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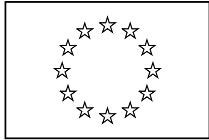
NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee (part 2)/Council
Subject:	EFC President letter: Review of the Commission's In-depth Reviews and the Country Reports

Delegations will find attached the letter from the President of the EFC addressed to the President of the ECOFIN Council on the Review of the Commission's In-depth Reviews (IDRs) and the Country Reports.



ECONOMIC AND FINANCIAL COMMITTEE

THE PRESIDENT

Brussels, 6 May 2019
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Eugen Teodorovici
President of the ECOFIN Council

Review of the Commission's In-depth Reviews and the Country Reports

Dear Eugen,

I would like to report to you on our review work on the Commission's 28 Country Reports, following preparation by the EPC.

The Country Reports cover overall economic developments and particularly assess the progress made by each Member State in addressing the Country Specific Recommendations which the Council agreed last year. The reports also include the In-Depth Reviews for the 13 Member States identified as exhibiting macroeconomic imbalances. Drawing upon this analysis we have drafted a set of Council Conclusions, which cover the main messages from the Country Reports, the In-depth reviews, and regarding the implementation of the Country Specific Recommendations.

We generally concur with the Commission's findings. We welcomed the high quality and comprehensive analysis. The analysis in the In-Depth Reviews indicates that the correction of macroeconomic imbalances in the EU has been progressing, thanks to both GDP growth and Member States' policy efforts. Nevertheless, vulnerabilities remain, especially where linked to persisting stock imbalances. This reduces the room for absorbing future negative economic shocks. In all country cases, the Committees supported the Commission's categorisation of imbalances and the underlying analysis; however, in a few cases, further improvements in the communication of the reasons for changing or activating the imbalance categorisation would be welcome.

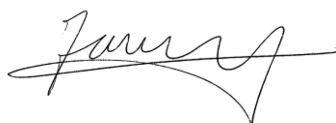
We also agreed in general with the Commission's assessment of the implementation of the Country-Specific Recommendations. The overall track record on implementation is not very strong and is not improving over time. It was widely recognised that a lot remains to be done. Investment is still recovering from the crisis years and productivity performance is lagging behind our main competitors. The more uncertain economic climate and mounting risks create more urgency to complete reforms.

Alongside the draft Council conclusions, which we submit for your approval, the 28 Country Fiches prepared by the EPC are annexed for your information. These cover an assessment of progress in tackling macroeconomic imbalances and in implementing the 2018 Country-Specific Recommendations.

To facilitate the discussion among Ministers, I would like to suggest some questions for debate:

In the context of a more uncertain economic climate and mounting risks, what are the most pressing reform priorities? In particular, how best to tackle the challenge of low productivity and low potential growth in a context of deteriorating cyclical conditions? What role can the National Productivity Boards play in raising awareness of policy gaps and in shaping policy?

Yours sincerely,



Hans Vijlbrief

Annex:

EPC Country Fiches from the Examination of the 2018 Country Reports and in-depth reviews:

Countries found by the Commission to be exhibiting excessive imbalances:

Croatia

Summary of the EPC discussion on the Commission's country report and classification of imbalances from the In-depth Review

On the basis of its discussion, the **EPC**:

Agrees with the Commission conclusion that the main challenges facing Croatia are vulnerabilities linked to high levels of public, private and external debt in a context of low potential growth.

Agrees that Croatia is (re-classfied as) exhibiting macroeconomic imbalances in the context of the MIP. While no member questioned the de-escalation as such, some called for a more transparent presentation of the reasons for the de-escalation. The high levels of public, private and external debt have narrowed over the past years. This was supported by robust nominal growth, above estimated potential, and a prudent fiscal policy. The negative net external position remains large, but has been improving due to continued current account surpluses. Private sector deleveraging is ongoing, though its pace is set to abate as credit growth and investment recover. The budget balance has been in surplus since 2017 and public debt has declined notably since its 2014 peak. The financial sector is well-capitalised and profitable while non-performing loans, although declining, remain elevated. The foreign currency exposure of corporations and households has reduced, but remains a vulnerability.

Policy action has been stepped up with the adoption of a pension reform and new legislation to improve the fiscal framework. Other relevant policy measures are in the pipeline and their thorough implementation remains crucial for strengthening the resilience of the economy.

The EPC acknowledges that the contribution of a stronger policy agenda in the context of supporting economic growth has contributed to a reduction in imbalances. But stocks remain elevated and potential growth prospects are still low. The intention of Croatia to join ERM II will require a closer look at the policy agenda.

To support the EPC discussion, LIME *broadly concurs* with the technical analysis in the IDR with regard to the gravity and evolution of challenges. The group assesses as appropriate the analytical tools used, notably on external and domestic debt and potential growth. Nonetheless, members signalled that further analysis could be carried out relative to the structural versus cyclical nature of the improvement in public finances as well as the impact of the pension reform on fiscal sustainability and labour supply. The importance of improving the reliability and completeness of statistics was acknowledged.

CSR Implementation

Looking at the multi-annual assessment of the implementation of the CSRs since 2014, 19% of all the CSRs addressed to Croatia have recorded ‘substantial progress’ or ‘full implementation; 32% 'some progress' and 49% 'limited' or 'no progress'.

Agrees with the Commission’s overall assessment that **some progress** has been made in implementing the 2018 recommendations of EPC competence. Under CSR1 there has been **no**

progress in introducing a recurrent property tax. Under CSR2 **substantial progress** has been made to reform the pensions system, **some progress** to deliver the education and training reform, and **limited progress** to consolidate social benefits. Under CSR 3 **some progress** is seen with the public administration reform and **limited progress** in harmonising wage setting in the public sector. Under CSR 4 **limited progress** has been made to improve corporate governance and divestment in state-owned enterprises, **some progress** to reduce the burden on business, **limited progress** in enhancing competition in business services and regulated professions, and **some progress** in the judicial reform.

CYPRUS

Summary of the EPC discussion on the Commission's country report and classification of imbalances from the In-depth Review

On the basis of its discussion, the EPC:

Agrees with the Commission conclusions that the main challenges facing **Cyprus** are, albeit declining, a very high share of non-performing loans burdening the financial sector, and a high stock of private, public, and external debt hanging on the economy, in a context of still relatively high, even though declining, unemployment and weak potential growth.

Agrees that Cyprus is exhibiting excessive macroeconomic imbalances in the context of the MIP. The current account deficit is significantly negative, even taking into account the presence of special purpose entities, reflecting strong domestic demand as well as the negative saving among households, and is not adequate to guarantee a sustainable adjustment of the large stock of net external liabilities. Deleveraging of private sector debt is ongoing. New lending to the private sector remains limited.

The transfer of a significant portfolio of non-performing loans from the Cyprus Cooperative Bank to a State-owned Asset Management Company in the context of the bank's sale and wind-down reduced significantly the share of non-performing loans in the banking system, along with measures undertaken by banks, such as the sale of loans, loan restructurings etc. However, non-performing loans remain high for both households and corporations, though a further significant decrease is anticipated with the implementation of the ESTIA support scheme. The government support in the sale of the Cyprus Cooperative Bank had a one-off increasing impact on public finances in 2018. Looking forward, the high public debt is expected to be on a declining path on the back of expected strong fiscal performance.

Compared to last year, the reform momentum has been stepped up especially on the front of measures to address the vulnerabilities from non-performing loans, but more progress is needed on structural reforms to increase the growth potential. *The EPC notes that* that the stock imbalances, which have accumulated over past years, remain sizeable and large vulnerabilities remain.

To support the EPC discussion, **LIME** *broadly concurs* with the technical analysis in the IDR with regard to the gravity and evolution of challenges. The group assesses as appropriate the analytical tools used, notably on external sustainability, public finances, private deleveraging, financial sector developments including NPLs, and potential growth, as well as on the more structural issues. Nonetheless, members signalled that further analysis could be carried out regarding the connection of special purpose entities to the domestic economy and how to take their presence into account in the reading of statistics while remaining prudent.

CSR Implementation

Looking at the multi-annual assessment of the implementation of the CSRs since 2011, 23% of the CSRS addressed to Cyprus have seen substantial progress or full implementation; 40% have seen 'some progress', and 37%, of the CSRs recorded 'limited' or 'no progress'.

Agrees with the Commission overall assessment that **some progress** has been made in implementing the 2018 CSRs of EPC competence. Under CSR 1 **limited progress** has been made on improving the efficiency of the public sector. Under CSR 2 **limited progress** has been made on the revision of civil procedure rules, on increasing the specialisation of courts, and on ensuring reliable and swift systems for issuing and transferring of title deeds. Cyprus argues that some, rather than limited, progress has been made on the reform of the judicial system. However, **substantial progress** has been made on improving the operationalisation of the insolvency and foreclosure frameworks.

Under CSR 3 **substantial progress** has been made on the measures for a more effective enforcement of claims and facilitating the sale of loans but **no progress** has been made on the integration and strengthening of the supervision of insurance companies and pension funds.

,Under CSR 4 on the action plan for growth, which is gradually being implemented, **some progress** was recorded as regards the access to finance for SMEs, no progress has been made in the adoption of the new legislation for strategic investments and **limited progress** has been made with regards to the implementation of the privatisation plan. And under CSR 5 **some progress** has been made on the national health system, while **limited progress** has been made on a range of labour market reform challenges.

Italy

Summary of the EPC discussion on the Commission's country report and classification of imbalances from the In-depth Review

On the basis of its discussion, the **EPC**:

Agrees with the Commission conclusion that the main challenges facing Italy are high government debt and protracted weak productivity dynamics implying risks with cross-border relevance, in a context of still high level of non-performing loans and high unemployment.

Agrees that Italy is exhibiting excessive macroeconomic imbalances in the context of the MIP and that, compared to last year, the prospects for the correction of imbalances have worsened. The government debt ratio is not expected to decline in the coming years, as the weak macroeconomic outlook and the government's current fiscal plans, though less expansionary than its initial plans for 2019, will entail a deterioration of the primary surplus. Cost competitiveness is stable, but weak productivity growth persists. This is rooted in long-standing issues with the functioning of labour, capital and product markets, compounded by weaknesses in the public administration and justice system, which drags down potential GDP growth. The stock of non-performing loans has continued to decline significantly, but maintaining the pace of reduction of non-performing loan could prove challenging given market conditions. Higher sovereign yields compared to the levels of early 2018 are affecting banks' funding costs and capital buffers weighing on lending to the rest of the economy and on GDP growth.

Despite some progress in banks' balance sheet repair, insolvency reforms and active labour market policies, the EPC agrees with the Commission assessment that reform momentum broadly stalled in 2018. The 2019 budget includes policy measures that reverse elements of previous important reforms, in particular in the area of pensions, and does not include effective measures to increase potential growth.

The EPC acknowledges that Italian authorities have a more optimistic view on the present government's policy agenda than the Commission. EPC notes that progress was achieved notably in terms of a lower legacy stock of NPLs, but key challenges remain linked to low productivity prospects and a very high public debt, which is not yet on a stable downward trajectory in a context of weakening economic activity. This underscores the importance of the quality of upcoming reform commitments and implementation.

To support the EPC discussion, **LIME** *concurs* with the technical analysis and the main findings of the IDR with regard to the gravity and evolution of imbalances and considers the topics identified in the 2018 report appropriate. The group assesses as appropriate the analytical tools used and IDR focus on productivity growth, public indebtedness, external competitiveness, NPLs and the labour market. Nonetheless, members signalled that a deeper analysis might be warranted on the drivers behind low productivity, on the impact of recent reforms and reform plans, the cyclicality of TFP growth and on spillover analysis including inward spillovers to Italy.

CSR Implementation

Looking at the multi-annual assessment of the implementation of the CSRs since 2011, 26 % of all CSRs have seen either full implementation or substantial progress; 31% "some progress**",** and 43% limited or no progress.

Agrees with the Commission's overall assessment that **limited progress** has been made in implementing the 2018 recommendations of EPC competence. Under CSR 1 **limited progress** has been made to strengthen the use of electronic invoicing and payments, and **no progress** to reduce the share of old-age pensions in public spending. Under CSR 2 there has been **no progress** in reducing trial lengths and in addressing restrictions to competition, **limited progress** in ensuring the enforcement of the new framework for publically owned enterprises, and **some progress** in stepping up the fight against corruption. Under CSR 3 **some progress** has been made to address NPLs and bank restructuring, an**d limited progress** in improving market based access to finance. Under CSR 4 **some progress** has been made to implement ALMP reform, but **limited progress** in encouraging the labour market participation of women, or to better target investment and increase participation in vocational training.

Countries found by the Commission to be exhibiting imbalances:

Bulgaria

Summary of the EPC discussion on the Commission's country report and classification of imbalances from the In-depth Review

On the basis of its discussion, the **EPC**:

Agrees with the Commission conclusions that the main challenges facing **Bulgaria** are vulnerabilities in the financial sector coupled with high indebtedness and non-performing loans in the corporate sector.

Agrees that Bulgaria is exhibiting macroeconomic imbalances in the context of the MIP. Steps have been taken to strengthen the stability of the financial sector. Banks and other financial corporations have made further progress in implementing the recommendations addressed after the asset quality and balance sheet reviews and supervision has been strengthened. However, fragilities linked to weak governance, asset quality and supervision remain, while new challenges are emerging in the insurance sector. The robust growth has supported continuous private deleveraging and further decreases in non-performing loan ratios, but stocks of non-performing loans in the corporate sector are still elevated.

While there is progress in addressing sources of imbalances, the full implementation and monitoring of recent reforms to supervision and governance in the bank and non-bank financial sectors will be crucial. More action is also needed to reduce the stock of non-performing loans and to complete the reform of the insolvency framework. The intention of Bulgaria to join ERM II will require a continued close look at the policy agenda as challenges remain. The Bulgarian authorities and the Commission have somewhat differing views on the adequacy of the measures taken to meet the challenges in the insurance sector with Commission calling for a more profound and systemic solution. The issue might be brought up by Bulgaria at the bilateral discussions ahead of the NRP.

To support the EPC discussion, **LIME** *broadly concurs* with the technical analysis in the IDR with regard to the gravity and evolution of challenges. The group assesses as appropriate the analytical tools used, notably in the area of financial sector developments, corporate indebtedness, deleveraging, and on labour market adjustment. No major analytical gaps were identified.

CSR Implementation

Looking at the multi-annual assessment of the implementation of the CSRs since 2011, 57 % of all the CSRs addressed to Bulgaria have seen 'some progress' in their implementation. On 18%, Bulgaria made 'substantial progress' or fully implemented them. 25 % of the CSRs recorded 'limited progress'.

Agrees with the Commission assessment that **some progress** has been made under CSR1 overall, in terms of improving tax collection, and stepping-up enforcement measures to reduce the extent of the informal economy, and to upgrade the State owned enterprise corporate governance framework. **Some progress** has been made under CSR2 overall, in terms of strengthening the financial sector, with limited progress in completing the reform of the insolvency framework and promoting a

functioning secondary market for non-performing loans. **Limited progress** has been made overall under the labour market and social inclusion CSR 3.

Germany

Summary of the EPC discussion on the Commission's country report and classification of imbalances from the In-depth Review

On the basis of its discussion, the EPC:

Agrees with the Commission conclusions that the main macroeconomic imbalance in Germany is the persistently high but slowly declining current account surplus, reflecting a subdued level of investment relative to saving in both the private and the public sector, which has cross-border relevance. This is in spite of an increasing need for investment and innovation to make the German economy more resilient and to ensure a sustainable and inclusive growth model.

Agrees that Germany is exhibiting macroeconomic imbalances in the context of the MIP. The surplus slightly narrowed in 2018 in the context of a pick-up in domestic demand and is expected to continue to decline gradually in the coming years while remaining at a historically high level. The surplus is mainly with non-EU countries.

The EPC acknowledges that the current account surplus has gradually adjusted (but remains well above the MIP threshold), private and public investment have increased noticeably and there is a shift towards more domestic demand-driven growth. Yet investment and consumption remain muted as a share of GDP despite the favourable financing conditions, the persistent infrastructure and education investment needs, especially at municipal level and the available fiscal space. While a number of measures have been taken to strengthen private and public investment, more efforts are needed to clear the large investment gap particularly as regards public investment in infrastructure and education.

To support the EPC discussion, **LIME** *concurs* with the technical analysis and the main findings of the IDR with regard to the gravity and evolution of imbalances and considers the topics identified in the 2019 report appropriate. The group assesses as appropriate the analytical tools used, notably the analysis of the current account surplus and the relationship between savings and investment. Some members signalled possible areas where more analysis would be helpful, such as the developments and impact of housing, the situation of the banking sector at regional level, a sectorial decomposition of the current account surplus and the role of public wages in guiding private wages. Members also signalled that risks may develop due to external shocks and developments including increasing protectionism.

CSR Implementation

Looking at the multi-annual assessment of the implementation of the CSRs since 2011, 16% of all CSRs addressed to Germany have seen 'substantial progress' or ‘full implementation’, On 35%, Germany made 'some progress' and on 49% ‘limited progress’ or ‘no progress’.

Agrees with the Commission's overall assessment that Germany has made **limited progress** in addressing the 2018 CSRs of EPC competence, noting that further progress has been made since the

publication of the country report. Under CSR1 **limited progress** has been made overall, and some progress in achieving a sustained upward trend in public and private investment. Germany felt that some progress had been made in implementing CSR1. Germany has made **some progress** in addressing CSR2 and in particular in reducing disincentives to work more hours, reducing the high tax wedge for low-wage earners and in creating conditions to promote higher wage growth.

GREECE

Summary of the EPC discussion on the Commission's country report and classification of imbalances from the In-depth Review

On the basis of its discussion, the **EPC**:

Agrees with the Commission conclusions that the main challenges facing Greece are vulnerabilities linked to high government indebtedness, the negative external position, the high share of non-performing loans, incomplete external rebalancing, in a context of high although declining unemployment and low potential growth..

Agrees that Greece is exhibiting excessive macroeconomic imbalances in the context of the MIP. Greece managed to successfully exit the European Stability Mechanism support programme in August 2018 after making substantial improvements in recent years. Nonetheless, large stock imbalances remain, including a deeply negative net international investment position that is still deteriorating amid moderate nominal GDP growth and a current account balance that remains negative.

There have been considerable improvements in cost competitiveness in past years which stalled recently in light of subdued productivity growth. While the level of public debt remains high, it is mostly held by the official-sector creditors and financing needs will be relatively low for at least a decade. The pace of debt reduction crucially depends on the continued achievement of the agreed fiscal targets and implementation of reforms to generate a sustainable increase in the growth potential. The financial sector is vulnerable due to a very large stock of non-performing loans and a low profitability, hampering credit growth and the recovery of investment. Private debt is decreasing while active deleveraging is still ongoing.

The EPC Acknowledges that wide-ranging measures were taken during the financial assistance programmes to address many of the structural weaknesses of the Greek economy. On top of consolidating earlier reforms and adjustment efforts, the authorities have committed to ensure continuity and completion of reforms, which are monitored in the framework of enhanced surveillance. Greece has achieved significant improvements in recent years, particularly in cost competitiveness, and wide-ranging measures to address many of the structural weaknesses of the Greek economy. Notes however the persistence of large stock imbalances, low growth potential, and financial sector vulnerabilities notably linked to a strong incidence of NPLs.

To support the EPC discussion, **LIME** *broadly concurs* with the technical analysis in the IDR with regard to the gravity and evolution of challenges. The group assesses as appropriate the analytical tools used, notably on external and public debt, the banking sector and NPLs, potential growth, and labour market developments. Nonetheless, members signalled that further analysis could be carried out regarding the impact of the recent minimum wage increase, competitiveness and potential growth drivers, and the role of tourism sector in the Greek recovery.

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SPAIN

Summary of the EPC discussion on the Commission's country report and classification of imbalances from the In-depth Review

On the basis of its discussion, the **EPC**:

Agrees with the Commission conclusions that the main challenges facing Spain are that although economic growth remains robust, large stocks of external and internal debt, both public and private, continue to constitute vulnerabilities in a context of still high unemployment and have cross-border relevance.

Agrees that Spain is exhibiting macroeconomic imbalances in the context of the MIP. The rebalancing in the external sector has continued even if the current account surplus weakened in 2018, reflecting factors linked to the global environment. Sustained current account surpluses over an extended period of time will be needed to bring net external liabilities down to prudent levels. Debt reduction for the private sector also progressed, on the back of robust nominal growth. The NPL ratio has decreased further. Public debt has decreased slightly, with narrowing deficits forecast to support its further gradual reduction. Still, further efforts will be needed to bring public finances onto a more sustainable path. Unemployment has continued its rapid decline, but remains high.

Implementation of policy action to raise potential growth has been slow. Challenges remain, in particular concerning research and innovation, business regulation, notably for services, and in labour market segmentation, though with some progress in this area.

Acknowledges that the correction of imbalances has continued but that vulnerabilities remain as regards stock imbalances. Notes the recovering credit developments for households and that the absence still of an agreed budget for 2019 and the upcoming elections may require a reassessment of fiscal risks. It also notes the stubbornly high unemployment rates, especially for young and low skilled people.

To support the EPC discussion, **LIME** *broadly concurs* with the technical analysis in the IDR with regard to the gravity and evolution of challenges. The group assesses as appropriate the analytical tools used, notably on the net international investment position, private and public debt and labour market developments. Nonetheless, members suggested that more analyses could be useful as regards the impact of the resuming household credit growth, the composition of debt of non-financial corporations, the impact of the minimum wage increase and regional developments on the housing market.

CSR Implementation

Looking at the multi-annual assessment of the implementation of the CSRs since 2011, 34% of all the CSRs addressed to Spain have seen 'substantial progress' or full implementation. On 40%, Spain made 'some progress' and in 26% of the CSRs 'limited' or 'no progress'.

Agrees with the Commission overall assessment that **limited progress** has been made in implementing the 2018 CSRs of EPC competence. Under CSR 1 **limited progress** has been made in strengthening the public procurement framework. Under CSR 2 overall **limited progress** has been made across a range of labour market reforms, with **some progress** in fostering transition towards open-ended contracts. Under CSR 3 **limited progress** has been made on enhancing the evaluation culture for innovation, on increasing the level of public investments in research and innovation and on implementing the law on market unity.

FRANCE

Summary of the EPC discussion on the Commission's country report and classification of imbalances from the In-depth Review

On the basis of its discussion, the EPC:

Agrees with the Commission conclusion that the main challenges facing France stem from high public debt and weak competitiveness dynamics in a context of low productivity growth, which carry cross-border relevance.

Agrees that France is experiencing macroeconomic imbalances. Government debt was broadly stable in 2018, although at an elevated level. It is forecast to recede only marginally. The high level of public debt reduces the fiscal space available to respond to future shocks and weighs on growth prospects. Unit labour cost increases continue to be moderate in a context of low productivity growth. Some elements of the business environment still weigh on non-cost competitiveness.

Reforms have been taken in recent years, with progress on several fronts including labour markets, taxation and business environment. However, the effects of these reforms still have to fully materialise while further action is warranted in other fields, such as the reform of the unemployment benefit system, the reform of the pension system, and the spending review to ensure the sustainability of public finances and to enhance the growth potential. The economy would further benefit from simplifying the tax system, improving the performance of the innovation system and access to the labour market for jobseekers as well as increasing competition in services. The French authorities reassurance regarding the determination of the present government to implement its reform agenda amidst the social unrest was noted and welcomed. Successful execution of reforms poses a major communication challenge to win public support.

To support the EPC discussion, LIME *broadly concurs* with the technical analysis in the IDR with regard to the gravity and evolution of challenges. The group assesses as appropriate the analytical tools used, notably on competitiveness, unit labour costs, and public indebtedness. Nonetheless members signalled some areas where more analysis would be welcome such as the interplay between public and private debt and why this represents a vulnerability for France, labour productivity in market service sectors, competitiveness developments (including non-cost competitiveness), the links between current account developments and NIIP as well as the link between foreign direct investments and current account, reform fatigue, and trajectories for stock imbalances.

CSR Implementation

Looking at the multi-annual assessment of the implementation of the CSRs since 2011, 14% of all the CSRs addressed to France have recorded ‘substantial progress’, 55% 'some progress', 31% 'limited' or 'no progress'.

Agrees with the Commission overall assessment that **some progress** has been made in implementing the 2018 country-specific recommendations of EPC competence. Under CSR1 **limited progress** has been made in reforming the pension regime. Under the range of labour market reforms in CSR 2 **some progress** has been made overall. Taking into account reforms adopted also in 2016 and 2017, France was of the view that more progress has been made in the labour market domain than is reflected in the Commission assessment of the 2018 CSR 2 over the period covered by the 2019 Country Report. Under CSR3 on the business environment **some progress** has been made to simplify the tax system and to reduce the regulatory and administrative burden for increasing competition in the service sector and fostering firms' growth. There has been **limited progress** to improve the performance of the innovation system.

Ireland

Summary of the EPC discussion on the Commission's country report and classification of imbalances from the In-depth Review

On the basis of its discussion, the **EPC**:

Agrees with the Commission conclusion that the main challenges facing Ireland are large stocks of private and public debt and net external liabilities that constitute vulnerabilities. However, stock imbalances are under substantial correction.

Agrees that Ireland is exhibiting macroeconomic imbalances in the context of the MIP. The activities of multinational firms with little connection to the domestic economy heavily influence net foreign liabilities which are falling on the back of large current account surpluses. The stock of private debt remains high but economic growth continues to support private deleveraging. The activities of multinational enterprises continue to influence corporate debt. Household debt appears broadly in line with fundamentals although it is high compared with disposable income. Government debt is projected to remain on a downward trajectory, while the deficit is moving closer to a balanced position. House prices have been growing at a rapid pace for a number of years but have slowed down recently. House prices are largely driven by supply constraints and there is no clear evidence of overvaluation. The stock of non-performing loans, although still high, has decreased further even if long-term arrears are falling at a slower pace.

Policy action addressing these vulnerabilities has been taken, notably in the field of housing supply and macroprudential policy, but some measures will take time to generate the expected effects.

Acknowledges that the correction of imbalances has continued but vulnerabilities remain as regards stock imbalances. Notes that downsize risks related to the growth outlook remain, and that it will be important to address expected increases in age-related expenditures.

To support the EPC discussion, LIME *concurs* with the technical analysis and the main findings of the IDR with regard to the gravity and evolution of imbalances and considers the topics identified in the 2018 report appropriate. The group assesses as appropriate the analytical tools used, notably in the areas of the financial sector (NPLs), public debt, external sustainability and the housing market. The efforts to take into account the role of MNEs in reading developments are appreciated. Further analysis could be carried out on the transmission channels of house price increases to the economy. Members also signalled the relevance for Ireland of the Brexit process while recognising that the country reports do not assess risks from this source across the board.

CSR Implementation

Looking at the multi-annual assessment of the implementation of the CSRs since 2011, 21% of all the CSRs addressed to Ireland have recorded ‘substantial progress’ or ‘full implementation’; 46% 'some progress' and 21% of these CSRs recorded 'limited' or 'no progress'.

Agrees with the Commission’s overall assessment that **some progress** has been made in implementing the 2018 recommendations of EPC competence. Under CSR1 **limited progress** has been made in limiting tax expenditure and addressing the expected increase in age-related expenditure. Under CSR 2 **some progress** has been made on the implementation of the National Development Plan and to prioritise the up-skilling of the adult working-age population. Under CSR 3 **limited progress** has been made in fostering productivity, but **substantial progress** in promoting faster and durable reductions in long-term arrears.

THE NETHERLANDS

Summary of the EPC discussion on the Commission's country report and classification of imbalances from the In-depth Review

On the basis of its discussion, the EPC:

Agrees with the Commission conclusions that the main challenges facing **the Netherlands** are the high stock of private debt and the large current account surplus that constitute sources of imbalances, with cross-border relevance.

Agrees that the Netherlands is exhibiting macroeconomic imbalances in the context of the MIP. The surplus peaked in 2017 at a very high level, and it is expected to decline gradually although remaining very elevated. Part of the external surplus can be attributed to statistical features linked to the role of multinational companies and is not expected to attenuate in the near future. Supported by economic growth, the private debt-to-GDP ratio has continued its downward trend both for corporate and households, although remaining elevated. Nevertheless, nominal household debt is slowly increasing on the back of dynamic house price growth. Wage growth has so far been moderate despite the tightening labour market.

Acknowledge that recent reforms, such as the speeding-up of the reduction of mortgage interest deductibility, are expected to reduce the debt bias for households, while fiscal stimulus is expected to contribute to support aggregate demand. Notes that the relatively low number of working hours for women could warrant further attention.

To support the EPC discussion, LIME *broadly concurs* with the technical analysis in the IDR with regard to the gravity and evolution of challenges. The group assesses as appropriate the analytical tools used, notably on the current account surplus (and the contribution of the corporate sector to this) and private (household) debt. Nonetheless, some areas could deserve more analysis such as the drivers of the current account surplus and specifically the impact of multinational firms and the possible link with tax incentives as well as a comparative analysis to other countries with similar issues.

CSR Implementation

Looking at the multi-annual assessment of the implementation of the CSRs since 2011, 44% of all the CSRs addressed to the Netherlands have seen 'substantial progress' or fully implemented; 32% have seen ‘some progress and 24% of the CSRs recorded 'limited' or 'no progress'.

Agrees with the Commission's overall assessment that **some progress** has been made in addressing the 2018 recommendations of EPC competence. Under CSR 1 **substantial progress** has been made through additional R&D spending, and **some progress** on housing market reform. Under CSR 2 on the labour market **limited progress** has been made in addressing labour market segmentation, **no progress** in tackling bogus self-employment, **some progress** to create the conditions for wage growth, and **limited progress** in the reform of the second pillar of the pension system.

PORTUGAL

Summary of the EPC discussion on the Commission's country report and classification of imbalances from the In-depth Review

On the basis of its discussion, the **EPC**:

Agrees with the Commission conclusion that the main challenges facing Portugal are the large stocks of net external liabilities, private and public debt, and a high share of non-performing loans constitute vulnerabilities in a context of low productivity growth.

Agrees that Portugal is experiencing macroeconomic imbalances as classified by the Commission, while two members considered Portugal to be a borderline case. The current account is broadly balanced but a continued prudent position and the maintenance of competitiveness gains are required to ensure the adjustment of net external liabilities to prudent levels. Private debt ratios continue to decline from high levels on the back of nominal growth with a reduced role of active deleveraging. Government debt started declining as from 2017 backed by significant fiscal-structural adjustment and other cost-saving debt measures, such as the early repayment to the IMF and high primary surpluses while remaining elevated. Risks in the banking sector have diminished including in light of recapitalisations of major banks in 2017 and a recent improvement in profitability. The stock of non-performing loans has been steadily decreasing at an ambitious pace but remains comparatively high. Ensuring higher productivity growth is key for improved prospects in competitiveness, deleveraging and potential growth. The labour market adjustment has progressed further and unemployment has been decreasing at a strong pace for several years.

There has been policy action to address the level of non-performing loans but policy gaps remain in other areas, such as product and service markets. The adoption and implementation of several reform plans, including fiscal-structural reforms to improve the sustainability of public finances, will need to be monitored.

The EPC acknowledges that the correction of imbalances has continued, but Portugal still has vulnerabilities linked to external debt, private and public debt, NPLs and productivity. Notes that the developments in housing markets should be closely monitored.

To support the EPC discussion, **LIME** *concurs* with the technical analysis and the main findings of the IDR with regard to the gravity and evolution of imbalances and considers the topics identified in the 2018 report appropriate. The group assesses as appropriate the analytical tools used, notably in the areas of external, public and private debt, banking sector vulnerabilities and weak labour productivity. Nonetheless, members signalled that further analysis could be carried out relative to the resilience of the economy to external and domestic shocks, the impact of demographics on potential growth and on the impact of the ongoing amendments to labour market regulations.

CSR Implementation

Looking at the multi-annual assessment of the implementation of the CSRs since 2011, 14% of all the CSRs addressed to Portugal have recorded 'substantial progress' or full implementation; 52% 'some progress' while 34% of these CSRs recorded 'limited' or 'no progress'.

Agrees with the Commission's overall assessment that **some progress** has been made in implementing the 2018 recommendations of EPC competence. Under CSR 1 **limited progress** has been made in putting hospital arrears on a steadily declining path, and on improving the financial sustainability of state-owned enterprises. Under CSR 2 there have been **some progress** to promoting hiring on open-ended contracts, to increase adult skills, including digital literacy, and to improve education uptake. Under CSR 3 there has been **some progress** to increase the efficiency of insolvency proceedings and reduce impediments to the secondary market of NPLS, to improve access to finance, to reduce the administrative burden and increase the efficiency of administrative courts. **No progress** has been made to remove persistent regulatory restrictions.

Romania

Summary of the EPC discussion on the Commission's country report and classification of imbalances from the In-depth Review

On the basis of its discussion, the **EPC**:

Agrees with the Commission that the main challenges in Romania related to EPC relate to vulnerabilities linked to cost competitiveness losses and a widening current account deficit in a context of an expansionary fiscal policy and an unpredictable business environment as well as to the mounting risks to the stability of the financial sector.

Agrees that Romania is experiencing macroeconomic imbalances as re-classified by the Commission. Recent legislative initiatives create risks for the stability of the financial sector and may harm private investment. The current account deficit has been growing on the back of buoyant imports, mainly for consumption purposes, and is forecast to widen further. The strong nominal GDP growth has nevertheless implied that the negative Net International Investment Position has been improving for some years but this may stall with the persistency of the current account deficits and lower GDP growth looking forward. Demand is fuelled by strong wage growth, inter alia linked to hikes in public wages and the minimum wage, which has translated into substantial increases in unit labour costs. Despite cost competitiveness losses, so far export market shares have been growing. The expansionary fiscal stance, in a context of strong GDP growth, is forecast to continue thus contributing to buoyant private consumption dynamics. After declining for some years, the government debt ratio is projected to increase.

Frequent and unpredictable legislative changes contribute to a weaker and uncertain business environment, with negative repercussions on business decisions and investment. Recent legislative initiatives with impact on banks and the managers of private second-pillar pensions threaten the functioning of the financial sector and may hinder investment through both a tighter credit market and a shallower capital market with weaker institutional investors. In other areas, progress with reforms has slowed down or reversed.

The EPC Acknowledges that Romania has benefited from strong economic growth that has improved the net international investment position, but that competitiveness losses may have negative consequences on external balances and growth potential going forward, while recent legislative

changes could have negative implications on the financial sector, investment, and the flexibility and efficiency of monetary policy.

To support the EPC discussion, **LIME** *concurs* with the technical analysis and the main findings of the IDR with regard to the gravity and evolution of imbalances and considers the topics identified in the 2018 report appropriate. The group assesses as appropriate the analytical tools used, notably in the areas of the external position and the worsening current account deficit as well as in the area of competitiveness developments. Risks have been identified for the financial sector in the context of an unpredictable legislative and business environment. Nonetheless, some members signalled that further analysis could be carried out aimed at quantifying the risks of recent initiatives to the financial sector stability. Several members pointed to the large share of sovereign bond holdings by banks as another possible subject for further analysis.

CSR Implementation

Looking at the multi-annual assessment of the implementation of the CSRs since 2011, 13% of all the CSRs addressed to Romania have recorded ‘substantial progress’ or full implementation, 46% ‘some progress' and 41% of these CSRs recorded 'limited' or 'no progress'.

Agrees with the Commission’s overall assessment of **limited progress** in implementing the 2018 Country-Specific Recommendations of competence to the EPC. Under CSR 1 there was **limited progress** to strengthen tax compliance. Under CSR 2 **no progress** was made to complete the minimum inclusion income reform or on minimum wage setting; **limited progress** was made on improving social dialogue, on upskilling and access to quality mainstream education, and on shifting to outpatient care. Under CSR 3 there was **no progress** to improve predictability of decision making or to improve the governance of State-owned enterprises and **limited progress** on public investment prioritisation and on the implementation of the national public procurement strategy.

Sweden

Summary of the EPC discussion on the Commission's country report and classification of imbalances from the In-depth Review

On the basis of its discussion, the EPC:

Agrees with the Commission conclusions that the main challenges facing Sweden are overvalued house price levels coupled with a continued rise in household debt posing risks of a disorderly correction.

Agrees that Sweden is exhibiting macroeconomic imbalances in the context of the MIP. Household debt as a share of GDP is high but has stabilised in 2018. There has been a correction of house prices in the second half of 2017, which have since then gradually stabilised. Nevertheless, valuation indicators suggest that house prices remain high relative to fundamentals. Although the banking sector appears adequately capitalised, a disorderly correction would negatively affect the financial sector given the large exposure to household mortgages. In such a case, there could also be negative spill-overs to neighbouring countries given the systemic financial interlinkages. Structural bottlenecks for housing supply persist and construction output has weakened.

Although measures have been taken in recent years, mainly in the macro prudential field, to address mortgage debt growth, the impact on the overall debt level appears so far limited. Key policy gaps remain, particularly in relation to tax incentives for home ownership and the functioning of housing supply and the rental market.

The EPC acknowledges that the authorities have taken some policy action to stimulate residential construction and curb household debt growth including in the macro prudential area. Nevertheless, house prices remain high and household debt has continued to increase. In the discussion it was acknowledged that strong population growth has increased the demand for housing despite historically high levels of construction in recent years. There is a need for a comprehensive approach addressing supply side barriers and demand side drivers. Notes that the 73-point agreement supporting the new government outlines some reform priorities covering the housing market, in particular rental market regulation and aspects of the capital gains tax, investment support for rental units and reviewing planning and zoning processes that would be in line with addressing to an extent outstanding MIP relevant recommendations.

To support the EPC discussion, **LIME** *broadly concurs* with the technical analysis in the IDR with regard to the gravity and evolution of challenges. The group assesses as appropriate the analytical tools used, notably on high household debt, house price developments and the functioning of the housing market. No analytical gaps were noted by the group.

CSR Implementation

Looking at the multi-annual assessment of the implementation of the CSRs since 2011, 51% of all the CSRs addressed to Sweden have seen 'substantial progress' or fully implementation, 33% 'some progress' and 16% of the CSRs recorded 'limited' or 'no progress'.

Agrees with the Commission’s overall assessment that **limited progress** has been made in implementing the 2018 recommendations of EPC competence. Under CSR 1 **no progress** was made in limiting mortgage interest tax deductibility or increasing recurrent property taxes, **limited progress** on more flexibility in setting rental prices and revising the design of capital gains tax, and **some progress** to stimulate residential construction.

Countries found by the Commission to be exhibiting no imbalances:

Austria

Summary of the EPC discussion of the Commission's country report

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

On the basis of its discussion, the EPC:

- Agrees with the Commission that the main challenges in Austria related to EPC relate to addressing its remaining structural reforms and investing more to increase productivity.

CSR Implementation

- Looking at the multi-annual assessment of the implementation of the CSRs since 2011, 14% of all CSRs have been fully implemented or seen substantial progress, 37% of all CSRS have seen at least "some progress"; while remaining 49% have seen either "limited" or "no" progress.
- *Agrees* with the Commission assessment of progress in implementing the 2018 Country-Specific Recommendations of competence to the EPC. Overall, **some progress** was recorded in 2018 CSR implementation.
- **Overall, limited progress** was made on CSR 1. Limited progress was made on ensuring the sustainability of the long-term care and pension systems and making the public services more efficient **Some progress** was made in ensuring the sustainability of the health care system. Overall, **some progress** was made on CSR2. Some progress was made in reducing the tax wedge, improving labour market outcomes of women and supporting productivity growth by stimulating digitalisation whilst **limited progress** was made in improving basic skills, stimulating company growth and reducing regulatory barriers in the service sector.

Belgium

Summary of the EPC discussion on the Commission's country report:

Belgium is not classified as experiencing macroeconomic imbalances and did not under-go an in-depth review.

On the basis of its discussion, the EPC:

- *Agrees* with the Commission that the main challenges in Belgium related to EPC competence are about ensuring the long-term sustainability of public finances in the light of high level of debt and the projected increase in pension and long-term care expenditure; tackling the low labour market participation rates, which coexist with high vacancy rates in some segments; removing barriers to competition and investment in the product and services market; and addressing infrastructure weaknesses in the energy and transport sectors.
- Recent reforms have supported a job rich economic expansion. The Belgian economy has grown at a moderate but steady pace over recent years. Growth rates, however, remain below those recorded before the financial crisis. Strengthening potential growth would require a combination of further investment and productivity-enhancing reforms. This would imply maintaining the reform momentum while progressing with the implementation of previously announced reforms. The current political situation, with a caretaker government at federal level, risks to slow down reforms

CSR Implementation

- Looking at the multi-annual assessment of the implementation of the CSRs since 2011 time period 34% of all CSRS have seen either full implementation or substantial progress; 14 % "some progress**",** and 52% limited progress or no progress.
- *Agrees* with the Commission assessment that overall **limited progress** has been made in implementing the 2018 Country-Specific Recommendations. **Limited progress** has been made under CSR2 on labour market issues and in fostering equity and increasing the proportion of graduates in science, technology, engineering and mathematics. **Limited progress** has been made under CSR3 to reduce reform the retail, construction and professional services.

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The Czech Republic

Summary of the EPC discussion of the Commission's country report

The Czech Republic is not classified as experiencing macroeconomic imbalances and did not under-go an in-depth review.

On the basis of its discussion, the EPC:

- Agrees with the Commission that the main challenges in the Czech Republic related to EPC competence concern in particular the benefit from better-targeted investment in infrastructure, human capital and innovation, reducing administrative burden and addressing the labour shortages.
- Alleviating these challenges through well-designed structural reforms would help increase the potential for long-term growth and speed up the country's convergence towards the level of the higher-income economies.

CSR Implementation

- Looking at the multi-annual assessment of the implementation of the CSRs since 2011 22% of all CSRS have seen either full implementation or substantial progress; 46 % "some progress**",** and 32% limited progress or no progress.
- *Agrees* with the Commission assessment that **some progress** in implementing the 2018 Country-Specific Recommendations of competence to the EPC. The government has made **limited progress** in addressing the long-term sustainability of public finances and addressing the weaknesses in public procurement practices. **Some progress** has been made on CSR 2 in reducing the administrative burden, on strengthening the capacity of the education system and fostering employment of underrepresented groups; and **limited progress** in removing bottlenecks hampering research, development and innovation.

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Denmark

Summary of the EPC discussion of the Commission's country report

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

On the basis of its discussion, the EPC:

- Agrees with the Commission conclusion that the main challenges in Denmark related to EPC competence, concern productivity growth and labour supply as well as risks in the housing market and levels of household debt.

- The favourable economic environment has helped reduce the current account surplus and brought down the level of household debt, but challenges remain. Labour market and pension reforms have helped bring the number of people in employment to historically high levels.

CSR Implementation

- Looking at the multi-annual assessment of the implementation of the CSRs since 2011, 51 % of all CSRs have seen either full implementation or substantial progress; 43% "some progress**",** and 6% limited progress or no progress.

- *Agrees* with the Commission assessment that overall **some progress** in implementing the 2018 Country-Specific Recommendation related to EPC competence, with **some progress** made to address the CSR on increasing competition in the domestically orientated service sectors.

Estonia

Summary of the EPC discussion of the Commission's country report

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

On the basis of its discussion, the EPC:

- Agrees with the Commission that the main challenge in Estonia related to EPC competence is related to productivity growth in the context of demographic decline and moderate performance on R&D and innovation coupled with the rise of skill shortages and mismatches, and the need to provide good quality and affordable social services and public services.

CSR Implementation

- Looking at the multi-annual assessment of the implementation of the CSRs since 2011 substantial progress or full implementation has been seen in 22% of all CSRs, and 78% of all the CSRs have recorded at 'some progress'.
- *Agrees* with the Commission overall assessment that **some progress** was made in implementing the 2018 Country-Specific Recommendations of competence to the EPC. **Some progress** was

recorded in improving the adequacy of the social safety net, in reduction of the gender pay gap and in promoting research and innovation.

Finland

Summary of the EPC discussion of the Commission's country report

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

On the basis of its discussion, the EPC:

Agrees with the Commission that the main challenge for Finland is to increase its economy's resilience and growth potential while growth remains robust but macroeconomic risks are rising.

An ageing population weighs on Finland's future potential growth. Reforming the complex social benefits system, teaching new skills and providing training services would help counterbalance the impact of the ageing population. Investment in equipment and research and development declined with the setback of the country's electronic sector, the latter from a very high level, further affecting Finland's potential for growth.

CSR Implementation

- Looking at the multi-annual assessment of the implementation of the CSRs since 2011, 24% of all the CSRs addressed to Finland recorded 'substantial progress' and 53% 'some progress'. 23% of these CSRs recorded limited progress, but none of them recorded 'no progress'.
- *Agrees* with the Commission overall assessment of **limited progress** in implementing the 2018 Country-Specific Recommendations under the competence of the EPC. **Limited progress** was made in addressing the fiscal-structural part of CSR 1 to ensure the adoption and implementation of the administrative and health reform. **Limited progress** was made on CSR 2 to improve incentives to accept work, and ensure adequate and well-integrated services for the unemployed and inactive. **Limited progress** was made on CSR 3 to strengthen the monitoring of household debt, including by setting up a credit registry system.

Hungary

Summary of the EPC discussion of the Commission's country report

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

On the basis of its discussion, the EPC:

- Agrees with the Commission that the main challenges in Hungary relate to increasing productivity and strengthening grow fundamentals, economic resilience and convergence.
- The economic cycle is near its peak. Productivity growth has improved, but remains below pre-crisis rates, limiting the possibility for income convergence. Economic policy faces the dual task of withdrawing macroeconomic stimulus at the right time to prevent overheating, while improving education and training, and creating a business environment that attracts productivity-enhancing investment.

CSR Implementation

- Looking at the multi-annual assessment of the implementation of the CSRs since 2011, 30% of all the CSRs addressed to Hungary have recorded either full implementation or substantial progress, 30 % of these CSRs recorded 'some progress and 40% 'limited' or 'no progress'.

- *Agrees* with the Commission overall assessment of **limited progress** in implementing the 2018 Country-Specific Recommendations under the competence of the EPC. **Limited progress** was made on CSR 2 to improve the business environment. **Limited progress** was made on CSR 3 related to labour market and human capital.

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Lithuania

Summary of the EPC discussion of the Commission's country report

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

On the basis of its discussion, the EPC:

- Agrees with the Commission conclusion that the main challenge in Lithuania related to EPC competence is the need to adjust to the challenge of a shrinking population.

- The fruits of its rapid economic development have not been equally shared among its social groups and regions. The declining population, including the labour force, is putting pressure on the labour market and social security systems. Persistent weaknesses in the education and health sectors are limiting potential growth. Stronger investment in human capital, innovation, resource efficiency and transport are key to raising productivity and long-term growth potential.

CSR Implementation

- Looking at the multi-annual assessment of the implementation of the CSRs since 2011 46% of all CSRS have seen either full implementation or substantial progress; 37 % "some progress**",** and 15% limited progress.

- Agrees with the Commission overall assessment of **limited progress** in implementing the 2018 Country-Specific Recommendations in areas of competence to the EPC. **Some progress** has been made overall under CSR 1, namely to improve tax compliance and improve the long-term sustainability and adequacy of the pension system. **Limited progress** has been made in strengthening productivity.

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Luxembourg

Summary of the EPC discussion of the Commission's country report

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

On the basis of its discussion, the EPC:

Agrees with the Commission that the main challenges in Luxembourg related to EPC competence are to address key structural issues LU: in order to promote a more sustainable economic growth, notably by ensuring that labour supply and skills levels match labour market needs, also with a view to increase the employment rate of older workers, which would help to better address the long-term health of public finances. The resilience of the economy would also be strengthened by further pursuing diversification efforts, and through engaging the domestic business and investment community in the current technological and digital transformation. Private and public investment is needed to foster innovation, improve housing and transport infrastructure, and stimulate skills development.

CSR Implementation

- Looking at the multi-annual assessment of the implementation of the CSRs since 2011, 16% of all CSRS have seen either full implementation or substantial progress; 18 % "some progress**",** and 66% limited progress or no progress.

- *Agrees* with the Commission overall assessment of **limited progress** in implementing the 20178 Country-Specific Recommendations of competence to the EPC. The government has made **limited progress** under CSRs 1 on the employability of older workers and pension sustainability. **Limited progress** has been made in further reducing regulatory restrictions in the business services sector.

Latvia

Summary of the EPC discussion of the Commission's country report

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

On the basis of its discussion, the EPC:

- Agrees with the Commission that the main challenges in Latvia related to EPC competence are addressing population decline and ensuring that economic growth benefits all of society.
- Latvia's economic and labour market performance has been solid in recent years and government borrowing has remained broadly sound. However, growth has not been fully inclusive, as inequality has remained high and growth in peripheral regions has lagged behind the Riga region. Latvia's main challenge over the coming decades will be to ensure that its economy continues to catch up with the EU average while coping with a falling population. Therefore it will need to invest in innovation, regional development and human capital to improve its social, health and public governance policies.

CSR Implementation

- Looking at the multi-annual assessment of the implementation of the CSRs since 2011, 23% of all CSRS have seen either full implementation or substantial progress; 62% "some progress**",** and 15% limited progress.
- *Agrees* with the Commission overall assessment of **limited progress** in implementing the 2018 Country-Specific Recommendations of competence to the EPC. **Limited progress** was recorded under CSR 1 on reducing the tax wedge on low-income earners and on improving tax compliance.

Limited progress was made under CSRs 2 in general, although some progress has been observed in its sub-components regarding the labour market relevance of vocational education and training, as well as on increasing the accessibility, quality and cost-effectiveness of the healthcare system. And **some progress** on CSR 3 to strengthen the efficiency of the public sector.

Malta

Summary of the EPC discussion of the Commission's country report

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

On the basis of its discussion, the EPC:

- Agrees with the Commission that the main challenges in Malta is to ensure that its development is sustainable in the long term. In recent years, Malta has seen high GDP growth, strong employment growth, a budget surplus and a buoyant services sector. Economic growth appears to have been driven by structural changes, such as the shift towards the services sector, which are expected to continue in the short term.

- Risks to Malta's future growth and attractiveness to potential investors include infrastructure bottlenecks, constraints on natural resources, low skill levels, an ageing population and vulnerabilities in the governance framework .

CSR Implementation

- Looking at the multi-annual assessment of the implementation of the CSRs since 2011, 42% of all CSRS have seen either full implementation or substantial progress; 40% "some progress**",** and 18% limited progress or no progress.
- *Agrees* with the Commission overall assessment of **limited progress** in implementing the 2018 Country-Specific Recommendations of competence to the EPC. Under CSR 2 **limited progress** was made to ensure the sustainability of the healthcare and the pensions systems.

Poland

Summary of the EPC discussion of the Commission's country report

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

On the basis of its discussion, the EPC:

- Agrees with the Commission conclusion that the main challenges in Poland related to EPC competence are to move away from a model based on low labour costs towards a knowledge-based economy producing advanced products and services.

- The economic environment offers a unique opportunity to address structural issues, in particular related to ageing, a decreasing working-age population and low innovation levels.

CSR Implementation

- Looking at the multi-annual assessment of the implementation of the CSRs since 2011, 7% of all CSRS have seen either full implementation or substantial progress; 36 % "some progress**",** and 57 % limited progress or no progress.

- *Agrees* with the Commission overall assessment of **limited progress** in implementing the 2018 Country-Specific Recommendations of competence to the EPC. Under CSR 2 on the labour market **no progress** has been achieved in ensuring the sustainability and adequacy of the pension system. There was **limited progress** in strengthening the innovative capacity of the economy and in improving the regulatory environment.

Slovenia

Summary of the EPC discussion on the Commission's country report

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

On the basis of its discussion, the EPC:

Agrees with the Commission conclusion that the main challenges facing Slovenia are to make the economy more resilient to future shocks by increasing investment and addressing the challenges related to its ageing population.

The economy is growing strongly and remains competitive internationally. Investment is growing, but it is still below the EU average as a share of GDP, which slows down Slovenia's convergence in terms of productivity. Social indicators generally signal progress, while inequality (between both citizens and regions) is below the EU and OECD average. The banking sector has improved further, also thanks to the favourable economic climate. Structural reforms of the pension, healthcare and long-term care systems are becoming increasingly urgent if Slovenia is to ensure that it remains on a sustainable growth path.

CSR Implementation

Looking at the multi-annual assessment of the implementation of the since 2011, 41% of all CSRs have seen either full implementation or substantial progress; 47% "some progress**",** and 12% limited or no progress.

Agrees with the Commission overall assessment that **limited progress** has been made in addressing the 2018 CSRs addressed to Slovenia. Under CSR 1 **limited progress** has been made to increase the

employabiity of low-skilled and older workers, and **no progress** in the reform of healthcare or long-term care. Under CSR2 **some progress** has been made to reform the business environment.

Slovakia

Summary of the EPC discussion on the Commission's country report

Slovakia is not classified as experiencing macroeconomic imbalances and did not undergo an in-depth review.

On the basis of its discussion, the EPC:

- Agrees with the Commission conclusion that the main challenges facing Slovakia related to EPC competence relate to persistent weaknesses in certain aspects of the labour market, in education, infrastructure, public administration and corruption, all of which limit productive potential.
- Slovakia's impressive economic development since EU accession has laid the foundations for stronger future growth. Efforts to strengthen the public finances have helped to create stability and have paved the way for policies to help Slovakia modernise and innovate.

CSR Implementation

- Looking at the multi-annual assessment of the implementation of the CSRs since 2011, 8% of all CSRS have seen substantial progress; 55% "some progress"**,** and 37% limited progress or no progress.
- *Agrees* with the Commission's overall assessment of **some progress** in implementing the 2018 Country-Specific Recommendations of competence to the EPC. Slovakia has made overall **some progress** in increasing the cost-effectiveness of the healthcare sector and addressing staffing shortages. Under CSR3 **limited progress** has been made in modernising public procurement operations, in the fight against corruption, in improving the effectiveness of the justice system, and in creating a better-integrated public research system.

UK

Summary of the EPC discussion on the Commission's country report

The United Kingdom is not classified as experiencing macroeconomic imbalances and did not undergo an in-depth review.

On the basis of its discussion, the EPC:

- Agrees with the Commission that the main challenges facing the United Kingdom related to EPC competence are low productivity growth and investment needs in house building, modernising and expanding infrastructure networks, research and innovation, and skills development. ***CSR Implementation***

- Looking at the multi-annual assessment of the implementation of the CSRs since 2011, 15% of all CSRS have seen substantial progress; 79% "some progress**",** and 6% limited progress.
- *Agrees* with the Commission overall assessment of **some progress** in implementing the 2018 Country-Specific Recommendations of competence to the EPC. There has been **some progress** on boosting housing supply and **some progress** on skills and apprenticeships.