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Subject: Explanatory note Accompanying document to Council Recommendations to
Member States under the European semester 2013

Explanatory note

- Accompanying document to Council Recommendations
to Member States under the European semester 2013 -

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 2013 European semester on which the Commission is in disagreement.

The Council has also agreed to a number of additions as well as factual or technical changes to recommendations with the full support of the Commission^{2*}.

¹ OJ L 209, 2.8.1997, p. 1.

² CSRs with no changes or for which changes have been made but in agreement with the Commission: BU, DK, DE, HU, PL, RO, SL, SK, SV, UK, Euro area.

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

Belgium

CSR 2

Commission text:

Step up efforts to close the gap between the effective and statutory retirement age, including by quickly phasing out early-exit systems. Underpin reforms of the old-age social security systems with employment-support measures and labour-market reforms conducive to active ageing. Accelerate the adoption of a decision to link the statutory retirement age to life expectancy. Continue to improve the cost-efficiency of public spending on long term institutional care.

Agreed text:

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

Explanation:

Belgium appears to be well on track in reaching its 50 % employment target to be achieved in 2020. The current rate stands at 39,5 %, with annual average increase of 1,4 percentage points over the period 2010-2012.

The text of the recommendation contains horizontally agreed text. It was agreed that there are different channels to raise the effective retirement age and, hence, to address challenges to the pension system and the sustainability of public finances. The original Commission text, focusing only on raising the (statutory) retirement age, appeared too prescriptive and narrowly defined. The new text recalls the text previously adopted by the Council, most recently on the 2012 Sustainability Report, on 12 February 2013.

Czech Republic

CSR 3

Commission text:

Speed up the increase of the statutory retirement age compared to current legislation, introduce a clear link between the statutory retirement age and life expectancy, and revise the indexation mechanism. Accompany the increase in retirement age with measures promoting employability of older workers and reduce early exit pathways. In particular, remove the public subsidy for the pre-retirement scheme. Take measures to significantly improve cost-effectiveness of healthcare expenditure, in particular for hospital care.

Agreed text:

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

Explanation:

The text of the recommendation contains horizontally agreed text. It was agreed that there are different channels to raise the effective retirement age and, hence, to address challenges to the pension system and the sustainability of public finances. The original Commission text, focusing only on raising the (statutory) retirement age, appeared too prescriptive and narrowly defined. The new text recalls the text previously adopted by the Council, most recently on the 2012 Sustainability Report, on 12 February 2013.

CSR 4:

Commission text:

Take measures to strengthen the efficiency and effectiveness of the public employment service. Increase significantly the availability of inclusive childcare facilities with a focus on children up to three years old, and the participation of Roma children, notably by adopting and implementing the law on private childcare facilities and strengthening the capacities of public childcare facilities.

Agreed text:

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

Explanation:

The Employment Committee's multilateral surveillance review on this issue concludes that the Czech Republic has taken actions in line with the CSR but should continue efforts to further strengthen the Public Employment Services (PES) capacities given the high number of unemployed and should further improve the effectiveness of active labour market policies (ALMPs).

Estonia

CSR 4

Commission text:

Improve energy efficiency, in particular in buildings and transport, and strengthen environmental incentives concerning vehicles and waste, through considering car taxation and/or higher excise duties on motor fuels. Step up the development of cross-border energy connections to diversify energy sources and promote competition in the energy market.

Agreed text:

Improve energy efficiency, in particular in buildings and transport, and strengthen environmental incentives concerning vehicles and waste ~~through considering car taxation and/or higher excise duties on motor fuels~~. Step up the development of cross-border energy connections to diversify energy sources and promote competition in the energy market.

Explanation:

The recommendation should provide more opportunity to the Member State to choose measures to address the challenge. According to the Estonian authorities, investment in public transport, as well as in multimodal transport, together with investment in more energy-efficient buildings, would better address the pollution problem in Estonia. This view is shared by the Council.

Spain

CSR 1

Commission text:

Finalise by end-2013 the regulation of the sustainability factor so as to ensure the long-term financial stability of the pension system, including by providing that the retirement age will rise in line with gains in life expectancy.

Agreed text:

[...] Finalise by end-2013 the regulation of the sustainability factor so as to ensure the long-term financial stability of the pension system, including by *increasing the effective retirement age by aligning the retirement age or pension benefits to changes in life expectancy*~~providing that the retirement age will rise in line with gains in life expectancy.~~

Explanation:

The text of the recommendation contains horizontally agreed text. It was agreed that there are different channels to raise the effective retirement age and, hence, to address challenges to the pension system and the sustainability of public finances. The original Commission text, focusing only on raising the (statutory) retirement age, appeared too prescriptive and narrowly defined. The new text recalls the text previously adopted by the Council, most recently on the 2012 Sustainability Report, on 12 February 2013.

France

CSR1

Commission text:

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

Agreed text:

[...]Take action through the forthcoming Decentralisation Law to achieve better synergies and savings between central, ~~regional~~ and local government levels. After the correction of the excessive deficit, pursue the structural adjustment effort at an adequate pace so as to reach the MTO by 2016. Take measures by the end of 2013 to bring the pension system into balance in a sustainable manner no later than 2020, for example by adapting indexation rules, *by increasing the full-pension contribution period, by further increasing the effective ~~statutory~~ retirement age, by aligning the retirement age or pension benefit to changes in life expectancy and full-pension contribution period* and *by reviewing special schemes, while avoiding an increase in employers' social contributions, and increase the cost-effectiveness of healthcare expenditure, including in the areas of pharmaceutical spending.*

Explanation:

The text of the recommendation contains horizontally agreed text. It was agreed that there are different channels to raise the effective retirement age and, hence, to address challenges to the pension system and the sustainability of public finances. The original Commission text, focusing only on raising the (statutory) retirement age, appeared too prescriptive and narrowly defined. The new text recalls the text previously adopted by the Council, most recently on the 2012 Sustainability Report, on 12 February 2013. Considering the specific challenges faced by France, the Council agrees that the more specific elements of the recommendation referring to pension reform should be kept.

Italy

CSR 1

Commission text:

Ensure that the deficit remains below 3% of GDP in 2013, by fully implementing the adopted measures. Pursue the structural adjustment at an appropriate pace and through growth-friendly fiscal consolidation so as to achieve and maintain the MTO as from 2014. Achieve the planned structural primary surpluses in order to put the very high debt-to-GDP ratio (forecast to be 132.2% of GDP in 2014) on a steadily declining path. Continue pursuing a durable improvement of the efficiency and quality of public expenditure by fully implementing the measures adopted in 2012 and taking the effort forward through regular in depth spending reviews at all levels of government.

Agreed text:

Ensure that the deficit remains below 3% of GDP Treaty reference value in 2013, by fully implementing the adopted measures. Pursue the structural adjustment at an appropriate pace and through growth-friendly fiscal consolidation so as to achieve and maintain the MTO as from 2014. Achieve the planned structural primary surpluses in order to put the very high debt-to-GDP ratio (~~forecast to be 132.2% of GDP in 2014~~) on a steadily declining path. Continue pursuing a durable improvement of the efficiency and quality of public expenditure by fully implementing the measures adopted in 2012 and taking the effort forward through regular in depth spending reviews at all levels of government.

Explanation:

Considering that mentioning the forecast debt-to-GDP ratio in 2014 does not add value to the recommendation, and that such forecasts have not been included in the Recommendations for any other Member State, it was agreed to delete the figure from the recommendation and to include it in the relevant recital.

Latvia

CSR 4

Commission text:

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

Agreed text:

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

Explanation:

The conclusions of the Employment Committee (EMCO) and the Social Protection Committee (SPC) multilateral surveillance review of Latvia's activation and poverty reduction policies demonstrated that a number of key 2013 measures will be put in place and that it is planned to strengthen activation and ensure a better cooperation between public employment services and municipal social assistance services, with improved linkage of social assistance benefits to ALMPs to achieve better labour-market outcomes of the activation of benefit recipients. In 2012, Latvia reformed the social assistance system and undertook measures to achieve better activation. On this basis, new measures may be envisaged to improve the effectiveness and coverage of the social benefit system. Some key elements of the Latvian response are thus currently still proposals or at an early stage of design, so their implementation will be important in order to meet the CSR.

Lithuania

CSR4

Commission text:

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

Agreed Text:

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

Explanation:

The results of the EMCO and SPC multilateral surveillance review notes that in Lithuania, work with the municipalities is ongoing on a project for the period 2012-2014 to return as many long-term unemployed persons (beneficiaries of social benefits) as possible into the labour market. It is highlighted that, in 2012, Lithuania passed the law on cash social assistance for poor residents aimed at targeting better assistance to those most in need.

Luxembourg

CSR 3

Commission text:

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

Agreed text:

Curb age-related expenditure by making long-term care more cost effective, in particular through a stronger focus on prevention, rehabilitation and independent living, strengthening the recently adopted pension reform, taking additional measures to curb early retirement and increasing *the effective retirement age by aligning the retirement age or pension benefits to changes in life expectancy*. ~~the effective retirement age, including by linking providing that the statutory retirement age to will rise in line with gains in life expectancy~~

Explanation:

The text of the recommendation contains horizontally agreed text. It was agreed that there are different channels to raise the effective retirement age and, hence, to address challenges to the pension system and the sustainability of public finances. The original Commission text, focusing only on raising the (statutory) retirement age, appeared too prescriptive and narrowly defined. The new text recalls the text previously adopted by the Council, most recently on the 2012 Sustainability Report, on 12 February 2013.

CSR 5

Commission text:

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

Agreed text:

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

Explanation:

The conclusions of the EMCO multilateral surveillance review notes that a draft bill including a set of measures aimed at increasing the employment of older workers has been prepared. Firms hiring more than 150 workers will have to set up an 'age management plan' including measures to develop the skills of older workers, prevent health problems at work, and better manage the transition from work to retirement. A new white book, agreeing on a set of measures to be taken to strengthen lifelong learning, was approved in late 2012. Overall, most of the measures presented, although appearing to go in the right direction, remain vague and EMCO thus concluded that further efforts were needed in this area. white paper?

Malta

CSR 2

Commission text:

To ensure the long-term sustainability of public finances, reform the pension system to curb the projected increase in expenditure, including by accelerating the increase in the statutory retirement age, by introducing a link between the statutory retirement age and life expectancy and by encouraging private pension savings. Take measures to increase the employment rate of older workers by developing and implementing a comprehensive active ageing strategy. Pursue health-care reforms to increase the cost-effectiveness of the sector, in particular by strengthening public primary care provision. Improve the efficiency and reduce the length of public procurement procedures.

Agreed text:

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

Explanation:

The recommendation has been adjusted to reflect the fact that pension reform is an ongoing process in Malta, made up of a series of parametric reforms approved in 2006 and 2007, and scheduled to enter into effect over the following fifteen years. Notwithstanding the positive impacts of this reform, Malta acknowledges that more has to be done to ensure the long-term adequacy and sustainability of pensions, and, following the elections in March 2013, the new Government has reconfirmed its commitment to the continuation of the pension reform process in Malta.

With this aim, two consultation processes took place in 2011 and 2012 and following the feedback received from the social partners, a final report was presented to the Government. With regard to the introduction of third pillar private pensions, the Retirement Pensions Act has already been approved by Parliament. This Act will be supported by a number of Legal Notices covering different aspects as well as by Directives/Rules to be issued by the Malta Financial Services Authority, which were submitted for consultation on 1 April 2013. It is foreseen that the Retirement Pensions Act will enter into force concurrently with these rules and procedures.

Looking ahead, the Government has indicated that over the next weeks they will be setting up an-Inter Ministerial Strategy Group tasked with reviewing the work carried out by the Pensions Working Group, in particular, the recommendations outlined in the Post-Consultation Report submitted to Government in March 2012, outlining a comprehensive strategy which addresses the adequacy and sustainability of pensions in Malta by the third quarter of 2014. A communication strategy will also be developed by the fourth quarter of 2013 aimed at raising the level of public awareness on pensions issues.

The text of the recommendation contains horizontally agreed text. It was agreed that there are different channels to raise the effective retirement age and, hence, to address challenges to the pension system and the sustainability of public finances. The original Commission text focusing, only on raising the (statutory) retirement age, appeared too prescriptive and narrowly defined. The new text recalls the text previously adopted by the Council, most recently on the 2012 Sustainability Report, on 12 February 2013.

Finally, it was agreed to adjust the text to reflect the fact that the strategy aimed at increasing the employment rate of older workers is under finalisation. After Malta received a CSR in 2011 to draw up a 'comprehensive active ageing strategy', an Inter Ministerial Committee was set up in February 2012 with the mandate to propose a comprehensive active ageing strategy to the Government. Following the recent change in government, the new administration has indicated that they are giving top priority to finalising this strategy, including by appointing a Parliamentary Secretariat for Rights of Persons with Disability and Active Ageing aimed at giving the work new political direction and impetus, and to work towards its finalisation. The final draft strategy is planned to be presented to the Government by the end of September. Following Cabinet approval, it is expected that the National Policy will be launched in October 2013.

The Netherlands

CSR 2

Commission text:

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

Agreed text:

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

Explanation:

Faster implementation may pose a risk to the economic recovery, given the current fragile economic environment in the Netherlands. Almost 1 million households are currently in a negative equity position regarding their house (higher mortgage than the value of the house). A faster reduction of the deductibility may put further downward pressure on house prices, and thereby pose a risk for financial stability. It may also further depress private consumption. According to the *Centraal Planbureau*, more than half of the current fall back in private consumption in the Netherlands is due to the tensions in the housing market.

CSR 4

Commission text:

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

Agreed text:

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

Explanation:

Regarding the first change, the accelerated phasing out of the transferability of the general tax credit does not affect the (dis)incentive to increase the number of hours worked for second income earners who have already entered the labour market.

As regards the second change, the Dutch Government has agreed with social partners upon essential labour-market reforms, such as reforming employment protection legislation and the unemployment benefit system. Both the substance and pace of the reforms have been agreed with employers and employees, creating clarity and broad social support. This is an essential condition for succeeding in effectively implementing the envisaged reforms.

Austria

CSR 2

Commission text:

Bring forward the harmonisation of pensionable age for men and women, link the statutory retirement age to life expectancy, implement and monitor the recent reforms restricting access to early retirement and improve older workers' employability in order to raise the effective retirement age and the employment rate of older workers.

Agreed text:

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

Explanation:

The text of the recommendation contains horizontally agreed text. It was agreed that there are different channels to raise the effective retirement age and, hence, to address challenges to the pension system and the sustainability of public finances. The original Commission text, focusing only on raising the (statutory) retirement age, appeared too prescriptive and narrowly defined. The new text recalls the text previously adopted by the Council, most recently on the 2012 Sustainability Report, on 12 February 2013.

The recommendation was also adjusted to reflect the fact that due to a major pension reforms and accompanying labour-market protection measures (such as labour market initiatives for older and health-impaired people, the preventive programme fit2work, age-friendly work environments), the employment rate of older workers has increased from 27,4 % to 43,1 % since 2004. The conclusions of the EMCO multilateral surveillance review indicate that reforms have been introduced to encourage and enable a longer and healthy working.

Finland

CSR 3

Commission text:

Take further steps to increase the employment rate of older workers, including by improving their employability and reducing early exit pathways, and align the minimal statutory retirement age with increased life expectancy. Implement and monitor closely the impact of on-going measures to improve the labour-market position of young people and the long-term unemployed, with a particular focus on the development of job-relevant skills.

Agreed text:

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

Explanation:

The text of the recommendation contains horizontally agreed text. It was agreed that there are different channels to raise the effective retirement age and, hence, to address challenges to the pension system and the sustainability of public finances. The original Commission text, focusing only on raising the (statutory) retirement age, appeared too prescriptive and narrowly defined. The new text recalls the text previously adopted by the Council, most recently on the 2012 Sustainability Report, on 12 February 2013. In Finland, linking the old-age pension age to life expectancy would also not be suitable without a major change to pension system criteria.
