EUROPEAN
COMMISSION

Brussels, 13.5.2015
COM(2015) 257 final

Recommendation for a

COUNCIL RECOMMENDATION

on the 2015 National Reform Programme of Estonia

and delivering a Council opinion on the 2015 Stability Programme of Estonia

Recommendation for a

COUNCIL RECOMMENDATION

on the 2015 National Reform Programme of Estonia

and delivering a Council opinion on the 2015 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[2],

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

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,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, *Europe 2020*, based on enhanced coordination of economic policies. The strategy focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council, on the basis of the Commission's proposals, adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014), and on 21 October 2010 it adopted a decision on guidelines for the employment policies of the Member States. Together these form the 'integrated guidelines' which Member States were invited to take into account in their national economic and employment policies.

(3) On 8 July 2014, the Council adopted a Recommendation on Estonia's National Reform Programme for 2014 and delivered its opinion on Estonia's updated Stability

1 OJ L 209, 2.8.1997, p. 1.
2 COM(2015) 257.
3 P8_TA(2015)0067, P8_TA(2015)0068, P8_TA(2015)0069.

Programme for 2014. On 28 November 2014, in line with Regulation (EU) No 473/2013[4], the Commission presented its opinion on Estonia's draft budgetary plan for 2015[5].

(4) On 28 November 2014, the Commission adopted the Annual Growth Survey[6], marking the start of the 2015 European Semester of economic policy coordination. On the same day, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report[7], in which it did not identify Estonia as one of the Member States for which an in-depth review would be carried out.

(5) On 18 December 2014, the European Council endorsed the priorities for boosting investment, accelerating structural reforms and pursuing responsible growth-friendly fiscal consolidation.

(6) On 26 February 2015, the Commission published its 2015 country report for Estonia[8]. This assessed Estonia's progress in addressing the country-specific recommendations adopted on 8 July 2014.

(7) Estonia did not submit a National Reform Programme by the deadline.

(8) Estonia is currently in the preventive arm of the Stability and Growth Pact. The incoming government did not submit a Stability Programme by the deadline. Based on the Commission's 2015 spring forecast the headline surplus recorded in 2014 is projected to turn into a deficit of 0.2% of GDP in 2015 and 0.1% of GDP in 2016. The government debt ratio is forecast to gradually decline from 10.6% of GDP in 2014 to below 10% of GDP in 2016. Based on the Commission's 2015 spring forecast, there is a risk of some deviation from the medium-term objective in 2015 since the structural balance is projected to deviate from the medium-term objective by 0.4% of GDP. The deviation is set to become significant in 2016 when an improvement by 0.4% of GDP is required but the structural balance is projected to worsen by 0.3% of GDP. Therefore, further measures will be needed in 2015 and 2016. Based on its assessment and taking to account the Commission's 2015 spring forecast, the Council is of the opinion that there is a risk that Estonia will not comply with the provisions of the Stability and Growth Pact.

(9) Estonia's employment rate reached 74.5 % of the working-age population in the third quarter of 2014 and the unemployment rate dropped to 7.6 %, the lowest level since 2009. The proportion of long-term unemployed is well below the EU average. However, the shrinking labour force, combined with low labour productivity, is becoming a medium-to-long-term challenge. Implementation of the ambitious Work Capacity Reform has started only recently. While a number of tax-related measures have been adopted to increase labour market participation, they do not specifically target low-income earners. The gender pay gap is one of the widest in the EU. A lack of childcare facilities makes it more difficult for young parents, in particular mothers, to return to the labour market. The proportion of students in work-based apprenticeships is also low. There is a shortage of graduates in technology and science subjects. The quality of local authority labour and social services is uneven.

4 OJ L 140, 27.5.2013, p. 11.
5 C(2014) 8802 final.
6 COM(2014) 902.
7 COM(2014) 904.
8 SWD(2015) 26 final.

(10) The Estonian government adopted a lifelong learning strategy in early 2014 and programmes to implement it were presented in March 2015. A reform of curricula in the vocational education and training system is ongoing and participation in lifelong learning has increased. An Adult Education Act and a Professions Act were adopted by parliament in early 2015. The attractiveness of vocational education and training and apprenticeships remains a challenge. Research and innovation systems and cooperation between business, higher education and research institutions have improved. However, public support for research and innovation, under the RDI Strategy and the Entrepreneurship Growth Strategy, seems to lack coordination and should focus more on a limited number of smart specialisation areas. The higher education system, in particular as regards science and technology, still needs to be better aligned with the needs of business and research institutions. Investment in intellectual property is low and few companies work together with research institutions.

(11) 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 2015 country report. It has also assessed 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 socioeconomic policy in Estonia but also their compliance with EU rules and guidance, given the need to strengthen the overall economic governance of the European Union by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations 1 to 3 below.

(12) In the light of this assessment, the Council has examined Estonia's Stability Programme and its opinion[9] is reflected in particular in recommendation 1 below.

(13) In the context of the European Semester the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On the basis of this analysis, the Council has issued specific recommendations for the Member States whose currency is the euro. Estonia should also ensure the full and timely implementation of these recommendations,

HEREBY RECOMMENDS that Estonia take action in 2015 and 2016 to:

1. Avoid deviating from the fiscal medium-term objective in 2015 and 2016.

2. Improve labour market participation, including by implementing the Work Ability Reform. Improve incentives to work through measures targeting low-income earners. Take action to narrow the gender pay gap. Ensure high-quality social and childcare services at local level.

3. Increase participation in vocational education and training, and its labour market relevance, in particular by improving the availability of apprenticeships. Focus public support for research and innovation on a limited number of smart specialisation areas.

---

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

Done at Brussels,

For the Council
The President