ANNEX 1. RECOMMENDATIONS PROGRESS SINCE PREVIOUS SURVEILLANCE REPORT 2016

1 Fiscal policy challenges

Recommendations

1. Adopt a structural reform plan for the tax system, indicating a clear path towards reaching a tax-to-GDP ratio of 1/3, while supporting economic growth and equality, and broadening the tax base.
   Partial progress

2. Develop and implement performance-enhancing reforms in the health care sector in a fiscally sustainable manner, without deviating from budget deficit targets.
   Partial progress

3. Identify issues and adopt measures for containing the long-term risks for the special budget, in view of demographic trends, the situation in the labour market, impact of policy changes, and previous deviations from budget expenditure forecasts.
   Partial progress

4. Carry out regular efficiency assessments and more detailed expenditure reviews to better utilise budget funds.
   Partial progress

2 Macroeconomic outlook and output gap

Recommendations

1. Initiate the process of establishing a national productivity board to facilitate the implementation of growth-enhancing policies.
   Recommendation taken. *In 2017 the Government has organised two public debates / seminars on this issue and the establishing process of this council has been launched.*
2. Develop a sensitivity analysis for the case of nominal GDP falling short of the forecasted level, the resulting lower tax revenues than planned and implications on government expenditures to meet the MTO
   No progress.

3 Assessment of compliance with numerical fiscal rules

Recommendations

1. Perform a retrospective assessment of the application of the fiscal rules starting with 2013 in accordance with Article 11 of the FDL based on the actual results of the macroeconomic and fiscal indicators.
   No progress.

2. After assessing the implementation of fiscal rules the Council recommends the following during the preparation and execution of the MTBF 2017/19:
   1) The Council disagrees with the MoF's view that for 2017 expenditure ceilings should be calculated on the basis of continuity rule and takes the view that for 2017 it should be done on the basis of the balance rule;
   2) The Council does not find the proposed deviation from the MTO on account of the reform in the health care sector compliant with FDL principles and recommends excluding it from the calculations of the fiscal rules and central government expenditure ceilings;

3) The structural balance for 2017 should be improved by 30.1 million euro (0.1% of GDP), for 2018 – by 111.6 million euro (0.4% of GDP), and for 2019 – by 148.1 million euro (0.5% of GDP).
No progress.

3. The Council encourages the Government to consider prudent planning of the budget deficit below the maximum threshold permitted by legal acts in order to secure a downward trend of the government debt level, consequently securing an improved fiscal position to weather another potential financial and economic crisis in the future.
   No progress.