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OVERVIEW OF PROGRESS IN IMPLEMENTING COUNTRY-SPECIFIC RECOMMENDATIONS BY MEMBER STATE

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Introduction

This staff working document provides an interim overview of the state of play in the implementation of the country-specific recommendations (CSRs) in individual Member States and for the euro-area as a whole. The overview takes account of progress made over the past three years, illustrating key reforms undertaken since the launch of the European Semester process, while highlighting implementation gaps in the light of the latest recommendations adopted in 2013. Given that the majority of the key challenges addressed are unlikely to be overcome in a single year, this overview shows the continuity of reform efforts over time. This analysis is preliminary and technical. The Commission will present its final assessment, based on the National Programmes and taking into account the in-depth reviews under the macro-economic imbalances procedure, in the 2014 country-specific recommendations package.

Information is also provided on countries implementing an Economic Adjustment Programme (EL, IE, PT, CY, RO), although there are no separate country-specific recommendations for these countries beyond the implementation of the Programmes. Some of the monitoring and reporting obligations under the Stability and Growth Pact do not apply and most obligations under the European Semester are suspended for Euro Area Programme Countries since the entry into force of the Two-pack. An overview is also provided of the situation in Croatia, although it has not yet received any formal country-specific recommendations.

BELGIUM

Public finances: Despite the consolidation efforts made, Belgium retains a challenging fiscal position in respect of its high debt level. While the deficit gradually decreased since 2010, it remained above the 3% of GDP threshold of the Treaties. Belgium is committed to additional measures for 2013. The pension reform initiated at the end of 2011 tightened minimum age and career length requirements for early exit and early retirement schemes and strengthened financial incentives to extend working careers and is being underpinned through active ageing measures. Given the magnitude of the challenge, additional measures and reforms seem necessary to safeguard public finances in the long-term. It is unclear how the Communities' new competences on long-term care will improve cost effectiveness.

Financial sector: Belgium has taken measures to stabilise its banking sector by recapitalising the weakest banks and reforming the supervisory framework for the financial sector. Nevertheless, the financial situation of some banks, although improving, deserves continued monitoring, especially in light of the high level of government contingent liabilities.

Growth and competitiveness: Belgium has taken measures to curb inflationary pressures by strengthening the competition authority and through regulatory interventions in the energy and telecommunications markets. As a result, energy prices and prices for telecommunication services have dropped and overall inflation has decreased to below the levels observed in neighbouring countries. Further structural measures remain necessary, in particular in retail and professional services. Belgium has taken some measures to decrease the accumulated wage gap. A wage freeze in real terms was enacted for 2013 and 2014 and linear and targeted reductions in employers' social security contributions have been increased. A reform of the wage setting mechanism aimed at preventing any future decoupling of wages and productivity has stalled. Though the strengths of the research and innovation system have partly compensated for the country’s deteriorating cost competitiveness, Belgium would benefit from broadening its innovation base and improving the availability of skilled professionals as well as promoting entrepreneurship. Given that projections for greenhouse gas emissions remain well above the target, Belgium needs to implement more ambitious policies notably in the transport and building sectors, including by putting in place an effective internal effort-sharing framework between the different competent entities.

Employment and social policies: While no major shift from labour taxes to less growth-distortive taxes has been enacted, targeted measures have decreased the tax burden on labour and several measures have been taken to improve the functioning of the labour market. The reform of the unemployment benefit system accelerates the gradual decrease of the benefit level. Some measures have been introduced to increase traineeship and lifelong learning capacity. A more fundamental reflection on matching the education and training outcomes and labour market requirements is necessary. Interregional labour mobility should be further improved. Concrete measures are also required to tackle increasing youth unemployment, as well as labour market- and social integration of people of migrant origin.

BULGARIA

Public finances: Bulgaria has taken substantial measures to ensure the sustainability of its public finances. It corrected its excessive deficit in 2011 and in structural terms reached its Medium-Term Objective of -0.5% of GDP in 2012. With general government debt at less than 20% of GDP Bulgaria has one of the lowest debt ratios in the EU. Bulgaria has significantly strengthened its fiscal framework in recent years which has contributed to maintaining fiscal discipline and increasing fiscal policy credibility. On the revenue side, tax compliance and efficiency of the tax administration are still challenges in Bulgaria. On pension reform Bulgaria has taken some positive steps, but further efforts are needed in order to discourage early exit from the labour market. Concrete steps to limit abuse of the invalidity pensions' system are still missing. In the healthcare sector reforms are being held back by lack of administrative capacity.

Growth and competitiveness: Public procurement legislation has been reformed, but further improvements are needed to strengthen administrative capacity and ensure enforcement. Recent changes to the rules on late payments will improve the overall business environment, as would the planned reform of insolvency procedures, which still needs to be carried forward by the government. Bulgaria still needs to progress further in reforming its judicial system. Bulgaria's transport infrastructure has experienced improvements over recent years, but a considerable potential remains for improving efficiency. The same is the case in the water and waste sectors. In this context Bulgaria needs to enhance the administrative capacity of relevant regulatory bodies. Significant reforms are needed in the Bulgarian energy sector to bring it into line with the Internal Energy Market and improve efficiency.

Employment and social policies: Bulgaria suffers from below-average and declining employment as well as high unemployment disparities across regions and population groups. Reforms are needed to improve effectiveness of the employment services and to implement effective measures to increase youth employment. The overall quality and efficiency of its education system also need to be improved. Reforms are in preparation but their adoption and implementation have been delayed. As regards minimum thresholds for social security contributions, the government has taken steps to limit their impact, but these efforts have stopped short of a more comprehensive review of the system.

CZECH REPUBLIC

Public finances: The Czech Republic has taken steps to bring an end to the situation of an excessive government deficit by 2013. However, further efforts are needed to address the quality of the fiscal consolidation. In particular, growth-enhancing expenditures such as public investment experienced sharp cumulative declines between 2010 and 2012. This, along with a low level of absorption of Structural Funds, puts the long-term growth prospects at risk. Overall, limited progress has been achieved in terms of improving the efficiency of public expenditure. Reforms were adopted to increase tax compliance and collection but the introduction of the single collection point has been delayed and does not fully exploit the room to reduce the high administrative burden of paying taxes. Some indirect taxes, notably VAT and excise taxes, were raised. There is however room for a clearer shift away from labour taxation to areas less detrimental to growth and for a further reduction of discrepancies in the treatment of the employees and the self-employed. The 2011 reform of the pension system improved the long-term sustainability of public finances but further steps remain necessary.

Growth and competitiveness: Low effectiveness of the public administration remains a major concern for Czech businesses. The Czech authorities have taken action to fight corruption and adopted two successive anti-corruption strategies. However, their implementation has not been effective enough: some key measures were partially implemented, for example concerning the Public Procurement Act, while others are still pending, such as the long-awaited Public Servants Act. Increasing the quality of compulsory and higher education is essential to the long-term competitiveness of the Czech Republic. While some EU-funded measures are underway in the area of compulsory education, no progress was made on the side of the higher education reform.

Employment and social policies: While it is widely recognised that the labour market participation of women with small children and of disadvantaged groups is sub-optimal, only very limited response was given so far. The government proposal of the new law on provision of childcare services, accompanied by tax subsidies for care providers and participating families, is a step in the right direction but could provide only a partial response to the issue. A reform of Labour Offices was adopted in 2011 and is being implemented since then. It remains to be seen whether the undertaken measures are sufficient to ensure that Labour Offices, equipped with the right staff and tools, can deliver efficient and targeted job search assistance.

DENMARK

Public finances: Denmark's budget deficit is expected to fall to 1.7% of GDP in 2013. The positive outlook for the Danish public finances is partly due to one-off measures, pointing to the importance of prudent fiscal policy going beyond the EDP horizon in order to safeguard the confidence in Danish economic policy and cater for costs related to an ageing population.

Financial sector: The risks posed by the high levels of household debt in Denmark to financial stability seem contained. Measures have been introduced by the government and the financial sector over the past year, which go in the right direction. However, close monitoring is required to ensure that they have the desired impact. No changes have been considered so far to reduce distortions and strengthen the countercyclical features of property taxation.

Growth and competitiveness: Weak domestic competition is resulting in high mark-ups of services and goods prices in Denmark. In 2012, the government presented a Competition package with relevant measures. Moreover, a Productivity Commission is currently analysing the weak productivity growth in the Danish economy and the potential contribution of non-optimal competition levels of the Danish services sector. Results are expected before end 2013 and should thereafter be taken forward in relevant policy measures.

Employment and social policies: Denmark has carried out important reforms of the early retirement pension, disability pension and the subsidised employment schemes (i.e. 'flex-job' system) to enhance labour supply. However, further efforts are needed to improve the employability of those at the margins of the labour market, such as low skilled workers, people with reduced work capacity and people with a migrant background. The Danish government has taken steps to improve the situation, in particular by intensifying the training and education aspect of the active labour market measures, which should benefit also these groups. Two Expert Committees have also been established to improve active labour market measures for both insured and uninsured workers. A reform of the primary and lower secondary education system has been agreed and will be implemented in the school year 2014-2015. A proposal has also been presented for a reform of the vocational education and training system, intended to come into force by August 2015. A reform of the tertiary education system is also underway.

GERMANY

Public finances: Following deficits above 3% of GDP in 2009 and 2010, Germany has since returned to a sound fiscal position. In 2012, the general government budget produced a small surplus and the medium-term budgetary objective was complied with. Over the last years, Germany has increased expenditure on education and research, but would benefit from further efforts in this respect. Germany enhanced the efficiency of public spending on healthcare and long-term care and of the tax system to a limited degree. Steps have been taken towards the implementation of the constitutional balanced-budget rule ("debt brake"), though specific implementing rules appear still to be required in most *Länder*.

Financial sector: Germany has strengthened the regulatory and supervisory framework in the financial sector and has taken steps to align itself with the new EU regulatory framework. Commission state aid decisions have contributed to the restructuring of *Landesbanken*, but Germany needs to take further measures to support consolidation in the banking sector.

Growth and competitiveness: Germany has taken measures to improve the conditions for accelerating the expansion of the electricity network and coordination of the energy network management has begun with some neighbouring Member States. In the last years, Germany has made very limited efforts to ensure competition in the railway markets and only marginal reforms have been carried out to open up service sectors, notably professional services and crafts. Germany has recently adopted a legislative reform to improve the enforcement of competition law.

Employment and social policies: Germany has made progress in reducing long-term unemployment, but it could do more to exploit its labour force potential in view of demographic change. Following a global evaluation of family support measures, the government needs to take action to phase-out fiscal disincentive to work for second earners. Germany has increased the number of child care facilities and has taken a number of initiatives to improve early language learning and children's reading skills, and to address the early-school leaving rate of foreign-born students (which is twice as high as the national average). Wages rose significantly in the last years. Despite the semi-automatic reduction of the pension contribution rate, the tax wedge on labour remains high, in particular on low incomes.

Estonia

Public finances: Estonia has a sound fiscal position, in line with the Stability and Growth Pact. The main goal of its budgetary strategy is to ensure a sustainable fiscal policy that supports balanced economic growth. Its Medium Term Objective is a structural surplus, which was achieved in 2012. A new draft law has been put forward to comply with the requirements of the Treaty on Stability, Coordination and Governance and to formalise an already existing, but largely informal so far, (structural) budget balance rule for the medium term. Estonia has still to introduce concrete measures to strengthen the binding nature of the existing multi-annual expenditure rules and ceilings.

Growth and competitiveness: Estonia has recovered quickly from the 2008-09 crisis. Even though its GDP growth rate has slowed, the country is still outperforming the EU average. Estonia is also improving its position in the international value chain and knowledge-intensive sectors and is benefiting from growing investment in research and development. However, in 2012 already, decreases in export shares and a rather large increase in Unit Labour Costs pointed to some losses in competitiveness. In the first half of 2013, as output growth decelerated and employment increased, productivity growth in the economy fell, while wage growth picked up substantially, leading to further competitiveness losses. Special attention will be required to ensure that education outcomes better match labour market needs, limiting the risks of wage growth exceeding productivity gains. The government has initiated several reforms, for instance of the basis and upper secondary school network, the VET and higher education reform and more are being prepared such as a long awaited Life Long Learning Strategy. However, the final design still has to be finalised and the impact of these reforms will only be visible in the medium to long term.

Employment and social policies: Estonia's labour market has recovered fast from the 2008-9 crisis. As economic growth continues, although at a somewhat lower pace in 2013, more unemployed people find a job and real wages increase. However, persistent youth and long-term unemployment, skills mismatches and labour force losses due to chronic conditions or health problems remain a major source of concern. In addition, a persistent shortage of childcare facilities delays the return of parents, especially women, to the labour market, which prevents them from fully contributing to the labour market. The government is addressing these shortcomings through several draft reforms in particular the reform of incapacity for work scheme, but they still have to be finalised and submitted to Parliament for adoption. Finally, at the local level, the recurrent mismatch between fiscal and administrative capacity vis-à-vis devolved responsibilities negatively impacts the efficiency and quality of services delivered by local governments in most sectors including in long-term care, family-support services, education and transport; the same applies for local support measures necessary to ensure effective health care service provision. Reforms to address these issues have not been agreed yet. In particular, the submission of a new Regional Development Strategy to the Government is delayed, while an action plan to improve local public administration is in preparation.

IRELAND

Public finances: Ireland has strictly adhered to the fiscal headline targets throughout the Economic Adjustment Programme period. The 2013 deficit is projected at 7.4% of GDP, marginally below the programme and Excessive Deficit Procedure (EDP) ceiling of 7.5%. Government debt as a percentage of GDP remains high and should peak in 2013, but should then decline thanks to the consolidation efforts and higher GDP growth. Budgetary framework reform has been kept in pace with the advances at the EU level, but expenditure framework and data reporting and transparency need to be further improved.

Financial sector: The deleveraging and restructuring of domestic banks has progressed well, even though more remains to be done. Recent efforts have focused on defining and achieving targets for the sustainable resolution of mortgage arrears, addressing other non-performing loans and improving the legal and regulatory framework (personal insolvency and repossession frameworks, Code of Conduct on Mortgage Arrears and credit register). A comprehensive assessment of banks' balance sheets ahead of the stress tests to be carried out under the Single Supervisory Mechanism in 2014 is on-going and will be completed by the end of November.

Growth and competitiveness: Real GDP growth is expected to be modest at 0.3% in 2013 before accelerating to 1.7% in 2014. This is consistent with weak private consumption and earnings in the first half of 2013 in spite of employment growth given persistent households' deleveraging and high precautionary savings. However, the outlook for the labour market continues to improve, which eventually should feed through to domestic demand and output growth. Some key pharmaceutical products manufactured in Ireland are coming off patent this year and this has led to a slow-down in export and import growth. Price pressures are expected to remain low, considering the high degree of spare capacity in the economy and limited inflationary effect from fiscal measures.

Employment and social policies: Structural reforms have improved economic fundamentals but some issues remain work in progress. Recent reforms under the programme have focused on strengthening activation mechanisms, providing deeper and wider support to jobseekers (in particular the long-term unemployed and the youth) and improving the relevance and delivery of further education and training programmes to foster re-skilling and up-skilling. Work on rolling out these services is not complete yet. Other reforms under the programme aim at reducing the cost and increase the efficiency in the provision of health care, reforming the water sector and reducing legal services costs through increased competition.

GREECE

Public finances: Greece continues to make overall progress under the Second Economic Adjustment Programme, albeit with some important actions being delayed. Important measures have been taken to put the Greek public finances on a sustainable path. Recent fiscal developments have been broadly on track. However, efforts need to be kept up to ensure the delivery of a primary budget balance in 2013, and ensure the delivery of further budgetary improvements.

Increasing public revenues and reforming an ineffective revenue administration are key priorities and significant efforts are needed to make the recently created semi-autonomous revenue administration fully operational and improve its effectiveness. The reform of the public administration continues, with discussions on-going inter alia on the human resources strategy, the evolution of the mobility scheme, and the implementation of the wage grid with a view to ensure the sustainability of the wage bill. Several important structural reforms have been implemented in the areas of healthcare and public financial management. However, far-reaching reforms are still needed in many other areas.

Financial sector: A determined and effective implementation of the privatisation programme is necessary. The recapitalisation of the four core banks has been completed.

Growth and competitiveness: The macroeconomic outlook shows the first signs of recovery, with forecast positive growth of 0.6% for 2014. After several years of recession, the first half of 2013 was marked by an overall slackening of the recession and the first signs of reaching the bottom of the cycle. While declining unit labour costs, supported by successful labour market reforms, are improving cost competitiveness, the on-going product markets reforms need to be accelerated and reinforced. The Economic Adjustment Programme has a strong focus on the structural reforms needed to create the right conditions for a rebound in investment, jobs and productivity once the economic cycle turns. Key reforms to, inter alia, promote an efficient and competitive business environment, reform the judicial system, develop efficient network industries and services and opening regulated professions have progressed in line with the Programme commitments, but the policy decisions still lie ahead.

Employment and social policies: Fighting unemployment continues to be a top priority. Greece has implemented ambitious labour market reforms and it is now vital to advance on the four pillars of the employment action plan: public works programme; internships for the young ("voucher scheme"); reform of the Public Employment Service (OAED); and strengthening vocational education and apprenticeships. Greece is seeking ways to improve the social safety net within the current budgetary envelope such as including the development of unemployment assistance for the long-term unemployed and the creation by January 2014 of a guaranteed minimum income scheme (on a pilot basis).

SPAIN

Public finances: Spain is committed to correct its excessive deficit by 2016. Spain advances on reforming its pension system. Gradual increases in the statutory retirement age and in the contribution period required for a full pension were adopted in 2011, access to and incentives for early and partial retirement were curbed in March 2013. A law on the regulation of the sustainability factor in the pension system is planned to be adopted by the end of the year. Public finance management has been strengthened; the transparency and control of regional budgets have improved; an Independent Fiscal Institution is foreseen to be in place by year end; arrears are being cleared and measures have been taken to discourage late payments in the future; a 'dis-indexation' law, to be approved by year end, will eliminate indexation to inflation in public contracts. Measures have been taken since 2012 to start rebalancing the relative tax burden towards consumption and environmental taxes, improve tax compliance and reduce debt bias in personal and corporate income taxation. However, further efforts are needed and an independent expert group was created in July to inform the global review of the tax system.

Financial sector: The financial sector programme, due to end in January 2014, is on track. Restructuring of banks having received State aid is well underway, compliance with the horizontal policy requirements is nearly complete. Thereby, the governance, regulatory and supervisory framework of the Spanish banking sector has been strengthened.

Growth and competitiveness: Weaknesses in the business environment such as segmentation of the domestic market or entry barriers in services' industries hold back job creation. A legislative proposal to foster the functioning of the Spanish internal market (the law on the guarantee of market unity) has been submitted to the Parliament. A first draft law reforming professional services is now under consultation, however its finalisation is falling behind schedule. The recent law on entrepreneurship has brought about improvements to the framework for corporate insolvency and more flexible company forms. Since 2012 measures were also taken to open up the retail sector and to make the housing rental market more efficient. Following up on measures taken in 2012, the authorities put forward a legislative package in July 2013 aimed at overhauling the electricity sector and closing the long-standing electricity tariff deficit. Further efforts are needed to address shortcomings in competition in transport. Spain is also taking steps to reform its public administration: in February 2013 the government presented a draft law on local administration reform (to be adopted by Parliament before end-2013) and work on a broader reform of the public administration has been launched.

Employment and social policies: Building on previous reforms in 2010 and 2011, the more comprehensive 2012 labour market reform, together with the 2012 social partners' agreement, seem to have created the conditions for increased labour market resilience. Yet, it is too early to judge its impact. Work continues to boost active labour market policies as well as their links with passive policies. However, effective application is taking longer than expected and the coordination between the centre and the autonomous regions still poses a risk to effective delivery. Measures are being taken under the Youth Entrepreneurship and Employment Strategy to improve employment of young people. Reforms are also underway to improve VET. Only limited measures were taken so far to address poverty and social inclusion issues.

France

Public finances: While France made significant consolidation efforts to bring the headline deficit down from 7.5 % of GDP in 2009 to 4.8 % in 2012, it did not correct its excessive deficit by 2013 due to worse than expected economic condition and was therefore granted two additional years by the Council. Whether the planned decentralisation reform will bring significant savings for the general government as a whole remains unclear. The 2013 pension reform is expected to contribute to the long-term sustainability of the pension system but may remain insufficient in the medium-term. The planned measures mainly focus on the revenue side, in particular with the increase in social contributions for both employees and employers. The 2013 pension reform also covers only the general scheme and falls short of fully addressing the revision of special schemes.

Competitiveness and growth: Some measures have been taken to increase the efficiency of the tax system by cutting selected tax expenditures. Measures were also implemented to reduce the debt bias in corporate taxation. The creation of an intermediate 10% VAT rate in 2013 aims at a simplification of the tax system but will not reduce inefficiencies (e.g. reduced VAT rate for restaurants). France has taken some measures to improve competitiveness, in particular by the introduction of a tax rebate for competitiveness and employment in 2013. Only limited measures have been taken to increase the competition in regulated sectors. In network industries, the NOME regulation will reduce barriers to entry in the energy sector and a reform which seeks to increase the efficiency of the railway system is underway.

Labour market: The law of June 2013 on securing jobs is a step to improve the functioning of the labour market. It notably addresses the low access to lifelong learning. Measures were also taken to support the employment of older workers and of young people, in particular through subsidised work and apprenticeships, albeit with somewhat mixed results. Most recently, the "jobs of the future" programme effectively supports employment prospects for low-qualified young people while the "Generation Contract" has shown limited results so far. A reform of the public employment service was also undertaken in 2012/13. Labour market segmentation was partially addressed by raising employers' social contributions on contracts lasting less than three months, in order to reduce the proportion of short term contracts. Discretionary increases to the minimum wage have been limited in order to preserve competitiveness, leaving the wage indexation formula to play. Negotiations between social partners on unemployment benefit systems are to start soon. Given the level of unemployment, further structural reforms are needed to reduce the cost of labour.

CROATIA

In view of its accession on 1 July 2013, Croatia participated in the 2013 European Semester on a voluntary and informal basis by submitting an economic programme in April 2013. The Commission staff working document provided a qualitative assessment of the programme concluding that although some progress had been achieved, very important fiscal and structural challenges remain. There were no country-specific recommendations.

Public finances: Over the past years, the fiscal framework in Croatia has been reformed with three key legal acts entering into force: i) the Budget Act (2009), ii) the Fiscal Responsibility Act (2011), and iii) the Government Decision on the establishment of the Fiscal Policy Committee (2011). On the revenue side, Croatia took measures to shift the structure of taxation away from labour towards taxes less harmful for growth and to improve tax compliance through action aimed at combating tax evasion and improving the efficiency of tax administration. On the expenditure side, steps were initiated to review the effectiveness and sustainability of expenditure on social protection and pensions. According to the data notified by the authorities, the general government deficit in Croatia stood at 5.0% of GDP in 2012. The state deficit on a cash basis in the first nine months of 2013 came close to 4.0% of GDP, higher than what was planned for the full year (3%). The general government gross debt increased rapidly since 2009, reaching 55.5% in 2012 and forecast to rise further.

Growth and competitiveness: The low quality of the business environment and low efficiency of the judiciary as well as the lack of competition in key markets weigh on the growth prospects for the Croatian economy. During the last years, Croatia took legislative, institutional and practical measures to reduce administrative burden and revive investment. Some first measures to modernise the public administration, improve the efficiency of the judiciary, and implement prevention mechanisms to fight corruption in the public sector have been taken, but further measures are required for enhanced administrative and judicial capacity. Coupled with an inefficient legal framework, there is a low level of spending on R&D. The new Strategy on Innovation and the planned Smart Specialisation Strategy are steps in the right direction.

Employment and social policies: The potential of the Croatian labour market is severely underutilised, with young people, long term unemployed, elderly and women being in a particularly unfavourable position. The coverage of active labour market policy measures has improved recently, however the effectiveness of the measures is still to be evaluated. Also to improve a weak labour market performance, Croatia adopted first amendments to the Labour Law, partly addressing employment protection legislation. The second phase of Labour Law amendments, expected to introduce more significant changes to employment protection legislation, is under preparation, as is an extensive pension reform. The social situation is deteriorating, exposing a third of the population to the risk of poverty. There remains room to improve the effectiveness of the social welfare system and to address existing disincentives to take up employment among some groups. The Social Welfare Strategy 2011-2016 and new Social Welfare Acts provide a broad basis for system reform; however the impact of measures will depend on their actual implementation.

ITALY

Public finances: The fiscal consolidation effort since 2011 led to the correction of the excessive deficit. However, the public debt remains a major burden. Close monitoring of budgetary developments to ensure strict compliance with the Stability and Growth Pact is therefore warranted. The reform of the tax system remains piecemeal. The tax on primary residences was halved in 2013 and is due to be substituted by a new local service tax from 2014. The proper design of this new tax and the revision of the cadastral values will be critical to the fairness of property taxation and to the efficiency of the tax system. Despite previous actions and those announced for 2014, taxation on labour and capital remains high in Italy.

Financial sector: To strengthen the Italian banking sector, the Bank of Italy conducted a targeted asset quality review, which is a positive step despite the limited sample of banks involved. Furthermore, a higher allowance for corporate equity was proposed to diversify firms' access to finance. Improvements in banks' corporate governance have however been limited.

Growth and competitiveness: Some measures have been taken to reduce administrative burden, simplify legislation and improve the business environment. Action was also taken to foster the efficiency of the justice system and improve the management of EU funds, which however requires legislative follow-up and should be further developed. Some reforms to foster competition in the services markets were introduced but implementation risks exist, notably with regard to professional services. Follow-up action to tender out local public services is necessary, after the repeal by the Constitutional Court in 2012 of the provisions foreseeing market opening. Regarding network industries, measures are on-going to improve market access conditions, particularly in the gas and transport sectors, but energy prices remain very high and the upgrading of infrastructures across the country remains a challenge.

Employment and social policies: Rigidity and segmentation have been structural features of the Italian labour market. To address these challenges, a reform was adopted in 2012 including limits for atypical contracts, new dismissal rules and an integrated unemployment benefit scheme. However, implementation is slow, for example as regards the modernisation of public employment services. An agreement to better align wages to productivity was reached in 2012 supported by tax rebates, which needs to be followed-up on the ground. Youth and women unemployment remain issues of high concern. Measures targeted mainly to youth have been adopted at several stages, last in August 2013, and should be swiftly implemented. Challenges linked to education also remain high (i.e. lowest tertiary education attainment rate in the EU and nearly 24% NEET rate) and therefore urgent improvements are needed. To better target benefits addressing poverty and social exclusion, an important step was taken in August 2013, namely to extend the existing social card to all southern regions. However, financing will depend on the reprogramming of national contribution to EU structural funds.

Cyprus

Public finances: Cyprus is currently undertaking a sizeable fiscal consolidation. The adjustment for the years 2013-2014 is broadly balanced between expenditures and revenues. On the expenditure side, the 2013 reform of the pension system is being implemented, consisting of an increase in the retirement age, disincentives for early retirement and reduced generosity of benefits. Steps have been made to strengthen the sustainability of the funding structure and a National Health System is expected to be introduced by end-2015. On public financial management (PFM), an overarching law to provide a legal basis for sound PFM principles, defining main processes, roles and responsibilities throughout the annual budgetary cycle is to be adopted by end-December 2013. On the revenue side, reforms of the tax revenue and public administration are underway, which aim at improving tax compliance, fighting tax evasion and making the public sector more effective in performing its tasks, including by making it easier to reallocate public sector resources to areas most affected by the economic crisis.

Financial sector: Against the sharp deterioration of confidence in the banking sector, reforms were adopted, with a view to restructuring and downsizing financial institutions, and reinforcing supervision. In particular, the Central Bank of Cyprus was established as the single resolution authority and Bank of Cyprus was recapitalised and taken out of resolution. The authorities have started implementing the strategy to restructure the cooperative credit institutions and first mergers have been completed. A working plan for the integration of the supervision of the cooperative credit institutions in the Central Bank of Cyprus was finalised. The gradual relaxation of the administrative restrictions and the capital controls continued in line with the road-map agreed with programme partners.

Growth and competitiveness: The transposition of the third energy package, the preparation of a strategy for the energy sector, the alignment of legislation with the Services Directive as well as the effort towards the liberalisation of regulated professions count among the growth-enhancing measures adopted/envisaged by Cyprus. Yet, there remains room for additional measures in the transport sector, also with a view to improving energy efficiency, and encouraging private sector investment in research and development.

Employment and social policies: After the sustained contraction in employment since 2009 and the sharp rise in unemployment, Cyprus has taken action oriented towards the long-term and young unemployed and the improvement of skills by setting up post-secondary institutions, introducing a New Modern Apprenticeship and implementing a system of vocational qualifications. However, further efforts are needed to tackle the high youth unemployment and improve the adaptation of skills to labour market needs. Cyprus has also reformed its wage indexation system in the public sector, pursued also by the private sector, and reformed the social welfare to enhance the protection of vulnerable groups and ensure appropriate balance between welfare benefits and incentives to take up work.

LATVIA

Public finances: The broad-based fiscal consolidation and higher efficiency of public spending achieved during the macroeconomic adjustment programme have allowed Latvia to reduce the government deficit from 8.1% of GDP in 2010 to 1.3% in 2012 and to reach the Medium-Term Objective (MTO) in 2012. The excessive deficit procedure for Latvia was abrogated in June 2013. The 2014 budget is the first one implemented on the basis of the new Fiscal Discipline Law. Parliament has adopted tax measures concerning the personal income tax non-taxable thresholds (general and for dependants) and environmental taxes.

Financial sector: Privatisation of several banks after the financial crisis is on track and financial supervision has been strengthened to preserve stability of the sector; while specific regulatory measures and close monitoring of non-resident bank deposits are in place, continued vigilance remains important.

Growth and competitiveness: Ambitious reforms have been proposed in the education and science sectors, which include changes to the governance of higher education institutions, promoting internationalisation of higher education and science, and introducing a financing model that rewards quality, combined with increased national higher education financing. However, their implementation has not advanced and reforms of the accreditation of study fields have not been pursued. Latvia has taken significant measures to reduce inefficiencies in the civil justice system that have a negative impact on the business environment. The measures taken include a Court reorganisation; several reforms on civil procedures; implementation of ICT solutions and on transparency through publication of judgements. The mediation law and modifications to the insolvency laws are under discussion. In the field of energy, the electricity market has been liberalised and some measures are being implemented to improve energy network connections. However, further efforts are needed as regards gas infrastructure and markets, in particular to guarantee a well regulated third-party access to transportation grids and storage. Some progress is being made on energy efficiency.

Employment and social policies: Latvia has reduced taxes on labour and further steps to lower taxation of labour are planned for 2014-15. Latvia increased the coverage of active labour market policies (ALMP), developed new ALMP measures and modernised VET schools. A Youth Guarantee scheme is under preparation. The previous decision by Latvia to decrease the level of the Guaranteed Minimum Income and abolish the Central Government financing was contrary to the country-specific recommendation. However, there is on-going, although slow, work on the reform of social assistance to improve coverage and adequacy of social assistance. Other measures to address poverty and social exclusion include an increase of the minimum wage and special social services for persons with disability or assisting disabled children. Regarding child poverty, one of the highest in Europe, Latvia increased a number of family benefits in 2013 and further increases are foreseen in 2014.

Lithuania

Public finances: Over the past three years economic growth has been among the highest in the EU, which has helped reduce the budget deficit. In June 2013, the Excessive Deficit Procedure was abrogated. While a further downward trend of the structural deficit is visible, progress towards the MTO was below the minimum requirement and efforts should be stepped up going forward. While some measures have been taken, notably regarding property taxation, overall no major progress was made on taxation in 2012-2013. Given that Lithuania's tax-to-GDP ratio is one of the lowest in the EU there is room to increase revenue. The 2013 tax review has been limited in scope, while effects of the extended strategy to improve tax compliance can be expected rather in the mid-term. The adoption of fiscal stability laws has been postponed and further action is needed to strengthen the fiscal framework. Gradual pensionable age increases were adopted in 2011. Legal amendments to complementary pension savings were adopted in late 2012. However, legislation on a more comprehensive pension system reform and measures to ensure longer working lives have yet to be introduced.

Growth and competitiveness: Lithuania has improved its competitiveness over the last years due to persistent wage declines and improvements in non-price competitiveness. However, there is still a large catching-up potential as regards research and innovation and education performance. Moreover, reforms in the energy sector (Lithuania being one of the EU's most energy and carbon-intensive economies) should reduce the strong dependence on energy imports. On energy networks, steps have been taken but the rate of implementation remains rather slow. On energy efficiency of buildings, Lithuania has removed legal impediments for granting specific loans to certain categories of owners in 2013. While this is a step in the right direction, the concrete impact of these measures still remains to be assessed. The government has put in place the regulatory framework of a state-owned enterprise reform and significantly improved transparency. The challenge now is to ensure implementation of all elements of the reform.

Employment and social policies: The labour market situation in Lithuania improved further but youth and long term unemployment levels remain a serious concern. There is an increasing lack of skilled labour force. The government has taken a number of steps to tackle youth unemployment, with some positive results and a Youth Guarantee scheme is under preparation. However, ALMP measures have not yet been refocused for better targeting the low skilled and those further away from the labour market. Promotion of apprenticeships in VET remains insufficient. Employment protection legislation remains restrictive: changes to the labour code were limited and will have no major impact. Initial reforms to support liberalisation of fixed-term contracts in the private sector were undertaken but are not sufficient due to the limited period and limited scope. The implementation of cash social assistance reform measures has been launched aiming to improve targeting. Increases in the general minimum wage should improve in work poverty rates and might reduce general poverty. However, these measures do not appear sufficient to tackle poverty and social exclusion.

LUXEMBOURG

Public finances: Luxembourg has made progress in its fiscal consolidation efforts towards reaching its medium-term objective. However, further efforts are needed to ensure the long-term sustainability of public finances. A draft bill has been prepared to put in place a medium-term budgetary framework, but its adoption is delayed. The reform of the pension system adopted in December 2012 can only be considered as a first step in the right direction to ensure the long-term sustainability of public finance. Additional measures, including those related to the long-term care, are needed. Luxembourg has not yet taken measures to extend the application of the standard VAT rate, which would help increase revenues from consumption.

Growth and competitiveness: Luxembourg's nominal unit labour costs increased by almost 16% between 2008 and 2012, almost two times faster than in neighbouring countries. However, the measures taken by Luxembourg to improve the wage-setting system have only been partial and temporary. Luxembourg has made some efforts to diversify the structure of the economy, which is heavily dependent on the financial sector (ca. 30% of total value added). However, further efforts are needed, notably to tackle current weakness of Luxembourg’s research and innovation system. Recent legislation has considerably reduced the regulatory burden relating to professional services and made access easier for service providers. The debt bias in the corporation taxation is likely to have contributed to the high level of indebtedness of corporations, but no measures have yet been taken to address this. Luxembourg is not on track to achieve its greenhouse gas target and further efforts are needed to offset the negative externalities resulting from low level of taxation on energy products for transport and to improve the public transport system.

Employment and social policies: Luxembourg's education system faces specific challenges due to multilingualism demands, the high proportion of people with migrant backgrounds in the population (43.1%), and the specific skills required by a strongly specialised labour market with a large financial sector. The situation for migrants and young people with low skills remains difficult. Luxembourg has taken measures including setting up a career guidance centre, an Employment Observatory, so-called 'fit for jobs' incentives, and a ‘Youth Guarantee’, which point in the right direction. However, implementation remains partial so far. A reform of the secondary school system is currently being prepared. In view of a weak employment rate of older workers, financial incentives have been put in place through the pension reform to prolong working careers.

HUNGARY

Public finances: The Hungarian Excessive Deficit Procedure was abrogated in June 2013, following which the authorities, on balance, adopted a slightly expansionary fiscal stance. The Commission fiscal forecast for 2014 is just at the Treaty reference value (3% of GDP) with sizeable deficit-increasing risks. In addition, recent fiscal policy decisions do not indicate any shift towards a more growth-friendly fiscal strategy. On reinforcing fiscal governance, some measures have been taken but further efforts are needed.

Financial sector: Credit to SME has picked up and the sector's exposure to foreign-currency denominated (FX) loans has been reduced thanks to the implementation of the central bank's Funding for Growth Scheme (FGS). However this scheme can have substantial medium-term fiscal costs. Sector specific taxes on the financial sector have actually been increased once again in 2013. In addition, the government is currently planning a new support scheme for households' FX mortgages and the associated costs could further reduce credit supply of banks. The supervisory authority has been merged into the Magyar Nemzeti Bank’s (MNB), which should increase its emergency powers and the integration of macro- and micro-prudential tools. As regards portfolio cleaning no new steps were adopted, while the share of non-performing loans in the banking sector's balance sheet is rather high (close to 20%) in addition to the high share of restructured loans.

Growth and competitiveness: Hungary's economic growth has been lower than that of regional peers (PL, CZ, SK) due to the deleveraging of indebted sectors and a worsening business environment. The latter is to a large extent driven by the lack of predictability, distortive effects of government policies that imposed a growing number of restraints on investors and the quality of corporate taxation, in particular on the financial sector. No measures have been taken so far to address the recommendations relating to the business environment.

Employment and social policies: The labour market is lagging behind of the EU average, with a generally low employment rate. Youth and long-term unemployment are the main sources of concern. A Youth Guarantee scheme is under preparation. The wide scale public work programmes introduced by the government in 2011 has helped containing unemployment, but its long term employability effects are still to be proved. The planned activation element goes in the right direction, but still remains a one-off measure. The impact of life-long learning programmes is still to be seen. The early school leaving, life-long learning and higher education strategies are all still under preparation. The government introduced targeted social contribution reductions to increase labour demand in the open labour market; however the effect of this measure is still not detectable. Despite a moderate increase in the overall active labour force, poverty and social exclusion are increasing and high number of people faces severe material deprivation. These have been exacerbated by a reduction in length and level of unemployment benefits and thus the in-cash social assistance supports with the restrictions on eligibility criteria.

MALTA

Public finances: Malta plans to bring its general government deficit to 2.7% of GDP in 2013 but the Commission Autumn Forecast projects this at 3.4% of GDP. Malta announced measures to increase tax compliance and fight tax evasion but their implementation is still ongoing. Debt bias in corporate taxation still needs to be addressed. A reform of the fiscal framework is expected by the end of the year. The sustainability of Malta's public finances in the long-run remains challenging as projected growth in age-related expenditure remains well above the EU average. Regarding the reform of the pension system, the ongoing increases in retirement age are too gradual and not linked to life expectancy. Malta plans to offset this in the short- to medium-term through other measures, such as raising the employment rate of women and older workers (an active ageing strategy is expected by the end of the year), but a long-term response is missing. Healthcare expenditure adds to the challenge. The authorities are putting in place a number of measures to improve the adequacy of the system, but their financial impact is unclear.

Financial sector: The authorities plan to revise two banking regulations that deal with loan-loss provisioning and concentration risk. These draft regulations are still in the process of discussion and the initial deadline was already missed. To enhance supervision, the authorities set up a Join Financial Stability Board and have proposed an amendment to the Central Bank of Malta Act.

Growth and competitiveness: Plans are underway to diversify energy supply by converting the current oil-fired power plant to gas and constructing a new LNG power plant. In addition, an electricity interconnector with Italy is under way, but its completion has been delayed. On renewable energy, support schemes were put in place, but problems were registered on developing the important planned wind farms. Some limited measures have been implemented to address shortcomings in the transport sector, but the uptake of public transport as envisaged in on-going reform has been modest. In general further efforts in energy efficiency appear needed. Malta is introducing an e-procurement framework to increase the efficiency in public procurement and a reform of the judicial system started in 2013.

Employment and social policies: While still very low, the employment rate of women is increasing. Measures have been introduced since 2011 (e.g. opening of public and private childcare and afterschool centres), though their reach and affordability remain an issue. Maternity leave was extended and new income tax incentives introduced for working parents. The early school leaving rate remains high, but measures have been introduced to address the issue. Measures addressing literacy, lifelong learning and the reintegration of job seekers and inactive persons into the labour market are planned, complementing on-going reforms of the apprenticeship scheme. Malta's cost-of-living adjustment mechanism has specific characteristics which appear to mitigate its negative effects. Malta is, however, encouraged to closely monitor its impact and stand ready to reform it as appropriate.

The Netherlands

Public finances: Also due to weak economic developments, the Netherlands has had an excessive budget deficit since 2009. According to the Commission 2013 Autumn Forecasts, the economy contracted by 1.2% in 2012 and is expected to contract by 1% in 2013 before slightly expanding in 2014. The Netherlands has adopted a first pillar pension reforms. The second pillar and long term care reforms are still to be adopted. The measures to improve the functioning of pension funds can be expected to reduce fiscal subsidies to the system while at the same time supporting the employability of older workers.

Financial sector: In view of significant structural distortions in the Dutch housing market further reforms are necessary, also in order to limit the spill-overs to the wider economy holding back the recovery. Since April 2012, a series of measures have been implemented. Some of these concern adjusting the fiscal treatment of housing finance. The gradual move to limit mortgage interest tax deductibility and increase the incentive to amortise is useful, but the phasing-in of this measure is too slow. The recent introduction of some differentiation of rents in the social housing sector based on income is a welcome step, but its impact still has to be assessed.

Growth and competitiveness: Structural reforms have been taken, but since 2012 the momentum for much-needed reforms appears to have faded. In difficult economic times with rising unemployment, renewed efforts are needed to increase the growth potential of the Dutch economy. The Netherlands has improved its ranking in the Innovation Union Scoreboard 2013, which puts the Netherlands in the group of ‘innovation followers’ with above-average performance. Several measures have been announced, are being implemented and were interpreted as steps in the right direction. Consequently, the recommendation on competitiveness and R&D was dropped in 2013. Even though public spending on education seems to be safeguarded from budgetary cuts, funding for unconditional fundamental research is under pressure. In 2012 and 2013 measures were taken to improve the business environment, but there is scope for further improvement in some areas.

Employment and social policies: The labour market situation in the Netherlands has recently deteriorated. The measures to improve labour market participation include increased tax credits on labour and a progressive reduction of tax disincentives for second-income earners. Furthermore, it was envisaged to increase labour mobility by reviewing employment protection legislation and the duration of unemployment benefits, but also implementing measures to integrate specific groups into the labour market. At the end of 2012, the government tabled a number of reforms concerning socio-economic policies. The envisaged measures on the unemployment benefit scheme, employment protection/ dismissal legislation, and the new Participation Act still need to be implemented. However, the measures are planned to be phased in slowly. Additional reforms are needed in order to improve the functioning of the labour market.

AUSTRIA

Public finances: Austria has successfully reduced its general government deficit and is working towards reaching the Medium Term Budgetary Objective, while the annual structural adjustment needs to be strengthened. The overlapping responsibilities between federal, regional and local levels, as well as inconsistencies between funding and spending responsibilities, represent a challenge that needs to be addressed. In fact this situation may put at risk some reforms which are currently being implemented, such as the target system for expenditure in the healthcare system.

Financial sector: A restructuring of (partially) nationalised banks is underway, but further action is needed and budgetary risks need to be closely monitored.

Growth and competitiveness: Further efforts are needed to facilitate competition and the provision of services, including by removing excessive barriers for service providers and by reviewing whether existing restrictions in regulated professions are justified by general interest. A competition law reform is currently being implemented but concerns regarding a too limited allocation of resources to the federal competition authority remain. Furthermore, Austria, despite having made available some additional budgetary resources since 2012, has not yet taken all the measures required to ensure that the increasing number of students get access to a high-quality, adapted training and actually complete their studies.

Employment and social policies: Austria has taken measures to strengthen, in the medium term, the participation of older workers in the labour market and to limit early exit from employment. The implementation of these measures and their effectiveness will require close monitoring. No measures have been taken to bring forward the alignment of the statutory retirement age for women and men. The burden on labour in terms of effective tax and social security contribution remains high and no action has been taken to shift taxation from low-income labour towards tax bases less detrimental to growth. Some measures have been taken to increase labour market participation of women. Child care and long-term care services are being expanded to some extent, although the budget allocation does not appear ambitious enough to meet the rising demand. Some measures were taken to tackle labour market participation of people with migrant background, such as the language acquisition strategy, and to improve educational outcomes, especially of disadvantaged young people. Progress is slow and the effectiveness of these measures needs close monitoring.

POLAND

Public finances: With a view to complying with the recommendation under the Stability and Growth Pact to reach a deficit of 3% of GDP in 2014, Poland submitted further fiscal measures mainly relating to the pension system, the fiscal framework, tax compliance as well as tax revenue measures. Poland did not minimise cuts in growth enhancing expenditure as a significant part of deficit reduction efforts came from cuts in investments in recent years. A reform of the fiscal rules has been enacted but not yet been implemented. Tax compliance remains a problem. Since the beginning of 2013 Poland is gradually increasing the statutory pension age to 67 years. On the other hand, the special farmers' social security scheme and the special pension system for miners remain unreformed. As regards cost effectiveness in the healthcare sector, Poland announced some measures related to the management of the National Health Fund. Some measures to improve targeting of social policies are also foreseen in a draft regulation on social care. Their impact, however, will need to be assessed on the basis of final legal provisions.

Growth and competitiveness: The reform of science and higher education has been a step in the right direction but innovation performance of Polish companies remains low. The measures taken so far to increase business R&D investment and in-house innovation have not led to a clear improvement and public instruments to support innovation are not well targeted. Efficient instruments such as existing tax incentives are hardly used and improvements or alternative tax schemes are not being explored. Most of the measures in the energy sector are only at the preparation stage. However, in both electricity and gas sector some efforts have been made, with the launch of some projects in development and upgrade of the electricity grid and the gas trading platform opened in 2012. Concerning energy efficiency, the government has modernised public buildings. Despite some efforts, railway investment projects are still largely delayed, while the railway regulator has been strengthened. Poland has set a serious reform agenda to eliminate or reduce qualification requirements for up to 230 professions and a first tranche of legislative changes already entered into force. Poland has not yet taken action directly responding to the recommendations relating to waste and water management as well as the acceleration of broadband coverage.

Employment and social policies: A number of efforts have been made to reduce youth unemployment. The government has introduced several reforms in the area of education and training. Additional measures to improve targeting of employment policy, in particular in relation to youth, are under preparation. A lifelong learning strategy was adopted in September 2013. However, further efforts are needed to improve access to apprenticeships and work-based learning. Poland took only minor steps to reduce labour market segmentation and in-work poverty. The number of childcare places is growing, but the offer of nurseries remains too low to substantially increase female labour market participation. A permanent and credible reform of farmers' social security system KRUS still needs to be implemented.

PORTUGAL

Public finances: Fiscal consolidation has progressed over the past three years with a fiscal effort of about 5.1% of GDP. The general government deficit is expected to be 5.95% of GDP in 2013 according to the Commission 2013 autumn forecast. The government has confirmed its deficit target of 4% of GDP in 2014, underpinned by permanent consolidation measures. Fiscal consolidation in 2013 includes increases in personal income and property taxation, and the frontloading of some measures envisaged in the Public Expenditure Review. Following Constitutional Court rulings, the two bonus payments to public sector workers and pensioners that had been cut in 2012 were reinstated in 2013. Public sector reforms continue to strengthen public financial management, fight tax evasion, restructure state enterprises, and reduce costs of public-private partnerships.

Financial sector: Portuguese banks have significantly improved capital ratios from the beginning of the Economic Adjustment Programme and, with a more balanced funding structure and available liquidity, they are in a good position to weather short periods of uncertainty and cope with a potential further deterioration in asset quality. The financial sector continued its deleveraging at an elevated pace on the back of weak loan demand and reached a loan-to-deposit ratio of 122 % at the end of the second quarter 2013. Measures to ensure adequate funding for viable small and medium-sized companies are being implemented, including initiatives to encourage the diversification of financing sources.

Growth and competitiveness: The Economic Adjustment Programme's agenda of structural reforms is well advanced. Important progress has been made in the areas of judiciary, network industries, housing, services and regulated professions. Progress is being made, although with some delays, in the reduction of barriers to doing business via easing of administrative burdens and licensing procedures. Further progress is still necessary to make the transport sector more sustainable and open to competition, especially in ports. Some important measures have been adopted to improve the liquidity conditions of the business sector, in particular Small and Medium Enterprises (SME).

Employment and social policies: Employment has been declining markedly since the start of the economic crisis with the employment rate falling from 73.1% in 2008 to 66.5 % in 2012. While the labour market situation has recently improved, unemployment remains high, particularly among the young. As part of the long-term strategy for job creation the following reforms were implemented: collective bargaining rules become more flexible, a significant reduction in severance payments, a reduction of unemployment benefits to increase the incentives to return to the labour market, changes in working time arrangements and reforms in ALMPs and VET in order to reduce labour skills mismatches. Important measures have also been adopted in the area of education.

Romania

Public finances: Romania's excessive deficit procedure ended in June 2013. Fiscal governance has been enhanced through a Fiscal Responsibility Law, the creation of a Fiscal Council, pension reform and measures to improve the budgeting process. However, government payment arrears and fiscal sustainability and efficiency of the healthcare system continue to pose a problem. A further challenge is the low rate of tax compliance, leading to significant revenue shortfalls, in particular in the areas of VAT and labour taxation.

Financial sector: A series of measures have been taken to strengthen the financial sector: the bank resolution framework was enhanced and the deposit guarantee funds strengthened, international reporting standards were introduced for the whole banking sector, and measures to further discourage un-hedged consumer and SME borrowing in foreign exchange were adopted. The on-going deterioration of assets quality is being addressed by new measures.

Growth and competitiveness: Romania is facing important competitiveness challenges: prevalence of low- and medium-technology sectors; low public and private investment in R&D; low productivity in industry and services and difficulties of enterprises to grow. A National Competitiveness Strategy encompassing all of these policy areas is under development. Restructuring of state-owned companies, and improvement of their governance and their performance, in particular in the transport and energy sector, has been slow. Weak public administration remains a major challenge for growth and competitiveness, and hampers absorption of EU funds. The action plans designed to improve the effectiveness of public administration are slowly being implemented. A strategy for strengthening public administration is being prepared for the end of 2013. The success of the National Priority Action Plan for increasing the EU Funds absorption has been very limited, though there has been an increase of absorption rate of EU funds.

Employment and social policies: Total unemployment in Romania is relatively low, but increasing (7.5% in September 2013). However, youth unemployment is high (23%) whereas the overall employment rate was only 63.8% in 2012. In 2013, the Romanian authorities have been implementing a national plan to boost youth employment. A national employment strategy 2013-2020 is under preparation targeting youth, older workers, people working in agriculture, women and vulnerable groups. To fight undeclared work, a law on activities provided by daily labourers is under implementation since 2011. Poverty reduction remains a major challenge for Romania. A social assistance reform started in 2011 should help to increase the efficiency and effectiveness of social assistance benefits.

Slovenia

Public finances: Slovenia is committed to correct its excessive deficit by 2015. The fiscal framework is undergoing further changes after the constitutional amendment setting the basis for the general government budget balance/surplus rule adopted in May 2013. The last pension reform stabilises pension expenditure only until 2020 and pension expenditure is projected to increase well above the EU average after that. The government has established a working group to consider options for further reform. Longer term sustainability pressures also stem from the projected increase of demand for long-term care and related expenditure, in light of ageing population. In May 2013 the government issued plans for strengthening the community based long-term care and the adoption of a new Act on long-term care is foreseen in the first half of 2014.

Financial sector: Several Slovenian banks experienced sustained pressure on their relatively low capital buffers and their dependence on the state for capital is a substantial threat to fiscal sustainability. In August 2013, the Bank of Slovenia initiated an independent Asset Quality Review and Stress Testing exercise covering almost 70% of the banking sector. The exercise is on track, to close by end 2013. The new Bank Asset Management Company is largely ready to receive assets to help relieving bank balance sheets. The Slovenian authorities have made first steps to review their framework for bank regulation by end-2013 and to strengthen supervisory capacity, transparency and statistical disclosure.

Growth and competitiveness: Data reported by Supreme Court appear to confirm that certain positive trends in judicial efficiency have continued. A framework for out-of-court financial restructuring of non-financial companies is under preparation but the September 2013 deadline as outlined in the CSRs has been missed. An expert working group was formed in mid-September to incorporate out of-court restructuring within the insolvency code and new amendments to the insolvency law were adopted by the government in October. The Ministry of Finance has prepared a new draft law in September establishing the Slovenia Sovereign Holding, which is envisaged as a vehicle for consolidating the state's indirect ownership stakes and facilitating privatisation of non-core assets. However, the September 2013 deadline for classifying state-owned assets has been missed. The 2012 inter-ministerial process to streamline Slovenia's numerous regulated professions has not advanced since May 2013. The newly independent Competition Protection Agency has been strengthened with additional staff but the agency suffers from limited financial resources which are compounded by budget cuts planned for 2014.

Employment and social policies: Regarding labour market reforms, a working group has been created and tasked with reporting on the implementation and impact of the March 2013 reform by March 2014. A new student work regulation is under preparation aiming to preserve flexibility while introducing social security contributions to reduce distortions, flanked by measures in the education sector to limit access to student status. A revision of the minimum wage act is under consideration and negotiations with the social partners will start. Rather limited actions have been implemented to address skills mismatches. Slovenia prepared and implemented some new tailor-made Active labour market policy measures, whose effectiveness will need to be closely monitored.

SLOVAKIA

Public finances: Slovakia embarked on an intensive consolidation effort to correct the excessive deficit by 2013. To the extent that this effort also relies on one-off measures, these will need to be replaced by more structural ones in the future, in order to ensure the sustainability of the correction. Government investment and expenditure on education (as percentage of GDP) have decreased in recent years and are budgeted to fall further, a sign of the difficulties encountered in addressing the recommendation to safeguard growth-enhancing expenditure. The 2012 reform of the pension system increased its long-term sustainability, but the public pension scheme is still projected to be in deficit in the long term. Planned reforms of the healthcare system have so far not progressed. Several measures have been taken in 2012/13 to reduce distortions in the taxation of labour across different employment types and to improve VAT compliance. Further efforts are needed to improve tax compliance going beyond VAT. Scope remains for a greater reliance on taxes that are less detrimental to growth, such as property and environmental taxation.

Growth and competitiveness: Slovakia faces a challenge in terms of supporting more knowledge-based growth and competitiveness in the medium term. Strengthening institutions, human capital, innovative capacity and the business environment are pre-conditions for addressing such challenge. Measures were taken during 2012/2013 to make public procurement and the judicial system more transparent, also enhancing the independence of the Public Procurement Office. The reform process of the judicial system, however, continues. As of 2012, the government launched an important reform of the public administration with implementing measures spanning over several years. Improving competition and the transparency of price-setting mechanisms in regulated industries, notably in the energy sector, remains to be tackled.

Employment and social policies: Slovakia has taken steps to reform active labour market policies. However, it remains to be seen whether the implementation of the May 2013 reform will yield the expected result, in particular as regards impact evaluation and the capacity of public employment services, and more targeted measures for the most disadvantaged jobseekers remain needed. Availability of good quality, affordable early childhood education and care, in particularly for children below three years of age, remains an obstacle to female participation in the labour market. Slovakia has yet to act on enhancing social inclusion of marginalised communities. As regards education, Slovakia took a number of measures, in particular the youth action plan has been launched, and amendments to the acts on vocational education and training, higher education and life-long learning have been adopted.

FINLAND

Public finances: Public finances in Finland have been overall sound and Finland has implemented the planned fiscal consolidation measures. Nevertheless, the worsening economic climate has made it difficult to achieve the expected results in terms of moving towards Finland's medium-term budgetary objective. Finland did not meet its Medium-Term Objective (MTO) of 0.5 % structural surplus in 2012 and set a new MTO at a deficit of 0.5% in 2013. However, according to the Commission 2013 Autumn Forecast, this will not be met. In August 2013 the Finnish government launched a structural reform programme, which complemented and reinforced earlier commitments and measures to promote growth and reduce the sustainability gap. Preparation of comprehensive reforms of the municipal structure, healthcare and social services is underway. These are steps in the right direction but they need to be further developed before they can be assessed. Pension reform is planned for 2017.

Growth and competitiveness: Finland is an innovation leader and its expenditure in research and development continues to be the highest in the EU. However, it faces a number of challenges, in particular loss of export market shares over the past years, which are threatening the country's competitive position. The efficiency of the Finnish research and innovation system in turning investments in R&D into new innovative products and services is of critical importance. The government has, among other measures, offered temporary tax incentives to support research and investments, additional support to finance restructuring and growth in the ICT sector, and is committed to do a comprehensive reform of research institutes and funding. A programme has been set up to promote competition in the product market. From 2014 onwards, Finland will lower the tax rate on corporate income and there are proposals to cut the regulatory burden and to reform the support system to enterprises. The success depends on the details of the reforms, which have not been published so far.

Employment and social policies: The Finnish labour market is generally performing well. The most pressing challenges relate to the ageing of the population. It is important to maintain the supply of labour in the future and to improve the sustainability of the pension and long-term care systems. Early exit will be prevented by reducing access to early retirement, although currently some pathways still remain and measures are foreseen to improve the quality of working life and thus extend the careers. An extension of the Youth Guarantee and a temporary skills programme for young adults have been introduced in 2013. A pilot programme to address long-term unemployment has also been launched. Social Partners have agreed on a new framework wage agreement for next three years (2+1), ensuring moderate wage increases in order to improve the competitiveness of the economy. The agreement includes also a roadmap towards the agreement on pension reform. These are concrete steps in the right direction but impacts still remain to be seen.

SWEDEN

Public finances: Sweden has a sound fiscal position, in line with the Stability and Growth Pact, while using available fiscal space to support growth and jobs. Sweden's plans for the medium- and long-term will need to be clarified including how and when it foresees to reach the national surplus target of 1% of GDP and how it will deal with high healthcare expenditure in the longer term.

Financial sector: Some measures have been implemented over the past years which have contributed to the stabilisation of household debt, although at a high level (around 80% of GDP). However, in the last three months household debt and credit seem to be on an upward trend again. Recent measures introduced by the Financial Supervisory Authority are welcome, but may need to be stepped up. No changes have been considered so far to household property taxation or to the tax deductibility rules for mortgage interest payments.

Constraints in housing supply, together with debt-inducing housing taxation, tend to create upward-bias in housing prices. On the rental market, some measures have been taken but further reforms are needed to the rent-setting system. Several bills are planned for late 2013, early 2014 to improve construction time and increased competition in the construction sector.

Growth and competitiveness: While Sweden is a top performer according to most R&D indicators, it faces a number of challenges that could threaten the country's competitive position in the medium-term, in particular falling business investment in R&D and little commercialisation of innovative output. In October 2012, Sweden adopted a new innovation strategy addressing the related 2012 CSR, which is now being implemented.

Employment and social policies: The Swedish labour market is generally performing well but there are groups with weak attachment on the labour market, notably the youth and people with a migrant background. The government is taking a number of measures, including new proposals to further reform the VET system, the introduction of work introduction agreements and the continued negotiations on "job pacts" that aim to reduce first year's costs for employers that hire young people and provide continued education to those youth. These are steps in the right direction, but concrete impacts still have to be seen. The VAT reduction for restaurants introduced in 2011 was presented as a measure to reduce youth unemployment. An evaluation of its effects on prices, wages and employment in the sector is underway and should deliver preliminary results in January 2014.

UNITED KINGDOM

Public finances: The fiscal consolidation strategy is being implemented and is moving in the right direction, but the average pace has slowed over the period. The budget deficit is decreasing and is expected to fall to 4.4% in 2015-16. By contrast, the high and rising level of government debt remains a concern as it has increased substantially between 2009 and 2012, when it reached 88.8%.

Financial sector: The recent Funding for Lending Scheme is starting to improve access to credit for households and corporations. The Banking Reform Bill is due to come into force in early 2014. While the credit flow to the economy is improving, it mostly goes to large companies and to the real estate sector. SMEs still report difficulties in accessing bank credit. There have however been some signs of improvements in the availability of non-bank credit. The establishment of a government-backed Business Bank in 2014 should facilitate easier access to finance for SMEs.

The housing market has picked up across all regions, albeit with large regional variations, but there are persistent shortages in housing supply. Measures aimed at boosting demand for houses, in particular the Help to Buy Scheme, risk creating an asset price bubble, further harming affordability and increasing household indebtedness. No reform of property taxation has been implemented or is planned and no measures have been taken to broaden the VAT base.

Growth and competitiveness: There is broad consensus that economic recovery is taking hold, with both hard output data and forward-looking survey indicators showing strong improvements. Net exports have started to contribute positively to growth but this was due to a large fall in imports as opposed to a rebound in exports. The Growth and Infrastructure Act 2013, which applies to England and Wales, became law in April 2013. The government announced the "Investing in Britain's future" package, which details a pipeline of public investment in infrastructure of over £100 billion until 2020, policy reforms to stimulate new private sector investment in energy generation and a further roll-out and extension of the guarantees scheme to encourage the financing of major projects. It is too early for an assessment, but on energy capacity, the measures introduced do not seem to provide an adequate level of certainty beyond 2020.

Employment and social policies: Since the onset of the crisis, the labour market has shown some resilience and the employment rate, at 71.7%, is high. However, areas of concern remain, in particular in relation to youth unemployment and the NEETs rate. Many people, especially young workers, are in precarious part-time or temporary jobs. Furthermore, the UK has too many low-skilled workers, and a shortage of workers with high-quality vocational and technical skills. The programmes introduced by the Government to tackle these issues, in particular the Work Programme and the Youth Contract, have fallen short of the Government targets. The UK also faces a broader productivity challenge – recent official data show it losing ground on G7 competitors (with output per hour worked 16% below the G7 average in 2012, and still 2% below its level in 2007). The UK has the highest at-risk-of-poverty rate for lone parent households in the EU28. Action to improve childcare provision and affordability has been introduced, but the roll-out of the flagship welfare reform, the Universal Credit, is encountering several challenges.

EURO AREA

The economic situation in the euro area remains challenging given the imbalances which were built up during the 2000s, financial market fragmentation and sustained policy uncertainty related to the completion of the economic and monetary union. In order to create sustainable growth and investment opportunities, further reforms are needed to improve the adjustment capacity and the competitiveness of euro area Member States.

Regarding the consistency of the overall policy mix as well as the need to monitor and coordinate reforms, the Eurogroup of September discussed the economic situation and its implications of the euro area and Member States CSRs. Specific policy areas such as banking union and the situation in selected euro area Member States have been discussed in the Euro group in September and October. Nonetheless, coordination of economic policies in the euro area needs to be further strengthened, notably by increasing the level of commitment, ownership and implementation of economic reforms.

Regarding fiscal policy, all Euro Area Member States have submitted their draft budgetary plans: this marks an important milestone in enhancing the coordination of the fiscal policies of the Member States. After impressive consolidation in the last three years, consolidation is set to continue, although its pace will decelerate over time. This is the result of frontloaded consolidation at the euro area level, which was necessary in view of risks to debt sustainability, and consistent with a gradual correction of excessive deficits. The pattern of consolidation across Member States continues to be adequately differentiated according to the fiscal space. Moreover, given the slowdown in the adjustment needs, the short term impact on growth will diminish and there is more scope for growth-friendly consolidation. Further improvements can be made in this area – for example, the composition of taxation does not rely enough on base broadening and less distortive taxation, and expenditure cuts are too focused on growth friendly expenditure such as investment. Member States are invited to enhance further the focus on a growth friendly fiscal policy anchored in a medium term fiscal framework. While a lot of progress has been made on strengthening the credibility of medium term fiscal strategies in most Euro Area Member States, further progress can be made by a full and timely transposition of the Treaty on Stability, Coordination and Governance (TSCG) and the directive on budgetary frameworks by the end of 2013. Moreover, Member States are invited to complement their budgetary policies with structural reforms that enhance economic growth potential in order to further enhance debt sustainability.

Regarding financial market fragmentation, the Commission and the EIB have made proposals on the implementation of measures aimed at financing the economy. Notably, it was proposed to expand joint risk-sharing financial instruments between the Commission and the European Investment Bank (EIB) to leverage private sector and capital market investments in SMEs, with the aim of expanding the volume of new loans to SMEs across the EU. These proposals should now be implemented as soon as possible with the greatest possible participation by Member States being necessary to reach critical mass. Furthermore, and in a longer term perspective, decreasing the importance of bank intermediation within the EU should be envisaged. The ECB has also announced details of the comprehensive assessment of banks starting in November and lasting 12 months and the EBA produced technical standards on non-performing loans and forbearance. Also, the Euro group started its discussion on credible fiscal backstops. Finally, further progress towards a Banking Union is being made with the agreement on the Single Supervisory Mechanism (SSM), the on-going discussions on the Banking Recovery and Resolution Directive and the Deposit Guarantee Directive between the Council, the Parliament and the Commission and the discussions on the Single Resolution Mechanism (SRM). Completing the Banking Union is urgent and requires not only a Single Supervisory Mechanism but also a Single Resolution Mechanism. In this context, it is essential that the Bank Recovery and Resolution Directive and the Deposit Guarantee Directive are adopted by the end of the year and the Single Resolution Mechanism is adopted before the end of the current legislative period.

Regarding structural reforms, there is a large divergence in performance. The euro area is moving beyond the classic dichotomy between core and periphery which has characterised developments in the euro crisis up to now. Programme countries have undertaken an impressive reform agenda but need to continue their pace of reform as economic fundamentals are not yet corrected. The Commission progress reports on Spain and Slovenia, which face excessive imbalances, demonstrate a stepping up of policy action by these Member States after the identification of excessive imbalances and important measures still have to be taken to correct them. Imbalances in other countries, be it current account deficit or surplus countries, also need to be addressed to strengthen the economic fundamentals and the growth potential. Competitiveness developments in big Member States such as France and Italy have a more direct bearing on the euro area increasing the responsibility of these Member States to implement structural reforms which will enhance the prospects of the euro area as a whole.

Finally, regarding the employment and social situation in the euro area, the Commission has adopted a Communication on the Social Dimension of the EMU. Furthermore, the stability of EMU necessitates ambitious action by Member States to ensure proper functioning labour markets while preventing prolonged unemployment amongst vulnerable groups. In this regard it is essential that EU Member States step up their efforts to make the Youth Unemployment Initiative and Youth Guarantee operational by January 2014.

As a conclusion, the overview of the progress on the euro area CSRs demonstrates that action is being taken to overcome current economic challenges. However, the reform agenda is not finished and strengthening the path of recovery requires that Member States take collective ownership and commit to undertake the necessary reforms at Member State and euro area level required for the proper functioning of the EMU in order to ensure a durable improvement in the living conditions for its citizens.