacles to access to the professional services sector is likely to improve productivity in other sectors that use those inputs. Apart from the transposition of the Services Directive into Spanish law, there has been no progress on a horizontal reform of the regulatory framework for regulated professions and professional associations, other than in the area of professional board certification of projects. The reform planned in successive National Reform Programmes was not adopted. This reform aimed at defining the professions requiring registration in a professional organisation, increasing transparency and accountability of professional bodies, opening up unjustified reserved activities and safeguarding market unity in the access to and exercise of professional services in Spain.

(16) In the context of the European Semester, the Commission has carried out an analysis of Spain's economic policy and published it in the 2016 country report. It has also assessed the Stability Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Spain in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Spain but also their compliance with EU rules and guidance, given the need to strengthen the EU's overall economic governance by

providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) to (4) below.

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

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

HEREBY RECOMMENDS that Spain take action in 2016 and 2017 to:

1. Ensure a durable correction of the excessive deficit, in accordance with the relevant decisions or recommendations under the excessive deficit procedure, by taking the necessary structural measures and by using all windfall gains for deficit and debt reduction. Implement at all government levels the tools set out in the fiscal framework law. Enhance control mechanisms for public procurement and coordination of procurement policies across government levels.

2. Take further measures to improve labour market integration, by focusing on individualised support and strengthening the effectiveness of training measures. Enhance the capacity of regional employment services and reinforce their coordination with social services. Address gaps and disparities in minimum income schemes and improve family support schemes, *including access to quality childcare and long-term care*.

3. Take further measures to improve the labour market relevance of tertiary education, including by incentivising cooperation between universities, firms and research institutions. Increase performance-based funding of public research bodies and universities and foster R&I investment by the private sector.

4. Accelerate the implementation of the law on market unity at regional level. Ensure implementation by the autonomous regions of the reform measures adopted for the retail sector. Adopt the planned reform on professional services and associations.

Done at Brussels, 12 July 2016.

For the Council

The President

P. KAŽIMÍR

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

COUNCIL RECOMMENDATION

of 12 July 2016

on the 2016 National Reform Programme of the United Kingdom and delivering a Council opinion on the 2016 Convergence Programme of the United Kingdom

(2016/C 299/03)

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 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council [2], the Commission 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.

(2) The 2016 country report for the United Kingdom was published on 26 February 2016. It assessed the United Kingdom's progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015 and the United Kingdom's progress towards its national Europe 2020 targets. It also included the in-depth review under Article 5 of Regulation (EU) No 1176/2011. On 8 March 2016, the Commission presented the results of the in-depth review. The Commission's analysis leads it to conclude that the United Kingdom is not experiencing macroeconomic imbalances. High household sector debt, elevated house price levels and the large current account deficits may constitute vulnerabilities. At the same time, household balance sheets are strong in aggregate and the resilience of the banking sector continues to improve. In the short term, the robustness of the household sector and wider economy to handle risks such as an interest rate shock or a shock to employment seems to have increased. While government initiatives are having some impact on housing supply, the imbalance between

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

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

housing supply and demand remains sizeable. Risks associated with the large current account deficit are mitigated by a favourable institutional framework and low foreign-currency liabilities. The rise in the deficit has been driven by the upward movement in the deficit on primary income and it is expected to decline as adverse cyclical conditions unwind.

(3) On 24 March 2016, the United Kingdom submitted its 2016 National Reform Programme and its 2016 Convergence Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

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

(5) The United Kingdom is currently in the corrective arm of the Stability and Growth Pact. Provided that a durable correction of the excessive deficit is achieved in 2016-17, the United Kingdom will be subject to the preventive arm and the transitional debt rule as from 2017-18. In its 2015-16 Convergence Programme, the Government expects the headline deficit to be below 3 % of GDP in 2016-17 and plans for it to decline further to 2,0 % of GDP by 2017-18. The recalculated ([2]) structural deficit points to a structural improvement of 0,6 percentage points of GDP in 2015-16; 0,9 percentage points of GDP in 2016-17, and 0,7 percentage points of GDP in 2017-18. The Convergence Programme does not include a medium-term budgetary objective. According to the Convergence Programme, the government debt-to-GDP ratio is expected to fall from 88,9 % in 2015-16 to 88,3 % of GDP in 2016-17, before declining further to 87,1 % in 2017-18. The macroeconomic scenario underpinning the budgetary projections is plausible. Measures to support the planned deficit targets in 2016-17 and 2017-18 are sufficiently specified. However, the impact of some measures in 2017-18, whose budgetary impact is estimated at around 0,2 % of GDP, is more uncertain. Based on the Commission 2016 spring forecast, in 2015-16 the United Kingdom is expected to have achieved the recommended headline deficit of 4,1 % of GDP and to have delivered the recommended fiscal effort. The United Kingdom is forecast to correct its excessive deficit by the 2016-17 deadline as recommended by the Council, though missing the recommended headline deficit target of 2,7 % of GDP. A marginally lower than recommended fiscal effort is projected to be delivered on a cumulative basis over the excessive deficit procedure period. In 2017-18, the United Kingdom is expected to comply with the recommended adjustment towards the minimum medium-term budgetary objective under unchanged policies. The United Kingdom is also forecast to comply with the transitional debt rule in 2017-18. Based on its assessment of the Convergence Programme, and taking into account the Commission 2016 spring forecast, the Council is of the opinion that the United Kingdom is expected to broadly comply with the provisions of the Stability and Growth Pact.

(6) Productivity in the United Kingdom has stagnated since 2008. This may be attributable to various factors such as low capital investment, skills shortages, skill mismatches and a shift in the composition of the economy towards business sectors with lower productivity. The challenges related to insufficient housing, especially in geographical areas of high economic growth also have to be considered in this context. The Government's July 2015 policy document, 'Fixing the foundations- creating a prosperous nation' lays out a wide-ranging response. In view of certain barriers to investment that still exist and the low level of public and private investment in the United Kingdom, the Government's policy actions to boost skill levels, innovation and infrastructure investment are timely although effective implementation will be important. One of the main investment challenges is to deliver adequate network infrastructure. The National Infrastructure Plan, which was updated in March 2016, sets out details of the progress of infrastructure projects within a coherent and consistent framework. The plan is reliant on securing an increase in private finance for much of the investment. Delivery and monitoring are crucial and transparency and accountability are key. Despite the Government's various initiatives, housing demand continues to outstrip supply and this is reflected in high and rising house prices. The shortage of housing is most acute in

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

([2]) The structural balance as recalculated by the Commission based on the information in the Convergence Programme, following the commonly agreed methodology.

the rapidly-growing regions of London and the South-East. The use of land is guided by principles set out in the national planning policy framework and effective implementation of the reformed planning system could facilitate increased housing construction.

(7) The United Kingdom's labour market remains dynamic. In 2015, the employment rate (age group 20-64) reached 76,9 % while the unemployment rate continued its downward trend, reaching 5,3 %. Youth unemployment and rates of young people not in employment, education or training have also further decreased. Nonetheless, there remains scope for improvement in the prospects for inactive, underemployed and low skilled workers. Better labour market progression prospects and clearer routes to upskilling would assist those who find themselves confined to low-wage and/or low-hours of work. It would also address the skills shortages that are apparent in some parts of the economy, such as construction. Successful deployment of the resources arising from the apprenticeship levy will require careful attention. Proposals to improve supply in childcare will require timely implementation as the availability and affordability of childcare remain a challenge.

(8) In the context of the European Semester, the Commission has carried out a comprehensive analysis of the United Kingdom's economic policy and published it in the 2016 country report. It has also assessed the Convergence Programme and the National Reform Programme and the follow-up given to the recommendations addressed to the United Kingdom in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in the United Kingdom but also their compliance with EU rules and guidance, given the need to strengthen the overall economic governance of the European Union by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) to (3) below.

(9) 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 United Kingdom take action in 2016 and 2017 to:

1. Endeavour to correct the excessive deficit in a durable manner by 2016-17. Following the correction of the excessive deficit, achieve a fiscal adjustment of 0,6 % of GDP in 2017-18 towards the minimum medium-term budgetary objective.

2. Address shortfalls in network infrastructure investment, including by delivering the priorities of the National Infrastructure Plan. Take further steps to boost housing supply, including by implementing the reforms of the national planning policy framework.

3. Address skills mismatches and provide for skills progression, including by strengthening the quality of apprenticeships. Further improve the availability of affordable, high-quality, full-time childcare.

Done at Brussels, 12 July 2016.

For the Council

The President

P. KAŽIMÍR

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

COUNCIL RECOMMENDATION

of 12 July 2016

on the 2016 National Reform Programme of Poland and delivering a Council opinion on the 2016 Convergence Programme of Poland

(2016/C 299/04)

THE COUNCIL OF THE EUROPEAN UNION,

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

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

Having regard to the recommendation of the European Commission,

Having regard to the 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 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council ([2]), the Commission adopted the Alert Mechanism Report, in which it did not identify Poland as one of the Member States for which an in-depth review would be carried out.

(2) The 2016 country report for Poland was published on 26 February 2016. It assessed Poland's progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015 and Poland's progress towards its national Europe 2020 targets.

(3) On 28 April 2016, Poland submitted its 2016 National Reform Programme and its 2016 Convergence Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(4) Relevant country-specific recommendations have been addressed in the programming of the European Structural and Investment Funds for the 2014-2020 period. As foreseen in Article 23 of Regulation (EU) No 1303/2013 of

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

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

the European Parliament and of the Council ([1]), where it is necessary to support the implementation of relevant Council recommendations, the Commission may request a Member State to review and propose amendments to its Partnership Agreement and relevant programmes. The Commission has provided further details on how it would make use of this provision in guidelines on the application of the measures linking effectiveness of the European Structural and Investment Funds to sound economic governance.

(5) Poland is currently in the preventive arm of the Stability and Growth Pact. In its 2016 Convergence Programme, the Government plans for the headline deficit to increase from 2,6 % of GDP in 2015 to 2,9 % of GDP in 2017 before declining to 1,3 % of GDP in 2019. The medium-term budgetary objective — a deficit of 1 % of GDP in structural terms — is not expected to be achieved by 2019, the period covered by the programme. According to the convergence programme, the government debt-to-GDP ratio is expected to increase from 51,3 % in 2015 to 52,5 % in 2017 before declining to 50,4 % in 2019. The macroeconomic scenario underpinning these budgetary projections is plausible in 2016 and favourable thereafter. Based on the Commission 2016 spring forecast, there is a risk of a significant deviation from the recommended adjustment both in 2016 and, under unchanged policies, in 2017. Based on its assessment of the Convergence Programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that there is a risk that Poland will not comply with the provisions of the Stability and Growth Pact. Therefore further measures will be needed to ensure compliance in 2016 and 2017.

(6) Poland is the only Member State without a fully-fledged independent fiscal council and with no known plans to create one, even though it has independent fiscal institutions covering some of its functions. In addition to the debt brake built into the Polish constitution, Poland introduced an expenditure stabilising rule in 2013, which was fully applied for the first time in the 2015 budget. The rule was, however, amended in December 2015 and will allow for higher expenditure, particularly in the current low inflation environment. There are significant fiscal sustainability risks in the longer term due to an unfavourable initial budgetary position and the projected increase in the costs of population ageing, mainly in relation to healthcare spending. From a debt sustainability perspective, under unchanged policies the medium-term fiscal risk is high, owing to the projected increase in the stock of debt.

(7) VAT revenues for 2015 are projected to have remained low as a proportion of GDP, despite the measures introduced so far, which include the reverse charge mechanism and the joint liability of firms in sensitive sectors. Increasing VAT collection and fighting VAT fraud are priorities for the Government and a strategy is being prepared in this respect. It is expected to include measures such as new IT tools for detecting and combating VAT fraud and a reform of the tax administration. A lower limit for cash payments between companies will be introduced in January 2017. Poland still faces the long-standing challenge of inefficient tax administration. The cost-of-collection ratio, i.e. administrative costs per net tax revenue collected, is the highest in the Union.

(8) Poland continues to apply reduced VAT rates to a large number of goods and services. This contributes to lost revenues and reduces the efficiency of the VAT system. Evidence suggests that reduced VAT rates are not an effective social policy instrument, particularly as they are not specifically targeted to vulnerable households. They tend to translate into significant subsidies to rich taxpayers. Social benefits and income tax are considered to be better targeted and thus more suitable for achieving redistributive goals. The potential lost revenue due to reduced VAT rates and optional exemptions is among the highest in the Union.

(9) Despite recent improvements, the Polish labour market faces significant challenges — an ageing labour force, low productivity and high segmentation of the labour market. These are coupled with shortcomings in the education system. Although the education system has improved significantly in recent years, it still fails to equip pupils sufficiently with the transversal skills needed for the rapidly changing labour market and innovation. The relatively low average standing of Polish higher education and science has a negative effect on the quality of provision. The degree of internationalisation of Polish higher education is very limited, both in terms of the number of foreign students and participation in international scientific collaboration. The financing model of higher education does not promote quality sufficiently, as it largely uses past university standings and quantity

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

variables, such as the number of students and academic staff. According to employers, graduates lack transversal skills such as problem solving, critical thinking, or teamwork. Participation in lifelong learning is low, and vocational education and training do not correspond to market needs.

(10) While the availability and take-up of pre-school education has increased significantly in recent years, the availability of early childcare services remains among the lowest in the Union. Raising the obligatory school starting age to the age of seven years, and removing the obligation for five-year-olds to attend pre-school, combined with the new child benefit, may have negative effects on labour market participation, especially of women, and deserves close monitoring.

(11) Despite a strong rise in permanent employment contracts in 2015, the proportion of fixed-term employment in Poland is among the highest in the Union. Poland has recently taken a number of measures to tackle labour market segmentation. An amendment to the Labour Code has been introduced, the social security contributions connected to some civil law contracts have been increased and a minimum hourly remuneration for those working on civil law contracts is expected to be introduced in January 2017. However, certain features of the Labour Code create disincentives for employers to hire people on open-ended contracts and the use of these contracts remains limited. This is predominantly due to the complexity of labour regulation and the high implicit costs of dismissals under such contracts. These include high procedural costs, costs associated with lengthy and uncertain dispute resolution mechanisms and provisions such as the special protection of older workers from layoffs.

(12) Preferential sector-specific social security arrangements, in particular the highly subsidised pension systems for farmers and miners, have high budgetary costs and may contribute to reducing labour mobility. The number of insured persons under the special security system for farmers has been slowly decreasing since 2007, and the Government expects that in 2019 it will amount to 1,18 million people, while the number of retirement beneficiaries, which amounts to 1,229 million, will probably grow until 2018. Since 2011, the share of state budget expenditure for KRUS in GDP has been constant at 1 %. There is no general tax requirement for the farmers or an obligation to have an accounting system, and the self-financing of KRUS is low. There were 1,382 million farms in Poland in 2014 of which 52 % under 5 ha (GUS). Miners are exempt from the general defined-contribution public pension system with special preferential pension multiplier coefficients, which is a significant yearly cost to the public finances of over 0,5 % of GDP. The unfavourable demographic outlook has already translated into a declining working-age population. Preserving the positive trend in employment, especially of older workers, is therefore essential, also with a view to preserving public pension system adequacy and sustainability. Although the average effective retirement age increased in recent years, it remains significantly below the statutory retirement age. Therefore, an increase in the effective retirement age is crucial for the longer-term social adequacy of future pensions and the stability of public finances, as well as to increase labour market participation.

(13) Despite sizeable investment in recent years, bottlenecks and deficiencies in transport, energy and communication networks persist. Investment activity is hampered by barriers in relation to the functioning of the public administration, taxation, the environment for research, development and innovation activities, and lengthy contract enforcement. Weaknesses in managerial and administrative capacity have a negative effect on the timely implementation of investment projects in the railway sector and other transport, energy and telecommunication infrastructure projects. The Polish economy is still energy- and carbon-intensive, and the potential gains from improving energy efficiency are significant. Electricity generation facilities are ageing and remain heavily dependent on coal. The power network is insufficiently connected to neighbouring countries. The renewable energy support scheme, which was meant to take effect on 1 January 2016, has been delayed, creating investment uncertainty. Key factors hampering investments, in particular in construction, are very low coverage of and instability in spatial planning, especially at the local level, as well as over-regulation and regulatory and administrative inconsistencies that impede the issuing of construction permits.

(14) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Poland's economic policy and published it in the 2016 country report. It has also assessed the Convergence Programme and the National Reform Programme and the follow-up to the recommendations addressed to Poland in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Poland but also their compliance with EU rules and guidance, given the need to strengthen the EU's overall economic

governance by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) to (3) 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,

HEREBY RECOMMENDS that Poland take action in 2016 and 2017 to:

1. Achieve an annual fiscal adjustment of 0,5 % of GDP towards the medium-term budgetary objective in 2016 and in 2017. Strengthen the fiscal framework, including by establishing an independent fiscal council. Improve tax collection by ensuring better VAT compliance, and limit the extensive use of reduced VAT rates.

2. Ensure the sustainability and adequacy of the pension system and increase participation in the labour market, by starting to reform the preferential pension arrangements, removing obstacles to more permanent types of employment and improving the labour market-relevance of education and training.

3. Take measures to remove obstacles to investment in transport, construction and energy infrastructure, and increase the coverage of spatial planning at local level.

Done at Brussels, 12 July 2016.

For the Council

The President

P. KAŽIMÍR

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

COUNCIL RECOMMENDATION

of 12 July 2016

on the 2016 National Reform Programme of Germany and delivering a Council opinion on the 2016 Stability Programme of Germany

(2016/C 299/05)

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 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011, the Commission 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. On the same day, the Commission also adopted a recommendation for a Council Recommendation on the economic policy of the euro area. This Recommendation was endorsed by the European Council on 18-19 February 2016 and adopted by the Council on 8 March 2016 ([3]). As a country whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, Germany should ensure the full and timely implementation of the Recommendation.

(2) The country report for Germany was published on 26 February 2016. It assessed Germany's progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015 and Germany's

([1]) OJ L 209, 2.8.1997, p. 1.
([2]) OJ L 306, 23.11.2011, p. 25.
([3]) OJ C 96, 11.3.2016, p. 1.

progress towards its national Europe 2020 targets. It also included the in-depth review under Article 5 of Regulation (EU) No 1176/2011. On 8 March 2016, the Commission adopted a Communication presenting the results of the in-depth review. The Commission's analysis leads it to conclude that Germany is experiencing macroeconomic imbalances. In particular, the large and persistent current account surplus reflects excess savings and subdued investment in both the private and public sectors. Weak domestic investment hampers potential growth and strong reliance on external demand entails macroeconomic risks in a context of subdued foreign demand. The current account surplus also has, given its size, adverse implications for the economic performance of the euro area. Addressing it through increased investment would raise Germany's growth potential and help sustain the recovery in the euro area.

(3) On 15 April 2016, Germany submitted its 2016 Stability Programme and on 29 April 2016 it submitted its National Reform Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

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

(5) Germany is currently in the preventive arm of the Stability and Growth Pact and subject to the debt rule. In its 2016 Stability Programme, the Government plans a balanced budgetary position in headline terms over 2016-2020. The medium-term budgetary objective — a structural deficit of 0,5 % of GDP — continues to be met with a margin throughout the programme period. According to the Stability Programme, the government debt-to-GDP ratio is expected to gradually decline to 59½ % in 2020. The macroeconomic scenario underpinning these budgetary projections, which has not been endorsed by an independent body, is plausible. Based on the Commission 2016 spring forecast, the structural balance is forecast to register a surplus of 0,4 % of GDP in 2016 and in 2017, above the medium-term budgetary objective. Possible future deviations, including to accommodate public investment needs, would be assessed against the requirement to maintain the structural balance at the medium-term budgetary objective. Gross debt is forecast to remain on a firm downward path beyond the requirements of the debt rule. This creates scope to boost public investment. Based on its assessment of the Stability Programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that Germany is expected to comply with the provisions of the Stability and Growth Pact.

(6) Although the federal government has adopted several measures to increase infrastructure investment in the years to come, these funds still do not appear to bring about a sustainable upward trend in public investment and to meet infrastructure investment requirements. Net fixed capital formation has continued to remain markedly negative at the municipal level, indicating underinvestment. Overall education and research expenditure has increased only slightly in recent years and may have fallen short of the national target of 10 % of GDP in 2015. Continued investment in education, research and innovation is essential for securing Germany's competitive position in the future. As the budget is expected to remain balanced in headline and structural terms in 2016-2017, there continues to be sufficient fiscal space for higher public investment, without breaching the rules of the Stability and Growth Pact and the national debt brake. Reforming the pension system would contribute to ensuring the long-term sustainability of public finances. The current design of fiscal equalisation is complex and tends to reduce incentives to improve revenue in individual *Länder*. The ongoing review of federal fiscal relations provides an opportunity to strengthen the framework, including by ensuring sufficient public investment at all levels of government, especially for municipalities. The current compromise proposal agreed among the *Länder* would involve simplified horizontal fiscal equalisation. However, it remains vague in terms of further disentangling spending competencies and falls short of increasing revenue autonomy. At the same time, alternative instruments to traditional state funding of transport infrastructure, including through public-private partnerships, are used only to a limited extent. Moreover, complex planning responsibilities across the different

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

levels of government, bottlenecks linked to administrative capacity and complicated approval procedures are all barriers to investment. A more efficient use of public procurement could also have a positive impact on investment, since the volume of procurement tenders published EU-wide remains far below the EU average.

(7) The complexity of the corporate tax system remains a hindrance to private sector investment and the overall income tax burden on corporations, including the local trade tax (*Gewerbesteuer*) and the solidarity surcharge, remains high. Inefficiencies arise from the local trade tax due to the inclusion of non-profit elements in the tax base. The tax system favours debt financing over equity financing, the relevant indicator on the 'debt bias' being the eighth highest in the Union in 2015. The share of relatively growth-friendly consumption taxes and recurrent taxes on property in total taxation remained stable between 2007 and 2014 at around 28-29, which is low compared with an average of around 32-33 % in the Union. Moreover, the trend of increasing real estate transfer taxes has continued, instead of relying more on less distortive recurrent property taxes. Steps taken to modernise the tax administration were limited to the federal government's adoption of legislation to simplify tax administration procedures. An automatic exchange of tax data between the tax administrations of the 16 *Länder*, which could improve the efficiency of tax audits, still does not exist. Overall, structural shortcomings and delayed modernisation result in the relative underperformance of the tax administration and inefficiencies in tax collection.

(8) Financing conditions in Germany are generally favourable. However, the venture capital market remains underdeveloped in international comparison and tax-related framework conditions may limit its size. Improving access to venture capital is an important factor in stimulating entrepreneurial activity, including in high-tech sectors and knowledge-intensive services. The federal government has launched a range of measures to improve conditions for venture capital and further measures are under discussion. Additionally, a review of the regulatory framework for venture capital could contribute to stimulating private investment, including from foreign investors.

(9) Policy action to stimulate competition in the service sectors, especially in professional services, has been limited. Germany is among the Member States with high regulatory barriers in services. Restrictive product market regulations affect prices and productivity. Low labour productivity and high mark-ups indicate that Germany has considerable scope to improve the performance of professional services. Problems in business services stem from authorisation requirements, restrictions on multidisciplinary activities, insurance requirements and fixed tariffs. Legal form and shareholding requirements are also still imposed. The action plan submitted by Germany as a result of the mutual evaluation on access to and practice of regulated professions proposes only a limited number of actions, whereas there is clear scope for more ambitious proposals.

(10) Although the overall labour market performance is very strong, in particular with unemployment at historically low levels, ageing-related labour and skills shortages are looming, calling for full use of the existing labour force. As these trends challenge not only the labour market, but also the sustainability and adequacy of the pension system, stronger incentives for later retirement appear indispensable. The at-risk of poverty rate in old-age (16,3 % in 2014) is above the EU average (13,8 %) and the replacement rate of the statutory pension scheme is being gradually reduced, while rates of enrolment in second or third-pillar pension schemes are too low to alleviate this risk. The number of beneficiaries receiving a means-tested minimum income for retirees nearly doubled between 2003 and 2014. However, proposals to improve incentives for later retirement (*Flexi-Rente*) have not yet been formalised. It remains to be seen how effective they can be in counteracting the incentives for early retirement introduced in 2014.

(11) The labour market potential of certain groups, especially women and people with a migrant background, remains under-utilised and work disincentives, especially for second earners, remain in place. Specific characteristics of the tax system and health insurance discourage second earners from taking up a job or increasing the number of hours worked. This contributes to a low proportion of women working full-time and one of the lowest numbers of hours worked on average by women in the Union, despite a high female employment rate. Although there has been a slight transition from mini-jobs to standard employment as a by-product of introducing the minimum wage, the former still account for about seven million employees (of which 5 million have a mini-job as their only gainful employment). The exemption of mini-jobs from personal income tax — and in many cases from all employee social contributions — can discourage workers from moving into jobs with earnings above the mini-job threshold of EUR 450 per month. This disincentive is in many cases even stronger for spouses subject to joint income taxation. The positive impact on households' incomes and consumption from the slight increase in several allowances and the compensation of fiscal drag might be largely offset by higher social contributions from employees. The tax wedge at the level of the minimum wage is high in comparison with other Member

States, resulting in lower incomes at the bottom end of the wage scale. Reducing employees' social security contributions or the personal income tax, including by targeted allowances or refunds, would reduce this tax wedge, increasing in turn the disposable income of low wage earners and thereby increasing consumption possibilities.

(12) The high influx of refugees experienced in the past year has a number of social and economic consequences for Germany. While in the short run, the inflow of refugees is set to increase public expenditure and to create additional domestic demand, thereby raising GDP, the medium-term effect on employment and growth hinges on refugees' successful labour market and social integration, including via educational support. This issue is high on the political agenda both at the EU and Member State level and will be monitored and analysed closely, including in the 2017 country report.

(13) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Germany's economic policy and published it in the 2016 country report. It has also assessed the Stability Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Germany in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Germany but also their compliance with EU rules and guidance, given the need to strengthen the EU's overall economic governance by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) to (3) below.

(14) In the light of this assessment, the Council has examined the Stability Programme, and is of the opinion ([1]) that Germany is expected to comply with the Stability and Growth Pact.

(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 (1) to (3) below,

HEREBY RECOMMENDS that Germany take action in 2016 and 2017 to:

1. Achieve a sustained upward trend in public investment, especially in infrastructure, education, research and innovation, while respecting the medium term objective. Improve the design of federal fiscal relations with a view to increasing public investment, especially at municipal level.

2. Reduce inefficiencies in the tax system, in particular by reviewing corporate taxation and the local trade tax, modernise the tax administration and review the regulatory framework for venture capital. Step up measures to stimulate competition in the services sector, in particular in business services and regulated professions.

3. Increase incentives for later retirement and reduce disincentives to work for second earners. Reduce the high tax wedge for low wage earners and facilitate the transition from mini-jobs to standard employment.

Done at Brussels, 12 July 2016.

For the Council

The President

P. KAŽIMÍR

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

COUNCIL RECOMMENDATION

of 12 July 2016

on the 2016 National Reform Programme of the Czech Republic and delivering a Council opinion on the 2016 Convergence Programme of the Czech Republic

(2016/C 299/06)

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 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 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council [2], the Commission adopted the Alert Mechanism Report, in which it did not identify Czech Republic as one of the Member States for which an in-depth review would be carried out.

(2) The 2016 country report for the Czech Republic was published on 26 February 2016. It assessed the Czech Republic's progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015 and the Czech Republic's progress towards its national Europe 2020 targets.

(3) On 11 May 2016, the Czech Republic submitted its 2016 Convergence Programme and on 12 May it submitted its 2016 National Reform Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(4) Relevant country-specific recommendations have been addressed in the programming of the European Structural and Investment Funds for the 2014-2020 period. As foreseen in Article 23 of Regulation (EU) No 1303/2013 of

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

the European Parliament and of the Council [1], where it is necessary to support the implementation of relevant Council recommendations, the Commission may request a Member State to review and propose amendments to its Partnership Agreement and relevant programmes. The Commission has provided further details on how it would make use of this provision in guidelines on the application of the measures linking effectiveness of the European Structural and Investment Funds to sound economic governance.

(5) The Czech Republic is currently in the preventive arm of the Stability and Growth Pact. In its 2016 Convergence Programme, the Government plans a slight deterioration in the headline balance to -0,6 % of GDP in 2016 and a broad stabilisation at -0,5 % of GDP as of 2017. The medium-term budgetary objective — a structural deficit of 1 % of GDP — continues to be met over the programme horizon. According to the Convergence Programme, the government debt-to-GDP ratio is expected to remain at 41,1 % in 2016 and to fall to 39,3 % in 2019. The macroeconomic scenario underpinning these budgetary projections is plausible. The measures needed to support the planned deficit targets from 2017 onwards have not been sufficiently specified. Based on the Commission 2016 spring forecast, the structural balance is forecast to be at -0,7 % in 2016 and -0,9 % of GDP in 2017, above the medium-term budgetary objective. Possible future deviations would be assessed against the requirement to maintain the structural balance at the medium-term budgetary objective. Based on its assessment of the Convergence Programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that the Czech Republic is expected to comply with the provisions of the Stability and Growth Pact.

(6) In the long term, there are medium fiscal sustainability risks for the Czech Republic. These are derived primarily from the projected impact of age-related public spending, mainly in healthcare but also in pensions. Recently adopted or planned measures to amend the pension system would, if implemented, lead to a deterioration of public finances in the long term. First, in February 2016, the Government adopted legislation giving it the power to adjust the pension indexation mechanism more flexibly. Second, proposals are under discussion to cap the statutory retirement age at 65 and establish a regular review mechanism for the pensionable age. There are currently no plans to increase the low statutory retirement age. On healthcare, the projected increase in long-term spending is also a matter of concern. The Czech Republic faces challenges in improving the governance and cost-effectiveness of its healthcare system, although a number of measures are currently at various stages of implementation. Indicators point to a high consumption of goods and services and to a comparatively high reliance on hospital-based care, which is more expensive than outpatient services. Available medical data do not appear to be used effectively for the planning and rationalisation of inpatient care capacities. The reimbursement system for hospital care is being reviewed due to various drawbacks, such as the small sample of hospitals used to calculate the reference rates. Options for strengthening outpatient care coordination, improving the gate-keeping role of practitioners and limiting unnecessary consumption of outpatient services have still not been sufficiently explored.

(7) The Czech Republic's fiscal framework ranks among the weakest in the Union. A reform package addressing the main shortcomings in this area was approved by the Government in February 2015 but is still awaiting ratification by the parliament. The package aims to transpose Council Directive 2011/85/EU [2] into national legislation. The proposed reform envisages strengthening expenditure limits and directly linking them to the medium-term budgetary objective. Under the reform, the Government would be required to adopt a budget that safeguards the long-term sustainability of public finances and an independent fiscal council would be set up to monitor public finances and increase transparency.

(8) Investment in the Czech Republic remains below the EU average in per capita terms and is highly concentrated in the capital region. Administrative and regulatory barriers continue to weigh on the efficiency of the business environment and act as a barrier to investment. There are specific bottlenecks in the implementation of transport and energy infrastructure projects. Furthermore, absorption of EU funds during the 2007-2013 programming period was slow, mainly due to complex procedures, deficiencies in management and control systems, inefficiencies in public procurement procedures and the weak administrative capacity of the bodies involved in project implementation. On transport infrastructure, administrative barriers to investment include lengthy procedures for

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

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

issuing land-use permits and delays resulting from complaint procedures at the anti-monopoly office. On energy efficiency, public programmes to reduce energy intensity have been fragmented and cost-inefficient. There are indications that energy savings are not improving in line with the national energy efficiency action plan. On services, there is some evidence of regulatory restrictiveness. This is the case in particular for some of the individual professional service sectors, for which barriers to entry and practice appear higher than the EU average. The low use of quality online public services also impedes the business environment and reflects deficiencies of supply. E-government services do not take full advantage of technological possibilities to improve the user experience and their level of sophistication is among the lowest in the Union. Available evidence points to a relatively high incidence of tax evasion in the Czech Republic. Tackling this problem, particularly for VAT, is high on the policy agenda. On the other hand, no measures are planned to reduce the relatively high costs associated with paying taxes or to simplify the tax system. Pre-filing services offered by the tax authorities are limited. Taxpayers make limited use of systems to e-file tax returns, although some progress has been made on VAT. Additionally, the costs of tax collection are relatively high, according to the most recent international reports. High employer social contributions contribute to an overall high level of taxation on labour, and diversification into other areas, such as property taxes, is limited.

(9) A number of indicators point to significant weaknesses in public administration. Some progress has been made in adopting the legislative and non-legislative measures in the 2015 anti-corruption plan. The Contract Register Act was approved by the parliament in November 2015. Its timely implementation and further development would improve the transparency and cost-effectiveness of public tenders. However, some of the key anti-corruption acts, such as an amendment to the Act on conflict of interest and a new Act on the financing of political parties, are still outstanding. Several adopted measures are difficult to enforce and have limited impact, while a number of planned measures are repeatedly rolled over to the next action plan. Despite some efforts to address its shortcomings, there is scope for further progress in the performance of the Czech public procurement system with regard to competition and thus value for money. This is partly due to a lack of appropriate training of procurement practitioners and insufficient emphasis on quality criteria when awarding contracts. The public sector relies heavily on non-competitive procedures, with limited ability to attract bidders, while aggregated procurement is seldom used. Nevertheless, the implementation of the newly transposed public procurement directives on modernised public procurement procedures is expected to be an opportunity to introduce a strategic and evidence-based approach to public procurement policy, in terms of professionalisation, aggregation of public purchases, increased focus on quality criteria and the integrity of procurement practitioners.

(10) There has been a significant increase in R & D investment in recent years but outcomes remain weak and there are concerns about the sustainability of R & D infrastructure. The Czech research system is currently in the process of implementing long-delayed but substantial governance reforms, particularly on evaluation and funding. The existing funding mechanism is fragmented, with insufficient coordination between relevant bodies and an unclear division of responsibilities and priorities. A comprehensive evaluation framework for R & D, with links to funding, is being developed but progress is slow. There have been limited efforts to increase links between academia and the business community. These links are weakened by an evaluation framework for public research institutions that does not take into account the level of cooperation with enterprises.

(11) The higher education reform was adopted by the parliament in January 2016. The attractiveness of the teaching profession remains a challenge, with relatively low pay being seen as one of the causes, while at the same time the teacher population is ageing. A new career system for teachers and pedagogical staff is being developed to increase the attractiveness of the profession, but its implementation has been postponed. Educational outcomes are generally good, but they are strongly influenced by students' socioeconomic backgrounds. The low educational outcomes of disadvantaged groups, in particular the Roma community, are a clear concern. It is estimated that a very large proportion of Roma children leave school early. Numerous Roma children receive education outside mainstream schools and as a result face lower learning standards than children from the rest of the population. Training opportunities for teachers to help them deal with this issue are underdeveloped, with a low proportion of teachers taking part in professional development activities related to teaching mixed groups and inclusive education. A significant number of legislative and administrative measures towards inclusive education have been taken and are beginning to be implemented. These are expected to contribute to reducing the gap in educational attainment and achievement between Roma and non-Roma children. The parliament adopted amendments to the Education Act in March 2016, extending compulsory education to the last year of pre-school education and ensuring that younger children are entitled to a place in a kindergarten. Nevertheless,

inequalities in the education system represent a barrier to improving the quality of human capital and also hamper labour market outcomes later in life.

(12) The labour market situation in the Czech Republic has improved but further increases in the employment rate will depend on greater participation by under-represented groups. These include women with young children, low-skilled workers and members of the Roma community. The outreach capacities of public employment services, together with appropriate and well-targeted active labour market policies and individualised services, would contribute to increasing the participation of vulnerable groups. The labour market participation of women with young children is hampered by a persistent lack of affordable and quality childcare services, in particular for children up to three years old, and by the limited use of flexible working-time arrangements. Some measures have been taken in recent years to address this shortage but there is scope for more substantial efforts.

(13) In the context of the European Semester, the Commission has carried out a comprehensive analysis of the Czech Republic's economic policy and published it in the 2016 country report. It has also assessed the Convergence Programme and the National Reform Programme and the follow-up given to the recommendations addressed to the Czech Republic in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in the Czech Republic but also their compliance with EU rules and guidance, given the need to strengthen the EU's overall economic governance by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) to (3) below.

(14) In the light of this assessment, the Council has examined the Convergence Programme, and is of the opinion [1] that the Czech Republic is expected to comply with the Stability and Growth Pact,

HEREBY RECOMMENDS that the Czech Republic take action in 2016 and 2017 to:

1. Take measures to ensure the long-term sustainability of public finances, in light of future risks in the area of healthcare. Adopt legislation to strengthen the fiscal framework.

2. Reduce regulatory and administrative barriers to investment, in particular in transport and energy, and increase the availability of e-government services. Adopt the outstanding anti-corruption reforms and improve public procurement practices.

3. Strengthen governance in the R & D system and facilitate the links between academia and enterprises. Raise the attractiveness of the teaching profession and take measures to increase the inclusion of disadvantaged children, including Roma, in mainstream schools and pre-schools. Remove the obstacles to greater labour market participation by under-represented groups, in particular women.

Done at Brussels, 12 July 2016.

For the Council

The President

P. KAŽIMÍR

---

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

COUNCIL RECOMMENDATION

of 12 July 2016

on the 2016 National Reform Programme of Cyprus and delivering a Council opinion on the 2016 Stability Programme of Cyprus

(2016/C 299/07)

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) Cyprus was subject to a macroeconomic adjustment programme until 31 March 2016 in line with Article 1(2) of Council Implementing Decision 2013/463/EU ([3]). Under Article 12 of Regulation (EU) No 472/2013 of the European Parliament and of the Council ([4]), Cyprus was exempt from the monitoring and assessment of the European Semester for economic policy coordination for the duration of the programme. Having exited the programme, Cyprus is now fully re-integrated into the European Semester.

(2) On 26 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report, in which it indicated that the situation of Cyprus will be assessed in the context of the macroeconomic imbalances procedure after the conclusion of the macroeconomic adjustment programme. On the same day, the Commission also adopted a recommendation for

([1]) OJ L 209, 2.8.1997, p. 1.
([2]) OJ L 306, 23.11.2011, p. 25.
([3]) Council Implementing Decision 2013/463/EU of 13 September 2013 on approving the macroeconomic adjustment programme for Cyprus and repealing Decision 2013/236/EU (OJ L 250, 20.9.2013, p. 40).
([4]) 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).

a Council Recommendation on the economic policy of the euro area. This Recommendation was endorsed by the European Council on 18-19 February 2016 and adopted by the Council on 8 March 2016 [1]. As a country whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, Cyprus should ensure the full and timely implementation of the Recommendation.

(3) The 2016 country report for Cyprus was published on 7 April 2016. It assessed Cyprus' economic and social situation and challenges following its exit from the macroeconomic adjustment programme on 31 March 2016, and Cyprus' progress towards its national Europe 2020 targets. It also included the in-depth review under Article 5 of Regulation (EU) No 1176/2011. On 7 April 2016, the Commission presented the results of the in-depth review. The Commission's analysis leads it to conclude that Cyprus is experiencing excessive macroeconomic imbalances. In particular, it is essential that it tackles the large stock of imbalances in the form of private, public and external debt overhang, and the high level of non-performing loans.

(4) On 28 April 2016, Cyprus submitted its 2016 National Reform Programme, and on 13 May 2016, after the deadline, its 2016 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(5) Relevant country-specific recommendations have been addressed in the programming of the European Structural and Investment Funds for the 2014-2020 period. As foreseen in Article 23 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council [2], where it is necessary to support the implementation of relevant Council recommendations, the Commission may request a Member State to review and propose amendments to its Partnership Agreement and relevant programmes. The Commission has provided further details on how it would make use of this provision in guidelines on the application of the measures linking effectiveness of the European Structural and Investment Funds to sound economic governance.

(6) Following the abrogation of the excessive deficit procedure, Cyprus is in the preventive arm of the Stability and Growth Pact and subject to the transitional debt rule. The structural balance in 2015 is estimated to be in surplus reaching 1,7 % of GDP, exceeding the MTO by the same amount. Based on the Commission 2016 spring forecast, the medium-term budgetary objective is expected to continue to be met also in 2016. However, under unchanged policies, there is a risk of some deviation from the medium-term budgetary objective in 2017. Cyprus' structural balance is projected to deteriorate more than what is allowed under the transitional debt rule. Based on its assessment of the Stability Programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that there is a risk that Cyprus will not comply with the provisions of the Stability and Growth Pact. Therefore, further measures will be needed to ensure compliance in 2017.

(7) Cyprus has implemented important fiscal-structural reforms under its macroeconomic adjustment programme. Certain pieces of secondary legislation have still to be adopted as regards the procedures for budget preparation, requirements for within-year budgetary adjustments and the responsibilities of commitment control officers. The public sector is still characterised by inefficiencies. In particular, the public administration is marked by one of the highest wage bills (as a percentage of GDP) in the euro area, while efficiency indicators remain average and can be traced to the lack of mobility and performance incentives. State-provided utilities (telecommunications, energy) are marked by high prices and are still relatively shielded from competition. Under the macroeconomic adjustment programme, Cyprus has committed itself to adopting a binding mechanism for limiting wage increases for public employees as a means of guaranteeing the long-term sustainability of public finances. While the draft law has been prepared and submitted to the House of Representatives, it is still awaiting adoption. Under the macroeconomic adjustment programme, a horizontal reform of the public administration, a reform plan of local governments and a new law on the governance of state-owned entities have been put forward to improve the efficiency of the public sector, but have not yet been adopted.

[1] OJ C 96, 11.3.2016, p. 1.
[2] Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (OJ L 347, 20.12.2013, p. 320).

(8) Private sector debt in Cyprus remains excessive. While the reformed foreclosure and insolvency frameworks constitute an important step towards balancing the rights of borrowers and creditors, there is scope for improving their efficiency and extending their use. A number of deficiencies in the functioning of these frameworks hamper putting private debt on a sustainable downward path and a faster reduction of non-performing loans. This also weighs on the capacity to offer second opportunities to entrepreneurs. A number of deficiencies also remain in the functioning of private sector debt restructuring solutions. Furthermore, the adoption of all necessary civil procedure rules and regulations is important for the effective implementation of the insolvency legislation. To be fully operational, the Insolvency Service needs appropriate staffing, IT infrastructure and a sufficient number of properly trained and licensed insolvency practitioners. Furthermore, reliable and swift systems for the issuance and transfer of title deeds are crucial to avoid backlogs and to provide purchasers with safeguards, ensuring the proper determining of property rights and contributing to the return of confidence in the housing market.

(9) Cyprus also faces critical challenges as regards the functioning of the judicial system. Inefficient court procedures and limited capacity lead to significant delays in processing court cases, which hamper the functioning of the foreclosure and insolvency framework and weaken the business environment in general. In the absence of a reform of the civil procedure law, the processing and enforcement of court decisions and the reduction of backlogs remain slow.

(10) Significant progress has been made under the macroeconomic adjustment programme to restructure and restore confidence in the Cypriot financial system. However, Cyprus still faces the challenge of restoring normal lending to the economy and reducing non-performing loans, which stand at around 55 % of total loans to households and non-financial corporations. High corporate debt makes businesses less competitive and weighs on their capacity to invest and grow. While progress is being made, banks' efforts to restructure the debt of viable borrowers have not yet shown tangible results and the provisioning of their non-performing exposure remains relatively moderate. Weaknesses in contract enforcement and the repayment discipline weigh on the capacity to tackle strategic defaults and to stem the formation of non-performing loans. Banks also have limited access to information on borrowers' income and assets, despite the creation of the credit registry.

(11) Cyprus has come a long way in steering the economy out of recession, but investment remains low and the growth potential of the economy is subdued. Under the programme, Cyprus adopted an action plan for growth, which was aimed at improving competition, enhancing incentives to innovation and facilitating investment by creating a more transparent and efficient environment for conducting business and easing licensing and permit procedures. The implementation of the privatisation plan and the strengthening of national regulatory authorities aim at attracting productivity-enhancing foreign investment. Start-ups and SMEs currently have very limited options for access to finance, amid tight bank credit conditions and the lack of alternative sources of financing. Access to finance could be facilitated by an enhanced coordination of EU instruments such as the European Structural and Investment Funds, the European Fund for Strategic Investments and EU competitive programmes.

(12) The labour market started recovering in 2015, but unemployment, although falling, remains high. In particular, youth and long-term unemployment are a source of concern. Some measures have been taken in the areas of active labour market policies and public employment services. However, the latter still lack the capacity to meet demand, to deliver quality job-search assistance and counselling and to reach out to the non-registered unemployed. Plans to strengthen the administrative capacity of the public employment services, including the specialisation of, and an increase in, the number of counsellors directly serving customers' needs, have been delayed. The effectiveness of active labour market policies is limited by the lack of effective monitoring of the quality of current programmes.

(13) Participation of young people in vocational education and training remains low and is characterised by a lack of employer engagement in the education of students. However, measures are currently being implemented, in line with the strategy on vocational education and training.

(14) Cyprus lacks universal healthcare coverage and its healthcare system fails to provide adequate and effective access to care. With low public funding for healthcare, unmet needs — due to cost as well as out-of-pocket payments — are significantly higher than in other EU Member States. There is scope for improving efficiency in the use of resources. More autonomy for public hospitals and the creation of a national health system are among the measures that have been considered relevant, but not yet adopted, to improve the adequacy and cost-effectiveness of the Cypriot health system.

(15) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Cyprus's economic policy and published it in the 2016 country report. It has also assessed the Stability Programme and the National Reform Programme of Cyprus. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Cyprus but also their compliance with EU rules and guidance, given the need to strengthen the EU's overall economic governance by providing EU-level input into future national decisions. The 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 (1) to (5) below,

HEREBY RECOMMENDS that Cyprus take action in 2016 and 2017 to:

1. Following the correction of the excessive deficit, respect the medium-term budgetary objective in 2016 and in 2017. By the end of 2016, adopt a binding mechanism containing the growth rate of the compensation of public employees. By the end of 2016, adopt the horizontal reform of the public administration and the law on the governance of state-owned entities, and implement the reform of local governments. By the end of 2016, adopt the secondary legislation to complete the new budgetary framework.

2. By June 2017, eliminate impediments to the full implementation of the insolvency and foreclosure frameworks and ensure adequate resources for the Insolvency Service. Ensure reliable and swift systems for the issuance of title deeds and the transfer of immovable property rights. Increase the efficiency and capacity of the court system. Reform the civil procedure law.

3. By the end of 2016, take additional measures to ensure a decline in non-performing loans and accurate valuations of collateral for provisioning purposes. Increase the range of information available for creditors and enhance the information currently provided to make the credit registry fully effective.

4. Remove impediments to investment, in particular by implementing the action plan for growth, pursuing the privatisation plan and strengthening the national regulatory authorities. Take measures to increase access to finance for small and medium-sized enterprises.

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

5. Enhance the capacity of the public employment services and their provision to the long-term unemployed; improve outreach to the non-registered unemployed. Adopt legislation for a hospital reform and advance with the planned implementation of universal health care coverage.

Done at Brussels, 12 July 2016.

For the Council

The President

P. KAŽIMÍR

COUNCIL RECOMMENDATION

of 12 July 2016

on the 2016 National Reform Programme of Bulgaria and delivering a Council opinion on the 2016 Convergence Programme of Bulgaria

(2016/C 299/08)

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 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 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, 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.

(2) The 2016 country report for Bulgaria was published on 26 February 2016. It assessed Bulgaria's progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015 and Bulgaria's progress towards its national Europe 2020 targets. It also included the in-depth review under Article 5 of Regulation (EU) No 1176/2011. On 8 March 2016, the Commission adopted a Communication presenting the results of the in-depth review. The Commission's analysis leads it to conclude that Bulgaria is experiencing excessive macroeconomic imbalances. In particular, the economy is characterised by remaining fragilities in the financial sector and high corporate indebtedness in a context of high unemployment.

[1] OJ L 209, 2.8.1997, p. 1.
[2] OJ L 306, 23.11.2011, p. 25.

(3) On 15 April 2016, Bulgaria submitted its 2016 National Reform Programme and its 2016 Convergence Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

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

(5) Bulgaria is currently in the preventive arm of the Stability and Growth Pact. In its 2016 Convergence Programme, the Government plans a gradual improvement of the headline balance to – 1,9 % of GDP in 2016 and – 0,2 % of GDP in 2019. The medium-term budgetary objective — a structural deficit of 1 % of GDP — is planned to be achieved as of 2017. According to the Convergence Programme, the government debt-to-GDP ratio is expected to peak at 31,8 % in 2018 and to decline to 30,8 % in 2019. The macroeconomic scenario underpinning these budgetary projections is slightly favourable. The measures needed to support the planned deficit targets starting with 2017 onwards have not been sufficiently specified. Based on the Commission 2016 spring forecast, there is a risk of some deviation from the adjustment path towards the medium-term budgetary objective in 2016 as well as in 2017, under unchanged policies. Based on its assessment of the Convergence Programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that Bulgaria is expected to broadly comply with the provisions of the Stability and Growth Pact. Nevertheless, further measures will be needed to ensure compliance in both 2016 and 2017.

(6) Bulgaria made some progress in addressing last year's recommendation to make its healthcare spending more efficient, particularly by producing a national health map that will enable medical expenditure to be planned in accordance with territorial criteria and the needs of the population. The Bulgarian health system faces major challenges, including limited access, low funding and poor health outcomes. In spite of recent efforts to improve tax collection, the shadow economy remains a significant challenge affecting public revenues. Undeclared work, including under-reported remuneration and evasion of social security contributions, distorts the labour market and reduces fiscal revenue.

(7) Cases of imprudent business practices in the financial sector, particularly in the banking sector, coupled with inefficient supervision, have created an environment for imbalances to accumulate. The completion, in a transparent way and according to best international practices, of the recently launched reviews of the banking, insurance and pension fund sectors and taking the necessary follow-up actions will strengthen confidence in the financial sector. Moreover, continued efforts to improve financial supervision, in both the banking and non-banking sectors, will play an important role in strengthening the financial system and positioning it to support the nascent macroeconomic recovery.

(8) The labour market has experienced a modest recovery but remaining weaknesses continue to hinder growth and limit the adjustment capacity of the economy. Labour market adjustment is hampered by the structural nature of long-term unemployment, a shrinking and ageing labour force, low labour market participation and skills mismatches. While unemployment is gradually improving, there are still important challenges, for example as regards the long-term unemployed and young people not in employment, education or training. Active labour market policies could play a stronger role in helping these groups to access the labour market. The activation of people on social benefits is hindered by the fragmentation of, and limited cooperation between, different agencies delivering benefits and labour market integration services. Dedicated centres for employment and social

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

assistance, which combine the services of the Employment Agency and the Social Assistance Agency, have been developed in a pilot project but no decision has been taken yet to roll out the project on a larger scale after it ends in December 2016.

(9) Although Bulgaria's minimum wage is still the lowest in the Union, it has increased substantially since 2011 and the lack of objective criteria for minimum wage setting creates uncertainty. Despite work of the Government and social partners in this area, Bulgaria still has no clear guidelines or transparent criteria for minimum wage setting that take into account its impact on job creation, social conditions and competitiveness.

(10) Very high 'at-risk-of-poverty or social exclusion' and inequality levels remain in Bulgaria. Progress in addressing poverty and social exclusion is hindered by continuing challenges over integrating Roma into the labour force, facilitating school-to-work transitions, and improving the coverage and effectiveness of social, health and labour market policies. The general minimum income scheme provides very limited levels of support and outreach to the population. The allowance level is below the poverty line and has not been increased in line with average and minimum wage developments of recent years. Estimates on coverage indicate that a large part of the intended beneficiaries do not receive benefits. A better outreach to the target groups, while maintaining fiscal responsibility, would help to alleviate poverty.

(11) The education system has limited capacity to include vulnerable groups and equip learners with relevant skills. Vulnerable groups such as Roma and pupils from poor families continue to face significant obstacles in accessing and completing education. The level of enrolment among Roma at all levels of education is significantly lower than for non-Roma. The early school leaving rate continues to increase and is particularly high in rural areas and less developed regions. Removing barriers to the participation in early childhood education of disadvantaged children is essential to increase educational outcomes and prevent dropouts. A new Pre-school and School Education Act adopted by the Parliament in September 2015 is an important step towards a comprehensive reform of the school system. The implementation of this legislation, together with targeted measures to overcome non-legislative barriers to the full participation of disadvantaged groups in education, should contribute to improving the Bulgarian economy's growth potential and social cohesiveness in the long term. Enrolment and graduation rates in tertiary education are on the rise and the employment rate of recent graduates is recovering slowly, although it remains significantly below the EU average.

(12) Risks stemming from high corporate debt and barriers to deleveraging remain significant. The existing insolvency framework provides little scope for an effective debt workout process and does little to address the high level of corporate indebtedness. Reforms to facilitate corporate insolvency procedures could improve deleveraging and lead the way to new lending and investment.

(13) The public procurement system in Bulgaria continues to suffer from structural weaknesses, including systematic irregularities in procurement procedures, lack of administrative capacity and deficient control mechanisms, combined with systematic court appeals that often delay works on the ground. The transition to full e-procurement has made only limited progress. The shortcomings of the Bulgarian public procurement system have led to interruption of payments and financial corrections in EU funding programmes and also affect the wider business environment.

(14) Unstable policies and lack of trust in key public institutions, such as the judiciary, constitute significant deterrents to investment in the Bulgarian economy. The slow implementation of public administration reforms and reforms in specific sectors such as research, innovation and energy hamper progress in improving the investment climate. Although Bulgaria has adopted a strategic framework to reform and modernise its public administration, progress is slow and implementation often postponed. New legislation is not subject to systematic impact assessment, although there have been some efforts to change this. Frequent changes to the legal framework create uncertainty and affect the businesses environment. Corruption remains a significant concern and the national authorities' response to this problem continues to be hampered by weak and fragmented institutions. Under the Cooperation and Verification Mechanism, Bulgaria receives recommendations on judicial reform and the fight against corruption and organised crime. While these areas are of crucial importance for the overall business environment, they are therefore not covered in the country-specific recommendations for Bulgaria.

(15) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Bulgaria's economic policy and published it in the 2016 country report. It has also assessed the Convergence Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Bulgaria in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Bulgaria but also their compliance with EU rules and guidance, given the need to strengthen the EU's overall economic governance by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) to (4) below.

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

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

HEREBY RECOMMENDS that Bulgaria take action in 2016 and 2017 to:

1. Achieve an annual fiscal adjustment of 0,5 % of GDP towards the medium-term budgetary objective in 2016 and in 2017. Further improve tax collection and take measures to reduce the extent of the informal economy, including undeclared work.

2. By the end of 2016, finalise the asset quality review and stress test of the banks. By the end of 2016, complete the balance-sheet review and stress test of the insurance companies and the review of private pension funds' assets. Take, as necessary, follow-up actions in all three sectors and continue to improve banking and non-banking supervision.

3. Reinforce and integrate social assistance, including relevant social services, and active labour market policies, in particular for the long-term unemployed and young people not in employment, education or training. Increase the provision of quality education for disadvantaged groups, including Roma. Improve the efficiency of the health system by improving access and funding, and health outcomes. In consultation with social partners establish guidelines and criteria for setting the minimum wage. Increase the coverage and adequacy of the minimum income scheme.

4. Reform the insolvency framework to accelerate recovery and resolution procedures and improve their effectiveness and transparency. Increase the capacity of the courts regarding insolvency procedures. Strengthen the capacity of the Public Procurement Agency and contracting authorities and improve the design and control of public tendering procedures, in particular by fully implementing the National Strategy for the development of the Public Procurement Sector (2014-2020). Speed up the introduction of e-procurement.

Done at Brussels, 12 July 2016.

For the Council

The President

P. KAŽIMÍR

---

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

COUNCIL RECOMMENDATION

of 12 July 2016

on the 2016 National Reform Programme of Belgium and delivering a Council opinion on the 2016 Stability Programme of Belgium

(2016/C 299/09)

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ([1]), and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the 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 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council ([2]), the Commission 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. On the same day, the Commission also adopted a recommendation for a Council Recommendation on the economic policy of the euro area. This Recommendation was endorsed by the European Council on 18-19 February 2016 and adopted by the Council on 8 March 2016 ([3]). As a country whose currency is the euro and in view of the close interlinkages between the economies of the economic and monetary union, Belgium should ensure the full and timely implementation of the Recommendation.

(2) The 2016 country report for Belgium was published on 26 February 2016. It assessed Belgium's progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015 and included an in-depth review under Article 5 of Regulation (EU) No 1176/2011. On 8 March 2016, the Commission presented the results of the in-depth review. The Commission's analysis leads it to conclude that Belgium is experiencing no

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

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

([3]) OJ C 96, 11.3.2016, p. 1.

macroeconomic imbalances. Weakened external performance combined with high public indebtedness may pose risks in the future. However, recent developments point to an improvement in competitiveness. Corrective measures — comprising wage moderation and reductions in social security contributions — have led to a slowdown in labour cost growth. Public debt is not falling, but short-term risks appear contained.

(3) On 29 April 2016, Belgium submitted its 2016 National Reform Programme and its 2016 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

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

(5) The 2016 Stability Programme indicates that the budgetary impact of the exceptional inflow of refugees in 2015 and 2016 and of the exceptional security measures in 2016 is significant, and provides adequate evidence of the scope and nature of these additional budgetary costs. According to the Commission, the eligible additional expenditure for refugees amounted to 0,03 % of GDP in 2015, while the incremental impact in 2016 is estimated at 0,17 % of GDP for refugee-related expenditure and at 0,12 % of GDP for security measures. The provisions set out in Article 5(1) and Article 6(3) of Regulation (EC) No 1466/97 cater for this additional expenditure, in that the inflow of refugees as well as the severity of the terrorist threat are exceptional events, their impact on Belgium's public finances is significant and sustainability would not be compromised by allowing for a temporary deviation from the adjustment path towards the medium-term budgetary objective. Therefore, the required adjustment towards the medium-term budgetary objective for 2015 has been reduced to take into account additional refugee-related costs. Regarding 2016, a final assessment, including on the eligible amounts, will be made in spring 2017 on the basis of observed data as provided by the Belgian authorities.

(6) Belgium is currently in the preventive arm of the Stability and Growth Pact and subject to the transitional debt rule. On 18 May 2016, the Commission issued a report under Article 126(3) of the TFEU, as Belgium did not make sufficient progress towards compliance with the debt rule in 2015. The analysis concluded that the debt criterion should be considered as complied with. In its 2016 Stability Programme, the Government plans a gradual improvement of the headline balance from a deficit of 2,6 % of GDP in 2015 to — 0,2 % of GDP in 2019. The revised medium-term budgetary objective, set at a balanced budgetary position in structural terms, is expected to be reached by 2018. However, the recalculated structural balance ([2]) still points to a structural deficit of 0,4 % of GDP in 2018. According to the Stability Programme, the government debt-to-GDP ratio is expected to peak at 106,2 % of GDP in 2016 and to decline to 99,6 % by 2019. The macroeconomic scenario underpinning these budgetary projections is plausible. However, the measures needed to support the planned deficit targets from 2017 onwards have not been sufficiently specified. Based on the Commission 2016 spring forecast, there is a risk of a significant deviation from the recommended adjustment in 2016 as well as in 2016 and 2017 taken together, under unchanged policies. In case the budgetary impact of the exceptional inflow of refugees as well as of exceptional security measures was excluded from the assessment, the projected deviation in 2016 is no longer significant. Belgium is not forecast to comply with the transitional debt rule in 2016 and, following the end of the transition period, with the debt reduction benchmark in 2017. Based on its assessment of the Stability Programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that there is a risk that Belgium will not comply with the provisions of the Stability and Growth Pact. Therefore further measures will be needed to ensure compliance in 2016 and 2017.

(7) High public indebtedness is coupled with weak export and competitiveness performance. External performance has deteriorated since 2000, as global market share losses show, and has been aggravated by exports being

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

([2]) The structural balance as recalculated by the Commission based on the information in the Stability Programme, following the commonly agreed methodology.

oriented mainly towards less dynamic markets. While the negative trend in market shares has been halted in recent years, the accumulated losses remain substantial. Specialisation in market segments with a higher exposure to price competition also hampers the country's export capacity. This is particularly difficult to reconcile with the country's high labour costs. Unit labour costs have risen fast until recently as a result of low productivity growth and, in particular, fast wage growth. The latter can be attributed to certain features of the wage-setting system. On the one hand, margins for real wage growth were repeatedly set too high. On the other hand, inflation repeatedly exceeded expectations and inflation in neighbouring countries. The structural difference in core inflation rates between Belgium and neighbouring countries is caused mainly by higher price growth for services and a suboptimal functioning of the retail market. This inflation was transmitted to wage growth through the general practice of automatic wage indexation. Together, these factors eroded the effectiveness of the highly coordinated wage-setting system. To halt the decline in competitiveness and its negative impact on export performance and employment, the Belgian authorities have intervened in the wage-setting process in recent years. Wage moderation measures have been imposed, including limits on real wage increases and the suspension of wage indexation schemes. In addition, reductions in social security contributions are being enacted. However, to ensure the durability of the correction, structural reforms of the wage-setting framework are needed in line with the Council recommendations in past years. Although the Government intends to revise the Law of 1996 on the promotion of employment and the safeguarding of competitiveness, which provides the basis on which social partners set the 'wage norm' every two years, little progress has been made so far. Ensuring a more formal link between wages and productivity would help lock in recent gains and prevent a recurrence of past problems.

(8) Some progress has been made on the overall functioning of the labour market. Incentives to work have been strengthened by measures to reduce the tax wedge and changes in the unemployment benefit system. However, sizeable employment differentials between specific population groups continue to result in a chronic underutilisation of labour, especially among the low-skilled, young people, older people and people with migrant backgrounds. In addition, marginal tax rates upon entering or re-entering the labour market create inactivity and low wage traps for second income earners and specific household types such as single people and single parents. It is therefore important to fine-tune and implement policies aimed at encouraging moves from inactivity or unemployment to employment. Educational inequalities linked to socioeconomic background are amongst the highest in the Union and poor educational outcomes partly explain the observed underperformance on the labour market of people with a migrant background. The education reforms currently being introduced are particularly designed to tackle early school leaving, and improve the provision of early childhood care and early childhood education. The relevant authorities seek to improve the quality and relevance of the vocational system. These reforms could facilitate a smoother transition towards a knowledge-intensive and increasingly service-oriented economy and alleviate skills mismatches and persistent labour shortages in certain occupations. In addition, the very low activity and employment rates of older workers call for policies to promote active ageing and to support the labour market demand for older workers. Finally, additional tax measures to facilitate the take-up of work could be warranted.

(9) There is still considerable scope for improving the non-cost dimension of external competitiveness. To safeguard and enhance current welfare levels, more emphasis should be placed on productivity gains and investment in knowledge-based capital. This requires a sustained push towards products and associated services higher up the value chain, on the basis of stronger performance in innovation and utilising the results of R & D. Despite its high-quality public research system, Belgium has relatively few fast-growing firms in innovative sectors. Furthermore, the business climate is hampered by administrative and regulatory burdens, which inhibit the creation and expansion of companies. Shareholding requirements and restrictions on voting rights, legal form and multidisciplinary activities hold back the market dynamism for business services. Operational restrictions and restrictions on where retailers can establish their premises have the same effect in the retail sector. Moreover, there are shortcomings in the efficiency of the justice system, with low penetration of information and communications technology. Together, these factors constitute significant barriers to private investment. Substandard infrastructure and lengthy bottlenecks also undermine productivity growth and investment. The transport network represents the most pressing investment gap. Belgium's geographical location, coupled with the presence of international organisations, has enabled the country to attract many distribution centres, logistics bases and the international headquarters of various companies. However, there is a growing problem of peak-hour traffic congestion, which undermines the country's attractiveness for foreign investors and has major economic and environmental costs. Belgium is also expected to fall short of its 2020 greenhouse gas emission reduction target and suffers from serious air pollution problems. Given the high concentration of economic activity around the capital and the ports, the most urgent challenges are upgrading basic rail and road transport infrastructure and eliminating missing links between the main economic hubs. At the same time, it is important to tackle peak-hour

congestion by improving public transport services, optimising traffic management and eliminating market distortions and adverse tax incentives, such as favourable treatment for company cars.

(10) Another challenge relates to the adequacy of domestic power generation and the security of supply in general. Unplanned outages of several nuclear installations have raised concerns about the way to balance electricity demand and supply, while the repeatedly revised timetable for phasing out the nuclear park has created a climate that is not conducive to taking long-term investment decisions. This is reflected in higher imports and increasingly impaired security of supply. Although short-term supply risks have abated, longer-term investment needs are still considerable. In addition to substantial new domestic production capacity and a further increase in interconnections, smart grids are needed to develop demand-side management. Given the considerable lead time for large projects in the energy sector and the high need for replacement capacity over the next decade, swift action will be required, in particular in the form of a suitable legal framework that promotes the increase in generation capacity.

(11) Belgium has made some progress in reforming the tax system, in particular by shifting taxes from labour to other tax bases, which will gradually reduce the tax wedge on labour. Reductions in personal income taxation and employers' social security contributions will also help narrow the gap. Nevertheless, the tax system remains complex, with tax bases eroded by specific exemptions, deductions and reduced rates. Some of these involve revenue losses, economic distortions, and a heavy administrative burden. In addition, the tax shift does not seem to be neutral from a budgetary point of view. There is still considerable scope for improving the design of the tax system by further broadening tax bases, allowing for both lower statutory rates and fewer distortions. There is also considerable potential for a 'green' tax shift which stems from, among other things, the favourable tax treatment of company cars and fuel cards, which contribute to pollution, congestion and greenhouse gas emissions.

(12) In recent years, Belgium has made important progress in reforming its pension system. The law of 10 August 2015 on the rise in pensionable age, the conditions for early pensions and the minimum age for survivors' pensions establishes a new minimum age and career length criteria for ordinary pensions. However, even after the recent reforms, the projected increase in the pension expenditure ratio remains substantial. An automatic link to changes in life expectancy, as recommended in the past, would reduce medium- and long-term sustainability risks. In this respect, the Government has announced its intention to introduce a credit-based pension system, which could allow for automatic adjustment mechanisms in response to demographic developments. These issues will continue to be monitored closely under the European Semester.

(13) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Belgium's economic policy and published it in the 2016 country report. It has also assessed the Stability Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Belgium in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Belgium but also their compliance with EU rules and guidance, given the need to strengthen the EU's overall economic governance by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) to (3) 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,

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

HEREBY RECOMMENDS that Belgium take action in 2016 and 2017 to:

1. Achieve an annual fiscal adjustment of at least 0,6 % of GDP towards the medium-term budgetary objective in 2016 and in 2017. Use windfall gains to accelerate the reduction of the general government debt ratio. Agree on an enforceable distribution of fiscal targets among all government levels. Simplify the tax system and remove distortive tax expenditures.

2. Carry out the intended review of the Law of 1996 on the promotion of employment and the safeguarding of competitiveness in consultation with the social partners. Ensure that wages can evolve in line with productivity. Ensure the effectiveness of labour market activation policies. Move forward with education and vocational training reforms and provide training support for disadvantaged groups, in particular people from a migrant background.

3. Boost the capacity to innovate, in particular by fostering investment in knowledge-based capital. Increase competition in the business services sector and the retail sector by removing unwarranted operational and establishment restrictions. Address shortfalls in investment in transport infrastructure and energy generation capacity.

Done at Brussels, 12 July 2016.

For the Council

The President

P. KAŽIMÍR

COUNCIL RECOMMENDATION

of 12 July 2016

on the 2016 National Reform Programme of the Netherlands and delivering a Council opinion on the 2016 Stability Programme of the Netherlands

(2016/C 299/10)

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 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 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011, the Commission 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. On the same day, the Commission also adopted a recommendation for a Council Recommendation on the economic policy of the euro area. This Recommendation was endorsed by the European Council on 18-19 February 2016 and adopted by the Council on 8 March 2016 ([3]). As a country whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, the Netherlands should ensure the full and timely implementation of the Recommendation.

(2) The 2016 country report for the Netherlands was published on 26 February 2016. It assessed the Netherlands' progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015 and the Netherlands' progress towards its national Europe 2020 targets. It also included the in-depth review under Article 5 of Regulation (EU) No 1176/2011. On 8 March 2016, the Commission presented the results of the in-depth review. The Commission's analysis leads it to conclude that the Netherlands is experiencing macroeconomic

([1]) OJ L 209, 2.8.1997, p. 1.
([2]) OJ L 306, 23.11.2011, p. 25.
([3]) OJ C 96, 11.3.2016, p. 1.

imbalances. It is crucial to address the very large stock of household debt. The large and persistent current account surplus, which reflects structural features of the economy and policy setting as regards non-financial corporations, remains a challenge, also in view of spillovers to other euro-area Member States.

(3) On 28 April 2016, the Netherlands submitted its 2016 National Reform Programme and its 2016 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

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

(5) The Netherlands is currently in the preventive arm of the Stability and Growth Pact and subject to the transitional debt rule. In its 2016 Stability Programme, the Government plans a gradual improvement in its headline balance to 0,1 % of GDP in 2019. At the same time, the Government plans a deterioration of the recalculated structural balance [2] in 2016 to -1,4 % of GDP and an improvement thereafter. The medium-term budgetary objective — a structural deficit of 0,5 % of GDP — is planned to be reached in 2019. However, based on the recalculated structural balance, the medium-term budgetary objective would already be met as from 2018. According to the Stability Programme, the government debt-to-GDP ratio is expected to reach 65,4 % in 2016 and then to gradually decrease to 58,9 % in 2019. The macroeconomic scenario underpinning these budgetary projections is plausible. Based on the Commission 2016 spring forecast, the Netherlands is at risk of some deviation from the requirements of the preventive arm in 2016 and over 2016 and 2017 taken together under unchanged policies. The Netherlands is forecast to comply with the transitional debt rule in 2016 and, following the end of the transition period, with the debt reduction benchmark in 2017. Based on its assessment of the Stability Programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that the Netherlands is expected to broadly comply with the provisions of the Stability and Growth Pact. Nevertheless, further measures will be needed to ensure compliance in both 2016 and 2017.

(6) The recent growth in employment can be fully attributed to an increase in the number of people employed on temporary contracts and the number of self-employed. Although the Netherlands has taken measures to address the issue, a more comprehensive approach is needed. Low transition rates from temporary to permanent contracts still pose a risk of labour market segmentation. The high and increasing percentage of temporary contracts is observed in the context of great differences in employment protection provisions on temporary contracts, on the one hand, and permanent contracts, on the other. Self-employed people without employees are more often under-insured against disability, unemployment and old age, which could affect the sustainability of the social security system in the long run. Several measures were introduced that reduced the differences between permanent and temporary contracts. Favourable tax arrangements and the absence of obligations to pay certain social security contributions still provide financial incentives for self-employment.

(7) A key challenge in addressing high household indebtedness lies in the housing market, where rigidities and distortive incentives that have built up over decades shape housing 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 tax deductibility of mortgage interest. Since 2012, a series of measures has been implemented to address this partly, but these have not been stepped up in line with the 2015 Council Recommendation. The development of a well-functioning private rental market is constrained by subsidies in the other housing subsectors. The social housing sector is one of the largest in the Union but housing is not always allocated efficiently to those really in need. More income-based rent differentiation has been introduced in the social housing sector. Housing corporations will have to separate activities of general economic interest (i.e. social

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

[2] The structural balance as recalculated by the Commission based on the information in the Stability Programme, following the commonly agreed methodology.

housing) from other activities. Given that some distortive incentives relating rents to income in the social housing market have been addressed, it is appropriate to shift this part of the 2015 Council Recommendation to monitoring of the situation. At the same time, the housing market remains significantly distorted and continues to create a debt bias for households. Further progress is needed on these issues.

(8) In addition to housing market distortions, compulsory non-tax contributions to the second pillar of the pension system weigh on households' disposable income. The second-pillar pension system performs well in terms of quality and adequacy, but has drawbacks in terms of inter-generational fairness, transparency and resilience to economic shocks. In recent years, the sustainability of the pension system has been improved by raising the pensionable age to 67 by 2021 and linking it to life expectancy thereafter. On average, pension contributions have been lowered since the maximum tax exempted accrual rate was reduced. An appropriate intra- and inter-generational distribution of costs and risks beyond the rules adopted on indexation and financial buffers (the financial assessment framework) would help households to allocate their financial means in more growth-friendly ways. The Government announced its intention to reform the second pension pillar substantially with the involvement of social partners in order to create a more transparent and actuarially fairer system.

(9) Investment fell markedly during the economic crisis and has recovered only partially since. The weakness in economy-wide investment appears to have a strong cyclical character. It was driven by a downturn in the housing market and fiscal consolidation choices. While barriers to investment seem to be minor, low investment in the construction sector and in renewable energy appears to be linked to market uncertainty and regulatory factors. In spite of improving credit conditions, risks to new lending are heightened in the current financial environment. Government expenditure on R & D has been falling since 2014, while private R & D spending remains low. In 2015, the Council therefore recommended that the Netherlands shift public expenditure towards supporting investment in R & D and work on improving private R & D expenditure. Public and private expenditure on R & D is low in relation to the level of educational attainment, academic achievement and economic development.

(10) In the context of the European Semester, the Commission has carried out a comprehensive analysis of the Netherlands' economic policy and published it in the 2016 country report. It has also assessed the Stability Programme and the National Reform Programme and the follow-up given to the recommendations addressed to the Netherlands in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in the Netherlands but also their compliance with EU rules and guidance, given the need to strengthen the EU's overall economic governance by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) to (3) below.

(11) 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.

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

HEREBY RECOMMENDS that the Netherlands take action in 2016 and 2017 to:

1. Limit the deviation from the medium-term budgetary objective in 2016 and achieve an annual fiscal adjustment of 0,6 % of GDP in 2017. Prioritise public expenditure towards supporting more investment in research and development.

2. Tackle remaining barriers to hiring staff on permanent contracts and facilitate the transition from temporary to permanent contracts. Address the high increase in self-employed without employees, including by reducing tax distortions favouring self-employment, without compromising entrepreneurship, and by promoting access of the self-employed to affordable social protection.

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

3. Take measures to make the second pillar of the pension system more transparent, inter-generationally fairer and more resilient to shocks. Take measures to reduce the remaining distortions in the housing market and the debt bias for households, in particular by decreasing mortgage interest tax deductibility.

Done at Brussels, 12 July 2016.

For the Council

The President

P. KAŽIMÍR

COUNCIL RECOMMENDATION

of 12 July 2016

on the 2016 National Reform Programme of Estonia and delivering a Council opinion on the 2016 Stability Programme of Estonia

(2016/C 299/11)

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 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 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council [2], the Commission adopted the Alert Mechanism Report, in which it identified Estonia as one of the Member States for which an in-depth review would be carried out. On the same day, the Commission also adopted a recommendation for a Council Recommendation on the economic policy of the euro area. This Recommendation was endorsed by the European Council on 18-19 February 2016 and adopted by the Council on 8 March 2016 [3]. As a country whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, Estonia should ensure the full and timely implementation of the Recommendation.

(2) The 2016 country report for Estonia was published on 26 February 2016. It assessed Estonia's progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015 and Estonia's progress towards its national Europe 2020 targets. It also included the in-depth review under Article 5 of Regulation (EU) No 1176/2011. On 8 March 2016, the Commission presented the results of the in-depth review. The Commission's analysis leads it to conclude that Estonia is not experiencing macroeconomic imbalances.

---

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

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

[3] OJ C 96, 11.3.2016, p. 1.

(3) On 28 April 2016, Estonia submitted its 2016 Stability Programme and on 10 March 2016 it submitted its 2016 National Reform Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

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

(5) Estonia is currently in the preventive arm of the Stability and Growth Pact. In its 2016 Stability Programme, the Government plans a headline deficit at around 0,5 % of GDP over 2016-2018, turning to balance thereafter. In structural terms, Estonia continues to meet the medium-term budgetary objective — a structural balance — throughout the programme period. According to the Stability Programme, the government debt-to-GDP ratio is expected to stay at around 10 % of GDP in 2017 and to decrease to about 9½ % of GDP in 2020. The macroeconomic scenario underpinning these budgetary projections is plausible for 2016 but optimistic for 2017. Based on the Commission 2016 spring forecast, the structural balance is forecast to move from a surplus of 0,6 % of GDP in 2015 to a budget balance in 2016 and to a small deficit of 0,2 % of GDP in 2017, which can be considered as close to the medium-term budgetary objective. Further deviations would be assessed against the requirement to maintain the structural balance at the medium-term budgetary objective. Based on its assessment of the Stability Programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that Estonia is expected to comply with the provisions of the Stability and Growth Pact.

(6) Estonia has taken important steps to improve labour market participation, including by implementing the Work Ability reform. This reform, which entered into force in January 2016 and will be fully implemented from January 2017, will increase overall labour supply. It will be a challenge to help reintegrate those who have been out of the labour market for a long time. New active labour market measures are being put in place to help the beneficiaries of the Work Ability reform to enter and stay in the labour market and changes have also been made in the financial support scheme.

(7) Estonia has taken action to improve work incentives by reducing the tax burden on labour for all income groups, including low-income earners. This may have contributed to Estonia having a lower unemployment rate and a higher employment rate for low-skilled workers than the EU average. Among the measures already adopted, an additional tax refund is planned as of 2017 for low income earners. However, this leads to high effective marginal tax rates, which risks creating a low wage trap and encouraging the payment of envelope wages. The impact of these measures will only be known after they have been evaluated.

(8) Implementation of the Lifelong Learning Strategy 2020, together with the Vocational Education and Training programme for 2015-2018, helped increase participation in vocational education and training, and its labour market relevance. The proportion of vocational education and training students in apprenticeships is expected to increase but the drop out rates in vocational education and training remain a matter for concern.

(9) There are still some shortages in early childhood education and care places for 0-3 year-olds, but the situation is improving, with additional places created each year.

(10) Estonia has the highest gender pay gap in the Union, at 28,3 % in 2014. This creates a risk of not making full use of the potential of women. The gender pay gap is attributed, among other factors, to occupational and

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

sectoral gender segregation in the labour market, the lack of transparency of wages in the private sector and the longer career breaks for women due to care responsibilities. The Government has announced a series of measures to address the gender pay gap. The planned measures are still to be adopted and implemented, inter alia, improving data collection, giving labour inspectorates the task of monitoring how employers apply the principle of equal pay, promoting wage transparency, providing fathers with incentives to take up part of the parental leave and increasing access to childcare facilities. The Welfare Plan 2016-2023 includes gender equality objectives, with measures to tackle gender segregation in the labour market and fight stereotypes. Measures are planned to ease the care burden in families and to bring carers into the labour market, with expected positive effects on women's labour market participation.

(11) In Estonia, access to public services is not guaranteed in all municipalities and the local provision of quality services in areas such as transport, education, long-term care for the elderly and other social services at local level remains a challenge. In March 2016, the Government submitted the draft Administrative Reform Act to the parliament to pave the way for a local government reform. The reform foresees both voluntary and government-initiated mergers, with a view to offering accessible and quality services and to ensure more efficient and competent governance. The amended Social Welfare Act sets minimum requirements for nine social services but its implementation is at risk due to the weaknesses in service provision by municipalities. The proposed local government reform has not yet been adopted.

(12) Estonia has one of the highest ratios of investment to GDP for both the private and the public sectors. However, some challenges remain for the country to improve the investment environment further. Estonia took action to implement the 'Knowledge-based Estonia' research, development and innovation strategy and the Entrepreneurship Growth Strategy, which together comprise its framework for smart specialisation. Ensuring good synergies between these strategies can help to stimulate private research, development and innovation investment, especially since business research and technology investment decreased to 0,6 % of GDP in 2014 and Estonia is unlikely to reach its 3 %-of-GDP research, development and innovation target in 2020. The number of companies cooperating with research institutions is limited, resulting in a low level of patent applications. Meanwhile, in recent years, the overall structure of Estonia's export of manufactured goods seems to have shifted towards lower-value goods. Labour and skills shortages may constitute a barrier to greater investment in high technology sectors.

(13) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Estonia's economic policy and published it in the 2016 country report. It has also assessed the Stability Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Estonia in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Estonia but also their compliance with EU rules and guidance, given the need to strengthen the EU's overall economic governance by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) and (2) below.

(14) In the light of this assessment, the Council has examined the Stability Programme, and is of the opinion that Estonia is expected to comply with the Stability and Growth Pact.

HEREBY RECOMMENDS that Estonia take action in 2016 and 2017 to:

1. Ensure the provision and accessibility of high-quality public services, especially social services, at local level, inter alia, by adopting and implementing the proposed local government reform. Adopt and implement measures to narrow the gender pay gap, including those foreseen in the Welfare Plan.

2. Promote private investment in research, development and innovation, including by strengthening cooperation between academia and businesses.

Done at Brussels, 12 July 2016.

For the Council

The President

P. KAŽIMÍR

COUNCIL RECOMMENDATION

of 12 July 2016

on the 2016 National Reform Programme of Hungary and delivering a Council opinion on the 2016 Convergence Programme of Hungary

(2016/C 299/12)

THE COUNCIL OF THE EUROPEAN UNION,

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

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

Having regard to the recommendation of the European Commission,

Having regard to the 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 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council ([2]), the Commission 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.

(2) The 2016 country report for Hungary was published on 26 February 2016. It assessed Hungary's progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015 and Hungary's progress towards its national Europe 2020 targets. It also included the in-depth review under Article 5 of Regulation (EU) No 1176/2011. On 8 March 2016, the Commission presented the results of the in-depth review. The Commission's analysis leads it to conclude that Hungary is experiencing no macroeconomic imbalances. In particular, although high external debt rollover needs and the share of non-performing loans remain a concern, risks linked to external and internal liabilities have been reduced.

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

(3) On 29 April 2016, Hungary submitted its 2016 National Reform Programme and its 2016 Convergence Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

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

(5) The Convergence Programme indicates that the budgetary impact of the exceptional inflow of refugees is significant and an addendum of 6 May provides adequate evidence of the scope and nature of these additional budgetary costs. According to the Commission's assessment, the eligible additional expenditure amounted to 0,04 % of GDP in 2015 and currently no further incremental costs are expected in 2016. The provisions set out in Article 5(1) and Article 6(3) of Regulation (EC) No 1466/97 cater for this additional expenditure, in that the inflow of refugees is an exceptional event, its impact on Hungary`s public finances is significant and sustainability would not be compromised by allowing for a temporary deviation from the adjustment path towards the medium-term budgetary objective. Therefore, the required adjustment towards the medium-term budgetary objective for 2015 has been reduced to take into account these costs. Regarding 2016, a final assessment, including on the eligible amounts, will be made in spring 2017 on the basis of observed data as provided by Hungary's authorities.

(6) Hungary is currently in the preventive arm of the Stability and Growth Pact and subject to the debt rule. In its 2016 Convergence Programme, the Government plans the headline deficit to increase to 2,4 % of GDP by 2017 and then to decrease gradually to 1,2 % by 2020. The Government plans a gradual improvement of the structural balance in order to reach its revised medium-term budgetary objective — a deficit of 1,5 % of GDP in structural terms — by 2019. However, the recalculated ([2]) structural deficit would remain higher than the medium-term budgetary objective. According to the Convergence Programme, the government debt-to-GDP ratio is expected to decline gradually from 75,3 % in 2015 and to below 65 % in 2020. The macroeconomic scenario underpinning these budgetary projections is broadly plausible until 2017 and becomes increasingly favourable thereafter. The measures needed to support the planned deficit targets from 2017 onwards have not been sufficiently specified, in particular for after 2017. Based on the Commission 2016 spring forecast, there is a high risk of a significant deviation from the required adjustment in 2016 as well as, under unchanged policies, in 2016 and 2017 taken together. At the same time, Hungary is forecast to comply with the debt reduction benchmark in 2016 and in 2017. Based on its assessment of the Convergence Programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that there is a risk that Hungary will not comply with the provisions of the Stability and Growth Pact. Therefore further measures will be needed in both years to ensure compliance.

(7) Internal financial imbalances have been reduced and the banking system has become less vulnerable, but challenges remain. Considerable progress has been made in reducing private sector debt, previously mostly denominated in foreign currencies. Lending to households showed signs of recovery but a turnaround in corporate lending has yet to take place. The profitability of the banking sector has started to recover, helped by the improving economic environment and by a moderation in the previous policies towards taxes on banks. Nevertheless, banks remain cautious in their lending, even though they are well capitalised and highly liquid. The main remaining challenge for banks is to reduce the still high share of non-performing loans that hinder new lending and put pressure on profits. The contingent liability risks linked to the increased ownership of the state in the banking sector are still high.

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

([2]) The structural balance as recalculated by the Commission based on the information in the Convergence Programme, following the commonly agreed methodology.

(8) Despite considerable recent improvements in tax policies and the tax administration, Hungary's reliance on sector-specific taxes remains a potential barrier to investment. The selective design of these taxes causes distortions across sectors. While several other sector-specific taxes remain in place, the levy on credit institutions has been reduced significantly and the progressive rates in the food inspection fee have been repealed. The labour tax wedge for low-income earners is still high, especially for those without children. This can have a negative impact on their employability and can also hamper investment. Steps have been taken to reduce the tax wedge (including a one percentage point cut in the uniform tax rate of the personal income tax and an increase of the family tax allowance for earners with two children). However, measures are not sufficiently well targeted to have a significant effect for low-income earners. There is a potential for shifting tax away from labour to areas less distortive to growth. Several measures have been taken to improve compliance and reduce compliance costs, although tax compliance costs remain high. Despite improvements in recent years, Hungary still faces challenges regarding the efficiency of tax collection. The Government announced a major institutional reform, to be launched in 2016, targeting efficiency in the tax administration.

(9) Limited progress has been made as regards promoting competition and transparency in public procurement (for example, by adopting the new Public Procurement Act, the compliance of which with EU law has still to be assessed), while unpredictable regulatory changes and administrative burden hamper private business and investment. The high number of negotiated procedures without publication, and contract awards with a single bid, show that a low level of competition in procurement persists. In May 2016, the Government presented an e-procurement strategy. Its implementation and impact on improving efficiency and transparency needs to be monitored and the risk of corruption remains. Changes would be needed to make the new National Anti-Corruption Action Programme (NAP) 2015-2018 more effective in preventing corruption in public institutions and applying dissuasive sanctions. The Government has not renewed its earlier commitment to revise the 2013 whistle-blower law, which lacks provisions that adequately protect whistle-blowers from retaliation. The NAP's plans to revise the asset declaration system lack ambition, and new legislative amendments passed in 2015 introduced some further restrictions to public access to information. The Government has taken steps to reduce the administrative burden, but Hungary's restrictive regulations in service sectors and a volatile regulatory environment remain concerns for businesses and thus create uncertainty for investors. Establishment and operational restrictions on the retail sector constitute significant barriers to entry and expansion. Mark-ups in the Hungarian retail sector are the third highest in the Union and have been increasing continuously for the last decade while the allocative efficiency indicator is among the lowest in the Union.

(10) Recent labour market developments are favourable in Hungary, with unemployment having fallen to pre-crisis levels. Employment creation in the private sector is picking up, but the public works scheme has also contributed to reducing unemployment. The scheme is the main active labour market policy in Hungary. Its budgetary cost has more than quadrupled over the last five years. However, the scheme does not seem sufficiently to improve the reintegration of participants into the open labour market. In the first half of 2015, the rate of successful exit from the scheme to regular employment was 13,1 %, but around 60 % of the participants who left it in that period returned to the scheme within 180 days. This significantly risks locking participants into the scheme, particularly low-skilled workers and people in disadvantaged regions. Although the scheme targets the long-term unemployed, the low-skilled and unemployed people living in disadvantaged areas, 47 % of participants in 2015 had secondary or tertiary education. The proportion of unemployed people involved in public works is also significant in counties with well-performing labour markets. The recent reform of the public employment service is likely to make it less effective. The administrative complexity of the management arrangements — currently the responsibility over the public employment service is spread between four ministries — may significantly compromise effective steering and an increased result orientation. The maximum duration of unemployment benefits (three months) is the lowest in the Union and is significantly shorter than the average time necessary to find a job. Poverty indicators are improving, but they remain high, especially among the most disadvantaged, in particular Roma and children. The adequacy and coverage of social assistance remains a challenge and recent reforms could further restrict the conditions for access to a number of benefits.

(11) The average performance of Hungarian students in basic skills was below the EU average in the 2012 OECD Programme for International Student Assessment (PISA) and the proportion of low-achievers increased between 2009 and 2012. The influence of the socioeconomic background and school location on educational performance is among the strongest in the Union. The selectivity of the education system deepens performance gaps among students in different school types and these gaps widen over time. The lack of equal access to quality

mainstream education is particularly acute for Roma. With the exception of early childhood education, where there has been significant improvement in recent years, gaps remain wide between completion rates of Roma and non-Roma on all other educational levels, i.e. primary, secondary and tertiary education. Early school leaving remains high among Roma. Hungary has introduced a number of measures that aim to address low-achievement more effectively. However, important details on the implementation of these measures are not available, making it difficult to assess their potential impact. A systemic approach to promoting inclusive mainstream education has yet to be developed. The announced implementation plan for the early school leaving strategy has yet to be published. The transition between different forms and stages of education remains difficult and the implementation of recent reforms in vocational education should be targeted at facilitating transitions.

(12) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Hungary's economic policy and published it in the 2016 country report. It has also assessed the Convergence Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Hungary in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Hungary but also their compliance with EU rules and guidance, given the need to strengthen the overall economic governance of the European Union by providing EU-level input into future national decisions. The 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 Hungary take action in 2016 and 2017 to:

1. In view of the high risk of a significant deviation, achieve an annual fiscal adjustment of 0,3 % of GDP towards the medium-term budgetary objective in 2016 and of 0,6 % of GDP in 2017, unless the medium-term budgetary objective is respected with a lower effort, by taking the necessary structural measures.

2. Further reduce sector-specific taxes and reduce the tax wedge for low-income earners. Strengthen transparency and competition in public procurement through e-procurement, increased publication of tenders and further improvement of the anti-corruption framework. Improve the regulatory environment in the services sector and in the retail sector by addressing restrictive regulations and ensuring predictability.

3. Facilitate the transition from the public works scheme to the primary labour market and reinforce other active labour market policies. Improve the adequacy and coverage of social assistance and unemployment benefits. Take measures to improve educational outcomes and to increase the participation of disadvantaged groups, in particular Roma, in inclusive mainstream education.

Done at Brussels, 12 July 2016.

For the Council

The President

P. KAŽIMÍR

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

COUNCIL RECOMMENDATION

of 12 July 2016

on the 2016 National Reform Programme of Sweden and delivering a Council opinion on the 2016 Convergence Programme of Sweden

(2016/C 299/13)

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 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 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011, the Commission 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.

(2) The 2016 country report for Sweden was published on 26 February 2016. It assessed Sweden's progress in addressing the country-specific recommendation adopted by the Council on 14 July 2015 and Sweden's progress towards its national Europe 2020 targets. It also included the in-depth review under Article 5 of Regulation (EU) No 1176/2011. On 8 March 2016, the Commission presented the results of the in-depth review. The

[1] OJ L 209, 2.8.1997, p. 1.
[2] OJ L 306, 23.11.2011, p. 25.

Commission's analysis leads it to conclude that Sweden is experiencing macroeconomic imbalances. In particular, high and increasing household debt associated with high and growing house prices in a context of positive credit flows pose risks of disorderly correction with implications for the real economy and the banking sector. Policy measures have been taken in the macroprudential domain, which may however remain insufficient. Policy gaps remain in the area of housing-related taxation, the amortisation of mortgages, the functioning of housing supply and the rental market.

(3) On 28 April 2016, Sweden submitted its 2016 National Reform Programme and its 2016 Convergence Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

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

(5) Sweden is currently in the preventive arm of the Stability and Growth Pact. In its 2016 Convergence Programme, the Government plans to achieve a headline balance of -0,4 % of GDP and to continue to meet the medium-term budgetary objective — a structural deficit of 1 % of GDP — throughout the programme period. According to the Convergence Programme, the government debt-to-GDP ratio is expected to fall to 42,5 % in 2016 and to continue declining to 39,1 % in 2019. The macroeconomic scenario underpinning these budgetary projections is plausible until 2016 and cautious thereafter. Based on the Commission 2016 spring forecast, the structural balance is forecast to be at -0,5 % in 2016 and -0,9 % of GDP in 2017, above the medium-term budgetary objective. Possible future deviations would be assessed against the requirement to maintain the structural balance at the medium-term budgetary objective. Based on its assessment of the Convergence Programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that Sweden is expected to comply with the provisions of the Stability and Growth Pact.

(6) Household debt is at a very high level in Sweden and has been growing at one of the fastest rates in the Union over the past decade. Household debt to annual disposable income was 175 % in 2015 according to Riksbank (Sweden's central bank) estimates, and in relation to GDP it was 87 %. Sweden has one of the highest tax incentives for home ownership in the Union due to relatively low property taxes and high mortgage interest deductibility. The high level of household indebtedness constitutes a risk for macroeconomic stability. The Government has taken some steps to stem household indebtedness, including legislation aimed at imposing mandatory amortisation requirements on new mortgage loans, which the parliament adopted on 23 March 2016. Adoption of this key measure was significantly delayed due to questions being raised about Sweden's macroprudential authority's legal mandate to introduce this requirement. There is a risk that further measures that may be needed to address Sweden's rising imbalances may be similarly delayed unless the legal framework concerning the macroprudential authority's remit is revised. Finally, the Government has taken no action to adjust fiscal incentives by, for instance, reducing the tax deductibility of mortgage interest or revising property taxation.

(7) The Swedish housing market remains a potential source of instability. House prices have risen almost constantly over the last 20 years, in particular in the metropolitan areas of Stockholm and Gothenburg. House prices keep growing, not only caused by strong fundamentals, such as disposable income growth, but also due to structural inefficiencies in the housing market. Housing supply is hampered by ineffective use of the existing housing stock, a high degree of rent control, weak competition in the construction sector, insufficient availability of land for new construction and lengthy and complex planning procedures. The existing design of the transaction tax on capital gains from real estate sales limits the potential for more efficient use of the existing housing stock.

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

Structural inefficiencies result in insufficient investment in housing and widespread housing shortage, and contribute to the persistent increase in house prices. Lack of available and affordable housing also limits labour market mobility and is a constraint for the effective integration of migrants into the labour market. The Government has taken some measures, including increasing public funding for investments in the housing sector and simplifying some planning procedures. In December 2015, an inquiry into competition in the construction sector came up with a series of possible measures, such as enhancing transparency in the field of public housing contracts. However, the Government made no progress in reforming the rent-setting system.

(8) Despite relatively good investment performance, Sweden faces challenges that may have a negative impact on the long-term competitiveness of the country. In particular, structural inefficiencies in the housing market hamper investment in this area. Investment in infrastructure to improve connectivity within and between urban areas is insufficient in view of the constraints caused by the housing shortage.

(9) Sweden experienced the sharpest decline in the educational performance of 15-year-olds of any OECD country over the past decade in the PISA survey, and is now performing below both the EU and OECD averages. Deteriorating outcomes of school education risk putting pressure on Sweden's competitiveness and innovation capacity in the long run. An important performance gap between students with and without a migrant background adds to the education challenge. This gap deserves particular attention in light of the large number of newly arrived young migrants to be integrated into the education system. Unclear school funding mechanisms paired with unsystematic monitoring of the use of funding at different levels of the school system hinder the efficient use of resources. The Government has made additional funding available to improve school outcomes and equity, and it is taking steps to integrate the newly arrived migrants in education.

(10) The high influx of refugees experienced in the past year has a number of social and economic consequences for Sweden. While in the short run, the inflow of refugees is set to increase public expenditure and to create additional domestic demand, thereby raising GDP, the medium-term effect on employment and growth hinges on refugees' successful labour market and social integration, including via educational support. This issue is high on the political agenda both at the EU and Member State level and will be monitored and analysed closely, including in the 2017 country report.

(11) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Sweden's economic policy and published it in the 2016 country report. It has also assessed the Convergence Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Sweden in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Sweden but also their compliance with EU rules and guidance, given the need to strengthen the EU's overall economic governance by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendation (1) below.

(12) In the light of this assessment, the Council has examined the Convergence Programme, and is of the opinion [1] that Sweden is expected to comply with the Stability and Growth Pact.

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

HEREBY RECOMMENDS that Sweden take action in 2016 and 2017 to:

1. Address the rise in household debt by adjusting fiscal incentives, in particular by gradually limiting the tax deductibility of mortgage interest payments or by increasing recurrent property taxes. Ensure that the macro-prudential authority has the legal mandate to implement measures to safeguard financial stability in a timely manner. Foster

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

investment in housing and improve the efficiency of the housing market, including by introducing more flexibility in setting rental prices and by revising the design of the capital gains tax to facilitate more housing transactions.

Done at Brussels, 12 July 2016.

For the Council

The President

P. KAŽIMÍR

COUNCIL RECOMMENDATION

of 12 July 2016

on the 2016 National Reform Programme of Austria and delivering a Council opinion on the 2016 Stability Programme of Austria

(2016/C 299/14)

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 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council ([2]), the Commission adopted the Alert Mechanism Report, in which it identified Austria as one of the Member States for which an in-depth review would be carried out. On the same day, the Commission also adopted a recommendation for a Council Recommendation on the economic policy of the euro area. This Recommendation was endorsed by the European Council on 18-19 February 2016 and adopted by the Council on 8 March 2016 ([3]). As a country whose currency is the euro and in view of the close interlinkages between the economies of the economic and monetary union, Austria should ensure the full and timely implementation of the Recommendation.

(2) The 2016 country report for Austria was published on 26 February 2016. It assessed Austria's progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015 and Austria's progress towards its national Europe 2020 targets. It also included the in-depth review under Article 5 of Regulation (EU) No 1176/2011. On 8 March 2016, the Commission presented the results of the in-depth review. The Commission's analysis leads it to conclude that Austria is not experiencing macroeconomic imbalances.

([1]) OJ L 209, 2.8.1997, p. 1.
([2]) Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25).
([3]) OJ C 96, 11.3.2016, p. 1.

(3) On 26 April 2016, Austria submitted its 2016 National Reform Programme and on 27 April 2016 it submitted its 2016 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

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

(5) The Stability Programme indicates that the budgetary impact of the exceptional inflow of refugees is significant and provides adequate evidence of the scope and nature of these additional budgetary costs. According to the Commission, the eligible additional expenditure amounted to 0,09 % of GDP in 2015 and is currently estimated at 0,26 % of GDP in 2016. These amounts represent an upward revision with respect to the estimates provided by the 2016 draft budgetary plan, which expected additional expenditure at around 0,08 % of GDP and 0,16 % of GDP in 2015 and 2016 respectively. The provisions set out in Article 5(1) and Article 6(3) of Regulation (EC) No 1466/97 cater for this additional expenditure, in that the inflow of refugees is an exceptional event, its impact on Austria`s public finances is significant and sustainability would not be compromised by allowing for a deviation from the adjustment path towards the medium-term budgetary objective. In 2015, as Austria was at its medium-term budgetary objective, it did not make use of the possible temporary deviation. However, in order to ensure that Austria is allowed the same temporary deviation as countries not yet at their medium-term budgetary objective, Austria will be allowed to deviate from its medium-term budgetary objective in 2016 and 2017 by the amount considered eligible for 2015. Regarding possible additional deviation in 2016, a final assessment, including on the eligible amounts, will be made in spring 2017 on the basis of observed data as provided by the Austrian authorities.

(6) Austria is currently in the preventive arm of the Stability and Growth Pact and subject to the transitional debt rule. In its 2016 Stability Programme, the Government expects that the headline deficit will deteriorate to 1,6 % of GDP in 2016 and then gradually improve to 0,4 % of GDP in 2020. The medium-term budgetary objective — a structural deficit of 0,45 % of GDP until 2016 and revised to become a structural deficit of 0,5 % of GDP as from 2017 — is foreseen to be met from 2018 onwards. However, based on the recalculated structural balance, the medium-term budgetary objective would only be met as from 2019. According to the Stability Programme, the government debt-to-GDP ratio is expected to have peaked at 86,2 % in 2015 and to gradually decline to 76,6 % in 2020. The macroeconomic scenario underpinning these budgetary projections is plausible. At the same time, the measures needed to support the planned deficit targets from 2017 onwards have not been sufficiently specified. Based on the Commission 2016 spring forecast, there is a risk of some deviation in 2016. However, if the additional impact of the exceptional inflow of refugees currently projected for 2016 is also excluded from the assessment, Austria would be expected to comply with the provisions of the Stability and Growth Pact in 2016. Under unchanged policies, there is a risk of a significant deviation from the recommended adjustment in 2017. However, the projected deviation in 2017 would no longer be significant after considering the further allowance linked to the budgetary impact of the exceptional inflow of refugees possibly granted for 2016. Austria is forecast to comply with the transitional debt rule in 2016 and, following the end of the transition period, the debt reduction benchmark in 2017. Based on its assessment of the Stability Programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that there is a risk that Austria will not comply with the provisions of the Stability and Growth Pact. Therefore further measures will be needed to ensure compliance in 2016 and 2017.

(7) The budgetary effect of the recent tax reform still represents an element of uncertainty. When taking measures to ensure fiscal sustainability, account should be taken of the fact that, despite recent reforms, the tax burden on labour remains high and Austria has a high tax wedge in comparison with other European countries. Meanwhile, more growth-friendly taxation sources which allow the reduction of the tax burden on labour are under-utilised.

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

Taking steps to reduce the tax burden on labour by shifting the tax burden to other sources less detrimental to growth would help to address this problem.

(8) In 2015 the employment rate of people aged between 55 and 64 was 46,3 % (EU-average: 53,3 %) and ranked 19th in comparison with other Member States. Additional measures to increase the effective retirement age have been in force since 2014 and have had some effect. It remains to be seen whether these measures will reverse a trend whereby the effective retirement age in Austria lags behind the average in the Union in the medium term. In addition, the duration of retirement is increasing, due to higher life expectancy. The statutory retirement age for women will be increased and aligned only gradually with that of men, starting in 2024 and ending in 2033. In Austria, the statutory retirement age is not linked to increasing life expectancy. The Commission estimates that, in 2040, pension expenditure will increase by 0,8 % of GDP compared with 2013. In the long run (2060), pension expenditure is expected to increase by 0,5 % of GDP. Similarly, healthcare expenditure is expected to increase between 2013 and 2040 by 1 % of GDP, and by 1,3 % of GDP in 2060. This, together with the projected increase in expenditure on long-term care, qualifies as a medium risk for Austria's fiscal sustainability.

(9) The fiscal arrangements across the various layers of government (federal, state and local levels) are complex and revenue and expenditure responsibilities are not aligned in many policy areas, such as health care. While, according to 2014 OECD data, sub-national governments have policy responsibilities amounting to general government spending of 16 % of GDP, the share of sub-national taxes is only at around 2 % of GDP. These complexities are costly and may decrease budgetary discipline. The allocation of revenues between the three levels of government is currently being negotiated for the period starting in 2017, thus providing an opportunity to address this matter.

(10) Austria has traditionally one of the lowest unemployment rates in the Union. However, it has been increasing since 2011 and reached 5,7 % in 2015. The youth unemployment rate is also low: 10,6 % of active 15-24 year olds in 2015. Austria also has a high employment rate. However, while the female employment rate is, at 70,2 %, above the EU average, a comparatively large proportion of women works part-time, because of childcare obligations or care for the elderly. This contributes to one of the highest gender pay gaps in the Union and a high gender pension gap. For older workers (aged 55 to 64), the employment rate is below the EU average.

(11) Austria has already exceeded its national Europe 2020 targets for education. In 2015, the early school leaving rate was 7,3 % and the tertiary attainment rate was 38,7 %. However, education outcomes depend heavily on socioeconomic background. Inter-generational mobility in education is among the lowest of all OECD countries for which data is available. The drop-out rate of pupils with a migrant background is more than three times higher than that of those without a migrant background and there is an additional challenge to integrate young refugees and migrants of compulsory school age and above into the education and training system.

(12) While there are challenges for Austrian banks on both domestic and foreign markets, supervisory action at national and European level has helped to address risks from deteriorating asset quality in central, eastern, and south-eastern Europe. Regarding the restructuring and winding-down of distressed financial institutions, the fiscal risks have already been factored into government accounts. While further risks cannot be excluded, they seem to be limited to legacy issues for a few specific institutions.

(13) Austria has a higher investment rate than the EU average for all components of GDP, except dwellings. However, investment in Austria has been weak since 2012, despite solid corporate liquidity and favourable financing conditions. In order to stimulate investment and growth, administrative complexities and hurdles should be removed. For example, regulatory barriers and administrative burden in the area of provision of services are not conducive to opening new businesses. Regarding barriers to the setting-up of interdisciplinary companies, as referred to in the 2015 country-specific recommendations, Austria has started to consider improvements, but no decisions have yet been taken. In business services, particular challenges stem from the restrictive authorisation requirements and, as regards certain professions, from restrictions on legal form and shareholding resulting in low market dynamics and negative productivity growth. The action plan submitted by Austria as a result of the mutual evaluation on access to and practice of regulated professions proposes only a limited number of actions, whereas there is clear scope for more ambitious proposals.

(14) The high influx of refugees experienced in the past year has a number of social and economic consequences for Austria. While in the short run, the inflow of refugees is set to increase public expenditure and to create additional domestic demand, thereby raising GDP, the medium-term effect on employment and growth hinges on refugees' successful labour market and social integration, including via educational support. This issue is high on the political agenda both at the Union and Member State level and will be monitored and analysed closely, including in the 2017 country report.

(15) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Austria's economic policy and published it in the 2016 country report. It has also assessed the Stability Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Austria in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Austria but also their compliance with EU rules and guidance, given the need to strengthen the EU's overall economic governance by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) to (3) below.

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

HEREBY RECOMMENDS that Austria take action in 2016 and 2017 to:

1. Ensure that the deviation from the medium-term budgetary objective in 2016 and in 2017 is limited to the allowance linked to the budgetary impact of the exceptional inflow of refugees in 2015, and to that effect achieve an annual fiscal adjustment of 0,3 % of GDP in 2017 unless the medium-term budgetary objective is respected with a lower effort. Ensure the sustainability of the healthcare system, and of the pension system by linking the statutory pension age to life expectancy. Simplify, rationalise and streamline fiscal relations and responsibilities across the various layers of government.

2. Improve the labour market participation of women. Take steps to improve the educational achievements of disadvantaged young people, in particular those from a migrant background.

3. Reduce, in the area of services, administrative and regulatory barriers for investments, such as restrictive authorisation requirements and restrictions on legal form and shareholding, and impediments to setting up interdisciplinary companies.

Done at Brussels, 12 July 2016.

For the Council

The President

P. KAŽIMÍR

---

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

COUNCIL RECOMMENDATION

of 12 July 2016

on the 2016 National Reform Programme of Slovakia and delivering a Council opinion on the 2016 Stability Programme of Slovakia

(2016/C 299/15)

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies [1], and in particular Article 5(2) thereof,

Having regard to 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 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council [2], the Commission adopted the Alert Mechanism Report, in which it did not identify Slovakia as one of the Member States for which an in-depth review would be carried out. On the same day, the Commission also adopted a recommendation for a Council Recommendation on the economic policy of the euro area. This Recommendation was endorsed by the European Council on 18-19 February 2016 and adopted by the Council on 8 March 2016 [3]. As a country whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, Slovakia should ensure the full and timely implementation of the Recommendation.

(2) The 2016 country report for Slovakia was published on 26 February 2016. It assessed Slovakia's progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015 and Slovakia's progress towards its national Europe 2020 targets.

(1) OJ L 209, 2.8.1997, p. 1.
(2) Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25).
(3) OJ C 96, 11.3.2016, p. 1.

(3) On 29 April 2016, Slovakia submitted its 2016 National Reform Programme and its 2016 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

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

(5) Slovakia is currently in the preventive arm of the Stability and Growth Pact. In its 2016 Stability Programme, the Government plans to improve the headline balance to — 1,9 % of GDP in 2016 and further gradually to — 1,3 % of GDP in 2017. According to the Stability Programme, the medium-term budgetary objective — a structural deficit of 0,5 % of GDP — would be reached in 2019. According to the Stability Programme, the government debt-to-GDP ratio is expected to reach 52,9 % in 2016 and to continue decreasing to 47,3 % in 2019. The macroeconomic scenario underpinning these budgetary projections is plausible. However, the measures needed to support the planned deficit targets from 2017 onwards have not been sufficiently specified. Based on the Commission 2016 spring forecast, Slovakia is at risk of some deviation from the medium-term budgetary objective in 2016, while it is expected to comply with the recommended adjustment in 2017 under unchanged policies. Based on its assessment of the Stability Programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that Slovakia is expected to broadly comply with the provisions of the Stability and Growth Pact. Nevertheless, further measures will be needed to ensure compliance in 2016. To this end, the long-delayed adoption of binding expenditure ceilings and the implementation of the 'value for money' programme to increase efficiency of public expenditure, with planned expenditure reviews in selected areas, would be of critical importance.

(6) The long-term sustainability of public finance in Slovakia remains a challenge. This is mainly due to the projected growth of ageing-related costs on healthcare and pensions. The increase in Slovakia's pension spending up to 2060 is expected to be one of the highest in the Union, driven by population ageing. The statutory retirement age in Slovakia is comparatively low, partly due to life expectancy factors. Healthcare expenditure is the main driver of ageing-related costs. Public healthcare expenditure is projected to grow substantially in the long term, albeit from a comparatively low level. Despite some improvement, health indicators remain very low in Slovakia. To raise the cost-effectiveness of the healthcare sector, the Government has been taking measures in both inpatient and outpatient care. Efforts to introduce an integrated model of care continue. The success of this reform is likely to depend on ownership by the key stakeholders, the integration of healthcare centres and hospitals, and appropriate staffing. Despite measures adopted to limit a further build-up of debt in public hospitals, several are still in a poor financial situation. Challenges remain in fully reversing the negative expenditure trends, such as restructuring hospital capacity, introducing a prospective reimbursement system and increasing competition in public procurement in the area of healthcare. Regarding outpatient care, the weak gatekeeping role of general practitioners is partly due to a suboptimal division of competences between general practitioners and specialists and favours recourse to more costly specialised care. With regard to taxation, government measures to fight tax fraud have contributed to better tax collection, in particular in the area of value added tax (VAT). However, the VAT gap remains high, indicating an ongoing compliance challenge. A strong emphasis on VAT collection in recent years has lessened attention to other important areas of taxation such as income taxation. In addition, a focus on auditing has left other roles of tax administration such as tax

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

debt collection underdeveloped. This suggests that there is scope to improve resource allocation within the taxation system. A strategy to define compliance goals has not yet been developed.

(7) Despite improvements in the labour market resulting from the good economic recovery and recent policy measures, long-term unemployment remains a problem. The rate of long-term unemployment continues to be one of the highest in the Union (7,6 % vs. 4,3 % in the Union as a whole in the third quarter of 2015). It particularly affects marginalised Roma, the low-skilled and young people. Measures to address unemployment have been taken in the area of vocational education and training, subsidised jobs and job counselling. However, the successful implementation of most of these reforms will depend on the capacity of the public employment service. Despite reorganisation of the Central Labour Office and improved access to training, there are still difficulties in introducing individualised support to the long-term unemployed and to vulnerable groups. Roma participation in the Slovak labour market remains very low and progress in increasing their employment rate is slow. Low levels of education and skills and discrimination are factors influencing their poor labour market participation. The low employment rate of women of childbearing age reflects the long parental leave (up to three years), lack of childcare facilities, especially for children under the age of three, high childcare costs and the limited use of flexible working-time arrangements. In addition, regional disparities persist — the unemployment rate in Eastern Slovakia is still twice that in Bratislava. Regarding governance of labour market services, measures taken in recent months do not provide for a tailored approach in addressing the structural challenges of the Slovak labour market.

(8) The education system is insufficiently geared to increasing Slovakia's economic potential. Educational outcomes are low by international standards and have deteriorated further. This is largely linked to the inadequacy of teachers' education and the low attractiveness of the teaching profession. Despite the 4 % salary increase for teachers in 2016, low pay and insufficient practical training are among the factors making the profession unattractive to young people. Recently adopted anti-segregation legislation has yet to be implemented to bring about positive change and increase Roma participation in mainstream education, including pre-school education.

(9) Public administration is still burdened by inefficiency. Effective coordination is wanting, due to the fragmented and rigid organisation of the public administration. The adoption of the Strategy on Human Resource Management in October 2015 is a positive step forward. However, the new Act on Civil Service, which is a necessary prerequisite for its successful implementation, has not been adopted yet. The Government has taken several measures to tackle corruption, but their impact so far has been limited. In particular, Slovakia has a limited track record on initiating criminal proceedings and prosecuting corruption cases, including illicit practices in public procurement. Building permit procedures for large-scale investment and infrastructure projects have been shortened. Unconsolidated governance, lack of evidence-based design of public procurement procedures, weak professionalism, conflicts of interest, tailor-made tender specifications and excessive use of lowest price award criteria result in limited quality-based competition. Public procurement weaknesses are persistently reported as affecting the efficiency of public resources allocation. Frequent changes to legislation and burdensome administrative procedures and requirements affect businesses in Slovakia. High administrative and regulatory barriers with respect to some professional services and network industries, weaknesses in some areas such as contract enforcement and insolvency resolution and long-standing concerns regarding the quality of the judicial system harm the business environment and discourage investment. Some measures to ease doing business have been taken, such as the Centre for Better Regulation, which was set up in October 2015, and the launch of the National Business Centre in early 2016. However, the adoption of the Small Business Act (SBA) under the SMEs Development Strategy has been postponed.

(10) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Slovakia's economic policy and published it in the 2016 country report. It has also assessed the Stability Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Slovakia in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Slovakia but also their compliance with EU rules and guidance, given the need to strengthen the EU's overall

economic governance by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) to (3) below.

(11) 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.

HEREBY RECOMMENDS that Slovakia take action in 2016 and 2017 to:

1. Achieve an annual fiscal adjustment of 0,25 % of GDP towards the medium-term budgetary objective in 2016 and of 0,5 % of GDP in 2017. Improve the cost-effectiveness of the healthcare system. Take measures to increase tax compliance.

2. Improve activation measures for the long-term unemployed and other disadvantaged groups, including individualised services and targeted training. Facilitate the employment of women, in particular by extending the provision of affordable, quality childcare. Improve educational outcomes by making the teaching profession more attractive and by increasing the participation of Roma children from early childhood in mainstream education.

3. Consolidate governance, reinforce the shift from price only to quality-based competition and improve the prosecution of illicit practices in public procurement. Improve the transparency, quality and effectiveness of human resources management in public administration, in particular by adopting a new civil service act, and the effectiveness of the justice system. Adopt a comprehensive plan to address administrative and regulatory barriers for businesses.

Done at Brussels, 12 July 2016.

For the Council

The President

P. KAŽIMÍR

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

COUNCIL RECOMMENDATION

of 12 July 2016

on the 2016 National Reform Programme of Ireland and delivering a Council opinion on the 2016 Stability Programme of Ireland

(2016/C 299/16)

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 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report, in which it identified Ireland as one of the Member States for which an in-depth review would be carried out. On the same day, the Commission adopted a recommendation for a Council Recommendation on the economic policy of the euro area. This Recommendation was endorsed by the European Council on 18-19 February 2016 and adopted by the Council on 8 March 2016 ([3]). As a country whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, Ireland should ensure the full and timely implementation of the Recommendation.

(2) The 2016 country report for Ireland was published on 26 February 2016. It assessed Ireland's progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015 and Ireland's progress towards its national Europe 2020 targets. It also included the in-depth review under Article 5 of Regulation (EU) No 1176/2011. On 8 March 2016, the Commission presented the results of the in-depth review. The Commission's analysis leads it to conclude that Ireland is experiencing macroeconomic imbalances. In particular, it is essential to tackle the large stocks of net external liabilities and of public and private debt which constitute vulnerabilities, despite improvements.

([1]) OJ L 209, 2.8.1997, p. 1.
([2]) OJ L 306, 23.11.2011, p. 25.
([3]) OJ C 96, 11.3.2016, p. 1.

(3) On 29 April 2016, Ireland submitted its 2016 National Reform Programme and its 2016 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

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

(5) Following the abrogation of the excessive deficit procedure, Ireland is in the preventive arm of the Stability and Growth Pact and subject to the transitional debt rule. In its 2016 Stability Programme, which is based on a no-policy-change assumption, the Government plans gradual improvements of the headline balance until reaching a surplus of 0,4 % of GDP in 2018. The revised medium-term budgetary objective — a structural deficit of 0,5 % of GDP — is expected to be reached in 2018. However, the annual change in the recalculated [2] structural balance of 0,1 % of GDP in 2016 does not ensure sufficient progress towards the medium-term budgetary objective. According to the Stability Programme, the government debt-to-GDP ratio is expected to fall to 88,2 % in 2016 and to continue declining to 85,5 % in 2017. The macroeconomic scenario underpinning these budgetary projections is plausible. However, the measures needed to support the planned deficit targets from 2017 onwards have not been sufficiently specified. Based on the Commission 2016 spring forecast, there is a risk of some deviation from the recommended fiscal adjustment in 2016, while Ireland is projected to be compliant in 2017 under unchanged policies. Ireland is forecast to comply with the transitional debt rule in 2016 and 2017. Based on its assessment of the Stability Programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that Ireland is expected to broadly comply with the provisions of the Stability and Growth Pact. Nevertheless, further measures will be needed to ensure compliance in 2016.

(6) Efforts to broaden the tax base have been limited and recent tax measures have focused on cuts and reliefs. Further progress should be made towards making the tax system more efficient and growth-friendly. The Irish authorities conduct a rolling programme of tax expenditure reviews, the results of which are published in an annual report. However, the review process does not cover VAT-related tax expenditures and there is still scope to broaden the tax base through increases in the least distortionary taxes.

(7) Cost-effectiveness, equal access and sustainability remain critical challenges to the healthcare system. Specific strands of reforms are progressing, but spending on pharmaceuticals, in particular owing to the high cost of single-supplier medicines, continues to weigh on cost effectiveness. Financial management and information systems remain weak and unequal access to primary care is still an issue. Approximately 40 % of the population has free access to general practitioners, while the rest bear the full cost. Significant uncertainty surrounds the broad reform of the healthcare system as the universal health insurance model is in a quandary.

(8) Infrastructure needs should be addressed in order to promote durable and balanced growth in the future. Following a peak of 5,2 % of GDP in 2008, public investment fell to a low of 1,8 % of GDP in 2013 before slightly recovering in 2014, when it was still well below the EU average. In addition, the crisis appears to have led to a structural shift in the composition of general government expenditure away from investment towards current spending. In 2010-2013, capital expenditure averaged only 4,8 % of the total, less than half the long-term average during 1995-2008. Seven years of sharply reduced government investment have had a negative impact on the quality and adequacy of infrastructure and the government support for intangible investments.

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

[2] The structural balance as recalculated by the Commission based on the information in the Convergence Programme, following the commonly agreed methodology.

There are key weaknesses in housing, water, public transport and climate change mitigation capacity. Demand for new housing currently exceeds supply by a wide margin in the country's main urban areas. As a result, residential property prices and rents in urban areas increased sharply in 2014, before growth slowed in 2015. There is currently no evidence of over-valuation, but constraints limiting the construction sector and the supply of housing, including some linked to public infrastructure, could generate risks of imbalances if they are not resolved. The shift in government expenditure has also affected public sector support to R & D and innovation, which was below 2007 levels in 2014. Currently, in terms of public R & D as a percentage of GDP, Ireland ranks 22nd in the Union. This has a negative impact on the competitiveness of SMEs.

(9) Unemployment has fallen below the EU average and in March 2016 stood at 8,6 %. However, long-term unemployment and the low work intensity of households remain sources of concern. In particular, although the rate of long-term unemployment has decreased over recent years, the proportion of unemployed who are long-term unemployed remains high at 56,3 % in the fourth quarter of 2015, above the EU average of 48,3 %. In 2014 (latest comparable data), the percentage of the population living in very low work intensity (VLWI) households was the highest in the EU at 21,1 % and was especially prevalent for single-parent households. The proportion of children (aged 0 to 17) at risk of poverty or social exclusion (AROPE) fell to 30,3 % in 2014 but remains higher than the EU average of 27,8 %. The corresponding AROPE figure for single-parent households (62,5 % in 2014) is much higher than the EU average (48,2 %).

(10) Ireland has begun rollout of the JobPath Programme to address the needs of the long-term unemployed and is developing an activation approach to encourage those with the potential and desire to play a more active role in the labour force. The challenge remains to expand job support services to those traditionally excluded from the labour market, including people with a disability and those with caring responsibilities. Overall, the welfare system has worked well to contain the effects of the crisis on poverty and inequality, but barriers to inclusive growth remain. Some progress has been achieved in tapering benefits, but concerns persist about inactivity traps for certain households. As a percentage of wages, net childcare costs in Ireland are among the highest in the Union, the second highest for couples and the highest for single parents. Concerns remain over the quality of childcare provisions. For example, in 2014 the percentage of graduates working in the early childhood education and care sector (15 %) remained well below the recommended level. Skills mismatches remain and skills shortages have emerged in certain areas, while upskilling and reskilling opportunities remain insufficient, and the decrease in education expenditure could have a negative impact on educational outcomes in the future.

(11) The high leverage of the private sector reflects ongoing loan impairment issues. At the end of June 2015, private sector non-consolidated debt stood at 266,3 % of GDP, well above the euro area average. Although the non-performing loans ratio has been declining due to the economic recovery and restructuring activities, at the end of 2015 it remained among the highest in the euro area, at over 16 % of all domestic banks' loans. In addition, 14,7 % of the mortgage stock was in arrears at the end of 2015, while accounts in arrears of over two years represented almost 10 % of the total mortgage loan balance. While progress is being made, most mortgage restructuring is temporary, highlighting a risk of redefault, especially in the event of macroeconomic deterioration or external shock. Commercial real estate loans held by domestic banks and SME and business loans also remain areas of concern, with non-performing loan ratios of 37,3 % and 13,8 % respectively. While progress is being made, it will take much more time and effort to restructure these accounts sustainably. Personal insolvency procedures, bankruptcy, examinership (court protection under Irish law for companies in difficulty) and other means of partial debt relief intended to restore households and business to viability remain under-utilised. The introduction of the central credit registry has been slow, despite being critical to support prudent lending.

(12) The Legal Services Regulation Act 2015 has been signed into law, but, at a late stage in the process, concessions were made to the legal professions that significantly reduced the initial ambition of the reform. Implementation of the new framework is only just starting and it is too early to be fully confident that it will boost competition and reduce costs. Legal services are an input to all sectors of the economy and their cost has a bearing on

Ireland's competitiveness. An actual reduction in costs can be achieved only if the competition-enhancing and cost-reducing provisions of the planned regulatory framework become law following public consultation processes or incorporated in regulations to be issued by the Legal Services Regulatory Authority.

(13) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Ireland's economic policy and published it in the 2016 country report. It has also assessed the Stability Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Ireland in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Ireland but also their compliance with EU rules and guidance, given the need to strengthen the EU's overall economic governance of the European Union by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) to (3) 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 (1) and (3) below.

HEREBY RECOMMENDS that Ireland take action in 2016 and 2017 to:

1. Following the correction of the excessive deficit, achieve an annual fiscal adjustment of 0,6 % of GDP towards the medium-term budgetary objective in 2016 and in 2017. Use windfall gains from strong economic and financial conditions, as well as from asset sales, to accelerate debt reduction. Reduce vulnerability to economic fluctuations and shocks, inter alia, by broadening the tax base. Enhance the quality of expenditure, particularly by increasing cost-effectiveness of healthcare and by prioritising government capital expenditure in R & D and in public infrastructure, in particular transport, water services and housing.

2. Expand and accelerate the implementation of activation policies to increase the work intensity of households and address the poverty risk of children. Pursue measures to incentivise employment by tapering the withdrawal of benefits and supplementary payments. Improve the provision of quality, affordable full-time childcare.

3. Finalise durable restructuring solutions to lower non-performing loans, to ensure debt sustainability of households and to encourage lenders to reduce the debt of excessively leveraged yet viable businesses. Accelerate the phasing-in of a fully operational central credit registry covering all categories of lenders and debtors.

Done at Brussels, 12 July 2016.

For the Council

The President

P. KAŽIMÍR

---

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

COUNCIL RECOMMENDATION

of 12 July 2016

on the 2016 National Reform Programme of Lithuania and delivering a Council opinion on the 2016 Stability Programme of Lithuania

(2016/C 299/17)

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 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 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council ([2]), the Commission adopted the Alert Mechanism Report, in which it did not identify Lithuania as one of the Member States for which an in-depth review would be carried out. On the same day, the Commission also adopted a recommendation for a Council Recommendation on the economic policy of the euro area. That Recommendation was endorsed by the European Council on 18-19 February 2016 and adopted by the Council on 8 March 2016 ([3]). As a country whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, Lithuania should ensure the full and timely implementation of the Recommendation.

(2) The country report for Lithuania was published on 26 February 2016. The report assessed Lithuania's progress in addressing the country-specific recommendations adopted on 14 July 2015 and Lithuania's progress towards its national Europe 2020 targets.

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

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

([3]) OJ C 96, 11.3.2016, p. 1.

(3) On 29 April 2016, Lithuania submitted its 2016 National Reform Programme and its 2016 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

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

(5) In its 2016 Stability Programme, Lithuania has requested a temporary deviation of 0,6 % of GDP from the required adjustment path towards the medium-term objective in 2017, to take account of major structural reforms with a positive impact on the long-term sustainability of public finances. However, pending a final agreement, uncertainty on the set of reform measures as well as their implementation remains. Thus, while Lithuania has sufficient fiscal space to benefit from a temporary deviation, it does not appear to fulfil the eligibility criterion related to the implementation of the reform to avail itself of the structural reform clause. Moreover, it is currently not possible to assess the plausibility of the impact of the reform estimated by the Government. Therefore, the impact of these reforms has not yet been reflected in the required adjustment towards the medium-term budgetary objective for 2017.

(6) Lithuania is currently under the preventive arm of the Stability and Growth Pact. In its 2016 stability programme, the government plans an improvement of the headline balance from a deficit of 0,8 % of GDP in 2016 to a surplus of 0,9 % of GDP in 2019. The (recalculated [2]) structural balance is set to stay above the medium-term budgetary objective — a deficit of 1 % of GDP in structural terms — in 2016 and thereafter. The adjustment path incorporates the systemic pension reform in 2016 but does not reflect the planned structural reform in 2017. According to the Stability Programme, the government debt-to-GDP ratio is expected to fall from 39,9 % of GDP in 2016 to 35,7 % in 2019. The macroeconomic scenario underpinning these budgetary projections is plausible. The measures needed to support the planned deficit targets from 2018 onwards have not been sufficiently specified yet. Based on the Commission 2016 spring forecast, the structural balance is forecast to be at − 1,2 % of GDP in 2016, which can be considered as close to the medium-term budgetary objective, and at − 0,8 % of GDP in 2017, above the medium-term budgetary objective. Based on its assessment of the Stability Programme and taking into account the Commission 2016 spring forecast Lithuania is expected to comply with the provisions of the Stability and Growth Pact.

(7) A fall in the working age population, caused by ageing, poor health outcomes and significant net emigration may harm Lithuania's growth potential and ultimately its future convergence path, while putting at risk the sustainability of its pension and long-term care systems. A cumulative loss of 35 % of the working age population is estimated by 2030. If that trend is not reversed, it will jeopardise the availability of suitable labour resources, the sustainability of long-term economic growth and social security systems, in particular the pension system.

(8) Ongoing demographic trends underscore the need for a comprehensive pension reform in Lithuania that addresses the medium-term sustainability and adequacy risks of the current pension system. The level of poverty among the elderly in Lithuania is among the highest in the Union. However, at present there is no indexation mechanism in place for publicly provided pensions and spending on social insurance pensions is relatively low. The Parliament has not yet adopted the draft law proposed by the Government to introduce an indexation mechanism, link the retirement age to changes in life expectancy after 2026 and improve the way the basic part of the social insurance pension is financed.

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

[2] The structural balance as recalculated by the Commission based on the information in the stability programme, following the commonly agreed methodology.

(9) In Lithuania, health outcomes are among the poorest in the European Union. In particular, the mortality rate of the population aged between 20 to 64 years of age is the highest in the Union, having an important impact on the potential available workforce and labour productivity. Weaknesses in the health system include too much reliance on in-patient care and low expenditure on prevention and public health. There is a need to address the negative demographic trend.

(10) It is important that Lithuania strengthens investment in human capital to counteract some of the negative effects of its shrinking working age population and support Lithuania's transition towards a higher value-added economy. Although educational attainment has increased, the proportion of pupils with insufficient basic skills is high. Efforts should be pursued to ensure high quality teaching, which is crucial to tackling underachievement and educational shortcomings. Furthermore, there are weaknesses in the quality of teaching in higher education and its ability to foster innovation. The persistently low level of participation in adult learning is undermining efforts to improve the quality of human capital and increase productivity. There are signs of emerging skills shortages in certain sectors of the economy. Those skills shortages are expected to become more acute in the future. Strong wage growth and a slowdown in productivity growth may weaken cost-competitiveness. It is therefore important to improve the labour market relevance of education, streamline the structure and funding of the educational system, develop life-long learning and improve the targeting and effectiveness of active labour market policies. Lithuania has taken steps to improve its active labour market measures and other services to support job seekers, but there is still scope to improve targeting for specific groups, in particular the very long-term unemployed and those lacking necessary skills. Spending on effective labour market policy measures remains limited and social safety nets in Lithuania are weak. Around 27 % of Lithuania's population is at risk of poverty or social exclusion and income inequality is among the highest in the Union. The Government plans to improve the coverage and adequacy of unemployment and social assistance benefits, but the relevant legislation has still not been adopted.

(11) A comprehensive revision of the Labour Code and the social model is under discussion in the Parliament. The intention is to increase the flexibility of labour market relations and provide more security, but the relevant legislation still needs to be adopted. The involvement of social partners in the implementation of the reform and more extensive social dialogue are important.

(12) Investment has recovered slowly since the onset of the economic crisis and will be supported by EU structural and investment funds in the coming years. Nevertheless, the adoption and absorption of new technology has not spread across the economy and innovation is low, hampering productivity growth. Private investment in research and innovation has also been low, perhaps due to the insufficiency of incentives for business research and innovation and public-private cooperation. Strengthening private investment could mitigate the risks relating to the dependency of Lithuania's public investment in research and innovation on EU structural and investment funds. The tertiary education system shows weaknesses in quality and innovation outcomes, with limited levels of cooperation with foreign universities and research centres. The research and innovation system is fragmented and characterised by overlaps and duplication. This prevents Lithuania from reaching the critical mass of research and development capacity needed to increase innovative knowledge. Incentives for innovation and cooperation between academia and business need to be increased, inter alia, by developing and investing in human capital, which could increase the level of technology transfers to the real economy. Improving the limited capacity of Lithuanian companies to absorb external knowledge and apply it to commercial ends would raise the level of innovation.

(13) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Lithuania's economic policy and published it in the 2016 country report. It has also assessed the Stability Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Lithuania in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Lithuania but also their compliance with EU rules and guidance, given the need to strengthen the the EU's

overall economic governance by providing EU level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) to (3) 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,

HEREBY RECOMMENDS that Lithuania take action in 2016 and 2017 to:

1. Ensure that the deviation from the medium-term budgetary objective is limited to the allowance linked to the systemic pension reform in 2016 and in 2017. Reduce the tax burden on low-income earners by shifting the tax burden to other sources less detrimental to growth and improve tax compliance, in particular in the area of VAT.

2. Strengthen investment in human capital and address skills shortages, by improving the labour market relevance of education, raising the quality of teaching and adult learning. Reinforce the coverage and effectiveness of active labour market policies. Strengthen the role of social dialogue mechanisms. Improve the performance of the healthcare system by strengthening outpatient care, disease prevention and health promotion. Improve the coverage and adequacy of unemployment benefits and social assistance.

3. Take measures to strengthen productivity and improve the adoption and absorption of new technology across the economy. Improve the coordination of innovation policies and encourage private investment, inter alia, by developing alternative means of financing.

Done at Brussels, 12 July 2016.

For the Council

The President

P. KAŽIMÍR

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

COUNCIL RECOMMENDATION

of 12 July 2016

on the 2016 National Reform Programme of Romania and delivering a Council opinion on the 2016 Convergence Programme of Romania

(2016/C 299/18)

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 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 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council ([2]), the Commission adopted the Alert Mechanism Report, in which it identified Romania as one of the Member States for which an in-depth review would be carried out.

(2) The 2016 country report for Romania was published on 26 February 2016. It assessed Romania's progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015 and Romania's progress towards its national Europe 2020 targets. It also included the in-depth review under Article 5 of Regulation (EU) No 1176/2011. On 8 March 2016, the Commission presented the results of the in-depth review. The Commission's analysis leads it to conclude that Romania is experiencing no macroeconomic imbalances.

(3) On 28 April 2016, Romania submitted its 2016 National Reform Programme and its 2016 Convergence Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

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

([2]) 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).

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

(5) The third balance-of-payments financial assistance programme (2013-2015) ended in September 2015 without any completed review. The third formal review mission (16-30 June 2015) to assess implementation of the programme's conditions has not been concluded. While some progress was achieved in several areas, current and former programme achievements were undermined in key policy areas. Post-programme surveillance started on 1 October 2015 and it will continue until at least 70 % of the loan granted under the first balance-of-payments programme has been repaid, i.e. at least until spring 2018.

(6) Romania is currently in the preventive arm of the Stability and Growth Pact. In its 2016 Convergence Programme, the Government plans a deterioration of the headline balance from − 0,7 % in 2015 to − 2,9 % of GDP in 2016 and 2017. The structural balance is expected to deteriorate as well. The programme plans to depart from the medium-term budgetary objective — a structural deficit of 1 % of GDP — which had been achieved in 2014 and 2015 and does not plan to return to it within the programme period. According to the convergence programme, the government debt-to-GDP ratio is expected to remain below 40 % over the programme horizon. The macroeconomic scenario underpinning these budgetary projections is plausible for 2016 and slightly favourable for 2017. Based on the Commission 2016 spring forecast, there is a risk of a significant deviation both in 2016 and, under unchanged policies, 2017. In addition, the Commission 2016 spring forecast projects a general government deficit of 3,4 % of GDP for 2017, above the 3 %-of-GDP reference value of the Treaty. Based on its assessment of the Convergence Programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that there is a risk that Romania will not comply with the provisions of the Stability and Growth Pact. Therefore further measures will be needed to ensure compliance in 2016 and 2017.

(7) The fiscal framework in Romania is sound as regards its provisions, but is not applied effectively in practice. None of the recent deficit-increasing fiscal measures was initiated and adopted as part of the standard budgetary process. In 2015, the requirement to include a Ministry of Finance-verified impact assessment for new legislative initiatives that increase public spending or reduce public revenues, to respect expenditure ceilings, and to propose compensatory measures for revenue reductions, was breached. In practice, the Fiscal Council is given very little time to react to budgetary proposals and its opinions and recommendations are not sufficiently taken into account. The 2016 Budget Law targets a fiscal deficit of 2,95 % of GDP, leading to a significant deviation from the medium-term objective. This is a departure from the national fiscal framework.

(8) A number of measures are being implemented to improve tax collection and increase tax compliance. These include mandatory cash registers, strengthened cash-payment rules, a new VAT registration procedure, intensified auditing by the tax authority (ANAF) and the authority's ongoing reorganisation. However, high tax evasion and a low level of tax compliance remain a challenge. Undeclared work and under-declared earnings continue to weigh on tax revenue and distort the economy. The effectiveness of measures, including those by the Labour Inspectorate, to curb undeclared work remains limited.

(9) The law on equalisation of the pensionable ages for men and women has been pending before the Parliament since 2013. Its adoption would increase the labour market participation of older women considerably, narrowing the pension gender gap and mitigating their risk of old-age poverty.

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

(10) Labour market conditions improved in 2015. Unemployment is low and the employment rate has been increasing. Long-term unemployment is below the EU average. However, significant challenges remain, especially in relation to the high rate of young people not in employment, education or training, and there is limited outreach to activate them effectively.

(11) The National Employment Agency is lagging behind in offering personalised services to jobseekers and has limited services for employers, despite mandatory referral of vacancies to the National Employment Agency. A procedure has been adopted to offer tailor-made support to the various categories of unemployed people, but has not yet been implemented. Cooperation between employment and social services is very limited, making the activation of social assistance beneficiaries even harder.

(12) The minimum wage, which is among the lowest in the Union, has increased substantially since 2013 and the lack of objective criteria for its setting creates uncertainty. A tripartite working group has been set up to work on the reform of minimum wage setting, but there continues to be no clear guidelines or criteria that would take into account its impact on job creation, social conditions and competitiveness. Overall, social dialogue remains weak.

(13) Romania has one of the highest risks of poverty or social exclusion in the Union. The labour market activation of people on social assistance is very limited, especially in rural areas. The social reference index, on which social benefit amounts are based, is not regularly updated in line with the economic context, which may affect the adequacy of benefits over time. The Minimum Inclusion Income Law, which is expected to improve the targeting and adequacy of benefits and the labour market activation of minimum inclusion income recipients, has been sent to the Parliament for adoption. However, several measures in the Government's 'anti-poverty package' aim at tackling this issue, using an integrative approach (education, health, housing, social protection, transport).

(14) Romania still faces education challenges. Several strategies cover lifelong learning, vocational education and training, tertiary education and early school leaving. However, the early school leaving rate remains well above the EU average, in part due to significant implementation delays of the strategy approved in 2015. Prevention and remedial programmes are limited. Vulnerable groups such as Roma and children from poor families continue to face obstacles in accessing and completing quality education, especially in rural areas. In early childhood education and care, Romania has taken action to support the participation of disadvantaged pupils in kindergarten (3-6 year-olds). Provision of early childhood services for 0-3 year-olds remains limited. Recent legislation to extend parental leave provisions, together with insufficient work incentives, may increase barriers for the participation of women in the labour market. Participation in upper secondary vocational education and training is above the EU average, but the dropout rates remain high. The tertiary attainment rate is increasing, but the quality and labour market relevance of higher education is limited. Participation in adult education is very low.

(15) Health outcomes in Romania are poor. Life expectancy at birth is well below the EU average for both men and women. Access to healthcare and over-reliance on hospital care remain major concerns. Widespread informal payments reduce access to healthcare for people with low incomes. Romania has adopted measures to improve access to healthcare for low-income pensioners and people in remote and isolated communities. A network of social and health mediators is being developed and a draft law on community services has been proposed. The deinstitutionalisation of people with disabilities remains a challenge.

(16) Romania has taken action to address the low funding of the healthcare system and its inefficient use of public resources. These reforms included clearing arrears in the health sector, increasing the sustainability of pharmaceutical spending, implementing e-health solutions, improving the funding of the health system, devising a strategy to shift resources from hospital-based care towards preventive and primary care, and centralised procurement procedures. However, the lack of administrative capacity is delaying implementation of the 2014-2020 national health strategy. In particular, the efficiency of the health system is constrained by delays in streamlining the hospital sector and switching from inpatient to more cost-effective outpatient healthcare.

(17) Romania's key development disparities are between urban and rural areas. Employment, social, healthcare and educational outcomes are lower in rural areas and people face much lower access to education, medical services, basic utilities, and public services due to low and fragmented local administrative capacity. Meanwhile, the socio-economic development of rural areas is limited by underdeveloped transport infrastructure and limited public and private transport, coupled with high commuting costs and limited access to broadband infrastructure. Low added value in agriculture and a lack of economic diversification in rural areas constrain the development of a sustainable rural economy. A high proportion of the rural labour force works in subsistence or semi-subsistence agriculture associated with hidden unemployment or non-remunerated family work, low productivity and poverty. An anti-poverty package, to be financed mainly with EU funds, provides for an integrated approach to fighting poverty, including in rural areas. There are plans to set up integrated community teams, offering several integrated services to disadvantaged communities, but they have not been implemented yet.

(18) The strategic framework for public administration reform has been in place since 2014, but its implementation was slow in 2015. Some key initiatives have been adopted in 2016 to increase the transparency and effectiveness of the functioning of public administration. However, the delays in adopting a general and transparent human resources management approach, in particular on recruitment/appointment, appraisal, salaries, career progression across all staff categories and training, leaves room for an arbitrary approach to key procedures and decisions. This, alongside unstable organisational structures, has a negative impact on the civil service's independence and professionalism and, therefore, on its effectiveness and efficiency. Complicated administrative procedures, an inefficient public procurement system and widespread corruption constrain the delivery of services (including e-government services), both to the public and to businesses. Strategic planning, programme budgeting, consultation practices, and evidence-based policymaking remain underused. These challenges hamper the implementation of important policies across many areas, including the effective uptake of available EU funds and other financing support.

(19) State-owned enterprises dominating key economic sectors tend to underperform. These are especially prevalent in key infrastructure industries, accounting for 44 % of turnover and 77 % of employment in the energy sector and 24 % and 28 % respectively in the transport sector. Government Emergency Ordinance 109/2011 on the corporate governance of state-owned enterprises was converted into a law on 10 May 2016 with amendments that better align it with international good practices. Romania has resumed hiring professional managers to replace the interim management in several state-owned enterprises but progress has been slower than initially announced. The transparency and accountability of state-owned enterprises would benefit from accelerating the adoption of annual budgets and the approval and publication of audited annual accounts. A new privatisation law is in preparation. However, it may include provisions that conflict with corporate governance legislation. Of particular concern are likely overlaps in the responsibilities of the privatisation's special administrator and the company's management.

(20) In spite of the efforts of the judicial institutions to address high-level corruption, corruption is still present in many economic sectors and involves appointed and elected officials at all levels of government as well as civil servants and employees of public institutions. Major judicial reforms are being implemented, but concerns remain about the high workload in courts, the predictability and proper enforcement of court decisions and external pressure on the judiciary. Under the Cooperation and Verification Mechanism, Romania receives recommendations in the areas of judicial reform and the fight against corruption. These areas are therefore not covered in the country-specific recommendations for Romania.

(21) The soundness of the financial sector has improved. However, the sector remains vulnerable to domestic legal initiatives. The recently adopted law on debt discharge with retroactive application on the existing stock of loans may constitute a challenge for several credit institutions and lead to weaker credit activity. The law may increase risks for financial sector stability with implications for the whole economy. Other developments that may have a negative impact on banks include the proposal to convert foreign currency loans into local currency loans and some court decisions on unfair contract terms in loan contracts.

(22) Insufficient or low-quality infrastructure is among the most problematic factors for doing business in Romania and represents a barrier to trade and economic development. In spite of a recent slight improvement, Romania

still ranks last among its regional peers in the perceived quality of transport and communication infrastructure. Its roads and motorways network is small compared with that of its peers and the size of the country. Adoption of the transport master plan and the accompanying railway reform have been repeatedly delayed.

(23) Public investment has decreased since 2008 despite ample availability of financing, especially from EU funds. This trend was reversed in 2015 but public investment is expected to slow down from 2016 onwards, since the implementation of the 2014-2020 programme has not fully started and there are not enough mature projects in the pipeline. Romania has made recent and ongoing efforts to strengthen inter-ministerial cooperation, reorganise the public procurement system and improve the planning and implementation of investment projects. Nevertheless, the preparation of public investment projects is still insufficient and remains susceptible to external influence. Project selection remains hampered by the lack of medium- to long-term planning and strategic priorities, the need to achieve an agreement between numerous decision-makers, the limited enforcement power of the Public Investment Evaluation Unit in the Ministry of Public Finance, and the lack of selection criteria in the national programme for local development.

(24) In spite of significant improvements in cost competitiveness and trade performance, Romania's non-cost competitiveness remains a challenge. Structural barriers are hindering the transition to a higher value added economy and limiting Romania's ability to foster sustainable growth. The complexity of administrative procedures, the volatility of fiscal and tax policies, and the weak business environment continue to weigh on investment decisions. High tax evasion and undeclared work reduce tax revenue and distort the economy. Access to financing for small and medium-sized enterprises remains limited.

(25) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Romania's economic policy and published it in the 2016 country report. It has also assessed the Convergence Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Romania in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Romania but also their compliance with EU rules and guidance, given the need to strengthen the EU's overall economic governance by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) to (4) below.

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

HEREBY RECOMMENDS that Romania take action in 2016 and 2017 to:

1. Limit the deviation from the medium-term budgetary objective in 2016 and achieve an annual fiscal adjustment of 0,5 % of GDP in 2017 unless the medium-term budgetary objective is respected with a lower effort. Ensure the application of the fiscal framework and strengthen further tax compliance and collection. Ensure that legislative initiatives do not undermine legal certainty and do not put at risk financial stability. If necessary, adopt measures that mitigate such risks.

2. Strengthen the National Employment Agency's services to employers and jobseekers, in particular by tailoring services to jobseeker profiles, better linking them with social assistance, including social services, and reaching out to unregistered young people. Establish, in consultation with social partners, objective criteria for setting the minimum wage. Take action to prevent early school leaving and increase the provision of quality education, in particular among Roma. Adopt the equalisation of the pension age for men and women.

3. Curb informal payments in the healthcare system and increase the availability of outpatient care. Strengthen the independence and transparency of human resources management in the public administration. Simplify administrative procedures for business and the public. Strengthen corporate governance of state-owned enterprises.

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

4. Improve access to integrated public services, extend basic infrastructure and foster economic diversification, in particular in rural areas. Adopt and implement the transport master plan. Strengthen public investment project prioritisation and preparation.

Done at Brussels, 12 July 2016.

For the Council

The President

P. KAŽIMÍR

COUNCIL RECOMMENDATION

of 12 July 2016

on the 2016 National Reform Programme of Finland and delivering a Council opinion on the 2016 Stability Programme of Finland

(2016/C 299/19)

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ([1]), and in particular Article 5(2) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances ([2]), and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the 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 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011, the Commission 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. On the same day, the Commission also adopted a recommendation for a Council Recommendation on the economic policy of the euro area. This Recommendation was endorsed by the European Council on 18-19 February 2016 and adopted by the Council on 8 March 2016 ([3]). As a country whose currency is the euro and in view of the close interlinkages among the economies in the economic and monetary union, Finland should ensure the full and timely implementation of the Recommendation.

(2) The 2016 country report for Finland was published on 26 February 2016. It assessed Finland's progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015, and Finland's

([1]) OJ L 209, 2.8.1997, p. 1.
([2]) OJ L 306, 23.11.2011, p. 25.
([3]) OJ C 96, 11.3.2016, p. 1.

progress towards its national Europe 2020 targets. It also included the in-depth review under Article 5 of Regulation (EU) No 1176/2011. On 8 March 2016, the Commission presented the results of the in-depth review. The Commission's analysis led it to conclude that Finland is experiencing macroeconomic imbalances. In particular, it is essential to tackle the loss of cost-competitiveness accumulated over several years, which is mainly due to wage growth having exceeded that of productivity for a protracted period, leading to a sharp deterioration in the current account between 2008 and 2012. The analysis also pointed to significant medium- and long-term risks to the sustainability of already strained public finances.

(3) On 14 April 2016, Finland submitted its 2016 National Reform Programme and its 2016 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

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

(5) The 2016 Stability Programme indicates that the budgetary impact of the exceptional inflow of refugees is significant and provides adequate evidence of the scope and nature of these additional budgetary costs. According to the Commission, the eligible additional expenditure amounted to 0,05 % of GDP in 2015 and is currently estimated at 0,2 % of GDP in 2016. The provisions set out in Article 5(1) and Article 6(3) of Regulation (EC) No 1466/97 cater for this additional expenditure, in that the inflow of refugees is an exceptional event, its impact on Finland's public finances is significant and sustainability would not be compromised by allowing for a temporary deviation from the adjustment path towards the medium-term budgetary objective. Therefore, the required adjustment towards the medium-term budgetary objective for 2015 has been reduced to take into account these costs. Regarding 2016, a final assessment, including on the eligible amounts, will be made in spring 2017 on the basis of observed data as provided by Finland's authorities.

(6) Finland is currently in the preventive arm of the Stability and Growth Pact. On 18 May 2016, the Commission issued a report under Article 126(3) of the TFEU, as Finland's general government debt exceeded the 60 % of GDP reference value in 2015. The analysis concluded that the debt criterion should be considered as complied with. In its 2016 Stability Programme, the Government plans an improvement in the headline balance to -2,5 % of GDP in 2016 and further to -1,3 % in 2020. The Government plans to reach its medium-term budgetary objective — a deficit of 0,5 % of GDP in structural terms — by 2019. According to the Stability Programme, the government debt-to-GDP ratio is expected to peak at 67,4 % in 2019 and to decline to 67,2 % in 2020. The macroeconomic scenario underpinning these budgetary projections is plausible. The measures needed to reach the medium-term budgetary objective by 2019 have not been sufficiently specified. Based on the Commission 2016 spring forecast, there is a risk of some deviation from the recommended adjustment in 2016. The conclusion for 2016 would not change in case the budgetary impact of the exceptional inflow of refugees was excluded from the assessment. Under unchanged policies, there is a risk of a significant deviation from the recommended adjustment in 2017. The debt-to-GDP ratio is projected to continue its upward trend, reaching 66,9 % in 2017. Based on its assessment of the Stability Programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that there is a risk that Finland will not comply with the provisions of the Stability and Growth Pact. Therefore, further measures will be needed to ensure compliance in 2016 and 2017.

(7) Due to ageing of the population and a declining workforce, expenditure on pensions, health and long-term care is set to increase from 23,1 % in 2013 to 26,9 % of GDP by 2030. In January 2016, Finland enacted a pension reform that will link the statutory retirement age to changes in life expectancy as of 2027. Social and healthcare

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

services, provided by the municipalities, amount to 10 % of GDP. Without reform of the system, that expenditure is forecast to grow by 2,4 % annually in nominal terms and increase as a share of GDP. The main outline of a far-reaching administrative reform and restructuring of healthcare and social services has been agreed. The reform's main aims include the reduction of the sustainability gap in the long run by EUR 3 billion through better control of the costs. This will be achieved through integration of services, larger arrangers of services and digitalisation. All of the details still need to be worked out and change management plans put in place before the reform can be implemented from 2019 as planned. The Government has announced that measures to implement the reform will be presented at the end of 2016. The magnitude and tight timetable of the reform mean that implementation will be a challenge. Timely adoption of the legislative proposals is therefore important.

(8) To restore Finland's competitiveness, the functioning of the labour market must be improved in several ways. On an aggregate level, wage increases have been moderate since the centrally agreed wage deal was agreed in late 2013. Under the agreement, the year-on-year increase in negotiated wages slowed from 1,3 % in the last quarter of 2013 to 0,5 % in the fourth quarter of 2015. In June 2015, the social partners decided to extend the agreement into 2016. However, labour productivity growth has not yet recovered and therefore nominal unit labour costs are forecast to increase, albeit more slowly. Negotiations have been carried out to restore cost-competitiveness. A Competitiveness Pact was agreed between social partners on 29 February 2016. The agreement needs to be translated into sectoral agreements before it can be implemented. The Competitiveness Pact will be complemented with measures agreed between social partners to ensure more labour market flexibility and a new model for wage growth by anchoring wages of other sectors to those facing external competition. It is important to implement the labour market measures in a way that fully respects the role of social partners.

(9) Due to declining size of the working age population, improving the labour market participation rate is important. This requires continued efforts to integrate older workers, young people, the long-term unemployed and the low-skilled into the labour market. The employment rate has decreased by more than two percentage points, from a pre-crisis peak of 70,6 % in 2008 to 68,5 % in 2015, while unemployment has increased from 6,4 % to 9,4 %. The employment rate of the elderly has been gradually improving, but some early exit pathways remain in the form of extended unemployment benefits for older workers until retirement (the 'unemployment tunnel') which, if not reduced, could limit the positive impact of the pension reform enacted in 2016. The effects of the changes to the parameters of the unemployment tunnel in the previous pension reform will be assessed in 2019. Long-term unemployment increased considerably between 2008 and 2014 from 1,2 % to 1,9 % of the total labour force, despite many of the long term unemployed eventually moving out of the labour force. Youth unemployment increased to 22,4 % in 2015. The low-skilled are affected most by the poor performance of the labour market. Cutting the budget for active labour market policies at a time when there is an increasing demand for such measures could harm opportunities for the above-mentioned groups to return to work. In terms of activation, the complex benefits system with its different types of allowances can result in significant inactivity and low wage traps. Addressing these traps and introducing positive incentives to accept work, such as improving the possibility to combine work and benefits, is particularly important in view of the cuts to the budget for active labour market policies. The arrival of a comparatively large number of migrants and refugees in Finland in 2015 could serve to counter the effects of population ageing, but only if they are successfully integrated into the labour market and the education system. There are matching problems in the labour market, partly due to the structural change in the economy, as new jobs are created in geographical areas and industries other than those where jobs have been lost. Measures that increase affordable housing in the Helsinki area and effective policies to help people update their skills and find work are needed.

(10) The business environment in Finland is as good as or better than in other advanced economies. However, lack of competition, in particular in services aimed primarily at the domestic market, such as retail and transport services, affects the overall competitiveness of the Finnish economy. Businesses have identified excessive regulatory requirements as obstacles to entry to and growth in some markets. These excessive requirements need to be addressed to promote entrepreneurship and investment. In the retail sector, the reform of planning regulations will set more flexible rules on the size and location of stores. The tradable sector continues to restructure and would benefit from developing new markets, products and services, particularly those with high value added. Structural change could be facilitated by policies supporting company expansion, internationalisation

and innovation. Legislative amendments were passed in autumn 2015, but most are expected to be implemented only between 2016 and 2018. The Government has announced that further structural reforms will be made to increase market competition.

(11) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Finland's economic policy and published it in the 2016 country report. It has also assessed the Stability Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Finland in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Finland but also their compliance with EU rules and guidance, given the need to strengthen the EU's overall economic governance by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) to (3) below.

(12) 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.

(13) 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 (3) below,

HEREBY RECOMMENDS that Finland take action in 2016 and 2017 to:

1. Achieve an annual fiscal adjustment of at least 0,5 % of GDP towards the medium-term budgetary objective in 2016 and 0,6 % in 2017. Use any windfall gains to accelerate the reduction of the general government debt ratio. Ensure timely adoption and implementation of the administrative reform with a view to better cost-effectiveness of social and healthcare services.

2. While respecting the role of social partners, ensure that the wage setting system enhances local wage bargaining and removes rigidities, contributing to competitiveness and a more export industry-led approach. Increase incentives to accept work and ensure targeted and sufficient active labour market measures, including for people with a migrant background. Take measures to reduce regional and skills mismatches.

3. Continue pursuing efforts to increase competition in services, including in retail. Promote entrepreneurship and investment, including by reducing administrative and regulatory burden, to foster growth of high value added production.

Done at Brussels, 12 July 2016.

For the Council

The President

P. KAŽIMÍR

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

COUNCIL RECOMMENDATION

of 12 July 2016

on the 2016 National Reform Programme of Latvia and delivering a Council opinion on the 2016 Stability Programme of Latvia

(2016/C 299/20)

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 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council ([2]), the Commission adopted the Alert Mechanism Report, in which it did not identify Latvia as one of the Member States for which an in-depth review would be carried out. On the same day, the Commission also adopted a recommendation for a Council Recommendation on the economic policy of the euro area. This Recommendation was endorsed by the European Council on 18-19 February 2016 and adopted by the Council on 8 March 2016 ([3]). As a country whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, Latvia should ensure the full and timely implementation of the Recommendation.

(2) The 2016 country report for Latvia was published on 26 February 2016. It assessed Latvia's progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015 and Latvia's progress towards its national Europe 2020 targets.

([1]) OJ L 209, 2.8.1997, p. 1.
([2]) Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25).
([3]) OJ C 96, 11.3.2016, p. 1.

(3) On 14 April 2016, Latvia submitted its 2016 National Reform Programme and its 2016 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

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

(5) In its 2016 Stability Programme, Latvia has requested a temporary deviation of 0,5 % of GDP from the required adjustment path towards the medium-term budgetary objective in 2017 to take account of major structural reforms with a positive impact on the long-term sustainability of public finances, in particular for the ongoing health sector reform based on the Health Strategy for 2014-2020. The details of the reform are summarised in the Stability Programme. The objective is to increase public financing for the health sector to 4 % of GDP by 2020 relative to 3 % of GDP in 2015. The full implementation of the reform is estimated to increase employment by 0,6 % and the GDP level by 2,2 % by 2023, which will have a positive impact on the sustainability of public finances in the long run. The positive impact on growth and the long-term sustainability of public finances is assessed to be plausible. Latvia can currently be assessed as qualifying for the requested temporary deviation in 2017, provided that it adequately implements the agreed reforms, which will be monitored under the European Semester. However, the amount of the allowed temporary deviation is conditional on the respect of the minimum benchmark (i.e. a structural deficit of 1,7 % of GDP). As a result, the Commission 2016 spring forecast indicates scope for an additional temporary deviation of 0,1 % of GDP in 2017.

(6) Latvia is currently in the preventive arm of the Stability and Growth Pact. In its 2016 Stability Programme, the Government plans a gradual improvement in the headline balance to reach 0,5 % of GDP in 2019. The planned adjustment path towards the medium-term budgetary objective — a deficit of 1 % of GDP in structural terms — takes into account the requested deviations related to the systemic pension reform in 2017 and 2018 and for the major structural reform in the healthcare sector in the period 2017-2019. According to the Stability Programme, the government debt-to-GDP ratio is expected to rise to 40 % in 2016 before declining to 38 % in 2018. The macroeconomic scenario underpinning these budgetary projections is plausible. However, the measures needed to support the planned deficit targets from 2017 onwards have not been sufficiently specified. Based on the Commission 2016 spring forecast, the overall assessment points to a risk of some deviation in 2016 and, under unchanged policies, in 2016 and 2017 taken together. Based on its assessment of the Stability Programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that Latvia is expected to broadly comply with the provisions of the Stability and Growth Pact. Nevertheless, further measures will be needed to ensure compliance in 2016.

(7) The labour supply is constrained by a declining working age population and wage growth exceeds productivity, threatening cost-competitiveness. Measures to increase employability and improve human capital are therefore necessary to support competitiveness.

(8) Latvia's at risk-of-poverty and social exclusion rate is among the highest in the EU. Preparatory work is on-going to introduce a minimum income level, but its implementation is uncertain and its universal application is being diluted, due to fiscal costs. Furthermore, the adequacy of social assistance benefits has not been improved since 2009, preventing effective poverty reduction. The minimum income level reform is expected to reduce the current fragmentation of social assistance and provide an incentive for employment.

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

(9) The coverage of activation measures remains low, particularly for the long-term unemployed. In combination with poor health and insufficient social services, this hampers effective reintegration in the labour market. Increasing the take-up of activation measures would boost employment.

(10) The low public financing of healthcare, inherent structural weaknesses, high out-of-pocket payments and suboptimal cost-effectiveness leave much of the population with unmet healthcare needs. While access to healthcare for critical medical cases has been given priority, financial constraints limit the supply of services in general.

(11) While Latvia has made progress in reforming the higher education system, namely by providing incentives that reward quality and establishing an independent accreditation system, improvements of vocational education and training are necessary, particularly with respect to reforming curricula and setting up a regulatory framework for work-based learning in order to improve their quality and availability. Social partners can play a role in the development of apprenticeship-type schemes, as outlined in the Vocational Education Law.

(12) Investments are being held back by innovation issues, shortcomings in the business environment and the shrinking size of the labour force. Poor innovation drive and a fragmented research base hamper Latvia's rapid and efficient transition towards higher value-added and more knowledge-intensive activities. Low protection for investors in the application of the insolvency system, coupled with inefficiencies in public administration, further inhibit investments.

(13) The Government has taken steps to reduce the current fragmentation of the public research base, improve its quality and enhance the business sector's innovation capacity. Despite progress, both public and business investments in research and innovation remain very low compared with the EU average. The consolidation of the research base needs to be continued, along with increasing the number of reserchers and the quality of research. Full implementation of reforms based on the Smart Specialisation Strategy and the full use of all existing policy tools would incentivese private investments in innovation.

(14) The insolvency regime is perceived by business as an obstacle to investment, given that assets recovery rates are low and insolvency administrators are subject to little supervision.

(15) Latvia has introduced several successful initiatives to improve the efficiency and quality of the justice system. However, although it is comprehensive, the conflict of interest prevention regime for public officials is complex and rigid, prioritising formal compliance over the merits of individual cases. Moreover, the Corruption Combating and Prevention Bureau has been weakened by internal tensions, destabilising it and reducing public trust in its operations and its willingness to prioritise high profile cases.

(16) General inefficiencies in public administration, due largely to relatively high staff turnover, delays in the public service reform and weak project management, are not conducive to a favourable investment environment. Public sector remuneration is not properly linked to responsibilities.

(17) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Latvia's economic policy and published it in the 2016 country report. It has also assessed the Stability Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Latvia in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Latvia but also their compliance with EU rules and guidance, given the need to strengthen the EU's overall economic governance by providing EU level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) to (3) 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,

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

HEREBY RECOMMENDS that Latvia take action in 2016 and 2017 to:

1. Ensure that the deviation from the adjustment path towards the medium-term budgetary objective in 2016 and 2017 is limited to the allowance linked to the systemic pension reform and the major structural reform in the healthcare sector. Reduce the tax wedge for low-income earners by exploiting a growth-friendly tax shift towards environmental and property taxes and improving tax compliance.

2. Improve the adequacy of social assistance benefits and step up measures supporting recipients in finding and retaining work, including through increased coverage of activation measures. Speed up the curricula reform in vocational education, establish — with the involvement of social partners — a regulatory framework for work-based learning and increase their offer. Improve the accessibility, quality and cost-effectiveness of the healthcare system.

3. Pursue the consolidation of research institutions and provide incentives for private investment in innovation. Strengthen the conflict of interest prevention regime and set up a common legal framework for all public employees. Increase the accountability and public oversight of insolvency administrators.

Done at Brussels, 12 July 2016.

For the Council

The President

P. KAŽIMÍR

COUNCIL RECOMMENDATION

of 12 July 2016

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

(2016/C 299/21)

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 November 2015, the Commission adopted the Annual Growth Survey marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council [2], the Commission adopted the Alert Mechanism Report in which it did not identify Denmark as one of the Member States for which an in-depth review would be carried out.

(2) The 2016 country report for Denmark was published on 26 February 2016. It assessed Denmark's progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015 and Denmark's progress towards its national Europe 2020 targets.

(3) On 26 April 2016, Denmark submitted its 2016 National Reform Programme and its 2016 Convergence Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(4) Relevant country-specific recommendations have been addressed in the programming of the European Structural and Investment Funds for the 2014-2020 period. As foreseen in Article 23 of Regulation (EU) No 1303/2013 of

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

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

the European Parliament and of the Council ([1]), where it is necessary to support the implementation of relevant Council recommendations, the Commission may request a Member State to review and propose amendments to its Partnership Agreement and relevant programmes. The Commission has provided further details on how it would make use of this provision in guidelines on the application of the measures linking effectiveness of the European Structural and Investment Funds to sound economic governance.

(5) Denmark is currently in the preventive arm of the Stability and Growth Pact. In its 2016 Convergence Programme, the Government plans an improvement in the headline balance, reaching a balanced budget in 2020. The medium-term budgetary objective — a deficit of 0,5 % of GDP in structural terms — is projected to be achieved in 2016. According to the Convergence Programme, the government debt-to-GDP ratio is expected to reach 35,1 % in 2020. The macroeconomic scenario underpinning these budgetary projections is plausible. Based on the Commission 2016 spring forecast, Denmark is forecast to comply with the recommended fiscal adjustment in 2016 and 2017. Based on its assessment of the Convergence Programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that Denmark is expected to comply with the provisions of the Stability and Growth Pact.

(6) Ensuring labour supply as the population ages is a precondition for sustainable growth in Denmark. A series of substantial labour market reforms in recent years aim particularly at increasing work incentives and improving the efficiency of active labour market policies. These reforms could contribute to achieving Denmark's Europe 2020 employment target and to the sustainability of the Danish welfare model. However, the national Europe 2020 target for social inclusion, aiming at reducing the number of people living in very low work intensity households, is far from being achieved. Labour market inclusion and improving the employability of disadvantaged groups remain a challenge. This particularly applies to people with a non-EU migrant background, including those who have resided in Denmark for a long time, and young people with low educational attainment. The job-integration measures agreed in the 2016 tripartite negotiations could improve the situation for newly arrived refugees and migrants. However, further measures should still be taken to include other marginalised groups in the labour market more effectively.

(7) To maintain the relatively high level of welfare provided in Denmark, improved productivity growth is essential. However, productivity growth has been sluggish during the past two decades. One of the contributing factors identified is the continued lack of competition in the domestic services sector, in particular in retail and construction. Denmark therefore needs to increase efforts to improve productivity in the construction sector by removing barriers and ensuring proportionate authorisation schemes where such schemes are considered necessary. It also needs to ease the restrictions on retail establishments, in particular by implementing the reforms outlined by the Government.

(8) The overall investment level in Denmark has been low since a sharp drop in private investments during the economic crisis. This partly reflects low residential investment following the burst of the housing bubble and idle capacity in the corporate sector. Boosting investment would help Denmark strengthen economic growth and increase productivity. Barriers to investment have been identified in the services sector and research. The retail and construction sectors are facing barriers to entry, which in return affect competition and productivity growth. Efforts to turn university research results into business innovations could be strengthened.

(9) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Denmark's economic policy and published it in the 2016 country report. It has also assessed the Convergence Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Denmark in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Denmark but also their compliance with EU rules and guidance, given the need to strengthen the EU's overall economic governance by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) and (2) below.

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

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

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

HEREBY RECOMMENDS that Denmark take action in 2016 and 2017 to:

1. Respect the medium-term budgetary objective in 2016 and achieve an annual fiscal adjustment of 0,25 % of GDP towards the medium-term budgetary objective in 2017.

2. Enhance productivity and private sector investment by increasing competition in the domestic services sector, in particular by facilitating market entry in retail and construction. Incentivise the cooperation between businesses and universities.

Done at Brussels, 12 July 2016.

For the Council

The President

P. KAŽIMÍR

COUNCIL RECOMMENDATION

of 12 July 2016

on the 2016 National Reform Programme of Slovenia and delivering a Council opinion on the 2016 Stability Programme of Slovenia

(2016/C 299/22)

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 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, 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. On the same day, the Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area. That recommendation was endorsed by the European Council on 18-19 February 2016 and adopted by the Council on 8 March 2016 ([3]). As a country whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, Slovenia should ensure the full and timely implementation of the recommendation.

(2) The 2016 country report for Slovenia was published on 26 February 2016. It assessed Slovenia's progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015 and Slovenia's

([1]) OJ L 209, 2.8.1997, p. 1.
([2]) OJ L 306, 23.11.2011, p. 25.
([3]) OJ C 96, 11.3.2016, p. 1.

progress towards its national Europe 2020 targets. It also included the in-depth review under Article 5 of Regulation (EU) No 1176/2011. On 8 March 2016, the Commission presented the results of the in-depth review. The Commission's analysis leads it to conclude that Slovenia is experiencing macroeconomic imbalances. Weaknesses in the banking sector, corporate indebtedness, the lack of investment and long-term fiscal sustainability risks constitute vulnerabilities that will need to be addressed. Confidence has returned in the Slovenian banking sector. However, credit growth remains negative and the level of non-performing loans remains relatively high. It is essential that Slovenia tackles risks to fiscal sustainability stemming from increasing pressures on its healthcare and pension systems and reduces the increased public debt. Further reduction of obstacles to investment is required, particularly in the area of public administration. There is a need to strengthen the involvement of social partners in policy design and implementation of structural reforms in particular on pensions, health, long-term care and labour market policies.

(3) On 15 April 2016, Slovenia submitted its 2016 National Reform Programme and its 2016 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

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

(5) The 2016 Stability Programme of Slovenia indicates that the budgetary impact of the exceptional inflow of refugees is significant and provides adequate evidence of the scope and nature of these additional budgetary costs. According to the Commission, the eligible additional expenditure amounted to 0,06 % of GDP in 2015 and is currently estimated at 0,07 % of GDP in 2016. The provisions set out in Article 5(1) and Article 6(3) of Regulation (EC) No 1466/97 cater for this additional expenditure, in that the inflow of refugees is an exceptional event, its impact on Slovenia's public finances is significant and sustainability would not be compromised by allowing for a temporary deviation from the adjustment path towards the medium-term budgetary objective. Whereas this provision is not applicable for 2015 as Slovenia was under the excessive deficit procedure, a final assessment regarding 2016, including on the eligible amounts, will be made in spring 2017 on the basis of observed data as provided by the Slovenian authorities.

(6) Following the abrogation of the excessive deficit procedure, Slovenia is in the preventive arm of the Stability and Growth Pact and subject to the transitional debt rule. In its 2016 Stability Programme, the Government plans a gradual improvement of the headline balance from 2,2 % in 2016 to 0,4 % of GDP in 2019. The medium-term budgetary objective — a balance budget in structural terms, which does not respect the requirements of the Stability and Growth Pact — is planned to be achieved in 2020, beyond the Programme's horizon. However, the recalculated structural balance [2] points to a structural deficit of 1,2 % of GDP in 2019. According to the Stability Programme, the government debt-to-GDP ratio is expected to fall to 80,2 % of GDP in 2016 and continue to fall to 73,8 % of GDP in 2019. The macroeconomic scenario underpinning these budgetary projections is plausible. However, the measures needed to support the planned deficit targets from 2017 onwards have not been sufficiently specified. According to the Commission 2016 spring forecast, Slovenia's output gap in 2017 is estimated at 1,8 % of GDP, while potential growth is projected at 1,1 % and real GDP growth at 2,3 % of GDP. On this basis, Slovenia is assessed to be in 'good times' in 2017, requiring a structural adjustment of 1 % of GDP. However, there is significant uncertainty regarding the calculation of potential growth and the output gap in the specific case of Slovenia because of the specific situation of the labour market, the particularly large economic contraction in 2008-2013 and the structural reforms being implemented. Alternative output gap estimations covering a longer time horizon, reflecting the ongoing review of the estimation method, suggest

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

[2] The structural balance as recalculated by the Commission based on the information in the Stability Programme, following the commonly agreed methodology.

a smoother output gap profile for Slovenia, implying that it would be premature to conclude that the Slovenian economy is in 'good times' in 2017. Therefore, requiring a structural effort in 2017 in line with 'normal times' conditions appears more appropriate at the current juncture. There appears to be a risk of some deviation from the recommended adjustment towards the medium-term objective in 2016 and, under unchanged policies, a risk of a significant deviation in 2017. The conclusion for 2016 would not change in case the budgetary impact of the exceptional inflow of refugees was excluded from the assessment. Slovenia is forecast to comply with the transitional debt rule in 2016 and to broadly comply with it in 2017. Based on its assessment of the Stability Programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that there is a risk that Slovenia will not comply with the provisions of the Stability and Growth Pact. Therefore, further measures will be needed to ensure compliance in 2016 and 2017.

(7) In July 2015, the Parliament adopted the Fiscal Rules Act. However, an independent Fiscal Council to oversee the implementation of the rules has yet to be appointed. Furthermore, revisions to the Public Finance Act required to make the Fiscal Rules Act fully operational and aimed at putting a multiannual approach to budgeting on a statutory footing remain outstanding.

(8) The high level of public debt at well above 60 % of GDP makes Slovenia vulnerable to nominal growth and interest rate shocks. At the same time, Slovenia's population is ageing faster than that of most Member States. Slovenia faces high risks regarding the long-term sustainability of public finances, given that it has the highest long-term sustainability gap indicator of all Member States, stemming from the projected increase in pension-related public spending, healthcare and long-term care expenditure. Projected public spending on pensions is the highest among all Member States and is estimated to increase from 11,8 % in 2013 to 15,3 % of GDP in 2060. The old age dependency ratio is projected to more than double between 2013 and 2060, putting significant pressure on the pension systems. Projected implicit liabilities related to the cost of ageing reflect the long-term challenges in terms of an ageing population. In addition, adequacy problems for workers with less than full working careers can be expected in the future, with an increasing number of people with incomplete or short working careers, also due to their late entry into the labour market, working in intermittent jobs and with a low contribution density. A White Paper on pensions was published in April 2016 and will serve as the basis for a wide public consultation. The results of the consultation will be fed into a new pension reform that should be adopted within the current legislative term, swiftly starting by agreement with social partners on key elements of the reform, namely the retirement age, level of pensions, indexation and optimisation of the second pillar.

(9) Public expenditure on long-term care is projected to more than double by 2060 due to population ageing. This poses a significant fiscal sustainability challenge for Slovenia. The proportion of the population aged 80 years and older is projected to rise three-fold, from 4,6 % in 2013 to 12,4 % in 2060. Between 2003 and 2013, overall expenditure on long-term care increased by 85 % with private expenditure growing at a higher pace than public expenditure. There is no integrated long-term care system in Slovenia. Slovenia focusses its spending on formal in-kind benefits, the majority of which is spent on institutional care rather than home care, although both figures are below the EU average. There is significant scope for increasing the cost-effectiveness of the healthcare system by strengthening the measures for improving primary care as a gatekeeper, shifting from inpatient to outpatient care, improving the efficiency and governance of hospitals, improving contracting and payment processes for health services, developing better cost information for the adjustment of the imported diagnosis-related groups, and further development of a quality monitoring framework. The proportion of joint procurement is low and there is a strong focus on the 'lowest price' award criterion. A comprehensive review of the healthcare system has been completed and the Resolution on the National Healthcare Plan 2016-2025 was adopted by the Government at the end of 2015 and by the Parliament in March 2016. The Resolution represents a strategic plan for the development of the healthcare system. Some of its measures are being implemented, while proposals for other key binding implementing measures are in preparation and are yet to be presented. It also remains unclear whether the reform will address key issues such as in-built automatic stabiliser schemes, which would cushion revenue fluctuations over the business cycle or the access and quality of service provision. The adoption of the Long-term Care Act and the Healthcare and Health Insurance Act has been repeatedly delayed and the current roadmap for their adoption appears to be optimistic for the second half of 2016.

(10) Labour market performance is gradually improving and social conditions have stabilised. Job creation has picked up considerably and unemployment is decreasing. However, participation rates of older and low-skilled workers remain a challenge. Long-term unemployment still represents more than half of all unemployed with a significant share of the long-term unemployed being low-skilled or older than 50 years of age. The Guidelines for Active Labour Market Policy Measures 2016-2020 represent a continuation of the approach implemented so far, while

the expenditure for that policy area remains low. Temporary exemptions from employers' social contributions for newly employed workers older than 55 were adopted in November 2015. Further measures to prolong working lives, including adapting the working environment, which are relevant also for the sustainability of the pension system, are expected to be presented in 2016. Wage growth stayed in line with productivity gains and continued to support external competitiveness. In November 2015, the Parliament passed a bill proposed by the trade unions that redefined the minimum wage to exclude some bonuses. As a result, employer organisations withdrew from the social agreement, weakening the social dialogue considerably.

(11) Progress has been made on the work-out of non-performing loans, although they remain at high levels compared with the pre-crisis period. Slovenia has implemented several policy measures to improve the sustainability of the banking sector. These include strengthening the banks' work-out capacity and introducing action setting specific targets for the reduction of non-performing loans. Slovenia has also introduced several measures to manage credit risk. Positive results are expected by mid-2016. Nevertheless, the policy priorities in the short term remain the further resolution of non-performing loans and the management of credit risk. Operational and financial restructuring of major corporates has been completed and master restructuring agreements are continuously monitored. The Bank Asset Management Company (BAMC) is fully operational and its 2017-2022 strategy has been set out. While progress has been made by the BAMC in the work-out of its loan book, it remains a significant risk to the sustainability of public finances. In 2015, its activities contributed 1 % of GDP to the general government deficit of 2,9 %. Oversight of the activities of the BAMC appears to be insufficient as the authorities had considerably underestimated the deficit of the BAMC in 2015 by 0,7 % of GDP and appeared unaware of the level of write-offs performed by the BAMC. Additional restructuring tools are also available. On the back of substantial progress in restructuring of major corporates, Slovenia has started the restructuring of several SMEs. Guidelines for the restructuring of SMEs are currently being implemented by the banks. Progress has been made on access to finance for SMEs and micro companies. Nevertheless, there is limited access to alternative sources of financing such as venture capital. Small businesses are still overly dependent on bank lending despite the increasing availability of debt and equity instruments in the market. Therefore, that segment is very vulnerable to credit market developments.

(12) Investment growth has been muted in recent years, which limited Slovenia's economic output and future growth prospects. Private investment declined sharply during the economic crisis and since then its share in GDP has been decreasing. With public investment strongly dependent on the dynamics of EU funds, more productive investment is needed to stimulate and sustain economic growth. Foreign direct investment in Slovenia has grown markedly in the last two years, mainly due to increased privatisation efforts. However, Slovenia's business environment remains hindered by ongoing deleveraging and a high level of administrative burden, particularly in the areas of construction, spatial planning and tax compliance, but also due to restrictive regulation on access to and exercise of regulated professions, which impedes the inflow of investment. Making it easier to do business in Slovenia depends on increased business trust and further elimination of inefficiencies in public administration and red tape stemming from a high number of laws and by-laws and frequent changes to legislation. Around half of the administrative burden reduction measures set out in the Government's single document have been implemented, but some pertinent measures, especially on building permits and spatial planning, have been delayed.

(13) The 2015-2020 strategy for the development of public administration, adopted as part of Slovenia's compliance with the pre-conditions for accessing European Structural and Investment Funds for 2014-2020, stretches across various portfolios, making cross-ministerial coordination essential if it is to be implemented properly and in good time. In February 2016, the Government adopted the second interim report on the implementation of the 'Zero tolerance of corruption' programme. There has been some progress in the implementation of that programme. However, certain measures of the programme (joint public procurement for health, examination of crime in banking sector and adoption of the Act for integrity and prevention of corruption) have been delayed. The envisaged amendment of the Act for integrity and prevention of corruption will provide an opportunity to improve the functioning of the Commission for Prevention of Corruption, by addressing credibility issues and the efficiency of its work. In the justice system, the length of trials has been shortened further and the number of pending cases has been reduced from very high levels, partly helped by a smaller number of incoming cases. The decrease is also, to a certain extent, determined by changes in the procedural and statistical treatment of enforcement cases. The Supreme Court continues to update business processes in courts and to reform case

management systems. Despite an improved insolvency framework, offering businesses increased opportunities for reorganisation, liquidation proceedings remain lengthy and ineffective.

(14) State involvement in the economy remains high. The State is the largest employer, asset manager and corporate debt holder in Slovenia. In response to the recommendations issued to Slovenia between 2012 and 2015 on that issue, the country produced a new framework for the Slovenian Sovereign Holding. It includes a strategy on the management of State ownership, a set of asset performance criteria and a management plan for 2016. This system complements the new corporate governance code for state-owned enterprises adopted at the end of 2014. The strategy confirms the extent of State's current involvement in the economy and shifts the focus towards an improved performance of the state-owned enterprises. Therefore, implementation of the overhauled framework by the Slovenian Sovereign Holding is all the more important to ensure the separation of the Government's ownership and regulatory functions and the professional management of state-owned enterprises. This, together with further privatisation of selected assets, should reduce contingent liabilities to the budget from this area. The privatisation of Nova Ljubljanska Banka (NLB) is to be launched in 2016 in line with the Slovenian Sovereign Holding management plan.

(15) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Slovenia's economic policy and published it in the 2016 country report. It has also assessed the Stability Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Slovenia in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Slovenia but also their compliance with EU rules and guidance, given the need to strengthen the EU's overall economic governance by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) to (4) 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 (1), (3) and (4) below,

HEREBY RECOMMENDS that Slovenia take action in 2016 and 2017 to:

1. Following the correction of the excessive deficit, achieve an annual fiscal adjustment of 0,6 % of GDP towards the medium-term budgetary objective in 2016 and in 2017. Set a medium-term budgetary objective that respects the requirements of the Stability and Growth Pact. Strengthen the fiscal framework by appointing an independent fiscal council and amending the Public Finance Act. Complete and implement the reform of the long-term care and healthcare systems, making them more cost-efficient to ensure long-term sustainability of accessible and quality care. By the end of 2017, adopt the necessary measures to ensure the long-term sustainability and adequacy of the pension system.

2. In consultation with social partners, increase the employability of low-skilled and older workers, including through targeted lifelong learning and activation measures.

3. Improve the financing conditions for creditworthy business, including by facilitating durable resolution of non-performing loans and access to alternative financing sources. Ensure the proper implementation of the bank asset management company strategy.

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

4. Take measures to modernise public administration and reduce the administrative burden on business. Improve the governance and the performance of state-owned enterprises.

Done at Brussels, 12 July 2016.

For the Council

The President

P. KAŽIMÍR

COUNCIL RECOMMENDATION

of 12 July 2016

on the 2016 National Reform Programme of Croatia and delivering a Council opinion on the 2016 Convergence Programme of Croatia

(2016/C 299/23)

THE COUNCIL OF THE EUROPEAN UNION,

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

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

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances [2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the 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 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011, the Commission 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.

(2) The 2016 country report for Croatia was published on 26 February 2016. It assessed Croatia's progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015 and Croatia's progress towards its national Europe 2020 targets. It also included the in-depth review under Article 5 of Regulation (EU) No 1176/2011. On 8 March 2016, the Commission presented the results of the in-depth review. The

[1] OJ L 209, 2.8.1997, p. 1.
[2] OJ L 306, 23.11.2011, p. 25.

Commission's analysis leads it to conclude that Croatia is experiencing excessive macroeconomic imbalances. In particular, it is essential to address vulnerabilities linked to high public, corporate and external debt in the context of high unemployment. Further weaknesses requiring specific policy action include fiscal governance, the governance of state-owned enterprises, the efficiency of public administration, and the resolution of non-performing loans.

(3) On 28 April 2016, Croatia submitted its 2016 National Reform Programme and its 2016 Convergence Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time. The National Reform Programme presents a fairly ambitious reform agenda, which, if fully implemented within the indicated timelines, would help address its macroeconomic imbalances. It outlines relevant measures to improve the management of public finances, the health sector and the business environment and commits to ambitious reforms in the public administration, the pension system, social protection and the improvement of governance in state-owned enterprises. Based on the assessment of Croatia's policy commitments, there is no need at this stage for a stepping-up of the macroeconomic imbalances procedure.

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

(5) Croatia is currently in the corrective arm of the Stability and Growth Pact. In its 2016 Convergence Programme, the Government expects that the headline deficit will be below 3 % of GDP, at 2,6 % of GDP, in 2016 and will fall further thereafter, reaching 1,0 % of GDP by 2019. Moreover, the Government expects to reach its medium-term budgetary objective — a deficit of 1,75 % of GDP in structural terms — throughout the programme period. The government debt-to-GDP ratio peaked at 86,7 % in 2015 but, according to the Convergence Programme, is projected to gradually decline to 80,0 % in 2019. Taken at face value, the debt-to-GDP projections in the Programme comply with the debt reduction benchmark. However, while the macroeconomic scenario underpinning these budgetary projections is plausible in real terms, nominal GDP growth is higher than projected in the Commission forecast, especially for 2016. The projected reduction in the debt ratio therefore relies on favourable nominal growth projections; in addition, it factors in significant debt-reducing stock-flow adjustments from the sale of financial assets, which are not sufficiently specified. Furthermore, the measures needed to support the planned deficit targets from 2017 onwards are mostly unspecified. Based on the Commission 2016 spring forecast, the general government deficit is projected to reach 2,7 % of GDP in 2016, in line with the headline deficit target included in the Council Recommendation of 21 January 2014 under Article 126(7) TFEU. The recommended fiscal effort under the excessive deficit procedure is projected to be achieved. By contrast, the Commission forecast does not point to compliance with the forward-looking debt reduction benchmark. Whereas a structural adjustment of 0,2 % of GDP in 2017 would be sufficient to reach the medium-term budgetary objective, a higher structural adjustment would be needed to ensure compliance with the debt reduction benchmark. In particular, an adjustment above the 0,5 % of GDP benchmark would seem appropriate given the high debt and current cyclical conditions in Croatia. Currently, the structural balance is projected to deteriorate by 0,2 % of GDP in 2017. Based on its assessment of the Convergence Programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that there is a risk that Croatia will not comply with the provisions of the Stability and Growth Pact. Therefore, further measures will be needed to ensure compliance in 2017.

(6) Croatia's budgetary planning continues to suffer from major weaknesses despite some improvements made by the 2015 amendment of the Budget Act. Linkages between the multiannual budgetary framework and annual budgets remain weak, and there are no clear rules on changing budgetary plans within the year. The strategic planning of individual budgetary units is not subject to systematic scrutiny and does not sufficiently support the alignment of policy priorities with medium-term fiscal targets. The budgetary process gives little consideration to the sizeable off-budget transactions and accounting adjustments impacting general government deficit and debt. Numerical

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

fiscal rules are currently being revised. One of the main challenges is to make them more operational and better aligned with the Stability and Growth Pact. Efforts are also needed to improve the statistical basis of budgetary planning.

(7) The Fiscal Policy Commission, which is in charge of monitoring compliance with fiscal rules at the national level, is closely linked with national fiscal authorities and is understaffed. Under these conditions, its political and functional independence is not ensured. A revision of the institutional setup and the mandate of the Fiscal Policy Commission has been announced for the third quarter of 2016.

(8) Croatia has started to reform the system of communal charges, presented as a step in a broader reform of immovable property taxation. Combined revenue from recurrent taxes on immovable property and communal charges is relatively low as a proportion of GDP.

(9) A high level of tax arrears, VAT fraud and the shadow economy are key challenges. Measures are being taken to improve tax compliance, including the development of a compliance risk management system. Yet, evidence on the effectiveness of the measures taken is still limited.

(10) The stock of public debt is high and still increasing, making it indispensable to adopt a forward-looking proactive approach to public debt management. A debt management strategy for 2016-2018 is planned to be adopted soon. However, Croatia is still lacking a more comprehensive approach to debt management comprising, inter alia, annual revisions that take account of market developments, an appropriate risk management strategy, and the strengthening of the function to carry out the associated tasks.

(11) A large proportion of the working-age population does not participate in the labour market. One of the main reasons for this is early retirement, also among prime-aged men. Early retirement is possible a full five years before the statutory retirement age and financial incentives to work until (and beyond) that age are weak. In addition, the pension system is characterised by a number of special provisions for specific categories of workers and generous early retirement options for certain occupations. Statutory retirement ages for men and women are being brought into line and increased to 67, but only slowly. Both the current and future adequacy of pensions is low and creates high risks of poverty in old age, especially for those with short working lives.

(12) The problem of high inactivity is compounded by high unemployment; the low utilisation of the labour potential holds back growth. Youth unemployment remains a key concern, pointing to weaknesses in the education system, and there is still room to improve the effectiveness, monitoring and evaluation of the Youth Guarantee. Long-term unemployment rates have fallen recently but are still about twice the EU average. Participation in lifelong learning remains very low, due to an underdeveloped adult education system.

(13) There are regional differences in per capita spending on social protection, and inconsistencies as regards the eligibility criteria for general social protection schemes and those targeting special categories. Moreover, only a small share of the overall social protection budget is spent on the nation-wide minimum income scheme. This results in inefficiencies and provides insufficient protection to the poorest. The reform of the social protection system suffered delays in terms of consolidating various benefits and establishing one-stop shops as single administrative points for the delivery of social protection services.

(14) The functional distribution of competences of public administration between central and local levels is complex, and the system is fragmented. The allocation of decentralised administrative functions is not in line with the fiscal capacity of the local units in charge. This makes the local units strongly reliant on central government transfers while leaving considerable regional disparities in the provision of public services. The fragmentation of public administration weighs on service delivery, the business environment and the efficiency of public expenditure. The reform of public administration has not been taken forward in substance. A legal framework was introduced for the voluntary merger of local government units, but incentives to take up this option were not provided. The rationalisation of the system of state agencies is proceeding slowly.

(15) Public sector wages are regulated by inconsistent provisions across public institutions in the definition of job complexity, fringe benefits and wage supplements. This limits the Government's control over the wage bill and weighs on the efficiency of the public sector. Due to the relatively high proportion of total employment accounted for by the public sector, public wage developments are also relevant to the wider economy.

(16) State ownership of companies is highly present in the economy. Weaknesses in governance, including the lack of appropriate performance monitoring, continue to result in significantly lower profitability of state-owned enterprises relative to comparable private corporations, with negative impacts on public finance. Listing shares of state-owned enterprises on the stock exchange can help improve their corporate governance, in particular by fostering reporting and internal control mechanisms. In the past year, steps to open up state-owned enterprises to private ownership advanced slowly.

(17) The national promotional bank 'Croatian Bank for Reconstruction and Development' (HBOR), a state-owned entity, could play a crucial role in Croatia's recovery. Its lending activity could have a substantial impact on promoting investment while addressing market failures. An appropriate regulatory framework and sound corporate governance are needed to contain the risk associated with its activity, especially since HBOR is increasingly engaging in direct lending.

(18) The independent asset quality review of HBOR's credit portfolio that the authorities are planning to carry out in 2017 is one step in addressing the above-mentioned challenges. In the meantime, it is necessary to strengthen the monitoring and accountability mechanisms applying to HBOR.

(19) The absorption rate of European Structural and Investment Funds has so far been low due to factors such as insufficient administrative capacity, burdensome procedures and the limited number of ready-to-implement projects.

(20) Croatia's business environment continues to suffer from major shortcomings that weigh on the investment climate. Many parafiscal charges levied on firms still hamper the business environment. The regulatory environment for service providers and regulated professions remains restrictive. There are restrictions on access to and the conduct of certain regulated professions, including legal professions and tax advisors. Croatia has been reviewing the need for and the proportionality of these restrictions, but the delivery of action has been delayed. Furthermore, regulated professions and businesses suffer from high administrative burdens.

(21) Regulatory instability and a perceived low quality of legislation also weigh on the business environment. With lengthy proceedings, significant backlogs and inconsistent case-law, the quality and efficiency of the judicial system and of commercial courts in particular are facing challenges. ICT systems are under-developed in particular in the communication with parties in court proceedings and electronic delivery of court documents.

(22) The resolution of non-performing loans is critical in addressing the debt overhang in the economy. In this regard, important steps have been made by reinforcing the pre-insolvency and insolvency frameworks for businesses and adopting a personal insolvency procedure. The impact of the new frameworks requires detailed monitoring. However, legal uncertainty in the tax treatment of write-offs still constitutes a barrier to the swift unwinding of banks' stocks of non-performing loans.

(23) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Croatia's economic policy and published it in the 2016 country report. It has also assessed the Convergence Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Croatia in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Croatia but also their compliance with EU rules and guidance, given the need to strengthen the EU's overall economic governance by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) to (5) below.

(24) 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.

(25) 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 (5) below,

HEREBY RECOMMENDS that Croatia take action in 2016 and 2017 to:

1. Ensure a durable correction of the excessive deficit by 2016. Thereafter, achieve an annual fiscal adjustment of at least 0,6 % of GDP in 2017. Use any windfall gains to accelerate the reduction of the general government debt ratio. By September 2016, reinforce numerical fiscal rules and strengthen the independence and the mandate of the Fiscal Policy Commission. By the end of 2016, improve budgetary planning and strengthen the multi-annual budgetary framework. By the end of 2016, start a reform of recurrent taxation of immovable property. Reinforce the framework for public debt management. Adopt and start implementing a debt management strategy for 2016-2018.

2. By the end of 2016, take measures to discourage early retirement, accelerate the transition to the higher statutory retirement age, and align pension provisions for specific categories with the rules of the general scheme. Provide appropriate up- and re-skilling measures to enhance the employability of the working-age population, with a focus on the low-skilled and the long-term unemployed. Consolidate social protection benefits, including special schemes, by aligning eligibility criteria and integrating their administration, and focus support on those most in need.

3. By the end of 2016, start reducing fragmentation and improving the functional distribution of competencies in public administration to improve efficiency and reduce territorial disparities in the delivery of public services. In consultation with social partners, harmonise the wage-setting frameworks across the public administration and public services. Advance the divestment process of state assets and reinforce the monitoring of state-owned enterprises' performance and boards' accountability, including by advancing the listing of shares of state-owned companies.

4. Significantly reduce parafiscal charges. Remove unjustified regulatory restrictions hampering access to and the practice of regulated professions. Reduce the administrative burden on businesses.

5. Take measures to improve the quality and efficiency of the judicial system in commercial and administrative courts. Facilitate the resolution of non-performing loans, in particular by improving the tax treatment of the resolution of non-performing loans.

Done at Brussels, 12 July 2016.

For the Council

The President

P. KAŽIMÍR

COUNCIL RECOMMENDATION

of 12 July 2016

on the 2016 National Reform Programme of Luxembourg and delivering a Council opinion on the 2016 Stability Programme of Luxembourg

(2016/C 299/24)

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 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 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council ([2]), the Commission adopted the Alert Mechanism Report, in which Luxembourg was not identified as one of the Member States for which an in-depth review would be carried out. On the same day, the Commission adopted a recommendation for a Council Recommendation on the economic policy of the euro area. That Recommendation was endorsed by the European Council on 18-19 February 2016 and adopted by the Council on 8 March 2016 ([3]). As a country whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, Luxembourg should ensure the full and timely implementation of the Recommendation.

(2) The country report for Luxembourg was published on 26 February 2016. It assessed Luxembourg's progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015 and Luxembourg's progress towards its national Europe 2020 targets.

([1]) OJ L 209, 2.8.1997, p. 1.
([2]) Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25).
([3]) OJ C 96, 11.3.2016, p. 1.

(3) On 29 April 2016, Luxembourg submitted its 2016 National Reform Programme and its 2016 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

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

(5) Luxembourg is currently in the preventive arm of the Stability and Growth Pact. In its 2016 Stability Programme, the Government plans to achieve a balanced budget in 2017 and small surpluses thereafter, reaching 0,4 % of GDP by 2020. The medium-term budgetary objective will continue to be met throughout the programme period. However, in its Stability Programme, Luxembourg announces that the medium-term budgetary objective will change from a structural surplus of 0,5 % of GDP until 2016 to a structural deficit of 0,5 % of GDP as from 2017. According to the Stability Programme, the government debt-to-GDP ratio is expected to gradually increase to 23,5 % of GDP in 2020. The macroeconomic scenario underpinning these budgetary projections is plausible, with the exception of 2017 and 2018 when it is favourable. Based on the Commission 2016 spring forecast, the structural surplus is projected to decrease to 1,4 % of GDP in 2016 and further to 0,3 % of GDP in 2017, thereby remaining above the medium-term budgetary objective. Possible future deviations would be assessed against the requirement to maintain the structural balance at the medium-term budgetary objective, bearing in mind the need to ensure the long-term sustainability of public finances, in particular in the area of pensions. Based on its assessment of the Stability Programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that Luxembourg is expected to comply with the provisions of the Stability and Growth Pact.

(6) The Luxembourg authorities have announced the main lines of a comprehensive tax reform that should enter into force in 2017. The reform foresees amendments mostly in the area of direct taxation, both for individuals and corporations. It aims at a gradual reduction in the corporate income tax rate (with the aim of increasing competitiveness) and increased progressivity of personal income tax (with the aim of increasing fairness). At the same time, the increase of certain tax expenditures, in particular with regard to housing, risks narrowing the tax base. Some international developments may also affect the design of the Luxembourg tax system and highlight the fragility of at least a share of the fiscal revenues. To ensure their predictability, there is scope for further broadening of the tax base, in particular by revisiting the currently low taxation on housing property and making greater use of alternative sources, including environmental taxation. In that respect, the repeal of the intellectual property box allows some broadening of the corporate tax base. The adoption and implementation of the tax reforms will continue to be monitored closely under the European Semester.

(7) The Luxembourg authorities have sought to diversify the economy, acknowledging the risks associated with heavy dependence on the financial sector. Given the high level of labour costs in the country, activities with higher added value offer the potential to unlock alternative sources of growth. The successful diversification of Luxembourg's economy therefore depends to a large extent on those sectors that are less sensitive to labour cost levels. They are largely based on research and innovation, which tend to be technology- and knowledge-intensive. Further expansion of the already successful non-financial service sector could also help diversify the economy. Reducing or removing existing barriers to investment and innovation that limit economic development would unleash the potential for innovation and help diversification. While public investment is above the euro area average, private investment is underperforming. Sustaining a high level of investment is essential to maintaining growth prospects. The analysis in the country report shows that Luxembourg is the country with the most restrictive regulation in the Union for business services and retail establishment. The main restrictions concern shareholding requirements, voting rights and multidisciplinary limitations in the business services sector as well as operational and establishment requirements in the retail sector.

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

(8) The continuous increase in house prices in recent decades, together with projected strong population and employment dynamics over the coming years, could become an obstacle to the envisaged increase in population and labour force. That prospect is all the more likely as the economy depends largely on the input of high-skilled workers from the neighbouring countries, who represent around one-third of overall employment. The dynamism of residential real estate prices is driven by a mismatch between demand and supply, in particular the lack of available and affordable housing. Insufficient availability of land for new construction and suboptimal administrative performance regarding procedures to grant building permits hinder the flexibility of housing supply. An important part of the tax subsidies available under current policies are also likely to be capitalised into house prices, given the rigid housing supply. Efforts aimed at providing social housing at affordable prices could also be stepped up. The current housing market not only deters households from establishing their residence in Luxembourg but also exacerbates the problem of traffic congestion and pollution. The new demographic projections in the 2015 ageing report also add pressure to remove bottlenecks to investment in the fields of transport and housing and should be reflected in the four forthcoming sectoral plans on housing, transport, economic activity zones and green landscapes.

(9) Achievement of economic diversification may be constrained by the fact that wage developments in some sectors may not be in line with productivity developments. This further limits the sectors that can be targeted, mainly to those with high added value. Over the last decade, unit labour costs in Luxembourg have grown faster than in most euro area Member States. Economy-wide automatic wage indexation plays a role in limiting wage variation across sectors and may prevent labour productivity differentials from being taken into account. However, the protracted low inflation environment has delayed the triggering of the automatic wage adjustment and contributed to moderate wage developments. In parallel with weak wage developments and the surge in output, cost-competitiveness losses have abated. In that context, monitoring of wage developments is warranted.

(10) Age-related liabilities remain a risk in the long term, in particular as regards pension costs. Luxembourg has made limited progress in relation to closing the gap between the statutory and effective retirement age, by limiting early retirement. In July 2015, a draft law modifying early retirement schemes was presented to the Parliament. However, while one scheme will be abolished, accessibility conditions for other pre-retirement schemes will be partially eased. A law on the reclassification of workers with working disabilities was adopted in July 2015 and has been implemented since 1 January 2016. The law increased the possibilities for workers with working disabilities to remain in the labour market and consequently implies a reduction in the number of people entering an early retirement scheme. Early retirement remains widespread and incentives to work longer are limited. A complete strategy on age policy to keep older workers longer in employment and provide incentives and skills to get them back to work is still missing. The 'age pact', aiming at fostering retention of older workers by firms with more than 150 employees, is still being discussed in the Parliament.

(11) According to the 2012 pension reform, an exercise to monitor and evaluate the sustainability of the pension system should be carried out every five years from the adoption of the reform. The Government confirmed its intention to advance the evaluation to 2016, rather than 2017 as originally planned, and created a Pension Working Group tasked with carrying out the evaluation. There has been no progress in linking statutory retirement age to life expectancy, as previously recommended by the Council. Luxembourg stands out as the only Member State where no further raising of the statutory and early retirement ages has been laid down for the period between 2013-2060. In the 2015 Ageing Report, the projected increase in age-related expenditure is revised downward, but the revision is almost exclusively explained by more favourable demographic projections, in a context where no new reforms have been adopted. Even after the revision, the projected increase in pension expenditure remains the highest in the Union. Moreover, Luxembourg faces risks related to the expected increase of long-term care expenditure, one of the highest as a share of GDP of all Member States. This, in turn, seems to be driven by the highest projected increase in the share of dependant population in the Union by 2060. Preparatory work on a reform to ensure the long-term sustainability of the long-term care insurance has been carried out.

(12) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Luxembourg's economic policy and published it in the 2016 country report. It has also assessed the Stability Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Luxembourg in previous years. 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

strengthen the EU's overall economic governance by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) and (2) below.

(13) In the light of this assessment, the Council has examined the Stability Programme and is of the opinion [1] that Luxembourg is expected to comply with the Stability and Growth Pact,

HEREBY RECOMMENDS that Luxembourg take action in 2016 and 2017 to:

1. Ensure the long-term sustainability of public pensions by increasing the effective retirement age, by limiting early retirement and increasing incentives to work longer, and by aligning the statutory retirement age to changes in life expectancy.

2. Remove barriers to investment and innovation that limit economic development in the business services sector. Address bottlenecks that hamper housing investment.

Done at Brussels, 12 July 2016.

For the Council

The President

P. KAŽIMÍR

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

COUNCIL RECOMMENDATION

of 12 July 2016

on the 2016 National Reform Programme of Malta and delivering a Council opinion on the 2016 Stability Programme of Malta

(2016/C 299/25)

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 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 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council ([2]), the Commission adopted the Alert Mechanism Report, in which it did not identify Malta as one of the Member States for which an in-depth review would be carried out. On the same day, the Commission also adopted a recommendation for a Council Recommendation on the economic policy of the euro area. This Recommendation was endorsed by the European Council on 18-19 February 2016 and adopted by the Council on 8 March 2016 ([3]). As a country whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, Malta should ensure the full and timely implementation of the Recommendation.

(2) The 2016 country report for Malta was published on 26 February 2016. It assessed Malta's progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015 and Malta's progress towards its national Europe 2020 targets.

([1]) OJ L 209, 2.8.1997, p. 1.
([2]) Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25).
([3]) OJ C 96, 11.3.2016, p. 1.

(3) On 15 April 2016, Malta submitted its 2016 National Reform Programme and its 2016 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

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

(5) Malta is currently in the preventive arm of the Stability and Growth Pact and subject to the debt rule. In its 2016 Stability Programme, the Government plans the headline balance to improve to a surplus of 0,1 % of GDP by 2019. The structural balance will gradually improve so that Malta's medium-term budgetary objective — a balanced budgetary position in structural terms — is reached by 2019. According to the Stability Programme, the general government debt-to-GDP ratio is expected to fall to 62,6 % in 2016 and decrease further to 55,5 % in 2019. The macroeconomic scenario underpinning these budgetary projections is plausible for 2016 and cautious for 2017-19. However, the measures needed to support the planned deficit targets from 2017 onwards have not been sufficiently specified. Based on the Commission 2016 spring forecast, there is a high risk of a significant deviation from the recommended adjustment towards the medium-term objective in 2015 and 2016 taken together, essentially stemming from the slippage in 2015 which needs to be corrected in 2016, and under unchanged policies in 2017. The slippage in 2015 is partly explained by the surge in investment largely due to the exceptionally high absorption of EU funds in the run up to the conclusion of the 2007-2013 programming period. In order to reduce the deviation over the two-years 2015-2016, the 2016 Stability Programme includes additional measures for 2016 that could not yet be included in the Commission 2016 spring forecast. These measures are targeted at reducing primary expenditure (by 0,16 % of GDP), especially in the areas of compensation of employees, intermediate consumption and capital transfers. In addition, the estimates of some of the revenue measures for 2016-2019 have been revised to reflect more up-to-date information, as well as the actual impact of the measures for 2015. Taken together, these measures have a net deficit-reducing impact of 0,2 % of GDP. Compared to the Commission forecast, factoring in these measures would improve the structural effort, and the structural balance pillar would point to some deviation on average over the two years 2015-2016, whereas a risk of a significant deviation would remain in 2017. Malta is forecast to comply with the debt reduction benchmark both in 2016 and 2017. Based on its assessment of the Stability Programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that there is a risk that Malta will not comply with the provisions of the Stability and Growth Pact. Therefore, further measures will be needed to ensure compliance in 2016 and 2017.

(6) The long-term sustainability of public finances in Malta remains a challenge. This is mainly due to the budgetary impact of ageing-related costs, such as healthcare and long-term care and pensions. The pension system faces the double challenge of achieving sustainability while ensuring adequate retirement incomes. Pension expenditure was lower than the EU average in 2013, at 9,6 % of GDP, but it is projected to increase to 12,8 % by 2060, one of the highest in the Union. In March 2016, the Government adopted several measures to address the sustainability and the adequacy of the pensions system, but the budgetary impact has not yet been assessed. In order to improve the adequacy of the system, the contributory national minimum pension continues to evolve in 2016, with a view to reaching 60 % of median income by 2027, and to extend its coverage. Effectiveness of the reform will depend on safeguarding the employability of the older cohorts. In addition to pensions, public expenditure on healthcare and long-term care is projected to increase faster than the EU average, at 2,1 % and 1,2 % of GDP. The authorities have adopted a national health systems strategy and are conducting a healthcare spending review with a view to improving the efficiency of expenditure. However, the savings from these efforts have yet to materialise. Sustainability in the long run would benefit from using potential savings to address the projected expenditure growth.

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

(7) Significant investments have been made, but education and training outcomes are still below target. This affects the quality of labour supply and the labour market participation rate. The educational attainment of Malta's workforce is still among the lowest in the Union. Malta is implementing a comprehensive strategy for lifelong learning, but participation in lifelong learning programmes is still limited, particularly among those with low educational attainment. Challenges in this area include targeted outreach, improved access to training and partnerships between education and training institutions and employers. A legal notice establishing an institute for the continuous professional development of teachers (the Institute for Education) was approved in 2015. The Institute's main objectives are to: (i) provide teachers with skills needed in their daily professional activities; (ii) act as a hub for educators to meet and share their experiences, and (iii) promote educational leadership. The Institute is now becoming operational and is expected to become the main driver in addressing teachers' professional development needs. Progress in this area will need to be monitored.

(8) Apart from one-off large-scale projects in 2014-2015, investment in Malta has been muted, reflecting structural changes in the economy and bottlenecks. This is mainly linked to the increasing importance of less capital-intensive service sectors, which lowers the economy's future investment needs. Nevetherless, some challenges that affect investment activity in the country persist, such as the insufficient capacity to innovate, skills bottlenecks, inefficiencies in the public administration and the justice system, the regulatory burden and significant traffic congestion.

(9) The transport and logistical infrastructure is one of the major barriers to foreign investment. The external costs of transport borne by Malta's economy are substantial. These stem mainly from an inefficient use of the country's transport network and the lack of real alternatives to using private passenger cars. In addition, the high number of private vehicles, pollution and traffic congestion pose challenges to the sustainability of the national transport sector. No comprehensive transport strategy has yet been implemented, despite the fact that the development of a national transport strategy and master plan is a pre-condition for accessing European Structural and Investment Funds (2014-2020), which will be used to co-fund transport investments.

(10) The Government has taken several steps to improve access to finance for small and medium-sized enterprises (SMEs). These steps were geared to providing equity and venture capital, which had been identified as a bottleneck in recent years. In addition, future measures include setting up a central credit register and a development bank and the launch by the Malta Stock Exchange of a platform designed specifically to help SMEs raise funds through the capital market. Difficulties in the area of access to non-bank instruments remain, but SMEs in Malta benefit from a better financing environment than many of their EU peers.

(11) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Malta's economic policy and published it in the 2016 country report. It has also assessed the Stability Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Malta in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Malta but also their compliance with EU rules and guidance, given the need to strengthen the EU's overall economic governance by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) and (2) below.

(12) 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,

HEREBY RECOMMENDS that Malta take action in 2016 and 2017 to:

1. In view of the high risk of a significant deviation, achieve an annual fiscal adjustment of 0,6 % of GDP towards the medium-term budgetary objective in 2016 and in 2017, by taking the necessary structural measures. Step up measures to ensure the long-term sustainability of public finances.

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

2. Take measures to strengthen labour supply, in particular through increased participation of low-skilled persons in lifelong learning.

Done at Brussels, 12 July 2016.

For the Council

The President

P. KAŽIMÍR

COUNCIL RECOMMENDATION

of 12 July 2016

on the 2016 National Reform Programme of Portugal and delivering a Council opinion on the 2016 Stability Programme of Portugal

(2016/C 299/26)

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 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 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report, in which it identified Portugal as one of the Member States for which an in-depth review would be carried out. On the same day, the Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area. This recommendation was endorsed by the European Council on 18-19 February 2016 and adopted by the Council on 8 March 2016 ([3]). As a country whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, Portugal should ensure the full and timely implementation of the recommendation.

(2) The 2016 country report for Portugal was published on 26 February 2016. It assessed Portugal's progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015 and Portugal's

([1]) OJ L 209, 2.8.1997, p. 1.
([2]) OJ L 306, 23.11.2011, p. 25.
([3]) OJ C 96, 11.3.2016, p. 1.

progress towards its national Europe 2020 targets. It also included the in-depth review under Article 5 of Regulation (EU) No 1176/2011. On 8 March 2016, the Commission presented the results of the in-depth review. The Commission's analysis leads it to conclude that Portugal is experiencing excessive macroeconomic imbalances. In particular, the large stocks of net external liabilities, private and public debt and a high share of non-performing loans constitute vulnerabilities in a context of elevated unemployment. Policy gaps persist regarding product and services markets, corporate debt restructuring, fiscal issues and selected areas of the labour market.

(3) On 29 April 2016, Portugal submitted its 2016 National Reform Programme and its 2016 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time. Portugal's National Reform Programme shows sufficient ambition to tackle the excessive imbalances, outlines relevant measures to foster competitiveness and reduction of private debt and refers to the challenges in the 2016 country report and the euro area recommendations focusing on the need to re-launch investment and ensure the sustainability of public finances. If fully and swiftly implemented, these measures would help address Portugal's macroeconomic imbalances. Based on the assessment of Portugal's policy commitments, there is no need at this stage for a stepping-up of the macroeconomic imbalances procedure.

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

(5) Portugal is currently in the corrective arm of the Stability and Growth Pact. It did not correct the excessive deficit by the 2015 deadline and did not deliver the fiscal effort recommended by the Council. In its 2016 Stability Programme, the Government plans to correct the excessive deficit and reach a headline deficit of 2,2 % of GDP in 2016. Once a durable correction of the excessive deficit has been achieved, Portugal will become subject to the preventive arm and to the transitional debt rule. The (recalculated ([2])) structural balance is set to improve only by around 0,35 % of GDP per year, below the required 0,6 % of GDP, between 2016 and 2020, and the medium-term budgetary objective — a structural surplus of 0,25 % of GDP — is not expected to be achieved within the time horizon of the Programme. According to the Stability Programme, the government debt-to-GDP ratio is expected to fall to 124,8 % in 2016 and to continue declining to 110,3 % in 2020. The macroeconomic scenario underpinning these budgetary projections is rather optimistic. Moreover, the measures needed to support the planned deficit targets from 2017 onwards have not been sufficiently specified. Based on the Commission 2016 spring forecast, the general government deficit is projected to reach 2,7 % of GDP in 2016, below the Treaty reference value of 3 % of GDP, and 2,3 % of GDP in 2017. As the structural deficit is projected to slightly increase in 2016 and 2017, the fiscal effort is not in line with the requirements of the Stability and Growth Pact. Moreover, Portugal is not forecast to comply with the transitional debt rule in 2017. Based on its assessment of the Stability Programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that there is a risk that Portugal will not comply with the provisions of the Stability and Growth Pact. Therefore further measures will be needed to ensure compliance in 2016 and 2017.

(6) Pursuant to Article 10(1) of Regulation (EC) No 1467/97, the Commission will regularly monitor the implementation of action taken by Portugal in response to the Council Recommendation of 21 June 2013 under Article 126(7) TFEU, the Commission will therefore recommend to the Council the appropriate steps to be taken in the framework of the excessive deficit procedure.

(7) Timely and stringent implementation of the reformed budget framework law, the commitment control law and further improvements in revenue collection and expenditure control may significantly contribute to achieving the

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

([2]) The structural balance as recalculated by the Commission based on the information in the Stability Programme, following the commonly agreed methodology.

required fiscal adjustment. Portugal faces the double challenge of achieving the long-term fiscal sustainability of the healthcare system while at the same time maintaining the level of access to healthcare by improving efficiency in the system. Although Portugal currently has one of the lowest shares of public expenditure in total health spending in the Union, the projected increase in public healthcare expenditure by 2,5 % of GDP by 2060 is the highest. In view of addressing the long-term sustainability challenges in the health sector, comprehensive measures aimed at promoting disease prevention and public health policies as well as ensuring primary healthcare provision at an early and less costly stage have not yet been taken. In the short term, accurate budget planning and implementation in hospitals to ensure clearance of arrears remains an important challenge. While the long-term sustainability of the pension system was addressed in the recent reforms, its short to medium sustainability challenges remain unaddressed. The public pension system is characterised by a high reliance on budget transfers and intergenerational inequalities. Execution delays and policy gaps are still hampering the fiscal sustainability of state-owned enterprises, in particular in the transport sector. Strengthening efficiency enhancing measures in their restructuring plans remains crucial to achieve fiscal savings.

(8) Considerable efforts have been made to curb tax evasion by further improving the efficiency of the tax administration. Measures are being taken to combat tax fraud, to improve information-sharing with financial institutions, and to strengthen the anti-money-laundering framework. Despite the progress made, there is still scope for strengthening tax compliance. Reforming the tax administration to make it more efficient would also help encourage investment.

(9) Overall wage developments have been moderate, consistent with high unemployment and the need to promote external rebalancing, and in line with productivity growth over the medium term. Collective bargaining at sectoral level has been supportive of this trend, though the characteristics of the collective bargaining system still limit the scope of firm-level adjustment. In a context of low inflation and high unemployment, the minimum wage was increased in January 2016 from EUR 505 to EUR 530 per month and is planned to be further gradually increased to EUR 600 per month in 2019 (paid 14 times per year). Portugal is in the middle of the EU ranking for minimum wages as a percentage of average wages, but among the countries with the highest minimum wage as a percentage of the median wage. This suggests that wage distribution in Portugal is very biased towards lower wages, and that further increases in the minimum wage might rapidly expand the proportion of workers covered, which in 2016 has reached almost a quarter of all employees. While this could help reduce the intensity of in-work poverty, it also results in an increased compression of the wage structure, putting upward pressure on overall wages. If not matched by productivity increases, this risks harming the employment and competitiveness outlook, especially for labour-intensive industries. It also risks reducing the incentive to invest in skills.

(10) The Portuguese labour market continued to recover in 2014 and 2015 and substantial efforts have been made to reform activation policies, modernise the public employment service and increase the outreach towards non-registered young people, though some implementation challenges persist. In view of the recent deterioration of the social situation, especially as regards the increasing level of child poverty, important measures have also been taken to reinforce social assistance, namely in the areas of the minimum income scheme, child benefits and low pensions. The impact of these measures in reducing the intensity of poverty needs to be assessed. Nevertheless, absorbing the large pool of long-term unemployed remains a challenge, negatively affecting economic growth and the social situation. There is room for further activation of the long-term unemployed, through targeted labour market policies and enhanced coordination among employment and social services. Although the recovery brought about many new jobs on permanent contracts, segmentation in the labour market remains significant. The proportion of fixed-term employees remains one of the highest in Europe, and the rate of transition from temporary to permanent contracts is low.

(11) High private-sector indebtedness remains a major area of vulnerability for the Portuguese economy and financing conditions for small and medium-sized businesses remain difficult. Some progress has been made on reducing the corporate debt overhang and allowing the private sector to deleverage, but Portugal's private sector is still one of the most highly indebted in the Union. This is a major impediment to investment and potential output growth. Non-financial corporations are adjusting their balance sheets, but to a lesser extent than households. High and rising levels of non-performing loans in the business sector are weighing on the balance sheets of both the non-financial and the financial sector and are a major obstacle to investment. Action has been taken at various levels to address corporate indebtedness, but results have been slow to come. The debt bias of corporate

taxation remains high. In the past few years, the Government has tried to tackle this problem by introducing thin capitalisation rules and an allowance for corporate equity. However, in 2015, the difference in the cost of capital (before and after taxation) between debt and equity-funded investments remained one of the highest in the Union. Access to credit remains costly and difficult for businesses, in particular small and medium-sized enterprises and start-ups. Alternative sources of funding, such as private equity, venture capital, crowdfunding and business angels, remain marginal and seriously under-developed.

(12) Despite progress, regulatory barriers and weak institutional capacity are still hampering business growth, competitiveness and investment. The efficiency of Portugal's justice system remains low, particularly in dealing with tax litigation. Public procurement is largely transparent in Portugal. However, according to data of the dedicated online platform 'BASE', contracting authorities in Portugal often use the direct award procedure, which over the 2013-2015 period constituted on average 87,3 % of all public contracts, representing 47 % of total amounts contracted. Transparency remains a challenge for concession contracts and public-private partnerships, particularly at local and regional level. The Ministry of Finance's taskforce for public-private partnerships (UTAP) oversees some public-private partnerships managed by the central administration, but concessions, regional and local public-private partnerships are not subject to its monitoring. The port sector reforms still suffer from delays in implementation and obstacles to the entry of new players. Registering a business has become easier, but licensing remains cumbersome, and complex administrative procedures are detrimental to investor confidence. Challenges still exist concerning procedures for access to the construction market, obtaining a construction permit and on effective implementation of streamlined environmental licensing rules. Regulatory barriers in some business services sectors prevent resources from being allocated efficiently, particularly regarding legal services. The by-laws governing professional bodies, in particular those concerning their statutes and internal rules, are restrictive and may hinder both natural and legal persons from gaining access to the relevant professions. This affects particularly legal professions, where, among other things, restrictions on advertising and multidisciplinary activities are prevalent.

(13) Portugal is underperforming in science-business cooperation and in the commercialisation of knowledge. The barriers to cooperation between universities and the business sector are high, due to both regulatory and bureaucratic obstacles and the lack of incentives for cooperation in the academic system. This is detrimental to the employability of graduates and to innovation. The launch of the new short-cycle higher technical courses (TeSPs) has provided new opportunities for cooperation between the polytechnics and regional economic actors, but university programmes remain outside the modernisation process.

(14) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Portugal's economic policy and published it in the 2016 country report. It has also assessed the Stability Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Portugal in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Portugal but also their compliance with EU rules and guidance, given the need to strengthen the EU's overall economic governance by providing EU-level input into future national decisions. The 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 light of the Commission's in-depth review and this assessment, the Council has examined the National Reform Programme and the Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1) to (5) below,

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

HEREBY RECOMMENDS that Portugal take action in 2016 and 2017 to:

1. Ensure a durable correction of the excessive deficit, in accordance with the relevant decisions or recommendations under the excessive deficit procedure, by taking the necessary structural measures and by using all windfall gains for deficit and debt reduction. Thereafter, achieve an annual fiscal adjustment of at least 0,6 % of GDP. Conduct, by February 2017, a comprehensive expenditure review and strengthen expenditure control, cost effectiveness and adequate budgeting at all levels of public administration. Ensure the long-term sustainability of the health sector, without compromising access to primary healthcare. Reduce the reliance of the pension system on budgetary transfers. By the end of 2016, refocus ongoing restructuring plans of state-owned enterprises.

2. In consultation with social partners, ensure that the minimum wage is consistent with the objectives of promoting employment and competitiveness across sectors.

3. Ensure the effective activation of the long-term unemployed and improve the coordination between employment and social services. Strengthen incentives for firms to hire through permanent contracts.

4. Take measures, by October 2016, to facilitate the cleaning up of the balance sheets of credit institutions and address the high level of non-performing loans. Reduce the debt bias in corporate taxation and improve the access to finance for start-ups and small and medium-sized enterprises via the capital market.

5. Increase transparency and efficiency in public procurement as regards public-private partnerships and concessions. By the end of 2016, improve and accelerate administrative and licensing procedures, accelerate tax litigations and reduce regulatory barriers, especially in business services. Incentivise cooperation between universities and the business sector.

Done at Brussels, 12 July 2016.

For the Council

The President

P. KAŽIMÍR

COUNCIL RECOMMENDATION

of 12 July 2016

on the 2016 National Reform Programme of France and delivering a Council opinion on the 2016 Stability Programme of France

(2016/C 299/27)

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (1), and in particular Article 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 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011, the Commission 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. On the same day, the Commission also adopted a recommendation for a Council Recommendation on the economic policy of the euro area. This Recommendation was endorsed by the European Council on 18-19 February 2016 and adopted by the Council on 8 March 2016 (3). As a country whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, France should ensure the full and timely implementation of the Recommendation.

(2) The 2016 country report for France was published on 26 February 2016. It assessed France's progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015 and France's progress

(1) OJ L 209, 2.8.1997, p. 1.
(2) OJ L 306, 23.11.2011, p. 25.
(3) OJ C 96, 11.3.2016, p. 1.

towards its national Europe 2020 targets. It also included the in-depth review under Article 5 of Regulation (EU) No 1176/2011. On 8 March 2016, the Commission presented the results of the in-depth review. The Commission's analysis leads it to conclude that France is experiencing excessive macroeconomic imbalances. In particular, with moderate growth and low inflation, France has a high and increasing public debt coupled with a deteriorated competitiveness. The need for action to reduce the risk of adverse effects on the French economy and, given its size, of negative spillovers to the economic and monetary union, is particularly important.

(3) On 29 April 2016, France submitted its 2016 National Reform Programme and its 2016 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

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

(5) France is currently in the corrective arm of the Stability and Growth Pact. In its 2016 Stability Programme, the Government plans to correct the excessive deficit by 2017, in line with the Council Recommendation of 10 March 2015. The headline deficit is planned to decline further to 1,2 % of GDP in 2019. The medium-term budgetary objective — a structural deficit of 0,4 % of GDP — is planned to be achieved by 2018. According to the Stability Programme, the government debt-to-GDP ratio is expected to peak at 96,5 % of GDP in 2017 before declining to 93,3 % of GDP in 2019. The macroeconomic scenario underpinning the budgetary projections is broadly plausible. However, the measures needed to support the planned deficit targets from 2017 onwards have not been sufficiently specified. Based on the Commission 2016 spring forecast, the headline deficit is projected to reach 3,4 % of GDP in 2016, in line with the deficit recommended by the Council in 2015. For 2017, under unchanged policies, the headline deficit is projected to reach 3,2 % of GDP, putting at risk compliance with the deadline to correct the excessive deficit. The recommended fiscal effort is not projected to be delivered in 2016 and 2017 as the consolidation strategy pursued by France relies primarily on improving cyclical conditions and a continuation of the low interest rate environment, which are outside the control of the authorities, thereby entailing compliance risks. Based on its assessment of the Stability Programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that, although currently projected to achieve its headline target in 2016, there is a risk that France will not comply with the provisions of the Stability and Growth Pact. Therefore, further measures will be needed to ensure a durable correction of the excessive deficit by 2017.

(6) The public expenditure-to-GDP ratio in France is one of the highest in the Union and, despite a slight decrease in 2015, it remains significantly above the euro area average. France is implementing a plan to reduce public spending by EUR 50 billion compared to trend growth between 2015 and 2017 at all levels of general government, but this may not achieve a significant reduction in public expenditure. Detailing the measures underpinning the spending reductions, while making sure that the savings measures take into account the close-to-zero inflation, would help to increase the efficiency of this plan.

(7) Challenges remain to reduce further the expenditure ratio as planned, since the process of identifying large areas of potential savings has not delivered enough results and the spending reviews have had modest outcomes so far. In the housing sector, France spends almost twice as much as its European peers without noticeable better outcomes in the housing market. The combined effect of the implementation of the planned reduction in grants to local authorities from the central government and a stronger control of local government expenditure, in particular by containing the rise in administrative costs of local authorities, could preserve their investment capacity. The spending reviews could be an appropriate tool to identify such savings. Moreover, the recent reform of local administration has the potential to increase the efficiency of the system over the medium- to long-term.

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

(8) Sizeable short-term savings cannot be achieved without significantly curbing the increase in social security spending, which represents more than half of the general government expenditure. The sustainability of the pension system has been improved through the agreement on complementary pension schemes in 2015 but it could continue to face deficits over the short- to medium-term, especially under adverse macroeconomic conditions. Moreover, the previous pension reforms are only expected to curtail the current high level of public pension expenditure ratio after 2025. France has set ambitious targets for 2016 and 2017 to limit the growth of health expenditure. These targets could be complemented by further efforts to identify efficiency gains in the medium- to long-term.

(9) Policy measures to reduce labour costs and improve firms' profit margins have been undertaken through the EUR 20 billion tax credit for competitiveness and employment and the EUR 10 billion in additional cuts in employers' social contributions under the responsibility and solidarity pact. The design of these measures, which account for 1,5 % of GDP and contribute to reducing the gap between France and the euro area average in terms of labour cost, may hamper their effectiveness. The results of the planned evaluations of these cost reduction measures will help any decision on the future design of these schemes, to ensure that these measures meet their objectives in terms of efficiency. The effect on wage formation and employment is of particular interest for these evaluations.

(10) In the current context of high unemployment, there are risks that the cost of labour at the minimum wage hampers employment of low-qualified people. While the minimum wage is high compared with the median wage, the cost of labour at the minimum wage has been reduced by social contribution exemptions. Increases in the minimum wage induce wage increases for most categories of workers and risk creating upward wage compression. Because of the minimum wage indexation mechanism, there are feedback loops between increases in average wages and changes in the minimum wage, which delay the necessary wage adjustment in response to a weak economic situation.

(11) Recent reforms have created only limited flexibility for employers to depart from branch-wide agreements. This concerns all aspects of employment conditions, including wages, working time, employment and working conditions and limits the possibilities for companies to adjust the workforce according to their needs. At present, branches may prevent companies from determining, on a case by case basis and after negotiations with social partners, the conditions under which working time could depart from branch-wide agreements. The take-up of derogations from branch agreements and general legal provisions on employment conditions, via firm-level agreements, could be facilitated, in consultation with social partners.

(12) In 2015, the unemployment rate increased to 10,4 %. Unemployment is higher among young people, non-EU nationals and less qualified workers. The structure of the labour market is increasingly polarised, with highly educated workers hired on open-ended contracts and a constant proportion of low-skilled jobs becoming more and more precarious. The proportion of fixed-term contracts of less than one month in total hires rose to close to 70 % in 2015. The legal framework governing labour contracts, in particular as regards the legislation on dismissal for open-ended contracts, may contribute to the high segmentation of the labour market. The long-running deterioration in the labour market has put a strain on the sustainability of the unemployment benefit system. In February 2016, the deficit was projected to be at EUR 4,5 billion in 2015, EUR 4,2 billion in 2016 and EUR 3,6 billion in 2017. This would further increase the system's debt from EUR 25,8 billion in 2015 to EUR 30,0 billion in 2016 and EUR 33,6 billion in 2017. The benefit calculation favours a succession of short-term full-time jobs over long-term part-time jobs and creates incentives for employers to offer short-term employment to be complemented by in-work benefits. Moreover, the design of the unemployment benefit system, in particular as regards eligibility conditions and degressivity of benefits, may weaken incentives to return to work.

(13) The transition from school to work remains challenging and the least qualified young people are the most affected. Recourse to apprenticeship is decreasing among low-qualified categories in a context of differentiated regional strategies and a limited capacity of the system to adapt to new economic needs. The offer of training for the unemployed, less qualified workers and SME employees remains insufficient. The ongoing vocational training reforms, including on governance, incentives and counselling and the new targeted unemployed training plan are

still to be fully implemented and should be reinforced. The unsatisfactory cooperation between the various actors involved in continuous vocational training prevents an efficient allocation of resources. The upcoming personal activity account may help to rebalance access.

(14) The French business environment continues to be middle ranking, in particular as regards the burden of government regulation, where France ranks poorly in international comparisons. The simplification programme is being pursued as planned but progress with implementation is uneven, especially as regards measures targeting companies, and there remain challenges in a number of areas.

(15) The French economy has a disproportionately high proportion of smaller businesses compared to other Member States and this limits their productivity level. Recent initiatives to soften the impact of size-related requirements are not expected significantly to affect firms' growth, in particular given their limited scope, and the temporary nature of some measures. As a consequence, threshold effects will continue to limit the growth of French firms.

(16) Competition in services has improved in some sectors, but barriers remain in place in others, in particular in business services, as a significant proportion of these services were unaffected by the recent reforms, and network industries. A number of barriers to entry and regulations, as well as tariffs, constrain economic activity in regulated professions and weigh on the productivity of other sectors that use these services. The adoption of the Macron Law in 2015 has reduced some constraints but further efforts are needed. Further problems stem from the restrictive application of authorisation requirements.

(17) France continues to lag behind EU innovation leaders, in spite of the generosity of public support in this area. There has been an inflation and instability of public schemes to support innovation over the past 15 years, which raises concerns as regards the overall coordination, consistency and efficiency of these schemes. This affects SMEs in particular.

(18) The tax-to-GDP ratio is one of the highest in the Union. Its composition is not conducive to economic growth as it weighs significantly on production factors but relatively little on consumption. Taxes on corporations started decreasing modestly in 2014 and France has begun to close the gap with the EU average in terms of environmental taxation, but revenues from VAT remain low both as a share of GDP and as a percentage of total taxation due to low rates, the widespread application of reduced rates and the high occurrence of exemptions compared to the EU average. Beyond the ongoing phase-out of the solidarity surcharge on companies and the suppression of the exceptional corporate income tax, concrete steps to reach the announced objective of reducing the corporate income statutory rate to 28 % in 2020 have to be fully specified.

(19) The tax system is very complex. A high number of inefficient taxes yielding little or no revenue remains and personal income taxation is particularly complex, which comes at a significant administrative cost. In spite of the introduction in the 2014-2019 public finance programming law of the requirement regularly to assess and monitor tax expenditures, the projected reduction in tax expenditures for 2016 is modest after several years of increase.

(20) Overall, the barriers to private investment are moderate, with the high regulatory burden and high corporate tax rates being the main obstacles. The investment environment would be improved by enhancing the business environment, reducing taxes on production and corporate income and simplifying the tax system. All measures taken to improve the cost and non-cost competitiveness of French firms have the potential to increase investment levels and to incentivise firms to invest in physical and human capital, with a view to improving productivity. The long-term growth potential is also limited by subdued investment in innovation activities.

(21) In the context of the European Semester, the Commission has carried out a comprehensive analysis of France's economic policy and published it in the 2016 country report. It has also assessed the Stability Programme and

the National Reform Programme and the follow-up given to the recommendations addressed to France in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in France but also their compliance with EU rules and guidance, given the need to reinforce the EU's overall economic governance by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (5) 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.

(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) to (5) below,

HEREBY RECOMMENDS that France take action within the period 2016-2017 to:

1. Ensure a durable correction of the excessive deficit by 2017 by taking the required structural measures and by using all windfall gains for deficit and debt reduction. Specify the expenditure cuts planned for the coming years and step up efforts to increase the amount of savings generated by the spending reviews, including on local government spending, by the end of 2016. Reinforce independent public policy evaluations in order to identify efficiency gains across all sub-sectors of general government.

2. Ensure that the labour cost reductions are sustained and that minimum wage developments are consistent with job creation and competitiveness. Reform the labour law to provide more incentives for employers to hire on open-ended contracts.

3. Improve the links between the education sector and the labour market, in particular by reforming apprenticeships and vocational training, with emphasis on the low-skilled. By the end of 2016, take action to reform the unemployment benefit system in order to bring the system back to budgetary sustainability and to provide more incentives to return to work.

4. Remove barriers to activity in the services sector, in particular in business services and regulated professions. Take steps to simplify and improve the efficiency of innovation policy schemes. By the end of 2016, further reform the size-related criteria in regulations that impede companies' growth and continue to simplify companies' administrative, fiscal and accounting rules by pursuing the simplification programme.

5. Take action to reduce the taxes on production and the corporate income statutory rate while broadening the tax base on consumption, in particular as regards VAT. Remove inefficient tax expenditures, remove taxes that are yielding little or no revenue and adopt the withholding personal income tax reform by the end of 2016.

Done at Brussels, 12 July 2016.

For the Council

The President

P. KAŽIMÍR

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

ISSN 1977-091X (electronic edition)
ISSN 1725-2423 (paper edition)

Publications Office of the European Union
2985 Luxembourg
LUXEMBOURG

EN