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**NOTE**

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from: The General Secretariat  
to: Permanent representatives Committee / Council

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Subject: Explanations of modifications to Commission Recommendations for the Country Specific Recommendations

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Delegations will find attached the explanations of modifications to Commission Recommendations for the Country Specific Recommendations per Member State (Commission Recommendations for Council Recommendations on Member States' 2014 national reform programmes and delivering a Council opinion on Member States' stability and convergence programmes).

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

## **Explanatory note**

*- Accompanying document to Council Recommendations to Member States under the European semester 2014 -*

Article 2ab)(2) of Regulation 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, which makes part of the section on "Economic dialogue", states that "*The Council is expected to, as a rule, follow the recommendations and proposals of the Commission or explain its position publicly*".

In respect of this "comply or explain rule" the Council hereby presents the following explanations to changes agreed to Commission Recommendations for Country-Specific Recommendations (CSRs) on Member States in the context of the 2014 European semester on which the Commission is in disagreement.

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

### **Belgium**

#### **CSR 3**

*Commission text:*

*Contain future public expenditure growth relating to ageing, in particular from pensions and long-term care, by stepping up efforts to reduce the gap between the effective and statutory retirement age, bringing forward the reduction of early-exit possibilities, promoting active ageing, aligning the statutory retirement age and career length requirements to changes in life expectancy, and improving the cost-effectiveness of public spending on long-term care.*

Agreed text:

Contain future public expenditure growth relating to ageing, in particular from pensions and long-term care, by stepping up efforts to reduce the gap between the effective and statutory retirement age, bringing forward the reduction of early-exit possibilities, promoting active ageing, aligning the statutory retirement age and career length requirements to changes in life expectancy, and improving the cost-effectiveness of public spending on long-term care.

Explanation:

It was agreed that the main challenge in Belgium remains increasing the effective retirement age, given the gap between the effective and the statutory retirement age. The minimum age and career length required for early retirement are being raised by an important on-going reform; increasing the statutory retirement age in the short run would increase this gap and be therefore a mistimed reform.

### **Bulgaria**

No changes were introduced to the recommendations on which the Commission disagrees.

### **Czech Republic**

No changes were introduced to the recommendations on which the Commission disagrees.

### **Denmark**

No changes to the recommendations.

### **Germany**

No changes were introduced to the recommendations on which the Commission disagrees.

## **Estonia**

No changes were introduced to the recommendations on which the Commission disagrees.

## **Ireland**

### **CSR 2**

*Commission text:*

*Advance the reform of the healthcare sector initiated under the Future Health strategic framework to increase cost-effectiveness. Pursue additional measures to reduce pharmaceutical spending, including through more frequent price realignment exercise for patented medicines, increased generic penetration and improved prescribing practices. Reform the financial management systems of the national health authority to streamline systems across all providers and to support better claims management. Roll out individual health identifiers starting in January 2015.*

Agreed text:

Advance the reform of the healthcare sector initiated under the Future Health strategic framework to increase cost-effectiveness. Pursue additional measures to reduce pharmaceutical spending, including through more frequent price realignment exercise for patented medicines, increased generic penetration and improved prescribing practices. Reform the financial management systems of the national health authority to streamline systems across all providers and to support better claims management. Roll out individual health identifiers starting *as soon as possible in 2015*.

Explanation:

More flexibility on the deadline for the roll out of individual health identifiers is necessary given that there are a number of inter-related issues to be progressed, both technical and legislative. For example, the legislative basis for the health identifier has not yet passed all stages in the Irish Parliament, and further regulation will be required to put its provisions into effect.

## Spain

### CSR 5

*Commission text:*

*Implement the 2013-2016 National Action Plan on Social Inclusion and assess its effectiveness covering the full range of its objectives. Strengthen administrative capacity and coordination between employment and social services in order to provide integrated pathways to support those at risk and streamline procedures to support transitions between minimum income schemes and the labour market. Improve the targeting of family support schemes and quality services favouring low-income households with children, to ensure the progressivity and effectiveness of social transfers.*

Agreed text:

Implement the 2013-2016 National Action Plan on Social Inclusion and assess its effectiveness covering the full range of its objectives. Strengthen administrative capacity and coordination between employment and social services in order to provide integrated pathways to support those at risk, ~~and streamline procedures~~ and boost, among the Public Administrations responsible for the minimum income schemes, streamlined procedures to support transitions between minimum income schemes and the labour market. Improve the targeting of family support schemes and quality services favouring low-income households with children, to ensure the progressivity and effectiveness of social transfers.

### Explanation

This wording is more in line with the distribution of powers among the Public Administration in the field of Social Services and Minimum Income Schemes where the State collaborates at a technical and political level with the regions which can lead to improved processes.

## **France**

No changes were introduced to the recommendations on which the Commission disagrees.

## **Croatia**

No changes were introduced to the recommendations on which the Commission disagrees.

## **Italy**

No changes were introduced to the recommendations on which the Commission disagrees.

## **Latvia**

No changes to the recommendations.

## **Lithuania**

### **CSR 3:**

*Commission text:*

*Better target active labour market policy measures to the low-skilled and long-term unemployed. Improve coverage and adequacy of unemployment benefits and link them to activation. Address persistent skills mismatches by improving the labour-market relevance of education and promote life-long learning. In order to increase employability of young people, prioritise offering quality apprenticeships and strengthen partnership with the private sector. Review the appropriateness of labour legislation, in particular with regard to the framework for labour contracts and for working-time arrangements, in consultation with social partners.*

Agreed text:

Better target active labour market policy measures to the low-skilled and long-term unemployed. Improve coverage and adequacy of unemployment benefits and link them to activation. Address persistent skills mismatches by improving the labour-market relevance of education *inter alia based on skills forecast systems* and promote life-long learning. In order to increase employability of young people, prioritise offering quality apprenticeships, *other forms of work-based learning*, and strengthen partnership with the private sector. Review the appropriateness of labour legislation, in particular with regard to the framework for labour contracts and for working-time arrangements, in consultation with social partners.

### Explanation

The conclusions of EMCO's Multilateral surveillance work recognised the role of work-based training reforms in Lithuania and the need for and the development of plans to raise the effectiveness of VET.

### **Luxembourg**

*Commission text:*

*In view of ensuring fiscal sustainability, curb age-related expenditure by making long-term care more cost-effective, pursue the pension reform so as to increase the effective retirement age, including by limiting early retirement and linking the statutory retirement age to life expectancy. Reinforce efforts to increase the participation rate of older workers, including by improving their employability through lifelong learning.*

Agreed text:

In view of ensuring fiscal sustainability, curb age-related expenditure by making long-term care more cost-effective, pursue the pension reform so as to increase the effective retirement age, including by limiting early retirement ~~and linking the statutory retirement age~~, *by aligning retirement age or pension benefits* to change in life expectancy. Reinforce efforts to increase the participation rate of older workers, including by improving their employability through lifelong learning.

Explanation:

This change was agreed as with the statutory retirement age being fixed at age 65, and the effective retirement being below 60, it is essential to first close the gap between the effective and statutory retirement age.

#### **CSR 4**

*Commission text:*

*Pursue efforts to reduce youth unemployment for low-skilled jobs seekers with a migrant background, through a coherent strategy, including by further improving the design and monitoring of active labour market policies, addressing skills mismatches, and reducing financial disincentives to work. To that effect, accelerate the implementation of the reform of general and vocational education and training to better match young people's skills with labour demand.*



## Agreed Text

Pursue efforts to reduce youth unemployment for low-skilled jobs seekers *including those* with a migrant background, through a coherent strategy, including by further improving the design and monitoring of active labour market policies, addressing skills mismatches, and reducing financial disincentives to work. To that effect, accelerate the implementation of the reform of general and vocational education and training to better match young people's skills with labour demand.

## Explanation

The Employment Performance Monitor indicates a challenge for LU in terms of youth unemployment. The EMCO multilateral surveillance welcomed the setting up of the Youth Guarantee and its increased focus on people with migrant background.

## Hungary

No changes were introduced to the recommendations on which the Commission disagrees.

## Malta

## CSR 2

Commission text:

*Step up the ongoing pension reform, notably by significantly accelerating the planned increase in the statutory retirement age and by consecutively linking it to changes in life expectancy. Ensure that a comprehensive reform of the public health system delivers a cost-effective and sustainable use of available resources, such as strengthening primary care.*

Agreed text:

*To ensure the long-term sustainability of public finances, continue ~~Step up~~ the ongoing pension reform, such as by ~~notably by significantly~~ accelerating the ~~planned~~ already enacted increase in the statutory retirement age and by consecutively linking it to changes in life expectancy. Ensure that a comprehensive reform of the public health system delivers a cost-effective and sustainable use of available resources, such as strengthening primary care.*

Explanation:

Pension reform is an ongoing process in Malta. Specifically, Malta reiterates that the outcome of the Pensions Working Group is due in October 2014. The Group will draw a holistic strategy aimed at addressing the adequacy and sustainability of pensions in Malta. While Malta agrees with the aim of ensuring long-term sustainability, more latitude is required in relation to measures to achieve it as prescriptions will be counterproductive as they would stifle rather than enable the pension reform to continue to move forward. The proposed amendment is in line with the language contained in the 2013 CSR, which provided a measure of discretion as opposed to the overly prescriptive language being proposed in the 2014 CSR.

**The Netherlands**

## **CSR 2**

*Commission text:*

*Step up efforts to reform the housing market by accelerating the reduction in mortgage interest tax deductibility, by providing for a more market-oriented pricing mechanism in the rental market, and by further relating rents to household income in the social housing sector. Monitor the effects of the social housing reforms in terms of accessibility and affordability for low-income households. Continue efforts to refocus social housing policies to support households most in need.*

Agreed text:

*When the economic environment allows, sStep up efforts to reform the housing market by accelerating the reduction in mortgage interest tax deductibility, by providing for a more market-oriented pricing mechanism in the rental market, and by further relating rents to household income in the social housing sector. Monitor the effects of the social housing reforms in terms of accessibility and affordability for low-income households. Continue efforts to refocus social housing policies to support households most in need.*

Explanation:

It was agreed that fast implementation of the reform to mortgage interest deductibility poses risks in the current economic circumstances, notably with more than 1 million households having a negative home equity position (higher mortgage loan than value of their house). A reference to the economic environment in which such reforms would take place was therefore considered particularly relevant in this recommendation.

**Austria**

**CSR 2**

Commission text:

*Improve the long-term sustainability of the pension system, notably by bringing forward the harmonisation of the statutory retirement age for men and women and by linking the statutory retirement age to life expectancy. Monitor the implementation of recent reforms restricting access to early retirement. Further improve the cost effectiveness and sustainability of health care and long-term care services.*

Agreed text:

Improve the long-term sustainability of the pension system, notably by bringing forward the harmonisation of the statutory retirement age for men and women, *by increasing the effective retirement age* and by ~~linking~~ *aligning* the ~~statutory~~ retirement age to *changes in* life expectancy. Monitor the implementation of recent reforms restricting access to early retirement. Further improve the cost effectiveness and sustainability of health care and long-term care services.

Explanation:

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

## **Poland**

No changes were introduced to the recommendations on which the Commission disagrees.

## **Portugal**

### **CSR 3**

Commission text

Address the high youth unemployment, notably by effective skills anticipation and outreach to non-registered young people, in line with the objectives of a youth guarantee. Increase the threshold for the eligibility for the minimum income scheme. Ensure adequate coverage of social assistance, while ensuring effective activation of benefit recipients.

## Agreed Text

Address the high youth unemployment, notably by effective skills anticipation and outreach to non-registered young people, in line with the objectives of a youth guarantee. ~~Increase the threshold for the eligibility for the minimum income scheme.~~ Ensure adequate coverage of social assistance, *including the minimum income scheme*, while ensuring effective activation of benefit recipients.

## Explanation

This is an area of Member State competence and the compromise text is the promotion of the adequacy of the coverage of social assistance.

## Romania

No changes were introduced to the recommendations on which the Commission disagrees.

## Slovenia

## CSR 2

Commission text:

*Based on the public consultation, agree measures to ensure the sustainability of the pension system beyond 2020, encompassing adjustments of key parameters, such as linking the statutory retirement age to gains in life expectancy and encouraging private contributions to the second pillar of the pension system. Contain age-related expenditure on long-term care by targeting benefits to those most in need and refocusing care provision from institutional to home care.*

Agreed text:

Based on the public consultation, agree measures to ensure the sustainability of the pension system *and adequacy of pensions* beyond 2020, encompassing adjustments of key parameters, such as linking the statutory retirement age to gains in life expectancy and encouraging private contributions to the second pillar of the pension system. Contain age-related expenditure on long-term care by targeting benefits to those most in need and refocusing care provision from institutional to home care.

Explanation:

It was agreed to reflect in the recommendation that a further decrease of the replacement rate would risk additionally increase the poverty rate of people aged 65+ and put a burden the social expenditure.

## **Slovakia**

No changes were introduced to the recommendations on which the Commission disagrees.

## **Finland**

### **CSR 2**

Commission text:

*Improve the use of the full labour force potential in the labour market, including by improving the employment rate and the employability of older workers, reducing early exit pathways and aligning statutory retirement age to changes in life expectancy. Improve the labour-market prospects of young people and the long-term unemployed, with a particular focus on vocational education and targeted activation measures.*

Agreed text:

Improve the use of the full labour force potential in the labour market, including by improving the employment rate and the employability of older workers, *and increasing the effective retirement age*, reducing early exit pathways and aligning ~~statutory~~ *the retirement age or pension benefits* to changes in life expectancy. Improve the labour-market prospects of young people and the long-term unemployed, with a particular focus on vocational education and targeted activation measures.

Explanation:

The text of the recommendation contains similar wording as agreed for other Member States. It was agreed that there are different channels to rise the effective retirement age and hence, to address challenges to the pension system and sustainability of public finances. The original COM text focusing only on rising the (statutory) retirement age appeared too prescriptive and narrowly defined. The new text recalls the text previously adopted by the Council, most recently on the 2012 Sustainability Report on 12 February 2013

### **Sweden**

No changes to the recommendations.

### **The UK**

No changes were introduced to the recommendations on which the Commission disagrees.

### **Euro area**

No changes were introduced to the recommendations on which the Commission disagrees.