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Subject:	Draft JOINT CONCLUSIONS OF THE ECONOMIC AND FINANCIAL DIALOGUE BETWEEN THE EU AND THE WESTERN BALKANS AND TURKEY

In view of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey of 12 May 2015, delegations will find attached the

"Draft Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey"

endorsed by the members of the EFC and representatives of Albania, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, Kosovo, Montenegro, Serbia and Turkey on 30 April 2015.



ECONOMIC AND FINANCIAL COMMITTEE

THE SECRETARIAT

Brussels, 30 April 2015

Draft

**JOINT CONCLUSIONS
OF THE ECONOMIC AND FINANCIAL DIALOGUE BETWEEN THE EU AND THE
WESTERN BALKANS AND TURKEY**

Representatives of the EU Member States, the Western Balkans and Turkey, the Commission and the European Central Bank, as well as representatives of the central banks of the Western Balkans and Turkey met for the annual economic policy dialogue^{*†}. Participants welcomed the submission of the 2015 Economic Reform Programmes (ERPs) of the Western Balkans and Turkey. For the Western Balkans, these programmes consist of two distinct parts: Part I outlines the medium-term macroeconomic and fiscal framework as well as concrete macro-structural reforms to support the policy framework and are thus an enhanced version of the previous Pre-Accession Economic Programmes submitted by candidate countries. Part II, as a new element, covers structural reforms of a sectoral nature (such as transport, energy, education, etc.) to enhance competitiveness and long-term growth. Turkey was only asked to submit Part I. The programmes cover the period from 2015-2017.

Participants took note of the Conclusions of the General Affairs Council on 16 December 2014 in which the Council welcomed the Commission's proposal to strengthen the dialogue on economic governance with the Western Balkans and Turkey, including through the preparation of ERPs, to better reflect the European Semester process at EU level. Participants recalled the commitment to set out targeted policy guidance to support efforts towards meeting the Copenhagen economic criteria.

As regards statistics, Participants underline the importance of reliable and up-to-date data and therefore welcome the 2015 Progress Report on the Action Plan on Economic, Monetary and Financial Statistics in the Western Balkans and Turkey. They were comforted that all the Western Balkans and Turkey made progress in fulfilling the Action Plan requirements, but noted that additional efforts in some statistical areas are still needed to achieve a full compliance with the Action Plan requirements.

Montenegro

On 30 January 2015, Montenegro submitted its first Economic and Reform Programme (ERP) covering the period 2015-2017. In line with the targeted policy guidance set out in the conclusions of the Joint Ministerial dialogue of May 2014, the authorities have taken steps to start implementing the recommended reforms. However, major reforms still need to be implemented. To date, only the submission of fiscal notifications, the law on voluntary

* The conclusions of this dialogue are without prejudice to EU Member States' positions on the status of Kosovo.

† Montenegro, Serbia, the former Yugoslav Republic of Macedonia, Albania and Turkey are candidate countries for EU accession.

restructuring of debts (so-called "Podgorica approach"), the preparation of a strategy for introducing ESA2010 accounting standards and the reduction of construction fees have fully been implemented. Others, like the implementation of the regulatory guillotine, and the full resolution of the aluminium company are delayed. Work is in progress concerning the reform of public sector wages and of the education system. The reform of old-age pension indexation has been discarded, and authorities consider instead the possibility of an overhaul of the system by rising individual participation. Likewise, the introduction of distinct collective agreements for public and private sectors has been abandoned, and authorities consider instead improving labour market flexibility by means of a new Labour Law.

Participants were of the view that the macroeconomic scenario underpinning the budgetary projections in the programme appears somewhat optimistic and subject to downside risks. Real growth would accelerate to 4% in 2017, driven by a surge of investments, substituting net exports as the main engine of growth, while the unemployment rate would slightly narrow to around 17%.

In the light of the Commission assessment, Participants stress that the major and most pressing fiscal challenge will be to ensure the reduction of the budget deficit as well as of the public debt. Fiscal sustainability will be challenged as of 2015 due to the financing for the construction of a section of the key Bar-Boljare motorway (estimated at around 5% of GDP annually during the four year construction period), a significant amount considering the size of Montenegro's economy. Moreover, Participants noted that the fiscal deficit planned for 2015 at 5.3% of GDP exceeds the 3% fiscal deficit rule introduced by Montenegro with this year's budget. Participants acknowledge progress in budget reporting and welcome the 2014 submission of Fiscal Notifications, as well as the elaboration of an action plan for implementing ESA2010 standards into government finance statistics.

On account of the monetary and exchange rate policy regime[‡] currently in place, fiscal policy remains the main policy instrument available to smoothen the economic cycle. For that reason, Montenegro requires a sustained commitment to fiscal discipline and a sound public debt management strategy. To be effective, the fiscal strategy must also be underpinned by structural reforms. The budget is characterised by the predominance of non-discretionary spending, namely pensions and public sector wages. Therefore, in order to attain long-term sustainability of the budget, additional reforms need to be considered for reinforcing the pension system and for rationalising public sector wages.

The banking sector remains stable and relatively well capitalised, but financial conditions remain tight. In this context, the absence of a policy interest rate and the significant limitations to its lender of last resort function reduce the central bank's ability to influence bank lending. Restoring normal lending conditions to the economy remains a serious challenge hampering economic growth. The foreseen implementation of the law on voluntary restructuring of loans ("Podgorica approach") would be a welcome step but would need to be complemented by additional measures to address the stock of NPLs, the situation of unviable corporates, and the legal and regulatory bottlenecks which are still seen to hamper the disposal of impaired assets by banks. In addition, the Central Bank lacks any oversight over factoring companies, which reduces the transparency of the financial system.

Participants stressed that Montenegro faces a number of challenges to improve its economic competitiveness. To reduce its vulnerability to external shocks, the economy needs to be

[‡] Participants recall the Council position on unilateral euroisation from 2007 which should be fully taken into consideration by the Montenegrin authorities.

further diversified, including within the important tourism sector to extend the season. Montenegro also needs to broaden its export base and foster import substitution by investing more in sectors such as agriculture and energy. Investments in physical and human capital are important to achieve this, as are efforts to strengthen export capacities in order to better prepare Montenegrin businesses for the opportunities of the EU single market. There are persistent labour market imbalances reflected in the unemployment rates of around 18% and the high prevalence of youth and a long-term unemployment. Addressing this poor performance requires more labour market flexibility, as well as strengthened labour activation policies that aim at a more inclusive and efficient labour market. This needs to be complemented by education reform that reduces the skills gap and the mismatch between labour demand and supply.

The ERP correctly identifies most of Montenegro's growth and competitiveness obstacles and outlines a number of relevant measures to address them. The planned investments in the transport and energy sectors have the potential to lead to stronger growth in the medium and long-term. However, Participants underlined that Montenegro's capital investment focus on the construction of a section of the Bar-Boljare highway entails fiscal risks and leaves little fiscal space for other public investments. Montenegro is aware of this challenge and underlines its commitment to pursue a stringent fiscal policy. At the same time, the prioritisation of increased regional energy connectivity and security is considered commendable. The measures identified under human capital are geared towards better alignment between the skills demanded by the labour market and those supplied by the education system. Similarly, the measures to improve SMEs' access to finance correspond well to identified obstacles. As for Montenegro's efforts to promote trade integration, Participants considered that these should be complemented with horizontal regulatory reform that ensures that Montenegrin products can fully access the EU market, in line with applicable EU sanitary and phytosanitary (SPS) and food safety standards.

Hence, while acknowledging progress, Participants note that there is room for further improving competitiveness and the business environment. Economic agents would notably benefit from increased predictability and simplification in the regulatory environment, as well as from further improvement of the rule of law, effectively fighting corruption and continuing to reduce the large informal economy.

In light of this assessment, concerning Part I of the ERP, Participants hereby invite Montenegro to:

1. Sustain the commitment to fiscal discipline, establish a credible track record on the basis of the new rules-based fiscal framework and revise the public debt management strategy to bring the public debt into a downwards trajectory in line with the ERP medium-term framework. In this context, municipalities are also called to contribute by strengthening their own budgetary position. In order to improve transparency, develop the necessary administrative capacity to implement the European System of Accounts (ESA2010).
2. Consider additional reforms for attaining long-term sustainability of the budget, such as the introduction of further restriction for early retirement and the consideration of options for individual participation into the old-age pension system on a mandatory basis, as well as the implementation of a common policy for public sector wages in the context of rationalisation and modernisation of the public sector.
3. Implement the planned voluntary financial restructuring programme (the so-called "Podgorica approach") to address the high burden of non-performing loans on bank balance sheets from a flow perspective. In order to address the NPL stock issue, improve

deadlines and efficiency of contract enforcement. Introduce effective supervision of factoring companies to improve the transparency of the financial system.

4. Amend labour legislation in order to introduce further market flexibility. Reinforce sanctions to discourage undeclared work. Better target active policies for workers at risk of losing their employments and enhance labour market participation in view of an ageing population.

Concerning part II of the ERP, Participants invite Montenegro to:

5. Actively continue education reform with a view to better aligning education and skills with labour market needs, and strengthening cooperation between education and business.
6. Strengthen the transport development strategy ensuring alignment with the regional agenda on connectivity, with a particular focus on the core investment priorities (core network), and establish a credible planning and funding mechanism in the form of a single sector pipeline.
7. Further improve the business environment by ensuring the timely implementation of the so-called "regulatory guillotine" (simplification) project, enhancing the functioning of one-stop shops at municipal level for the issuing of construction permits and the quality of the land registry.
8. Make further progress with a comprehensive and strategic approach in the field of EU food safety and sanitary and phytosanitary standards to receive accreditation for exporting agricultural and food products to the EU. Efforts in this direction should commence with those products where preparations are advanced and where Montenegro sees the biggest export potential.

Serbia

Serbia submitted its 2015 Economic Reforms Programme, covering the period 2015-2017, on 13 March 2015. In line with the targeted policy guidance set out in the conclusions of the Joint Ministerial dialogue in 2014, the authorities have already taken important steps to start implementing recommended reforms. They have frontloaded strong fiscal consolidation measures, including pension and public sector wage cuts. As a result of extensive legislative changes, adopted last year, labour market flexibility was improved and the legal retirement age for women and the general minimum retirement age are set to increase gradually. The process of dealing with construction permits has been simplified and shortened, while legislative changes have given a new impetus to the process of restructuring of publicly owned enterprises. Amendments to bankruptcy regulations and proceedings aim to improve the overall business environment.

In light of the Commission assessment, Participants are of the opinion that, despite taking strong fiscal consolidation measures, Serbia is still facing a very high budget deficit and mounting government debt challenges. The macroeconomic scenario underlying the programme is plausible and risks to it are clearly identified. The level of uncertainty facing the Serbian economy remains high. Economic growth is expected to remain modest and the programme foresees a continuation of a mild recession in 2015, followed by a moderate recovery. Domestic demand is forecast to be a drag on growth in the short-term and the rebalancing of the economy away from consumption is set to continue, while investment and exports are expected to represent the key drivers of economic activity going forward.

Participants welcome the medium-term objective of the fiscal strategy to stabilise government debt by 2017. Fiscal imbalances increased, as the slow pace of reforms continued to weigh on

the budget. As a consequence, the overall deficit expanded to reach 6.7% of GDP in 2014. The programme targets an expenditure-based fiscal consolidation under which the budget deficit is forecast to fall to 3.8% of GDP in 2017. The envisaged adjustment is frontloaded, with most of the measures having an effect already in 2015; the proposed consolidation measures are plausible and largely appropriate. Nevertheless, government debt will most likely continue growing; additional efforts and strict control over new government guarantees will be therefore required to limit further debt increases. In view of that, any budgetary over-performance should be used to further lower the deficit. There is also significant room to improve budgetary processes and to shift to a more growth enhancing structure of spending.

Decisive fiscal consolidation would also afford monetary authorities greater degrees of policy freedom to support economic activity, without prejudice to the central bank's primary objective to maintain price stability under the inflation targeting framework. The burden of fiscal factors on the conduct of monetary policy in Serbia has remained high in recent years, often presenting the central bank with policy trade-offs between domestic and external objectives. A credible medium-term fiscal consolidation strategy thus appears important on account of economic, monetary and financial stability considerations. This would allow the NBS to reduce nominal interest rates, while helping to fend off potential risks stemming from nominal exchange rate depreciation in a highly euroised banking system while sovereign external financing needs remain high.

Participants underline that the restoration of the bank-lending channel is crucial to revive economic activity as well as to increase the overall effectiveness of monetary policy. The burden of non-performing loans on banks' balance sheets remains high and, while total loan provisioning and bank capitalisation appear adequate, challenges to bank asset quality are expected to remain going forward in the context of the recession. Thus the resolution of non-performing loans by banks should be a key policy priority for authorities going forward. In this context, the planned diagnostic studies would provide a relevant initial insight into banks' policies and procedures for working out distressed loans.

The major structural obstacles to growth, clearly recognised in the programme, remain mostly unchanged from the previous year, encompassing an excessive state influence in the economy, an underdeveloped private sector, administrative and regulatory barriers to business, poor infrastructure and low level of investment, informalities and insufficient competition in some sectors. Participants noted that authorities are well aware of the magnitude of the challenges and have an understanding of the urgency of tackling such structural problems. From this perspective, the programme outlines an ambitious reform agenda aimed at restructuring state owned enterprises, streamlining and improving the performance of the public administration, improving the business environment and strengthening financial stability. Participants encouraged the authorities to speed up reform implementation in order to support a sustainable economic recovery and reduce macroeconomic and fiscal imbalances.

The programme addresses competitiveness through a set of sectoral reforms which, though appropriate, remain modest in view of the needs and vague in terms of budgeting and implementation schedules. The measures concerning transport and energy mainly address the challenges of sector governance and legal alignment with the EU acquis. Serbia needs to engage to secure interconnectivity with the EU by finalising works on corridors VII and X and on gas interconnectors. Although Serbia enjoys a competitive advantage of a low cost of labour, human capital suffers from very low productivity, in part due to weak performance of both regular and vocational education cycles. The programme proposes only very modest measures aimed to improving the output of the education system. State support to companies has been excessively focused towards large and inefficient companies. As outlined in the

programme, more needs to be done to support SMEs, in particular to reduce their cost of accessing capital.

Hence, Participants encourage the authorities to ensure the implementation of the proposed measures, most notably in the case of large infrastructure projects, which will have the highest impact on growth and competitiveness. Private sector development and investment would benefit from further improving the rule of law, effectively fighting corruption and continuing to reduce the large informal economy.

In light of this assessment, concerning Part I of the ERP, Participants hereby invite Serbia to:

1. Strengthen fiscal consolidation by using any excesses revenue and current expenditure savings to further reduce budget deficits in 2015 and the following years. Underpin the medium-term consolidation path by implementing the planned structural reforms.
2. Advance the restructuring and privatisation of state-owned enterprises, prioritising the biggest companies. Introduce better corporate governance and advance, as planned, the organisational and financial restructuring of large, loss-making utilities. Review the efficiency of all forms of state aid and take steps to reduce it. Proceed to revisit public sector employment in a sustainable manner by implementing the Action plan on public administration reform.
3. Further strengthen public finance management, notably by improving the budgetary process and the capacity of the tax administration. Compile and start submitting to Eurostat excessive deficit procedure notification tables before the end of 2015.
4. Advance with the rebalancing of macro-economic policies with fiscal consolidation as a pre-condition for a more accommodative monetary policy stance, with a view to fostering a pick-up in the pace of credit extension. In this context, increased efforts to address the high burden of non-performing loans on banks' balance sheets, involving all key stakeholders including the central bank as necessary, also appear warranted.

Concerning Part II of the ERP, Participants hereby invite Serbia to:

5. Improve the business environment and tackle the grey economy, notably by better regulating para-fiscal charges, business inspections, and leasing of labour. Take steps to further simplify the regulatory environment by re-launching the "regulatory guillotine".
6. Adopt a comprehensive and well-targeted set of active labour market policies, with a focus on youth and the long term unemployed, as well as dedicated skills upgrade programmes. The finalisation of the national qualifications framework should be the first step in a progressive reform of the education system, aimed at improving the outcomes of the system, thereby enhancing the human capital productivity.
7. Stimulate private investment, for example by establishing public schemes to support lending to SMEs and research activities in companies. To increase public investment, improve preparation and speed up the implementation of public projects. Step up the works on corridors VII and X in line with the regional core network. Improve energy production and transmission, most notably by better governance of energy firms, regulation of the network and the construction of gas inter-connectors.

The former Yugoslav Republic of Macedonia

On 31 January 2015, the former Yugoslav Republic of Macedonia submitted its 2015 Economic Reform Programme, covering the period 2015-2017. In line with the targeted policy guidance set out in the conclusions of the Joint Ministerial Dialogue in May 2014, the authorities have taken some modest steps towards implementing some of the recommended reforms. Notably, there was progress in further implementation of the "regulatory guillotine" measures for improving the business environment. Bank lending to the private sector picked up, aided by targeted monetary policy measures. Fiscal transparency benefited from publishing public debt figures that include information on the debt levels of state-owned companies. However, overall, in particular regarding the recommended reforms to improve budget planning capacities, fiscal discipline and the composition of spending, progress has been very limited and further measures are necessary.

In light of the Commission's assessment, Participants are of the opinion that the most important challenges pertain to the need to improve fiscal discipline and transparency in public finance, to strengthen the medium-term orientation of fiscal policy, to address structural rigidities in the labour market, to improve the competitiveness of domestic companies, and to continue to repair the bank lending channel. The programme projects gradually increasing annual growth rates, averaging 4.2%, which appears slightly optimistic. The ongoing acceleration of economic growth is driven by exports emanating from foreign companies established in the country, large public infrastructure investment, and household spending. With continuously strong investment-related import demand, the external balance is expected to remain a drag on growth in the coming years. In the medium run a narrowing trade deficit is expected. Private transfer inflows provide the overarching bulk of financing for the merchandise trade deficit, and are expected to relent only slightly in the medium term. The government pursues an active policy of attracting foreign direct investment. While foreign companies have been successful in bolstering the country's exports and in creating employment, their linkages with the domestic economy are sparse. Ongoing activities in order to strengthen them need to be enhanced. Participants consider that increased cooperation between foreign and local companies is vital to improve the competitiveness of the domestic economy.

Participants acknowledge that the government pursues fiscal consolidation in the medium-term, which is based primarily on revenue growth, so as to reach a general government budget deficit of 2.9% in 2017. This constitutes a relaxation of the fiscal targets as outlined in the previous year's strategy. At the same time, the medium-term expenditure plans envisage continuous annual increases in entitlement spending, and possibly in public wages, to support growth and employment. Participants note that the government has not specified contingency measures in case of unexpected budget developments that would put the implementation of the fiscal strategy at risk. In 2014, the deficit target had to be raised from 3.5% to 3.7% of GDP, due to weaker than expected revenues and spending pressures resulting from increases in both entitlement spending and investment expenditure. Eventually, even the revised target was exceeded. The composition of spending remains heavily biased towards transfer payments, with budgeted capital expenditure amounting only to some 10% of total expenditure. Moreover, budgeted capital expenditure is prone to marked under-implementation, and investment spending could be prioritised in a more growth-friendly structure. Participants welcome the government's steps towards improving budget planning capacities. They consider that swift introduction of a medium-term expenditure framework is instrumental for improving fiscal discipline. Participants note that the transparency of public finances needs to be enhanced. While they welcome progress towards adopting EU

accounting standards, they invite the government to resume the submission of fiscal notifications.

While general government debt as a share of GDP remains contained, an increasing part of borrowing to finance important public infrastructure projects has been undertaken by state-owned enterprises in recent years, accounting for a marked rise in overall public sector debt, and in government's contingent liabilities, as it guarantees the largest part of this debt. In view of this, Participants are of the opinion that the government's debt management strategy should include the debt of public enterprises. The authorities are working on a plan to include the public companies in the debt management strategy. The government is planning to reduce its contingent liabilities arising from state guarantees, and it has taken steps to incentivise non-guaranteed borrowing by public enterprises and municipalities. Participants note that tight surveillance of this non-guaranteed part of borrowing is critical.

Participants note that fiscal factors are putting an undue burden on monetary policy, Going forward, the government's increased reliance on external sources of funding to finance budget deficits will force the central bank to sterilise the net inflow from government transactions in order to support the exchange rate peg to the euro, therefore a more balanced financing structure should be preferred. A more ambitious fiscal consolidation strategy than currently foreseen would offer some degree of policy freedom for the central bank to act should external circumstances warrant. In addition, while the banking system has remained resilient, Participants underline that the restoration of the bank lending channel deserves continued attention, notwithstanding the pick-up in the pace of credit extension. The burden on banks' balance sheets from non-performing loans has remained sizeable. Therefore the efforts towards facilitating the resolution of non-performing loans should thus remain a priority in the authorities' policy agenda going forward.

The employment situation in the country remains challenging, although it has improved slightly in recent years, mainly on account of the government's active labour market measures, and, more recently, new foreign direct investment. The government further increased its funds for active policies this year. However, Participants are of the opinion that swift implementation of structural reforms targeting a better matching of skills and employability in higher-value added sectors is instrumental for a sustainable, marked improvement in the labour market. Furthermore, Participants consider that increasing the competitiveness of the domestic economy, by further facilitating the regulatory business environment and access to finance, by improving consultation of stakeholders, and by creating linkages with foreign investors, is a vital part of the employment strategy.

Participants note that the former Yugoslav Republic of Macedonia continues to face a number of structural challenges to competitiveness and long term growth. The private sector is composed essentially of small and micro-sized enterprises with low levels of technological, financial and managerial capacity and access to finance continues to remain a major impediment to competitiveness. The planned investments in physical capital will broadly contribute to supporting growth. The government should ensure that they are embedded in the regional agenda on connectivity with a credible timeline and funding mechanism (single sector pipeline). These investments should also be accompanied by reforms such as the liberalisation of the energy sector. The investments in human capital may contribute both to reducing unemployment and improving competitiveness provided that it is accompanied by reforms of the labour market and of the education sector. Reforms should be better targeted to improve contract enforcement, obtain permits and licenses and ensure a stable, even and

predictable regulatory framework. Measures promoting innovation should be better detailed and reinforced. Furthermore, the consultation of stakeholders should be reinforced.

Hence, while acknowledging the attention that the government gives to competitiveness-enhancing reforms, Participants note that there is room for further improvements. There is a need to provide a stable regulatory environment that would allow companies to make long-term decisions and would allow a level playing field for all operators.

In light of this assessment, concerning Part I of the ERP, Participants hereby invite the former Yugoslav Republic of Macedonia to:

1. Improve the management of public finances by adhering rigorously to the 2015-2017 medium-term fiscal targets outlines in the ERP, and frontload consolidation so as to be on track for the 2017 budget deficit target of 2.9% of GDP. Use any additional fiscal space for further consolidation measures, so as to protect growth-enhancing capital spending in case of unexpected budget pressures. Keep tight control on the development of transfer payments, pensions, and public wages. Introduce a medium-term expenditure framework. Inform in a timely and regular manner on the size of the government workforce and payroll.
2. Improve the composition of spending, by prioritising investment projects according to their productive potential, and be more transparent on the cost-benefit analysis underlying transfer and investment spending items on the budget. Provide more timely and detailed data on planned and executed capital expenditure.
3. Improve the fiscal transparency by including more comprehensive data on the debt of public companies and contingent liabilities in the government's debt management strategy and inform about arrears. Speed up transition to ESA 2010 reporting and resume fiscal notifications. Continue to keep tight control on guaranteed and non-guaranteed borrowing by state-owned enterprises and municipalities.
4. Improve the employability of workers, by better aligning skills with labour demand needs notably by developing the education system. Strengthen performance evaluations of active labour market policies with a view to better targeting skills development, and inform on their methodology and results in a timely manner.
5. Step up efforts to create supply linkages between foreign and domestic companies with a view to enhancing productivity and employment in the domestic economy.
6. Increase efforts towards facilitating the disposal of non-performing loans by banks, involving all key stakeholders including the central bank as necessary, with a view to removing potential obstacles to credit extension in the context of a sustained pick-up in credit demand.

Concerning Part II of the ERP, Participants invite the former Yugoslav Republic of Macedonia to:

7. Review the transport strategy in order to align it with the regional agenda on connectivity, with a particular focus on the core investment priorities (core network)

and establish a credible planning and funding mechanism. A single sector pipeline would help prioritise investments.

8. Improve the business environment by implementing the Master plan for Competitiveness and the related Government Action Plan. These should include measures affecting competitiveness, such as a more predictable legal and regulatory environment, enforcement of contracts, respect of IPRs, payment discipline, labour legislation, quality and integrity of inspection services, etc. Ensure regular and structured dialogue with social partners regarding the implementation and review of the Master plan. Step up efforts to fight against corruption and informalities in the economy.
9. Improve access to finance for SMEs and speed up bankruptcy procedures. Continue with the implementation of the innovation strategy, and step up the use of instruments foreseen by the Innovation Fund.

Albania

Albania submitted its Economic Reform Programme on 28 January 2015. In light of the Commission assessment, Participants considered that fiscal challenges linked to the need to lower the high level of public debt will remain elevated in the medium-term. The macroeconomic assumptions underlying the programme are broadly plausible, even if slightly optimistic given the presence of downside risks. The on-going gradual strengthening of economic activity is driven by private domestic demand and underpinned by improved confidence, better business sector liquidity and easing financial conditions. A further pick-up in growth in the years ahead will also be supported by some key foreign direct investment projects. Participants stressed that risks related to subdued lending activity in connection with still high non-performing loans persist.

Participants welcomed the Albanian authorities' commitment to continued fiscal consolidation with a view to lowering debt-related vulnerabilities and rebuilding fiscal space, aiming to reduce the debt ratio to less than 66% by 2017 and below 60% by the end of 2019. The fiscal strategy foresees a significant reduction in the headline budget deficit by about 3.8% of GDP over 2014-2017, helped by tax rises implemented in 2015 as well as by the phasing out of arrears-related payments and strict expenditure control in later years. The projected rise in the revenue-to-GDP ratio in 2015 is broadly similar to the increase achieved in 2014, but it relies to a greater extent on tax collection improvements, which warrants close attention, and the implementation of the planned tax administration measures. Participants emphasised fiscal risks related to the electricity sector and the property compensation scheme. The medium-term budget contains contingency reserves to address some of these risks, but activating them would mostly result in cuts to capital expenditures which should be avoided given Albania's considerable investment needs. Participants welcomed the adoption of the pension reform, and the initiation of an ambitious reform of the electricity sector, both of which should tackle significant risks to public finances.

Monetary policy may be expected to remain accommodative in line with the central bank's primary objective to maintain price stability under the inflation targeting framework and taking into account the need to maintain adequate reserve buffers to support financial stability. A tighter fiscal policy stance going forward would augment the degrees of freedom available to the Bank of Albania for the conduct of monetary policy. However, the pass-through of monetary accommodation to the economy remains hampered in part by banks' risk

aversion, thereby requiring continued efforts by the authorities to tackle the high level of non-performing loans as a matter of priority. Participants noted that the banking system remains well capitalised and highly liquid, but high euroisation still poses credit risks in the form of a large stock of loans extended to potentially unhedged borrowers. Banks also exhibit significant exposure to sovereign risk through sizeable holdings of government debt securities, which needs to be contained. In this context, the government's sustained commitment to fiscal consolidation would appear helpful.

Participants welcomed Albania's recent reform progress and called for further measures to tackle significant structural weaknesses holding back the economy including the weak rule of law, a high degree of informality, as well as structural problems in the energy sector. Public finance management should be improved further by strengthening the medium-term budget framework, enhancing commitment control and anchoring longer-term expectations, including by adopting a well-designed fiscal rule. Labour market imbalances, which continue to be substantial as reflected in the unemployment rate of around 18% and the high prevalence of youth and long-term unemployment, should be addressed by upgrading the skills of the labour force in line with labour market needs and better targeted active labour market policies. To attract investments and encourage private sector development, it is important to improve the overall business environment, including by streamlining the regulatory framework and by improving procedures related to resolving insolvency, paying taxes and registering property. Agriculture, including food safety, deserves particular attention, considering the contribution of the sector to GDP (more than 20%) and to employment (almost 50% of the total work force).

The ERP correctly identifies most of Albania's growth and competitiveness obstacles and outlines a number of relevant measures to address them. The planned investments in the transport and energy sectors rightly focus on road and maritime transport, as well as on developing energy security and diversifying energy supplies. Given Albania's overall limited investment capacity, prioritisation of investments on the core regional networks is important. The measures identified under human capital are geared towards better alignment between the skills demanded by the labour market and those supplied by the education system by focusing on vocational education and training. It would also be advisable to strive toward improving the overall quality of education, with a particular focus on reforming the higher education system. Access to finance is a major obstacle and Albania is advised to tackle this issue in a more systematic manner. Key reforms focusing on unlocking the growth potential in the tourism and agriculture sectors, e.g. capacity building and land consolidation, would be welcome. The ERP includes measures to boost FDI. These should be complemented by removing structural obstacles to FDI such as unclear property rights and corruption.

Hence, while acknowledging the attention that the government gives to competitiveness-enhancing reforms, Participants noted that there is room for further improvements. Private sector development and investment would benefit from further improving the rule of law, effectively fighting corruption and continuing to reduce the large informal economy.

In light of this assessment, concerning part I of the ERP, Participants hereby invite Albania to:

1. Pursue fiscal consolidation in line with the objective to put the public debt ratio on a downward path and lower it to less than 66% of GDP by 2017. At the same time, preserve fiscal space for growth-enhancing public investment by making sure that revenue performance remains on track, allowing for the initially budgeted capital expenditure to be executed.

2. Progress towards eliminating high fiscal risks posed by the electricity sector by reducing distribution losses at an average rate of 5 percentage points in the coming years and by improving the bill collection rate. Evaluate the fiscal impact of the property compensation scheme and accommodate the costs in the medium-term budget, if necessary by adjusting the parameters of the scheme with the aim of creating a realistic, transparent and sustainable compensation framework.
3. Reinforce the budget management framework by implementing the public finance management strategy agreed with the Commission and adopted in December 2014, in particular by moving towards adopting a credible fiscal rule which will effectively ensure the sustainability of public finances in the long run and by strengthening budget forecasting.
4. Take further measures to address the issue of non-performing loans, involving all key stakeholders including the Bank of Albania as necessary, with a view to achieving a sustainable reduction of their level. In this context, addressing impediments related to judicial enforcement and collateral execution would appear helpful.

Concerning part II of the ERP, Participants invite Albania to:

5. Adopt and start to implement the law on higher education, as well as the new strategy for higher education. Establish an independent accreditation system for all public and private universities. Continue the restructuring of the VET system with a view to improving the relevance of the training for the needs of the labour market.
6. Improve the overall business environment, including by implementing the merger of the NRC (National Registration Centre) and NLC (National Licensing Centre) to further ease the regulatory and administrative burden for businesses. Start the implementation of the simplification regime for authorisations. Make the newly established investment council fully operational.
7. Adopt and start to implement the transport strategy and action plan for 2016-2020. Focus investments on the core network. Adopt and start to implement the national energy strategy and the Power Sector Law, including speeding up the unbundling of the energy sector. Prepare single sector pipeline of priority investments for both transport and energy.
8. Adopt a strategy on the land cadastre and concrete measures to increase momentum in agricultural land consolidation.

Bosnia and Herzegovina

Bosnia and Herzegovina submitted its 2015 Economic Reform Programme, covering the period 2015-2017, on 13 February 2015. In light of the Commission assessment, Participants consider that ensuring fiscal sustainability and increasing growth-enhancing capital spending remain major challenges. The macroeconomic scenario underlying the programme is rather optimistic and risks are clearly tilted to the downside. The strong pick-up of economic activity is increasingly driven by private domestic demand, while at the same time, somewhat contradictory to it, coupled with a substantial deceleration of imports. The programme's projections for investment growth appear upbeat and would certainly require immediate decisive steps to improve business environment as well as the speeding-up of reconstruction activities following the spring floods. The timely implementation of much-needed, growth-supporting structural reforms would require strong political support.

In 2014, partly due to emergency measures following the spring floods, budget imbalances deteriorated with the budget deficit edging up to 1.8% of GDP. The objective of the ambitious

fiscal strategy outlined in the programme is to pursue a strong consolidation of public finances, albeit back-loaded in the outer years of the programme period targeting a budget coming close to balance in 2017. At the same time, the programme does not provide a convincing and fully-elaborated strategy to reach the fiscal targets and shift spending towards a more growth-enhancing pattern.

The monetary policy framework of the central bank, a currency board arrangement based on the euro, has continued to provide a stable anchor in a challenging external and domestic environment. However, the limited degree of policy freedom available to the central bank under this arrangement implies that the main tools for authorities to durably affect economic activity are fiscal and structural policies. In order to support the economic recovery, impediments to credit extension, which lie outside the remit of the central bank should be tackled, including demand-side factors and supply-side limitations related to a relatively high NPL burden on banks' balance sheets. The measures planned by authorities to foster NPL resolution under the Fund-supported programme, if successfully implemented, would be a welcome step in this regard. In addition, the development of analytical tools to better gauge inflation expectations and future price trends would help to better understand potential risks.

Participants stress that persistent structural weaknesses pose a considerable threat to the long-term growth prospects of the economy. Labour market imbalances in Bosnia and Herzegovina are substantial, as reflected by the persistently high unemployment (above 27 percent of the labour force), notably youth and structural unemployment, and a low employment rate. The programme generally recognises the significant economic challenges; however the policy response remains fragmented. To this end, the authorities in Republika Srpska envisage steps towards a reduction of the tax wedge of employers, while otherwise the programme focuses mainly on a few active labour market policies, the impact of which still has to be demonstrated. In addition, despite some recent measures taken, the challenges in the business environment remain sizeable. Further efforts are also required to tackle the lengthy and costly business entry and exit procedures, to improve contract enforcement, to facilitate the granting of construction permits and to strengthen the financing of small and medium-sized enterprises.

Participants note that Part II of the 2015 Economic Reform Programme of Bosnia and Herzegovina consists of two separate entity level reports, rather than a comprehensive synthesis and overview of measures within a coherent country-wide sectoral policy framework. This significantly hinders a full evaluation of measures and the possibility of suggesting ways forward for Bosnia and Herzegovina based on the text of the ERP. Bosnia and Herzegovina is encouraged to take steps to establish a single economic space in the country by addressing the complex and often contradictory legal and regulatory frameworks across jurisdictions. This includes tackling the lack of internal coordination across all government levels. Further efforts should also be made to close the implementation gaps of laws and regulations on all levels of government.

The entity texts that were submitted in place of a part II recognise some of the sectoral structural obstacles to competitiveness in Bosnia and Herzegovina which will be partly dealt with through proposed measures and policies, in particular related to the improvement of the business environment, which remains one of the most challenging in the region. This is linked to the lack of a single economic space and a large and inefficient public sector with multiple overlapping competences, which continue to negatively influence the business environment and constrain private sector investment. Despite some fragmented recent progress, there are still important shortcomings in the regulatory environment. Barriers include high compliance costs to regulatory burdens, implementation gaps of laws and regulations on entity and sub-entity level, with sometimes contradictory regulations; and lack of coherent country-wide

quality infrastructure. The informal economy is a main impediment for both entities toward providing access to finance to SMEs and facilitating their growth and creation and hence increasing productivity. In addition, in this framework of creating a more workable business environment and stimulating industrial and service sectors, more progress is needed in addressing shortcomings of the education system, further improving the core networks of transport and energy and streamlining export procedures.

In light of this assessment, concerning Part I of the Economic Reform Programme Participants hereby invite Bosnia and Herzegovina to:

1. Improve the budget management framework by adopting and implementing the Law on Fiscal Responsibility in Republika Srpska, especially including the establishment of a Fiscal council and the adoption of a fiscal rule. Take steps to address obstacles to an efficient implementation of the Law on Budgets in the Federation, in particular the functioning of the Fiscal coordination body. Continue with the improvement of expenditure controls, fiscal discipline, budget reporting methods and the efficiency of tax authorities of lower levels of government.
2. Improve the composition of public spending to increase the fiscal space for capital investments by containing current expenditures through curbing the public sector wage bill and more efficiently allocating staff in the civil service at all levels of government. Take steps to better target social expenditures through extensive audits and finalisation of the establishment of the Single Registry of Beneficiaries of Cash Payments without Contribution in the Federation.
3. Take steps to advance restructuring and privatisation and improve the efficiency and corporate governance of companies with state ownership, notably in the Federation, to relieve the substantial burden on public finances.
4. Take steps to continue with the set-up of registry of para-fiscal fees to relieve burden on businesses without endangering the sustainability of public finances. Continue to reduce costs of business entry and exit and simplify the regulatory framework for the issuance of construction permits, especially in the Federation.
5. Reduce labour market rigidities by addressing disincentives to hiring, including taking further steps towards a reduction of the tax wedge while ensuring budget neutrality.
6. Finalize the development of a financial restructuring framework including to address the high burden of non-performing loans on bank balance sheets from both a stock and a flow perspective and thus help remove potential supply- and demand-side obstacles to credit extension. In this context, a strengthening of the crisis resolution framework would also appear warranted.

Concerning Part II of the ERP, Participants invite Bosnia and Herzegovina to:

7. Take steps toward the establishment of a single economic space by addressing the lack of internal coordination across all government levels.
8. Improve the business environment and support private sector development, including through the mutual recognition of business registration. Develop measures to provide targeted support for SMEs and to widen their access to finance. Tackle all forms of corruption, fraud and money laundering and informalities in the economy.

9. Develop a more strategic approach to tackle the deficiencies in the training and education system by effectively prioritizing measures based on a mapping of the skills gap taking into account the needs of industry, especially SMEs. Harmonise legislation and standards related to education and training at state and entity level, as well as at cantonal level, since the competence on education in FBiH is at cantonal level.
10. Develop a transport policy and strategy and an energy strategy at each level of government according to competencies, and embed them with the regional agenda on connectivity, including through the establishment of a credible planning of prioritized reforms with a timeline and funding mechanism (single project pipeline). The energy strategy should also consider substantial investments in a diversified power generation and on an effective distribution network.
11. Simplify the complex procedures for exports, ensure coordinated border controls and improve the border infrastructure system. Develop a comprehensive and strategic approach in the field of EU food safety and sanitary and phytosanitary standards to receive accreditation for exporting agricultural and food products to the EU.

*Kosovo**

In January 2015, Kosovo submitted its first Economic and Reform Programme (ERP) covering the period 2015-2017. The programme was prepared in the interim period between the June 2014 general elections and the formation of the new government in December 2014. This is reflected in the absence of clear mid-term reform planning and fiscal assessment, and in the focus on already approved or on-going reforms. In light of the Commission assessment, Participants were of the opinion that a strengthened overall fiscal framework with independent and unbiased monitoring and enforcement mechanisms is paramount to ensuring fiscal sustainability and preserving the growth-supporting composition of public spending.

Participants welcomed Kosovo's first ERP submission and see it as a first step in deepening the economic dialogue with the EU. The macroeconomic scenario underlying the programme, although over-optimistic regarding developments in 2014, appears plausible towards the end of the forecasting period. Key assumptions underpinning the presented growth scenario envisage the continuation of the private consumption growth trend, and a surge in private investments. The level of uncertainty facing Kosovo's economy remains high. Major risks to economic growth arise from Kosovo's dependency on the external and public sectors, the weak investment climate obstructing development of the currently still narrow domestic production base, and the low human capital endowment.

On account of the monetary and exchange rate policy regime currently in place[§], fiscal policy remains the only policy instrument available to smoothen the economic cycle. In this regard, and taking note of its inability to issue international debt, Kosovo needs to maintain a credible and prudent fiscal policy. Participants thus welcomed the expressed commitment towards preserving stable public finances in the ERP, but noted that current fiscal challenges facing Kosovo stem not from structural issues, but rather from ad-hoc policy-making especially in

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

§ Participants recall the Council position on unilateral euroisation from 2007 which should be fully taken into consideration by the Kosovar authorities.

election years, and a lack of credible medium-term budget planning. Overestimated 2015 budget revenues combined with the introduction of a generous public wage and current transfer package, and a persistent commitment to large infrastructure projects, provide for short term fiscal risks. Participants called for the development and implementation of consolidation measures to bring the budget deficit to the 2% of GDP threshold implied by Kosovo's fiscal rule which should not be regarded as an operational target but rather as a maximum ceiling.

Participants stressed that Kosovo faces a number of structural obstacles to competitiveness and long-term growth. Kosovo needs to strengthen competitiveness by improving its productivity and attracting further Foreign Direct Investment channelled more into production sectors of tradable goods. Investing more in import substituting sectors would help Kosovo to reduce its trade deficit. This should include primarily agricultural products and energy. Investments in physical and human capital are important to achieve this, as are efforts to strengthen export capacities as well as the integration of Kosovo businesses in the global supply chain, which is particularly difficult for Kosovo due to its political circumstances, and the EU single market. There are persistent labour market imbalances, with high unemployment rates of above 30% particularly among young people and women, and a predominance of long-term unemployment. Labour market policies should be complemented with higher and targeted expenditure on education focusing both on improving quality and on reducing the skills gap and the mismatch between labour demand and supply.

Kosovo's banking sector remains well capitalised and exhibits ample liquidity buffers. While non-performing loans appear to be contained, further progress in strengthening contract enforcement could help deepening financial intermediation, which remains low by peer economy standards. The high lending rates and the sizable spread over deposit rates partly reflect banks' high credit risk perception, related to wide-ranging informality in the corporate sector and to the legal environment.

The ERP correctly identifies most of Kosovo's competitiveness-related obstacles and outlines a number of relevant measures to address them. The planned investments in the transport and energy sectors have the potential to lead to stronger growth in the medium to long-term. In his context, the prioritisation of increased regional energy connectivity and energy security is considered relevant. However, the lack of a well-defined indication of budgetary implications regarding the majority of the measures related to transport is a major risk to fiscal discipline. Prioritisation of measures should be based on a cost-benefit analysis, including their fiscal impact. The initiatives identified under human capital are also in need of a clear prioritisation. Having largely exhausted its price/wage competitive advantage, Kosovo will have to compete on skills, which are lagging behind regional peers. Participants welcomed measures on basic education to capitalise on the demographic structure of Kosovo. They should be complemented by a general increase in budget spending in these areas. Similarly, the measures to improve SMEs' access to finance and reduce the administrative burden for business correspond well to the identified obstacles. The modernisation of customs services is an important step, as is the harmonisation of customs legislation with the EU acquis.

Hence, while acknowledging progress, Participants noted that there is room for further improving competitiveness and the business environment. The excessive number of measures proposed does not give a clear sense of the real priorities and Participants recommended that in 2016 their number should be reduced and more details provided in terms of funding sources with an analysis of the potential impact on competitiveness. Participants highlighted the

importance of further improving the weak rule of law, reducing the backlog in civil courts, improving the public procurement system and contract enforcement, while effectively fighting corruption and continuing to reduce the large informal economy.

In light of this assessment, concerning part I of the ERP, Participants hereby invited Kosovo to:

1. Sustain the commitment to fiscal discipline and improve transparency of public finances by considering establishing an independent fiscal council, or fiscal agency, with a clear mandate to preserve sustainability of public finances, and reduce deficit bias, and by better coordination between government and parliamentary bodies responsible for budgetary processes. Improve the budget process by legislatively strengthening the role of the Medium Term Expenditure Framework and enshrine principles of cost-benefit analysis as the basis of the policy planning process. Take steps to increase government deposits to the threshold implied by the fiscal rule (4.5% of GDP) to provide additional financing buffer.
2. Address immediate fiscal risks with necessary measures aimed at reducing unsustainably high current expenditures while preserving growth enhancing capital spending. Develop a legal framework for maintaining a sustainable public wage bill and strengthen targeting and means testing of transfers. Ensure planned increases in agricultural subsidies are directed exclusively at productivity increasing initiatives. Advance public administration reform with special attention on improving productivity and reducing costs. Take further steps in strengthening public finance management practices.
3. Modernize revenue collection to reduce reliance on customs receipts by improving property tax collection and strengthening the legal framework for collection of tax and municipal tax arrears. Revisit local government grant financing scheme to incentivise better collection of municipal revenues. Further broaden tax base by introducing the planned mandatory health sector contributions, and reassess planned tax exemptions.
4. Advance restructuring and restart the privatization of non-essential Publicly Owned Enterprises (POEs). Take steps to improve the efficiency and corporate governance of strategic POEs. Address the lack of quorum of the board of Privatization Agency of Kosovo (PAK) and accelerate privatization of Socially Owned Enterprises still in PAK's portfolio.
5. Address the underlying causes for high costs of bank-based financing, reduce the duration and cost of insolvency procedures by adopting the new bankruptcy law and further improve contract enforcement with a view to increase overall financial intermediation in the economy.

Concerning part II of the ERP, Participants invite Kosovo to:

6. Strengthen government oversight and consider setting up an advisory body to contribute to the assessment of future major infrastructure projects, including their fiscal impact and make sure they align with the regional agenda on connectivity (core network). Advance towards securing a reliable energy supply while ensuring the compliance with the EU environmental standards in the production of energy.
7. Improve the quality of education by continuing to roll out teacher licencing and training as well as improving quality assurance and strengthening related incentives; improve access to pre-primary and primary school education; accelerate modernization of vocational education, continue improve quality of higher education and improve focus on aligning

the education system so as to make it more responsive to the labour market. Assure the timely operationalisation of the recently established Public Employment Service and its effectiveness in lowering the high unemployment rate.

8. Continue to improve the business environment and continue with the clearing of court backlogs, strengthening capacities of judicial system, and developing cadastre databases. Advance measures to tackle informality in line with the strategy for the prevention and fight against informal economy, including incentives to reduce undeclared work. Reduce the administrative burden for business by implementing the Better Regulation Strategy and the Law on Permits and Licences. Develop measures to provide targeted support for SMEs and to widen their access to finance. Step up the fight against corruption and efforts to improve public procurement, by enhancing administrative capacity, increasing efficiency and effectiveness of the Public Review Board, and implementing central procurement.
9. Facilitate trade by amending the Customs Code and adopting new legislation on customs enforcement of IPR.
10. Adopt a holistic approach to Foreign Direct Investment that anchors supportive policies in a strategic framework and focus on removing existing obstacles. Increase investor protection by developing an investor after-care program and establish an investor grievance mechanism.

Turkey

Turkey's Economic Reform Programme, covering the period 2015-2017, was again submitted late on 13 March. The programme provides a macro-economic outlook, public finance projections, and an account of recent reforms in a number of sectors. However, it does not address all elements in the Commission's guidelines for such programmes, most notably the implementation of the policy guidance provided in the Conclusions of the Ministerial Dialogue between the Economic and Finance Ministers of the EU and the Candidate Countries on 6 May 2014.

The economy has expanded at a relatively moderate pace over the past three years. The macro-economic scenario underlying the programme projects stronger growth in conjunction with falling unemployment, an improving current account, and lower inflation.

In light of the Commission's assessment, Participants consider that the Turkish economy continues to face external and internal imbalances which call for adjustments of macro-economic policies. The implementation of comprehensive structural reforms should be accelerated to unleash the country's full economic potential and to support the reduction of macro-economic imbalances.

On the external side, Turkey faces a large current account deficit. It is associated with an annual financing requirement corresponding to around a quarter of GDP, including the re-financing of existing – primarily foreign currency-denominated – external debt. Currently, the external debt is refinanced without difficulties. Nevertheless, Turkey's dependence on large capital inflows is associated with the risk of sharp macro-economic adjustments, particularly in the context of sudden shifts in global risk sentiments. Without a significant reduction of the current account deficit, external debt sustainability may be at risk over the medium term.

On the internal side, inflation has remained in high single-digits which is problematic in terms of macro-economic stability, resource allocation and re-distributive effects. The central bank's unconventional monetary policy framework, implemented in late 2010, has failed to lower inflation to the 5% target and to anchor inflation expectations. Supply-side factors have contributed to the overshooting of the target. Although price stability is the central bank's primary objective, it has simultaneously pursued secondary, sometimes conflicting, goals. It appears advisable for the authorities to let monetary policy focus firmly on the pursuit of price stability and address the secondary goals with prudential, fiscal or structural policies. A tighter monetary policy stance ensuring positive real interest rates would help to lower inflation, better shield the exchange rate against domestic or external shocks and contribute to the reduction of external imbalances by raising the chronically low private saving rate.

Public finances have shown moderate headline deficits in recent years with expenditures tending to exceed budgetary limits. The debt-to-GDP ratio has fallen significantly, attaining a sustainable level, and is approaching 30%. However, the general government structural balance has been significantly negative in spite of the large current account deficit and relatively high inflation. The programme projects a gradually narrowing of the structural deficit in 2015-2017.

The need to reduce the structural external imbalance also calls for improvements in the international competitiveness of Turkish goods and services through increased productivity. In this regard, structural and governance reform is key, including increased labour market flexibility, a better educated and trained labour force, and improvements to the business environment.

In light of this assessment, Participants hereby invite Turkey:

1. to promote domestic saving in view of the persistently large current account deficit. Fiscal policy has an important role to play in this regard by following a sufficiently restrictive stance. Reducing the rigidity of public expenditures would help to make the fiscal policy stance more responsive to macroeconomic needs. The adoption of a fiscal rule would enhance budget transparency, provide an important fiscal anchor and enhance credibility.
2. to continue to take consistent steps to reinforce the focus of monetary policy on the pursuit of price stability, with other policy objectives being pursued with separate measures, and thereby contribute to improving both the functioning and the credibility of the inflation targeting regime.
3. to make sustained efforts to improve the business environment and Turkey's attractiveness as an investment destination, not least for foreign direct investments, in view of the continuing dependence on large capital inflows. This requires wide-ranging reforms, including strengthening the rule of law, making it easier to start businesses, and strengthening competition through continued liberalisation of product and service markets.
4. to accelerate the implementation of a comprehensive structural reform programme. Overall, this is essential to improve the functioning of the markets for goods, services and labour which, in turn, would increase potential growth and international competitiveness on a sustainable basis. In particular, Turkey should upgrade and make better use of its human capital through the pursuit of the education agenda and the deepening and widening of labour market reforms. Specifically, the qualifications of low-skilled workers should be improved through training and female labour force participation should be stimulated through flexible working conditions.

Overall, Participants underlined their commitment to this surveillance process which should ensure a continued anchoring of medium-term economic programmes and commitment to structural reforms by the Western Balkans and Turkey. Participants encouraged the Western Balkans and Turkey to make further progress with respect to their macroeconomic, budgetary and structural policies. The dialogue will continue in 2016, including on the implementation of the 2015 conclusions.