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NOTE

From:	General Secretariat of the Council
To:	Delegations
Subject:	EFC President letter: Review of the European Semester 2020 country reports, including in-depth reviews under the Macroeconomic Imbalance Procedure

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 European Semester 2020 country reports, including in-depth reviews under the Macroeconomic Imbalance Procedure.

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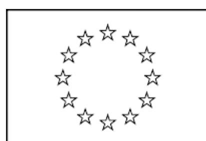

ECONOMIC AND FINANCIAL COMMITTEE

THE PRESIDENT

Brussels, 8 May 2020

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Mr. ZDRAVKO MARIĆ

President of the ECOFIN Council

Review of the European Semester 2020 country reports, including in-depth reviews under the Macroeconomic Imbalance Procedure

Dear Zdravko,

I would like to report to you on our review work on the Commission's European Semester 2020 country reports, following preparation by the Economic Policy Committee. On the basis of the review, we drafted Council conclusions on the country reports, including on the in- depth reviews under the Macroeconomic Imbalance Procedure, and the implementation of the country-specific recommendations.

This year, the review was exceptional. The Commission published the country reports in February 2020, prior to the COVID-19 outbreak and the severe deterioration of the economic situation. Our review therefore focused on those structural challenges and vulnerabilities that remain relevant also in the economic downturn and may provide a basis for a recovery strategy. At the same time, the Committee acknowledged the need to reassess the reform and investment priorities presented in the country reports.

We generally concurred with the Commission's findings in the country reports. We welcomed the high quality and comprehensive analysis. The in-depth reviews indicate that the correction of macroeconomic imbalances in the EU had progressed, benefitting from favourable economic developments prior to the COVID-19 pandemic and from Member States' policy efforts.

Nevertheless, vulnerabilities remain, especially linked to persisting stock imbalances, including high public and private debt, reducing the room for absorbing negative economic shocks, such as

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the COVID-19 pandemic. The Committee agreed with the Commission's categorisation of imbalances and the underlying analysis in the in-depth reviews, while stressing the need for close monitoring of the ongoing economic developments. We also agreed in general with the Commission's assessment of the implementation of the country- specific recommendations, noting a continuously low implementation rate.

Complementing the horizontal review, the Economic Policy Committee prepared summaries of the review of each individual country report and classification of imbalances from the in- depth reviews, conducted on 13 Member States (annexed to the letter, for your information).

Yours sincerely,

Tuomas Saarenheimo

President of the Economic and Financial Committee

Annex: Economic Policy Committee's European Semester 2020 country reports review – country fiches

Austria

Summary of the EPC review on the Commission's 2020 country report

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

The EPC agrees with the Commission that at the cut-off date for the country report in February 2020, the main challenges in Austria related to EPC competence concerned the impact of population ageing on the sustainability of public finances, the slowdown of productivity growth since the 2009 crisis, and the transition to carbon neutrality.

The Austrian economy performed well in recent years, consistently recording one of the highest levels of *per capita* GDP in the EU. Going forward, over the medium term, population ageing is expected to depress the contribution of labour to potential growth, increasing the importance of capital accumulation and total factor productivity. Public debt remained above 60% of GDP, while projections for pension, health and long-term care expenditure point to challenges for long-term fiscal sustainability. Regulatory restrictiveness remains high for professional services, such as accounting, architecture, engineering, real estate agents and in retail. Addressing this would also benefit the manufacturing sector, which relies on an innovative and competitive services sector. *The EPC recognises* that implications of the COVID-19 pandemic may have shifted reform priorities in addressing structural challenges.

The EPC agrees that in Austria, future productivity growth hinges on improving innovation outcomes, digitalisation, the business environment and human capital. Identifying investment needs in green technology and sustainable solutions, and securing adequate funding, will be key to delivering on climate and energy objectives and shaping a new growth model. Investment in skills, ensuring quality and equal opportunities in education and training, and affordable full-time childcare would help to improve labour market outcomes, in particular for disadvantaged groups and women. *The EPC considers* that investment needs may require reassessment in the context of the COVID-19 implications, addressing short-, medium- and long-term challenges.

The EPC notes the Commission's assessment that in terms of the United Nations' Sustainable Development Goals (SDGs), Austria performs well, while it scores below the EU average for climate action (SDG13).

Implementation of country-specific recommendations

Since the start of the European Semester in 2011, Austria has fully implemented or made 'substantial progress' on 9% of its country-specific recommendations (CSRs). Austria has made some progress on 61% of its CSRs and 'limited progress' or 'no progress' on 30% of its CSRs.

The EPC agrees with the Commission's assessment that overall Austria has made some progress in addressing the 2019 CSRs of the EPC competence. Austria made some progress on ensuring sustainability of the health care system, and limited progress on ensuring sustainability of the long- term care system and pension system (CSR1). Austria made some progress in shifting taxes away from labour (CSR2). Austria made some progress on investments in research, development and innovation, and investments in digitalisation, and supporting productivity growth, and limited progress on reducing regulatory barriers in the service sector (CSR3).

Summary of the EPC review on the Commission's 2020 country report

Belgium is not classified as experiencing macroeconomic imbalances and did not undergo an in-depth review under the Macroeconomic Imbalance Procedure.

The EPC agrees with the Commission that at the cut-off date for the country report in February 2020, the main challenges in Belgium related to the EPC competence concerned the medium- and long-term sustainability of its public finances due to the high level of public debt and large age-related liabilities. Additionally, high regulatory barriers and insufficient investment in infrastructure networks weighed on the continuously weak labour productivity growth. *The EPC recognises* that implications of the COVID-19 pandemic may have shifted reform priorities in addressing structural challenges.

The EPC agrees that Belgium has significant investment needs in education, sustainable transport, energy, digital infrastructure such as 5G and social housing. Administrative burden, weak policy coordination and highly concentrated innovation hamper investment and productivity growth.

Belgium faces significant investment and regulatory challenges for sustainable growth and for ensuring the low-carbon transition. Public and private investment needs are large, including as regards adapting to mobility solutions, energy production and housing quality. The low-carbon transition may affect vulnerable consumers, notably through energy prices, and employees in energy-intensive industries. *The EPC considers* that investment needs may require reassessment in the context of the COVID-19 implications, addressing short-, medium- and long-term challenges.

The EPC notes the Commission’s assessment that in terms of the United Nations’ Sustainable Development Goals (SDGs), Belgium is progressing relatively well. While performing well in relation to good health and well-being (SDG3), and reduced inequalities (SDG10), more efforts are needed to progress on underachievement in reading, maths and science (SDG4).

Implementation of country-specific recommendations

Since the start of the European Semester in 2011, Belgium has fully implemented or made 'substantial progress' on 23% of its country-specific recommendations (CSRs). Belgium has made some progress on 37% of its CSRs and ‘limited progress’ or ‘no progress’ on 40% of its CSRs.

The EPC agrees with the Commission’s assessment that overall Belgium has made limited progress on addressing the 2019 CSRs of the EPC competence, in part due to the lack of government with full powers at the federal level. Belgium made limited progress on containing a projected increase in long- term expenditure and on pursuing the envisaged pension reforms (CSR1). Belgium made some progress on fostering investment in rail infrastructure, and limited progress on promoting energy transition and a low-carbon economy, in promoting R&D, and on reinforcing incentives to use collective and low emission transport (CSR3). Belgium made limited progress on reducing the administrative burden and on removing barriers to competition in services, in particular telecommunication, retail and professional services (CSR4).

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Summary of the EPC review on the Commission's 2020 country report and classification of imbalances from the in-depth review

The EPC agrees that in the context of the Macroeconomic Imbalance Procedure, Bulgaria is experiencing no imbalances. At the cut-off date for the country report in February 2020, the main macroeconomic challenges facing Bulgaria were high levels of non-performing loans and corporate sector debt and low productivity. In the past years, vulnerabilities in the financial sector were coupled with high indebtedness and non-performing loans in the corporate sector. Imbalances are no longer identified because policy action and a favourable macroeconomic environment reduced risks and vulnerabilities further. Progress has been made in strengthening financial sector governance and addressing outstanding regulatory issues. The implementation of follow-up measures resulting from the ECB Comprehensive Assessment is ongoing. The regulatory and supervisory environment has also improved in the non-bank financial sector. Specific supervisory actions to address remaining challenges in the insurance sector are expected. The insolvency framework reform has been advancing. However, it remains necessary to continuously monitor the full implementation of recently agreed reforms, notably the implementation of Bulgaria's roadmap to reinforce the insolvency framework and the development of non-performing loans. *The EPC recognises* that implications of the COVID-19 pandemic may have shifted reform priorities in addressing structural challenges.

To support the EPC review, **LIME** *broadly concurs* with the technical analysis and the main findings of the in-depth review with regard to the gravity and evolution of imbalances, and considers the topics identified in the 2020 report appropriate. *LIME broadly concurs* that the in-depth review analysis supports the assessment that Bulgaria is experiencing no imbalances, although some members voiced doubts about a premature reclassification in the Macroeconomic Imbalance Procedure. *LIME agrees* that the in-depth review made use of the appropriate series of analytical tools, while some discussions took place on the vulnerabilities related to the remaining stock of non-performing loans and whether the reduction of debt burdens is structural as it was largely linked to favourable economic conditions. Questions were raised on the extent to which the reduction of debt burdens is structural as it was largely linked to improving economic conditions.

The EPC agrees that in Bulgaria, the high energy intensity of the economy and slow progress on reaching energy efficiency targets negatively affects productivity and competitiveness. Investments in transport, energy and environmental infrastructure and green technologies and sustainable solutions could help attracting foreign direct investment and strengthen business competitiveness. *The EPC considers* that investment needs may require reassessment in the context of the COVID-19 implications, addressing short-, medium- and long-term challenges.

The EPC notes the Commission's assessment that in terms of the United Nation's Sustainable Development Goals (SDGs), Bulgaria performed well in labour market indicators in 'Decent work and economic growth' (SDG8), while it showed low performance in 'No poverty' (SDG1) and 'Reduced inequalities' (SDG10).

Implementation of country-specific recommendations

Since the start of the European Semester in 2011, Bulgaria has fully implemented or made 'substantial progress' on 13% of its country-specific recommendations (CSRs). On 59% of the CSRs, Bulgaria has made 'some progress' and on 28% 'limited progress' or 'no progress'.

The EPC agrees with the Commission's assessment that overall Bulgaria has made some progress with regard to the 2019 CSRs of the EPC competence. Bulgaria made substantial progress on upgrading the corporate governance framework of state-owned enterprises and some progress on improving tax collection (CSR1). Bulgaria some progress on improving the business environment and limited progress on focusing investment-related economic policy on research and innovation and on transport, and on water, waste and energy infrastructure and energy efficiency (CSR3).

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Summary of the EPC review on the Commission's 2020 country report and classification of imbalances from the in-depth review

The EPC agrees that in the context of the Macroeconomic Imbalance Procedure, Cyprus is experiencing excessive imbalances. At the cut-off date for the country report in February 2020, a very high share of non-performing loans burdened the financial sector and high stocks of private, public, and external debt hang on the economy, in a context of moderate potential growth. The current account deficit remained significantly negative and thus undermined a sustainable adjustment of the large stock of net external debt. The high level of private debt continued to decline supported by strong GDP growth. Non-performing loans remained among the most elevated in the EU. The government debt to GDP ratio remained high, but continued to decline in light of fiscal surpluses and strong GDP growth. Further progress is needed on the front of judicial reforms, the system for issuing and transferring property titles and diversifying investments towards more productivity-enhancing sectors and the environment. *The EPC recognises* that implications of the COVID-19 pandemic may have shifted reform priorities in addressing structural challenges.

To support the EPC review, **LIME** *broadly concurs* with the technical analysis and the main findings of the in-depth review with regard to the gravity and evolution of imbalances, and considers the topics identified in the 2020 report appropriate. *LIME agrees* that the in-depth review made use of the appropriate series of analytical tools. One member stressed that Cyprus was taking steps to correcting imbalances, reflected in broadly decelerating trends. The member also noted that the presence of special purpose entities added significantly to the elevated external position of Cyprus and any conclusion should err on the side of caution. Some members suggested further analysis, including on the impact of different types of special purpose entities on the external imbalance.

The EPC agrees that investment lags behind in areas that could strengthen Cyprus's economic structure and increase its potential growth, such as digital transformation, research and development, renewable sources of energy, sustainable transport and the circular economy. *The EPC considers* that investment needs may require reassessment in the context of the COVID-19 implications, addressing short-, medium- and long-term challenges.

The EPC notes the Commission's assessment that in terms of the United Nation's Sustainable Development Goals (SDGs), Cyprus performs relatively poorly, e.g. with regard to environmental goals (SDG2, 6, 7, 12, 13, 15).

Implementation of country-specific recommendations

Since the start of the European Semester in 2011, Cyprus has fully implemented or made 'substantial progress' on 21% of its country-specific recommendations (CSRs). On 35% of the CSRs, Cyprus has made 'some progress' and on 44% 'limited progress' or 'no progress'.

The EPC agrees with the Commission's assessment that overall Cyprus has made limited progress with regard to the 2019 CSRs of the EPC competence. Cyprus made limited progress on improving efficiency in the public sector and addressing aggressive tax planning (CSR1), some progress on increasing effectiveness of public employment services and healthcare, and limited progress on educational reform and affordable early childhood education and care (CSR3). Cyprus made some progress on increasing research and development capacity, improving access to finance, on energy efficiency and renewable energy measures, and limited progress on sustainable transport, waste and water management, digitalization and digital skills, and facilitating strategic investments, and no progress on privatization (CSR4). Cyprus made limited progress on the judicial reform and law enforcement, and anti-corruption reforms and the independence of the prosecution services (CSR5).

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Summary of the EPC review on the Commission's 2020 country report

Czechia is not classified as experiencing macroeconomic imbalances and did not under-go an in-depth review under the Macroeconomic Imbalance Procedure.

The EPC agrees with the Commission that at the cut-off date for the country report in February 2020, the main challenges in Czechia related to the EPC competence concerned implications of population ageing, technological change and ensuring environmental sustainability.

The industry-intensive economy, underpinned by trade openness and foreign investment has allowed Czechia to steadily catch up with the rest of the EU. The projected rise in age-related spending on healthcare puts the long-term sustainability of public finances at risk and there may be scope to increase the cost-effectiveness of health and care services. Population ageing will lead to a continued decline in the working-age population, putting additional pressure on potential growth. A further deepening of the capital stock and investments in intangible capital and high value-added technologies can help diversify the economy and improve potential growth. The regulatory burden on professional services and professions is an obstacle to growth and competitiveness. Although the public procurement framework is improving, it may warrant further fine-tuning. *The EPC recognises* that implications of the COVID-19 pandemic may have shifted reform priorities in addressing structural challenges.

The EPC agrees that adequate, efficient and sustainable investment in skills, including digital skills, is needed to support and reap the benefits of a broader economic change. The level of public investment in transport infrastructure in Czechia is below the EU average, resulting in significant gaps in the transport network. The transition from the heavy use of solid fossil fuels to a climate neutral economy requires identifying investment needs in green technologies and sustainable solutions, and securing adequate funding. *The EPC considers* that investment needs may require reassessment in the context of the COVID-19 implications, addressing short-, medium- and long-term challenges.

The EPC notes the Commission’s assessment that in terms of the United Nations’ Sustainable Development Goals (SDGs), Czechia is making progress in all areas, while more progress is needed on climate action (SDG13).

Implementation of country-specific recommendations

Since the start of the European Semester in 2011, Czechia has fully implemented or made 'substantial progress' on 27% of its country-specific recommendations (CSRs). Czechia has made some progress on 32% of its CSRs and ‘limited progress’ or ‘no progress’ on 41% of its CSRs.

The EPC agrees with the Commission’s assessment that overall Czechia has made limited progress in addressing the 2019 CSRs of the EPC competence. Czechia made limited progress on adopting anti-corruption measures, limited progress on improving long-term fiscal sustainability of health-care system, but no progress on improving long-term fiscal sustainability of the pension system (CSR1). Czechia made some progress on supporting more quality-based competition in public procurement and removing the barriers hampering the development of a fully functioning innovation ecosystem, and limited progress on focusing investment-related economic policy on sustainable transport, digital infrastructure, low-carbon and energy transition, reducing the administrative burden on investment (CSR3).

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Summary of the EPC review on the Commission's 2020 country report and classification of imbalances from the in-depth review

The EPC agrees that in the context of the Macroeconomic Imbalance Procedure, Germany is exhibiting imbalances. At the cut-off date for the country report in February 2020, the persistently high current account surplus reflected a subdued level of investment relative to savings and had cross-border relevance. The surplus had narrowed from its peak in 2015 but remained above empirical benchmarks based on economic fundamentals, despite some progress with regard to investment (both private and public) and wages. In general, investment in education, research and development, digitalisation, sustainable transport, energy networks and affordable housing is lagging behind investment needs. *The EPC recognises* that implications of the COVID-19 pandemic may have shifted reform priorities in addressing structural challenges.

To support the EPC review, **LIME** *concurs* with the technical analysis and the main findings of the in-depth review with regard to the gravity and evolution of imbalances, and considers the topics identified in the 2020 report appropriate. *LIME broadly agrees* that the in-depth review made use of the appropriate series of analytical tools, notably on the current account surplus and the relationship with savings relative to investment, having some discussion on the link and associated spillovers. Some members suggested further analysis, including on the impact of international trade tensions and Brexit, the contribution of income inequality to the current account surplus, and tax system changes geared towards reducing income inequality.

The EPC agrees that the energy transition requires investments in electricity networks, smart sector integration and energy efficiency, and expansion of renewable energy. Transformation of the transport sector can address air pollution, mitigate climate change and improve productivity. The tax system is not sufficiently addressing climate change and environmental degradation. *The EPC considers* that investment needs may require reassessment in the context of the COVID-19 implications, addressing short-, medium- and long-term challenges.

The EPC notes the Commission’s assessment that in terms of the United Nations’ Sustainable Development Goals (SDGs), Germany has made good progress, including on ‘Decent work and economic growth’ (SDG8). Some deterioration took place as regards the indicators on sustainable transport (SDG9) and the trend in reducing inequality (SDG10) has been declining.

Implementation of country-specific recommendations

Since the start of the European Semester in 2011, Germany has fully implemented or made 'substantial progress' on 17% of its country-specific recommendations (CSRs). On 37% of the CSRs, Germany has made some progress and on 46% ‘limited progress’ or ‘no progress’.

The EPC agrees with the Commission’s assessment that overall Germany has made limited progress with regard to the 2019 CSRs of the EPC competence. Germany made some progress towards sustained growth in public and private investment (CSR1 subpart) and strengthening conditions to support higher wage growth (CSR2 subpart), which are closely related to the euro area recommendations. Additionally, under CSR1, Germany made some progress in improving investment in research and innovation, and limited progress on improving investment in digitalisation, sustainable transport and energy networks, and on shifting taxes away from labour. Germany made no progress on strengthening competition in business services and regulated professions (CSR1). Under CSR2 Germany made some progress on reducing incentives to work more hours and reducing high tax wedge in particular for low-wage earners, and limited progress on reducing disincentives for second earners, safeguarding the long-term sustainability of the pension system and improving educational outcomes and skills levels of disadvantaged groups.

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Summary of the EPC review on the Commission's 2020 country report

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

The EPC agrees with the Commission that at the cut-off date for the country report in February 2020, the main challenges in Denmark related to the EPC competence concerned the high level of household debt, combined with high house prices levels in the major urban areas, which constitutes a potential systemic risk and low productivity growth in the services sector.

Denmark benefitted from favourable economic conditions over the past years, reflected in private consumption and investment growth and increasing wealth of households. The household debt level remains above the levels that is estimated to be warranted by economic fundamentals. However, compared to debt levels households have significantly higher, albeit less liquid, financial assets, notably houses and pension savings. Danish households have one of the highest spending on mortgage debt services in the EU. Moderate productivity growth remains insufficient for closing the productivity gap with the peers. With an increasing role of services in the economy, the low productivity growth in the services sector undermines aggregate productivity. *The EPC recognises* that implications of the COVID- 19 pandemic may have shifted reform priorities in addressing structural challenges.

The EPC agrees that broadening research and innovation investment from a small number of large companies to a wider range of firms would promote innovation diffusion. Channelling investments to vocational education and adult and lifelong learning is also key to preventing skills mismatches and labour market tensions. Denmark's ambitious target for reducing greenhouse gas emissions will require significant investments and reforms across the economy. Road congestion is projected to increase around the larger cities, and there is a need to decarbonise the transport sector.*The EPC considers* that investment needs may require reassessment in the context of the COVID-19 implications, addressing short-, medium- and long-term challenges.

The EPC notes the Commission's assessment that in terms of the United Nations' Sustainable Development Goals (SDGs), Denmark has made strong progress on climate action (SDG13), where it is an international leader.

Implementation of country-specific recommendations

Since the start of the European Semester in 2011, Denmark has fully implemented or made 'substantial progress' on 47% of its country-specific recommendations (CSRs). Denmark has made some progress on 50% of its CSRs and 'limited progress' or 'no progress' on 3% of its CSRs.

The EPC agrees with the Commission's assessment that overall Denmark has made some progress in addressing the 2019 CSRs of the EPC competence. Denmark made some progress on investment- related economic policy on sustainable transport, and limited progress on broadening the innovation base (CSR1).

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Summary of the EPC review on the Commission's 2020 country report

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

The EPC agrees with the Commission that at the cut-off date for the country report in February 2020, the main challenges in Estonia related to the EPC competence concerned low productivity and ageing and the poor health of the population.

In 2019, Estonia enjoyed a robust economic growth, driven by broad-based domestic demand. Estonia's income and productivity gap with the EU has decreased, but remained significant. Skills shortages and mismatches persist, limiting productivity gains. Participation in adult learning has increased, but the re- and upskilling of the workforce has not kept pace with labour market trends, partly due to limited on-the-job training. In recent years, the total population increased due to positive net migration, while population ageing offset the positive effect on the labour market. Poor health outcomes can be linked to insufficient healthcare funding, shortages in healthcare staff and lifestyle- related risk factors. Low resource efficiency and high energy and carbon intensity, in particular, due to Estonia's reliance on oil shale pose challenges in terms of achieving the country's binding decarbonisation targets under EU climate policy. *The EPC recognises* that implications of the COVID- 19 pandemic may have shifted reform priorities in addressing structural challenges.

The EPC agrees that major investment needs persist in Estonia. Well-targeted investment in infrastructure, research and innovation, and in promoting resource efficiency would strengthen Estonia's long-term potential. Investments in education and skills, as well as in social inclusion, the sustainability and capacity of health care and social services could foster sustainable and inclusive growth. Business investment has accelerated but investment in research and innovation, and intellectual property assets is relatively low, limiting productivity growth. Reducing carbon intensity in transport and buildings, restructuring the oil shale sector and implementing circular economy business models could improve environmental sustainability. *The EPC considers* that investment needs may require reassessment in the context of the COVID-19 implications, addressing short-, medium- and long-term challenges.

The EPC notes the Commission's assessment that in terms of the United Nations' Sustainable Development Goals (SDGs), Estonia performs relatively well, while on the climate action (SDG13), a number of indicators show deteriorating trends.

Implementation of country-specific recommendations

Since the start of the European Semester in 2011, Estonia has fully implemented or made 'substantial progress' on 20% of its country-specific recommendations (CSRs). Estonia has made some progress on 73% of its CSRs and 'limited progress' or 'no progress' on 7% of its CSRs.

The EPC agrees with the Commission's assessment that overall Estonia has made limited progress in addressing the 2019 CSRs of the EPC competence. Regarding investment-related policies, Estonia made some progress on focusing on energy infrastructure and energy efficiency, limited progress on focusing on research and investment and resource efficiency, and no progress on focussing on sustainable transport (CSR3).

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Summary of the EPC review on the Commission's 2020 country report and classification of imbalances from the in-depth review

The EPC agrees that in the context of the Macroeconomic Imbalance Procedure, Greece is experiencing excessive imbalances. At the cut-off date for the country report in February 2020, vulnerabilities linked to high government indebtedness, the high share of non-performing loans and incomplete external rebalancing, in a context of high – although declining – unemployment and low potential growth. While the level of public debt remains high, it is mostly held by the official-sector creditors and financing needs will be relatively low for at least a decade and remain at manageable levels. The government debt to GDP ratio is set to decline and, going forward, its pace of reduction will crucially depend on continued implementation of planned and ongoing reforms including to raise the growth potential. The current account deficit, despite the significant adjustment achieved, remains below the level required, for the highly negative net international investment position (mostly due to public debt) to reach more prudent levels. The liquidity situation of Greek banks has further improved but legacy risks and challenges remain high, as the banking sector remains burdened by a large stock of non- performing loans, which hampers credit growth and the recovery of investment. Though still large, the stock has been falling since March 2016 and is expected to decline further due to recent systemic initiatives. Policy progress under the enhance surveillance post-programme continues overall well, with delays in some areas. *The EPC recognises* that implications of the COVID-19 pandemic may have shifted reform priorities in addressing structural challenges.

To support the EPC review, **LIME** *concurs* with technical analysis and the main findings of the in-depth review with regard to the gravity and evolution of imbalances, and considers the topics identified in the 2020 report appropriate. *LIME agrees* that the in-depth review made use of the appropriate series of analytical tools. Some members signaled that further analysis could be carried out regarding migration and its impact on the economy, the tourism sector, privatisation and public administration reform in relation to attracting foreign direct investment, tax collection and undeclared work, and the execution of public investment plans.

The EPC agrees that in Greece, productivity growth remains low and is coupled with high investment needs, in particular in the private sector. Investment is needed for sustainable growth, particularly in the energy, transport and logistics sectors. *The EPC considers* that investment needs may require reassessment in the context of the COVID-19 implications, addressing short-, medium- and long-term challenges.

The EPC notes the Commission’s assessment that in terms of the United Nations’ Sustainable Development Goals (SDGs), Greece has made substantial progress, including on the environmental objectives (SDG7, 12, 13) and reducing inequalities (SDG10), while the performance is low on ‘Decent Work and Economic Growth’ (SDG8).

Implementation of country-specific recommendations

After successfully exiting the European Stability Mechanism support programme in 2018, Greece received its first country-specific recommendations (CSRs) under the European Semester in July 2019.

The EPC agrees with the Commission’s assessment that overall Greece has made some progress with regard to the 2019 CSRs of EPC competence. Greece made some progress on focusing investment-related economic policy on environmental protection, energy efficiency, renewable energy and interconnection projects, on digital technologies, and on research and development (CSR2). Greece made limited progress on focusing investment-related economic policy on sustainable transport and logistics, and on the renewal of urban areas (CSR2).

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Summary of the EPC review on the Commission's 2020 country report and classification of imbalances from the in-depth review

The EPC agrees that in the context of the Macroeconomic Imbalance Procedure, Spain is experiencing imbalances. At the cut-off date for the country report in February 2020, high external and internal debt, both public and private, continued to constitute vulnerabilities, in a context of still high unemployment and have cross-border relevance. The continued current account surplus supported the continued decline in still high net external liabilities. The private indebtedness fell below the scoreboard threshold of the Macroeconomic Imbalance Procedure for first time since 2004. However, the pace of deleveraging by both the corporate and, especially, the household sector has slowed down, and in the most recent times, they were driven by nominal GDP growth. The non-performing loans ratio has decreased further and is now close to the EU average. Unemployment continued its rapid decline, but employment remained low and the labour market highly segmented. Moreover, labour productivity remains low. Policy action aimed at ensuring the sustainability of the public finances, addressing labour market segmentation, reducing skills gaps, fostering research and innovation and improving the business environment has been limited. The planned departures from the 2013 pension reform will increase the long-term cost of ageing, if the measures were permanent, unless accompanied by compensating measures. *The EPC recognises* that implications of the COVID-19 pandemic may have shifted reform priorities in addressing structural challenges.

To support the EPC review, **LIME** *broadly concurs* with technical analysis and the main findings of the in-depth review with regard to the gravity and evolution of imbalances, and considers the topics identified in the 2020 report appropriate. *LIME broadly agrees* that the in-depth review made use of the appropriate series of analytical tools. Some members indicated that cyclical vs structural developments could have been analysed in more detail in the in-depth review in relation to the reduction of debt stocks. Also, some members expressed the view that labour market issues could have been analysed in more detail.

The EPC agrees that climate change adaptation, risk prevention and disaster resilience require investment. Infrastructure for water and waste management is uneven across the country, posing significant environmental challenges. Investments need to focus on making better use of the rail system, and reduce the reliance on carbon-intensive road freight. *The EPC considers* that investment needs may require reassessment in the context of the COVID-19 implications, addressing short-, medium- and long-term challenges.

The EPC notes the Commission's assessment that in terms of the United Nations' Sustainable Development Goals (SDGs), Spain is making progress, including on climate action (SDG13).

Implementation of country-specific recommendations

Since the start of the European Semester in 2011, Spain has fully implemented or made 'substantial progress' on 36% of its country-specific recommendations (CSRs). On 40% of the CSRs, Spain has made 'some progress' and on 24% 'limited progress' or 'no progress'.

The EPC agrees with the Commission's assessment that overall Spain has made limited progress with regard to the 2019 CSRs of the EPC competence. Spain made no progress on preserving the sustainability of the pension system (CSR1), some progress on reinforcing capacity of employment and social services, and on increasing cooperation between education and business, and limited progress on promoting hiring on open-ended contracts, improving national unemployment assistance and education system (CSR2). Spain made some progress on energy efficiency and electricity interconnections, and limited progress on resource efficiency, investment in research and innovation, and on evaluation research and innovation policies (CSR3) and on implementing the Law on Market Unity (CSR4).

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Summary of the EPC review of the Commission's country report 2020

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

The EPC agrees that at the cut-off date for the country report in February 2020, the main macroeconomic challenges facing Finland were a declining productivity and an ageing population, including the ageing work force. The challenges constitute a risk on the sustainability on public finances, notably through increasing health care, long-term care and pension expenditure.

Finland is among the most advanced economies in the EU and among the front-runners in digital technologies and clean energy innovation. Raising employment to the declared target of 75% could help Finland deal with the demographic challenge and improve the sustainability of public finances, requiring reforms in the social benefit system. The health care system remains fragmented and requires a swift reform for ensuring its sustainability. The structural change from manufacturing to services activities has led to a decline in Finland's aggregate productivity, with less productive sectors dominating. Barriers to investment include the availability of skilled staff, lengthy procedures for obtaining business permits, limited cooperation between businesses and academia, lack of coordination of smart specialisation at central level, and modest access to finance for seed capital companies. Household debt, including through limited liability housing companies, remains at historically elevated levels. *The EPC recognises* that implications of the COVID-19 pandemic may have shifted reform priorities in addressing structural challenges.

The EPC also agrees that in Finland, investment remains below EU average for categories that most support productivity growth, notably investment in equipment and in intellectual property. Labour shortages in high-skilled sectors suggest a need for investing in skills that contribute to higher productivity. Focusing investment-related economic policy on human capital, on research and innovation, on low carbon and energy transition, and on sustainable transport, would strengthen the country's long-term growth potential. The government's plans to increase public investment notably in skills, education, R&D and infrastructure, could strengthen the economy's capacity to face these challenges. Reaching the planned carbon-neutrality by 2035 requires the planned sizeable investment in low carbon and energy transition as well as in sustainable transport infrastructure. *The EPC considers* that investment needs may require reassessment in the context of the COVID-19 implications, addressing short-, medium- and long-term challenges.

The EPC notes the Commission's assessment that in terms of the United Nations Sustainable Development Goals (SDGs), Finland is a front-runner in integrating the goals into public policies, and performs better than the EU average on most of those, with considerable progress on 'Decent work and economic growth' (SDG8).

Implementation of country-specific recommendations

Since the start of the European Semester in 2011, Finland fully implemented or made substantial progress on 32% of its country-specific recommendations (CSRs), some progress on 38% of its CSRs and limited or no progress on 30% of its CSRs.

The EPC agrees with the Commission's assessment that overall Finland has made limited progress in addressing the 2019 CSRs of the EPC competence. Finland made limited progress on improving the cost-effectiveness of and equal access to social and healthcare services (CSR1), public research and development, lowering carbon and energy transition and sustainable transport (CSR3). Finland made some progress on strengthening the monitoring of the household debt, and limited progress on establishing a credit registry system (CSR4).

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Summary of the EPC review on the Commission's 2020 country report and classification of imbalances from the in-depth review

The EPC agrees that in the context of the Macroeconomic Imbalance Procedure, France is experiencing imbalances. At the cut-off date for the country report in February 2020, vulnerabilities stemmed from high public debt and weak competitiveness dynamics in a context of low productivity growth, carrying cross-border relevance. Government debt remains high and increasing, reducing the fiscal space available to respond to future shocks and weighing on growth prospects. Such risks persist in a context of growing private debt. There has been progress with some ambitious reforms, notably in the areas of business environment, labour market and vocational education. Further measures to increase the performance of the innovation ecosystem and to remove barriers for competition, especially in services, are warranted. As for measures affecting the prospects for public finances, fiscal consolidation efforts have been put on hold and the current budgetary strategy does not guarantee a reduction of the high public debt. *The EPC recognises* that implications of the COVID-19 pandemic may have shifted reform priorities in addressing structural challenges.

To support the EPC review, **LIME** *concurs* with the technical analysis and the main findings of the in-depth review with regard to the gravity and evolution of imbalances, and considers the topics identified in the 2020 report appropriate. *LIME broadly agrees* that the in-depth review made use of the appropriate series of analytical tools. Some members suggested a more granular analysis on the high and increasing private debt, while others pointed out mitigating factors for households and non- financial corporations' debt ratios. Others asked for more details on the link between corporate debt and investment by non-financial corporations. Some members pointed out that investment has remained dynamic. Some members pointed out that some data and indicators, notably in terms of regulatory restrictiveness in services, do not factor in recent policy initiatives, and others suggested elaborating on trajectories for stock imbalances and for competitiveness. One member argued that all advanced economies have challenges related to productivity dynamics.

The EPC agrees that the Great plan for investment supports moves towards a greener economy. A budgetary-neutral public investment stimulus in France has a potential to increase domestic GDP and result in positive spillovers to the rest of the euro area. *The EPC considers* that investment needs may require reassessment in the context of the COVID-19 implications, addressing short-, medium- and long-term challenges.

The EPC notes the Commission's assessment that in terms of United Nations' Sustainable Development Goals (SDGs), France performs very well; performance is lower in 'Decent Work and Economic Growth' (SDG8) and indicators linked to government debt ('Partnership for the goals' - SDG17).

Implementation of country-specific recommendations

Since the start of the European Semester in 2011, France has fully implemented or made 'substantial progress' on 14% of its country-specific recommendations (CSRs). On 59% of the CSRs, France has made 'some progress' and on 27% 'limited progress' or 'no progress'.

The EPC agrees with the Commission's assessment that overall France has made some progress with regard to the 2019 CSRs of the EPC competence. France made limited progress in reforming the pension system (CSR1), and some progress in addressing skills shortages and mismatches and limited progress in fostering integration on the labour market and ensuring equal opportunities (CSR2). France made some progress in focusing investment to ensure energy transition and improving digital infrastructure and limited progress in improving the research and innovation performance (CSR3). France made substantial progress in implementing the measures to foster growth of firms, some progress in simplifying the tax system and limited progress in reducing regulatory restrictions (CSR4).

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Summary of the EPC review on the Commission's 2020 country report and classification of imbalances from the in-depth review

The EPC agrees that in the context of the Macroeconomic Imbalance Procedure, Croatia is experiencing imbalances. At the cut-off date for the country report in February 2020, remaining vulnerabilities linked to high levels of public, private and external debt in a context of low potential growth. The negative net international investment position has remained large, but continued improving. Private and public debt continued decreasing from high levels, while the pace of the decline of the household debt slowed. The financial sector is well-capitalised and profitable while non-performing loans, although declining, remain elevated. The foreign currency exposure of the private sector has reduced, but remains a vulnerability. Reforms in the education system and the business environment are progressing, with more action needed to reform the public administration and improve governance of state-owned enterprises. Key aspects of the recent pension reform aimed at lengthening working lives have been reversed, undermining inter-generational equity and future pension adequacy. *The EPC recognises* that implications of the COVID-19 pandemic may have shifted reform priorities in addressing structural challenges.

To support the EPC review, **LIME** *concurs* with the technical analysis and the main findings of the in-depth review with regard to the gravity and evolution of imbalances, and considers the topics identified in the 2020 report appropriate. *LIME agrees* that the in-depth review made use of the appropriate series of analytical tools and that the results from their application are supportive of the assessment of imbalances. Some members signaled that further analysis could be carried out, including on long-term growth and productivity developments, the determinants of the deterioration of the current account and the drivers of competitiveness.

The EPC agrees that increased investments in waste and water infrastructure is essential to sustain Croatia's economic development. A modal shift from road transport to rail would help address the substantial negative externalities and contribute to labour productivity. *The EPC considers* that investment needs may require reassessment in the context of the COVID-19 implications, addressing short-, medium- and long-term challenges.

The EPC notes the Commission's assessment that in terms of the United Nations' Sustainable Development Goals (SDGs), Croatia performs well and has made significant progress in 'decent work and economic growth' (SDG8).

Implementation of country-specific recommendations

Since the start of the European Semester in 2011, Croatia has fully implemented or made 'substantial progress' on 14% of its country-specific recommendations (CSRs). On 43% of the CSRs, Croatia has made 'some progress' and on 43% 'limited progress' or 'no progress'.

The EPC agrees with the Commission's assessment that overall Croatia has made limited progress with regard to the 2019 CSRs of the EPC competence. Croatia made some progress on streamlining the public administration (CSR1) and on delivering the education reform and strengthening labour market measures (CSR2). Croatia made limited progress on delivering on the education reform and in harmonising wage-setting frameworks in the public sector (CSR2), focusing investment in research and innovation, urban and railway transport, energy and environmental infrastructure, and on increasing the administrative capacity (CSR3). Croatia made some progress on reducing court proceedings and excessive services market regulation, and limited progress on state-owned governance, on enhancing the prevention and sanctioning corruption, and in reducing parafiscal charges (CSR4).

Summary of the EPC review on the Commission's 2020 country report

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

The EPC agrees with the Commission that at the cut-off date for the country report in February 2020, the main macroeconomic challenges in Hungary related to the EPC competence concerned the shrinking working-age population, low productivity growth, and low efficiency of natural resource use.

Despite recent improvement, output per worker remains among the lowest in the EU. The lack of available skilled labour is a key obstacle to productivity-enhancing investment and innovation. Hungary's future economic development depends on the economy's capacity to increase productivity, which requires a move away from the model based on low labour costs towards a knowledge-based, sustainable economy producing advanced products. Structural and institutional reforms are also needed to ensure the optimal allocation of resources. Public spending on healthcare is considerably lower than the EU average, resulting in an increasing pressure to turn to private care, with repercussions on social equity as well as population health outcomes. The low energy efficiency of housing and polluting residential heating methods make air quality worse in some regions, and both point to large potential environmental and health gains to be achieved by stepping up renovation rates. *The EPC recognises* that implications of the COVID-19 pandemic may have shifted reform priorities in addressing structural challenges.

The EPC agrees that in Hungary, increasing investment in research, innovation, infrastructure and skills is essential for improving productivity and for long-term growth that benefits society as a whole. Public and private investment as a share of GDP is high, but its composition could be better geared towards raising productivity. Additional investment and reforms are necessary to rationalise the use of resources within the health system, reduce inequities of access and raise quality of care to EU standards. Environmental challenges require investment and institutional capacity building. *The EPC considers* that investment needs may require reassessment in the context of the COVID-19 implications, addressing short-, medium- and long-term challenges.

The EPC notes the Commission's assessment that in terms of the United Nations' Sustainable Development Goals (SDGs), Hungary's performance ranks average, while it performs relatively well in the indicator measuring decent work and economic growth (SDG8).

Implementation of country-specific recommendations

Since the start of the European Semester in 2011, Hungary has fully implemented or made 'substantial progress' on 18% of its country-specific recommendations (CSRs). Hungary has made some progress on 34% of its CSRs and 'limited progress' or 'no progress' on 48% of its CSRs.

The EPC broadly agrees with the Commission's assessment that overall Hungary has made limited progress in addressing the 2019 CSRs of the EPC competence. Hungary made some progress on focusing investment-related economic policy on low-carbon transport and limited progress on research and innovation, low-carbon energy, waste management, energy and resource efficiency (CSR3). Hungary made limited progress on improving competition in public procurement (CSR3) and on reducing the complexity of the tax structure as regards sector-specific taxes, and strengthening it against aggressive tax planning as regards prevention besides the implementation of EU directives (CSR4). Hungary made no progress on reinforcing anti-corruption framework, strengthening judicial independence, improving the quality of decision-making and on improving the regulatory environment in the services sector (CSR4).

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imbalances from the in-depth review

The EPC agrees that in the context of the Macroeconomic Imbalance Procedure, Ireland is experiencing imbalances. At the cut-off date for the country report in February 2020, large stocks of private and public debt and net external liabilities constituted vulnerabilities. The large stock imbalances have been under substantial correction. The activities of multinational firms with little connection to the domestic economy heavily influence net foreign liabilities, which are falling on the back of large current account surpluses. The private debt to GDP ratio remains high but economic growth continued to support private deleveraging. The activities of multinational enterprises continue to influence corporate debt. Household debt appears broadly in line with fundamentals although it is high compared with disposable income. The government debt to GDP ratio is projected to remain on a downward trajectory. The stock of non-performing loans has been decreasing substantially in past years and again to some extent in 2019, including because of policy measures, although long-term arrears persist. Annual house price inflation has moderated, reflecting increasing housing supply and more binding macro-prudential rules. Measures have also been taken to tackle the undersupply of housing and macro-prudential policies have been tightened to ensure the resilience of households and banks. *The EPC recognises* that implications of the COVID-19 pandemic may have shifted reform priorities in addressing structural challenges.

To support the EPC review, **LIME** *concurs* with technical analysis and the main findings of the in-depth review with regard to the gravity and evolution of imbalances, and considers the topics identified in the 2020 report appropriate. *LIME broadly agrees* that the in-depth review made use of the appropriate series of analytical tools. Some members argued that competitiveness issues could have been assessed in more detail based on tools discussed within LIME.

The EPC agrees that the transition to a climate-neutral and clean economy would require substantial private and public investment in skills, clean energy and energy efficiency, sustainable transport, water and in decarbonising sectors with high emissions. More investment in research and development, digital infrastructure and skills would address the lagging productivity of domestic firms and would increase the resilience of the economy to external shocks. *The EPC considers* that investment needs may require reassessment in the context of the COVID-19 implications, addressing short-, medium- and long-term challenges.

The EPC notes the Commission's assessment that in terms of the United Nations' Sustainable Development Goals (SDGs), Ireland has made substantial progress related to 'no poverty' (SDG1) and 'decent work and economic growth' (SDG8) but faces challenges in climate action (SDG13).

Implementation of country-specific recommendations

Since 2014, when the European Semester recommendations have been addressed to Ireland, Ireland has fully implemented or made 'substantial progress' on 41% of its country-specific recommendations (CSRs). On 46% of the CSRs, Ireland has made 'some progress' and on 13% 'limited progress' or 'no progress'.

The EPC broadly agrees with the Commission's assessment that overall Ireland has made some progress with regard to the 2019 CSRs of the EPC competence. Ireland made limited progress on limiting tax expenditure and broadening the tax base, addressing aggressive tax planning, and in addressing the expected increase in age-related tax expenditure (CSR1). Ireland made some progress in facilitating investments related to climate change, energy transition, sustainable transport, water, digital infrastructure, some progress in diversifying economy and improving the productivity of Irish firms and business environment (CSR3).

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imbalances from the In-depth Review

The EPC agrees that in the context of the Macroeconomic Imbalance Procedure, Italy is experiencing excessive imbalances. At the cut-off date for the country report in February 2020, high government debt and protracted weak productivity dynamics implied risks with cross-border relevance, in the context of high unemployment and a still high level of non-performing loans. Cost competitiveness remained stable, but productivity growth remained weak. This is rooted in long-standing issues regarding capital allocation, weaknesses of the public administration and in business environment and the lack of adequate skills. Weak productivity dynamics and low labour market participation drag down potential GDP growth, which in turn hampers the reduction of the public debt-to-GDP ratio. The gross non-performing loans ratio decreased considerably over the past years and contributed to an increase of the resilience of the banking sector. However, the stock of non-performing loans remains high and bank profitability low, while pockets of vulnerabilities for banks remain also due to their exposure to the sovereign. Some recent policy measures such as fighting tax evasion, boosting public investment and plans to support childcare go in the right direction. Policy action to boost productivity and innovation continues but remains fragmented, while no measures have been taken to address restrictions in competition. Labour market reforms also remain incomplete. *The EPC recognises* that implications of the COVID-19 pandemic may have shifted reform priorities in addressing structural challenges.

To support the EPC review, **LIME** *broadly concurs* with technical analysis and the main findings of the in-depth review with regard to the gravity and evolution of imbalances, and considers the topics identified in the 2020 report appropriate. *LIME agrees* that the in-depth review made use of the appropriate series of analytical tools. Some members noted that deeper analysis could have been warranted in several areas, including the drivers behind low productivity in laggard regions, the impact of the proposals to introduce a statutory minimum wage, the costs and benefits of using consumption taxes to stimulate investment rather than reduce government debt, and the low labour market participation.

The EPC agrees that in Italy, a sustained budgetary-neutral public investment stimulus has a potential to substantially improve output and result in small but positive cross-border spillovers. Investing in environmental sustainability could be an opportunity for growth and high-skilled employment notably in the South. *The EPC considers* that investment needs may require reassessment in the context of the COVID-19 implications, addressing short-, medium- and long-term challenges.

The EPC notes the Commission’s assessment that in terms of the United Nations’ Sustainable Development Goals (SDGs), Italy is making progress, with significant results in climate mitigation (SDG 13).

Implementation of country-specific recommendations

Since the start of the European Semester in 2011, Italy has fully implemented or made 'substantial progress' on 32% of its country-specific recommendations (CSRs). On 36% of the CSRs, Italy has made ‘some progress’ and on 32% ‘limited progress’ or ‘no progress’.

The EPC agrees with the Commission’s assessment that overall Italy has made some progress with regard to the 2019 CSRs of the EPC competence. Italy made substantial progress in fighting tax evasion, limited progress in shifting taxation away from labour, and no progress in reducing the share of old pensions in public spending (CSR1). Italy made some progress in active labour market policies and limited progress in tackling undeclared work, supporting women’s participation in the labour market, and improving educational outcome (CSR2). Italy made some progress in focusing investment-related economic policy on research and innovation and quality of infrastructures, and in improving effectiveness of the public sector and no progress in addressing restrictions to competition (CSR3). Italy made limited progress in reducing the length of civil trials and in fighting against corruption (CSR4).

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

The EPC agrees with the Commission that at the cut-off date for the country report in February 2020, the main macroeconomic challenges in Lithuania related to the EPC competence concerned declining working-age population and low productivity growth.

Institutional constraints are limiting the growth of companies and inhibiting innovation. R&D intensity is relatively low and spending remains inefficient and overly reliant on European funds. Small and medium-sized enterprises face difficulties accessing finance and international markets. In some sectors, notably energy, regulatory barriers hamper firm entry and competition. Low participation in adult learning and in upskillings limits the workforce's ability to adapt to changes in the labour market. Environmental sustainability in Lithuania is low overall, the main contributing factors being low resource efficiency, high pollution levels from fossil fuel consumption in transport, and little progress on the circular economy. *The EPC recognises* that implications of the COVID-19 pandemic may have shifted reform priorities in addressing structural challenges.

The EPC agrees that Lithuania could boost its competitiveness by improving the planning and delivery of public investment, notably in innovation and skills. Public investment is still needed to boost the energy transition, increase resource efficiency and make transport more sustainable. Increasing environmental sustainability needs require a clearer commitment and targeted and smart public investment in green technologies. Mobilising investment in the private sector will be crucial if Lithuania is to achieve climate neutrality and circular economy models and to carry out its energy transition. *The EPC considers* that investment needs may require reassessment in the context of the COVID-19 implications, addressing short-, medium- and long-term challenges.

The EPC notes the Commission's assessment that in terms of the United Nations' Sustainable Development Goals (SDGs), Lithuania shows mixed results; in sustainable cities (SDG11) indicators on crime and vandalism and municipal waste recycling are positive, but on access to public transportation and air pollution, the performance is rather poor.

Implementation of country-specific recommendations

Since the start of the European Semester in 2011, Lithuania has fully implemented or made 'substantial progress' on 40% of its country-specific recommendations (CSRs). Lithuania has made some progress on 30% of its CSRs and 'limited progress' or 'no progress' on 30% of its CSRs.

The EPC agrees with the Commission's assessment that overall Lithuania has made limited progress in addressing the 2019 CSRs of the EPC competence. Lithuania made some progress on improving tax compliance, broadening the tax base and addressing income inequality, poverty and social exclusion (CSR1). Lithuania made some progress in the area of energy interconnections, and limited progress on focussing investment-related economic policy on energy connections, innovation, energy, resource efficiency and sustainable transport (CSR3). Lithuania made limited progress on stimulating productivity growth, developing a coherent policy framework to support science-business cooperation, and on the consolidation of research and innovation implementing agencies (CSR3).

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Luxembourg

Summary of the EPC review on the Commission's 2020 country report

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

The EPC agrees with the Commission that at the cut-off date for the country report in February 2020, the main macroeconomic challenges in Luxembourg related to the EPC competence concerned implications of ageing on the long-term sustainability of public finances and high private debt.

Luxembourg has made some progress in diversifying its economy, easing the way to a more resilient growth path. From now until 2070, Luxembourg would face one of the sharpest increases among the EU countries in ageing-related spending (pensions, long-term care, and healthcare costs), significantly increasing public debt, in case of no policy change. Non-financial corporations' debt is one of the highest in the EU, standing above 200% of GDP. Addressing labour and skill shortages remain key to achieving growth that benefits the whole of society. Regulatory restrictions in business services remain above the EU average for several professions. Road traffic congestion weighs on environmental sustainability. *The EPC recognises* that implications of the COVID-19 pandemic may have shifted reform priorities in addressing structural challenges.

The EPC agrees that in Luxembourg, despite some progress made, investment could be improved for ensuring sustainable housing and transport infrastructure, research and development, and digitalisation, especially in the business sector. The resilience of the Luxembourg's economy could further benefit from encouraging private investment and fostering technological diffusion and innovation among firms, while also further improving sustainable transport infrastructure and housing supply. *The EPC considers* that investment needs may require reassessment in the context of the COVID-19 implications, addressing short-, medium- and long-term challenges.

The EPC notes the Commission's assessment that in terms of the United Nations' Sustainable Development Goals (SDGs), Luxembourg performs well. The indicators related to the mitigation of climate change (SDG13) are improving but remain below the EU average.

Implementation of country-specific recommendations

Since the start of the European Semester in 2011, Luxembourg has fully implemented or made 'substantial progress' on 3% of its country-specific recommendations (CSRs.) Luxembourg has made some progress on 25% of its CSRs and 'limited progress' or 'no progress' on 72% of its CSRs.

The EPC agrees with the Commission's assessment that overall Luxembourg has made limited progress in addressing the 2019 CSRs of the EPC competence. Luxembourg made no progress on improving the long-term sustainability of the pension system (CSR1) and limited progress on reducing restrictions to regulated services (CSR2). Luxembourg made some progress on economic policies related to investment on fostering digitalisation, innovation, stimulating skills development and improving sustainable transport, and limited progress on increasing housing supply (CSR3). Luxembourg made limited progress on addressing features of the tax system that may facilitate aggressive tax planning (CSR4).

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Latvia

Summary of the EPC review on the Commission's 2020 country report

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

The EPC agrees with the Commission that at the cut-off date for the country report in February 2020, the main macroeconomic challenges in Latvia related to the EPC competence concerned low income per capita and shortages of skills.

Latvia is among the frontrunners of EU convergence, while its income growth will increasingly depend on investments in human capital and innovation, whose performance has been limited. In 2018, Latvia' income per capita stood at 69% of EU average and the income difference with the EU remained a powerful driver of emigration, resulting in declining population. Limited labour supply has led to shortages of skilled workers. The low level of digital skills among the labour force limits the use of digital technologies by businesses and the potential for innovation. Reducing energy consumption in transport and housing are Latvia's key climate policy challenges. *The EPC recognises* that implications of the COVID-19 pandemic may have shifted reform priorities in addressing structural challenges.

The EPC agrees that Latvia can boost its long-term growth potential by focusing private and public investments on innovation, human capital and regional development. Additionally, identifying investment needs in green technologies, sustainable solutions, and securing adequate funding will be key to deliver on the climate and energy objectives and shape a new growth model. *The EPC considers* that investment needs may require reassessment in the context of the COVID-19 implications, addressing short-, medium- and long-term challenges.

The EPC notes the Commission's assessment that in terms of the United Nations' Sustainable Development Goals (SDGs), Latvia is progressing well and has among the highest shares of renewable energy among EU countries (SDG7).

Implementation of country-specific recommendations

Since the start of the European Semester in 2011, Latvia has fully implemented or made 'substantial progress' on 17% of its country-specific recommendations (CSRs). Latvia has made some progress on 78% of its CSRs and 'limited progress' or 'no progress' on 5% of its CSRs.

The EPC agrees with the Commission's assessment that overall Latvia has made some progress in addressing the 2019 CSRs of the EPC competence. Latvia made some progress on shifting the tax burden away from low wages to other sources and improving tax compliance (CSR1). Latvia made some progress on focusing investment-related economic policy on innovation, transport, digital infrastructure, and resource efficiency, energy efficiency and energy interconnections (CSR3). Latvia made some progress on strengthening the accountability and efficiency of the public sector (CSR4).

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The Netherlands

Summary of the EPC review on the Commission's 2020 country report and classification of imbalances from the in-depth review

The EPC agrees that imbalances in the context of the Macroeconomic Imbalance Procedure, the Netherlands is experiencing. At the cut-off date for the country report in February 2020, the high stock of private debt and the large current account surplus constituted sources of imbalances, with cross- border relevance. The current account surplus reached a new high in 2018 and declined somewhat in 2019, but remained historically high, and above levels justified in light of economic fundamentals. Part of the external surplus can be attributed to statistical features linked to the role of multinational companies and is not expected to attenuate in the near future. Relatively robust nominal GDP growth supports the reduction of private debt as a share of GDP. Nevertheless, nominal household debt is slowly increasing on the back of continued house price growth. Wage growth has started to pick up somewhat but has remained relatively subdued given the cyclical position and very low unemployment. Implementation of the fiscal stimulus package is supportive to external rebalancing. Some policy action was taken to tackle the debt bias for households but measures will be phased in very gradually. *The EPC recognises* that implications of the COVID-19 pandemic may have shifted reform priorities in addressing structural challenges.

To support the EPC review, **LIME** *concurs* with technical analysis and the main findings of the in-depth review with regard to the gravity and evolution of imbalances, and considers the topics identified in the 2020 report appropriate. *LIME agrees* that the in-depth review made use of the appropriate series of analytical tools. One member signaled some areas where more analysis would be considered, including bottlenecks in access to finance by small and medium-sized enterprises s and housing market developments.

The EPC agrees that a structural increase in public investment in the Netherlands has a potential to reduce the Dutch current account surplus and would also have a positive impact on economic growth in other euro area countries. Investments in research and development, human capital, climate and energy measures can help support productivity growth and address other key societal challenges. *The EPC considers* that investment needs may require reassessment in the context of the COVID-19 implications, addressing short-, medium- and long-term challenges.

The EPC notes the Commission’s assessment that in terms of the United Nations’ Sustainable Development Goals (SDGs), the Netherlands ranks as one of the top performers among EU member states on several goals, while it scores lower in climate action (SDG13).

Implementation of country-specific recommendations

Since the start of the European Semester in 2011, the Netherlands has fully implemented or made 'substantial progress' on 26% of its country-specific recommendations (CSRs). On 63% of the CSRs, the Netherlands has made ‘some progress’ and on 11% ‘limited progress’ or ‘no progress’.

The EPC agrees with the Commission’s assessment that overall the Netherlands has made some progress with regard to the 2019 CSRs of the EPC competence. The Netherlands made some progress on tackling distortions in the housing market, reforming the second pillar of the pension system, policies to increase households disposable income, and addressing aggressive tax planning (CSR1). The Netherlands made some progress in promoting investment, investment in renewable energy, energy efficiency and reducing greenhouse gas emission, and in addressing transport bottlenecks, and limited progress in investment in research and development (CSR3).

Malta

Summary of the EPC review on the Commission's 2020 country report

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

The EPC agrees with the Commission that at the cut-off date for the country report in February 2020, the main macroeconomic challenges in Malta related to the EPC competence concerned long-term fiscal sustainability implications of ageing and ensuring adequate skills in the labour market, and the private sector high debt.

The Maltese economy faces a number of structural challenges, notably an ageing population, low skills levels, governance vulnerabilities, infrastructure bottlenecks, and limited innovation potential. In the long term, Malta's increase in public pension and healthcare spending is projected to be one of the largest in the EU, albeit from a level much below the EU average. The high level of private debt (both corporate and households) combined with a weak insolvency framework amplifies the economy's vulnerability to possible adverse shocks. *The EPC recognises* that implications of the COVID-19 pandemic may have shifted reform priorities in addressing structural challenges.

The EPC agrees that investing in innovation, natural resource management, skills and infrastructure are critical to sustaining Malta's economic growth. The health system and tourism sector would benefit from targeted investments to further climate neutrality. *The EPC considers* that investment needs may require reassessment in the context of the COVID-19 implications, addressing short-, medium- and long-term challenges.

The EPC notes the Commission's assessment that in terms of the United Nations' Sustainable Development Goals (SDGs), Malta has made some progress. It made significant progress on decent work and economic growth (SDG8).

Implementation of country-specific recommendations

Since the start of the European Semester in 2011, Malta has fully implemented or made 'substantial progress' on 21% of its country-specific recommendations (CSRs). Malta has made some progress on 47% of its CSRs and 'limited progress' or 'no progress' on 32% of its CSRs.

The EPC broadly agrees with the Commission's assessment that overall Malta has made limited progress in addressing the 2019 CSRs of the EPC competence. Malta made no progress on ensuring the long-term fiscal sustainability of the healthcare and the pension systems (CSR1) and on addressing certain features of the tax system that may facilitate aggressive tax planning (CSR2). Malta made limited progress on detecting and prosecuting corruption, and on strengthening the independence of judiciary as regards the appointment and dismissal of judges (CSR2). Malta made some progress on focussing investment-related economic policy on research and innovation, on natural resources, resource and energy efficiency, and limited progress on sustainable transport and reducing traffic congestion (CSR3).

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Summary of the EPC review on the Commission's 2020 country report

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

The EPC agrees with the Commission that at the cut-off date for the country report in February 2020, the main macroeconomic challenges in Poland related to the EPC competence concerned implications of the ageing population on labour supply, quality of health care and long-term care and transition to a knowledge-based economy.

Poland is well integrated economically with the EU and the world, and its economy is well balanced internally and externally. Maintaining recent positive trends of gains in skills remains a major challenge. Concerns remain as regards the quality of higher education, the labour market relevance of vocational education, development of transversal skills, as well as adult learning and training. Capital accumulation, including infrastructure and, machinery, but also non-tangible capital, including patented innovation need to be strengthened. *The EPC recognises* that implications of the COVID-19 pandemic may have shifted reform priorities in addressing structural challenges.

The EPC agrees that investment in innovation will help Poland produce more advanced products and services. Expanding broadband network will allow for equal access to the internet. Investment in social inclusion, healthcare, childcare and long-term care can improve social cohesion and increase employment. Infrastructure development is progressing, but sizeable investment needs remain. Decarbonising power generation, improving the energy efficiency of buildings and investing in more sustainable transport is necessary to put the economy on a more environmentally sustainable development path.*The EPC considers* that investment needs may require reassessment in the context of the COVID-19 implications, addressing short-, medium- and long-term challenges.

The EPC notes the Commission’s assessment that in terms of the United Nations’ Sustainable Development Goals (SDGs), Poland made significant progress, while meeting the sustainable development objectives concerning climate action (SDG13) remains a key challenge.

Implementation of country-specific recommendations

Since the start of the European Semester in 2011, Poland has fully implemented or made 'substantial progress' on 6% of its country-specific recommendations (CSRs). Poland has made some progress on 42% of its CSRs and ‘limited progress’ or ‘no progress’ on 42% of its CSRs.

The EPC broadly agrees with the Commission’s assessment that overall Poland has made limited progress in addressing the 2019 CSRs of the EPC competence. Poland made no progress on increasing the effective retirement age and reforming the preferential pension schemes (CSR2). Poland made some progress on strengthening the innovative capacity of the economy, limited progress on focusing investment-related economic policy on innovation, and no progress on improving regulatory environment as regards strengthening the role of consultations of social partners and public consultations in the legislative process (CSR3).

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Summary of the EPC review on the Commission's 2020 country report and classification of imbalances from the in-depth review

The EPC agrees that in the context of the Macroeconomic Imbalance Procedure, Portugal is experiencing imbalances. At the cut-off date for the country report in February 2020, private and public debt, and a high share of non-performing loans remain as macroeconomic challenges in a context of a large stock of net external liabilities and low productivity growth. Maintaining competitiveness gains is essential to ensure the adjustment of net external liabilities to prudent levels. In 2019, private and public debt ratios kept the sustainable and declining trend, supported by nominal GDP growth. The stock of non-performing loans remains above the EU average although a considerable and sustainable reduction was obtained in recent years and the adjustment advanced in accordance with the strategy implemented by banks and national authorities. Ensuring higher productivity growth is key for improved prospects in competitiveness, deleveraging and potential growth. *The EPC recognises* that implications of the COVID-19 pandemic may have shifted reform priorities in addressing structural challenges.

To support the EPC review, **LIME** *concurs* with the technical analysis and the main findings of the in-depth review with regard to the gravity and evolution of imbalances, and considers the topics identified in the 2020 report appropriate. *LIME agrees* that the in-depth review made use of the appropriate series of analytical tools, notably on external, public and private debt, banking sector vulnerabilities and labour productivity. Some members suggested that further analysis could have been warranted on the cyclical nature of the adjustment, on the labour market segmentation, the housing market and on the banking sector vulnerabilities.

The EPC agrees that Portugal faces significant shortfalls in investment. Making the economy carbon-neutral by 2050 requires significant investment in energy and transport, in particular railways and ports. Low investment in research and innovation hinder Portugal’s productive specialisation. *The EPC considers* that investment needs may require reassessment in the context of the COVID-19 implications, addressing short-, medium- and long-term challenges.

The EPC notes that the Commission’s assessment that in terms of the United Nation’s Sustainable Development Goals (SDGs), Portugal has made good progress on ‘Decent Work and Economic Growth’ (SDG8); progress towards ‘Climate Action’ (SDG13) has remained mixed, yet full implementation of the government’s climate and energy agenda will ensure progress.

Implementation of country-specific recommendations

Since the start of the European Semester in 2011, Portugal has fully implemented or made 'substantial progress' on 14% of its country-specific recommendations (CSRs). On 55% of the CSRs, Portugal has made ‘some progress’ and on 31% ‘limited progress’ or ‘no progress’.

The EPC agrees with the Commission’s assessment that overall Portugal has made limited progress with regard to the 2019 CSRs of the EPC competence. Portugal made limited progress on improving the financial sustainability of state-owned enterprises (CSR1), some progress on improving the efficiency of active labour market policies, targeting permanent employment and fostering collective bargaining, improving skills, and increasing the number of higher education graduates and limited progress on improving the effectiveness and adequacy of the social safety net (CSR2), which is being addressed by several measures already announced by the government. Portugal made limited progress on investment-related policies on research and innovation and policies for railway and port infrastructure, and some progress on policies for low carbon and energy transition and extending energy interconnections (CSR3). Portugal made limited progress on reducing the administrative and regulatory burden on businesses, and some progress on increasing the efficiency of administrative and tax courts and no progress on a roadmap to reduce restrictions for highly regulated professions (CSR4).

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Summary of the EPC review on the Commission's 2020 country report and classification of imbalances from the in-depth review

The EPC agrees that in the context of the Macroeconomic Imbalance Procedure, Romania is experiencing imbalances. At the cut-off date for the country report in February 2020, risks linked to cost competitiveness and a widening current account deficit were building up in a context of an expansionary fiscal policy and an unpredictable business environment. Although the negative net international investment position has been improving for some years, this may stall with persistent current account deficits. Nominal unit labour cost growth, although decelerating remained comparatively strong. Export market shares have been growing in past years, while if current trends in unit labour costs were to continue, cost competitiveness would be at risk. While the authorities addressed the most pressing concerns for the financial sector, overall, policy action has contributed to the accumulation of vulnerabilities on several accounts. Increases in public sector wages and the minimum wage have fueled the government and current account deficits. Policy and legislative unpredictability remain overarching concerns for the business environment. *The EPC recognises* that implications of the COVID-19 pandemic may have shifted reform priorities in addressing structural challenges.

To support the EPC review, **LIME** *broadly concurs* with technical analysis and the main findings of the in-depth review with regard to the gravity and evolution of imbalances, and considers the topics identified in the 2020 report appropriate. *LIME broadly agrees* that the in-depth review made use of the appropriate series of analytical tools. Some members pointed to the fact that the minimum wage in Romania was still comparatively low and the country in a catching-up process with the rest of the EU, while agreeing that wage and labour cost developments could contribute to challenges for competitiveness going forward.

The EPC agrees that insufficient investment hampers the potential of the Romanian economy to converge to EU levels. Investment is needed for establishing sustainable transport, energy and environmental infrastructure (waste, wastewater and air pollution). *The EPC considers* that investment needs may require reassessment in the context of the COVID-19 implications, addressing short-, medium- and long-term challenges.

The EPC notes that the Commission’s assessment that in terms of the United Nations’ Sustainable Development Goals (SDGs), Romania continues its progress; in climate action (SDG13) Romania is below EU-average levels in greenhouse gas emissions, energy and renewable-energy consumption.

Implementation of country-specific recommendations

Since the start of the European Semester in 2011, Romania has fully implemented or made 'substantial progress' on 6% of its country-specific recommendations (CSRs). On 41% of the CSRs, Romania has made ‘some progress’ and on 53% ‘limited progress’ or ‘no progress’.

The EPC agrees with the Commission’s assessment that overall Romania has made limited progress with regard to the 2019 CSRs of the EPC competence. Romania made some progress on ensuring the long-term viability of the 2nd pension pillar and no progress on ensuring the sustainability of the public pension system (CSR2) and limited progress on minimum wage setting (CSR3). Romania made some progress on implementing the national public procurement strategy, and limited progress on focusing investments in key policy areas and on strengthening project prioritization and preparation in public investment (CSR4). Romania made no progress on improving the predictability of decision-making and on improving the corporate governance of state-owned enterprises (CSR5).

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Summary of the EPC review of the Commission's country report 2020

Slovenia is not classified as experiencing macroeconomic imbalances and did not under-go an in-depth review under the Macroeconomic Imbalance Procedure.

The EPC agrees that at the cut-off date for the country report in February 2020, the main macroeconomic challenges facing Slovenia are the ageing population that is putting a strain on the pension, healthcare and long-term care systems, and a relatively low productivity growth.

The efficiency of the Slovenian economy is improving, benefitting from previous structural reforms, while the pace of reform has stalled recently despite the urgent need for comprehensive reforms to the pensions, healthcare and long-term care systems. Public debt remains above 60% of GDP, although declining until end-2019. A significant increase in the expenditure on pensions, healthcare and long- term (due to both the ageing of the population and the pension measures adopted in 2019) is expected in the coming years, which may put pressure on fiscal sustainability in the long-term. Due to the rapidly ageing population, the working age population is decreasing. Regarding the business environment, administrative burden and regulatory restrictions remain obstacles for businesses, despite recent government measures. Investment in residential housing remained low; the slowing demand for residential housing (due to diminishing affordability) and the increase in construction reduced tensions in the housing market. *The EPC recognises* that implications of the COVID-19 pandemic may have shifted reform priorities in addressing structural challenges.

The EPC also agrees that further investment in innovation and infrastructure (environmental, transport and energy) remains necessary to bring Slovenia back on a sustainable growth path. The innovation potential of the economy suffers from rather low public investment in research and innovation, limited science-industry cooperation uneven innovation and digital capacities among firms. The ageing of Slovenia's population means that significant investments are necessary to ease pressure on the healthcare and long-term care systems. The transition away from coalmines and coal-powered electricity production is at an early stage. *The EPC considers* that investment needs may require reassessment in the context of the COVID-19 implications, addressing short-, medium- and long-term challenges.

The EPC notes the Commission's assessment that in terms of the United Nations' Sustainable Development Goals (SDGs), Slovenia is performing well, notably the social goals, while the share of investment in GDP (SDG9) remained below the EU average.

Implementation of country-specific recommendations

Since the start of the European Semester in 2011, Slovenia fully implemented or made substantial progress on 57% of its country-specific recommendations (CSRs), some progress on 28% of its CSRs and limited or no progress on 15% of its CSRs.

The EPC agrees with the Commission's assessment that overall Slovenia has made limited progress in addressing the 2019 CSRs of the EPC competence. Slovenia made limited progress on the reform of health care and reforming the pension system, no progress in the reform of long-term care (CSR1). Slovenia made some progress on improving the business environment, competition, professionalization and oversight in public procurement, and limited progress in developing equity markets (CSR2). Slovenia made some progress on focussing investment-related economic policy on research and innovation and on sustainable transport, and limited progress on focussing on low-carbon and energy transition and on environmental infrastructure (CSR3).

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Summary of the EPC review of the Commission's country report 2020

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

The EPC agrees that at the cut-off date for the country report in February 2020, the main macroeconomic challenges facing Slovakia were household indebtedness above 42% of GDP that constitutes a potential risk to financial stability. Population ageing, recent pension reforms and the healthcare system pose long-term sustainability risks to public finances.

Slovakia has been catching up with the EU average, benefitting from major reforms and structural changes, while, the catching-up pace has slowed, partially due to the persisting lower labour productivity compared to the EU average. Improving key infrastructure and public services and strengthening urban-rural linkages can help narrow the significant gap between the capital and other regions. Housing market tensions could benefit from shortening construction permit processes develop the rental market and public housing. Long-term unemployment remained high for young people and in Slovakia's eastern regions. *The EPC recognises* that implications of the COVID-19 pandemic may have shifted reform priorities in addressing structural challenges.

The EPC also agrees that in investment is needed in many policy areas in Slovakia, including modernising the hospital network, expanding internet broadband coverage and speed, renovating and expanding public transport options. Fostering good governance and a quality business environment are also crucial for a more supportive investment climate. Investment in education and training remains insufficient, affecting educational outcomes across all levels, including vocational training and lifelong learning. Both public and private research and development investment remain low. The climate transition requires scaled up efforts and targeted investment, notably in investing energy efficient buildings, while private finance and capital markets particularly underdeveloped. *The EPC considers* that investment needs may require reassessment in the context of the COVID-19 implications, addressing short-, medium- and long-term challenges.

The EPC notes the Commission's assessment that in terms of the Sustainable Development Goals (SDGs), Slovakia has made progress notably in the social domain, while it is still facing challenges for example related to reinforced climate action (SDG13), affordable and clean energy (SDG7) and more responsible consumption and production (SDG12).

Implementation of country-specific recommendations

Since the start of the European Semester in 2011, Slovakia fully implemented or made substantial progress on 2% of its country-specific recommendations (CSRs), some progress on 48% of its CSRs and limited or no progress on 50% of its CSRs.

The EPC agrees with the Commission's assessment that overall Slovakia has made limited progress in addressing the 2019 CSRs of the EPC competence. Slovakia made limited progress on focusing investment related economic policy on health care and research and innovation, sustainable transport, digital infrastructure, energy efficiency, competitiveness of small and medium-sized enterprises and social housing, and some progress on increasing the use of quality-related and lifecycle cost criteria in public procurement (CSR3). Slovakia made some progress on improving the effectiveness of the justice system, and limited progress on tackling corruption (CSR4).

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Summary of the EPC review on the Commission's 2020 country report and classification of imbalances from the in-depth review

The EPC agrees that in the context of the Macroeconomic Imbalance Procedure, Sweden is experiencing imbalances. At the cut-off date for the country report in February 2020, overvalued house price levels coupled with a continued rise in household debt posed risks of a disorderly correction. While household debt as a share of GDP and disposable income has stabilised recently, it remains high. After a correction and stabilization of house prices over 2017-2018, prices have gradually recovered and remain close to historically high levels. Although the banking sector appears adequately capitalised, a disorderly correction would negatively affect the financial sector given its large exposure to household mortgages. In such a case, there could also be negative spill-overs to neighbouring countries given the systemic financial interlinkages. Some policy measures have been taken in recent years to address rising household debt, especially through macro-prudential policies. However, important policy gaps remain in the area of housing-related taxation and boosting housing supply and the rental market. *The EPC recognises* that implications of the COVID-19 pandemic may have shifted reform priorities in addressing structural challenges.

To support the EPC review, **LIME** *broadly concurs* with technical analysis and the main findings of the in-depth review with regard to the gravity and evolution of imbalances, and considers the topics identified in the 2020 report appropriate. *LIME broadly agrees* that the in-depth review made use of the appropriate series of analytical tools. Some members signalled that further analysis could look at the impact of persistently low interest rates on housing market indicators in Sweden, including price- to-income-ratio and price-to-rent indicators, and revisit the distribution of household debt and associated risks across different groups of mortgagers.

The EPC agrees that for reaching the intended carbon-neutrality by 2045, requires investments in infrastructure, such as the electrification of transportation and industry, and close cooperation across society to support innovation, while maintaining competitiveness. *The EPC considers* that investment needs may require reassessment in the context of the COVID-19 implications, addressing short-, medium- and long-term challenges.

The EPC notes the Commission's assessment that in terms of the United Nations' Sustainable Development Goals (SDGs), Sweden generally performs very well, scoring high in e.g. "Sustainable cities and communities" (SDG11).

Implementation of country-specific recommendations

Since the start of the European Semester in 2011, Sweden has fully implemented or made 'substantial progress' on 46% of its country-specific recommendations (CSRs). On 42% of the CSRs, Sweden has made 'some progress' and on 12% 'limited progress' or 'no progress'.

The EPC agrees with the Commission's assessment that overall Sweden has made some progress with regard to the 2019 CSRs of the EPC competence. Sweden made no progress on limiting mortgage interest tax deductability or increasing recurrent property taxes and on flexibility in the rental market and revising capital gains tax, limited progress on stimulating housing construction (CSR1). Sweden made substantial progress on investment in infrastructure and some progress on investment in research and innovation (CSR2).

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Summary of the EPC review of the Commission's country report 2020

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

The EPC agrees that that at the cut-off date for the country report in February 2020, the main macroeconomic challenges that the United Kingdom faced were low productivity, and high public and household debt, as well as the availability and affordability of housing.

The United Kingdom has a relatively free and efficient product, labour and capital markets. At the same time, output per hour is significantly lower in the United Kingdom than in most other developed economies, and is barely higher than it was before the financial crisis. There is scope to increase productivity by addressing broad-based problems such as low investment in equipment, infrastructure and research and development, and skills gaps (especially in basic and technical skills). Tight regulation of the land market can also prevent capital and labour from moving to where it is most needed. General government debt has remained above 80% of GDP, while the impact of an ageing population and non-demographic cost pressures on health and social care represent significant long-term fiscal risks. The government implemented a range of measures to boost housing supply, while house building remains below what is required to alleviate existing housing shortages. *The EPC recognises* that implications of the COVID-19 pandemic may have shifted reform priorities in addressing structural challenges.

The EPC also agrees that the United Kingdom faces a broad need for more investment in equipment, infrastructure and housing. The United Kingdom aims to invest more in research and innovation and improve the use of existing technologies across the economy. A full government response to the infrastructure deficit in the form of a 'National Infrastructure Strategy' has been delayed. Major investment and reforms will be needed to continue the transition to a climate-neutral economy. Reaching the United Kingdom's commitment to reach net zero carbon emissions by 2050 requires large-scale investment and behavioural changes across the economy. The prospects for further investment in the renewable electricity sector are encouraging. Reducing the amount of energy used for home heating is complicated by the age of the housing stock. Congestion and long commutes will be a challenge in reducing transport sector emissions. *The EPC considers* that investment needs may require reassessment in the context of the COVID-19 implications, addressing short-, medium- and long-term challenges.

The EPC notes the Commission's assessment that in terms of the United Nations' Sustainable Development Goals (SDGs), the United Kingdom has made progress towards achieving most aspects notably on environment-related goals including "Affordable and Clean Energy" (SDG7) and "Climate Action" (SDG13).

Implementation of country-specific recommendations

Since the start of the European Semester in 2011, the United Kingdom has made substantial progress on 10% of its country-specific recommendations (CSRs), some progress on 84% of its CSRs and limited or no progress on 6% of its CSRs.

The EPC agrees with the Commission's assessment that overall the United Kingdom has made some progress in addressing the 2019 CSRs of the EPC competence. The United Kingdom made some progress on supporting research and innovation, boosting housing, sustainable transport and the low carbon and energy transition (CSR2).

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