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**ECOFIN 484
UEM 222
SOC 398
EMPL 314
COMPET 267
ENV 336
EDUC 251
RECH 229
ENER 201
JAI 478
FSTR 113
REGIO 145
GENDER 93
ANTIDISCRIM 86**

NOTE

From: General Secretariat of the Council
To: Permanent Representatives Committee (Part 1)
Subject: Explanations of modifications to Commission Recommendations for the 2020 Country-Specific Recommendations

Delegations will find attached the explanations of the modifications to Commission Recommendations for the Country-Specific Recommendations for each Member State (Recommendation for a Council Recommendation on the National Reform Programme 2020, and delivering a Council Opinion on the updated Stability or Convergence Programme).

This note follows from Article 2-ab(2) of Regulation (EU) No. 1175/2011 of the European Parliament and the Council, by which the Council is expected to, as a rule, follow the Recommendations and proposals of the Commission or explain its position publicly, with a view to ensuring greater transparency and accountability in the process of multilateral surveillance and the results of the Country Specific Recommendations in the context of the European Semester.

Draft for EFC

COUNCIL

EXPLANATORY NOTE

Accompanying document to Council Recommendations to Member States under the European Semester 2020

Article 2-ab(2) of Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies¹, which makes part of the section on ‘Economic dialogue’, states that ‘The Council is expected to, as a rule, follow the recommendations and proposals of the Commission or explain its position publicly.’

In respect of this ‘comply or explain rule’ the Council hereby presents the following explanations to changes agreed to Commission Recommendations for Country-Specific Recommendations (CSRs) on Member States in the context of the 2020 European semester on which the Commission is in disagreement.

The Council has also agreed to a number of additions as well as factual or technical changes to recommendations with the full support of the Commission (*).

¹ OJ L 209, 2.8.1997, p. 1.

* Text that has been modified but differs from the Commission’s position appears in *italics* and deleted text in strikethrough.

BELGIUM

Recital 23

Commission text:

To foster the economic recovery, it will be important to front-load mature public investment projects and promote private investment, including through relevant reforms. As expressed in its 2021-2030 National Energy and Climate Plan (NECP), Belgium has significant investment needs in sustainable transport, notably to tackle congestion and electric mobility. Before the crisis, Belgian regions had announced major multi-annual transport infrastructure plans. Major investment is taking place in suburban rail around Brussels, signalling, port and cross-border rail connections. The NECP also identified important investment needs in renewable and flexible power generation, interconnections, smart grids, storage and in energy efficiency to meet European energy targets, to realise Belgium's commitment to fully phasing out nuclear energy by 2025 and to renovate 80% the building stock which was built before the introduction of energy norms. In contrast to the relatively high private research and development (R&D) intensity, the public R&D intensity remains slightly below that of most Member States with a similar level of economic development. Belgium risks lagging behind in 5G deployment as it is not planning to assign the 5G pioneer bands within the deadlines provided in Union legislation. In March 2020, the Belgian authorities opened a public consultation for temporary national licenses for the 200 MHz of available spectrum in the band 3.6-3.8 GHz as a temporary solution. The programming of the Just Transition Fund for the period 2021-2027 could help Belgium to address some of the challenges posed by the transition to a climate neutral economy, in particular in the territories covered by Annex D to the country report. This would allow Belgium to make the best use of that fund.

Agreed text:

To foster the economic recovery, it will be important to front-load mature public investment projects and promote private investment, including through relevant reforms, *which would also help industrial transition*. As expressed in its 2021-2030 National Energy and Climate Plan (NECP), Belgium has significant investment needs in sustainable transport, notably to tackle congestion and electric mobility. Before the crisis, Belgian regions had announced major multi-annual transport infrastructure plans. Major investment is taking place in suburban rail around Brussels, signalling, port and cross-border rail connections. Significant investments are also underway in Brussels metro, tram and bus infrastructure. The NECP also identified important investment needs in renewable and flexible power generation, interconnections, smart grids, storage and in energy efficiency to meet European energy and climate targets, to realise Belgium's legal commitment to fully phasing out nuclear energy by 2025 and to renovate 80% of the building stock which was built before the introduction of energy norms. In contrast to the relatively high private research and development (R&D) intensity, the public R&D intensity remains slightly below that of most Member States with a similar level of economic development. Belgium risks lagging behind in 5G deployment as it is not planning to assign the 5G pioneer bands within the deadlines provided in Union legislation. In March 2020, the Belgian authorities opened a public consultation for temporary national licenses for the 200 MHz of available spectrum in the band 3.6-3.8 GHz as a temporary solution. The programming of the Just Transition Fund for the period 2021-2027 could help Belgium to address some of the challenges posed by the transition to a climate neutral economy, in particular in the territories covered by Annex D to the country report. This would allow Belgium to make the best use of that fund.

Explanation:

Industrial transition is one of the major priorities for Belgium. It links with EU strategies adopted in March 2020 and the Belgian position paper adopted recently.

BULGARIA

CSR 1

Commission text:

In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Mobilise adequate financial resources to strengthen the resilience, accessibility and capacity of the health system, and ensure a balanced geographical distribution of health workers.

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In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Mobilise adequate financial resources to strengthen the resilience, accessibility and capacity of the health system, and ensure a balanced ~~geographical~~ *regional* distribution of health workers, matching population needs.

Explanation:

The National Health Card of Bulgaria defines and plans on a territorial basis the needs of the population from accessible outpatient and hospital medical care and the implementation of the national health policy. The term “regional” is consistent with the cross-cutting approach of the work of the Social Protection Committee.

BULGARIA

Recital 20

Commission text:

To COVID-19 put an additional burden on the Bulgarian health system, already characterised by limited accessibility stemming from low public financing, limited health insurance coverage, a low number of nurses, and an uneven geographical distribution of health workers. There is therefore scope for strengthening the overall resilience, accessibility and capacity of the Bulgarian health system. Providing more care (general and specialist) in ambulatory settings, also with use of teleconsultations, would release hospitals, while testing and treatment should be available for all, independently of health insurance status. Proper access to health workers and their services should be ensured over the whole territory. Integration of primary, long-term and community care is crucial for the elderly and the most vulnerable groups.

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Explanation:

The National Health Card of Bulgaria defines and plans on a territorial basis the needs of the population from accessible outpatient and hospital medical care and the implementation of the national health policy. The term “regional” is consistent with the cross-cutting approach of the work of the **Social Protection Committee**.

CYPRUS*Recital 22***Commission text:**

For the duration of the crisis and its aftermath, significant funds are and will be needed to support businesses. Securing adequate access to finance and liquidity is essential, especially for small- and medium-sized enterprises (SMEs), in order to keep companies in business and people at work. In the process of designing and implementing these measures the resilience of the banking sector needs to be taken into account. Cyprus has implemented a specific Small Business Support Scheme that subsidises the salary payments of businesses with up to five employees. In addition, the suspension of the increased contributions to the national health system and the postponement of tax payments (e.g. VAT) will ease the immediate pressure. Swift administrative coordination, practical support and effective communication on the backing available to SMEs, in co-operation with the SME support structures and business organisations, are essential. Speeding up of contractual payments by public authorities can also help improve the cash flow of SMEs. Newly founded start-ups and scale-ups may need specific support, e.g. in the form of equity stakes by public institutions and incentives for venture capital funds to increase their investments in these firms. It remains important to implement the equity support measures prepared before the crisis (Cyprus Energy Fund, co-investment equity fund).

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Explanation:

The Cyprus Energy Fund of Funds is not an equity support measure. It will provide loans to final recipients.

CYPRUS

Recital 25

Commission text:

Cyprus can further improve its research and innovation system to support productivity growth and the required digital and environmental transition in a postpandemia scenario. Firms' low research and innovation absorption capacity hamper Cyprus's competitiveness. Improved academia-business cooperation and commercialisation of research results remain a key bottleneck and require urgent action. However, recent measures such as the creation and establishment of a new department for research and innovation, the appointment of a new Deputy Minister for Research, Innovation and Digital Policy as well as the new National Strategy for Research and Innovation 2019-2023, which sets a higher research and innovation intensity target of 1,5% of GDP by 2023 (up from the current 0,56%) are promising steps.

Agreed text:

Cyprus can further improve its research and innovation system to support productivity growth and the required digital and environmental transition in a postpandemia scenario. Firms' low research and innovation absorption capacity hamper Cyprus's competitiveness. Improved academia-business cooperation and commercialisation of research results remain a key bottleneck and require urgent action. However, recent measures such as the creation and establishment of a new Deputy Ministry of Research, Innovation and Digital Policy, the appointment of a new Deputy Minister for Research, Innovation and Digital Policy as well as the new Cyprus Research and Innovation Strategy Framework 2019-2023 "Innovate Cyprus", which sets a higher *and ambitious* research and development target of 1,5% of GDP by 2023 (up from the current 0,56%) are promising steps.

Explanation:

The research and development target is ambitious compared to the current level and achieving it depends on various factors, such as the capacity of the Research community and businesses to absorb the increase in R&D funding and the impact on the Cypriot economy of the COVID-19 crisis.

CYPRUS*Recital 26***Commission text:**

Tackling aggressive tax planning is key to improving the efficiency and fairness of tax systems, as acknowledged in the 2020 euro area recommendation. Spill-over effects of taxpayers' aggressive tax planning strategies call for coordinated national action to complement Union legislation. The economic evidence suggests that Cyprus' tax rules are used for aggressive tax planning purposes. Cyprus has taken steps to address this by implementing international and European initiatives and taking some additional national measures. However, features of the system such as the absence of withholding taxes on outbound dividend, interest and royalty payments by Cyprus-based companies to third country residents, and the corporate tax residency rules, continue to facilitate aggressive tax planning. The Notional Interest Deduction scheme needs to be closely monitored. Finally, the 'Scheme for Naturalisation of Investors in Cyprus by Exception' and the 'Residence by Investment Scheme' have been listed by the OECD as having a potentially high risk for being misused.

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Explanation:

The addition completes the recital and ensures consistency with similar recommendations to other Member States.