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Committee of the Regions

2015 European Semester

Territorial analysis of the 2015 Country-specific Recommendations

Report of the Steering Committee of the Europe 2020 Monitoring Platform

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Regions and Cities supporting
Europe2020
Europe's growth strategy

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2015 European Semester: Territorial analysis of the 2015 Country-specific Recommendations and accompanying Communication[1]

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[1] The Communication (COM (2015) 250 final) and the 26 sets of Recommendations (Cyprus and Greece did not receive Recommendations not to overlap with assistance programs existing or being negotiated) were published on 13.5.2015 and are available at http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm

PREFACE

The 2015 European Semester has been streamlined with respect to the previous cycles, in order to increase political ownership and accountability of European and national decision-making.

The 2015 Country Specific Recommendations, published by the European Commission on 13 May 2015, are now much shorter than in previous years and focused on the most urgent relevant issues. And the Country Reports, reporting on the state of implementation of the current Recommendations and providing analytical support to the forthcoming ones, were published in February, almost three months before the Recommendations and not together with them as in the previous years.

The European Committee of the Regions has analysed the Recommendations from the standpoint of EU cities and regions, finding that all EU countries have received at least one Recommendation addressing territorial disparities within the country, concerning the economic or social situation or the role and quality of the public administration. Some of these recommendations are directly addressed to local and regional authorities in 12 Member States.

Overall, our findings confirm an observation already made in our analysis of the Country Reports that a territorial dimension is present in the Semester and the involvement of local and regional authorities is acknowledged as necessary to promote growth and new jobs.

The joint analysis of the Recommendations and the Country Reports also shows that the less developed countries, and those with larger internal disparities, receive a higher number of recommendations concerning the quality of the public administration than the best performing ones. Improving the quality of the public administration is a big challenge, as shown by the fact that progress in this field, in terms of implementation of Recommendations, is slower than in other fields.

These results confirm that local and regional authorities need to be fully involved in the European Semester, and in particular in the drafting and implementation of the National Reform Programmes.

It is only by mobilizing their knowledge, competences and proximity to citizens that a real progress on the 2015 Recommendations can be achieved to the benefit of the economy and society as a whole.

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1. INTRODUCTION AND METHODOLOGY

1.1 A streamlined 2015 European Semester

The publication of the CSRs on 13 May 2015[2] starts the final phase of the European Semester, which was started by the Annual Growth Survey (AGS) in November 2014, endorsed by the Spring European Council in March 2015. The AGS provided guidance for the Member States' National Reform Programs and Stability or Convergence Programs, submitted in April 2015.

The AGS announced a series of changes in the functioning of the Semester, aimed at focusing on the top priority policy areas identified in the AGS, improving implementation of the Country-specific Recommendations and increasing ownership at national level with relevant stakeholders.

As part of this process, it was decided to publish single assessment documents ("Country Report") for each Member State, including (a) an assessment of the present socio-economic context and fiscal situation, (b) progress on last year's Country-Specific Recommendations (CSRs) and (c) the outcome of the In-Depth Review foreseen under the Macroeconomic Imbalance Procedure, set by the so-called 6-pack regulations.

The Country Reports were published on 27 February 2015, nearly three months earlier than in previous years, to give stakeholders more time to get involved in the process before the National Reform Programmes and the new Country-Specific Recommendations are issued.

1.2 Territorial dimension and challenges in the 2015 Country Reports

The European Committee of the Regions (CoR) took this opportunity to bring the standpoint of local and regional authorities into the European Semester, by publishing a note[3] analysing the 27 Country Reports[4] and the accompanying Commission Communication. The CoR's note aimed at checking (a) the progress of territory-related 2014 CSRs, i.e. those explicitly addressed to local and regional authorities as well as those referring to territorial issues, and (b) whether issues related to territorial differentiations had been addressed in the Country Reports, and, if yes, what issues. The main conclusions of the analysis could be summarized as follows:

- In 2014, the **territorial dimension** of key policy challenges was reflected in the fact that a total of thirty-three "territory-related" CSRs had been explicitly addressed to local and regional authorities in 18 Member States, mainly dealing with public spending, social and employment issues,

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[2] http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm

[3] The note and its annexes can be found at http://portal.cor.europa.eu/europe2020/news/Pages/EUROPEAN-SEMESTER--A-territorial-analysis-of-the-Country-Reports-for-2015.aspx

[4] No Country Report was published for Greece, due to ongoing negotiations on the assistance programme.

administrative capacity and cooperation between levels of government and structural reforms;

- **CSRs at regional level are more challenging** to implement. Overall, the implementation of territory-related 2014 CSRs was worse (63.6% of the territory-related CSR were judged having '*no progress' or 'limited progress'*) than all of CSRs together ('*no progress' or 'limited progress'*: 47%). This is due to technical and political challenges in the areas of public finance, social and employment issues, public administration and structural reforms of regional relevance (the latter scored worst of all);

- EU and country-level policies **need to include a territorial dimension, as is shown by the fact that, in 2015, all 27 Country Reports raised territorial issues** ("public administration, administrative capacity and management of EU funds": 21 Country Reports out of 27; "labour market" (20 Country Reports); "structural, fiscal and taxation issues" (13 Country Reports). This is due to the fact that the impact of public policies varies across regions because of different territorial conditions, and that performing and transparent sub-national administrations are necessary to deliver on most policy goals;

- **Administrative capacity matters.** The biggest territory-related policy field mentioned in the 2015 Country Reports, that of "public administration, administrative capacity and management of EU funds"; within this field, the biggest issues where those concerning "**administrative burden and administrative capacity**" and "**corruption and transparency**".

- **Worst-performing countries** in terms of GDP per capita, employment rate or internal regional disparities **are also those facing the biggest implementation challenges** for the 2014 CSRs. In fact, they show the highest number of **'*no progress'* or *'limited progress'* scores**, and the highest number of territorial issues addressed in the Country Reports for 2015.

1.3 The Country-specific Recommendations for 2015: context and main messages

In line with the 2015 AGS, the European Commission's Communication presenting the Country-Specific Recommendations (CSRs) for 2015 sets the priorities of:

1. Investment to support the sustainability of future growth (removal of obstacles to financing, launching of projects, swift implementation of the Investment Plan for Europe);
2. Structural reforms in product, service, labour and financial markets;
3. On fiscal policy, striking a balance between short-term stabilisation and long-term sustainability taking into account the specific fiscal room available to each Member State;
4. Improving employment policy and social protection to ensure stronger social cohesion.

To pursue these priorities, each Member States has received **a more limited number of Recommendations than in the past**, focused on the country's specific challenges that need to be urgently addressed to make the most of the ongoing recovery and to make it sustainable when the external factors that currently support it will fade away. Besides reasons of effectiveness, the choice of limiting and focusing the CSRs also aims at increasing ownership and involvement by relevant national stakeholders.

The Commission has also clarified that Member States are expected to deal with policy issues non covered by the CSRs in a holistic way in their National Reform Programs, and that these issues will still be monitored in the Country Reports; some of these issues are covered by other policy processes (examples made in the Communication include the Digital Single Market, the Energy Union, the European Research Area and the Innovation Union).

As part of the wider context of these CSRs, the Commission also recalls the Investment Plan for Europe, which is expected to become operational by mid-2015, and the clarifications it has provided in January 2015 on the use of the flexibility margins embodied in the Stability and Growth Pact[5]. The Communication also stresses the relation between the annual priorities of the Semester and the longer time span of the Europe 2020 strategy, whose mid-term review will be presented by end 2015. The ongoing debate on the future governance of the EMU is also recalled.

2. THE TERRITORIAL DIMENSION IN THE COUNTRY-SPECIFIC RECOMMENDATION FOR 2015

Following the approach adopted in the above-mentioned analysis of the 2015 Country Reports[6], the present analysis focuses on *'territory-related'* CSRs, defined as *those CSRs, or parts of them, that are either explicitly addressed to sub-national governments or that have potentially a direct impact on them and their territories*. Territory-relevant CSRs were detected in two ways: either because sub-national governments were explicitly mentioned in the CSRs or because a territorial issue emerged already from the 2015 Country Reports and/or in the recitals introducing them[7]. The main findings of the analysis (**Annex 1**), summarized in **Table 1 below**, read as follows:

- There are **53 territory-relevant CSRs in 2015,** spread on all 26 countries for which Recommendations were issued (Cyprus and Greece did not get recommendations, not to overlap with ongoing assistance programs and related negotiations). 19 of these 53 territory-related recommendations are *directly* addressed to local and regional authorities in 12 Member States (**Annex 2**), while the remaining 34 recommendations are correlated to the existence of a territorial issue raised in the 2015 Country Reports and/or in the recitals of the recommendations. As a comparison, in 2014, 33 CSRs were *directly* addressed to local and regional authorities in 18 Member States. The observed decrease of CSRs directly addressed to local and regional authorities seems to be due mainly to the fact that the Commission has strongly limited the number of CSRs.

[5] COM/2015/012 final, at http://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1421836696150&uri=CELEX:52015DC0012
[6] This analysis can be found at: http://portal.cor.europa.eu/europe2020/news/Pages/EUROPEAN-SEMESTER--A-territorial-analysis-of-the-Country-Reports-for-2015.aspx
[7] All details of this analysis are available online at http://portal.cor.europa.eu/europe2020/Pages/welcome.aspx

Source: CoR elaboration on the European Commission's Country-specific Recommendations for 2015 (Communication (COM (2015) 250 final and accompanying set of 26 documents, available at http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm

Table 1 – Territory-related CSRs for 2015

Topics	Competitiveness, investments, growth and jobs strategies	ESIF 2014-2020 and subnational finance	Labour market, education, social policies, demography, long term care and housing	Modernization of public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances	Regional disparities	Structural issues, fiscal framework and taxation	Transportation, energy, environment and R&D	**Total**
CSRs 2015	**8**	**0**	**21**	**15**	**0**	**6**	**3**	**53**
of which: directly addressed to LRAs	*3*	*0*	*5*	*9*	*0*	*1*	*1*	*19*
CSRs 2015 in %	*15 %*	*0 %*	*40 %*	*28 %*	*0 %*	*11 %*	*6 %*	*100 %*
Recitals in the 2015 CSRs	**6**	**1**	**36**	**28**	**0**	**4**	**4**	**79**
of which: directly concerning LRAs	*2*	*1*	*11*	*12*	*0*	*0*	*1*	*27*
Recitals 2015 in %	*8 %*	*1 %*	*46 %*	*35 %*	*0 %*	*5 %*	*5 %*	*100 %*

- The fact that **all 26 Member States receiving CSRs got at least one territory-related recommendation** (direct or non-direct) is in line with the fact that all the Country Reports for 2015 highlighted some territorial issues. It confirms that a territorial dimension is inherent to all Member countries' "key priority issues of macro-economic and social relevance that require action by Member States in the near term"[8];

- the most relevant **policy issues** covered by the 2015 territory-relevant CSRs, as measured by the number of CSRs addressing them (**Annex 3)**, were the same as those announced in the Country Reports, that is, in descending order of importance,

  - labour market/ education/ social policies (21 CSRs, 36 recitals)

[8] COM (2015) 250 final at http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm

- modernization of the public administration, administrative capacity (15 CSRs, 28 recitals)

- competitiveness, investments, growth and jobs (8 CSRs, 6 recitals)

- structural reforms (6 CSRs, 4 recitals).

- The number of **territory-related CSRs** per member country is **positively correlated to territorial disparities** between and within countries, which confirms what emerged from the analysis of the Country Reports. Plotting this number against statistical indicators of disparities *between* countries (GDP per head) or *within* countries (regional disparities in employment rates) (**Annex 4.)**, it can be found that :

  - the last ten countries in terms of GDP per capita have almost twice as much territory-relevant CSRs (23) as the first ten (12);

  - the ten countries with the highest *internal* (regional) disparities in terms of employment rates received 22 territory-relevant CSRs, while the ten countries with the lowest such value received 15 territory-relevant CSRs;

- The 15 CSRs covering the broad theme of the **quality of the public administration** and the **management of public finances** have been broken down following the sub-themes adopted in the analysis of the Country Reports[9] (**Table 2**). Almost half of the territory-relevant CSRs, and related recitals, address the issue of "**management of public finances and fiscal consolidation targets**".

[9] See p. 10 of the document, which can be found at http://portal.cor.europa.eu/europe2020/news/Pages/EUROPEAN-SEMESTER--A-territorial-analysis-of-the-Country-Reports-for-2015.aspx

*Table 2 – Issues related to public administration and administrative capacity in the 2015 Country-specific Recommendations**				
Categories	**CSRs**		**Recitals**	
	Countries concerned	***Number of CSR***	***Countries concerned***	***Number of recitals***
Corruption and transparency	**Portugal**	1	Bulgaria, Slovenia	2
Management of EU funds	-	-	-	-
Management of public finance and fiscal consolidation targets	**Austria**, **Belgium**, **Croatia**, **France**, **Germany**, Latvia, **Spain**	7	Austria, Czech Republic, **Finland, France**, **Germany**, **Italy**, Latvia, Netherlands, Portugal, Slovakia, **Spain**	13
Public procurement and egovernance	Czech Republic, Hungary	2	Bulgaria, Malta, **Spain**	3
Administrative burden and administrative capacity	Portugal	1	**Croatia**, **Italy**, Romania, Slovakia	4
Territorial reform	-	-	-	-
Relationships between level of government	**Croatia**	1	**Austria**, **Croatia**	2
Others	**Finland**, Italy, Romania	3	**Latvia**, **Portugal**, Romania	4

* Country names are in bold when at least a recommendation was explicitly addressed to local and regional authorities.

Source: CoR elaboration on the European Commission's Country-specific Recommendations for 2015 (Communication (COM (2015) 250 final and accompanying set of 26 documents, available at http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm

3. CONCLUSIONS

The publication by the European Commission of the Country-specific Recommendations (CSRs) for 26 countries on 13 May 2015[10] marks the beginning of the final phase of the European Semester. The European Committee of the Regions (CoR) analysed the CSRs, in particular to identify how much they concerned and addressed territory related matters and local and regional authorities. Prior to that, the CoR had examined the previous step of the European Semester, the Country Reports.[11] The 2015 CSRs analysis covered both, the actual direct recommendations (CSRs) and the remaining parts of the documents, with the so-called "recitals." The main findings of this territorial analysis of the 2015 country-specific recommendations can be summarized as follows.

The regional dimension of 2015 CSR

There are in total 53 territory-related recommendations (counting both CSR and recitals). All 26 countries have received at least one territory-related recommendation. Cyprus and Greece did not get recommendations, not to overlap with ongoing assistance programs and related negotiations.

There are 19 CSRs directly addressed to local and regional authorities in 12 Member States. To compare, in 2014 there were 33 recommendations explicitly addressed to local and regional authorities in 18 Member States. The remaining 27 out of 46 recommendations are in the form of recitals, correlated to the existence of a territorial issue raised in the Country Reports (same subject matter, however regional dimension not pronounced literally in a CSR).

The observed decrease of CSRs directly addressed to local and regional authorities (19 in 2015, 33 in 2014) **seems to be due mainly to the fact that the Commission has strongly limited the number of CSRs**. Besides reasons of effectiveness, the choice of limiting and focusing the CSRs also aims at increasing ownership and involvement by relevant national stakeholders.

More focus, distribution between policy fields

The **territory-related recommendations cover a wide range of policy issues,** mainly in the two broad areas of **(a) labour market/ education/ social policies (21 CSR and 36 recitals)** and **(b) modernization of the public administration/ administrative capacity 15 CSRs and 28 recitals)**. Other recommendations, in the areas of (**c) competitiveness, investments for growth and jobs (8 CSRs and 6 recitals)** and (d) **structural reforms, confirm the vital role of the local and regional authorities in these fields (6 CSRs and 4 recitals)**;

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[10] http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm

[11] Country Reports' a CoR Analysis is available online: http://portal.cor.europa.eu/europe2020/SiteCollectionDocuments/CoR,%20Analysis%20of%20Country%20Reports%202015_full%20report.pdf

The goals of **modernizing the public administration and managing public finances** emerge once again in the 2015 CSRs as a key priority.

<u>More territory-related recommendations in countries with larger disparities</u>

The number of **territory-related CSRs** per member country is **positively correlated to territorial disparities** between and within countries, which confirms what emerged from the analysis of the Country Reports, stressing the need of a pro-active policy attitude to cope with increasing regional disparities and the risk they pose for cohesion. **The last ten countries in terms of GDP per capita have almost twice as much territory-related CSRs/recitals (23) as the first ten (12)**;

<u>Progress on territorially-relevant recommendations smaller than the overall progress</u>

Based on the analysis of the Country Reports (previous step of the European Semester), it can be stated that the **CSRs at regional level are more challenging to implement than the total of CSRs** as such. Overall, the implementation of territory-related 2014 CSRs was worse (63.6% of the territory-related CSR were judged having '*no progress' or 'limited progress'*) than all of CSRs together ('*no progress' or 'limited progress'*: 47%). This is due to technical and political challenges in the areas of public finance, social and employment issues, public administration and structural reforms of regional relevance (the latter scored worst of all);

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Territory-relevant CSRs for 2015 and presence of territorial issues in the 2015 Country Reports

AUSTRIA

Territory-relevant Country-Specific Recommendations for 2015

CSR 1 :

Avoid deviating from the medium-term objective in 2015 and 2016. Ensure the budget neutrality of the tax reform aimed at reducing the tax burden on labour. Correct the misalignment between the financing and spending responsibilities of the different levels of government. Take measures to ensure the long-term sustainability of the pension system, including by earlier harmonisation of the statutory retirement age for men and women and link the statutory retirement age to life expectancy.

Territory-relevant Country-Specific Recommendations for 2015 (Recitals)

(8) Austria is currently in the preventive arm of the Stability and Growth Pact and subject to the transitional debt rule over 2014-2016. In its 2015 Stability Programme, the government plans to improve the headline deficit gradually to 2.2% of GDP in 2015 and further to 0.5% of GDP in 2019. According to the Stability Programme, the medium-term objective – a structural deficit not higher than 0.45% of GDP – was reached in 2014, and the government plans to meet the medium-term objective throughout the programme period. However, the recalculated structural balance points to a departure from the medium-term objective as of 2015. The government debt-to-GDP ratio is expected to peak at 86.8% in 2015 and to gradually decline to 79.7% in 2019. The macroeconomic scenario underpinning the budgetary projections in the programme is plausible. However, measures to support the planned deficit targets from 2016 onwards have not been sufficiently specified. Based on the Commission's 2015 spring forecast, the structural balance is forecast to deviate by 0.4% of GDP from the medium-term objective in 2015. The deviation is set to become significant in 2016 in view of the projected 0.6% of GDP worsening of the structural balance compared to the 0.3% of GDP structural adjustment required in order to reach the medium-term objective. This would imply a deviation of about 0.9% of GDP from the requirement of the Stability and Growth Pact. Therefore, further measures will be needed. At the same time, according to the Stability Programme and the Commission 2015 spring forecast, gross debt will remain on a downward path in line with the transitional debt rule in 2015 and 2016. Based on its assessment of the Stability Programme and taking into account the Commission's 2015 spring forecast, the Council is of the opinion that there is a risk that Austria will not comply with the provisions of the Stability and Growth Pact.

(9) Relations between different levels of government remain complex and cause efficiency losses in crucial sectors of public administration. Austria remains one of the countries with the lowest level of subnational own taxes in percentage of GDP. Despite this low level of tax autonomy, subnational governments have several spending and administrative responsibilities. The high level of complexity and misalignment between revenue and spending responsibilities is not conducive to implementation of broad policy reforms.

(13) On 13 March 2015, Austria presented a comprehensive tax reform aimed at remodulating tax brackets and rates of personal income tax, in particular by reducing the entry rate for personal income tax from 36.5 % to 25 %. The tax relief is estimated to amount to EUR 4.9 billion, while EUR 300 million of additional expenditure is envisaged to support family policy and research activities. Under the proposal, the tax shift will be financed partly by fighting tax evasion, lowering public expenditure, increasing reduced VAT rates to 13 % in some areas and raising capital income tax from 25 % to 27.5 %. These reform plans are broadly in line with the Council's 2014 recommendations. They are likely to increase incentives to work for individuals with low earnings potential and second earners, and to support disposable income. However, the reform should be implemented in a budget-neutral way.

Territorial issues addressed in the 2015 Country Report (details)

Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances

The Austrian taxation system and the fiscal framework present weaknesses arising from a high tax wedge, low tax autonomy for subnational governments and a complex system of fiscal relations between the different layers of government.

The current organisational relations between different levels of government remain complex and cause efficiency losses in crucial sectors of public administration. Austria remains one of the countries with the lowest share of subnational own taxes(7) in percentage of GDP, in particular regarding the tax-raising powers of subnational governments. Despite this low level of tax autonomy, subnational levels of government have several spending and administrative responsibilities, which in many cases are shared between levels of government and are financed mainly by intergovernmental transfers and shared taxes. The high level of complexity and the misalignment between revenue and spending responsibilities are not conducive to comprehensive policy reforms. It leads to efficiency losses in crucial public administration functions, including healthcare, education systems and spending on social transfers. Furthermore, as a result of complex interactions between national and subnational policy strategies key policy areas (e.g. innovation and research policy) suffer from coordination costs and efficiency losses. This may prevent the exploitation of cross-regional synergies.

No comprehensive measures have been adopted to address the long-standing issue of streamlining relations between levels of government. An administration and deregulation commission (*Aufgabenreform- und Deregulierungskommission*) was established in June 2014, in order to suggest different options for decreasing administrative burden and to increase efficiency of administrations thereby achieving savings also at subnational level. Other actions taken in 2014 relate to the reduction of the number of hierarchical layers in educational administration. However, these measures appear to have limited scope to enhance the organisation and division of powers between layers of government.

Structural issues, fiscal framework and taxation

The reform of the Austrian Stability Pact, which entered into force in 2012, has strengthened Austria's fiscal framework. The reform introduced a set of fiscal rules and has also translated the Council Directive 2011/85/EU on budgetary frameworks in the Member States and the Fiscal Compact into national legislation. The new Austrian Stability Pact has also strengthened fiscal rules at subnational level.

However, the current institutional set-up is likely to continue to complicate the achievement of these targets, especially when fiscal consolidation needs will be less pressing. Targets at subnational level have indeed been missed very frequently between 2000 and 2009 also due to the mismatch between the tax raising power and spending responsibilities at subnational level. The full achievement of fiscal targets in 2012-2013 was in part due to higher positive revenue developments at the central level translated in higher shared tax revenue also for subnational governments, while fiscal consolidation efforts led to effective expenditure control at subnational level. However, fiscal targets have proved procyclical in the past given that the enforcement of subnational fiscal targets is lower in time of favourable cyclical conditions. Thus, fiscal targets are unlikely to be met if the institutional set-up will not be reformed to ensure a more efficient cost-financing structure.

BELGIUM

Territory-relevant Country-Specific Recommendations for 2015

CSR 1:

Achieve a fiscal adjustment of at least 0.6 % of GDP towards the medium-term objective in 2015 and in 2016. Use windfall gains to put the general government debt ratio on an appropriate downward path. Complement the pension reform by linking the statutory retirement age to life expectancy. Agree on an enforceable distribution of fiscal targets among all government levels.

CSR2:

Adopt and implement a comprehensive tax reform broadening the tax base, shifting the tax burden away from labour and removing inefficient tax expenditures.

Territory-relevant Country-Specific Recommendations for 2015 (Recitals)

(10) The Belgian tax system is characterised by a high overall tax burden, relatively high rates, and narrow bases. The tax burden is heavily skewed towards labour. This results in high labour costs, which discourage job creation, and large tax wedges, which contribute to unemployment traps. In addition, partly to alleviate the high tax rates, tax bases are generally eroded by numerous specific exemptions, deductions, reduced rates, and tax expenditures, which create efficiency losses and introduce distortions and possible loopholes. Certain features of the tax system are environmentally harmful. Given these weaknesses, Belgium has been repeatedly advised to simplify and redesign its tax system in order to rebalance the tax burden, close tax loopholes, and reduce the sometimes harmful differentiation created by taxation niches. So far, limited progress has been made towards a comprehensive tax reform entailing, in particular, a shift from labour towards less growth-distorting tax bases. Tax bases with scope for broadening include environmental and consumption taxes and certain types of financial income. Combining a shift away from labour with tax-base broadening (reviewing existing tax provisions, subsidies, exemptions, and deductions) could improve the overall balance and fairness of the tax system, support employment, competitiveness and social and environmental objectives, and counter tax evasion and aggressive tax planning.

(11) Structural problems characterising the Belgian labour market continue to result in a chronic underutilisation of labour and low aggregate employment and activity rates. Shortcomings relate mainly to the weak link between wages and productivity and to financial disincentives to work. Belgium also faces shortages of highly skilled workers and skills mismatches. The various government agreements make reference to the need for stronger links between education, training and employment actors so as to improve linguistic, vocational and educational training and develop alternative training for students and the unemployed. Progress is slow, however. The impact of these structural factors on certain groups in the labour market, such as the young and elderly unemployed and those from migrant backgrounds, is particularly pronounced.

(12) Belgium's weakened external competitiveness continues to give rise to macroeconomic risks for its economy. The economy is marked by a problem of high labour costs, which have on average outpaced those in neighbouring countries. There is a need to align wage growth more closely with productivity and to make wage setting more flexible so as to increase the economy's potential for adjustment. Some targeted measures have been taken to reduce labour costs for specific groups and to narrow the gap between gross and net wages at the bottom of the pay scale. However, closing the gap entirely will require additional action which hinges on reforms of the wage-setting system. The build-up of a cost disadvantage comes with job losses and will eventually provoke a correction if left unaddressed. Other key cost factors for companies are energy costs and the cost of intermediate business services, which are highly regulated and shielded from competition. There is also considerable scope for improving the non-cost dimension of external competitiveness. To safeguard and enhance current welfare levels, more emphasis will have to be put on productivity gains. This requires a sustained push towards products and associated services higher up the value chain, on the basis of stronger performance on innovation and R&D valorisation. Administrative barriers should be reduced and measures should be taken to promote entrepreneurship and unleash business dynamism. The very low start-up rate suggests a business climate that is unfavourable to new activities and expansion. Increasing competition in retail and professional services also represents a challenge. Eliminating public infrastructure bottlenecks and improving the quality and adequacy of the capital stock through additional investments, in particular in the area of road and rail infrastructure, would also strengthen the country's overall productivity.

Territorial issues addressed in the 2015 Country Report (details)

Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances

MLG At the end of 2013, a Cooperation Agreement on fiscal coordination was concluded between the federal government and the regional and community governments to implement the Fiscal Compact.

Congestion The intention to tackle congestion announced in the federal and regional government agreements still needs to be turned into tangible measures.

Total public debt The recent state reform and revision of the financing of regions and communities partly addresses this challenge, among other things by curbing the financial transfers from the federal to sub-federal level, and hence creating fiscal space for the federal level at the expense of regions and communities. On the other hand, the reform puts an additional consolidation burden on the regions and communities, while these levels are responsible for the most growth enhancing expenditure, such as investment in infrastructure and education.

Transportation, energy, environment and R&D

Energy The fact that federal attempts to lower energy prices in recent years have been partly undone by higher regional charges highlights the potential problems a lack of solidarity might create.

R&D Although the funding of business R&D is split between the federal government and the regions, there is no organised coordination to ensure that support is optimally balanced between the different instruments and that trans-regional synergies are fully exploited.

Transport Both for road and rail infrastructure, coordination between the federal and the regional authorities will be crucial to ensure effective planning and project selection, as well as swift implementation.

GHG emissions More affirmative action is hindered by the absence of a political agreement between the federal and regional entities on the distribution of the effort needed and revenues from the auctioning of emission allowances under the EU ETS.

Renewables There seems to be no intention to improve synergies between the different green certificate systems in the regions and exploit the potential efficiency gains.

To provide for a better **investment** climate, the federal government plans to come to an 'energy pact', underpinned by a common energy vision with the regions.

Labour market, education, social policies, demography, long term care and housing

Long-term care The increased devolution of responsibilities to the regions and communities still needs to yield cost-effectiveness benefits.

Labour The Belgian **labour market** is characterised by major differences between regions. The unemployment rates for young people vary considerably between the different regions, ranging from almost 45% for men in the Brussels-Capital Region to only 13% in the province of West Flanders.

Early-school leaving The Brussels government intends to conclude a cooperation agreement with the French and Flemish communities to strengthen partnerships and develop early intervention plans as well as remedial measures.

BULGARIA

Territory-relevant Country-Specific Recommendations for 2015

CSR 3 :

Develop an integrated approach for groups at the margin of the labour market, in particular older workers and young people not in employment, education or training. In consultation with the social partners and in accordance with national practices, establish a transparent mechanism for setting the minimum wage and minimum social security contributions in the light of their impact on in-work poverty, job creation and competitiveness.

CSR4 :

Adopt the reform of the School Education Act, and increase the participation in education of disadvantaged children, in particular Roma, by improving access to good-quality early schooling.

Territory-relevant Country-Specific Recommendations for 2015 (Recitals)

(10) The Bulgarian healthcare system faces several major challenges, including poor health outcomes, low funding and serious inefficiencies in the use of resources. Life expectancy is considerably below the EU average and life expectancy at birth is among the lowest in the EU. The system continues to be based on an oversized hospital sector. Although funding of primary and outpatient care has slightly gained significance in nominal terms in recent years, it is still quite limited. The healthcare fund is contractually obliged to reimburse hospitals for treatments at predefined prices, which is incentivising hospitals to provide inadequately targeted medical care. A National Health Strategy was adopted in 2014 but it lacks a clear implementation plan.

(12) Active labour market policies are insufficiently developed in terms both of coverage and of targeting. Fragmentation of agencies represents a major challenge in delivering benefits and services to the unemployed and the inactive. Coordination between employment offices and the social assistance directorate is not geared to an efficient and integrated delivery of measures to help the most vulnerable. Bulgaria has a high proportion of young people neither in employment nor in education or training who are not in touch with the employment services and are thus outside the scope of standard labour market activation measures. Most of Bulgaria's unemployment is long-term, indicating that it is more structural than cyclical. Although the Bulgarian minimum wage is the lowest in the EU in nominal terms, it has increased substantially since 2011 and the Government plans further significant increases in the coming years. Such sharp discretionary shifts in the Government's wage-setting policy could be distortive for the labour market. Moreover, there are no clear guidelines for minimum-wage setting, so the system creates uncertainty as to whether the right balance will be struck between supporting employment and competitiveness on the one hand and safeguarding labour income on the other. Poverty and social exclusion remain a concern, as the country has one of the highest rates of material deprivation in the Union. The Roma population faces particularly high levels of poverty and social exclusion. The majority of young Roma are neither in employment nor in education or training. Pre-school and kindergarten enrolment of Roma children is low and almost a quarter of those aged 7–15 are not in the education system.

(14) In spring 2015, the Government presented a proposal for reform of the pension system. The adequacy and sustainability of the pension system depend on reforms that incentivise and support longer working lives with fewer interruptions. In 2013, 1.2 million pensioners were found to be receiving pensions below the national poverty line. The key drivers behind low pension entitlements are early retirement and short contribution periods. The rapid ageing of Bulgarian society is likely to aggravate the situation in the future. It is therefore appropriate for Bulgaria to further contain growth in age-related expenditure to contribute to the long-term sustainability of public finances, including through implementation of robust pension reforms.

(15) A key building block for an investor-friendly business environment is an independent, high-quality and efficient judicial system and effective mechanisms to fight corruption. Key challenges in this area include a lack of overall coordination, institutional shortcomings and a weak track-record on securing final convictions in court. These important policy areas will be covered by the Cooperation and Verification Mechanism.

(17) Strategies for the reform of the public administration and the introduction of egovernment were adopted in 2014. Their implementation will need a strong policy steer and coordination. Despite past efforts, the quality of public services remains low. The insufficient development of e-government limits efforts to increase transparency and reduce the administrative burden. A particular problem concerns public procurement procedures, which are hampered by a frequently changing legal framework and insufficient administrative capacity. The ex ante verification of tender procedures is often performed in a formalistic way. At the same time, procurement procedures are subject to overlapping ex post controls, sometimes resulting in divergent findings. The lack of transparency in the bidding process is also due to failure to complete the installation of the full range of e-procurement platforms. Irregularities in public procurement procedures have resulted in significant delays in implementing EU fund programmes in the past, have a negative impact on the business environment and hold back the much needed improvements in infrastructure. A multi-annual strategy adopted in July 2014 to address the key weaknesses in the public procurement system sets out a clear timetable for concrete steps to be taken in 2015 and 2016. This needs to be implemented.

Territorial issues addressed in the 2015 Country Report (details)

Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances

Public Administration and Judicial System Institutional shortcomings and shortcomings in administrative capacity remain, affecting key sectors of the economy and causing delays to structural reforms and low absorption of EU funds. There is a need to improve the competencies and independence of the administrative bodies charged with preventing and detecting corruption in public sector administration.

Public sector administration and e-government No progress has been made on strengthening the role of administration and improving efficiency at local level. Poor administrative capacity to implement a smart specialisation strategy limits the impact of government funding on business investment.

Public procurement is affected by a frequently changing legal framework and insufficient administrative capacity. The limited and non-exhaustive ex ante controls are explained by the authorities as the result of the insufficient administrative capacity of the Public Procurement Agency. The national strategy on public procurement envisages several measures, e.g. increasing administrative capacity and professionalism in public procurement.

Network Industries Urgent reforms are needed to address the independence and administrative capacity of the national regulator.

Regional disparities

Regional disparities - Minimum wage increases Employers in the north-west region of the country consider the minimum wage growth as a factor for decreasing employment.

Labour market, education, social policies, demography, long term care and housing

Labour Cooperation between employment offices, social assistance directorates and **municipalities** is focused on administrative functions and rule enforcement, rather than on improving labour market inclusion.

Skills mismatches in the labour market The authorities are developing an action plan and a database with statistics on adult learning, a coordination system of lifelong learning stakeholders at national, regional and municipal level.

Social assistance Efficient provision of adequate social benefits also requires the development of sufficient administrative capacity to manage them, including planning and coordinating the institutions involved, and systems to monitor effectiveness and efficiency.

Roma The implementation of the Roma integration strategy would require more systematic measures in mainstream housing, healthcare, education, employment, and anti-discrimination policies at **national and local levels**.

Healthcare Administrative capacity in the healthcare sector needs to be strengthened to enable appropriate strategies to be designed, programmes to be implemented and high-quality projects to be delivered.

Competitiveness, investment, growth and jobs

Growth Productivity growth is hindered by a number of intertwined weaknesses, ranging from complex regulation and weak administrative capacity.

Transportation, energy, environment and R&D

Water In order to achieve the desired changes in the water supply and sanitation sector, the water sector requires adequate financing and improvements in sector governance (e.g. the **regionalisation** of water services).

CROATIA

Territory-relevant Country-Specific Recommendations for 2015

CSR1:

Ensure a durable correction of the excessive deficit by 2016 by taking the necessary measures in 2015 and reinforcing the budgetary strategy for 2016. Publish and implement the findings of the expenditure review. Improve control over expenditure at central and local level, in particular by establishing a sanctioning mechanism for entities breaching budgetary limits. Adopt the Fiscal Responsibility Act and strengthen the capacity and role of the State Audit Office. Introduce a recurrent property tax and improve VAT compliance. Reinforce public debt management, in particular by publishing on an annual basis a debt management strategy and ensuring adequate resourcing.

CSR4:

Reduce the extent of fragmentation and overlap between levels of central and local government by putting forward a new model for functional distribution of competencies and by rationalising the system of state agencies. Increase transparency and accountability in the public corporate sector, in particular as regards managerial appointments and competency requirements. Advance the listing of minority packages of shares of public companies and privatisations.

Territory-relevant Country-Specific Recommendations for 2015 (Recitals)

(14) The distribution of competences between national and local level is complex and fragmented, which undermines the management of public finances and efficient public expenditure. The current attribution of policy functions and administrative weaknesses in the local authorities directly affect a number of areas, such as tax collection, the provision of social benefits, the management of European Structural and Investment Funds, public procurement and the provision of public services. As a short-term measure, the authorities plan to establish mechanisms that would encourage voluntary mergers or coordination of self-government units. In the central government, the reform and rationalisation of the system of state agencies has been brought forward on the basis of the analysis completed in 2014.

(15) Croatia's business environment suffers from major institutional shortcomings, including regulatory instability, weak legislative quality control, high compliance costs, discriminatory practices and excessive barriers for service providers, high administrative burdens, a plethora of parafiscal charges, low transparency and predictability in the working of administrative bodies, in particular at local level, unevenly developed electronic communication channels, and long judicial proceedings, in particular in commercial courts, where an upgrade of case management is needed. The new anti-corruption strategy lacks focus and a sufficient level of detail; this should be addressed in an action plan to implement the strategy.

Territorial issues addressed in the 2015 Country Report (details)

Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances

A complex functional distribution of governance structures, including a suboptimal articulation of the responsibilities of local tiers of government result in weak control of public finances, low efficiency of public spending and weak corruption prevention mechanisms.

Inadequate administrative capacities hinder the full absorption of the EU funds. In particular the capacities of public administration are weak and the transparency and efficiency of public procurement at both central and local levels are low.

The distribution of competencies between administrative levels of national and local government is complex and characterised by a high degree of fragmentation. Amendments to the State Administration System Act were drafted in September 2014 to address these inefficiencies, but their adoption by parliament has been delayed. The amendments involved merging 20 regional administration management structures into five.

The suboptimal decentralisation policy undermines management of public finances and efficient public expenditure. The complex and non-transparent attribution of policy functions across different levels of government contributes to excess spending since local governments do not bear the full costs of their decisions. Administrative weaknesses in the local authorities directly affect a number of areas, such as tax collection, the provision of social benefits, the management of European Structural and Investment Funds (ESIF), public procurement and the provision of public services. The fragmentation of sub-national governance units, with 428 municipalities, 127 cities, 20 counties and the City of Zagreb (special status), impairs their administrative capacity and thus weighs on their economic efficiency. Reallocation and coordination of regional and local competencies that could lead to better efficiency of fiscal policies remains a priority.

The 2015-20 Strategy for the Development of Public Administration is to be adopted by June 2015. The Strategy defines reform objectives as regards the allocation of responsibilities of government units at different levels, the provision of public services and the management of human resources in the public administration. The measures proposed in the Strategy remain very broad.

Local authorities contribute to the accumulation of debt in public companies.

Competitiveness, investment, growth and jobs

Croatia's business environment suffers from major institutional shortcomings. Inconsistencies in the decision-making of regional and local units across the territory, and the lack of a clear timeframe for issuing binding opinions in tax issues are a source of concern for businesses.

Regional disparities

The overall labour market and social situation is aggravated by significant regional disparities. These result in lower income and education levels, poorer housing conditions and lower living standards in disadvantaged and remote areas. These result in lower income and education levels, poorer housing conditions and lower living standards in disadvantaged and remote areas

ESIF 2014-2020 and subnational finance

The new ESIF allocation 2014-2020 is EUR 10.68 bn, i.e. over 3 % of GDP on annual basis or about ten times as much as that for 2007-13. This represents a huge opportunity, provided that the authorities can prioritise investments with high economic (and social) return. If the funding is to be managed effectively and absorbed in the coming years, Croatia will need to make major efforts to ensure adequate capacities for strategic programming, procurement, implementation, fund management and control, monitoring and evaluation, and mobilise stakeholders to prepare and implement results-oriented and quality projects.

Limited administrative and technical capacities in management bodies, at local and beneficiary level, combined with difficulties linked to the switchover from the IPA to the ESIF, have contributed to delays in the absorption of the 2007-13 allocation.

The legal framework for implementation of the 2014-20 programmes is now in place. However, the new programmes include a number of new sectors (ICT, energy, climate change, health and social inclusion, education) which will require specific technical capacities in the management bodies and targeted support for project beneficiaries.

Experience has shown that the analytical and monitoring capacities of the Croatian ESIF coordinating bodies and managing authorities are limited, and need to be bolstered, particularly as regards the new sectors to be covered.

The inclusion of new sectors in 2014-20 and the eligibility of new beneficiary profiles (in particular in the private sector) call for specific measures at the level of the coordinating and managing authorities and at project level. Initiatives in the past two years include establishing specific units within management bodies to support, and tailored on-demand training and coaching for, project beneficiaries. The further development of these initiatives would have to be in line with the increased ESIF allocation

An action plan for strengthening capacities and public procurement procedures in the management and implementation of ESIF funding was adopted in December 2014. Due to be implemented from November 2015,

CYPRUS

Territory-relevant Country-Specific Recommendations for 2015

To avoid duplication with measures set out in the Economic Adjustment Programme, there are no additional recommendations for Cyprus.

Territory-relevant Country-Specific Recommendations for 2015 (Recitals)

To avoid duplication with measures set out in the Economic Adjustment Programme, there are no additional recommendations for Cyprus.

Territorial issues addressed in the 2015 Country Report (details)

Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances

The authorities are advancing in the reform of the system of activation policies, but the capacity of the public employment services to address its new tasks remains insufficient, both in terms of the number of staff and of organisation and procedures. A budget of EUR 5.7 million has been allocated to boost the administrative capacity of public employment services through the 2014- 2020 Operational Programme of the European Social Fund, out of which about EUR 2 million are expected to be immediately committed. However, an action plan reflecting how the increase in staff is matched by other measures could be a tool ensuring a more effective and efficient service delivery.

CZECH REPUBLIC

Territory-relevant Country-Specific Recommendations for 2015

CSR 2:

Fight tax evasion, simplify the tax system and implement the anti-corruption plan. Take measures to increase the transparency and efficiency of public procurement, in particular by establishing a central register of public contracts and strengthening guidance and supervision.

CSR 4:

Adopt the higher education reform. Ensure adequate training for teachers, support poorly performing schools and take measures to increase participation among disadvantaged children, including Roma.

Territory-relevant Country-Specific Recommendations for 2015 (Recitals)

(8) (…)[1] However the scope of medium-term budgetary planning and of the numerical fiscal rule is limited, and enforcement has been weak. A draft reform package has been modified and delayed several times and its adoption is currently planned during 2015. The Czech Republic still faces challenges with respect to long-term fiscal sustainability, largely due to projected increases in pension and healthcare expenditure.

(11) Efforts made in recent years to tackle the problem of corruption have met with serious delays. The most recent anti-corruption action plan covered a number of priority areas. It included Acts on financial control, public prosecution, the financing of political parties, the protection of whistle-blowers, a new policy on the management of state-owned companies and an amendment to the Act on free access to information. Nonetheless, it appears that little is being done to bring about the adoption of these Acts. The adoption and implementation of the Civil Service Act and of related measures has seen the Czech Republic start to address problems relating to the efficiency and stability of its public administration. Both the administrative and regulatory barriers related to investment planning, and the lack of transparency and long duration of the procedures for obtaining building and land-use permits hold back public investment. Public procurement has been the focus of a number of initiatives in recent years but concerns about transparency still remain. In particular, public contracts are still not published in a centralised register. The efficiency of public procurement procedures is hampered by the inadequate provision of guidance and training to tendering institutions. Supervision of the system remains weak.

(12) The overall level of employment is currently high, but certain disadvantaged groups remain underrepresented in the labour market. These include parents with young children, low-skilled workers, people with disabilities and Roma. Some steps have been taken towards strengthening the efficiency and effectiveness of public employment services. The level of employment among young people is increasing, and public employment services try to target their services towards young people in particular. The lack of affordable and quality childcare services and the limited use of flexible working-time arrangements make it difficult for women with children to participate in the labour market. Some steps have been taken towards increasing the availability of childcare but policies supporting public childcare for the youngest children are still insufficient.

(13) The Czech Republic's educational outcomes have improved in recent years but structural challenges still remain. Participation in tertiary education has increased rapidly, but concerns have emerged in relation to the decline in skills of younger tertiary education graduates. It is hoped that the overdue higher education reform planned to be adopted in 2015 will introduce institutional accreditation, stronger internal quality assurance and greater use of profiling of students, and improve financing systems. More teachers need to be recruited into the compulsory education sector, but low salaries and a negative perception of the profession make it difficult to attract talented candidates. A new career system

[1] Recital 8 has been shortened. Just relevant extract is copied.

designed to improve both the recruitment of teachers and their professional development should be finalised in the first half of 2015, to be introduced in September 2016. Its overall impact will, however, largely depend on available funding. A comprehensive approach to evaluating and supporting low-performing schools and pupils is, meanwhile, still lacking. The introduction of such an approach could help improve efficiency and equality in the education sector. Limited progress has been made in making education more inclusive, despite the government's adoption of a comprehensive strategy for education. Young people from low socioeconomic backgrounds, including Roma, are shown to be less successful in education and on the labour market.

Territorial issues addressed in the 2015 Country Report (details)

Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances

Budget The main weakness of the medium-term budgetary framework is the **insufficient involvement of sub-national levels of government** in setting the budgetary targets and the medium-term strategy.

Regional disparities

Regional disparities on indicators such as early school leaving and skills mismatches are high.

Labour market, education, social policies, demography, long term care and housing

Education The Czech schooling system still features **disparities** in schooling outcomes **between regions** and social groups.

Labour Ineffective management system prevents the efficient translation of objectives into activities, and a lack of operational autonomy of **public employment services** hampers market-oriented interventions and consistent service delivery **across regions**. Competences and objectives between various **institutional layers** are not clearly defined.

DENMARK

Territory-relevant Country-Specific Recommendations for 2015

CSR2:

Enhance productivity, in particular in the services sectors oriented towards the domestic market, including retail and construction. Ease the restrictions on retail establishments and take further measures to remove remaining barriers posed by authorisation and certification schemes in the construction sector.

Territory-relevant Country-Specific Recommendations for 2015 (Recitals)

(9) An adequately skilled long-term labour supply is a precondition for sustainable growth in Denmark. With the 2014 active labour market policy reform, Denmark has made progress on improving the employability of people at the margins of the labour market. The reform is at an early stage of implementation and its results need to be monitored. Additional measures for those most excluded from the labour market are still needed, in line with the Carsten-Koch II expert group recommendations. Low educational attainment, limited labour market experience, youth and migrant background appear to be key factors in this respect. In general, the labour market potential of people from migrant backgrounds remains underutilised. Despite the high expenditure on education in Denmark, educational outcomes are only average, in particular for pupils from migrant backgrounds. The reform of the primary and lower secondary school and the vocational education and training systems aims to address this challenge. Full implementation of these reforms is needed in order to improve educational outcomes.

(10) Improved competitiveness is essential to strengthen economic recovery in Denmark. Productivity growth, which is vital in this regard, has generally been weak over the past two decades and has been affected by barriers to entry and regulatory burden in services sectors oriented to the domestic market. The Productivity Commission has identified the construction and retail sectors as areas in which productivity could be improved. Retail establishment regulations are very strict and no action has been taken to ease them. The construction sector is characterised by demanding building regulations and a large number of certification schemes. The Danish Government presented a strategy on construction in November 2014. This sets out good intentions, such as the simplification of rules, the streamlining of technical elements of building applications, the introduction of international standards, the harmonisation of national standards, and the reduction of time taken to issue building permits. However, the strategy has yet to be entirely translated into concrete measures. There are still overlapping authorisation and certification schemes, which in some cases also apply to the temporary provision of cross-border services. Furthermore, authorisations and certifications issued in other Member States are not always taken into account when service providers want to establish their business in Denmark.

Territorial issues addressed in the 2015 Country Report (details)

Competitiveness, investment, growth and jobs

House prices have increased over the last two years but there are significant regional differences. There is an important increases in house prices in the largest cities of Denmark.

In November 2014, the Danish Government launched a strategy to strengthen competition in the construction sector. Guidelines on effective competition will also be issued to municipalities.

Labour market, education, social policies, demography, long term care and housing

To improve educational outcomes, a reform of the municipal primary and lower secondary school (Folkeskole) was introduced in the 2014-15 school year.

ESTONIA

Territory-relevant Country-Specific Recommendations for 2015

CSR 2:

Improve labour market participation, including by implementing the Work Ability Reform. Improve incentives to work through measures targeting low-income earners. Take action to narrow the gender pay gap. Ensure high-quality social and childcare services at local level.

Territory-relevant Country-Specific Recommendations for 2015 (Recitals)

(9) Estonia's employment rate reached 74.5 % of the working-age population in the third quarter of 2014 and the unemployment rate dropped to 7.6 %, the lowest level since 2009. The proportion of long-term unemployed is well below the EU average. However, the shrinking labour force, combined with low labour productivity, is becoming a medium-to-long-term challenge. Implementation of the ambitious Work Capacity Reform has started only recently. While a number of tax-related measures have been adopted to increase labour market participation, they do not specifically target low-income earners. The gender pay gap is one of the widest in the EU. A lack of childcare facilities makes it more difficult for young parents, in particular mothers, to return to the labour market. The proportion of students in work-based apprenticeships is also low. There is a shortage of graduates in technology and science subjects. The quality of local authority labour and social services is uneven.

Territorial issues addressed in the 2015 Country Report (details)

Structural issues, fiscal framework and taxation

In 2014, Estonia received a country-specific recommendation on balancing local government revenue against devolved responsibilities, where no progress has been identified. Draft changes to the Equalisation Fund in order to reduce disincentives for municipalities to attract enterprises or support job creation were announced in 2013, but have not been restated since then.

Labour market, education, social policies, demography, long term care and housing

Due to the fragmented structure of the municipalities, public services provided by local governments are not equally accessible and not of sufficient quality.

Insufficient social services have a direct negative impact on activation measures. This challenge is particularly important in the context of the work capacity reform which relies on the availability of social services at local level. Clear lack of clarity as to the division of tasks between the central and local levels.

The revised Implementation Plan for the OECD Public Governance Review, adopted in December 2014, is expected to develop cooperation and coordination mechanisms and bolster the state's institutional organisation, as well as to improve organisations' management capacity.

In its operational programme to implement the European structural and investment (ESI) funds, Estonia has committed to developing minimum standards for social services at local level and to establishing service areas that allow economies of scale.

While it is not a statutory obligation of the National Unemployment Insurance Fund to support local services, it does so under cooperation agreements with municipalities to improve the employability of long-term unemployed and people with disabilities. These initiatives, although not large in scale, help to compensate for the lack of local services at municipal level.

Overall, Estonia has made limited progress on improving the efficiency of local governments and ensuring the provision of quality public services at local level, especially social services complementing activation measures. Progress on minimum quality requirements for local social services in the modified Social Welfare Act remained insufficient.

Competitiveness, investment, growth and jobs

The Strategy and Action Plan for Estonia's north-eastern (Ida-Viru) region is under renewal. Similar plans for the South-Eastern region have been initiated in parallel. The regional plans will be co-financed by the European Regional Development Fund, and will promote regional employment, entrepreneurship and develop regional.

Services provided to companies at county level have recently improved. However, at local government level, the support to entrepreneurship is limited and varying across the regions. The current financing system of local governments does not include incentives to attract entrepreneurs to rural regions. Moreover, according to the current law, the municipalities are not obliged to provide any services nor support to companies.

ESIF 2014-2020 and subnational finance

EUR 29 million from the 2014-20 European Structural Investment Funds (ESIF) will be invested in two urban areas in Ida-Viru (Kohtla-Järve and Narva).

FINLAND

Territory-relevant Country-Specific Recommendations for 2015

CSR 2:

Adopt the agreed pension reform and gradually eliminate early exit pathways. Ensure effective design and implementation of the administrative reforms concerning municipal structure and social and healthcare services, with a view to increasing productivity and cost-effectiveness in the provision of public services, while ensuring their quality.

CSR 4:

Take measures to open the retail sector to effective competition.

Territory-relevant Country-Specific Recommendations for 2015 (Recitals)

(8) Finland is currently in the [corrective] arm of the Stability and Growth Pact, following the adoption by the Council of a decision in accordance with article 125(6) TFEU on [XX]. In the 2015 Stability Programme, which is based on a no-policychange assumption and covers the period 2014-2019, the headline deficit, which has been increased to 3.2% of GDP in 2014 and thereby exceeded the reference value of 3% of GDP, is projected to further deteriorate to 3.4% of GDP in 2015, Before gradually declining to 3.1% in 2017 and further to 2.5% of GDP in 2019. According to the 2015 Stability Programme the government debt-to-GDP ratio is expected to increase over the programme's forecast horizon and to reach 67.8% by 2019. The medium-term objective - a structural deficit of 0.5% of GDP - is not reached by the end of the programme period. The macroeconomic scenario underpinning these budgetary projections is plausible. Based on the Commission's 2015 spring forecast, Finland's general government deficit is forecast at 3.3% of GDP in 2015 and 3.2% of GDP in 2016, while the debt-to-GDP ratio is forecast to increase to 64.4% of GDP by 2016. The Commission has published on 13 May 2015 a report in accordance with art 126(3) of the Treaty concluding that deficit and debt criteria were not considered to be complied with. The Stability Programme does ensure that the excessive deficit is corrected in a timely and durable manner by 201X. Therefore, further measures will be needed. Based on its assessment of the Stability Programme and taking into account the Commission's 2015 spring forecast, the Council is of the opinion that there is a risk that Finland will not comply with the provisions of the Stability and Growth Pact. Although Finland has made some progress in implementing administrative reforms, the efficiency of the Finnish public sector could be improved further, particularly in areas that face cost pressures in the future from ageing. Social partners reached agreement on the content of the pension reform in autumn 2014, but this has yet to be adopted. Increasing the participation of older workers in the labour force is crucial in view of the fiscal sustainability gap and the planned increase of the statutory retirement age. Early exits from the labour market are mainly due to disability or on the basis of extended unemployment benefits for older workers. The Government's bill on the reform of social and healthcare services was presented to parliament in December 2014, but no solution was found to balance the administrative model of large municipal coalitions with the autonomy of single municipalities guaranteed by the Constitution before the parliamentary elections in April 2015, and the bill lapsed. Finnish municipalities are relatively small but carry out quite extensive tasks as compared with those in other European countries. The reform of municipal structures is proceeding with some delay and the municipalities are conducting studies on the benefits of mergers. According to the 2015 National Reform Programme, a new legislative proposal may be submitted to parliament by the end of 2016.

(10) Finland has made some progress in boosting its capacity to deliver innovative products. The Government is implementing a comprehensive reform of research institutes and funding. Policy programmes for clean technology, biotechnology and digitisation are promising but relatively small-scale. Although investment in R&D is among the highest in the EU, Finland still faces challenges in converting this into successful export products and services. The Government has sought to make support systems for businesses simpler and more efficient, increase financing for start-ups and promote their internationalisation. Nevertheless, investment in Finland has remained low, export difficulties have continued and employment has fallen. Efforts are also needed to enhance competition in product and service markets, especially in the retail sector, which remains highly concentrated.

Territorial issues addressed in the 2015 Country Report (details)

Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances

Administrative capacity Finland received a country-specific recommendation to ensure effective implementation of ongoing administrative reforms concerning municipal structures and social and healthcare services.

Retail sector The remaining challenges include in particular the extent to which competition is taken into account in the planning system, how municipalities make decisions in awarding plots as well as the restrictions on large-scale outlets in the land use and building act. **A multi-layered and hierarchical planning process is required before new stores can be opened.** Regional plans form the core of the system, defining planning objectives to be reflected in the local plans. The establishment of large-scale outlets outside the central areas needs to be foreseen in regional plans.

Regional disparities

Regional disparities In the capital region, nominal house prices have roughly doubled over the same period. This reflects the inland migration towards metropolitan Helsinki and other urban regions.

There are considerable regional differences in unemployment rates.

Transportation, energy, environment and R&D

R&D Finland is developing smart-specialisation strategies based on regional strengths, and the Ministry of Employment and the Economy has aligned European Regional Development Fund investments to R&D with those strategies.

Labour market, education, social policies, demography, long term care and housing

See CSR 2 The government decided to establish the Metropolitan Authority to resolve land use, housing and transport problems in the greater Helsinki area. The Metropolitan Authority's duties will include the preparation of a metropolitan plan and ensuring its implementation (with plan programmes and other appropriate measures) and the regional public law duties.

Education The tighter budgetary restrictions might make it necessary to reorganise the upper- secondary school network or the provision of pre-school education (or both) by local authorities.

Social and healthcare reform The government has introduced draft legislation which foresaw revising the existing local government structure, social welfare and healthcare service structures and financing and re-evaluating the statutory duties of local authorities.

Competitiveness, investment, growth and jobs

Business environment Regional authorities are encouraged to cooperate in their supervisory and permit policies.

Structural issues, fiscal framework and taxation

Fiscal framework The fiscal framework was strengthened by a provision allowing central government also to plan and monitor the expenditure of local authorities and social security funds sub-sectors.

ESIF 2014-2020 and subnational finance

Subnational finance Some of the obligations of municipalities have been reduced, and the government has put forward plans to steer municipal finances through the general government fiscal plan.

FRANCE

Territory-relevant Country-Specific Recommendations for 2015

CSR 2:

Step up efforts to make the spending review effective and identify savings opportunities across all sub-sectors of general government, including on social security and local government. Take steps to limit the rise in local authorities' administrative expenditure. Take additional measures by March 2016 to bring the pension system into balance, in particular ensuring that the financial situation of complementary pension schemes is sustainable over the long term.

Territory-relevant Country-Specific Recommendations for 2015 (Recitals)

(9) It will be crucial to intensify spending reviews and identify large areas of expenditure cuts so that they can deliver the expected results. France should make sure that spending reduction targets take account of the close-to-zero rate of inflation. At the same time, the savings resulting from the lower-than-expected costs of the public debt due to lower interest rates should be channelled to reducing the deficit. In addition, sizeable short-term savings cannot be achieved without curbing significantly the increase in social security spending, which represented 26 % of GDP in 2014, accounting for nearly half of all public sector expenditure. Healthcare expenditure savings of EUR 11 billion are planned for 2015-2017, but further efforts are needed to limit expenditure increases in this area. In particular, there is scope to implement further cost-containment policies in the area of pharmaceutical prices and hospital spending. The pension system may face increasing deficits in the coming years and previous pension reforms will not suffice to eliminate the system's deficit. In particular, the deficit arising from schemes for state officials and employees of state-controlled companies continue to weigh on the overall pension deficit. Moreover, the macroeconomic situation has a large impact on the sustainability of the pension system, in particular the situation of complementary pension schemes. Decisive action is needed to restore the financial health of the complementary pension system.

(10) France has undertaken a reform of local administration aimed at increasing the efficiency of the system. It should continue to implement the planned reduction in grants from central government and strengthen the control of local government expenditure by capping the annual increase in local government tax revenue, taking into account existing ceilings on a number of local taxes. Action is also needed to contain the rise in the administrative costs of local authorities.

Territorial issues addressed in the 2015 Country Report (details)

Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances

The reform of the local administration seeks to increase efficiency in a context of lower grants from central government. In this program there are 3 main points: reducing the number of local government organisations notably by merging regions and by increasing the minimum number of inhabitants for an inter-communal body, clarifies the responsibility of the various layers of the local administration and the creation of integrated inter-communal structures (the métropole or metropolitan area) with a broad range of responsibilities.

Structural issues, fiscal framework and taxation

Some progress has been recorded in curbing the rise in local government spending. A decrease of EUR 3.7 billion in the grant from central government planned in 2015, following an effective reduction of EUR 1.5 billion in 2014. Local administrations are, however, expected to partly offset the grant reduction by increasing tax revenue, mainly through the scope for increasing taxes on second homes.

GERMANY

Territory-relevant Country-Specific Recommendations for 2015

CSR 1:

Further increase public investment in infrastructure, education and research, including by using the available fiscal space. To foster private investment, take measures to improve the efficiency of the tax system, in particular by reviewing the local trade tax and corporate taxation and by modernising the tax administration. Use the ongoing review to improve the design of fiscal relations between the federation, Länder and municipalities, particularly with a view to ensuring adequate public investment at all levels of government.

Territory-relevant Country-Specific Recommendations for 2015 (Recitals)

(9) The federal government has increased expenditure on education and research, but the share of public spending on education as a proportion of GDP is still below the EU average and total expenditure on education and research may fall short of the national target of 10 % of GDP by 2015. Germany intends to increase public investment until 2018, including additional amounts of EUR 10 billion for infrastructure and EUR 5 billion to support investment by financially weak municipalities. However, these positive steps appear insufficient to address the overall investment backlog. Taking advantage of its fiscal space would enable Germany to invest in the economy’s future growth potential and to address the public investment backlog, which is particularly evident in infrastructure and at municipal level. Germany has made no progress in improving the efficiency of the tax system. Overall, the scope for shifting taxes to more growth-friendly revenue sources appears underused. The revenues from recurrent property taxes remain comparatively low (0.5 % of GDP in 2012 vs. 1.5 % in the EU-28) and the valuation of property is outdated, dating back to market values of 1963/64 in the western Länder and 1935 in the eastern Länder. Although a reform of the municipal real estate tax (Grundsteuer) was part of the coalition agreement and announced in the 2014 and 2015 National Reform Programmes, no concrete action has been taken so far. Instead of focussing more on less distortive recurrent property taxes, the trend towards increasing real estate transfer taxes has continued. The local trade tax (Gewerbesteuer) has not been reviewed. Inefficiencies arise due to the inclusion of non-profit elements in the tax base. The administrative burden of taxation for companies and the cost of tax collection remain comparatively high in Germany, while electronic filing is less used in personal and corporate income tax than on average in the EU. The ongoing review of fiscal relations between the federation, Länder and municipalities provides the opportunity to strengthen the framework for sustainable fiscal policies, including ensuring adequate public investment at all levels of government. The review is also an opportunity to improve the allocation of revenue and expenditure competences as well as the efficiency of the horizontal fiscal equalisation system and of tax administration.

(11) Policy action to stimulate competition in the services sectors, especially in professional services, has been limited. Labour productivity growth rates in professional services in Germany have been negative or close to zero for more than a decade. Germany is also among the EU Member States where regulation is least conducive to competition in the professional services sector. The restrictions include professional qualifications requirements, legal form and shareholding requirements. On the latter, limited changes are under way in some Länder, but there is still no broad review of such restrictions. Germany is participating in the mutual evaluation exercise provided for in the Directive amending the Professional Qualifications Directive but has not yet taken any measures as a result of this review. The competitive situation in the German railway markets has not significantly improved since last year. In particular, in the long-distance rail passenger segment, the difficult competitive environment is discouraging for new entrants. Track access charges for long-distance passenger transport are among the highest in the EU. The market share of new entrants in the long-distance rail passenger market remains below 1 % and is falling.

Territorial issues addressed in the 2015 Country Report (details)

<u>Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances</u>

Germany has made no progress in pursuing **consolidation efforts in the Landesbanken** (regionally owned banks) sector, including by improving the governance framework.

No progress in improving the efficiency of the **tax system**. Limited progress in improving the design of fiscal relations between the federal government, the federal states and the municipalities. Although a reform of the municipal real-estate tax (Grundsteuer) is part of the coalition agreement and announced in the 2014 NRP, no concrete action has been taken so far. The local trade tax (Gewerbesteuer) has not been reviewed.

<u>Labour market, education, social policies, demography, long term care and housing</u>

Germany has made substantial progress in increasing the overall availability of **childcare** facilities, but regional bottlenecks and quality concerns remain.

<u>Transportation, energy, environment and R&D</u>

Significant disparities exist in **innovation performance and expenditure** at regional level, especially as regards private investment in research and development.

Limited progress in **electricity network development**. The planning of projects to eliminate internal bottlenecks for electricity transmission has begun, but these are still at the development or permitting stage and face regional public opposition.

Infrastructure development is being pursued, but faces significant delays especially at local/regional level. Despite an increased effort at federal level to encourage local and regional governments to accept necessary network expansions, public opposition and hesitation by regional governments delay the implementation significantly. Investment has also been insufficient to maintain the quality of Germany's transport infrastructure, with real investment decreasing notably for federal state, county and municipal roads and local public transport.

HUNGARY

Territory-relevant Country-Specific Recommendations for 2015
CSR 3: Reduce distortive sector-specific taxes; remove the unjustified entry barriers in the service sector, including in the retail sector; reduce the tax wedge for low-income earners, including by shifting taxation to areas less distortive to growth; continue to fight tax evasion, reduce compliance costs and improve the efficiency of tax collection. Strengthen structures in public procurement that promote competition and transparency and further improve the anti-corruption framework. **CSR 5:** Increase the participation of disadvantaged groups in particular Roma in inclusive mainstream education, and improve the support offered to these groups through targeted teacher training; strengthen measures to facilitate the transition between different stages of education and to the labour market, and improve the teaching of essential competences.
Territory-relevant Country-Specific Recommendations for 2015 (Recitals)
(10) Recent changes in the area of taxation (the introduction of new taxes and increases to existing taxes) have seen a return to the earlier trend of increasing the weight of sector-specific corporate taxes. Both the unpredictability and selectivity of these changes give rise to distortions to investment across sectors. Although a number of new measures have been introduced, the tax burden on some groups of low-income earners has remained among the highest in the EU, with single people especially affected. There appears to be scope for further shifting of the tax burden towards more growth-friendly sources of revenue. Various measures introduced over the last year are helping to tighten up systems to fight tax evasion. Following the successful completion of the programme linking retail outlets' cash registers to an online system, it is now planned to extend the programme to a number of market services in 2015. The threshold above which an itemised VAT declaration must be submitted was lowered. A system for electronic road-cargo inspection was introduced in 2015, the main aim of which is to reduce carousel VAT fraud. There is, however, still significant scope to improve the administrative efficiency of tax collection and to reduce taxation compliance costs, especially for small and medium-sized enterprises. **(12)** Barriers introduced in recent years to market entry in the service sector have not been removed; rather, further barriers were introduced in 2014, hampering the efficient allocation of economic resources, increasing uncertainty for investors and restricting competition. The new barriers include, for example, the requirement for all retail establishments to be centrally authorised. The corruption and lack of transparency affecting public administration, decision-making and public procurement remain a cause of concern. The low level of competition in public procurement and the extensive use of direct awarding of contracts both persisted in 2014. A reorganisation of public procurement administration was undertaken in 2014, the results of which are to be closely monitored. In November 2014, Hungary submitted an action plan for transposing the new public procurement directives and promoting competition and transparency. Several measures to improve the anti-corruption framework have also been announced. **(13)** Although some measures have been implemented to support the education of Roma children, a systematic approach to promoting inclusive mainstream education is yet to be developed. The proportion of Roma children attending schools or classes where the majority of pupils are Roma remains high, and the educational attainment of Roma pupils is lower than the national average. Teachers are not trained to provide sufficient support to disadvantaged groups. More needs to be done to improve the transition between different forms and stages of education, and from education to the labour market. The planned changes to the allocation of state-funded places in secondary education and the increasing admission requirements for higher education may further limit the opportunities for transition between different forms of education, especially for disadvantaged groups. Hungary has the highest drop-out rate in higher education in the EU, at 47 %. The government announced the adoption of a national higher education strategy in December 2014. The strategy included raising the national target for tertiary attainment to 34 %. Overall, recent measures have failed to improve the participation of disadvantaged groups in higher education, and to tackle non-completion of education. The current funding system does not guarantee equitable access.
Territorial issues addressed in the 2015 Country Report (details)

Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances

MLG The unstable regulatory framework, the lack of transparency in decision-making procedures and inadequate **consultation of interested parties** are, together, weighing heavily on the business environment. Where proposals are initiated by the government, **consultations** with the relevant parties are often rushed.

Systematic **consultation with stakeholders** on new policy initiatives has at best been occasional.

E-procurement The success of this process will greatly depend on ensuring adequate human resources, sufficient **administrative capacity** as well as ensuring that the system clearly fosters transparency.

Regional disparities

The decentralisation risks further increasing **regional inequalities**.

Labour market, education, social policies, demography, long term care and housing

Early school leaving is particularly high in vocational education and training (30%), in less developed regions and among Roma (82%). The government strategy does not go far enough in addressing the challenges faced in vocational education and training and in less developed regions.

Youth Guarantee Some progress has been achieved in setting up the mentor network in the first Youth Guarantee programme, but it is not sure whether sufficient human capacity at the Public Employment Service will be ensured.

The system of in-cash welfare benefits is currently undergoing reform: the various types of social benefits will be merged and **local governments** will be able to exercise more discretion in awarding benefits. One single 'expense compensating' benefit will replace all the other forms of social benefits currently provided by local government.

Structural issues, fiscal framework and taxation

A new rule granting broad taxation rights to **local governments** as of 2015 potentially leads to surge in the variety of local taxes, leading to increased compliance costs in the taxation of natural persons.

IRELAND

Territory-relevant Country-Specific Recommendations for 2015

CSR 3:

Take steps to increase the work-intensity of households and to address the poverty risk of children by tapering the withdrawal of benefits and supplementary payments upon return to employment and through better access to affordable full-time childcare.

CSR4:

Finalise durable restructuring solutions for a vast majority of mortgages in arrears by end-2015 and strengthen the monitoring arrangements by the Central Bank of Ireland. Ensure that restructuring solutions for loans to distressed SMEs and residual commercial real-estate loans are sustainable by further assessing banks' performance against own targets. Take the necessary steps to ensure that a central credit registry is operational by 2016.

Territory-relevant Country-Specific Recommendations for 2015 (Recitals)

(14) The situation in the labour market has improved since 2013, with renewed job creation in the private sector and a steady fall in unemployment. Nevertheless, the unemployment rate is still high and long-term unemployment remains a serious concern. The risk exists that some cyclical unemployment could become structural as skills mismatches have emerged with the rebalancing of the economy. Youth unemployment is still much higher than in the pre-crisis period. Activation reforms have made significant progress in recent years, but some concerns remain about the effectiveness of existing activation policies and training programmes, and of the ability of employment services to deliver on the scale required. The recently launched JobPath initiative is a positive development; its effectiveness will need to be tested. In the past, the further education and training system has been ineffective in providing the type of skills that the rebalanced economy needs and reforms have started only recently.

Territorial issues addressed in the 2015 Country Report (details)

Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances

Activation policies are underachieving due to limited capacities in the employment service. There are currently around 500 jobseekers per caseworker in the Public Employment Service, a ratio well above what is considered best practice. Allocation of additional resources and efforts to tackle long-term unemployment, through the rollout of the *JobPath* initiative, will see the caseload fall closer to 200 cases per member of staff. This will also help to reduce the high rates of households with low work intensity, given 52.7 % of the total unemployed come from such households.

Labour market, education, social policies, demography, long term care and housing

Social protection has helped to alleviate the rise in poverty that followed the crisis. Ireland is one of the countries where net social expenditure increased the most (as a share of the aggregate level of economic activity) following the 2007 crisis. In 2011, it amounted to nearly 22 % of GDP, according to the latest available data. As a result, the country did not experience the rise in inequality some other Member States did. Nevertheless, deprivation rates have continued to rise in the year to 2013, driven by sharp rises in rural areas. This suggests that improving labour market conditions in Dublin and other urban areas have yet to spread to the rest of the country.

The recovery in property prices is particularly strong in Dublin. Residential property prices in Dublin rose 22.3 % in the year to December 2014, with sharp price rises in Dublin slowly spreading to the rest of the country.

ITALY

Territory-relevant Country-Specific Recommendations for 2015

CSR 2:
Adopt the planned national strategic plan for ports and logistics, particularly to help promote intermodal transport through better connections. Ensure that the Agency for Territorial Cohesion is made fully operational so that the management of EU funds markedly improves.

CSR 3:

Adopt and implement the pending laws aimed at improving the institutional framework and modernising the public administration. Revise the statute of limitations by mid-2015. Ensure that the reforms adopted to improve the efficiency of civil justice help reduce the length of proceedings.

CSR6:

Implement the simplification agenda for 2015-2017 to ease the administrative and regulatory burden. Adopt competition-enhancing measures in all the sectors covered by the competition law, and take decisive action to remove remaining barriers. Ensure that local public services contracts not complying with the requirements on in-house awards are rectified by no later than end-2015.

Territory-relevant Country-Specific Recommendations for 2015 (Recitals)

(16) Only limited steps have been achieved toward a lasting improvement in the efficiency and quality of public spending in all layers of the government. The budget savings legislated for, including at the regional and local levels, fall short of what was envisaged in the 2014 National Reform Programme. That the spending review is not yet an integral part of the budgetary process weighs on the overall, long-term efficiency of the exercise. Serious weaknesses continue to affect the management of EU funds, in particular in southern regions. A national strategic plan for ports and logistics is being prepared but only partial steps have been taken to upgrade the management of ports and their connections with the hinterland.

(17) Italy's public administration is still characterised by significant inefficiencies which weigh on the business environment and on the country's capacity to implement reform effectively. Efforts to improve the institutional framework and the overall quality of the public administration have been made and are continuing. An ambitious reform of the Constitution, aimed particularly at clarifying the division of responsibilities between the various layers of government, is expected by the end of 2015. A comprehensive reform of the public administration addressing staff turnover, mobility and compensation is pending.

Territorial issues addressed in the 2015 Country Report (details)

Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances

A major effort is underway to improve Italy's institutional capacity to adopt and implement legislation. Italy's broad structural reforms programme over recent years contained measures that were only partially implemented or even abandoned, thus depriving the economy of the full benefits of reforms. As of mid-January 2015 it is estimated that, among the 1102 decrees needed to implement the reforms adopted by the last three governments over 2012-2015 (52), 47 % have been passed, 34 % are pending, and 19 % have an implementation deadline that has already expired. Insufficient coordination and overlapping responsibilities between different layers of government are a major factor hampering the effective implementation of the measures adopted. Changes in the institutional framework to remove bottlenecks holding back the adoption and implementation of reforms are currently being discussed. In particular, a constitutional reform expected by end-2015 reviews the structure of law-making process and the allocation of responsibilities between central and sub-national governments. On the first point, the Senate would retain legislative powers on only a narrow range of issues, a change that is likely to speed up the legislative process. On the second point, some devolved functions (e.g. energy and infrastructure) would be centralised again, the division of responsibility between the centre and the regions clarified, the provincial level of government phased out, and most concurrent competences (e.g. for retail regulation) abolished, which could contribute to more uniform regulation and more effective implementation.

Regular evaluation of the impact of spending is not yet an integral part of the budgetary process across all government levels. At local level, the 2015 Stability Law envisaged additional savings from regions (EUR 4 billion), combined with the application of the balanced budget rule in 2015, i.e. one year earlier than initially planned. If properly implemented, this may address some of the problems experienced under the previous Internal Stability Pact, such as the strong influence of historical spending on central transfers to sub-national governments. However, since sound coordination of budgetary responsibilities across government levels is not yet in place, the outcome of the legislated cuts in terms of capital and current expenditure as well as local taxation remains uncertain. Moreover, the needed agreement between the state and the regions to decide on the distribution of expenditure cuts has been delayed, which entails some risks to the achievement of the 2015 budgetary targets. Among the initiatives to improve efficiency in public spending and achieve the planned savings at all government levels, wider use of centralised public procurement envisaged by the Public Spending Rationalisation Programme was partly implemented as of January 2015.

Italy's more than 8 000 local state-owned enterprises weigh on the efficiency of the economy and public finances. The report of the Commissioner for the spending review records 7 726 local State-owned enterprises, which are active in all sectors of the economy. (64) Around 35 % of the 3 152 companies surveyed by the Court of Auditors in 2012 reported losses in at least one year from 2010 to 2012. According to the spending review Commissioner, around 438 local state-owned enterprises (598 including those in liquidation) had recorded yearly losses over 2010-12, which questions their viability. The share of aggregate losses borne by the public administration is estimated at EUR 1.2 billion per year, of which around 25 % are borne by local state-owned enterprises that do not provide local public services or other services of general interest. There are important signs of inefficiencies: (i) at least 3000 local state-owned enterprises have fewer than six employees and in about half of local state-owned enterprises the number of directors is higher than the number of employees; (ii) 44 % of municipal state-owned enterprises are co-owned by municipalities with fewer than 30 000 inhabitants, indicating there are important potential economies of scale to be made through consolidation; (iii) in a large number of local state-owned enterprises, the public shareholder's stake is very low — below 5 % for some 1 400 local state-owned enterprises, below 10 % for about 1 900 and below 20 % for 2 500 — which appears too low if participation served the general interest.

Italy's public procurement system faces a significant number of important problems: complexity, fragmentation and instability of the legal and institutional framework; administrative burden; excessive length of procedures; high litigation rate; fragmentation of e-procurement solutions; contracting authorities' lack of administrative capacity; significant barriers to competition in key economic sectors; and inefficiency of the system of supervision and control. The government has announced a reform of the code of public contracts aimed at transposing the new directives on EU public procurement and concessions and at simplifying the currently fragmented legal framework. A national strategy for public procurement is also being developed. It is to identify measures to overcome the country's systemic public procurement problems. It could also include e-procurement, which is currently done at national, regional and local level, increasing complexity and the risk of duplication or redundancy.

The regulatory framework for state-owned enterprises is unclear. Although state-owned enterprises are in principle subject to private law, special provisions or features of public law add to the legal framework. This complicated framework is the result of developments over the years, which have seen the introduction of several legal tools reflecting the contemporary trends and addressing the needs of the moment. This gives rise to inconsistencies and uncertainties which result in cumbersome court proceedings in order to be resolved.

The need for a comprehensive reform is acknowledged by the government but action is weak as derives from the extension granted for rectifying non-compliant in-house contracts. The enabling law for the reform of public administration would delegate to the government the power to enact legislative decrees for a comprehensive reform of local state-owned enterprises and local public services. This would include making the involvement of local authorities in state-owned enterprises more transparent; promoting the consolidation of local state-owned enterprises across municipalities; defining optimal territorial areas in the context of providing local public services; strengthening competition and protecting consumers' interests in local public services; introducing mechanisms to reward local administrations that use open tendering; and streamlining the overall regulatory framework on state-owned enterprises to prevent overlaps and contradictions. Pending such reform, the 2015 Stability Law includes measures to improve transparency and foresees a rationalisation process based on rationalisation plans to be submitted by local and regional authorities by end-March 2015. However, the rectification of contracts not complying with the EU and national requirements on in-house awards has been de facto postponed to 31 December 2015 despite the end-2014 deadline set in Italy's 2014 country-specific recommendation. Nor has there been yet any official assessment on the number and economic features of such contracts.

Competitiveness, investment, growth and jobs

The vast majority of state-owned enterprises are sheltered from competition. The Court of Auditors reports data by contract award procedure for 2012, summarised in Table 4.2.1 below. Open tendering is used for a very small proportion of contract awards, while the vast majority of contracts is done either through 'in-house' awards (with no open tender) or similar procedures. According to the Competition Authority, some of the in-house contracts refer to services that could be provided by different operators through open competition, as they entail potentially profitable and therefore attractive business (e.g. car and bike- sharing schemes, tourist transportation). Furthermore, several in-house awards do not comply with the conditions of the EU and national framework.

The competition framework and infrastructure are still major weaknesses in the transport sector. Inefficiency is particularly critical in local and regional transport services**,** which account for around 28 % of companies in local public services described above.

Regional disparities

Social and regional disparities are growing wider. Poverty and social exclusion have greatly increased while the social protection system is fragmented and fails to address these challenges properly. The southern regions have suffered a sharper fall in employment due to their long-standing structural weaknesses.

Structural disparities between the south and the other regional areas in terms of poverty and social exclusion indicators remained significant.

(see the whole chapter: 3.5. SPECIAL TOPIC: REGIONAL DISPARITIES)

Labour market, education, social policies, demography, long term care and housing

Italy faces serious social challenges **with poverty and social exclusion continuing to grow**, affecting **children** in particular.

LATVIA

Territory-relevant Country-Specific Recommendations for 2015

CSR 1:
Ensure that the deviation from the medium-term objective in 2015 and 2016 is limited to the allowance linked to the systemic pension reform.

CSR 2:
Improve vocational education and training, speed up the curricula reform and increase the offer of apprenticeships. Ensure that the new financing model of the higher education system rewards quality. Better target research financing and incentivise private investment in innovation on the basis on of the Smart Specialisation Framework.

CSR 3:
Take concrete steps to reform social assistance, ensuring adequacy of benefits, and take measures to increase employability. Reduce the high tax wedge for low-income earners by shifting tax burden to other sources less detrimental to growth. Take action to improve accessibility, cost-effectiveness and quality of the healthcare system and link hospital financing to performance mechanisms.

Territory-relevant Country-Specific Recommendations for 2015 (Recitals)

(8) Latvia is currently in the preventive arm of the Stability and Growth Pact and benefits from the implementation of the systemic pension reform clause as confirmed by Eurostat. In its Stability Programme, Latvia has requested a temporary deviation from the required adjustment path towards the medium-term objective, because it continues to implement a major structural reform in the health sector. The budgetary costs of the health sector reform amount to 0.2% of GDP in 2016. The reform is estimated to increase employment by 0.6% and the GDP level by 2.2% by 2023. The positive impact on growth and the long-term sustainability of public finances is assessed to be plausible. However, based on the Commission's 2015 spring forecast, the projected structural deficit of 2.2% of GDP in 2016 exceeds the appropriate safety margin with respect to the 3% of GDP reference value of the Treaty which should be respected in order to be eligible for the structural reform clause. Therefore, and while recognising that the ongoing health sector reform is warranted, the

Council is of the opinion that Latvia does not fulfil the requirements to benefit from the requested temporary deviation in 2016.

(9) In its 2015 Stability Programme, the government plans a broadly stable headline deficit at 1.4% of GDP in 2016 and 1.3% in 2017, rising to 1.7% in 2018. To achieve these targets, the government intends to reach a structural deficit of 1.8% of GDP in 2016, and of 1.4% of GDP as from 2017. The path in the Stability Programme incorporates a deviation based on the structural reform clause for which Latvia does not appear to be eligible, and classifies planned additional defence spending over 2016-2019 as one-off operations. According to the Stability Programme, the government debt ratio is expected to decline from 37% of GDP in 2015 to 34% of GDP by 2018, with some annual fluctuations in between due to accumulation of liquid assets for debt management purposes. The macroeconomic scenario underpinning these budgetary projections is plausible. Measures for 2015 have largely been implemented as budgeted. However, measures to support the planned deficit targets from 2016 onwards have not been sufficiently specified. Based on the Commission's 2015 spring forecast, Latvia complies with the requirement in 2015, taking into account the application of the pension reform clause. For 2016, there is a risk of a significant deviation. The structural balance is required to improve by 0.3% of GDP taking into account the allowance for the pension reform. Based on the Commission forecast, it deteriorates by 0.3% of GDP, which is also linked to the fact that the defence spending cannot be classified as one-off measures. Based on its assessment of the Stability Programme and taking into account the Commission's 2015 spring forecast, the Council is of the opinion that there is a risk that Latvia will not comply with the provisions of the Stability and Growth Pact.

(10) A national independent accreditation agency is being set up and a new quality targeting financing model is being developed for Latvia's higher education. Despite some progress in reforming the research and innovation system, in line with the Smart Specialisation Framework, inadequate public funding in a fragmented research and innovation system is leading to poor scientific outcomes. Latvia invested only around 0.6% of GDP in R&D in 2013 - the third lowest level in the EU. Public R&D intensity reached only 0.43% of GDP in 2013. Lack of innovation and private investment in higher value added and knowledge intensive sectors hampers competitiveness.

(11) Notwithstanding the progress made to tackle unemployment, further action is needed to prevent youth unemployment and its negative long-term consequences, giving the shrinking labour force. Latvia has made some progress to reform the vocational education and training and its apprenticeship component; however, its attractiveness remains a challenge, due to the limited engagement of SMEs.

(12) Even if a significant amount of analytical and planning work has been carried out, the social assistance reforms have not advanced and are not backed by sufficient budgetary plans. Low coverage and adequacy of unemployment and social assistance benefits prevents effective action on reducing poverty, social exclusion and the high degree of inequality. Under these conditions, social expenditure has little impact on poverty reduction. In 2014, around 32.7% of Latvia's population were at risk of poverty or social exclusion and income inequality remains among the highest in the EU. The financing and coverage of active labour market policies remains low in comparison with other EU countries. The high tax wedge for low- income earners remains a disincentive for formal employment and reduces demand for low-skilled workers; whereas environmental and effective property taxation have significant unexploited potential. Low public healthcare financing and high out-of-pocket payments, inadequate focus on performance incentives and efficiency, lack of care coordination result in reduced access of large proportion of the population. There is significant room to increase the cost-effectiveness and quality of the system and to link hospital financing to performance based mechanisms.

(13) Latvia has made significant progress in reforming the judicial system. However, the rate of resolving civil and commercial cases remains low creating additional burden to business and the role of the Judicial Council and court chairpersons in implementing judicial reforms should be strengthened. Fight against tax evasion and appropriate tax collection is insufficient and the level of tax avoidance is still high. While the insolvency law has been adopted, challenges remain on proper insolvency policy and on an effective insolvency administrators' supervision system. The business climate and the quality of public services would benefit from stronger measures against conflict of interest and corruption, especially in vulnerable sectors such as public procurement, construction and healthcare. There has been no progress on the Competition Council's proposals for amendments to the Competition Law to give it greater institutional and financial independence to take effective action against public bodies. The Public Service Law has not been adopted by the Parliament. It will be important that the local government will be included.

Territorial issues addressed in the 2015 Country Report (details)

Labour market, education, social policies, demography, long term care and housing

The labour market situation is continuing to improve. On outreach to youth not in employment, education or training, guidelines for mentoring and training are being drawn up and cooperation networks with municipalities are being established.

School outcomes are rather positive on average but they mask large gender and regional differences.

Structural issues, fiscal framework and taxation

The authorities are committed to a prudent level of government borrowing. The 2015 budget targets a nominal deficit of 1% of GDP. The main thrust of the revenue effort is concentrated on improving tax compliance through better information exchange between government bodies and addressing some rigidity in excise taxation.

The increase in the national minimum wage supports low-income earners and could increase incentives to work, but may put at risk the viability of some low-wage jobs, especially in region with lower productivity.

Since 2013, local governments have been able to set annual property tax rates from 0.2% to 3% of the value depending on the property type and use. Decentralised property taxation at local government level poses difficulties for efficient tax administration: e.g., some local governments engage in tax competition attracting new residents and gaining from their income tax payments. The transparency of tax administration is low and the reports from the State Control have revealed shortcomings in accounting for all properties.

ESIF 2014-2020 and subnational finance

European Social Fund financing will be allocated for raising competencies of court and judicial institutions' staff in the 2014-2020 period.

LITHUANIA

Territory-relevant Country-Specific Recommendations for 2015

CSR 2:
Address the challenge of a shrinking working-age population by improving the labour-market relevance of education, increasing attainment in basic skills, and improving the performance of the healthcare system; reduce the high tax wedge for low income earners by shifting the tax burden to other sources less detrimental to growth.

CSR 3:
Adopt a comprehensive reform of the pension system that also addresses the challenge of pension adequacy. Improve the coverage and adequacy of unemployment benefits and cash social assistance and improve the employability of those looking for work.

Territory-relevant Country-Specific Recommendations for 2015 (Recitals)

(10) The pension reform measures that have been adopted are not sufficient to address the issue of the medium-term sustainability of the pension system. The statutory retirement age is being gradually increased over the period to 2026, but the pension system does not take into account indicators of life expectancy. Moreover, the rules for the indexation of pensions are unclear. Low participation in voluntary pension savings schemes and the absence of occupational pension schemes create risks for future pension adequacy. The government intends to implement a comprehensive reform of the pension system as part of a wider 'new social model'. This strategy has not yet been finalised and adopted, however, and consultation with social partners must first be concluded. Lithuania introduced financial support measures for the elderly and financial incentives for employing older workers. A comprehensive active ageing strategy is, however, still lacking.

(11) Over 30 % of Lithuania's population is at risk of poverty. The reform of cash social assistance, combined with the effect of an improved economic situation, led to a considerable fall in expenditure and in the number of recipients of social assistance. Active labour market measures and other services for supporting beneficiaries are still, however, limited.

Territorial issues addressed in the 2015 Country Report (details)

Labour market, education, social policies, demography, long term care and housing

Some measures were taken to reduce poverty, but they do seem to be insufficient to tackle the rising share of the population at-risk-of-poverty. More responsibility and autonomy has been given to municipalities in the provision of cash social assistance. The reform resulted in a significant fall in social benefits expenditure and in the number of recipients (by 25% in the first quarter 2014 compared to the year before). The main drivers of this fall need to be clarified. It could be due to a better targeting of beneficiaries, or to the improved economic situation of those most in need. This fall could however also be due to a more restricted access to social assistance, given that, from 2015, municipalities can reinvest the savings into other municipal programmes (mainly into programmes in the social field).

LUXEMBOURG

Territory-relevant Country-Specific Recommendations for 2015

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Territory-relevant Country-Specific Recommendations for 2015 (Recitals)

(12) Despite generally well-performing labour markets and high tertiary education attainment rates, employment rates are comparatively low for older workers, women and low-skilled young people. There are institutional obstacles to effective activation policies. Within the public employment service, an important reform is advancing to provide individual guidance to jobseekers, but this is not yet complete. The draft vocational education and training reform and the secondary school reform to improve educational outcomes, notably for those with a disadvantaged socio-economic background, have not been adopted. The announced measures on maternity and education allowances and the planned reform of parental leave can be expected to contribute to increasing the labour market participation of women. Disincentives for second-earners to work arise from the 'joint taxation' system and from the design of the social benefit system. Despite high tertiary education attainment rates, education outcomes remain unsatisfactory, and alleviating the situation of people from migrant backgrounds and low-skilled young people remains difficult. Labour market supply challenges related to institutional factors and to the design of the social benefit system persist and are the source of labour market problems.

Territorial issues addressed in the 2015 Country Report (details)

Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances

In March 2014, the government reached an agreement on the reform of the public sector. Administrative simplification has remained high on the political agenda. A concrete result of the dialogue between public actors and social and economic partners is the forthcoming 'Omnibus 1' law, which envisages important simplifications mainly concerning urban planning procedures, to be followed in 2015 by 'omnibus' simplifications in other areas (particularly in environmental procedures).

Labour market, education, social policies, demography, long term care and housing

Luxembourg has made some progress as regards activation policies for young people. It has taken a number of relevant measures to tackle youth unemployment, notably by starting implementation of the Youth Guarantee, which is on track, but so far these have been only partially implemented. A coherent strategy is not in place. Stronger cooperation between administration levels (state, municipalities), involvement of social partners, and a more efficient use of employment services is due.

MALTA

Territory-relevant Country-Specific Recommendations for 2015

CSR 4:
Improve small and micro-enterprises’ access to finance, in particular through non-bank instruments.

Territory-relevant Country-Specific Recommendations for 2015 (Recitals)

(11) Efforts have been made to provide a framework for the use of venture capital funds and to facilitate access to capital markets, notably through the review of the start-up scheme Malta Enterprise and the announced seed investment programme. Work is also ongoing on setting up a development bank. This needs to be monitored.

(13) The length of public procurement procedures has been significantly reduced through the introduction of mandatory e-procurement and the strengthening of the relevant government departments. It will be further reduced through the implementation of announced measures, notably the recruitment of additional staff and the introduction of a tracking system. Transport costs play a substantial role in Malta’s economy. A reform of transport has recently been launched, but the government still needs to present a comprehensive transport strategy.

Territorial issues addressed in the 2015 Country Report (details)

Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances

Public administration Inefficient government bureaucracy is a significant impediment to doing business in Malta.

Administrative inefficiencies hamper the proper functioning of the internal market in Malta.

CSR 5: Public procurement The announced additional **administrative capacity** (this refers to the central level only) increase should consolidate the gains and reduce the duration of the procedure a bit further, thereby bringing Malta closer to the EU average

NETHERLAND

Territory-relevant Country-Specific Recommendations for 2015

CSR2:

Accelerate the decrease in mortgage interest tax deductibility so that tax incentives to invest in unproductive assets are reduced. Provide for a more market-oriented pricing mechanism in the rental market and further relate rents to household income in the social housing sector.

Territory-relevant Country-Specific Recommendations for 2015 (Recitals)

(4) On 26 February 2015, the Commission published its 2015 country report for the Netherlands. This assessed the Netherlands' progress in addressing the country specific recommendations adopted on 8 July 2014. The country report also includes the results of the in-depth review under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that the Netherlands is experiencing macroeconomic imbalances which require policy action and monitoring. Risks stemming from the high level of private debt persist and merit attention, even if recent measures support a recovery in the housing market and will help to curb mortgage growth. While the high current account surplus partly reflects structural features of the economy, the structure of the pension and tax systems may potentially be a source of inefficient allocation of capital.

(7) A key challenge lies in the housing market, where rigidities and distortive incentives that have built up over decades shape house financing and sectoral savings patterns. Households' tendency to leverage up gross mortgage debt against housing wealth largely reflects long-standing fiscal incentives, in particular the full tax deductibility of mortgage interest. Since 2012, a series of measures have been implemented to partly address these incentives. Some of these involve adjustments to the fiscal treatment of housing finance. The gradual move to limit mortgage interest tax deductibility and increase the incentive to amortise is warranted. However, this measure is being phased in too slowly to significantly influence amortising behaviour and a sizeable tax incentive to invest in unproductive assets will persist. The loan to value ratio of 100 %, to be reached in 2018, is still high. The rental market is constrained by regulation and the existence of a very large social housing sector that also has to cope with long waiting lists. The introduction of more income-based rent differentiation in the social housing sector is a step in the right direction, but its impact is limited. Under a new law, housing corporations will have to separate activities of general economic interest (i.e. social housing) from other activities. It remains to be seen whether this leads to the intended redirection of social housing towards people in need and ensures that social housing is available to disadvantaged people unable to obtain housing at market conditions.

(8) The long-term sustainability of the pension system has been improved. In addition to gradually increasing the first-pillar statutory retirement age from 65 in 2012 to 67 in 2023 and linking it to life expectancy thereafter, the Netherlands has adopted comprehensive reforms of the privately funded pillar of the pension system and in the long-term care system. The financial supervision of pension funds has been improved and the system made more resilient to financial shocks. This has been complemented by successful reforms encouraging older workers to work longer. Long-term care reforms have shifted responsibilities to municipalities, bringing a reduction in overall expenditure and a focus on efficiency gains. The quality and accessibility of long-term care needs to be monitored.

(10) The comprehensive reform of employment protection legislation enacted in 2014 aims at increasing labour market participation and mobility. Fiscal disincentives to work have been reduced. Legislation adopted by the Parliament will set a quota for employers to hire people with disabilities. The impact of these measures can only be fully assessed once implemented. Further measures are needed to improve the integration of people on the margins of the labour market, including those with a migrant background.

Territorial issues addressed in the 2015 Country Report (details)

Structural issues, fiscal framework and taxation

The EC notices that in regard to **fiscal framework**: "the new Dutch legislation (*also*) covers provisions and coordination mechanisms for local government finances to improve their monitoring by the central government. **The decentralisation of a large number of tasks from central to local governments from January 2015**, **which includes substantial expenditure cuts**, **will put to the test the new provisions on monitoring public finances across different levels of governmen**t."

Labour market, education, social policies, demography, long term care and housing

More resources allocated to regions to tackle problems or implement schemes.

The participation act that came into force on 1 January 2015 aims at improving the **labour market participation of people with disabilities** by merging and reforming several benefits schemes. (…) The government has made an **additional investment of EUR 35 million to help the 35 Dutch labour market regions** in setting up their structures for regional cooperation ('werkbedrijven').

The primary set of policy measures to **tackle youth unemployment** and inactivity is articulated in the Youth Guarantee Implementation Plan. **Additional resources are invested in youth-specific measures such as the regional Work Experience Grant** ('startersbeurs') and a temporary premium discount for employers if they employ young workers with a view to addressing the rising youth unemployment rate.

Ensuring effective social protection. The concentration of **multiple tasks at municipal level** should be more cost-efficient and enables tailor-made solutions to beneficiaries' needs. However, there are **risks related to a very tight implementation schedule** in combination with **a reduction of overall funding.**

Education. In 2014, several initiatives were taken to **better match vocational education and** training to the needs of the **regional labour markets.**

E2 analysis HEADLINE: Structural reforms

Transportation, energy, environment and R&D

On 6 September 2013, **the national government, local government and stakeholders signed a legally non-binding *Energy Agreement for Sustainable Growth*,** which **commits the parties to work towards meeting EU and national targets on energy efficiency and renewable energy deployment**. Increased investment in renewable energies seems to be needed to reach the 2020 target.

POLAND

Territory-relevant Country-Specific Recommendations for 2015

CSR 2:

Start the process of aligning the pension arrangements for farmers and miners with those for other workers, and adopt a timetable for progressive full alignment; put in place a system for assessing and recording farmers' incomes.

CSR 4:

Remove obstacles to investment in railway projects.

Territory-relevant Country-Specific Recommendations for 2015 (Recitals)

(11) The social security privileges granted to farmers and miners continue to hamper professional mobility and impose significant costs on public finances. These preferential schemes deter people from moving to more productive sectors, create hidden unemployment and, due to low contributions, are heavily subsidised by taxpayers. Poland's agricultural sector employs 11.4 % of the workforce, more than double the EU average, while generating only 3.3 % of national gross value added. State subsidies to the social security scheme for farmers are worth almost 1 % of GDP, and those to miners' pensions 0.5 % of GDP. The link between contributions and benefits is weak and contributions are mostly based on a flat rate. Farmers on high incomes cannot be systematically excluded from the scheme, and the system is therefore open to abuse. Introducing a system for recording and assessing farmers' incomes would constitute an indispensable first step towards a reform of the social security scheme for farmers.

(12) Labour market segmentation persists in Poland. The incidence of temporary contracts is the highest in the EU, while the transition rate from temporary to permanent employment is low and the wage differential the highest in the EU. Rigid dismissal provisions, long judicial proceedings and other burdens placed on employers encourage the use of fixed-term and non-standard employment contracts. Furthermore, the perceived high cost of contracts covered by the labour code leads to excessive use of civil law contracts (umowy cywilno-prawne), which are attractive to employers due to the associated lower social security contributions. The high proportion of contracts of this type, i.e. associated with lower contributions, may, however, reduce the quality of employment available, especially for young workers. Youth unemployment is high, partly as a result of the mismatch between candidates' qualifications and skills, on the one hand, and labour market needs, on the other. Continued efforts are therefore needed to reform the system of vocational education and training and increase the low level of participation in lifelong learning. Female labour market participation remains low. In order to address this issue, Poland has increased the availability of pre-school education, but still ranks among the poorest performing countries in the EU for the availability of early childcare services.

(13) The railway sector suffers as a result of high track access charges and inadequate national financing. Procedures for designing and implementing projects tend to be lengthy and cumbersome, as a result of the regulatory and administrative environment. While the recent legislative changes may have a positive effect on railway transport, they are unlikely to affect investment projects launched during the 2007-2013 programming period. Over the period 2014-2020, however, EU funding for the railway sector is to be significantly increased.

Territorial issues addressed in the 2015 Country Report (details)

Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances

Insufficient coordination across levels of government and inadequate capacity of regional and local governments to implement and monitor policies is an obstacle for good governance and effectiveness of public administration.

Structural issues, fiscal framework and taxation

Limited administrative capacity in the healthcare sector is a challenge in terms of EU funds absorption for addressing existing issues in the health care system. Overall, limited progress has been made in improving the cost-effectiveness and efficiency of spending on healthcare.

Labour market, education, social policies, demography, long term care and housing

Low regional and occupational mobility within Poland continue to be a structural labour market challenge. In a number of Polish regions, obstacles to internal mobility (both geographical and inter-industry) lead to regional labour market shortcomings and mismatches, as well as significant labour resource misallocation.

Vocational education and training (VET) is still not well-aligned to labour market needs. Providing high quality career guidance remains a challenge, as well as strengthening cooperation between the regional and local authorities to ensure efficient investment in the VET system.

Transportation, energy, environment and R&D

Poland is among the EU countries with the lowest coverage in terms of both basic and high speed internet and it also features low take-up rates for broadband. Operational Programme Digital Poland (OPDP) refers specifically to the elimination of territorial differences in terms of access to broadband and is set to support broadband deployment from 2014 to 2020 with EUR 1.2 bn in funding from the European Regional Development Fund and Poland's own contribution.

CSR 3: Poland has made **limited progress** in addressing CSR 3

Some progress in increasing female labour market participation. A statutory obligation on municipalities to participate in providing childcare services and pre-school education was introduced.

PORTUGAL

Territory-relevant Country-Specific Recommendations for 2015

CSR 2 :

Promote the alignment of wages and productivity, in consultation with the social partners and in accordance with national practices, taking into account differences in skills and local labour market conditions as well as divergences in economic performance across regions, sectors and companies. Ensure that developments relating to the minimum wage are consistent with the objectives of promoting employment and competitiveness.

CSR 3:

Improve the efficiency of public employment services, in particular by increasing outreach to non-registered young people. Ensure effective activation of benefit recipients and adequate coverage of the minimum income scheme.

<u>CSR5:</u>
Accelerate measures and increase transparency as regards concessions, including in the transport sector, and private-public partnerships at local and regional level.

Territory-relevant Country-Specific Recommendations for 2015 (Recitals)

(9) Fiscal consolidation must be underpinned by increased efficiency and quality of public expenditure at all levels of public administration and further reforms of the system for managing public finances. In particular, further efforts are necessary to ensure strict expenditure control by enforcing the commitment control law and strengthening accountability. The Law on the single wage scale was published in September 2014 and has been applied since January 2015; implementation of the Decree-law on the single supplements scale is under preparation. The restructuring of state-owned enterprises has not been completed. There has been limited progress in developing new comprehensive measures as part of the ongoing pension reform. Portugal has undergone a comprehensive reform of its tax system in the past two years, targeting corporate income tax, personal income tax and environmental taxation. The overall impact of this reform should be evaluated. There is ample scope for further reforms to modernise the revenue administration and to further improve taxpayer compliance.

(11) Significant progress has been made regarding the deployment of active labour market policies and the reform of public employment services. However, challenges remain as regards reaching the young people who are neither in employment nor in education or training. There is a need to increase the digitisation of services in charge of labour market matching. Ensuring adequate coverage of social assistance, including the minimum income scheme, also remains a key challenge. Some progress has been made in improving the quality and labour-market relevance of education. Portugal has reformed curricula and teachers' statutes in order to improve the quality of education. The use of the monitoring tool and the diversification of pathways with new vocational education and training programmes should address early school leaving and help improve performance rates. Recent reforms are designed to upgrade the vocational education and training system, but making it more attractive to students remains a challenge. Fostering knowledge transfers between higher education, private-sector firms and research organisations also represents a challenge.

(13) There is scope to strengthen measures to increase the efficiency and quality of the justice system, in particular as regards the evaluation of courts' activities and the use of online tools, and to conduct surveys of court users or legal professionals. According to the 2015 EU Justice Scoreboard, proceedings in civil and commercial cases continue to be lengthy (386 days). The number of enforcement cases is still falling slightly, while disposition time remains long (1045 days in 2014). Reforms relating to the tax and administrative courts are proceeding at a slower pace than other judicial reforms. The rise in the number of insolvency cases has highlighted the need to step up resources and training for first-instance courts in this field. The liquidity of businesses continues to be aggravated by long delays in payments, in particular by the public sector. No new measures have been taken or commitments made to tackle these late payments. There is insufficient transparency as regards private-public partnerships at local and regional government levels and in the area of concessions at all levels. The prevention of corruption is hampered by the ineffective application of the existing legal framework, where monitoring, implementation and the enforcement of sanctions need improvement.

Territorial issues addressed in the 2015 Country Report (details)

<u>Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances</u>

Public procurement Remaining gaps concern the transparency of concessions and delays in publishing data on contracts awarded by local and regional authorities. A dedicated and skilled taskforce (UTAP) at the Ministry of Finance is working to improve fiscal transparency and reporting on PPPs, but the **regional and local levels** are outside its remit and there is no consistent framework for establishing equivalent structures.

Partnership Portugal is making substantial efforts to put the **Youth Guarantee** into practice and involve all relevant governmental and nongovernmental partners in implementing it.

<u>Structural issues, fiscal framework and taxation</u>

Fiscal reforms This applies for strengthening the fiscal framework and implementing new measures to fight tax fraud and evasion and reforms of the public administration, including at the local and regional level.

ROMANIA

Territory-relevant Country-Specific Recommendations for 2015

CSR 3:

Strengthen the provision of labour market measures, in particular for unregistered young people and the long-term unemployed. Ensure that the national employment agency is adequately staffed. Establish, in consultation with the social partners and in accordance with national practices, clear guidelines for setting the minimum wage transparently. Introduce the minimum insertion income. Increase the provision and quality of early childhood education and care, in particular for Roma. Adopt the national strategy to reduce early school leaving. Pursue the national health strategy 2014-2020 to remedy issues of poor accessibility, low funding and inefficient resources.

CSR 4:

Adopt the law on reforming corporate governance of state-owned enterprises.

Territory-relevant Country-Specific Recommendations for 2015 (Recitals)

(14) Romania faces several challenges in the area of education: the early school leaving rate remains well above the EU average; the availability and access of early childhood education and care services is limited, especially in rural areas and for the Roma community; participation in lifelong learning remains far below the EU average; the quality and labour market relevance of higher education is inadequate; and the tertiary attainment rate remains the second lowest in the EU. Romania has started addressing these challenges, with varying degrees of progress being made in the different areas, and, to date, little visible end-effect. There have been significant delays in adopting the national strategy for reducing early school leaving. A national programme for early childhood education and care was designed for the period 2014- 2019, and will come into effect in the new school year, 2015-2016. The national lifelong learning strategy has been delayed. A strategy on tertiary education has been drafted, the aim of which is to increase the relevance of higher education by aligning it more closely with labour market needs and to improve the accessibility of higher education for disadvantaged groups. Measures have been implemented to improve vocational education and training and apprenticeships schemes.

(15) The Romanian healthcare system is characterised by poor results of treatment, poor financial and geographical accessibility, low funding and inefficient use of resources. There is high reliance on in-patient services and the system suffers from the extensive inefficient hospital network, the weak and fragmented referral networks, and the low proportion of spending directed to primary healthcare. In addition, the widespread use of informal payments in the public healthcare system further reduces the accessibility, efficiency and quality of the system. Various measures and healthcare reforms that have been introduced have narrowed the funding gap and improved the standard and efficiency of services. The National Health Strategy 2014-2020, which sets the strategic base for health sector reforms, was approved in December 2014 and is now to be implemented. The Ministry of Health and the National Health Insurance House are considering various measures to improve the system for financing healthcare.

(17) [Romania's administrative capacity is low, fragmented, and characterised by an unclear delegation of responsibilities, as a result of which it acts as a drag on the competitiveness of the economy. The root causes of the structural weaknesses have been identified, and a strategy to tackle the challenges in public administration and in policy prioritisation and coordination was adopted in October 2014, together with an action plan for its implementation over the period 2014-2020. Implementation has, however, been considerably delayed. Irregularities in public procurement procedures have resulted in significant delays in implementing EU fund programmes. They have a negative impact on the business environment and hold back much needed investment in infrastructure.]

(18) Some progress has been made in increasing the independence, quality and efficiency of the judicial system, fighting corruption at all levels, and ensuring the effective implementation of court decisions. Nonetheless, the implementation of court decisions remains weak in many cases and more limited progress was made in preventing and fighting low-level corruption. These important policy areas will be covered by the Cooperation and Verification Mechanism.

(19) State-owned companies suffer from sub-standard productivity, contribute to the illiquidity in the economy, place a burden on the general government budget — as contingent liabilities —, and account for 50 % of the tax arrears of all companies combined. Corporate governance is a critical factor determining the performance of state-owned companies. Their current governance setup does not prevent political interference in the day-to-day management of the companies, or guarantee a separation between the authorities' ownership and policy-making functions. Specific rules for state-owned companies were not systematically introduced until the emergency government ordinance 109/2011 was passed. Various areas remain uncovered and in practice the rules are not always respected. No progress has been made regarding reform of the corporate governance of state-owned companies in the energy and transport sectors.

Territorial issues addressed in the 2015 Country Report (details)

Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances

Administrative capacity in Romania is low, fragmented, and with unclear delegation of responsibilities.

The root causes of the structural weaknesses have been identified but implementation of the solutions is delayed. To tackle the challenges in public administration and policy prioritisation and coordination, a strategy for strengthening public administration was adopted in October 2014, together with an action plan for its implementation in 2014-2020. The strategy addresses the ex ante conditionality for the new programming period of EU structural and investment funds. Implementation is, however, starting with substantial delay.

A weak administrative capacity is causing delays in structural reforms and low absorption of EU funds. Structural reforms are often delayed by the lack of implementation capacity and unstable structures. Administrative capacity is also affecting EU funds absorption.

Inefficiencies in public administration and corruption represent an extra burden on business.

Legal uncertainty related to public procurement causes inefficiencies for both public and private actors. The difficulties of the public procurement system in Romania are linked to a combination of several factors. These include the lack of stability and the fragmentation of the legal framework, deficient checks and balances in the institutional system, the quality of competition in public procurement, and the administrative capacity of public purchasers, including the capacity and the degree of expertise of staff dealing with public procurement procedures at both national and local level.

Conflicts of interests constitute a particular concern in public procurement. In 2014, the National Integrity Agency solved a total of 514 cases, out of which 101 concerned administrative conflicts of interests and 60 concerned criminal conflicts of interests. Many of these cases involve politicians and public officials at local level.

Competitiveness, investment, growth and jobs

The expenditure side still includes significant inefficiencies which weigh on Romania's growth potential. Domestically financed investment projects sometimes lack thorough preparation, economic justification and steady financing. EU funds' absorption is lagging behind, at only 52.2 % of the available structural and cohesion funds as of end-2014. Increasing public investment capacity remains a challenge. This is notably due to insufficient shift away from domestically financed projects towards projects co-financed with EU funds. Public investment efficiency also suffers from weaknesses in public investment management.

Romania's business environment is poor and hardly improving.

Entrepreneurship suffers from an unstable regulatory framework.

Land planning is a source of uncertainty and costs for investors. The absence of an effective system of cadastre represents an obstacle to the development of infrastructure, property management and consolidation of agricultural land.

Loss-making state-owned enterprises represent a burden to the general government budget.

End-2013, state-owned enterprises accounted for 50 % of all tax arrears of companies.

Corporate governance is a key factor determining performance of state-owned enterprises. The management of state-owned enterprises is dispersed across different government entities, with some companies managed by line ministries or central government entities and some managed by local government (local administrative units organised at different local levels: municipalities, cities, counties).

Access to finance for enterprises remains difficult and expensive, especially for SMEs. Access to finance was identified as the main obstacle for doing business in Romania by the World Economic Forum (Global Competitiveness Report 2014-2015). In 2013, Romania's performance on the SME access to finance index was the third lowest in the EU, showing a declining trend compared to 2007 (3).

Regional disparities

Broadband coverage is high and with high-speed in the main cities, but it is limited outside urban areas

The uneven availability and limited access of early childhood education and care services presents a challenge and contributes to the high early school leaving rate. Higher availability and access to early childhood services at the local level, in particular in rural areas, would influence pre-school participation. Training participation rates are also lower in rural areas than in urban areas and for men, compared to women.

ESIF 2014-2020 and subnational finance

The deficient application of public procurement rules triggers substantial financial corrections and contributes to a low absorption of EU funds.

Despite significant progress in 2014, Romania continues to display a low rate of structural funds absorption in the EU. Romania ranks last among the group of peer countries in Cohesion Policy funds' absorption. This is despite the accelerated absorption in the last two years (excluding the European Agricultural Fund for Rural Development, EAFRD) has continued to progress, from 33.7 % at the end of 2013 to 52.2 % at the end of 2014 of the total structural, cohesion and agricultural funds allocated for the 2007-2013 programming period. The highest absorption rate, 72 %, is observed in the Operational Programme for administrative capacity development. The programmes related to basic infrastructure, such as transport, environment and human resources development managed to absorb 57 %, 42 % and 47 % respectively by the end of 2014.

Difficulties in implementing the structural funds programmes hamper achieving the objectives of the operational programmes. Besides poor strategic steering, difficulties as regards the implementation of the programmes include: persistent weaknesses in the management systems, failure to proactively anticipate and tackle implementation shortcomings, low coordination between responsible departments, low institutional capacity to implement sectoral strategies, umbersome national procedures for managing public investment projects, weak financial situation in the construction sector, and persistent shortcomings in the public procurement system. Risk of decommitment of structural and cohesion funds remain for 2015 and at closure in 2017. Due to the insufficient and delayed preparation of the project pipeline, implementation difficulties might arise also in the 2014-20 programming period.

<u>Transportation, energy, environment and R&D</u>

The underdeveloped basic transport infrastructure continues to be a bottleneck to growth in Romania

The development of Romania's infrastructure is affected by low absorption of EU structural funds. Despite the financing opportunities offered by the EU structural funds, the low absorption rate (see below) and poor strategic management limit Romania's ability to improve its infrastructure in a sustainable manner. As a result, the elaboration and approval of a transport master plan was made an ex-ante conditionality under the new EU-funds programming period.

The preparation of the General Transport Master Plan is still ongoing

SLOVAKIA

Territory-relevant Country-Specific Recommendations for 2015

<u>CSR 1:</u>

Improve the cost-effectiveness of the healthcare sector, including by improving the management of hospital care and strengthening primary healthcare. Take measures to increase tax collection.

<u>CSR2:</u>

Take additional measures to address long term unemployment by introducing activation measures, second chance education and high-quality training tailored to individuals' needs. Improve the incentives for women to remain in or return to employment by improving the provision of childcare facilities.

<u>CSR 3:</u>

Improve teacher training and the attractiveness of teaching as a profession to stem the decline in educational outcomes. Increase the participation of Roma children in mainstream education and in high-quality early childhood education.

<u>CSR 4:</u>

To boost investment in infrastructure, improve and streamline the administrative procedures for obtaining land-use and construction permits. Increase competition in public tenders and improve supervisory mechanisms in public procurement.

Territory-relevant Country-Specific Recommendations for 2015 (Recitals)

(11) The poor quality of Slovakia's business environment reduces the attractiveness of the country for both foreign and domestic investment. The inadequate efficiency and quality of the public administration and of the justice system are particularly detrimental to the business environment. The civil service suffers from high staff turnover and inefficient management of human resources. Efforts to tackle corruption have, to date, been limited. More particularly, the need to strengthen the analytical and audit capacity of the tax administration has not been addressed. Public procurement suffers from engrained deficiencies, which affect the allocation of public resources.

(12) While the recent changes to the taxation system have contributed to an improvement in public finances, the costs associated with an ageing population will weigh on Slovakia's currently relatively sound debt position in the future. The long-term sustainability of public finances depends on the government's ability to increase the cost-effectiveness of the healthcare sector. The overall level of efficiency of the Slovak health system is weak, and it performs poorly when compared with the rest of the EU. The government adopted a new strategy for health for 2014-2020, in order to try to address the shortcomings of the national healthcare system. The strategy is being implemented, but most measures are not yet in force. There also continue to be inefficiencies in tax collection and administration.

(13) The weak performance of investment in recent years may dent Slovakia's long-term growth prospects. The decline in private investment between 2008 and 2013 was particularly strong, with non-financial corporations accounting for around 90 % of the fall in total investment due to the decrease in FDI inflows. In 2013, investment in capital goods was still around 13 % lower in real terms than it had been in 2008. Yet although public investment contracted much less, the decline still has significant consequences, in view of the large-scale transport infrastructure projects which are essential in order to be able to benefit from the growth potential of Slovakia's central and eastern regions. Both the administrative and regulatory barriers related to investment planning, and the lack of transparency and long duration of the procedures for obtaining building and land-use permits hold back public investment. EU funds represent a very high proportion of total public investment in Slovakia, compared to the levels seen in other Member States in its region. Furthermore, the absorption of EU funds is hindered by weak governance of planning procedures, poor project design and selection, and failure to comply with the requirements relating to the environmental impact assessment. The use of tailor made specifications in public procurement limits competition, and results in high final prices. Improved oversight and greater expertise within the public entities involved in procurement could help to overcome these problems. The inadequate efficiency and quality of the public administration and of the justice system are particularly detrimental to the business environment, and issues such as the reform of the civil procedure and uneven distribution of workload in courts have not yet been addressed.

Territorial issues addressed in the 2015 Country Report (details)

Regional disparities

The poor investment performance is also reflected in the relatively low quality of infrastructure, which puts a drag on growth in Slovakia's Central and Eastern regions. Regional disparities in economic development are caused also by lacking infrastructure in Slovakia's eastern regions. The relatively low quality of transport infrastructure, especially in Slovakia's Central and Eastern regions, makes under-investment ever more apparent. Transport infrastructure is unequally distributed within the country.

Regional labour mobility Despite high regional differences in unemployment levels, regional labour mobility in Slovakia is relatively low.

Labour market, education, social policies, demography, long term care and housing

Low labour mobility reinforces the geographical segmentation of the labour market as reflected by the high regional differences in employment.

Poverty and social exclusion There are significant regional discrepancies in the poverty rate.

Education Vocational education and labour market-relevant training is weak, hampering regional development.

Youth guarantee Delivering the Youth Guarantee will depend on ensuring adequate funding, strengthening administrative capacity, and building partnerships at local level.

Structural issues, fiscal framework and taxation

Fiscal policy The fiscal targets for the general government are set by the central government without consulting local authorities or other concerned parties.

SLOVENIA

Territory-relevant Country-Specific Recommendations for 2015
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Territory-relevant Country-Specific Recommendations for 2015 (Recitals)
(10) A Social Agreement was concluded in January 2015 providing that public sector wage growth will lag behind private sector wage growth. The composition and indexation of minimum wages are not covered by this agreement. While still relatively high compared to the average wage, recent growth of the minimum wage has been limited. An evaluation of the 2013 labour market reform shows that labour market restrictions have decreased, but structural problems persist as regards the long-term unemployment and the low employment rates of low-skilled and older workers. Slovenia has undertaken some action to address the skills mismatch and numerous other measures are planned until 2020. **(14) An unsupportive business environment in Slovenia is a key factor for low investment levels in Slovenian business and the high number of laws and numerous changes in the legislation make it difficult to run a business and comply with local regulation. The number of regulated professions has decreased from 323 to 242 but remains high. Around 25% of measures included in the Single Document to cut administrative burden were implemented. Sufficient budgetary autonomy for the Competition Protection Agency and institutional independence are provided.** **(15)** The new government reiterated its commitment to fight corruption and adopted a new two-year programme of 11 perennial measures in January 2015. Some progress has been made regarding transparency and accountability. A comprehensive public sector reform is in preparation. No progress has been made regarding reports on performance evaluation and quality control procedures.

Territorial issues addressed in the 2015 Country Report (details)
<u>Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances</u> The government strategy for development of public administration 2015 – 2020 will aim at modernizing the public administration and improving its quality. The central element of the strategy is to enhance the implementation capacity of Slovenia's public administration. Enhancing the administrative capacity of institutions in order to reap the full benefits from the cohesion remains a challenge. A national analysis of the organisation of operations of municipalities shows that the lack of staff and financial capabilities, especially of smaller municipalities, is impeding efficient organisation of work. Credibility of institutions is essential. Allegations of corruption, political interference and doubts regarding the integrity of high-level officials within the public administration at state and local level and in state-owned companies came to public attention in 2013-2014. **<u>Competitiveness, investment, growth and jobs</u>** The high number of laws and numerous changes in the legislation make it difficult to run a business and comply with local regulation. The reduction of administrative burden is one of the key issues for many stakeholders, including investors, who point to frequent changes of regulations as a negative feature of doing business in Slovenia. Insufficient administrative capacity increases waiting times and discourages potential investors. **<u>ESIF 2014-2020 and subnational finance</u>**

Finalising the Smart Specialisation Strategy will be an important milestone. This strategy will be instrumental for investments under the European Investment and Structural Funds in the period 2014-2020.

SPAIN

Territory-relevant Country-Specific Recommendations for 2015

<u>CSR 1:</u>
Ensure a durable correction of the excessive deficit by 2016 by taking the necessary structural measures in 2015 and 2016 and using windfall gains to accelerate the deficit and debt reduction. <u>Strengthen transparency and accountability of regional public finances</u>. Improve the cost-effectiveness of the healthcare sector, and rationalise hospital pharmaceutical spending

<u>CSR 3:</u>
Promote the alignment of wages and productivity, in consultation with the social partners and in accordance with national practices, taking into account differences in skills and local labour market conditions as well as divergences in economic performance across regions, sectors and companies. Take steps to increase the quality and effectiveness of job search assistance and counselling, including as part of tackling youth unemployment. Streamline minimum income and family support schemes and foster regional mobility.

Territory-relevant Country-Specific Recommendations for 2015 (Recitals)

(8) Spain is currently in the corrective arm of the Stability and Growth Pact. In its 2015 Stability Programme, the government plans an improvement in the headline deficit to 4.2 % of GDP in 2015 and gradually to 2.8% of GDP in 2016. The government plans to reach the medium-term objective of a balanced budgetary position in structural terms in 2019. According to the Stability Programme, the government debt-to-GDP ratio is expected to peak in 2015 at 98.9% and to gradually decline to 93.2% in 2018. The macroeconomic scenario underpinning these budgetary projections is plausible for 2015 and favourable thereafter. Based on the Commission's 2015 spring forecast, a deficit of 4.5% and 3.5% of GDP is foreseen for 2015 and 2016, respectively. Hence, there is a risk that the headline deficit targets for 2015 and 2016 may not be reached. Moreover, the projected fiscal effort by Spain over 2013-2016 is expected to be below the recommended level, and further structural measures will be needed in 2015 and 2016. Based on its assessment of the Stability Programme and taking to account the Commission's 2015 spring forecast, the Council is of the opinion that there is a risk that Spain will not comply with the provisions of the Stability and Growth Pact. Spain made some progress on eliminating public-sector commercial arrears. In 2014, Spain also made some progress on identifying proposals to rationalise healthcare, education, and social spending at regional level, although these were not finally adopted. However, draft legislation to introduce a spending rule on pharmaceutical and healthcare regional spending is currently before parliament.

(11) High long-term unemployment and labour market segmentation continue to hamper productivity growth and have a damaging effect on working conditions in Spain. The social partners are discussing a comprehensive inter-professional agreement for 2015-2017. In this regard, and given the very high unemployment rate, wages for some sectors

and companies in the short term may need to grow below productivity in order to create jobs and achieve further gains in competitiveness. It is expected that this may emphasise the importance of establishing, through sectoral and company negotiations, the principle that wages should move in line with inter-firm productivity differentials. Despite regulatory reforms, the proportion of the workforce in temporary employment began to increase once again in 2014, reaching over 24 %, and particularly affecting young people and the low-skilled. Moreover, the new types of contract introduced and the incentives to encourage employers to take on staff on an open-ended basis appear not yet to be being used to full potential. The Spanish authorities announced that an assessment of the subsidies offered to employers for recruiting new staff would be carried out by May 2016. The capacity of the public employment service, and of the agencies to which services have been outsourced, is crucial for ensuring the effectiveness and adequate targeting of active labour market and activation policies, including effective re-training to allow people to move into sectors where more jobs are being created. Spain has made limited progress in accelerating the modernisation of public employment services and addressing regional disparities.

(12) Youth unemployment in Spain remains very high (over 53 %)and the early school leaving rate is one of the highest in the EU. Spain is implementing the new educational schemes introduced by Law No 8/2013 on the quality of education, designed to increase the quality of primary and secondary education. Limited progress was made in increasing the labour-market relevance of vocational education and training, and the efforts to improve cooperation between higher education institutions and employers are behind schedule. There are plans to extend the dual vocational training scheme in 2015, but there continue to be considerable differences in its implementation across the regions. A dedicated committee has been set up to examine the relevance of education and training curricula to labour market needs.

(14) Structural reforms need to include removing the obstacles preventing businesses from growing, helping SMEs in expanding their markets and promoting innovation, boosting export capacity, stimulating job creation, and help companies to compete more efficiently — including in internal markets — and improving overall productivity. Spain has begun to examine the reasons behind the high proportion of small and micro enterprises in its economy. Studying the reasons why businesses have remained small will allow the government to remove regulatory obstacles preventing firms from growing. Although some progress was made in implementing Law No 20/2013 on market unity, there are still delays at regional government level. The law on the regulation of environmental permits has not yet been implemented by all regions. No progress has been made with regard to the adoption of the reform of professional services and professional associations. Structural weaknesses in its research and innovation system continue to limit Spain's growth potential. It therefore remains essential to identify new sources of funding, ensure effective and efficient use of resources, set up the new research agency and promote measures to make the business environment more innovation-friendly.

(16) Spain made progress in implementing the recommendations of the committee for the reform of public administration at all levels of government. It is, however, mainly at national level that the effects of the reform, in terms of efficiency gains and fiscal savings, have been visible to date. Important steps were taken to improve the transparency of administrative decisions, but no progress was made in strengthening supervisory systems, in particular in public procurement at regional and local level. No measures have been taken to strengthen supervisory powers in public procurement and urban planning. Limited progress was made with regard to the adoption of judicial reforms aimed at improving the effectiveness of the justice system: draft laws on the judiciary and on civil procedure, which include some reforms, were submitted to Parliament on 27 February 2015; draft bills on legal aid and on voluntary jurisdiction are subject to parliamentary procedure.Some progress was made in implementing the reforms that have been adopted, including the *Oficina Judicial*, the reform introducing the digitisation of justice and improving the interoperability of regions' electronic case management systems. Efforts need to be continued in this area.

Territorial issues addressed in the 2015 Country Report (details)

Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances

Reforms Policy challenges that Spain faces include consistent **implementation** of reforms at **regional level**.

Administrative inefficiencies risk halting the full roll-out of the public-private cooperation.

The overall reduction of staff between 2011 and 2014 may undermine the ability of regional employment services. The effectiveness of the linkages with activation measures strictly depends on the actual **administrative capacity** of national and regional employment services to design and offer integrated pathways to the beneficiaries.

Public administration reform The reform aims to achieve efficiency gains and fiscal savings by e.g. reducing duplicated administrative structures within the central government and between central and regional governments.

A considerable number of public administration reform measures target the sub-central government level. Ownership of the reform at this level of government is therefore critical to its success.

Efforts to progress in the digitalisation of justice and to develop better links between the electronic case management systems of regions to avoid problems of interoperability have also been pursued.

The central government adopted measures to improve financing conditions for sub-central governments.

Spain's central government implemented a scheme to repay regions and local entities' commercial arrears (i.e., the suppliers' payment scheme). An additional scheme (the regional liquidity fund) was set up to help regions' meet their public deficit financing needs.

There is a case for tightening the conditions governing the use of extra-budgetary accounts at sub central government level, in the interest of transparency and to avoid cumulating public sector commercial arrears.

Budget There is considerable room to improve budgetary practices and transparency at regional level. Some regional governments still do not prepare their respective multiannual budget frameworks with specification of revenues and expenditures for the years covered. Moreover, virtually all regions keep failing to include in their draft budgets and general accounts information on the entirety of entities coming within the scope of the stability law. Furthermore, the 2015 draft budgets of regional governments did not contain enough relevant information to allow verification of compliance with the expenditure rule and public debt targets. Secondly, a greater degree of convergence of budgetary and public accounting practices at region's level would facilitate the comparison and the consolidation of budget data for all public administrations. Lastly, there is a case for tightening the conditions governing the use of extra-budgetary accounts at sub central government level.

Labour market, education, social policies, demography, long term care and housing

Labour The process of **reallocation of labour** towards tradable sectors is still marked by **cross-regional differences**, particularly occupational, skills and geographical mismatches. There is also a high degree of cross-regional differences in the incidence of job mismatches.

The reform of the professional training system, which promotes market unity in training services, is on-going. It envisages a single training model for all the competent (national and regional) administrations.

Early school-leaving Spain maintains one of the highest rates of early school-leaving, although it has continued to decrease – with substantial regional differentiation.

Education Spain is devising a National Skills Strategy, led by the Ministry of Education. The exercise, together with the OECD and the European Commission, brings together seven different ministries and hosts a multi sectorial dialogue between the government, the regions and the social and economic stakeholders on how to improve the quality and labour market relevance of education outcomes to support economic growth.

The findings and proposals of the working groups have to be discussed and agreed at the corresponding sectoral conferences, and then, be legislated by the central and regional governments.

Competitiveness, investment, growth and jobs

Spain has started to implement a new **coordination system** between regional employment services and consolidated the allocation of resources to the regions based on performance indicators. Moreover, a common services catalogue (still to be effectively implemented by the regional employment services) and a best practices exchange programme among the national and regional public employment services are set.

Business environment 20 sectoral conferences - i.e., bodies with central and regional government representatives working to adapt regulatory frameworks to principles of the law on market unity (addressing regulatory fragmentation in Spain's internal market, originating from disparities in central and sub-central government legislation governing access to and exercise of economic activities) - had been convened.

Structural issues, fiscal framework and taxation

Taxation No specific measures have been adopted to address the wide differences in taxation that still remain throughout the regions such as in wealth-related taxes.

Transportation, energy, environment and R&D

Innovation Evidence points to relatively weak cooperation between the public and business R&D sector, to duplications and gaps between national and regional research and innovation programmes. The review also pointed to weak coordination between national and regional research and innovation strategies.

Digital economy Coverage of high-speed fixed basic broadband is above the EU average in Spain as a whole, but quite unequal between regions.

SWEDEN

Territory-relevant Country-Specific Recommendations for 2015

CSR 1:

Address the rise in household debt by adjusting fiscal incentives, in particular by gradually limiting the tax deductibility of mortgage interest payments or by increasing recurrent property taxes, and by increasing the pace of mortgage amortisation. To alleviate the structural under-supply of housing, foster competition in the construction sector, streamline the planning and appeals procedures for construction and revise the rent-setting system to allow more market-oriented rent levels.

Territory-relevant Country-Specific Recommendations for 2015 (Recitals)

(9) Unlike in many other Member States, house prices in Sweden have not suffered any major correction and have been growing strongly again since mid-2013. The in-depth review conducted by the Commission suggest that Swedish house prices appear to be above their fundamental values. This is partly due to favourable fundamentals such as higher disposable income, low interest rates and strong demographics. However, the country report has identified both demand-side and supply-side drivers of house prices. On the demand side, credit incentives have been particularly favourable. In addition, Sweden's taxation system, which provides one of the strongest tax incentives for home ownership in the Union, tends to push up house prices. In turn, this has also fuelled the rise in household debt in Sweden, which is high and growing faster than in the rest of the EU. Even if households' total assets are high and disposable incomes have grown over recent years, the household sector is more vulnerable than before and the high level of household indebtedness constitutes a risk for macroeconomic stability. The effects of the debt bias in personal income taxation should be tackled by gradually limiting the tax deductibility of interest payments on mortgages or by increasing recurrent property taxes. In addition, efforts are needed to increase the low pace of amortisation of mortgages with a view to reducing the growth in household indebtedness.

(10) On the supply side, structural inefficiencies are leading to a housing shortage and contributing to house price growth. These constraints are limiting labour mobility and creating social challenges for vulnerable groups. Supply is being held back by ineffective use of the existing housing stock as well as by structural underinvestment in new construction. In particular, the incentives for municipalities to actively promote investment in construction and address the housing needs of vulnerable groups should be strengthened. Competition in the construction sector needs to be encouraged and for this fully transparent public procurement procedures should be ensured. Planning and appeals processes are lengthy and complex and should be streamlined. Rigidities in the rental market, which does not seem to fulfil its role in alleviating house price pressure or to support mobility needs, are blamed mainly on the high level of rent control. They should be tackled through a gradual reform of the rent-setting system. This should allow wider divergence in rent levels — which could lead to more effective use of the existing housing stock — and greater freedom in contracts between individual tenants and landlords.

(11) The Government is taking steps to improve school outcomes, after a marked deterioration in the last decade which contributes to relatively high youth unemployment. The Government is also taking measures to facilitate the transition from education to the labour market and to improve the labour market integration of low-educated young people and people with a migrant background. Progress in this area will need to be monitored.

Territorial issues addressed in the 2015 Country Report (details)

Public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances

Challenges: Municipalities' strengthened responsibility for young people who are neither in employment, education or training, paves the way for additional improvements in outreach. A better developed partnership between the public employment service and various services and actors at the local level will be a key success factor.

Labour market, education, social policies, demography, long term care and housing

Municipalities have a central role in supporting new constructions: they have the planning monopoly, plan and finance public infrastructure projects and own high proportion of land eligible for construction. Nevertheless, municipalities do not have sufficient (financial) incentives to support construction activities.

Municipalities, having the planning monopoly, often impose different local standards and requirements which fragment the market. Such fragmentation reduces efficiency, increases building costs and raises uncertainty for construction companies.

Public infrastructure projects can positively impact housing supply in the medium term. Investment in road, railways or metro line facilitates commuting to main urban areas. Nevertheless, municipalities enjoy relative independence in their public transport strategy including the funding.

Over the last few years, migration into Sweden has increased substantially (And the estimation from the Swedish Migration Board said that the number of asylum seekers is likely to stay at high levels in 2015). The Swedish government is currently reviewing the legislation, among other things with the objective to make all municipalities contribute to the reception of asylum seekers (until now, the concentration of asylum seekers in a limited number of municipalities has been high, also linked to the fact that reception has been voluntary).

As regards the Youth Guarantee for persons not in employment, education or training, the strengthening of municipalities' responsibility to monitor young persons under 20 who are not in education is an important change in handling youth at risk of exclusion.

Past education reforms promoting decentralisation and school choice were not sufficiently accompanied by centralised quality assurance mechanisms. Since the mid-1990s municipalities have been at the forefront of implementing nationally set goals and requirements. However, in particular smaller municipalities lacked local capacity to manage their new responsibilities and decentralisation took place without enough support from the central authorities.

The implementation of school reforms and resource allocation continue to differ widely among municipalities. A limited number of municipalities have been using the legal possibility to allocate resources to schools with low performing and/or socially underprivileged students.

The strong migration means an increased pressure on social services provided by the municipalities. Some municipalities face particular challenges in terms of caring for unaccompanied minors.

Structural issues, fiscal framework and taxation

The Swedish fiscal framework, which is characterised by a cautious approach, has been stable over time. Sweden's fiscal framework has put public finances on a strong footing at both the central and local level. The framework comprises three key components. First, a surplus target (encompassing the finances of both central and local governments); second, a three-year nominal expenditure ceiling for central government and the pension system controls budget overruns and forces government departments to prioritise. Third, the balanced budget rule for local authorities forbids municipalities and counties to approve ex ante deficit budgets and requires them to compensate for any ex post deficits within three years.

UNITED KINGDOM

Territory-relevant Country-Specific Recommendations for 2015

CSR 2:
Take further steps to boost supply in the housing sector, including by implementing the reforms of the national planning policy framework.

CSR 3:
Address skills mismatches by increasing employers' engagement in the delivery of apprenticeships. Take action to further reduce the number of young people with low basic skills. Further improve the availability of affordable, high-quality, full-time childcare.

Territory-relevant Country-Specific Recommendations for 2015 (Recitals)

(9) A high, and possibly excessive, level of household indebtedness has been identified as potentially constituting a macroeconomic imbalance that poses risks to the United Kingdom economy. While household sector indebtedness continues to fall modestly, it remains high and leaves the United Kingdom vulnerable to risks that could affect economic growth and financial stability. In mid-2014, the Financial Policy Committee of the Bank of England announced two measures to mitigate risks associated with high household indebtedness. They recommended that mortgage lenders apply an 'interest rate stress test' to assess borrowers' ability to meet their mortgage obligations if interest rates rise. They also recommended that mortgage lenders limit the proportion of mortgages at loan-to-income ratios of 4.5 and above to 15 % of new mortgages. The impact of these measures should be monitored carefully.
A number of reforms of the national planning policy framework have been undertaken but these are unlikely to have a short-term impact. The response of the local authorities to the reform in raising housing supply needs to be closely monitored.

(10) The United Kingdom labour market has performed well in recent years and is set to remain strong. The employment rate reached 76.5 % in 2014 while the unemployment rate continued to fall, to 6 %, and is projected to decline further in 2015. Despite the positive trends in relation to labour market outcomes, social challenges persist. The rate of people living in households with very low work intensity increased slightly, from 13 % in 2012 to 13.2 % in 2013, compared with the EU average of 10.7 %. The difference in the share of part-time work between women (42.6 % in 2013) and men (13.2 % in 2013) is one of the highest in the EU. The percentage of women who are inactive or work part-time due to personal and family responsibilities (12.5 %) was almost twice as high as the EU average (6.3 %) in 2013. Youth employment and employer engagement in the area of apprenticeships are further challenges. Another area to focus on, linked to youth employment, is education and skills. A large proportion of young people have comparatively low levels of basic skills. The implementation of measures to address welfare reform and childcare has been limited. The proportion of children living in jobless households in the United Kingdom is still one of the highest in the EU. In addition, even if supply in the childcare system has increased recently, the availability of affordable, high quality, full-time childcare remains a key issue.

Territorial issues addressed in the 2015 Country Report (details)

Labour market, education, social policies, demography, long term care and housing

Housing Demographic and other factors that affect demand for housing are now placed at the heart of planning strategy at the local level. Local authorities are encouraged to prepare a Strategic Housing Market Assessment taking account of household and population projections, migration and demographic change. The assessment then becomes a component of the local plan which all local authorities are encouraged to prepare. Local plans are used to guide planning decisions within the local authority area.

To date, around 80% of local authorities have adopted a local plan. In addition, it is worth noting that local authorities are not compelled to produce a local plan.

Open spaces (green belt surrounding urban areas) are determined and managed at the local level by local authorities. Local authorities are required to define, and enhance, open spaces within the green belt. Green belts need to be consistent with local authorities' plans for sustainable development and local authorities are required to 'assess the desirability' of ensuring that development takes place around urban areas within the green belt or beyond the boundaries of the green belt. In its assessment of an application for development, a local authority needs to ensure that 'very substantial weight' is given to 'any harm to the green belt'.

Local authorities are encouraged to identify brownfields sites that are appropriate for housing.

Education All devolved administrations are addressing the issue of low basic skills with education reforms.

Structural issues, fiscal framework and taxation

Taxation Business rates are charged on most nondomestic properties such as shops, offices and factories. There are separate but similar systems in England, Scotland, Wales and Northern Ireland as this is a devolved competence.

Recurrent property taxes are levied at the local level by local authorities although the proportion of revenue raised by such taxes differs for each local authority.

Council tax revenues received by local authorities are set in relation to the needs of the local authority and other funding sources. These sources can be grants from central government and revenue from business rates.

Source: elaboration on the 2015 Country Reports of the European Commission (http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm)

Recitals directly adressed to local and regional authorities								
Country	Competitiveness, investments, growth and jobs strategies	ESIF 2014-2020 and subnational finance	Labour market, education, social policies, demography, long term care and housing	Modernization of public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances	Regional disparities	Structural issues, fiscal framework and taxation	Transportation, energy, environment and R&D	***N° of Recitals per country (Total)***
Austria	0	0	0	1	0	0	0	1
Belgium	0	0	1	0	0	0	0	1
Bulgaria	0	0	0	0	0	0	0	0
Croatia	0	0	0	2	0	0	0	2
Cyprus	0	0	0	0	0	0	0	0
Czech Republic	0	0	0	0	0	0	0	0
Denmark	0	0	0	0	0	0	0	0
Estonia	0	0	1	0	0	0	0	1
Finland	0	0	1*	1*	0	0	0	1
France	0	0	0	1	0	0	0	1
Germany	0	0	1*	1*	0	0	0	1
Hungary	0	0	0	0	0	0	0	0
Ireland	0	0	0	0	0	0	0	0
Italy	0	1*	0	2*	0	0	1*	2
Latvia	0	0	0	1	0	0	0	1
Lithuania	0	0	0	0	0	0	0	0
Luxembourg	0	0	0	0	0	0	0	0
Malta	0	0	0	0	0	0	0	0
Netherlands	0	0	1	0	0	0	0	1
Poland	0	0	0	0	0	0	0	0
Portugal	0	0	0	1	0	0	0	1
Romania	0	0	0	0	0	0	0	0
Slovakia	1	0	0	0	0	0	0	1
Slovenia	1	0	0	0	0	0	0	1
Spain	0	0	3	2	0	0	0	5
Sweden	0	0	2	0	0	0	0	2
United Kingdom	0	0	1	0	0	0	0	1
Recitals per categories	2	1	11	12	0	0	1	23

Source: elaboration on the 2015 Country Specific Recommendations of the European Commission () and Eurostat data"

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Annex 1 – Territory-relevant CSRs for 2015 and presence of territorial issues in the 2015 Country Reports: SUMMARY TABLE

Country	Competitiveness, investments, growth and jobs strategies	ESIF 2014-2020 and subnational finance	Labour market, education, social policies, demography, long term care and housing	Modernization of public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances	Regional disparities	Structural issues, fiscal framework and taxation	Transportation, energy, environment and R&D	**TOTAL**
Austria				1				**1 CSR**
				2		1		**3 Recitals**
Belgium				1		1		**2 CSR**
			2			1		**3 Recitals**
Bulgaria			2					**2 CSR**
			3	2				**5 Recitals**
Croatia				2				**2 CSR**
				2				**2 Recitals**
Cyprus	-	-	-	-	-	-	-	**-**
	-	-	-	-	-	-	-	**-**
Czech Republic			1	1*		1*		**2 CSR**
			2	1		1		**4 Recitals**
Denmark	1							**1 CSR**
	1		1					**2 Recitals**

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Estonia			1					**1 CSR**
			1					**1 Recital**
Finland	1			1				**2 CSR**
			1*	1*			1	**2 Recitals**
France				1				**1 CSR**
				2				**2 Recitals**
Germany	1*			1*				**1 CSR**
	1		1*	1*				**2 Recitals**
Hungary	1*		1	1*		1*		**2 CSR**
	1		1			1		**3 Recitals**
Ireland			1			1		**2 CSR**
			1					**1 Recital**
Italy	1			1			1	**3 CSR**
		1*		2*			1*	**2 Recitals**
Latvia			2	1				**3 CSR**
			2	3			1	**6 Recitals**
Lithuania			2					**2 CSR**
			2					**2 Recitals**

* The boxes which contain an asterisk mean that one CSR or Recital could be included in several categories

Luxembourg								**0 CSR**
			1					**1 Recital**
Malta	1							**1 CSR**
	1			1				**2 Recitals**
Netherlands			1*			1*		**1 CSR**
			4*	1*				**4 Recitals**
Poland			1				1	**2 CSR**
			2				1	**3 Recitals**
Portugal			1	2*			1*	**3 CSR**
			1	2				**3 Recitals**
Romania			1	1				**2 CSR**
			2	3				**5 Recitals**
Slovakia	1		3					**4 CSR**
	1			2				**3 Recitals**
Slovenia								**0 CSR**
	1		1	1				**3 Recitals**
Spain			1	1				**2 CSR**

[*] The boxes which contain an asterisk mean that one CSR or Recital could be included in several categories

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			3	2				**5 Recitals**
Sweden	1*		1*			1*		**1 CSR**
			3					**3 Recitals**
United Kingdom			2					**2 CSR**
			2					**2 Recitals**
TOTAL	**8**	**0**	**21**	**15**	**0**	**6**	**3**	**46 CSR**
	6	**1**	**36**	**28**	**0**	**4**	**4**	**75 Recitals**
%	**15 %**	**0 %**	**40 %**	**28 %**	**0 %**	**11 %**	**6 %**	**100 %**
	8 %	**1 %**	**46 %**	**35 %**	**0 %**	**5 %**	**5 %**	**100 %**

Source: elaboration on the draft 2015 Country-specific Recommendation of the European Commission (http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm)

[*] The boxes which contain an asterisk mean that one CSR or Recital could be included in several categories

Categories	CSRs	Recitals
Competitiveness, investment, growth and jobs	Denmark, Finland, Germany, Hungary, Italy, Malta, Slovakia, Sweden	Denmark, Germany, Hungary, Malta, Slovenia
ESIF 2014-2020 and subnational finance	-	Italy
Labour market, education, social policies, demography, long term care and housing	Bulgaria (2), Czech Republic, Estonia, Hungary, Ireland, Latvia (2), Lithuania (2), Netherlands, Poland, Portugal, Romania, Slovakia (3), Spain, Sweden, United Kingdom (2)	Belgium (2), Bulgaria (3), Czech Republic (2), Denmark, Estonia, Finland, Germany, Hungary, Ireland, Latvia (2), Lithuania (2), Luxembourg, Netherlands (4), Poland (2), Portugal, Romania (2), Slovenia, Spain (3), Sweden (3), United Kingdom (2)
Modernization of public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances	Austria, Belgium, Croatia (2), Czech Republic, Finland, France, Germany, Hungary, Italy, Latvia, Portugal (2), Romania, Spain	Austria (2), Bulgaria (2), Croatia (2), Czech Republic, Finland, France (2), Germany, Italy (2), Latvia (3), Malta, Netherlands, Portugal (2), Romania (3), Slovakia (2), Slovenia, Spain (2)
Regional disparities	-	-
Structural issues, fiscal framework and taxation	Belgium, Czech Republic, Hungary, Ireland, Netherlands, Sweden	Austria, Belgium, Czech Republic, Hungary
Transportation, energy, environment and R&D	Italy, Poland	Finland, Italy, Latvia, Poland, Portugal

Topics	Competitiveness, investments, growth and jobs strategies	ESIF 2014-2020 and subnational finance	Labour market, education, social policies, demography, long term care and housing	Modernization of public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances	Regional disparities	Structural issues, fiscal framework and taxation	Transportation, energy, environment and R&D	Total
CSRs 2015	8	0	21	15	0	6	3	53
CSRs 2015 directly addressed to LRA	3	0	5	9	0	1	1	19
CSRs 2015 in %	*15 %*	*0 %*	*40 %*	*28 %*	*0 %*	*11 %*	*6 %*	*100%*
Recitals	6	1	36	28	0	4	4	79
Recitals 2015 directly addressed to LRA	2	1	11	12	0	0	1	27
CSRs 2015 in %	*8 %*	*1 %*	*46 %*	*35 %*	*0 %*	*5 %*	*5 %*	*100 %*
Territorials issues 2015	9	6	20	19	8	13	8	83
In %	*10,8%*	*7,2%*	*24.1%*	*23%*	*9,6%*	*15,7%*	*9,6%*	*100%*

Territorial issues in the 2015 Country_Specific Recommendations (per country and issue)

Country	GDP per head (2013) (EU=100)	Employment rate (2013)	Regional disparities in employment rates (2013) (Poland=100)	Competitiveness, investments, growth and jobs strategies	ESIF 2014-2020 and subnational finance	Labour market, education, social policies, demography, long term care and housing	Modernization of public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances	Regional disparities	Structural issues, fiscal framework and taxation	Transportation, energy, environment and R&D	***N° of issues per country (Total)***
Luxembourg	258	71,1	-	-	-	-	-	-	-	-	0
Netherlands	131	76,5	91,89			1*			1*		1
Ireland	130	65,5	-			1			1		2
Austria	128	75,5	95,33				1				1
Sweden	127	79,8	89,81	1*		1*			1*		1
Denmark	124	75,6	86,22	1							1
Germany	122	77,1	96,59	1*			1*				1
Belgium	119	67,2	109,81				1		1		2
Finland	113	73,3	103,12	1			1				2
United Kingdom	109	79,8	101,35			2					2
France	107	69,6	122,73				1				1
Italy	99	59,8	152,01	1			1			1	3
Spain	94	58,6	116,71			1	1				2
Cyprus	89	67,2	-	-	-	-	-	-	-	-	-
Malta	86	64,8	-	1							
Slovenia	82	67,2	-	-	-	-	-	-	-	-	-
Czech Republic	82	72,5	95,06			1	1*		1*		2
Portugal	78	65,4	96,35			1	2*			1*	3
Slovakia	75	65,0	104,06	1		3					4
Estonia	73	73,3	-			1					1
Lithuania	73	69,9	-			2					2
Poland	67	64,9	100			1				1	2
Hungary	66	63,2	99,99	1*		1	1*		1*		2
Latvia	64	69,7	-			2	1				3
Croatia	61	57,2	-				2				2
Romania	54	63,9	103,51			1	1				2
Bulgaria	45	63,5	98,96			2					2
CSRs per country (Total of CSRs mentioning a given category of topics))				8	0	21	15	0	6	3	46

Source: elaboration on the 2015 Country Specific Recommendations of the European Commission () and Eurostat data"

Country	GDP per head (2013) (EU=100)	Employment rate (2013)	Regional disparities in employment rates (2013) (Poland=100)	Competitiveness, investments, growth and jobs strategies	ESIF 2014-2020 and subnational finance	Labour market, education, social policies, demography, long term care and housing	Modernization of public administration, administrative capacity, multilevel governance, distribution of competencies and management of public finances	Regional disparities	Structural issues, fiscal framework and taxation	Transportation, energy, environment and R&D	***N° of recitals per country (Total)***
Luxembourg	258	71,1	-			1					1
Ireland	130	65,5	-			1					1
Cyprus	89	67,2	-	-	-	-	-	-	-	-	0
Malta	86	64,8	-	1			1				2
Slovenia	82	67,2	-	1		1	1				3
Estonia	73	73,3	-			1					1
Lithuania	73	69,9	-			2					2
Latvia	64	69,7	-			2	3			1	6
Croatia	61	57,2	-				2				2
Italy	99	59,8	152,01		1*		2*			1*	2
France	107	69,6	122,73				2				2
Spain	94	58,6	116,71			3	2				5
Belgium	119	67,2	109,81			2			1		3
Slovakia	75	65,0	104,06	1			2				3
Romania	54	63,9	103,51			2	3				5
Finland	113	73,3	103,12			1*	1*			1	2
United Kingdom	109	79,8	101,35			2					2
Poland	67	64,9	100			2				1	3
Hungary	66	63,2	99,99	1		1			1		3
Bulgaria	45	63,5	98,96			3	2				5
Germany	122	77,1	96,59	1		1*	1*				2
Portugal	78	65,4	96,35			1	2				3
Austria	128	75,5	95,33				2		1		3
Czech Republic	82	72,5	95,06			2	1		1		4
Netherlands	131	76,5	91,89			4*	1*				4
Sweden	127	79,8	89,81			3					3
Denmark	124	75,6	86,22	1		1					2
Recitals per country (Total)				6	1	36	26	0	4	4	75
elaboration on the 2015 Country											