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Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2016 national reform programme of the United Kingdom and delivering a Council opinion on the 2016 convergence programme of the United Kingdom

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission proposal COM(2016) 348 final.

COUNCIL RECOMMENDATION

of …

on the 2016 National Reform Programme of the United Kingdom

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

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,

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

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 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.

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[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 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[3], 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.

[3] 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).

(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[4] 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 prodecure 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.

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

(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 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 socio-economic 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[5] is reflected in particular in recommendation (1) below.

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

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,

For the Council
The President