EUROPEAN
COMMISSION

Brussels, 29.5.2013
COM(2013) 356 final

Recommendation for a

COUNCIL RECOMMENDATION

on Estonia's 2013 national reform programme

and delivering a Council opinion on Estonia's stability programme for 2012-2017

{SWD(2013) 356 final}

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COUNCIL RECOMMENDATION

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission[2],

Having regard to the resolutions of the European Parliament[3],

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, Europe 2020, based on enhanced coordination of economic policies, which will focus on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, on the basis of the Commission's proposals, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, adopted a decision on guidelines for the employment policies of the Member States[4], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Heads of State and Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 Strategy and to implementing the country-specific recommendations.

1 OJ L 209, 2.8.1997, p. 1.
2 COM(2013)356 final.
3 P7_TA(2013)0052 and P7_TA(2013)0053.
4 Council Decision2013/208/EU of 22 April 2013.

(4) On 6 July 2012, the Council adopted a recommendation on Estonia's national reform programme for 2012 and delivered its opinion on Estonia's updated stability programme for 2011-2015.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey[5], marking the start of the 2013 European Semester for economic policy coordination. Also on 28 November 2012, the Commission, on the basis of Regulation (EU) No 1176/2011, on the prevention and correction of macroeconomic imbalances, adopted the Alert Mechanism Report[6], in which it did not identify Estonia as one of the Member States for which an in-depth review would be carried out.

(6) On 14 March 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(7) On 30 April 2013, Estonia submitted its 2013 stability programme covering the period 2012-2017 and its 2013 national reform programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(8) Based on the assessment of the 2013 stability programme pursuant to Council Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the programme is plausible in 2013-2014 when real GDP growth is expected to average around 3.3%. The Commission 2013 spring forecast foresees growth of 3.5% in 2013-2014. Estonia achieved a headline budget deficit of 0.3% of GDP in 2012. The programme confirms the previous medium-term objective (MTO) of a structural surplus. This is more ambitious than required by the Stability and Growth Pact. As Estonia's structural balance was in surplus in 2012, the country achieved its MTO one year earlier than foreseen in its previous programme. The objective of the budgetary strategy outlined in the Stability Programme is to ensure sustainable fiscal policy that supports balanced growth, by staying at the MTO while ensuring sufficient fiscal buffers and reducing the tax burden on labour. The planned headline deficit, 0.5% of GDP in 2013, is envisaged by the programme to improve over the forecast horizon, reaching balance in 2014 and moving into surplus thereafter. Following an overall assessment of the recalculated structural balance, including an analysis of expenditure benchmark, Estonia does not deviate significantly from the MTO in 2013, returning to a structural surplus in 2014. The debt ratio is well below 60% of GDP and, according to the programme, is likely to decrease after 2013 to about 9% in 2015-2016. Estonia plans to introduce a structural budget balance rule in 2013, in line with the requirements of the Treaty on Stability, Coordination and Governance. The rule should be complemented by strengthening the binding nature of the multiannual expenditure targets as soon as the budget rule is in place.

(9) As regards the labour market, while employment continues to grow, there are remaining bottlenecks to growth including persistent youth and long-term unemployment, skills mismatches, growing work force shortage, including labour-force losses due to long-standing health problems. The social-benefit system should be made more flexible and targeted, providing support services and incentives for the

[5] COM(2012) 750 final.

[6] COM(2012) 751 final.

unemployed and for inactive persons who could be re-employed, while activation measures should be strengthened to make sure that they reach those most in need. The cost efficiency of family policy expenditure could be improved in a budget-neutral way, including by reallocating financing from parental benefit to more efficient measures such as childcare services with an expected positive effect on female employment. Economic development in the regions has to be addressed in a more coordinated way to provide more visible results.

(10) In the field of education and training, Estonia has partially implemented the 2012 recommendations; the higher education reform was adopted in 2012 and a new comprehensive vocational education and training reform is set to be adopted in 2013. A particular attention will be needed to ensure a sufficient involvement of social partners to ensure a sufficient number of apprenticeships in vocational education. The rationalised provision of secondary education remains an important commitment not yet fulfilled. The still relatively high youth unemployment needs to be addressed in light of the high share of persons without professional or vocational education. The access to lifelong learning for low-skilled workers is still not sufficiently addressed and measures for the young unemployed do not always credibly meet labour-market needs. The existing disconnection between the public research sector and the economy continues to hamper productivity growth and to affect Estonia’s competitiveness. In addition, the internationalisation and prioritisation of the research and innovation system remains a challenge given the small size of the economy.

(11) Estonia’s energy intensity continues to be very high. While the government has taken certain steps the efforts need to be continued and increased, with additional emphasis on the renovation of residential buildings. The fleet of new cars in Estonia is the most energy intensive in the EU and consumer patterns are not changing in spite of the increased fuel excise duties. In the absence of additional measures, Estonia is unlikely to meet its greenhouse gas emission target, in particular if no measures are taken in the field of transport and housing. Estonia’s energy market remains relatively isolated given that cross-border connections are insufficient.

(12) Provision of the services that local government is legally obliged to furnish is in most sectors ineffective, notably in long-term care, family-support services, health care, education and transport. This is due to the low administrative capacity of local governments and the mismatch between local government revenue and devolved responsibilities. No viable plan for improving the local administration has yet been established.

(13) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Estonia’s economic policy. It has assessed the stability programme and national reform programme. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in Estonia but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the European Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (5) below.

(14) In the light of this assessment, the Council has examined Estonia’s stability programme, and its opinion[7] is reflected in particular in recommendation (1) below.

[7] Under Article 5(2) of Council Regulation (EC) No 1466/97.

(15) In the context of the European Semester the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On this basis the Council has issued specific recommendations addressed to the Member States whose currency is the euro. Estonia also should ensure the full and timely implementation of these recommendations,

HEREBY RECOMMENDS that Estonia should take action within the period 2013-2014 to:

1. Pursue a growth-friendly fiscal policy and preserve a sound fiscal position as envisaged, ensuring compliance with the medium-term budgetary objective over the programme horizon. Complement the planned budget rule with more binding multi-annual expenditure rules within the medium-term budgetary framework and continue enhancing the efficiency of public spending.

2. Improve incentives to work by making the various existing social-benefit systems more consistent and by increasing the flexibility and targeting of benefit allocation. Improve the delivery of social services, including childcare, while increasing the efficiency and cost-effectiveness of family policy. Strengthen activation measures to facilitate the return to the labour market of the long-term unemployed and people receiving disability benefits and incapacity for work benefits. Establish a coordinated strategy for fostering economic development in regions affected by high unemployment.

3. Continue efforts to improve the labour-market relevance of education and training systems, including by further involving social partners and implementing targeted measures to address youth unemployment. Significantly increase the participation of the low skilled in life-long learning. Intensify efforts to prioritise and internationalise the research and innovation systems and enhance cooperation between businesses, higher education and research institutions.

4. Improve energy efficiency, in particular in buildings and transport, and strengthen environmental incentives concerning vehicles and waste, through considering car taxation and/or higher excise duties on motor fuels. Step up the development of cross-border energy connections to diversify energy sources and promote competition in the energy market.

5. Better balance local government revenue against devolved responsibilities. Improve the efficiency of local governments and ensure quality provision of local public services.

Done at Brussels,

For the Council
The President