EUROPEAN COMMISSION

Brussels, 30.5.2012
COM(2012) 311 final

Recommendation for a

COUNCIL RECOMMENDATION

on Estonia's 2012 national reform programme

and delivering a Council Opinion on Estonia's stability programme for 2012-2015

{SWD(2012) 311 final}

Recommendation for a

COUNCIL RECOMMENDATION

on Estonia's 2012 national reform programme

and delivering a Council Opinion on Estonia's stability programme for 2012-2015

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 conclusions of the European Council,

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

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 European Commission's proposal to launch a new strategy for jobs and growth, 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, 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.

---

1 OJ L 209, 02.08.1997, p. 1

2 COM(2012)311 final

3 P7_TA(2012)0048 and P7_TA(2012)0047

4 Council Decision 2012/238/EU of 26 April 2012

(3) On 12 July 2011, the Council adopted a recommendation on Estonia's national reform programme for 2011 and delivered its opinion on Estonia's updated stability programme for 2011-2014.

(4) On 23 November 2011, the Commission adopted the second Annual Growth Survey, marking the start of the second European semester of ex-ante and integrated policy coordination, which is anchored in the Europe 2020 strategy. On 14 February 2012, the Commission, on the basis of Regulation (EU) 1176/2011, adopted the Alert Mechanism Report[5], in which it did not identify Estonia as one of the Member States for which an in-depth review would be carried out.

(5) On 2 March 2012, 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. It invited Member States to implement the Council's country-specific recommendations for 2011 and to translate these priorities into concrete measures to be included in their stability or convergence programmes and national reform programmes.

(6) On 2 March 2012, the European Council also invited the Member States participating in the Euro Plus Pact to present their commitments in time for inclusion in their stability or convergence programmes and their national reform programmes.

(7) On 26 April 2012, Estonia submitted its stability programme covering the period 2012-2015 and its 2012 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 stability programme pursuant to Article 5(1) of 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 2012-13, when GDP growth is expected to average around 2.4%. The Commission's 2012 spring forecast foresees GDP growth of 3.8% in 2013. The objective of the budgetary strategy outlined in the programme is to ensure sustainable fiscal policy that supports balanced growth, by achieving a structural surplus while ensuring sufficient fiscal buffers and reducing the tax burden on labour. The strategy also aims at fulfilling the requirements of the Stability and Growth Pact. The programme aims at overachieving the medium-term budgetary objective (MTO) of a structural surplus as of 2012. The MTO adequately reflects the requirements of the Stability and Growth Pact. Based on the (recalculated) structural budget balance,[6], the rate of growth of government expenditure, taking into account discretionary revenue measures, complies with the expenditure benchmark of the Stability and Growth Pact in all years except 2013 (when the MTO is planned to be reached) and 2014. In parallel, the programme aims at reaching headline surpluses as of 2014. The debt ratio

[5] COM(2012) 68 final

[6] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the programme, using the commonly agreed methodology.

is well below 60% of GDP and, according to the programme, is likely to decrease after 2013 to about 10% in 2015.

(9) Estonia achieved a sizeable budget surplus in 2011. The projected rate of economic growth for 2012 in the Commission's 2012 spring forecast looks much weaker than for 2011, dropping from 7.6% to 1.6 %, and therefore further control over efficiency of spending is necessary. Estonia plans to introduce a structural budget rule in 2012 to help keep control over expenditure. The rule should be complemented by strengthening the binding nature of the multi-annual expenditure targets as soon as the budget rule is in place. Thus, Estonia has partially implemented the 2011 recommendation in this area.

(10) As regards the labour market, a number of steps have been made in the area of labour taxation. However, the incentives to work can be improved by addressing the rising trend in take up of disability and incapacity-for-work benefits and by making work pay for low and high-income earners receiving unemployment and parental benefits. While promising efforts are made to reduce the high unemployment, long-term and youth unemployment is still high. As a result, the poverty risk of children in jobless households is increasing and needs to be addressed by effective social services, including family services. The family support itself could be made more efficient in a budget-neutral way by better targeting the allocation of parental and family benefits and by removing inefficient income tax exemptions related to children.

(11) The measures in the National Energy Efficiency Action Plan are still insufficient given the current trend of modal shift away from public transport. The fleet of new cars in Estonia is the most energy intensive in EU. Fuel excise duties are insufficient in shifting consumer patterns. The transposition of several energy-related EU Directives has not yet been fully completed. Estonia still needs to diversify its energy supply. The electricity infrastructure could be upgraded to integrate increasing amounts of wind energy.

(12) The quality and availability of vocational education has considerably improved and more modernisation measures are planned for 2012-13. However, the transition from general education to vocational education (VET) needs to be improved, and a generalisation of more work-based schemes could be considered. Lifelong learning participation is improving, but there is an insufficient focus on low-skilled workers. There are continuing problems with matching education outcomes with labour market needs. There is also a need to urgently reform upper-secondary education and for further improvement in the provision of education services by local authorities. Also, cooperation between the business sector and higher education institutions continues to be weak, while the knowledge-intensive part of the private sector should be further developed.

(13) To reflect the declining demographic trend and ensure a balanced and competitive regional development there is a longer-term need to ensure financial sustainability of local governments as well as to ensure a better provision of public services at local level and optimise the use of relatively dispersed resources. Being limited in size, the majority of local governments have difficulties to universally deliver the necessary social, health, labour market, transport and educational services.

(14) Estonia has made a number of commitments under the Euro Plus Pact. These commitments, and the implementation of the commitments presented in 2011, relate to fostering employment, improving competitiveness and enhancing sustainability of public finances. The Commission has assessed the implementation of the Euro Plus Pact commitments. The results of this assessment have been taken into account in the recommendations.

(15) 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.

(16) 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,

HEREBY RECOMMENDS that Estonia should take action within the period 2012-2013 to:

1. Preserve a sound fiscal position by implementing budgetary plans as envisaged, ensuring achievement of the medium-term budgetary objective (MTO) by 2013 at the latest, and compliance with the expenditure benchmark. Complement the planned budget rule with more binding multi-annual expenditure rules within the medium-term budgetary framework, continue enhancing the efficiency of public spending and step up the fight against the shadow economy.

2. Improve incentives to work by streamlining the social benefits system and increasing flexibility in the allocation of disability, unemployment and parental benefits, while ensuring adequate social protection. Improve delivery of social services, while better targeting family and parental benefits and removing distortionary income tax exemptions related to children. Increase the participation of the young and the long-term unemployed in the labour market.

3. Link training and education more effectively to the needs of the labour market, and enhance cooperation between businesses and academia. Increase opportunities for low skilled workers to improve their access to life-long learning. Foster prioritisation and internationalisation of the research and innovation systems.

4. Improve energy efficiency, in particular in buildings and transport, and strengthen environmental incentives concerning vehicles and waste, including by considering incentives such as the taxation of vehicles. Foster renewable energy use, including through upgraded infrastructure and legislation. Continue the development of cross-border connections to end relative market isolation.

5. Enhance fiscal sustainability of municipalities while improving efficiency of local governments and ensure effective service provision, notably through stronger

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

incentives for merger or increased cooperation of municipalities. Relevant reform proposals should be put in place within a reasonable timeframe.

Done at Brussels,

For the Council
The President