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COVER NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee (Part 2) / Council
Subject:	EFC President Letter - Review of the Commission's In-depth Reviews (IDRs) and the Country Reports

Delegations will find attached the letter from the President of the EFC addressed to the President of the ECOFIN Council on the Review of the Commission's In-depth Reviews (IDRs) and the Country Reports.

Brussels, 17 May 2018
Ares(2018)2568915

Vladislav Goranov
President of the ECOFIN Council

Review of the the Commission's In-depth Reviews (IDRs) and the Country Reports

Dear Vladislav,

In order to inform Ministers on the draft Council Conclusions on the In-depth Reviews of the Macroeconomic Imbalances Procedure (MIP), the EFC, prepared by the EPC, has looked at the 27 Commission Country Reports. We very largely concurred with the Commission findings and welcome the high quality and the thorough analysis, particularly on the technical aspects of assessing the gravity and evolution of macroeconomic imbalances.

The In-depth Reviews draw upon a rich selection of tools and methodologies, allowing for an effective and transparent presentation of the sources and stocks of imbalances, their evolution, the policy response and outstanding policy gaps.

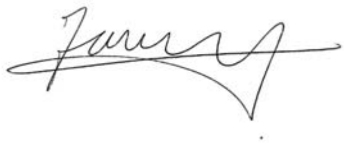
As regards their main results, I would like to draw your attention to two horizontal points:

The unwinding of imbalances: Flows of macroeconomic imbalances are being corrected while stock imbalances, which take time to unwind, have started a faster correction on the back of resumed growth. These developments are the basis of a number of improvements in the assessments of how serious imbalances are in the MIP context. It is, however, important to get a better understanding of how much can be explained by cyclical and by structural effects in the adjustment of imbalances. In particular, experience has shown that cyclical upswings can mask the build-up of macroeconomic imbalances, as evidenced in the run up to the economic crisis. The reduction of imbalances due to cyclical conditions should therefore not blur the need to reduce harmful structural imbalances.

CSR implementation: In general we agreed with the Commission's assessment of CSR implementation, noting the slower pace of reform implementation in recent years, but that, on the basis of the multi-annual assessment presented in each report, a more positive view on implementation emerges. It is notable however, that a lot still remains to be done, especially in the areas of long-term sustainability of public finances, wage setting and education systems, the removal of structural barriers to investment and growth, and further reforms in these economic good times should be championed.

Alongside the draft Council conclusions, which we submit for your approval, the 27 Country Fiches prepared by our EPC colleagues are annexed for your information. These cover an assessment of progress in tackling macroeconomic imbalances and the 2017 CSRs. I trust these will be of interest to Ministers.

Yours sincerely,



Hans Vijlbrief

Annex:

EPC Country Fiches from the Examination of the 2018 Country Reports and in-depth reviews:

Countries found by the Commission to be exhibiting excessive imbalances:

Croatia

Summary of the EPC discussion on the Commission's country report and classification of imbalances from the In-depth Review

On the basis of its discussion, the **EPC**:

Agrees with the Commission conclusion that the main challenges facing Croatia are vulnerabilities linked to high levels of public, private and external debt, all largely denominated in foreign currency, in a context of low potential growth. Strong growth, above its estimated potential, is helping to reduce stock imbalances: public, private and external debt ratios are declining at a fast pace. The negative net external position remains large, but has been improving due to a current account surplus. Strong growth supported further debt reduction, and the pace of deleveraging is set to slow down, as credit flows to households and corporates turn positive.

Government debt peaked in 2014, and is currently on a declining path, driven by both strong GDP growth and a reduction in the headline deficit. The banking sector is increasingly profitable and the stock of non-performing loans continued to decline. Still, the foreign currency exposure (mainly euro) of corporations and households remains a source of vulnerability.

Agrees that Croatia is exhibiting excessive macroeconomic imbalances in the context of the MIP. Rebalancing is on-going but stock imbalances remain sizable. The committee notes that while the economic environment is improving, there has been little advancement in the adoption of policy measures aimed at addressing macroeconomic imbalances, including by raising the still low growth potential. Considering the nature of the imbalances and the identified challenges specific monitoring and policy action is required. The Committee stands ready to contribute to the assessment of reform implementation.

To support the EPC discussion, **LIME** *concurs* with the technical analysis in the IDR with regard to the gravity and evolution of challenges. The group assesses as appropriate the analytical tools used, notably on public debt sustainability, private debt, the financial sector, external sustainability, trade performance and the labour market. Nonetheless some areas could deserve more analysis, in particular a deeper analysis of the business and institutional environment could have been helpful.

CSR Implementation

Looking at the multi-annual assessment of the implementation of the CSRs since these were first adopted, almost half of all the CSRs addressed to Croatia have recorded at least 'some progress'. The rest recorded 'limited' or 'no progress'.

Agrees with the Commission assessment that **some progress** has been made in reinforcing public debt management, while **no progress** has been made in reinforcing the fiscal frameworks or in introducing a value-based property tax. **No progress** has been made in reforming the pension system, **while limited progress** has been made in improving the social benefits system. **Limited progress** is recorded in improving adult education and reforming the education system. **No progress** has been made in the public administration reform and in harmonising the wage-setting frameworks in the public sector. **Limited progress** has been made in SOEs divestment and improving corporate governance; in reducing administrative and regulatory burdens; in removing restrictions to regulated professions and services; and in improving quality and efficiency of justice.

Cyprus

Summary of the EPC discussion on the Commission's country report and classification of imbalances from the In-depth Review

On the basis of its discussion, the EPC:

Agrees with the Commission conclusions that the main challenges facing **Cyprus** are a very high share of non-performing loans burdening the financial sector and high stocks of private, public, and external debt hanging on the economy, in a context of still relatively high, even though declining, unemployment and weak potential growth.

Agrees that Cyprus is exhibiting excessive macroeconomic imbalances in the context of the MIP. The current account is still negative and not adequate to guarantee a sustainable evolution of the large net external liabilities stock. Private debt is only slowly decreasing, and credit flows to the private sector are picking up despite very high levels of private debt. Loan restructuring efforts by banks, the strong cyclical upturn, and the implementation of past reforms have allowed a reduction of non-performing loans, but their stock remains very high.

Poor contract enforcement, inefficiencies in the judicial system, bottlenecks in the implementation of the foreclosure and insolvency legislation as well as weak repayment discipline hamper private sector deleveraging and the reduction of non-performing loans. A prudent fiscal stance and an active debt management policy accelerated public debt reduction. Renewed reform momentum is needed, notably to help reduce public debt, improve competitiveness, accelerate the reduction of non-performing loans and raise potential growth.

The EPC notes that that the stock imbalances, which have accumulated over past years, remain sizeable and large vulnerabilities remain and that in the financial sector reducing vulnerabilities hinges on progress with the reduction of NPLs.

To support the EPC discussion, **LIME** *broadly concurs* with the technical analysis in the IDR with regard to the gravity and evolution of challenges. The group assesses as appropriate the analytical tools used, notably on debt sustainability analysis, private sector indebtedness/deleveraging, and the analysis of the banking sector (i.e. NPLs, profitability indicators). Nonetheless, some areas could deserve more analysis, such as on households' savings rates and on the risks linked to the special purpose entities (SPEs).

CSR Implementation

Looking at the multi-annual assessment of the implementation of the CSRs since these were first adopted, 46 % of all the CSRs addressed to Cyprus have seen 'some progress' in their implementation. On 23 %, Cyprus made 'substantial progress' or fully implemented them. 31 % of the CSRs recorded 'limited' or 'no progress'

Agrees with the Commission assessment that **limited progress** has been made under CSR 1 on improving the efficiency of the public sector. **Some progress** regarding the legislative reforms for the functioning of public administration, but **no progress** regarding the law on the governance of state-owned entities and **no progress** regarding the reform of local governments.

Limited progress has been made under CSR 2 on the efficiency of the judicial system, insolvency procedures and intellectual property rights. **Limited progress** has been made on increasing the efficiency of the judicial system, modernisation of civil procedures and on increasing the specialisation of courts; in eliminating impediments to the full implementation of the insolvency and foreclosure frameworks; and in ensuring reliable and swift systems for the issuance of title deeds and the transfer of immovable property rights.

Limited progress has been made under CSR 3 on reducing NPLs by setting up a task force to develop national strategy and to evaluate comprehensive solutions including a new targeting framework; through the creation of the conditions for a functional secondary market for non-performing loans; and in strengthening the supervision of insurance companies and pension funds.

Limited progress has been made under CSR 4 on investment and the action plan for growth. **Some progress** has been made in accelerating the implementation of the action plan for growth focusing in particular on business environment, facilitating strategic investments and improving access to finance. **Limited progress** has been made regarding the implementation of the privatisation plan and regarding the ownership unbundling of the Electricity Authority of Cyprus.

Limited progress has been made under CSR 5 on labour market reform. **Some progress** has been made in increasing the capacity of the public employment services and improving the quality of active labour market policies. **Limited progress** was recorded in the the reform of the education system to improve its labour market relevance and performance, whilst **substantial progress** has been achieved regarding the adoption of the legislation for a hospital reform and universal healthcare coverage.

Italy

Summary of the EPC discussion on the Commission's country report and classification of imbalances from the In-depth Review

On the basis of its discussion, the **EPC**:

Agrees with the Commission conclusion that the main challenges facing Italy are high government debt and protracted weak productivity dynamics, in a context of still-high levels of non-performing loans and unemployment. Given the size of the economy, spillover effects are potentially relevant.

The government debt ratio is set to stabilise but has not yet embarked on a firm downward path due to the limited improvement of the primary balance and to one-off disbursements that raised the borrowing requirement. External competitiveness has improved, but weak productivity growth, linked to structural obstacles which continue to hamper an efficient allocation of productive factors across the economy, and the low inflation environment within the euro area are making it challenging to achieve rapid competitiveness gains. Market pressures on the banking sector have abated, following, among other measures, the government's support for capitalisation of a few distressed banks. The stock of non-performing loans is falling but still weighs on banks' capital needs, profits, and lending policies.

The reform momentum has somehow slowed, but some progress has been made in addressing recommendations. Several measures are now in the pipeline, notably in the fields of labour and social policies, civil justice and business environment.

Agrees that Italy is exhibiting excessive macroeconomic imbalances that are being reduced in the context of the MIP. Considering the nature of the imbalances and the identified challenges, monitoring and policy actions are required. The Committee stands ready to contribute to the assessment of reform implementation.

To support the EPC discussion, **LIME** *broadly concurs* with the technical analysis and the main findings of the IDR with regard to the gravity and evolution of imbalances in the IDR and considers the topics identified in the 2018 report appropriate. The group assesses as appropriate the analytical tools used, notably on productivity growth, public indebtedness, external competitiveness, and unemployment, NPLs and spillovers. Notes however that deeper analysis might be warranted on some details or sub-areas of the current IDR; including, but not limited to underlying causes of sluggish productivity growth, such as barriers to invest in R&D and intangibles and the upgrade of the production structure, and the relative weights of cyclical and structural factors in the recent improvements in the NPLs ratio.

CSR Implementation

Looking at the multi-annual assessment of the implementation of the CSRs over the 2011-2017 time period 25 % of all CSRs have seen either full implementation or substantial progress; 35 % "some progress**",** and 40 % limited progress.

Agrees with the Commission assessment that **limited progress** has been made in shifting taxation away from productive factors, in revising tax expenditure and in reforming the cadastral system. **Substantial progress** has been achieved in broadening the compulsory use of electronic invoicing and payments. **Limited progress** has been made in reducing trial length in civil justice. **Substantial progress** in stepping up the fight against corruption. **Some progress** in completing reforms of public employment and improving the efficiency of publicly-owned enterprises. **Some progress** with regard to the annual competition law and in addressing further restrictions to competition.

Countries found by the Commission to be exhibiting imbalances:

Bulgaria

Summary of the EPC discussion on the Commission's country report and classification of imbalances from the In-depth Review

On the basis of its discussion, the EPC:

Agrees with the Commission conclusions that the main challenges facing **Bulgaria** are vulnerabilities in the financial sector coupled with high indebtedness and non-performing loans in the corporate sector, in a context of incomplete labour market adjustment.

Broadly agrees that Bulgaria is (re-classified as) exhibiting macroeconomic imbalances in the context of the MIP. The authorities have made progress in implementing the recommendations addressed after the asset quality and balance sheet reviews, but the legacy issues linked to weak governance, asset quality and supervision have not yet been fully dealt with. Robust growth has supported continuous private deleveraging and further decreases in non-performing loan ratios, but stocks of non-performing loans in the corporate sector are still high. The net external position has improved, mainly due to the current account surplus. Labour market improvement has continued despite persistent structural issues, such as the high share of young people not in employment, education or training and labour shortages and mismatches.

Measures have been taken to tackle the main sources of imbalances, but further progress is needed to address remaining vulnerabilities in the financial sector, including further improving banking and non-banking supervision, dealing with hard-to-value assets and group level supervision, and completing the reform of the insolvency framework. *The EPC acknowledges that* the continued improvement in financial sector supervision framework and robustness, as well as lower private sector debt have partly reduced the risks associated with identified imbalances. Further efforts remain necessary to achieve a sustainable correction of the imbalances.

To support the EPC discussion, **LIME** *broadly concurs* with the technical analysis in the IDR with regard to the gravity and evolution of challenges. The group assesses as appropriate the analytical tools used, notably in the area of financial sector stability, external sustainability, competitiveness, indebtedness and deleveraging, and on the labour market. Nonetheless it was pointed out that improvements can be made in the analysis of wage developments and unemployment.

CSR Implementation

Looking at the multi-annual assessment of the implementation of the CSRs since these were first adopted, 52 % of all the CSRs addressed to Bulgaria have seen 'some progress' in their implementation. On 23 %, Bulgaria made 'substantial progress' or fully implemented them. 25 % of the CSRs recorded 'limited progress'.

Agrees with the Commission assessment that **some progress** has been made under CSR1, in terms of improving tax collection, and stepping-up enforcement measures to reduce the extent of the informal economy, in particular undeclared work. **Some progress** has been made in improving the targeting of active labour market policies and the integration between employment and social services for disadvantaged groups.; **Limited progress** in increasing the provision of quality mainstream education, in particular for Roma, in increasing health insurance coverage, reducing out-of-pocket payments and addressing shortages of healthcare professionals and in establishing a transparent mechanism for setting the minimum wage. **Some progress** has been made in improving the coverage and adequacy of the minimum income and in ensuring efficient implementation of the 2014-2020 National Public Procurement Strategy.

France

Summary of the EPC discussion on the Commission's country report and classification of imbalances from the In-depth Review

On the basis of its discussion, the EPC:

Agrees with the Commission conclusion that the main challenges facing France stem from high public debt and weak competitiveness dynamics in a context of low productivity growth, which carry cross-border relevance.

Moderate wage growth supports on-going improvements in cost competitiveness. Subdued productivity growth is instead acting as a headwind. Labour market's low responsiveness to changing demand and supply conditions and some elements of the business environment still weigh on non-cost competitiveness. The government debt-to-GDP ratio rose further in 2017, but it is forecast to stabilise in 2018 and 2019. Previously adverse trends have thus abated, economic conditions are improving and reform efforts are gaining momentum. Recently announced and undertaken policy actions can carry both domestic and cross-border positive effects in the medium term. Progress on several fronts including labour markets and taxation has been achieved, while announced initiatives to improve the business environment, vocational education and training, unemployment benefit, and pension systems have still to materialise.

Agrees that France is experiencing macroeconomic imbalances as re-classified by the Commission. Considering the nature of the imbalances and the identified challenges monitoring and policy action is required. The Committee stands ready to contribute to the assessment of reform implementation. Some members expressed the view that some stock imbalances have not declined yet. Some members noted that imbalances have either stabilized or are declining, while the full impact of reforms still has to materialise. Further policy action is needed to overcome gaps that still persist in areas related to productivity such as in revising the system of vocational education and training, simplifying and improving the efficiency of public support schemes for innovation and in facilitating the competition in the services sector.

To support the EPC discussion, LIME *concurs* with the technical analysis in the IDR with regard to the gravity and evolution of challenges. The group assesses as appropriate the analytical tools used. Nonetheless some areas could deserve more analysis, such as non-cost competitiveness, the indicators used to measure the complexity of the tax system, the impact of reforms on labour productivity, the interlinkages between private and public debt, labour market segmentation, and the need to increase competition in services.

CSR Implementation

Looking at the multi-annual assessment of the implementation of the CSRs since these were first adopted, 69% of all the CSRs addressed to France have recorded at least 'some progress'. 31% of these CSRs recorded 'limited' or 'no progress'.

Agrees with the Commission assessment that **limited progress** has been made in ensuring the sustainability of France’s public finances and in reviewing expenditure items. **Some progress** has been made in consolidating and maximising the efficiency of measures reducing the cost of labour, as well as in broadening the overall tax base and in decreasing the corporate income tax rate. Also **some progress** has been made in improving access to the labour market for jobseekers and in ensuring minimum wage developments consistent with job creation and competitiveness, while **limited progress** has been made in revising the system of vocational education and training. **Some progress** has been made in further reducing the regulatory burden for firms, while **limited progress** has been made in simplifying and improving the efficiency of public support schemes for innovation and **no progress** has been recorded in continuing to lift barriers to competition in the services sector.

Germany

Summary of the EPC discussion on the Commission's country report and classification of imbalances from the In-depth Review

On the basis of its discussion, the **EPC**:

Broadly agrees with the Commission conclusions that the main challenge facing Germany is the persistently high current account surplus with cross-border relevance and reflecting a subdued level of investment relative to savings in both the private and the public sector. The surplus, which is largely with non-EU countries, has slightly narrowed since its peak in 2015 and is expected to edge down, whilst remaining above the MIP threshold over the medium term.

Agrees that Germany is exhibiting macroeconomic imbalances in the context of the MIP. While there is currently a shift towards more domestic demand-driven growth, increases in both consumption and investment remain muted as a share of GDP despite the favourable cyclical and financing conditions and the infrastructure investment needs for which there is fiscal space. While a number of measures have been taken to strengthen public investment, these efforts have not yet resulted in a sustainable upward trend in public investment as a share of GDP. Progress in addressing recommendations in other areas has also been limited.

It was noted that aggregate demand is resuming in Germany in a context where the output gap has closed, and this is contributing to the reduction of the current account surplus. Specific measures that help stimulate investment have an impact both on demand and on the growth potential, thereby counterbalancing the effects of ageing on potential output.

To support the EPC discussion, **LIME** *concurs* with the technical analysis and the main findings of the IDR with regard to the gravity and evolution of imbalances and considers the topics identified in the 2018 report appropriate. The group assesses as appropriate the analytical tools used, notably in the areas of investment intensity, households' savings patterns and factors contributing to wage dynamics. Nonetheless some areas, such as the reasons underlying the dynamics in the net investment position of non-financial corporations and the links between demography and saving rates could deserve more analysis.

CSR Implementation

Looking at the multi-annual assessment of the implementation of the CSRs since these were first adopted, 22 % of all the CSRs addressed to Germany have seen 'some progress' in their implementation. On 16 %, Germany made 'substantial progress' or fully implemented them. 62% of the CSRs recorded 'limited' or 'no progress'.

Agrees with the Commission assessment that Germany has made **limited progress** in addressing the aspects of CSR 1 outside of compliance with the Stability and Growth Pact. **Limited progress** has been made in achieving a sustained upward trend in investment, in increasing public expenditure on education, and in increasing public expenditure on research and innovation. **Some progress** has been made to address capacity and planning constraints for infrastructure investments. **No progress** has been made to improve the efficiency and investment-friendliness of the tax system, and **limited progress** has been made regarding measures to stimulate competition in business services and regulated professions.

Germany has made **limited progress** in addressing CSR 2. **Limited progress** has been made in reducing disincentives to work for second earners and in facilitating transition to standard employment. **Limited progress** has been made reducing the high tax wedge for low-wage earners, and **limited progress** regarding promoting real wage growth.

Ireland

Summary of the EPC discussion on the Commission's country report and classification of imbalances from the In-depth Review

On the basis of its discussion, the **EPC**:

Agrees with the Commission conclusion that the main challenges facing Ireland are the large stocks of public and private debt and net external liabilities, despite improvements in flow variables, as well as the still high level of non-performing loans and growing house prices.

Strong productivity growth in past years has implied improved competitiveness and a positive current account balance entailing a rapid reduction in the high stock of net foreign liabilities. Strong economic growth continues to support private deleveraging but the stock of private debt remains high, although the strong influence of the activities of multinational enterprises needs to be taken into account when evaluating corporate debt, and household debt appears broadly in line with fundamentals.

Government debt is projected to remain on a downward trajectory, and the deficit is moving closer to balance. House prices are growing at a rapid pace, albeit from likely undervalued levels, thereby also strengthening households' balance sheets. Banks are well recapitalised and their profitability is improving gradually. The stock of NPLs, although remaining high, continues to decrease.

Agrees that Ireland is exhibiting macroeconomic imbalances in the context of the MIP. Rebalancing continues and the improvements have been substantial as a favourable macroeconomic environment is contributing to the reduction of stock imbalances, notably public and private debt. The stock imbalances remain sizable. Policy action addressing these vulnerabilities has been taken, but some measures will take time to generate the expected effects. Considering the nature of the imbalances and the identified challenges, monitoring and policy action is required. The Committee stands ready to contribute to the assessment of reform implementation.

To support the EPC discussion, **LIME** *concurs* with the technical analysis in the IDR with regard to the gravity and evolution of challenges. The group assesses as appropriate the analytical tools used, notably on private debt and deleveraging, financial sector (NPLs), public debt sustainability, external sustainability and housing market developments. Members welcomed that the analysis in the country report takes into account the impact of multinational enterprises (MNEs) on statistics and the real economy. Nonetheless some areas could deserve more analysis, in particular in relation to the high level of labour market inactivity and the appropriate pace of adjustment of the stock imbalances.

CSR Implementation

Looking at the multi-annual assessment of the implementation of the CSRs since these were first adopted, 80 % of all the CSRs addressed to Ireland have recorded at least 'some progress'. 20 % of these CSRs recorded 'limited' or 'no progress'.

Agrees with the Commission assessment that **some progress** has been made in reducing the debt-to-GDP ratio, while **limited progress** has been made in broadening the tax base. **Some progress** has been made in improving the quality of expenditure. **Some progress** has been made in relation to social housing, and the affordability and accessibility of quality childcare but there are still concerns. **Some progress** has been made with the presentation of the Action Plan for Jobless Households, but groups furthest away from the labour market still require an integrated approach to helping them enter it. **Some progress** has been made as regards the continued and durable reduction of non-performing loans.

The Netherlands

Summary of the EPC discussion on the Commission's country report and classification of imbalances from the In-depth Review

On the basis of its discussion, the **EPC**:

Agrees with the Commission conclusions that the main challenges facing **the Netherlands** are the high stock of private debt and the large current account surplus. The large current account surplus, which mainly reflects structural features of the economy and policy settings regarding non-financial corporations and is partly explained by deleveraging pressures, has increased recently but is forecast to decline somewhat.

Agrees that the Netherlands is exhibiting macroeconomic imbalances in the context of the MIP. The private debt-to-GDP ratio has only very gradually decreased in the last years, supported by economic growth. At the same time, nominal household debt is increasing again, as the ongoing recovery in the housing market is driving up nominal mortgage debt levels. Recent reform announcements, such as the speeding-up of the reduction of mortgage interest deductibility and the fiscal stimulus should contribute to support aggregate demand. The EPC *acknowledges* the recent improvement in the private debt-to-GDP ratio and in the current account surplus.

To support the EPC discussion, **LIME** *concurs* with the technical analysis in the IDR with regard to the gravity and evolution of challenges. The group assesses as appropriate the analytical tools used, notably on the current account surplus, high private debt, high savings, and relatively low investment. Nonetheless, some areas could deserve more analysis such as the interlinks between the current account and private debt and policy efforts that can tackle both issues at the same time, private debt thresholds, further insights into the impact of multi-national enterprises on the current account, and spill-overs of higher Dutch wages to the rest of the euro area.

CSR Implementation

Looking at the multi-annual assessment of the implementation of the CSRs since these were first adopted, 30 % of all the CSRs addressed to the Netherlands have seen 'some progress' in their implementation. On 47%, the Netherlands made 'substantial progress' or fully implemented them. 22 % of the CSRs recorded 'limited' or 'no progress'

Agrees with the Commission assessment that **some progress** has been made in addressing the structural part of CSR1. **Substantial progress** has been made in using fiscal policies to support potential growth and domestic demand. **Some progress** has been made in increasing investment in research and development and **some progress** has been made on the housing market recommendation. The Netherlands has made **limited progress** in addressing CSR2: **Limited progress** in tackling labour market segmentation and in addressing the high increase in the self-employed without employees, as the government announced a minimum hourly rate for the self-employed**. No progress** has been made on reforming the second pillar of the pension system, but the government has confirmed its intention to carry out the reform during its term and **limited progress** in creating the conditions to promote real wage growth.

Portugal

Summary of the EPC discussion on the Commission's country report and classification of imbalances from the In-depth Review

On the basis of its discussion, the **EPC**:

Agrees with the Commission conclusion that the main challenges facing Portugal are the large stocks of net external liabilities, private and public debt, and a high share of non-performing loans which constitute vulnerabilities in a context of low productivity growth.

A prudent current account position and the maintenance of competitiveness gains are required to ensure the adjustment of net external liabilities. Private debt ratios continue to decline from high levels due to both resumed nominal growth and slightly negative credit flows, and the government debt-to-GDP ratio is projected to have entered a decreasing trend, in a context of persistent deleveraging needs. Financial sector interventions contributed to reduce stability risks, although banks remain penalised by low but improving profitability and a large stock of non-performing loans, which have nonetheless been consistently declining since its peak in 2016.

Higher productivity growth is key for improved prospects in competitiveness, deleveraging and potential growth. Unemployment has been decreasing at a strong pace for several years.

Further policy action is needed to overcome gaps that still persist in implementing the measures outlined to reduce non-performing loans and to improve the business environment. The adoption and implementation of several reform plans, including measures to tackle labour market segmentation or fiscal-structural reforms to improve the sustainability of public finances, will need to be monitored.

Broadly agrees that Portugal is experiencing macroeconomic imbalances as re-classified by the Commission. The committee welcomed the progress Portugal has made on several fronts. Some members expressed the view that the Commission decision to de-escalate Portugal to the category of "imbalances" deserved better explanation as stock imbalances remain high and the contribution of growth to deleveraging could partly be explained by cyclical factors. Considering the nature of the imbalances and the identified challenges monitoring and policy action is required. The Committee stands ready to contribute to the assessment of reform implementation.

To support the EPC discussion, LIME *broadly concurs* with the technical analysis and the main findings of the IDR with regard to the gravity and evolution of imbalances. The group assesses as appropriate the analytical tools used, but some members found that more attention could have been put on analysing whether debt reduction is linked to cyclical versus structural factors. It was also noted that the use of analytical tools could have been more comprehensive and systematic in linking the analysis to imbalances evolution.

CSR Implementation

Looking at the multi-annual assessment of the implementation of the CSRs since these were first adopted, 65 % of all the CSRs addressed to Portugal have recorded at least “substantial” or “some progress” while 35 % of these CSRs recorded 'limited' or 'no progress'.

Agrees with the Commission assessment that **some progress** has been made in broadening the expenditure review while l**imited progress** has been recorded in strengthening expenditure control, cost effectiveness and adequate budgeting, in particular in the health sector with a focus on the reduction of arrears in hospitals. **Some progress** has been made in ensuring the sustainability of the pension system, while **limited progress** is recorded in increasing the financial sustainability of state-owned enterprises set sector-specific efficiency targets in time for the 2018 budget, improving state-owned enterprises’ overall net income and decreasing the burden on the state budget. **Limited progress** has been recorded in promoting hiring on open-ended contracts, including by reviewing the legal framework.

Some progress has been made in ensuring the effective activation of the long-term unemployed and in ensuring that minimum wage developments do not harm employment of the low-skilled. **Some progress** has been made in cleaning up the balance sheets of credit institutions by implementing a comprehensive strategy addressing non-performing loans, including by enhancing the secondary market for bad assets. **Some progress** has been made in improving the access to capital, in particular for start-ups and small and medium-sized enterprises. **Limited progress** has been made in implementing a road map to further reduce the administrative burden and in tackling regulatory barriers in construction and business services by the end of 2017. **Some progress** has been made in increasing the efficiency of insolvency and tax proceedings by the end of 2017.

Spain

Summary of the EPC discussion on the Commission's country report and classification of imbalances from the In-depth Review

On the basis of its discussion, the **EPC**:

Agrees with the Commission conclusions that the main challenges facing Spain are large stocks imbalances in the form of external and internal debt (both public and private) that has a cross border relevance in a context of still high unemployment.

The external rebalancing is advancing, thanks to the current account surpluses recorded since 2013. However, net external liabilities remain high. Private sector debt reduction is also progressing, supported by favourable growth conditions, but deleveraging needs are still present. A healthier financial sector supports economic activity, and the non-performing loans ratio decreased further.

Despite the strong nominal GDP growth, government debt as a share of GDP has only just begun to slowly decrease, with deficits forecast to narrow over time. Unemployment has continued its rapid decline, but remains very high and the high degree of labour market segmentation impedes faster labour productivity growth.

Agrees that Spain is exhibiting macroeconomic imbalances in the context of the MIP. The strong recovery has contributed to Spain's correction of several imbalances, but that there is also an important structural element to the adjustment. The stocks of private, public and external debt, while declining, are still high. Notes the measures taken to address unemployment and labour market segmentation, but the progress remains overall limited. Further policy action is needed in areas of fiscal governance, active labour market policies and improving innovation and skills to boost non-cost competiveness. Considering the nature of the imbalances and the identified challenges monitoring and policy action is required. The Committee stands ready to contribute to the assessment of reform implementation.

To support the EPC discussion, **LIME** *concurs* with the technical analysis in the IDR with regard to the gravity and evolution of challenges. The group assesses as appropriate the analytical tools used, notably on the external sector and competitiveness. Nonetheless some areas, such as private debt and NFC debt, could deserve more analysis benefitting from the use of additional indicators. A deeper analysis could have also been useful on the recovery of the housing market.

CSR Implementation

Looking at the multi-annual assessment of the implementation of the CSRs since these were first adopted, 42 % of all the CSRs addressed to Spain have seen 'some progress' in their implementation. On 35 %, Spain made 'substantial progress' or fully implemented them. 23 % of the CSRs recorded 'limited' or 'no progress'.

Agrees with the Commission assessment that **limited progress** has been made in strengthening the fiscal framework, while **some progress** is recorded in strengthening the public procurement framework and in undertaking a comprehensive spending review. **Some progress** has been made in reinforcing coordination between employment services, social services and employers. **Limited progress** has been made in promoting hiring on open-ended contracts; in addressing fragmentation in income guarantee schemes and improving family support; in increasing labour market relevance of tertiary education and in addressing regional disparities in educational outcomes. **Limited progress** has been made on investment in research and innovation, with some progress on governance in this area and in implementing the law on market unity.

Sweden

Summary of the EPC discussion on the Commission's country report and classification of imbalances from the In-depth Review

On the basis of its discussion, the EPC:

Agrees with the Commission conclusions that the main challenges facing Sweden are overvalued house price levels coupled with a continued rise in household debt.

The already high household debt remains on an upward path. House prices have been growing at fast and virtually uninterrupted pace for about 20 years. Negative growth has been recorded in the last quarter of 2017. Still, valuation indicators suggest that house prices remain very high relative to fundamentals. Although banks appear adequately capitalised, a disorderly correction could also affect the financial sector as banks have a growing exposure to household mortgages. In such a case, there could be spill-overs to neighbouring countries given the systemic financial interlinkages.

Broadly agrees that Sweden is exhibiting macroeconomic imbalances in the context of the MIP. Awareness of mounting risks among the authorities is high, and in recent years measures have been taken to increase the resilience of the banks, rein in mortgage debt growth and raise housing construction. Sweden stressed that it will take time for stocks to adjust to the recent policy measures. However, policy steps implemented so far may not be sufficient to address overvaluation in the housing sector, and key policy gaps remain, particularly in relation to tax incentives for home ownership as well as the functioning of housing supply and the rental market.

To support the EPC discussion, **LIME** *broadly concurs* with the technical analysis in the IDR with regard to the gravity and evolution of challenges. The group assesses as appropriate the analytical tools used, notably on household debt and the housing market. Nonetheless members signalled that further analysis could be carried out relative to the dynamics of the tax shift analysis or more detailed data on household debt by income groups.

CSR Implementation

Looking at the multi-annual assessment of the implementation of the CSRs since these were first adopted, 26% of all the CSRs addressed to Sweden have seen 'some progress' in their implementation. On 52%, Sweden made 'substantial progress' or fully implemented them. 22% of the CSRs recorded 'limited' or 'no progress'

Agrees with the Commission assessment that **limited progress** has been made in addressing CSR 1 (this overall assessment does not include an assessment of compliance with the Stability and Growth Pact). **No progress** in adjusting fiscal incentives, **Substantial progress** on constraining lending at excessive debt-to-income levels, and **some progress** on fostering investment in housing and improving the efficiency of the housing market.

Countries under-going an in-depth review by the Commission and found to be exhibiting no imbalances:

Slovenia

Summary of the EPC discussion on the Commission's country report and classification of imbalances from the In-depth Review

On the basis of its discussion, the **EPC**:

- *Agrees* with the Commission conclusion that the main challenges facing Slovenia are to relaunch investment and productivity growth and ensure the sustainability of the pension, health care and long-term care systems.

Agrees that Slovenia is no longer exhibiting macroeconomic imbalances in the context of the MIP.

- Risks arising from weaknesses in the banking sector, corporate indebtedness and short-term fiscal situation have receded. Government debt has peaked in 2015 and has been on a downward trend since then. The corporate sector underwent a substantial deleveraging, which weakened investment and potential growth. However, investment is now accelerating, although remaining below historical trends, and foreign direct investment inflows have recovered considerably in the most recent years. Banking sector restructuring has coincided with a rapidly falling share of non-performing loans.
- Policy action which contributed to the unwinding of imbalances has been taken, but measures to improve the business environment and unlock investment and enhance the sustainability of the pension, health care and long-term care systems remain a key priority.
- To support the EPC discussion, **LIME** *broadly concurs* with the technical analysis and the main findings of the IDR with regard to the gravity and evolution of imbalances. The group assesses as appropriate the analytical tools used notably in the area of external sustainability; debt sustainability, private sector deleveraging pressures and financial sector issues as well as house price developments. Nonetheless some areas could deserve more analysis, in particular more focus could be devoted to pension reforms, challenges with ensuring the good governance of state-owned enterprises, the profitability of banks and house prices.

CSR Implementation

- Looking at the multi-annual assessment of the implementation of the CSRs over the 2011-2017 time period 42 % of all CSRs have seen either full implementation or substantial progress; 52 % "some progress"**,** and 6 % limited progress.
- *Agrees* with the Commission assessment that **limited progress** has been made reforming the health system. **Limited progress** has also been achieved in reforming long-term care. **Some progress** was made in centralising procurement in the health sector. **Limited progress** has been in reforming the pension system. **Some progress** has been made in reducing the administrative burden on businesses. **Some progress** has been made in ensuring the good governance of state-owned enterprises

Countries found by the Commission to be exhibiting no imbalances:

Austria

Summary of the EPC discussion of the Commission's country report

Austria is classified as not experiencing macroeconomic imbalances and did not under-go an in-depth review.

On the basis of its discussion, the EPC:

- Agrees with the Commission that the main challenges in Austria related to EPC relate to the housing and the banking sector, but risks appear contained. Over the medium- and long-term fiscal sustainability will be challenged in the context of high pension and healthcare expenditures and stagnating total factor productivity growth.

CSR Implementation

- Looking at the multi-annual assessment of the implementation of the CSRs over the 2011-2017 time period 50% of all CSRS have seen at least "some progress"; while remaining 50% have seen either "limited" or "no" progress.
- *Agrees* with the Commission assessment of progress in implementing the 2017 Country-Specific Recommendations of competence to the EPC. Overall, **some progress** was recorded in 2017 CSR implementation.
- **Limited progress** was made in addressing the sustainability of the pension and healthcare system and reforming fiscal relations between the various layers of government while **no progress** was made on ensuring the financial sustainability of the pension system. Overall, **some progress** was made on CSR2 as **some progress** was made in improving the labour market participation of women, while **limited progress** was made in improving child care services and in improving the educational achievements of disadvantaged young people. **Some progress** was made in reducing barriers to investment in the services sector.

Belgium

Summary of the EPC discussion on the Commission's country report:

Belgium is not classified as experiencing macroeconomic imbalances and did not under-go an in-depth review.

On the basis of its discussion, the EPC:

- *Agrees* with the Commission that the main challenges in Belgium related to EPC competence are tackling long-term challenges in the area of public finances (in the light of the high level of debt and the implications of pensions and long-term care on the sustainability of public finances), the low labour market participation and the mobility issue, in the context low productivity growth and low levels of public investment.
- Recent structural reforms have borne fruit in terms of an improved competitiveness and a job-rich recovery. Potential growth is trending upward since it bottomed out in 2013. Nevertheless, it remains below its pre-crisis estimates as remaining barriers to competition in market services and a narrow innovation base weigh on productivity growth. While recent government measures have spurred employment growth, a high inactivity rate combined with a high vacancy rate is suggesting a high level of skills mismatches. The quality of the transport network is low and reflects the low level of public investment.

CSR Implementation

- Looking at the multi-annual assessment of the implementation of the CSRs over the 2011-2017 time period 48% of all CSRS have seen either full implementation or substantial progress; 16 % "some progress", and 36% limited progress or no progress.
- *Agrees* with the Commission assessment of progress in implementing the 2017 Country-Specific Recommendations. **Some progress** has been made with eliminating tax breaks that causes distortions. **Some progress** has been made as regards equal opportunities to participate in quality education and vocational training, as Communities are phasing in major school reforms, but progress on equal access to the labour market remains limited. There has been **some progress** with encouraging investment in knowledge-based capital. **Progress on sectoral regulation has been overall limited**. **Limited progress** has been made in improving the functioning of the retail sector for the benefit of businesses and consumers and in improving market mechanisms in network industries.

The Czech Republic

Summary of the EPC discussion of the Commission's country report

The Czech Republic is not classified as experiencing macroeconomic imbalances and did not under-go an in-depth review.

On the basis of its discussion, the EPC:

- Agrees with the Commission that the main challenges in the Czech Republic related to EPC competence concern rising labour supply shortages, long-term fiscal sustainability pressures from ageing costs, regulatory and administrative burdens, and low public investment in knowledge-intensive activities.

CSR Implementation

- Looking at the multi-annual assessment of the implementation of the CSRs over the 2011-2017 time period 22% of all CSRS have seen either full implementation or substantial progress; 48 % "some progress**",** and 30% limited progress or no progress.

- *Agrees* with the Commission assessment of progress in implementing the 2017 Country-Specific Recommendations of competence to the EPC. The government has made **limited progress** in addressing the long-term sustainability of public finances. **Some progress** has been made in improving the anti-corruption and public procurement frameworks and in streamlining procedures for granting building permits. **Some progress** has also been made with the expansion of the range of e-government services and the quality of R&D has slightly improved.

Denmark

Summary of the EPC discussion of the Commission's country report

Denmark is not classified as experiencing macroeconomic imbalances and did not under-go an in-depth review.

On the basis of its discussion, the EPC:

- Agrees with the Commission conclusion that the main challenges in Denmark related to EPC competence, in the current environment where capacity constraints are becoming increasingly binding, concern boosting investment, productivity growth and labour supply as well as emerging risks in the housing market.

CSR Implementation

- Looking at the multi-annual assessment of the implementation of the CSRs over the 2011-2017 time period 53 % of all CSRs have seen either full implementation or substantial progress; 38 % "some progress", and 9 % limited progress or no progress.

- *Agrees* with the Commission assessment of **limited progress** in implementing the 2017 Country-Specific Recommendation related to EPC competence. At a sector-specific level, **some progress** was made on easing restrictions for retail establishment and on increasing competition in the transport and construction sectors. However, **limited progress** was made in other domestically oriented services sectors where competition remains weak.

Estonia

Summary of the EPC discussion of the Commission's country report

Estonia is classified as not experiencing macroeconomic imbalances and did not under-go an in-depth review.

On the basis of its discussion, the EPC:

- Agrees with the Commission that the main challenge in Estonia related to EPC competence is related to weak productivity growth in the context of demographic decline and moderate performance on R&D and innovation coupled with the need to provide a more adequate social safety net. Other challenges include access to health care and gender pay gap.

CSR Implementation

- Looking at the multi-annual assessment of the implementation of the CSRs over the 2011-2017 time period 96 % of all the CSRs addressed to Estonia have recorded at least 'some progress'. 18 % of these CSRs recorded 'substantial progress'.
- *Agrees* with the Commission assessment of progress in implementing the 2017 Country-Specific Recommendations of competence to the EPC. Overall, **some progress** was recorded in 2017 CSR implementation.
- **Some progress** was recorded in improving the adequacy of the social safety net and in reduction of the gender pay gap. **Limited progress** was recorded in improving wage transparency, while **some progress** was made in reviewing the parental leave system. **Some progress** was recorded both in promoting private investment in research, development and innovation; and in strengthening cooperation between academia and businesses.

Finland

Summary of the EPC discussion of the Commission's country report

Finland is classified as not experiencing macroeconomic imbalances and did not under-go an in-depth review.

On the basis of its discussion, the EPC:

- Agrees with the Commission that the main challenges in Finland relate to the projected future rise of public debt-to-GDP ratio that is driven by ageing exacerbated by low employment rate of 15-64 year-olds. Non-cost competitiveness is still a concern. Household debt is high. The banking sector remains sound overall, but structural vulnerabilities persist.

CSR Implementation

- Looking at the multi-annual assessment of the implementation of the CSRs over the 2011-2017 time period 90 % of all the CSRs addressed to Finland recorded at least 'some progress'. 10 % of these CSRs recorded limited progress, but none of them recorded "no progress".
- *Agrees* with the Commission assessment of progress in implementing the 2017 Country-Specific Recommendations of competence to the EPC. Overall, **some progress** was recorded in 2017 CSR implementation.
- **Limited progress** was made in addressing the fiscal-structural part of CSR 1 namely the timely adoption of administrative and health reform. **Some progress** was made on promoting cost competitiveness during the labour market negotiations, addressing the employment and social challenges, providing incentives to accept work and promoting entrepreneurship. **Substantial** progress was made in regarding administrative burden reduction and regulatory framework improvements, competition in services and in promotion of investment.

Hungary

Summary of the EPC discussion of the Commission's country report

Hungary is classified as not experiencing macroeconomic imbalances and did not under-go an in-depth review.

On the basis of its discussion, the EPC:

- Agrees with the Commission that the main challenges in Hungary related to EPC relate to the productivity that is hampered by challenges related to human capital and the business environment. In addition, the labour reserves are not mobilized quickly enough to meet strong labour demand whilst vulnerable groups continue to face a high risk of poverty.

CSR Implementation

- Looking at the multi-annual assessment of the implementation of the CSRs over the 2011-2017 time period 64 % of all the CSRs addressed to Hungary have recorded at least 'some progress'. 36 % of these CSRs recorded 'limited' or 'no progress'.
- *Agrees* with the Commission assessment of progress in implementing the 2017 Country-Specific Recommendations of competence to the EPC. Overall, **limited progress** was recorded in 2017 CSR implementation.
- **Limited progress** was made in addressing the complexity of the tax structure and improving the regulatory environment in the services sector. **Some progress** was made on reducing the tax wedge of low income earners and strengthening transparency and competition in public procurement. **Some progress** was made in better targeting the public work scheme and reinforcing other active labour market policies while **limited progress** was made in improving educational outcomes and increasing the participation of disadvantaged groups in inclusive mainstream education. **Limited progress** was made in improving the adequacy and coverage of social assistance and unemployment benefits.

Lithuania

Summary of the EPC discussion of the Commission's country report

Lithuania is not classified as experiencing macroeconomic imbalances and did not under-go an in-depth review.

On the basis of its discussion, the EPC:

- Agrees with the Commission conclusion that the main challenges in Lithuania related to EPC competence in the short term are skills and labour shortages and the need to strengthen productivity growth and investment to continue the catching-up process while preserving competitiveness. In the longer term, a continued decline in the working-age population and an increasing old age population risk putting strain on public finances.

CSR Implementation

- Looking at the multi-annual assessment of the implementation of the CSRs over the 2011-2017 time period 51 % of all CSRS have seen either full implementation or substantial progress; 37 % "some progress**",** and 12 % limited progress.
- Agrees with the Commission assessment of **some progress** in implementing the 2017 Country-Specific Recommendations in areas of competence to the EPC. **Some progress** has been made in improving tax compliance, while it has made **limited progress** in broadening the tax base to sources that are less detrimental to growth. Lithuania has made **some progress** in improving the fiscal sustainability of the pension system but adequacy remains a concern. **Limited progress** has been made in strengthening productivity.

Luxembourg

Summary of the EPC discussion of the Commission's country report

Luxembourg is not classified as experiencing macroeconomic imbalances and did not under-go an in-depth review.

On the basis of its discussion, the EPC:

- Agrees with the Commission that the main challenges in Luxembourg related to EPC competence are related to the long term sustainability of public finances given the projected increase in ageing costs; the continued rise in house prices, which may impact on the ability of the economy to attract skilled labour, and the overall diversification of the economy.

CSR Implementation

- Looking at the multi-annual assessment of the implementation of the CSRs over the 2011-2017 time period 16% of all CSRS have seen either full implementation or substantial progress; 18 % "some progress**",** and 66% limited progress or no progress.
- *Agrees* with the Commission assessment of progress in implementing the 2017 Country-Specific Recommendations of competence to the EPC. The government has made **some progress** on diversifying the economy. **Limited progress** has been made in removing regulatory restrictions in the business services sector. **Limited progress** has been made on ensuring the long-term sustainability of the pension system, limiting early retirement and on increasing the employment rate of older people.

Latvia

Summary of the EPC discussion of the Commission's country report

Latvia is not classified as experiencing macroeconomic imbalances and did not under-go an in-depth review.

On the basis of its discussion, the EPC:

- Agrees with the Commission that the main challenges in Latvia related to EPC competence are the demographic situation with a shrinking working-age population, which in the context of associated skill mismatches, inequality, and rapid wage growth, increasingly weights on the efficiency of several areas of the economy and social policy.

CSR Implementation

- Looking at the multi-annual assessment of the implementation of the CSRs over the 2011-2017 time period 27% of all CSRS have seen either full implementation or substantial progress; 59% "some progress"**,** and 14% limited progress.

- *Agrees* with the Commission assessment of progress in implementing the 2017 Country-Specific Recommendations of competence to the EPC. **Some progress** was recorded on reducing the tax wedge on low-income earners and on improving tax compliance. Latvia disagrees with this assessment and argued substantial progress had been made. **Some progress** was also made as a result of setting efficiency targets for central government, by increasing the provision of public healthcare services and by updating vocational education curriculum. **Progress has been limited** on preventing conflict of interest in public administration and on improving the adequacy of the social safety net.

Malta

Summary of the EPC discussion of the Commission's country report

Malta is not classified as experiencing macroeconomic imbalances and did not under-go an in-depth review.

On the basis of its discussion, the EPC:

- Agrees with the Commission that the main challenges in Malta related to EPC competence concern long-term sustainability of the growth model. The mounting pressure on infrastructure and natural resources, rising housing prices, and shortages of labour and skills, also linked to an ageing population, may create challenges in the future. Reducing the infrastructure gap, tackling long-term challenges in the area of public finances, improving labour supply, strengthening the business environment and promoting environmental sustainability remain key policy priorities to sustain long-term growth. Enhanced supervision in the financial sector is an additional important factor to safeguard financial stability and preserve Malta's attractiveness and good reputation as investment destination.

CSR Implementation

- Looking at the multi-annual assessment of the implementation of the CSRs over the 2011-2017 time period 42% of all CSRS have seen either full implementation or substantial progress; 45 % "some progress", and 13% limited progress or no progress.

Poland

Summary of the EPC discussion of the Commission's country report

Poland is not classified as experiencing macroeconomic imbalances and did not under-go an in-depth review.

On the basis of its discussion, the EPC:

- Agrees with the Commission conclusion that the main challenges in Poland related to EPC competence are to become more innovative and to better position itself in the global value chains in order improve the long term growth outlook. An expected decline in the working age population limits growth potential and underlines the need for increasing labour market participation building up the skills of its population, and creating an environment conducive to investment and further productivity gains.

CSR Implementation

- Looking at the multi-annual assessment of the implementation of the CSRs over the 2011-2017 time period 8% of all CSRS have seen either full implementation or substantial progress; 36 % "some progress**",** and 58 % limited progress or no progress.

- *Agrees* with the Commission assessment of progress in implementing the 2017 Country-Specific Recommendations of competence to the EPC. **No progress** has been achieved in ensuring the sustainability and adequacy of the pension system. There was **no progress** in ensuring legal certainty and trust in the quality and predictability of policies, including regulatory changes, and institutions. **Limited progress** has been made as regards the construction-related procedures. **Some progress** has been made in removing obstacles to investment in the transport sector.

Romania

Summary of the EPC discussion of the Commission's country report

Romania is classified as not experiencing macroeconomic imbalances and did not under-go an in-depth review.

On the basis of its discussion, the EPC:

- Agrees with the Commission that the main challenges in Romania related to EPC relate to the inadequate labour and skill supply in the context of the weak performance of the education system, below EU standards health status of the population and poverty. Accompanied with a modest performance in the area of research and innovation and inefficient public spending in infrastructure these challenges act as drag on productivity growth. To this aim also public administration reforms and fight against corruption should be continued.

CSR Implementation

- Looking at the multi-annual assessment of the implementation of the CSRs over the 2011-2017 time period 68 % of all the CSRs addressed to Romania have recorded at least 'some progress'. 32 % of these CSRs recorded 'limited' or 'no progress'.
- *Broadly agrees* with the Commission assessment of progress in implementing the 2017 Country-Specific Recommendations of competence to the EPC. Overall, **limited progress** was recorded in 2017 CSR implementation.
- There was **limited progress** on tax compliance and collection, activation measures, improving access to education, sifting to outpatient care, public administration and public investment prioritization. **No progress** was made on minimum wage setting or equalizing pensionable age for men and women. In contrast, there was **some progress** on public procurement, fighting undeclared work and curbing informal payments in healthcare. It is noteworthy that legislative changes adopted in 2017 would **reverse** the substantial progress made in strengthening the corporate governance of state-owned enterprises framework, pointing to a significant backtracking on past reforms. The changes will be reassessed by Parliament following a recent ruling of the Constitutional Court.

Slovakia

Summary of the EPC discussion on the Commission's country report

Slovakia is not classified as experiencing macroeconomic imbalances and did not under-go an in-depth review.

On the basis of its discussion, the EPC:

- Agrees with the Commission conclusion that the main challenges facing Slovakia related to EPC competence are long-term sustainability challenges stemming from the pension and healthcare systems, persisting structural labour market weaknesses with consistently high long-term unemployment and increasing skill shortages and barriers to investment

CSR Implementation

- Looking at the multi-annual assessment of the implementation of the CSRs over the 2011-2017 time period 6% of all CSRS have seen either full implementation or substantial progress; 48 % "some progress"**,** and 46% limited progress or no progress.
- *Agrees* with the Commission assessment of progress in implementing the 2017 Country-Specific Recommendations of competence to the EPC. Slovakia has made overall **limited progress** in improving competition and transparency in public procurement. While procedural improvements have been made and healthcare procurement is being centralised, best procurement practices are still not widely adopted. There has been no discernible progress in fighting corruption as corruption cases involving state enterprises and large public assets are not yet properly investigated and administrative resources in the special prosecutions service are being reduced. **Some progress** has been made in lowering administrative and regulatory barriers for businesses in light of the government's adoption of a package of measures to be implemented. **Limited progress** has been made in improving the effectiveness of the justice system, as case length statistics appear favourable when taken at face value but contrast with continued concerns about judicial independence.

UK

Summary of the EPC discussion on the Commission's country report

The United Kingdom is not classified as experiencing macroeconomic imbalances and did not under-go an in-depth review.

On the basis of its discussion, the EPC:

- Agrees with the Commission that the main challenges facing the United Kingdom related to EPC competence are supply in the housing market, low productivity growth and shortcomings in the infrastructure networks.

CSR Implementation

- Looking at the multi-annual assessment of the implementation of the CSRs over the 2011-2017 time period 9% of all CSRS have seen substantial progress; 85 % "some progress**",** and 6% limited progress.
- *Agrees* with the Commission assessment of progress in implementing the 2017 Country-Specific Recommendations of competence to the EPC. There has been **some progress** on housing investment and **some progress** on skills and apprenticeships.
- The UK points out that a number of the policy challenges in the CSRs are of a long-term structural nature and will take time to tackle successfully.