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Recommendation for a

COUNCIL RECOMMENDATION

on the 2017 National Reform Programme of the United Kingdom

and delivering a Council opinion on the 2017 Convergence Programme of the United Kingdom

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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 9(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 16 November 2016, the Commission adopted the Annual Growth Survey,[4] marking the start of the 2017 European Semester of economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 9-10 March 2017. On 16 November 2016, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report,[5] in which it did not identify the United Kingdom as one of the Member States for which an in-depth review would be carried out.

(2) The 2017 country report for the United Kingdom[6] was published on 22 February 2017. It assessed the United Kingdom's progress in addressing the country-specific recommendations adopted by the Council on 12 July 2016, the follow-up given to the

1 OJ L 209, 2.8.1997, p. 1.
2 COM(2017) 527 final.
3 P8_ TA(2017)0038, P8_ TA(2017)0039, and P8_ TA(2017)0040.
4 COM(2016) 725 final.
5 COM(2016) 728 final.
6 SWD(2017) 93 final.

recommendations adopted in previous years and United Kingdom's progress towards its national Europe 2020 targets.

(3) On 21 April 2017, the United Kingdom submitted its 2017 National Reform Programme and on 27 April 2017 the United Kingdom submitted its 2017 Convergence Programme. To take account of their interlinkages, the two programmes have been assessed at the same time.

(4) The relevant country-specific recommendations have been taken into account in the Member States' programmes for the European Structural and Investment Funds (ESI Funds) covering the 2014-2020 period. As foreseen in the legislation governing the ESI Funds,[7] where it is necessary to support the implementation of relevant country-specific recommendations, the Commission may request a Member State to review and amend its relevant ESI Funds programmes. The Commission has provided further guidelines on the application of those rules.[8]

(5) The United Kingdom is currently in the corrective arm of the Stability and Growth Pact. Should a timely and durable correction have been achieved in 2016-17, the United Kingdom will become subject to the preventive arm of the Stability and Growth Pact and to the transitional debt rule in 2017-18. In its 2017 Convergence Programme, the government expects to have corrected the excessive deficit by the fiscal year 2016-17, in line with the Council Recommendation of 19 June 2015, with a headline deficit of 2.7% of GDP. The headline deficit is then expected to increase slightly to 2.8% of GDP in 2017-18 before declining to 1.9% of GDP in 2018-19. The Convergence Programme does not include a medium-term budgetary objective. According to the Convergence Programme, the general government debt-to-GDP ratio is expected to broadly stabilise around 87.5% from 2016-17 to 2018-19 before falling to 84.8% of GDP in 2020-21. The macroeconomic scenario underpinning these budgetary projections is favourable. While the measures needed to support the planned deficit targets are overall well specified, downside risks to the macroeconomic outlook pose a risk to the achievement of the planned deficit reduction.

(6) On 12 July 2016, the Council recommended that the United Kingdom put an end to the excessive deficit situation by 2016-17 and, following the correction of the excessive deficit, achieve a fiscal adjustment of 0.6 % of GDP in 2017-18 towards the minimum medium-term budgetary objective. Based on the Commission 2017 spring forecast, the headline deficit is projected to have reached 2.7% of GDP in 2016-17, in line with the target recommended by the Council. In 2017-18, there is a risk of some deviation from the preventive arm requirement.

(7) In the light of its fiscal situation and notably of its debt level, the United Kingdom is expected to further adjust towards an appropriate medium-term budgetary objective. According to the commonly agreed adjustment matrix under the Stability and Growth Pact, that adjustment translates into a requirement of a nominal growth rate

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[7] Article 23 of 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.

[8] COM(2014) 494 final.

of net primary government expenditure[9] which does not exceed 1.8%. It would correspond to an annual structural adjustment of 0.6% of GDP. Under unchanged policies, there is a risk of some deviation from that requirement over the period 2017-18 and 2018-19 taken together. At the same time, the United Kingdom is prima facie not projected to comply with the transitional debt rule in 2017-18 but is forecast to comply in 2018-19. Overall, the Council is of the opinion that the United Kingdom needs to stand ready to take further measures as of 2017-18 to comply with the provisions of the Stability and Growth Pact. However, as foreseen in Regulation (EC) No 1466/97, the assessment of the budgetary plans and outcomes should take account of the Member State's budgetary balance in the light of the cyclical conditions. As recalled in the Commission Communication accompanying these country-specific recommendations, the future assessment will need to take due account of the goal to achieve a fiscal stance that contributes to both strengthening the ongoing recovery and ensuring the sustainability of the United Kingdom's public finances. In that context, the Commission intends to make use of the applicable margin of appreciation in the light of the cyclical situation of the United Kingdom.

(8) Private investment has been consistently well below the EU average and public investment marginally below. Productivity is significantly below the G7 average and has stagnated since 2008. The government is putting a strong policy emphasis on raising investment to boost productivity growth. A key challenge is addressing significant shortcomings in the capacity and quality of the United Kingdom's infrastructure networks. Road congestion is high and rail capacity is increasingly inadequate in places in the face of rapidly growing demand. There is also an increasingly urgent need for higher investment in new energy generation and supply capacity. The National Infrastructure Delivery Plan sets out ambitious plans to improve the UK's economic infrastructure and a number of investment decisions on major transport and energy projects were made in 2016. However, concerns remain over whether adequate public and private investment can be secured to address infrastructure backlogs in a timely and cost-effective way. The United Kingdom has a major challenge to increase housing supply. A chronic shortage of housing contributes to high and rising house prices and has significant economic and social costs, especially around poles of economic growth. The reformed planning system, and a range of complementary housing policies, are together somewhat more supportive of increased residential construction. Nevertheless, a number of constraints on housing supply remain, including very strict and complex regulation of the land market and residential construction, and new housing supply is still not keeping up with the growth in demand.

(9) Labour market headline figures continue to be positive, with low long term and youth unemployment overall. However the levels of inactivity, part-time and low-wage employment have room for improvement. Earnings growth remains modest, linked to weak productivity growth. Concerns about skills supply, utilisation and progression remain. There have been significant policy developments focusing on skills and progression via reforms to technical education and apprenticeships. Quality in apprenticeships will need focus on both the qualification level undertaken and the

[9] Net government expenditure is comprised of 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 4-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.

subject area in which it is taken. Other, strategically important, funded routes for skills enhancement, particularly for people over 25, would expand the skills offer available to the State, to business and to individuals seeking career progression. There are also challenges related to the supply of childcare and social care, which contribute to the high rate of female part-time employment. Childcare reforms to date have been constant but gradual. A step-change is likely with the full roll-out of some initiatives in the next two years. The participation of children less than three years old in formal childcare is relatively low. While recent measures improve to some extent the availability and affordability of childcare for children aged 3 and 4, they do not address the issue of childcare supply for children under 3 years old. As a result of previously announced reforms and cutbacks, in particular to in-work support, social policy outcomes including child poverty may come under pressure in the near-to-medium term, particularly in a context of higher inflation. The number of children in poverty who live in working households is a particular cause for concern.

(10) In the context of the European Semester, the Commission has carried out a comprehensive analysis of United Kingdom's economic policy and published it in the 2017 country report. It has also assessed the Convergence Programme and the National Reform Programme and the follow-up given to the recommendations addressed to the United Kingdom in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in the United Kingdom 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.

(11) In the light of this assessment, the Council has examined the Convergence Programme and its opinion[10] is reflected in particular in recommendation 1 below,

HEREBY RECOMMENDS that United Kingdom 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 translates into a substantial fiscal effort for 2018. When taking policy action, consideration should be given to achieving a fiscal stance that contributes to both strengthening the ongoing recovery and ensuring the sustainability of United Kingdom's public finances.

2. Take further steps to boost housing supply, including through reforms to planning rules and their implementation.

3. Address skills mismatches and provide for skills progression, including by continuing to strengthen the quality of apprenticeships and providing for other funded "Further Education" progression routes.

Done at Brussels,

For the Council
The President

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