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From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
No. Cion doc.:	9202/18 - COM(2018) 411 final
Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2018 National Reform Programme of Italy and delivering a Council opinion on the 2018 Stability Programme of Italy

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Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission Proposal COM(2018) 411 final.

## COUNCIL RECOMMENDATION

of ...

**on the 2018 National Reform Programme of Italy**

**and delivering a Council opinion on the 2018 Stability Programme of Italy**

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<sup>1</sup>, and in particular Article 5(2) thereof,

Having regard to 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<sup>2</sup>, and in particular Article 6(1) 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,

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<sup>1</sup> OJ L 209, 2.8.1997, p. 1.

<sup>2</sup> OJ L 306, 23.11.2011, p. 25.

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

- (1) On 22 November 2017, the Commission adopted the Annual Growth Survey, marking the start of the 2018 European Semester for economic policy coordination. It took due account of the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The priorities of the Annual Growth Survey were endorsed by the European Council on 22 March 2018. On 22 November 2017, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the Alert Mechanism Report, in which it identified Italy as one of the Member States for which an in-depth review would be carried out. On the same date, the Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which was endorsed by the European Council on 22 March 2018. On 14 May 2018, the Council adopted the Recommendation on the economic policy of the euro area<sup>3</sup> ('Recommendation for the euro area').
- (2) As a Member State whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, Italy should ensure the full and timely implementation of the Recommendation for the euro area, as reflected in recommendations (1) to (4) below.

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<sup>3</sup> OJ C 179, 25.5 2018, p. 1.

- (3) The 2018 country report for Italy was published on 7 March 2018. It assessed Italy's progress in addressing the country-specific recommendations adopted by the Council on 11 July 2017<sup>4</sup>, the follow-up given to the country-specific recommendations adopted in previous years and Italy's progress towards its national Europe 2020 targets. It also included an in-depth review under Article 5 of Regulation (EU) No 1176/2011, the results of which were also published on 7 March 2018. The Commission's analysis led it to conclude that Italy is experiencing excessive macroeconomic imbalances. In particular, high government debt and protracted weak productivity dynamics imply risks with cross-border relevance, in a context of a high but decreasing stock of non-performing loans and high though declining unemployment. The need for action to reduce the risk of adverse effects on the Italian economy and on the economic and monetary union, given the size and cross-border relevance of Italy's economy, is particularly important.
- (4) On 16 May 2018, Italy submitted its 2018 National Reform Programme and its 2018 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

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<sup>4</sup> OJ C 261, 9.8.2017, p. 1.

- (5) Relevant country-specific recommendations have been addressed in the programming of the European Structural and Investment Funds ('ESI Funds') for the 2014-2020 period. As provided for in Article 23 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council<sup>5</sup>, 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 that provision in guidelines on the application of the measures linking the effectiveness of the ESI Funds to sound economic governance.

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<sup>5</sup> 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) Italy is currently in the preventive arm of the Stability and Growth Pact and subject to the debt rule. The 2018 Stability Programme submitted by the outgoing Government is based on a trend scenario assuming unchanged legislation. The headline deficit is projected by the Italian authorities to improve from 2,3 % of GDP in 2017 to 1,6 % in 2018, 0,8 % in 2019, and a broadly balanced budgetary position by 2020. The medium-term budgetary objective, set at a balanced budgetary position in structural terms, is planned to be reached by 2020 and maintained in 2021, whereas the recalculated<sup>6</sup> structural balance points to a small structural deficit (0,2 % of GDP) in both years. After having slightly decreased in 2017 (to 131,8 % of GDP, from 132,0 % in 2016), the general government debt-to-GDP ratio is projected in the 2018 Stability Programme to decrease by one percentage point of GDP to 130,8 % in 2018, reaching 122,0 % in 2021 also thanks to projected privatisation proceeds of 0,3 % per year over 2018-20. However, privatisation targets have been underachieved in recent years. Based on a no-policy change assumption, the Commission 2018 spring forecast expects lower real GDP growth and a higher deficit for 2019 than the 2018 Stability Programme. In fact, the Commission forecast does not incorporate a VAT hike (0,7 % of GDP) legislated for as a ‘safeguard clause’ to achieve the budgetary targets in 2019.
- (7) On 23 May 2018, the Commission issued a report prepared in accordance with Article 126(3) of the TFEU due to Italy’s prima facie non-compliance with the debt rule in 2016 and 2017. The report concluded, following an assessment of all the relevant factors, that the debt criterion as defined in the Treaty and in Council Regulation (EC) No 1467/97<sup>7</sup> should be considered as currently complied with, and that opening of an excessive deficit procedure is thus not warranted, having regard in particular to Italy's ex-post compliance with the preventive arm in 2017. The Commission will reassess compliance on the basis of the ex-post data for 2018 to be notified in Spring 2019.

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<sup>6</sup> Cyclically-adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.

<sup>7</sup> Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6).

(8) The 2018 Stability Programme indicates that the budgetary impact of the exceptional inflow of refugees and the protection against seismic risks is significant and provides adequate evidence of the scope and nature of these additional budgetary costs. According to the Commission, the eligible additional expenditure in 2017 amounted to 0,16% of GDP for the exceptional inflow of refugees and 0,19% of GDP concerning protection against seismic risks. The provisions set out in Articles 5(1) and 6(3) of Regulation (EC) No 1466/97 cater for this additional expenditure, in that the inflow of refugees and the seismic risks are unusual events, their impact on Italy's public finances is significant and sustainability would not be compromised by allowing for a temporary deviation from the adjustment path towards the medium-term budgetary objective. Therefore, the required adjustment towards the medium-term budgetary objective for 2017 has been reduced to take into account these additional costs.

- (9) On 11 July 2017, the Council recommended Italy to ensure a nominal rate of reduction of net primary government expenditure<sup>8</sup> by at least 0,2 % in 2018, corresponding to an annual structural adjustment of 0,6 % of GDP. At the same time, it was stated that the assessment of the 2018 Draft Budgetary Plan and subsequent assessment of 2018 budget outcomes will need to take due account of the goal of achieving a fiscal stance that contributes to both strengthening the ongoing recovery and ensuring the sustainability of public finances. Following the Commission's assessment of the strength of the recovery in Italy while giving due consideration to its sustainability challenges, carried out in the context of its opinion on Italy's 2018 Draft Budgetary Plan, a fiscal structural effort of at least 0,3 % of GDP is required for 2018, without any additional margin of deviation over one year. This corresponds to a nominal rate of growth of net primary government expenditure not exceeding 0,5 %. Taking that into account in the overall assessment, based on the Commission 2018 spring forecast, there is a risk of a significant deviation from the recommended adjustment path towards the medium-term budgetary objective in 2018.

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<sup>8</sup> Net primary government expenditure comprises total government expenditure excluding interest expenditure, expenditure on Union programmes fully matched by Union funds revenue and non-discretionary changes in unemployment benefit expenditure. Nationally financed gross fixed capital formation is smoothed over a four-year period. Discretionary revenue measures or revenue increases mandated by law are factored in. One-off measures on both the revenue and expenditure sides are netted out.



- (10) In 2019, in view of Italy's general government debt ratio above 60 % of GDP and projected output gap of 0,5 %, the nominal growth rate of net primary government expenditure should not exceed 0,1 %, in line with the structural adjustment of 0,6 % of GDP stemming from the matrix of requirements under the Stability and Growth Pact. Under unchanged policies, there is a risk of a significant deviation from the requirement in 2019 and for 2018 and 2019 taken together. Italy is prima facie not forecast to comply with the debt rule in 2018 and 2019. Moreover, at around 130 % of GDP, Italy's high public debt ratio implies that large resources are earmarked to cover debt servicing costs, to the detriment of more growth-enhancing items including education, innovation and infrastructure. Overall, the Council is of the opinion that the necessary measures should be taken as of 2018 to comply with the provisions of the Stability and Growth Pact. The use of any windfall gains to further reduce the general government debt ratio would be prudent.
- (11) Italy's old-age pension expenditure, at around 15 % of GDP, is now among the highest in the Union. Implicit liabilities arising from population ageing were curbed by past pension reforms, improving Italy's long-term sustainability also by gradually adjusting retirement age to life expectancy. However, both the 2017 and the 2018 budgets contained provisions that partially reversed those reforms. Italy has a larger share of population above 65 than the Union average. This is projected to further increase over time, worsening Italy's old-age dependency ratio. Hence, pension expenditure is projected to increase over the medium term. The high share of old-age pensions in public spending also restrains other social spending, including to fight poverty, and growth-enhancing spending items like education, whose share in expenditure has been declining since the early 2000s. While respecting the principles of fairness and proportionality, sizeable savings could be achieved by intervening on the high pension entitlements not matched by contributions.

(12) Italy's tax system weighs heavily on capital and labour, which has adverse effects on economic growth. Despite the recent extension of targeted tax incentives, the tax burden on the production factors is still among the highest in the Union, discouraging investment and employment. There is room to reduce it in a budgetary neutral way, by shifting towards tax bases less detrimental to growth, such as property and consumption. The recurrent property tax on first residences was repealed in 2015, including for wealthier households. In addition, property cadastral values are largely outdated, and a reform to align them with current market values is still pending. The number and size of tax expenditures, in particular in the case of the reduced value added tax rates, are particularly high and their streamlining has been further postponed despite being required by national legislation. There is also scope to reduce the burden on compliant firms and households by reducing the complexity of the tax code and increasing the overall level of tax compliance. The extension of mandatory electronic invoicing to all private sector transactions from 2019 is a positive step in this direction. However, legal thresholds for cash payments have been increased, which could discourage the use of electronic payments whose compulsory nature may improve tax compliance. Italy's National Institute of Statistics estimates that the shadow economy amounts to about 12,6 % of GDP in 2015 but no strategic action has been planned to tackle this challenge. About 15,9 % of total employment is partially or completely undeclared, with peaks nearing 50 % in some sectors.

(13) Investment declined sharply during the crisis and has not yet returned to its 2007 level. Despite increasing in 2017 the level of investment is still low compared to other Union countries. Private investment has been particularly low, held back by structural factors. These include a less favourable business environment, financial constraints related to underdeveloped capital markets, impaired bank-lending and a lack of high-skilled people due to, among other reasons, brain drain and limited lifelong learning. Intangible assets, such as research and development, innovation and training of workers, are vital for productivity and economic growth and can help explain differences in productivity across countries. However, investment in such assets remains below the Union average. This is due to the large number of micro-firms, Italy's lack of specialisation in knowledge-intensive sectors, limited digitisation and digital skills. At the same time, overall public spending in research and development has been reduced. Financing of small and medium-sized companies continues to be highly dependent on the banking sector, and lending remains subdued despite financing costs at historically low levels. There are also major regional differences in investment in research and development, in the take-up of recent policy incentives for innovative firms and in the quality of education. Based on the current evaluation of the results of the different industrial measures put in place under "Finance for Growth" and "Industry/Enterprise 4.0" initiatives, it would seem appropriate to set-up a long-term policy framework to sustain investment that is capable of strengthening the different factors that support innovation, such as credit availability, strong research basis, high education and suitable skills. It would also seem appropriate to consider existing differences in regional industrial and education systems.

(14) The efficiency of Italy's justice system has improved only slightly in the past years, and the length of proceedings remains a source of concern, especially at higher instances. For example, in 2016, the time needed to resolve civil and commercial litigious cases was still one of the highest in the Union at all instances. The backlog continued to increase at the Court of Cassation (*Corte suprema di Cassazione*), where it remains among the largest in the Union per capita. An important enabling law streamlining civil procedural rules and introducing stronger deterrence against vexatious litigation has been pending in Italy's Parliament for two years. In addition, among the measures adopted to contain litigation and strengthen procedural discipline, the simplified proceeding (*rito sommario*) has not become the default one in appeal courts, and use of the inadmissibility filter for appeals remains inconsistent and limited in second instance, thereby failing to bring the expected reduction in incoming cases. Rather, in 2016 the number of incoming civil cases increased both in first and second instance also due to steadily increasing appeal rates. An increasing share of Cassation appeals was declared inadmissible in 2016, confirming a recent upward trend. The Court of Cassation's ability to deal with its case inflow was adversely affected in the context of a marked rise in its non-criminal incoming cases primarily due to tax cases (which could undermine its role). Adequate enforcement of procedural rules, including against the misuse of litigation, could also contribute to the sound and efficient administration of justice.

(15) Corruption remains a major challenge for Italy's business environment and public procurement. Italy improved its anti-corruption framework by revising its statute of limitations, extending the protection of whistle-blowers to private-sector workers and better aligning the offence of corruption among private parties with international standards. While the adopted reform of the statute of limitations does not stop prescription terms after a first-instance conviction, as recommended by the Council of Europe's Group of States against Corruption, it may reduce the scope for abusive criminal litigation as a delaying tactic by lawyers at higher instances. As such, it may alleviate a long-standing concern that corruption cases get time-barred after first-instance conviction. Repression of corruption could be improved by increasing the efficiency of criminal justice. In 2014, Italy had the largest number of incoming and pending criminal cases in the Union at second and third instance, also due to one of the highest rates of Cassation appeals. This resulted in one of the longest criminal trial lengths. Incentivising expedited procedures and discouraging abuses of the trial could help make criminal justice and the fight against corruption more effective. Moreover, the National Anti-Corruption Authority has a key role in the implementation of the new anti-corruption framework.

(16) Increasing the quality of the Italian public administration would have a positive impact on the business environment and investment and firms' ability to exploit innovation opportunities. The great regional variation in administrations' responsiveness towards firms suggests that entrepreneurs in specific areas face bigger obstacles when doing business. In 2015, a comprehensive enabling law reforming the public administration was adopted, with the potential to improve efficiency for the benefit of the economy. By the end of 2017, the implementation of the reform was completed and now requires enforcement, in particular in regions with the lowest performances. On publicly-owned enterprises, the reform aims to ensure a better alignment between rules governing publicly-owned enterprises and privately-owned entities. The declared objectives are to: rationalise publicly-owned enterprises via mergers, consolidations of non-profitable ones and privatisations; increase the efficiency of the remaining enterprises; and avoid future proliferation of non-essential publicly-owned enterprises. The enforcement of the new framework is key to achieve these objectives. In addition, local public services are sheltered from competition (in and for the market), impacting on efficiency, quality of services and leading to consumers' dissatisfaction. The 2015 public administration reform also envisaged a new framework reforming the management of local public services. However, in November 2016, the Constitutional Court declared the procedure followed to adopt some legislative decrees unconstitutional, including the one on local public services. As the deadline of the decree expired in November 2016, a new legislative initiative is needed.

- (17) Improvements to business environment would facilitate entrepreneurship, while better framework conditions for competition would favour a more efficient allocation of resources and productivity gains. The 2015 annual competition law was adopted in August 2017 and needs to be properly implemented. However, significant barriers to competition persist in certain sectors, such as professional services, local public transport, rail and retail sectors. Increasing competitive processes to award public service contracts and concessions for access to public goods would positively impact the quality of services. In the area of public procurement, the benefits of the recent reform will depend on the reform's timely completion, a consistent application of the plans for e-procurement and aggregation and the actual activation of the central aggregation body for policy coordination (*Cabina di regia per gli appalti pubblici*).
- (18) Market confidence in Italian banks has increased following measures taken in 2017 to deal with several weaker banks. On the back of the improved economic conditions and supervisory pressure, progress has been made with reducing non-performing loans, but the legacy stock still remains high. This constrains banks' profitability and their ability to internally generate capital. The pace at which non-performing loans are being disposed of, which includes deepening the secondary market for non-performing loans, needs to be maintained in order to further strengthen financial stability and credit extension to the real economy. Further balance sheet restructuring and consolidation, including for small and second-tier banks, should also be supported. This includes addressing banks' structurally low profitability through comprehensive cost-cutting and business model optimisation.

- (19) Whereas the various corporate governance reforms are ongoing, full implementation of the reforms of the large cooperative and small mutual banks reforms would underpin the overall health of the banking sector. The insolvency and foreclosure frameworks remain insufficiently supportive of swiftly working out and restructuring non-performing loans. Promptly adopting and implementing the necessary legislative measures for the insolvency reform would help address structural weaknesses. Measures adopted in 2016 to accelerate collateral enforcement by banks are not yet being used. The framework for out-of-court collateral enforcement is still not fully applicable to households and only recently to companies.
- (20) Despite progress due to several policy measures adopted over the last years, access to finance remains an important barrier to investment and finance for growth, particularly for small and medium-sized companies. Firms' financing remains predominantly bank-based, while the capital market is underdeveloped as compared to other Union countries. The share of equity financing among small and medium-sized companies is particularly low, compared to the Union average. The introduction of the 'allowance for corporate equity' was an important reform, but the reference rate was subsequently reduced, muting its beneficial impact. Boosting market-based access to finance for firms would be an essential ingredient in diversifying firms' financing sources in order to support investment and growth.
- (21) Labour market institutions have been substantially reformed in recent years. Labour market conditions continue to improve, as headcount employment increased by 1,2 % in 2017 to over 23 million people, back to pre-crisis levels. The employment rate (age 20-64) rose to over 62 % last year, albeit largely driven by temporary jobs. However, this is still considerably below the Union average. The unemployment rate fell to 11,2 % in 2017 but the total hours worked is still considerably lower than before the recession. Despite improvements, long-term and youth unemployment remain high, posing risks to social cohesion and growth. At 20,1 % in 2017, the proportion of young people not in employment, education or training was still among the highest in the Union, with wide and persistent regional differences.



- (22) Bargaining at firm or territorial level remains limited, also due to the prevalence of small firms in Italy. This may prevent wages from adapting swiftly to local economic conditions. At the end of February 2018, Confindustria and the three major Italian trade unions (Cgil, Cisl and Uil) signed a framework agreement, stressing the role of second-level bargaining, by increasing legal certainty through setting clearer rules for the representation of social partners at negotiations. The tax rebates on productivity-related wage increases set by second-level agreements were strengthened in 2017, but their effectiveness is difficult to evaluate. While the total number of collective agreements is on the rise, only a small share of them is signed by the main trade unions and employers' associations.
- (23) The reform of active labour market policies outlined by the Jobs Act made little progress in 2017. Training and re-qualification are particularly important in the light of the increased flexibility in the Italian labour market and the growing share of temporary contracts. Generally binding service standards have not yet been implemented, and employment services lack staff and adequate monitoring, although the new Budget law for 2018 allocated additional financial and human resources for Public Employment Services to the regions. Increasing the number of staff and ensuring that they are sufficiently qualified for employment services and social services, is also critical for the correct implementation of the anti-poverty scheme introduced in 2018 and for the Youth Guarantee, which aims to provide young people in need with an adequate job or training offer in a timely manner.
- (24) The proportion of women participating in the labour market, although on the rise, remains one of the lowest in the Union. The impact of the recent measures, centred on non-means-tested cash payment per child birth, has not been assessed by the Italian authorities. Evidence suggests that these cash transfers may not be effective to increase women's participation in the labour market. In addition, they are unlikely to increase the birth rate, which has been stagnating at very low levels over the last 20 years. A comprehensive strategy to reconcile family life and work is missing. These shortcomings are reflected by the lack of gender balanced design of parental leave, flexible working arrangements and the insufficient supply of adequate, affordable and quality childcare and care services.

(25) Introducing measures to raise human capital and skills would help improve employability and meet future labour market needs. The overall quality of schooling in Italy is improving, but wide regional differences persist. The proportion of students leaving school without a diploma remains above the Union average, particularly among foreign-born students (30,1 % compared with the Union average of 19,4 %). Implementation of the school reform is broadly on track, and vocational education and training are improving. Tertiary education, severely underfunded with public spending accounting for less than 0,4 % of GDP, is characterised by high drop-out rates and prolonged study periods. As a consequence, educational attainment is one of the lowest in the Union (26,9 % of the population aged 30 to 34). The participation rate in adult learning programmes is increasing but it still remains among the lowest in the Union, especially for low-skilled adults. Upskilling and reskilling should be fostered, while employers should be encouraged to provide more learning opportunities for the workforce. The implementation of the comprehensive national ‘skills strategy’ launched in October 2017 will be crucial.

- (26) Unlike the Union trend, the rate of people at risk of poverty or social exclusion has continued to increase and at 30 % in 2016 it was well above the Union average. This especially affects children, temporary workers and migrants. Income inequality is high and rising. In 2016, the income of the top 20 % of households was 6,3 times higher than that of the poorest 20 %. This ratio is even higher for people of workingage, as the redistributive impact of pensions is excluded. The introduction of a new permanent scheme to tackle poverty (*Reddito di Inclusione*) represents a major step forward in social policies. Designed as a universal transfer for people meeting certain conditions of poverty, the scheme is expected to increase the currently low impact of social benefits on poverty reduction. The scheme is based on solid governance mechanisms and will be subject to systematic evaluation. Importantly, it also envisages a substantial reinforcement of the country's understaffed social services. Closer co-operation between social services and public employment services, as well as the allocation of sufficient resources, will be crucial for the smooth implementation of the reform. The scheme incorporates the former unemployment assistance scheme (ASDI), as a first step towards rationalising social spending. Italy's health care system provides universal coverage and the health of the population is good overall; nevertheless, self-reported unmet needs for medical care are high, and differences between regions in the organisation and quality of care delivery persist. Italy has made some efforts to ensure appropriate access to healthcare, including by revising and expanding the minimum statutory benefit package of care services.
- (27) In the context of the 2018 European Semester, the Commission has carried out a comprehensive analysis of Italy's economic policy and published it in the 2018 country report. It has also assessed the 2018 Stability Programme, the 2018 National Reform Programme and the follow-up given to the recommendations addressed to Italy in previous years. The Commission has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Italy but also the extent to which they comply with Union rules and guidance, given the need to strengthen the Union's overall economic governance by providing Union-level input into future national decisions.

(28) In the light of this assessment, the Council has examined the 2018 Stability Programme and its opinion<sup>9</sup> is reflected in particular in recommendation (1) below.

(29) In the light of the Commission's in-depth review and this assessment, the Council has examined the 2018 National Reform Programme and the 2018 Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1) to (4) below.

HEREBY RECOMMENDS that Italy take action in 2018 and 2019 to:

1. Ensure that the nominal growth rate of net primary government expenditure does not exceed 0,1 % in 2019, corresponding to an annual structural adjustment of 0,6 % of GDP. Use windfall gains to accelerate the reduction of the general government debt ratio. Shift taxation away from labour, including by reducing tax expenditure and reforming the outdated cadastral values. Step up efforts to tackle the shadow economy, including by strengthening the compulsory use of e-payments through lower legal thresholds for cash payments. Reduce the share of old-age pensions in public spending to create space for other social spending.
2. Reduce the length of civil trials at all instances by enforcing and streamlining procedural rules, including those under consideration by the legislator. Achieve more effective prevention and repression of corruption by reducing the length of criminal trials and implementing the new anti-corruption framework. Ensure enforcement of the new framework for publicly-owned enterprises and increase the efficiency and quality of local public services. Address restrictions to competition, including in services, also through a new annual competition law.

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<sup>9</sup> Under Article 5(2) of Regulation (EC) No 1466/97.

3. Maintain the pace of reducing the high stock of non-performing loans and support further bank balance sheet restructuring and consolidation, including for small and medium-sized banks, and promptly implement the insolvency reform. Improve market-based access to finance for firms.
4. Step up implementation of the reform of active labour market policies to ensure equal access to effective job-search assistance and training. Encourage labour market participation of women through a comprehensive strategy, rationalising family-support policies and increasing the coverage of childcare facilities. Foster research, innovation, digital skills and infrastructure through better-targeted investment and increase participation in vocational-oriented tertiary education.

Done at Brussels,

*For the Council*

*The President*

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