Council of the
European Union

Brussels, 13 June 2016
(OR. en)

9197/16

ECOFIN 449
UEM 196
SOC 313
EMPL 209
COMPET 283
ENV 328
EDUC 183
RECH 175
ENER 191
JAI 437

NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
No. Cion doc.:	9124/16 ECOFIN 416 UEM 166 SOC 280 EMPL 176 COMPET 253 ENV 297 EDUC 153 RECH 145 ENER 158 JAI 403 - COM(2016) 327 final
Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2016 national reform programme of Estonia and delivering a Council opinion on the 2016 stability programme of Estonia

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission proposal COM(2016) 327 final.

COUNCIL RECOMMENDATION

of…

on the 2016 National Reform Programme of Estonia

and delivering a Council opinion on the 2016 Stability Programme of Estonia

THE COUNCIL OF THE EUROPEAN UNION,

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

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

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

[1] OJ L 209, 2.8.1997, p. 1.

Whereas:

(1) On 26 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council[2], the Commission adopted the Alert Mechanism Report, in which it identified Estonia as one of the Member States for which an in-depth review would be carried out. On the same day, the Commission also adopted a recommendation for a Council Recommendation on the economic policy of the euro area. This Recommendation was endorsed by the European Council on 18-19 February 2016 and adopted by the Council on 8 March 2016[3]. As a country whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, Estonia should ensure the full and timely implementation of the Recommendation.

(2) The 2016 country report for Estonia was published on 26 February 2016. It assessed Estonia's progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015 and Estonia's progress towards its national Europe 2020 targets. It also included the in-depth review under Article 5 of Regulation (EU) No 1176/2011. On 8 March 2016, the Commission presented the results of the in-depth review. The Commission's analysis leads it to conclude that Estonia is not experiencing macroeconomic imbalances.

(3) On 28 April 2016, Estonia submitted its 2016 Stability Programme and on 10 March 2016 it submitted its 2016 National Reform Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

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[2] Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25).

[3] OJ C 96, 11.3.2016, p. 1

(4) Relevant country-specific recommendations have been addressed in the programming of the European Structural and Investment Funds for the 2014-2020 period. As foreseen in Article 23 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council[4], where it is necessary to support the implementation of relevant Council recommendations, the Commission may request a Member State to review and propose amendments to its Partnership Agreement and relevant programmes. The Commission has provided further details on how it would make use of this provision in guidelines on the application of the measures linking effectiveness of the European Structural and Investment Funds to sound economic governance.

(5) Estonia is currently in the preventive arm of the Stability and Growth Pact. In its 2016 Stability Programme, the Government plans a headline deficit at around 0,5 % of GDP over 2016-2018, turning to balance thereafter. In structural terms, Estonia continues to meet the medium-term budgetary objective - a structural balance - throughout the programme period. According to the Stability Programme, the government debt-to-GDP ratio is expected to stay at around 10 % of GDP in 2017 and to decrease to about 9½ % of GDP in 2020. The macroeconomic scenario underpinning these budgetary projections is plausible for 2016 but optimistic for 2017. Based on the Commission 2016 spring forecast, the structural balance is forecast to move from a surplus of 0,6% of GDP in 2015 to a budget balance in 2016 and to a small deficit of 0,2 % of GDP in 2017, which can be considered as close to the medium-term budgetary objective. Further deviations would be assessed against the requirement to maintain the structural balance at the medium-term budgetary objective. Based on its assessment of the Stability Programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that Estonia is expected to comply with the provisions of the Stability and Growth Pact.

[4] Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (OJ L 347, 20.12.2013, p. 320).

(6) Estonia has taken important steps to improve labour market participation, including by implementing the Work Ability reform. This reform, which entered into force in January 2016 and will be fully implemented from January 2017, will increase overall labour supply. It will be a challenge to help reintegrate those who have been out of the labour market for a long time. New active labour market measures are being put in place to help the beneficiaries of the Work Ability reform to enter and stay in the labour market and changes have also been made in the financial support scheme.

(7) Estonia has taken action to improve work incentives by reducing the tax burden on labour for all income groups, including low-income earners. This may have contributed to Estonia having a lower unemployment rate and a higher employment rate for low-skilled workers than the EU average. Among the measures already adopted, an additional tax refund is planned as of 2017 for low income earners. However, this leads to high effective marginal tax rates, which risks creating a low wage trap and encouraging the payment of envelope wages. The impact of these measures will only be known after they have been evaluated.

(8) Implementation of the Lifelong Learning Strategy 2020, together with the Vocational Education and Training programme for 2015-2018, helped increase participation in vocational education and training, and its labour market relevance. The proportion of vocational education and training students in apprenticeships is expected to increase but the drop out rates in vocational education and training remain a matter for concern.

(9) There are still some shortages in early childhood education and care places for 0-3 year-olds, but the situation is improving, with additional places created each year.

(10) Estonia has the highest gender pay gap in the Union, at 28,3 % in 2014. This creates a risk of not making full use of the potential of women. The gender pay gap is attributed, among other factors, to occupational and sectoral gender segregation in the labour market, the lack of transparency of wages in the private sector and the longer career breaks for women due to care responsibilities. The Government has announced a series of measures to address the gender pay gap. The planned measures are still to be adopted and implemented, inter alia improving data collection, giving labour inspectorates the task of monitoring how employers apply the principle of equal pay, promoting wage transparency, providing fathers with incentives to take up part of the parental leave and increasing access to childcare facilities. The Welfare Plan 2016-2023 includes gender equality objectives, with measures to tackle gender segregation in the labour market and fight stereotypes. Measures are planned to ease the care burden in families and to bring carers into the labour market, with expected positive effects on women's labour market participation.

(11) In Estonia, access to public services is not guaranteed in all municipalities and the local provision of quality services in areas such as transport, education, long-term care for the elderly and other social services at local level remains a challenge. In March 2016, the Government submitted the draft Administrative Reform Act to the parliament to pave the way for a local government reform. The reform foresees both voluntary and government-initiated mergers, with a view to offering accessible and quality services and to ensure more efficient and competent governance. The amended Social Welfare Act sets minimum requirements for nine social services but its implementation is at risk due to the weaknesses in service provision by municipalities. The proposed local government reform has not yet been adopted.

(12) Estonia has one of the highest ratios of investment to GDP for both the private and the public sectors. However, some challenges remain for the country to improve the investment environment further. Estonia took action to implement the 'Knowledge-based Estonia' research, development and innovation strategy and the Entrepreneurship Growth Strategy, which together comprise its framework for smart specialisation. Ensuring good synergies between these strategies can help to stimulate private research, development and innovation investment, especially since business research and technology investment decreased to 0,6 % of GDP in 2014 and Estonia is unlikely to reach its 3%-of-GDP research, development and innovation target in 2020. The number of companies cooperating with research institutions is limited, resulting in a low level of patent applications. Meanwhile, in recent years, the overall structure of Estonia's export of manufactured goods seems to have shifted towards lower-value goods. Labour and skills shortages may constitute a barrier to greater investment in high technology sectors.

(13) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Estonia's economic policy and published it in the 2016 country report. It has also assessed the Stability Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Estonia in previous years. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in Estonia but also their compliance with EU rules and guidance, given the need to strengthen the EU's overall economic governance by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) and (2) below.

(14) In the light of this assessment, the Council has examined the Stability Programme, and is of the opinion that Estonia is expected to comply with the Stability and Growth Pact.

HEREBY RECOMMENDS that Estonia take action in 2016 and 2017 to:

1. Ensure the provision and accessibility of high-quality public services, especially social services, at local level, inter alia by adopting and implementing the proposed local government reform. Adopt and implement measures to narrow the gender pay gap, including those foreseen in the Welfare Plan.

2. Promote private investment in research, development and innovation, including by strengthening cooperation between academia and businesses.

Done at Brussels,

For the Council
The President