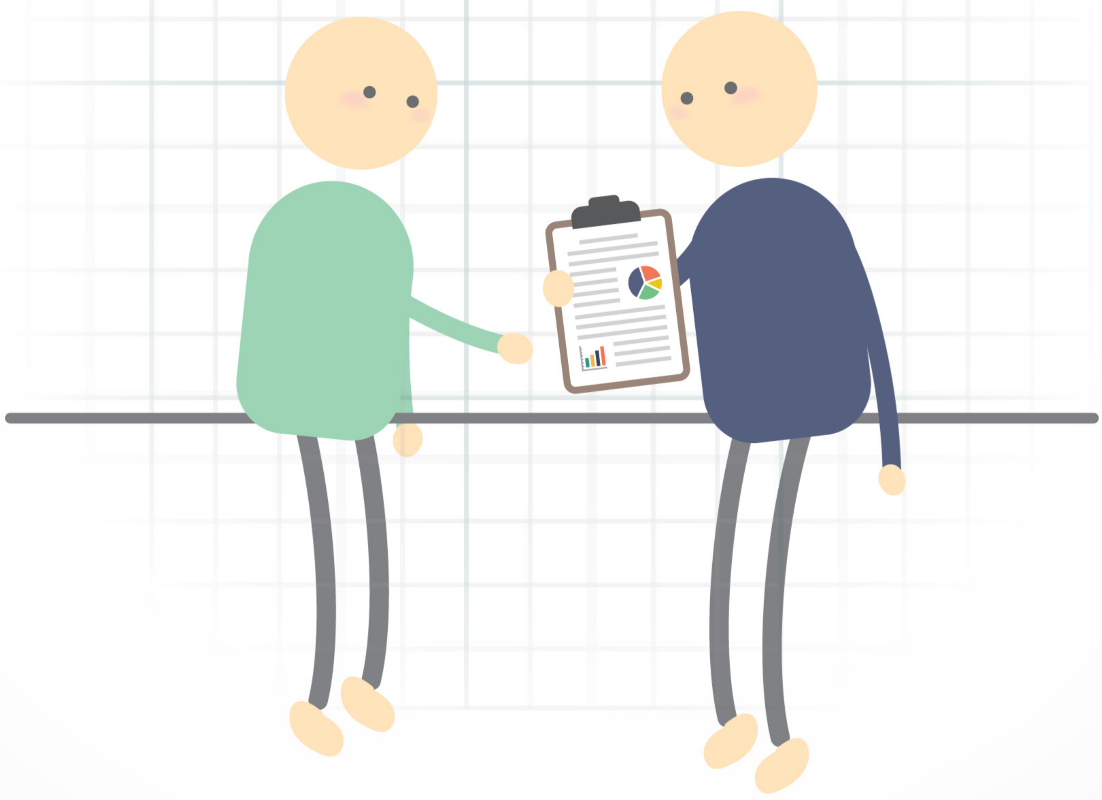
Six Years On:

Assessing the Impact of Country Specific Recommendations

By Tim Costello



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Executive summary

The Country Specific Recommendations (CSRs) form a key part of the European Semester process, which guides the EU's economic governance. This policy brief examines how the CSRs have evolved since their introduction in 2011 and analyses the implementation record of the recommendations to date, particularly in the case of Ireland. It also provides an overview of some of the obstacles, such as enforcement constraints and reform fatigue.

1. The story so far

The CSRs were established in 2011 as part of the enhanced EU economic governance framework, which was introduced following the financial crisis and which aims to ensure greater policy coordination across the interdependent economies of the Member States. The CSRs are issued by the European Commission in **May** each year and are typically endorsed by the **European Council around a month later**. The recommendations are based on the findings of the Country Reports and on the dialogue with Member States, national parliaments, social partners, civil society and other stakeholders that follows the publication of the **Country Reports** in **February** of each year[1]. They also seek to support the objectives set out in the euro area recommendations and the priorities set out in the Annual Growth Survey.

Objectives

The CSRs are designed to **give guidance** to Member States on what es could be pursued in the following **12-18** months to increase economic growth, job creation and investment in unison with the pursuit of healthy public finances. While they do give a sense of where Member States should direct their economic policies, the Commission stresses that the recommendations are designed to focus on what national policies should seek to achieve **rather than prescribing** what exact policies should be pursued.

1 The Country Reports seek to provide a detailed assessment of the economic conditions in each Member State. The Country Reports have a much wider focus than the CSRs. In 2017, the Commission consulted Member States on the draft Country Reports in order to strengthen "common understanding of the key economic and social priorities" (COM 2017, 500 final).

Unlike the defined rules of the expenditure benchmark or the medium term objective (MTO) elements of the governance framework, the CSRs are, by their very nature, recommendations. While they require the endorsement of the Council, **governments cannot be directly compelled to implement** the recommendations issued to them except in the case where the recommendation relates to Member States' **obligations under the Stability and Growth Pact**. When the CSRs were introduced 2011, the Commission emphasised the role that would be played by peer and market pressure in encouraging Member States to act on the recommendations.

As part of a restructuring of the European Semester process, the Commission made a number of changes to the CSRs over the last two years. These changes followed an admission by the Commission in 2015 of the implementation challenge facing the recommendations:

> *"…Member States should make more progress on implementing country-specific recommendations, given that implementation has so far been uneven and often only limited"*[2]

In 2015, the Commission began **publishing the CSRs slightly earlier, in May rather than June**, to allow more space for discussion, while it also sought to give the CSRs greater focus by **reducing the number of recommendations issued**. From 2015, it began publishing the euro area recommendations alongside the Annual Growth Survey in **November**. This created a clearer divide between the euro area part of the European Semester and the national part of the process. Previously, the euro area recommendations were published alongside the national CSRs. The Commission believes that the advantage of moving the euro area recommendations to November is that it allows for more substantial discussions on the appropriate economic and fiscal positions of the euro area and for the results of these discussions to be reflected in the CSRs for euro area countries.

Further changes occurred in 2016, including an **enhanced focus on employment and social related recommendations**. This focus on the social pillar of Economic and Monetary Union (EMU) is a response to criticisms that economic governance in the EU overemphasised fiscal consolidation in the wake of the crisis and did not pay adequate attention to the impact of economic reforms on society. Politicians and leading figures at the national and EU level frequently speak about the need for Europe to deliver for citizens in order to combat populism and nationalist sentiments. The shift towards giving social indicators an equal standing to fiscal focused indicators are part of such efforts.

The communication published by the Commission alongside the 2017 CSRs states that social priorities, such as reducing long-term unemployment and mitigating income inequality, must be a key part of economic reforms in Member States. In the future, the CSRs will also reflect the priorities and rights outlined under the proposed **European Pillar of Social Rights**, which aims to foster convergence towards better living and working standards in the euro area. A **social scoreboard** focusing on indicators across 12 areas including education, gender equality, inequality, poverty, healthcare, digital access and labour market dynamics will complement the Pillar of Social Rights and will add to the information and analyses used in the European Semester process.

2. The nature of the recommendations

While there are some notable themes, such as the current efforts to integrate **social issues** into the recommendations, the varied nature of Member States' economies and societies mean the CSRs are diverse and relatively wide ranging in nature. Nonetheless, the Commission has narrowed the recommendations for each Member State in order to focus on "key priority areas for action"[3].

In the 2017 CSRs, 22 out of the 27 countries for which CSRs were issued received recommendations relating to fiscal policy and fiscal governance[4]. As expected in a region still recovering from the financial crisis, **public finances** have played a prominent role in the CSRs since their inception. In 2016, fifteen Member States received recommendations relating to their public finances. This compares to 22

2 *On steps towards Completing Economic and Monetary Union,* European Commission (21 October 2015) https://ec.europa.eu/transparency/regdoc/rep/1/2015/EN/1-2015-600-EN-F1-1.PDF

3 Press release on the 2015 Country Specific Recommendations, European Commission (13 May 2015) http://europa.eu/rapid/press-release_IP-15-4975_en.htm

4 Excluding Greece

Member States in 2015 (out of 26 issued recommendations) and all 26 Member States in 2014[5].

In the 2017 CSRs, **Ireland** was one of six countries – including France, Italy and Poland – urged in the recommendations to **broaden their tax bases**. Another recommendation that has been issued to Ireland in 2015, 2016 and 2017 relates to the **cost and provision of childcare** services and the resulting impact on the labour market. Austria, Spain and Slovakia also received recommendations in 2017 relating to childcare.

The enhanced focus on social issues in the CSRs, and the wider EMU, is reflected in the fact that **11 Member States** received recommendations in 2017 relating to **poverty reduction and social inclusion** compared to 6 Member States in 2015, while 7 received recommendations relating to **skills and lifelong learning**. However, despite these changes, the European Anti-Poverty Network, in its assessment of the 2016 CSRs, argued that the **poverty related** measures proposed were "inconsistent and rather piecemeal".

3. The CSRs implementation record

The implementation of the CSRs varies by **country**, by **recommendation** and by the **method** used to measure implementation, but the **overall implementation rate** since the CSRs were introduced some six years ago has, in the words of Vice President Dombrovskis, been "generally speaking, relatively weak"[6].

The Commission's Country Reports, published annually in February, provide an update on Member States progress, or lack thereof, in implementing the previous year's CSRs. An assessment is made using **five categories:**

No progress	The Member State has neither announced nor adopted any measures to address the CSR. This category also applies if a Member State has commissioned a study group to evaluate possible measures.
Limited progress	The Member State has announced some measures to address the CSR, but these measures appear insufficient and/or their adoption/implementation is at risk.
Some progress	The Member State has announced or adopted measures to address the CSR. These measures are promising, but not all of them have been implemented yet and implementation is not certain in all cases.
Substantial progress	The Member State has adopted measures, most of which have been implemented. They go a long way towards addressing the CSR.
Fully addressed	The Member State has adopted and implemented measures that address the CSR appropriately.

Analysis to assess the rate of implementation of the CSRs has been conducted by, among others Darvas and Leandro (2015/2016) for **Bruegel**, and Deroose and Griesse (2014) for the **European Commission**. Darvas and Leandro's original Bruegel paper on the topic was requested by the European Parliament's Economic and Monetary Affairs Committee for its 10 November 2015 Economic Dialogue with Jeroen Dijsselbloem, President of the Eurogroup.

5 Excluding Greece and Cyprus

6 Remarks by Commissioner Dombrovskis to the House of Lords Select Committee on the European Union (27 January 2016) http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/eu-financial-affairs-subcommittee/completing-europes-economic-and-monetary-union/oral/28262.html

The Bruegel paper concludes that implementation of the CSRs was "poor" when the European Semester process first began in 2011 and has **deteriorated** in the period since then. Darvas and Leandro's "reform implementation index" ranges between zero, where there has been no or limited progress, to one, where there has been substantial progress or full implementation. The index builds on the synthetic indicator created by Deroose and Griesse (2014). The index fell from 0.4 in 2011 to 0.29 in 2014. An update to the index, published in June 2016, showed a further fall in 2015 to 0.25. This trend in declining implementation was also present in euro area Member States, which because of their common currency require a greater level of economic policy coordination. In the 14 euro area countries examined by Darvas and Leandro the implementation index was 0.38 in 2011 and 0.28 in 2015[7].

In their 2014 briefing paper for the European Commission's Directorate-General for Economic and Financial Affairs, Deroose and Griesse made two significant points:

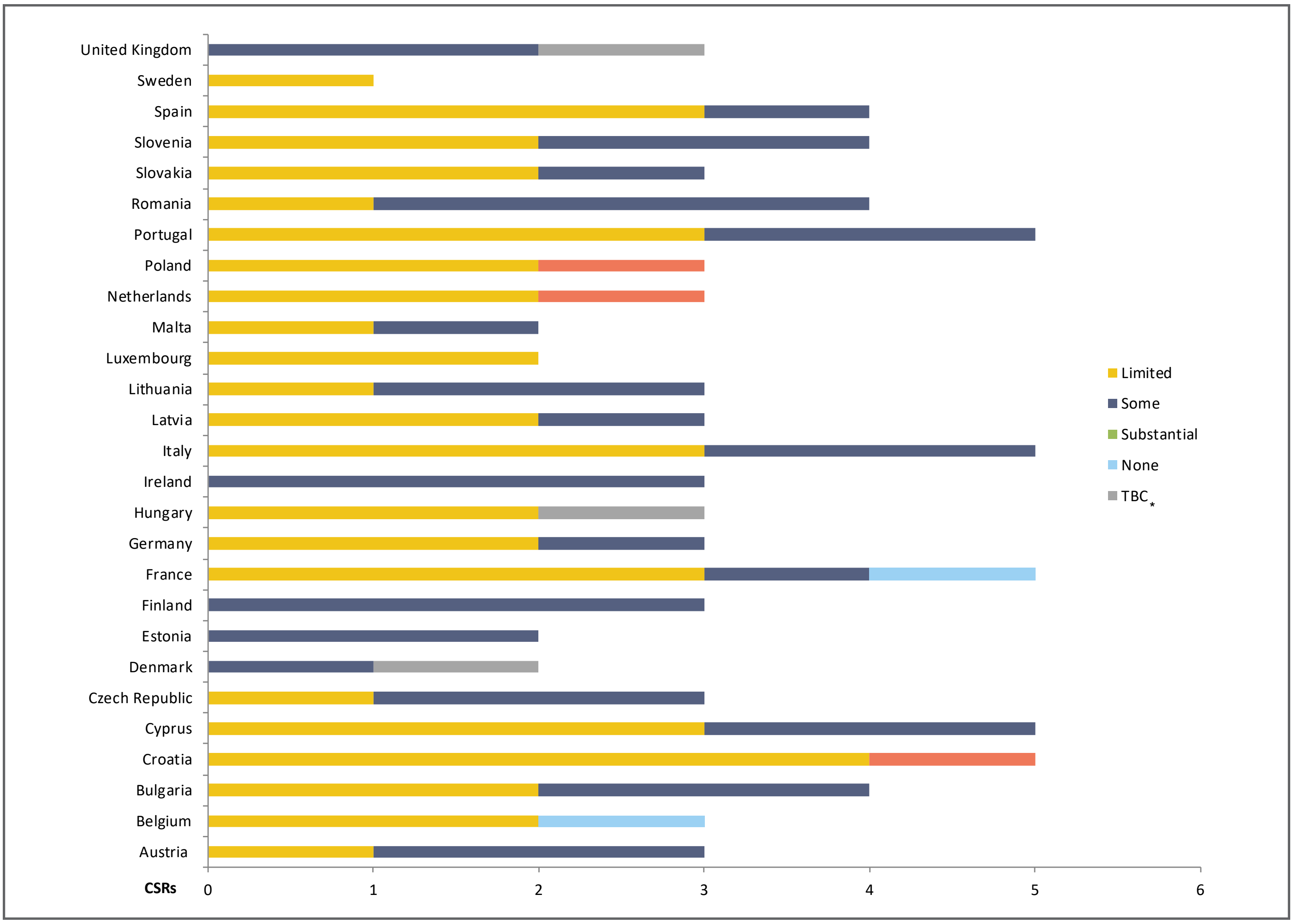
- They argued that the implementation rate of the CSRs **had been higher than claimed by critics of the process**. The pair's index calculated an average synthetic indicator score of 41.7 percent, which fell within the lower range of the "some progress" category.

- They also examined how the implementation of the CSRs relates to national electoral cycles and found that, on average, **implementation was improved when there was no general election in the 12 months** following the adoption of the CSRs by the Council.

In testimony to the House of Lords Select Committee on the European Union in January 2016, **Thomas Wieser**, President of the Euro Working Group and President of the Economic and Financial Committee of the European Council, said he believed that **implementation** of the CSRs at a national level **could be improved** through **engagement with national parliaments and social partner**s. He said this would ensure that the recommendations are not being discussed in "a vacuum above the heads of national policymakers". Mr Wieser assessed that the degree to which Member States "take seriously" the CSRs issued to them "differs enormously". Figure 1 on the following page outlines the progress of individual Member States in implementing the 2016 Country Specific Recommendations.

7 The Bruegel index looks only at countries for which data is available for all years since the introduction of the CSRs in 2011

Figure 1 Progress on 2016 CSRs



**To be confirmed: SGP related recommendations not assessed when the Country Reports were published. Information taken from the 2017 County Reports; the author is grateful to Eoin Flaherty, Member of the IIEA Economic Governance Group, for compiling the data.*

A business perspective

Business Europe, a confederation representing the interests of European businesses, conducts an **annual survey of its member federations** to gauge their assessment of the appropriateness of the CSRs and the rate of implementation. The 2017 survey, which looked at the 2016 CSRs, found that members believed 17 percent of the recommendations were implemented satisfactorily (versus 20 percent for the 2015 CSRs), while members believed progress was limited or non-existent for 38% of the recommendations. Divergence across Member States was evident in the survey, with Ibec, the representative member for Ireland, assessing that of the **three CSRs issued to Ireland** in 2016, the implementation effort was "**satisfactory**" for two recommendations and "**mixed**" for the other. Interestingly, Ibec was more positive about the appropriateness of the Commission's recommendations for Ireland in 2016 compared to 2015 because of the **increased focus on Ireland's investment needs**.

4. Implementation analysis – the issues

The work carried out by Bruegel and others is useful in that it allows for a quantifiable analysis of the European Semester, and in particular of the CSRs. However, there are a number of challenges to the construction of indicators such as those outlined in section 3 and thus there is a need to be cautious when drawing definitive conclusions from them.

When assessing the implementation rate of the CSRs to date, it is important to note that they remain a **relatively new undertaking** and that alterations to the European Semester, which was designed to improve coordination and enhance cooperation between EU Member States on economic matters, were only introduced in 2015. The implementation of some of the recommendations issued to Member States may take time, particularly in the case of structural reforms. This requires observers to have a degree of patience when assessing the progress made in some areas and to do so over a medium term time horizon. In the communication published alongside the 2017 CSRs on 22 May 2017, the Commission claimed implementation is "considerably greater" for recommendations issued a number of years ago compared to those issued in 2016.

The sometimes **complex nature** of the recommendations is also worth bearing in mind – while the CSRs for Ireland in 2016 covered just three broad categories, there were a number of recommendations contained within each category and, crucially, **not all recommendations are of equal importance**. The level of importance may vary within an individual Member State's CSRs and across the CSRs issued to different Member States – a country in economic distress is likely to receive recommendations of greater importance than a country not in an adverse scenario.

5. The case of Ireland

This section details the CSRs issued to Ireland, collated under broad category headings, and the Commission's evaluation of the progress in implementing the recommendations.

In 2011, 2012 and 2013, Ireland received **no** specific recommendations and was instead advised to continue implementing the measures agreed as part of the EU-IMF financial assistance programme. This was also the case for both Greece and Portugal, who were also in bail-out packages at the time. Cyprus received no CSRs between 2013 and 2015 during its economic adjustment programme.

Ireland received a **full set of recommendations** for the first time in 2014. The recommendations covered **seven** broad categories, with Ireland's progress assessed in the Country Report of February 2015[8]. As illustrated in the table below, Ireland was found to have made 'some progress' in five of the seven broad categories and 'limited progress' in the remaining two, which related to the **work intensity of households**, the improved provision of **affordable full-time childcare** and **reforms to reduce the cost of legal proceedings** and services.

2014 Country Specific Recommendations for Ireland

	Broad category	Evaluation
CSR1	Fiscal adjustment, SGP compliance and a broader tax base	Some progress
CSR2	Health sector reform measures	Some progress
CSR3	Labour market policies (education and training)	Some progress
CSR4	Household work intensity and childcare	Limited progress
CSR5	SME sector policies	Some progress
CSR6	Banking sector measures, addressing non-performing loans (NPLs) and establishing a Central Credit Registry	Some progress
CSR7	Legal sector reforms (reduced costs and enhanced competition)	Limited progress

8 A full list of the recommendations issued to Ireland in 2017, 2016, 2015 and 2014 is available in the annex on page 14.

In May 2015, a new set of recommendations were issued to Ireland. On this occasion, the number of recommendations fell from seven to **four broad categories**. Ireland was once again urged to **broaden its tax base** but, in the Country Report for Ireland published on 26 February 2016, the Commission assessed that Ireland had made little progress in broadening the tax base and noted that an increase in excise duties on cigarettes was the only tax increase in the period following the 2015 CSRs. Indeed, the report highlighted a number of measures in Budget 2016 – such as changes to the universal social charge and additional tax credits – that would likely **narrow** the tax base further.

2015 Country Specific Recommendations for Ireland

	Broad category	Evaluation
CSR1	Fiscal adjustment, SGP compliance and a broader tax base	Limited progress
CSR2	Health sector reform measures	Some progress
CSR3	Household work intensity and childcare affordability	Some progress
CSR4	Banking sector measures, addressing NPLs and a Central Credit Registry	Some progress

In 2016, the CSRs for Ireland focused on **three** broad categories. A notable addition from the 2015 recommendation was the recognition of Ireland's infrastructure needs and a cautionary mention of an apparent shift in general government expenditure towards current spending rather than capital investment in the post-crisis period. The CSR document noted the negative impact of this shift on **innovation and R&D**. The 2016 CSRs were accompanied by a recommendation from the Commission for Ireland to exit the excessive deficit procedure. This recommendation, adopted by the Council on 17 June 2016, resulted in Ireland moving from the corrective arm of the Stability and Growth Pact to the preventative arm.

The 2017 Country Report, published on 22 February 2016, assessed that overall Ireland had made some progress in addressing the 2016 CSRs, although it highlighted continued issues relating to the tax base, work incentives and the delayed establishment of a Central Credit Registry.

2016 Country Specific Recommendations for Ireland

	Broad category	Evaluation
CSR1	Fiscal adjustment, SGP compliance, a broader tax base, expenditure quality and the prioritisation of capital expenditure	Some progress
CSR2	Activation policies and childcare affordability	Some progress
CSR3	NPL restructuring and a Central Credit Registry	Some progress

The Commission published the 2017 CSRs on 22 May 2017 and once again, the recommendations for Ireland focused on three broad categories. Action across of a number of familiar issues is recommended, including improvement in the provision of high quality childcare and measures to tackle the problem of low intensity households. The Commission once again recommends that Ireland broaden its tax base, while it also suggests that the Government should "limit the scope and the number of tax expenditures". The 2017 CSR document for Ireland notes that amid a background of heightened economic uncertainty and risk, the Government should seek to improve revenue stability and resilience. Referring to corporation tax receipts, the document urges Ireland to reduce its reliance on "concentrated and volatile" revenue sources. OECD data published by the Office of the Revenue Commissioners in April 2017 showed that corporate tax receipts as a percentage of total tax revenue in Ireland was 11.4% in 2015. This compares to an OECD average of 7.7%[9].

2017 Country Specific Recommendations for Ireland

	Broad category
CSR1	SGP compliance, limit scope and number of tax expenditures, and a broader tax base
CSR2	Prioritisation of government expenditure in public investment and innovation, enhancement of social infrastructure (social housing, childcare) and activation policies
CSR3	More durable NPL reduction

6. Future challenges to the CSRs

Enforcement

While the impact of Brexit on EU Member States, and, most notably, Ireland, may yet alter the current more positive economic outlook, the CSRs are now being issued in a time of **relative calm** in the European economy. The market pressures that characterised the sovereign debt crisis from which the CSRs originated have eased and the conversation has largely turned from one of austerity and fiscal consolidation to a discussion of how to lift potential growth onto a new, higher path through more expansive fiscal policies. This shift in narrative poses a new challenge for the implementation of the CSRs.

With **market pressure** not currently a factor, and with the non-SGP elements of the recommendations not backed up by any notable enforcement mechanism, the Commission will rely largely on **peer pressure** to encourage Member States to implement their CSRs. The record of implementation to date would suggest that peer pressure is not a particularly effective mechanism in this regard.

Another issue noted by Gros and Alcidi (2015) is that in a non-crisis situation the pressure on national governments to carry out **structural reforms to avoid contagion** within the wider EU or euro area diminishes significantly. In such circumstances, the pair assess that "it is often difficult to say why the Union has an interest in the country undertaking the reforms".

Reform fatigue

Within this context of improved economic sentiment and conditions, another challenge facing CSR implementation is that of reform fatigue. Many Member States still require significant structural reforms to improve their prospects for growth in the future, to reduce unemployment and to enhance resilience in the event of another economic shock. However, the **abating of the crisis period risks inaction** by national governments who may no longer feel as compelled to act and who face an electorate still recovering from years of austerity. The Commission highlighted this risk of reform fatigue in its November 2016 communication, *Towards a Positive Fiscal Stance for the Euro Area*. It assessed that a "more active" fiscal policy, in combination with major structural reforms and investment supports, "can have direct long-term positive budgetary effects, including by raising potential growth".

Political environment

The post-crisis political environment is also an important factor. While the predicted "populist wave" has not come to pass in elections in Europe so far this year, the trend of economic nationalism exhibited by President Trump and by certain factions in the Brexit debate in

9 *An Analysis of 2015 Corporation Tax Returns and 2016 Payments*, Office of the Revenue Commissioners (April 2017)

the United Kingdom may shift the calculations of centrist or 'traditional' politicians in some countries. If taking direction from Brussels on economic policies proves to be politically untenable in an environment characterised by **national interests above all else**, then the CSRs implementation rate will likely decline even further.

7. Conclusion

Despite the obvious challenges of implementation, which have been recognised by leading EU figures, the CSRs are a **useful and important innovation** in the EU economic policy coordination process. While enforcement remains an issue, as Pierre Moscovici, the European Commissioner for Economic and Financial Affairs, remarked in 2015 that the recommendations *"are not about Brussels lecturing governments. They are about encouraging national efforts to deliver the jobs and growth that we collectively need"*. This collective focus on ensuring Member States are moving in the same economic direction is one that the European Semester as a whole, of which the CSRs are only a constituent part, is attempting to promote.

Efforts by the Commission to **improve engagement with national parliaments** and with the relevant stakeholders in each Member State should serve to enhance the role and relevance in the period between the adoption of the CSRs by the Council in June and the submission by Member States of their **draft budgetary plans** in the autumn. Enhanced engagement should lead to greater political and societal buy-in to the recommendations and thus increase the chances of implementation. The more focused nature of the recommendations now compared to the first set of CSRs in 2011, or 2014 in the case of Ireland, should also serve to boost their effectiveness.

While the European Semester has its flaws, in the absence of the political conditions needed for further steps to be taken towards a fiscal union, it plays a crucial role in ensuring some level of **economic policy coordination**, particularly among the euro area Member States which all fall under the monetary policy remit of the European Central Bank.

Forthcoming initiatives, such as the advisory **European Fiscal Board** (EFB), chaired by Professor Niels Thygesen, may serve to strengthen cooperation and coordination. The EFB has been tasked with advising the Commission on the appropriate fiscal stance for the euro area and on the appropriateness of national fiscal stances in relation to the rules of the Stability and Growth Pact. The EFB will also aim to facilitate the exchange of best practice and understanding between national fiscal councils.

Aside from the fiscal rules element of the CSRs, the Commission has also taken steps to aid Member States in implementing recommendations that relate to structural reforms. It set up a **Structural Reform Support Service** to help Member States design and implement structural reforms, and to use EU funds effectively in doing so, in July 2015. The service has primarily offered support to Cyprus and Greece under their economic adjustment programmes; however, as of February 2017 an additional 7 Member States were availing of the service[10].The European Parliament and the Council reached a provisional agreement in February 2017 on a Commission proposal to establish a **Structural Reform Support Programme** to run from 2017 to 2020 with a budget of €142.8 million. The programme, which was approved by the Council in May 2017, aims to aid Member States in the preparation and implementation of "growth enhancing" structural and administrative reforms.

In the quest, both at a national and European level, to improve economic and social conditions through inclusive growth, the CSRs, despite their limitations, are a welcome part of the policy discourse. While implementation rates are likely to remain relatively low, efforts to sharpen the focus of the recommendations and take into consideration the social dimension of Economic and Monetary Union should serve to improve the relevance of the CSRs and perhaps then by extension, their impact on citizens and society.

10 The current policy of the Structural Reform Support Service is to not publish the names of the non-programme countries that request its support

Annex

Full list of Country Specific Recommendations for Ireland by year[11]

2017

HEREBY RECOMMENDS that Ireland take action in 2017 and 2018 to:

1. Pursue its fiscal policy in line with the requirements of the preventive arm of the Stability and Growth Pact, which trans lates into a substantial fiscal effort for 2018. Use any windfall gains, such as proceeds from asset sales, to accelerate the reduction of the general government debt ratio. Limit the scope and the number of tax expenditures and broaden the tax base.

2. Better target government expenditure, by prioritising public investment in transport, water services, and innovation in particular in support of SMEs. Enhance social infrastructure, including social housing and quality childcare; deliver an integrated package of activation policies to increase employment prospects of low-skilled people and to address low work intensity of households.

3. Encourage a more durable reduction in non-performing loans through resolution strategies that involve write-offs for viable businesses and households, with a special emphasis on resolving long-term arrears.

2016

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

1. Following the correction of the excessive deficit, achieve an annual fiscal adjustment of 0.6 % of GDP towards the medi um-term budgetary objective in 2016 and in 2017. Use windfall gains from strong economic and financial conditions, as well as from asset sales, to accelerate debt reduction. Reduce vulnerability to economic fluctuations and shocks, inter alia, by broadening the tax base. Enhance the quality of expenditure, particularly by increasing cost effectiveness of healthcare and by prioritising government capital expenditure in R & D and in public infrastructure, in particular transport, water services and housing.

2. Expand and accelerate the implementation of activation policies to increase the work intensity of households and address the poverty risk of children. Pursue measures to incentivise employment by tapering the withdrawal of benefits and sup plementary payments. Improve the provision of quality, affordable full-time childcare.

3. Finalise durable restructuring solutions to lower non-performing loans, to ensure debt sustainability of households and to encourage lenders to reduce the debt of excessively leveraged yet viable businesses. Accelerate the phasing-in of a fully operational central credit registry covering all categories of lenders and debtors.

11 The 2017 Country Specific Recommendations for Ireland were issued on 22 May 2017 but have yet to be endorsed by the European Council.

2015

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

1. Ensure a durable correction of the excessive deficit in 2015. Achieve a fiscal adjustment of 0.6 % of GDP towards the medi um-term budgetary objective in 2016. Use windfall gains from better-than-expected economic and financial conditions to accelerate the deficit reduction and debt reduction. Limit the existing discretionary powers to change expenditure ceilings beyond specific and predefined contingencies. Broaden the tax base and review tax expenditures, including on value-add ed taxes.

2. Take measures to increase the cost-effectiveness of the healthcare system, including by reducing spending on patented medicines and gradually implementing adequate prescription practices. Roll out activity-based funding throughout the public hospital system.

3. Take steps to increase the work-intensity of households and to address the poverty risk of children by tapering the withdrawal of benefits and supplementary payments upon return to employment and through better access to affordable full-time childcare.

4. Finalise durable restructuring solutions for a vast majority of mortgages in arrears by end-2015 and strengthen the mon itoring arrangements by the Central Bank of Ireland. Ensure that restructuring solutions for loans to distressed SMEs and residual commercial real-estate loans are sustainable by further assessing banks' performance against own targets. Take the necessary steps to ensure that a central credit registry is operational by 2016.

2014

HEREBY RECOMMENDS that Ireland take action within the period 2014-2015 to:

1. Fully implement the 2014 budget and ensure the correction of the excessive deficit in a sustainable manner by 2015 through underpinning the budgetary strategy with additional structural measures while achieving the structural adjust ment effort specified in the Council recommendation under the Excessive Deficit Procedure. After the correction of the excessive deficit, pursue a structural adjustment towards the medium-term objective of at least 0.5 % of GDP each year, and more in good economic conditions or if needed to ensure that the debt rule is met in order to put the high general government debt ratio on a sustained downward path. Enhance the credibility of the fiscal adjustment strategy, effectively implement multi-annual budgetary planning and define broad budgetary measures underlying the medium-term fiscal targets. Ensure the binding nature of the government expenditure ceiling including by limiting the statutory scope for discretionary changes. To support fiscal consolidation, consideration should be given to raising revenues through broad ening the tax base. Enhance the growth and environmental friendliness of the tax system.

2. Advance the reform of the healthcare sector initiated under the Future Health strategic framework to increase cost-ef fectiveness. Pursue additional measures to reduce pharmaceutical spending, including through more frequent price re alignment exercise for patented medicines, increased generic penetration and improved prescribing practices. Reform the financial management systems of the national health authority to streamline systems across all providers and to sup port better claims management. Roll out individual health identifiers starting by the end of the first quarter of 2015 at the latest.

3. Pursue further improvements in active labour market policies, with a particular focus on the long-term unemployed, the low-skilled and, in line with the objectives of a youth guarantee, young people. Advance the ongoing reform of the further education and training (FET) system, employment support schemes and apprenticeship programmes. Offer more work place training; improve and ensure the relevance of FET courses and apprenticeships with respect to labour market needs. Increase the level and quality of support services provided by the Intreo labour offices. Put in place a seamless FET refer rals system between Intreo offices and Education and Training Boards.

4. Tackle low work intensity of households and address the poverty risk of children through tapered withdrawal of benefits and supplementary payments upon return to employment. Facilitate female labour market participation by improving access to more affordable and full-time childcare, particularly for low income families.

5. Advance policies for the SME sector including initiatives to address the availability of bank and non-bank financing and debt restructuring issues, while avoiding risks to public finances and financial stability. Advance initiatives to improve SME's access to bank credit and non-bank finance. Introduce a monitoring system for SME lending in the banking sector. In parallel, work to ensure that available non-bank credit facilities, including the three SME funds co-funded by the Na tional Pensions Reserve Fund, Microfinance Ireland and the temporary loan guarantee scheme, are better utilised. Promote the use of these and other non-bank schemes by SMEs. Enhance the Credit Review Office's visibility and capabil ities in mediating disputes between banks and prospective SME borrowers who have been refused credit.

6. Monitor banks' performance against the mortgage arrears restructuring targets. Announce ambitious targets for the third and fourth quarters of 2014 for the principal mortgage banks to propose and conclude restructuring solutions for mort gage loans in arrears of more than 90 days, with a view to substantially resolving mortgage arrears by the end of 2014. Continue to assess the sustainability of the concluded restructuring arrangements through audits and targeted on-site reviews. Develop guidelines for the durability of solutions. Publish regular data on banks' SME loan portfolios in arrears to enhance transparency. Develop a strategy to address distressed commercial real-estate exposures. Establish a central credit registry.

7. Reduce the cost of legal proceedings and services and foster competition, including by adopting the Legal Services Reg ulation Bill by the end of 2014, including its provision allowing the establishment of multi-disciplinary practices, and by seeking to remove the solicitor's lien. Monitor its impact, including on the costs of legal services. Take executive steps to ensure that the Legal Services Regulatory Authority is operational with out delay and that it meets its obligations under the legislation, including in terms of publishing regulations or guidelines for multi-disciplinary practices and the resolu tion of complaints. Improve data collection systems to enhance the monitoring and evaluation of the efficiency of judicial proceedings to identify issues in need of reform.

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