COUNCIL OF
THE EUROPEAN UNION

Brussels, 18 May 2011

9654/1/11
REV 1

ECOFIN 228
UEM 71
ELARG 33
STATIS 38

NOTE

from:	Presidency
to:	Delegations
Subject:	Presidency Conclusions of the Ministerial Dialogue between the Economic and Finance Ministers of the EU and the Candidate Countries on 17 May 2011

Delegations will find attached Presidency Conclusions of the Ministerial Dialogue between the Economic and Finance Ministers of the EU and the Candidate Countries on 17 May 2011.

Encl.:

ANNEX

PRESIDENCY CONCLUSIONS OF THE MINISTERIAL DIALOGUE BETWEEN THE ECONOMIC AND FINANCE MINISTERS OF THE EU AND THE CANDIDATE COUNTRIES ON 17 MAY 2011

On 17 May 2011, the Economics and Finance Ministers of the EU and the candidate countries, representatives of the Commission and the European Central Bank as well as representatives of the central banks of the candidate countries met for their thirteenth economic policy dialogue with a view to enhancing the dialogue on fiscal and economic policy, in line with the 26/27 November 2000 Ecofin Council statement.

Ministers welcomed the submission of the 2011 Pre-accession Economic Programmes (PEP) of Croatia, Iceland, the Former Yugoslav Republic of Macedonia, Montenegro and Turkey and took note of the economic policies regarding economic stabilisation, fiscal consolidation and structural reforms set out in the programmes.

Ministers invited the Commission to progressively adapt the format of the Pre-accession Economic Programmes (PEP) to the upcoming strengthened economic governance in the EU.

Ministers acknowledged the progress achieved by the candidate countries in stabilising and transforming their economies and endorsed the following county-specific conclusions:

Croatia

– Croatia's seventh Pre-Accession Economic Programme ("PEP 2011-2013") presents a comprehensive medium-term macroeconomic and fiscal framework based on the projection of a relatively slow recovery from the severe recession in 2008-2010. The programme's fundamental objective is the maintenance of macroeconomic stability and the creation of conditions for recovery and sustainable economic growth. The document is broadly consistent with earlier key policy documents and the 2011 state budget.

– Macroeconomic performance in 2010 was still marked by recession. The economy contracted for most of the year albeit to a diminishing degree. Annual GDP is now estimated to have declined 1.2% year-on-year which is significantly less than the 6.0% drop in 2009. Employment fell sharply, pushing up the unemployment rate by almost 3 percentage points. Consumer price inflation declined to an annual average of 1.1% as inflationary pressures subsided further in the context of considerable slack in resource utilisation. Against the background of depressed domestic demand the current account deficit fell to 1.3% of GDP. Gross external debt, a major challenge for macroeconomic performance, rose to just above 100% of GDP by the end of 2010. The macroeconomic scenario which envisages a gradual acceleration of GDP growth from 1.5% in 2011 to 2.5% in 2013 is internally consistent and appears relatively realistic. However, the programme would have benefited from a more detailed assessment of risks, especially since recently released data suggest that growth in the near term may be weaker than expected in the PEP.

– While the December 2009 state budget had assumed a quick return to economic growth in 2010, the recession dragged on, resulting in lower-than-expected tax revenues. Furthermore, a number of policy measures in the spring of 2010 added to the budgetary shortfall. Consequently, the budget had to be revised in August which increased the general government's projected net borrowing from 3.3% to 5.2% of GDP, a target that has been broadly met, according to preliminary data from the Ministry of Finance. Following the 2011 state budget, the "PEP 2011-2013" does not foresee any fiscal consolidation in the current year in terms of the fiscal deficit of general government. Mainly as a consequence of last year's changes in the tax regime, net borrowing is expected to rise to 5.6% of GDP. Realizing even this deficit target could still be difficult to achieve. In 2012 and 2013, when the provisions of the new Fiscal Responsibility Law will take hold on the budget, the deficit is projected to decline to 3.9% and 2.4% of GDP, respectively. Overall, the public finance scenario is consistent with the macroeconomic forecast in general. The challenge for policymakers will be to implement the measures needed to rein in public expenditures and to meet the planned budgetary targets. If the projected scenario is realised, Croatia will move closer to achieving medium-term fiscal sustainability.

- The country's central bank has appropriately reacted to economic and financial developments during the crisis by loosening its monetary policy stance and creating ample liquidity conditions. Going forward, further increases in headline inflation warrant close monitoring, especially with regard to potential second round effects. Moreover, despite a partial correction of the current account deficit, Croatia's external vulnerabilities remain elevated. Given the exchange rate policy of the authorities, which has proven beneficial for Croatia against the background of high euroisation and consequent balance sheet risks, it is essential to intensify efforts at restraining wage growth and to implement medium- to long-term policies to strengthen Croatia's competitiveness. Finally, the central bank and the other Croatian authorities are encouraged to continue their efforts aimed at reducing the widespread use of foreign currency in bank deposits and loans. The high degree of unofficial euroisation entails macro-financial risks, e.g. under the form of credit risks for banks extending foreign exchange-denominated or -indexed loans to unhedged households. Unofficial euroisation may also limit the room of manoeuvre for macroeconomic policies.
- The PEP covers a range of structural reform areas, such as the enterprise and financial sectors, labour market, agricultural sector, public administration, education, health care, the judiciary and environmental protection. The presentation is often backward looking, providing information on past and ongoing reform measures and initiatives with a strong emphasis on legislative action and EU harmonisation. The programme does not fully and consistently establish a clear link between the core objectives and the instruments and measures described. To serve as useful guidance for the implementation of structural reforms, the programme would benefit from the clearer definition of objectives, specific measures and concrete time frames for implementation. More emphasis should have been given to measures urgently needed to improve the business environment in view of the significant regulatory and administrative obstacles still in place. The programme contains fiscal estimates on some measures, but the link between the structural reform agenda and the implementation of the fiscal strategy is generally weak. Intensified efforts to speed up the implementation of reforms, in particular in the areas of enterprise restructuring, education and labour markets would help to increase the economy's growth potential and international competitiveness over the medium and longer term.

Overall, ministers underlined that the key challenge for Croatia's economic policy is to provide the conditions for sustainable growth while preserving macroeconomic stability. This requires a strengthening of the economy's international competitiveness through internal structural reforms as macroeconomic policy is heavily constrained by the large external debt and the need for fiscal consolidation. The process of fiscal consolidation requires significant expenditure reforms with a view to restructure current spending towards a more growth-oriented and sustainable pattern. The belated and fragile recovery from the recession has revealed, more clearly than before, the structural weaknesses of the Croatian economy which need to be tackled urgently. The required measures are, in particular, the swift and effective implementation of structural reforms in areas such as privatisation and corporate sector restructuring, labour market, business environment, social security, education, and public administration.

The Former Yugoslav Republic of Macedonia

– The Pre-Accession Economic Programme for 2011 - 2013 (the "2011 PEP") of the former Yugoslav Republic of Macedonia presents a largely plausible economic scenario for 2011 but may be slightly on the optimistic side with respect to the speed of growth acceleration towards the end of the programme period. The fiscal strategy appears feasible and is in line with the budget for 2011 and the country's medium-term fiscal strategy. The description of structural reforms is broad but would have benefitted from a more explicit discussion of policy priorities. There is a clear link to those reforms necessary for meeting the criteria for EU membership. Social Partners and the business community have been consulted for the first time on the draft document. The document appears broadly consistent with other national policy documents and the 2011 budget. Overall, the quality of the presented data has clearly improved compared to last year's submission, but the statistical data are not yet in line with ESA95.

- The recovery from the output decline in 2009 remained moderate so far. Unemployment continued to decrease, despite the adverse global conditions, although still it is at a very high level. The current account deficit improved, mainly thanks to strengthening external demand, underpinned by stable inflow of private transfers. The envisaged rise in the current account deficit in the programme period remains moderate with risks probably more to the downside. Like in the past, the main accession related challenges are to address the still substantial labour market imbalances and to strengthen administrative and institutional capacities, in order to improve the quality of public administration, but also to further strengthen the implementation of the rule of law. The macroeconomic scenario envisages a significant acceleration of economic growth, notably towards the end of the programme period. This appears rather optimistic in view of the current international economic environment and the strong reliance on domestic demand components.
- The authorities have a solid track record in realising their deficit targets and, the 2010 deficit target of 2.5% of GDP was achieved. The original budget proposal had envisaged higher revenues and expenditures, requiring the adoption of a supplementary budget in mid-2010 to proceed with the necessary adjustments. The fiscal framework envisages a rather continuous decline in the deficit to 1.9% by 2013. The revenue estimates of the fiscal framework appear optimistic for 2011, but conservative for the remaining programme period. On the expenditure side, the strong increase in public investment in 2011 is noteworthy. Overall, the moderate decline in the deficit appears cautious, given the underlying scenario of a strong increase in GDP growth. In view of the country's track record of meeting its deficit objectives, the programme's fiscal targets appear overall feasible and sustainable within the projected macro framework. The public debt management was sound and solid considering the past repayment of international debt.

– The monetary policy path adopted by the central bank, which began easing its policy stance in November 2009 and maintained its expansionary monetary policy stance throughout 2010, was fully appropriate in a context of subdued inflationary pressures, depressed growth rates, low capacity utilisation, low wage growth and a prudent fiscal policy stance. Looking forward, the central bank should carefully monitor inflation and ensure a timely exit from its accommodative monetary policy stance, taking due account of ongoing developments in the overall macroeconomic environment. Recently, inflationary pressures have been rising on account of the high global food and energy prices. Capital inflows are picking up as well and fuelling domestic credit expansion, although credit growth is still expected to be considerably lower than before the global financial crisis. Moreover, the expected closing of the output gap will also exert upward pressure on inflation over the medium term. Finally, the central bank should duly take into account the high degree of euroisation in banks' balance sheets that exposes the country to macro-financial risks and limits the degree of manoeuvre for monetary and exchange rate policy. Although there is a strict prudential regulation in place as well as regular monitoring by the banking supervision, additional attention in this regard would be welcome.
– The country's structural reform programme presents a broad range of measures, most of them aimed at improving the country's business environment, which are largely in line with the country's key challenges and the requirements for EU accession. Compared to last year's submission, the presentation of the structural reform part is more concise and concrete, although more emphasis on the government's reform priorities should be given. In particular, given the country's high level of structural unemployment, the programme could have devoted more emphasis on measures on how to address this issue.

Ministers by and large noted a number of important policy challenges. Although the country weathered the global financial crisis rather well, the key policy challenges to be further tackled in the following period remain: addressing structural unemployment, in particular among the young, improving the business environment in order to foster investment and job creation and improving the quality of public finances. With respect to the country's accession perspective, important challenges continue to be to improve the functioning of the labour market, to strengthen administrative capacities and regulatory and supervisory agencies and improve the rule of law and contract enforcement.

Iceland

– Iceland's first Pre-Accession Economic Programme 2011 -2013 (PEP) presents a medium-term macroeconomic scenario with a somewhat optimistic pattern of economic recovery, and a comprehensive, ambitious and sound fiscal framework, particularly for the year 2011. The document appears consistent with earlier key policy documents and the 2011 budget plan. Given that it is Iceland's first PEP there is scope for improving the fulfilment of formal and data requirements. Moreover, the quality of the programme would benefit from adding alternative growth scenarios and a sensitivity analysis to the baseline fiscal programme to better understand and quantify potential risks.

– Following a long and deep recession, the Icelandic economy started to recover mildly in late 2010, based on stronger private consumption and exports, but unemployment continued to increase. Exchange rate stability and lower inflation allowed the central bank to gradually reduce the key policy rate. However, the easing of financial conditions has so far not been transmitted to a revival of demand for credits, as a large number of private households and enterprises are still in the process of debt restructuring and balance sheet repair. Improvements in external trade have led to the emergence of a sizeable surplus in the trade in goods and services, and official foreign currency reserves increased to 44% of GDP. However, achievements in macroeconomic stabilisation have been made under the shelter of extensive capital controls and their gradual removal remains a key challenge.

– The PEP presents a growth scenario with a modest but robust recovery primarily driven by a marked strengthening of investment growth, though from a very low base. Projected investments largely depend on a few large energy projects and risks of delayed implementation cannot be overlooked. Also, the projected recovery of private consumption seems somewhat upbeat, in view of the huge domestic debt overhang, high unemployment and limited prospects for a swift recovery of disposable incomes. The inflation outlook appears broadly reasonable, particularly under the policy assumption of preserving exchange rate stability, but upside risks are related to higher energy and commodity prices. The programme would further benefit from a more detailed analysis of projected labour market and balance of payments developments.

- The fiscal programme is clearly a demonstration of the government's commitment to continued fiscal consolidation over the medium term and an appropriate response to the vulnerabilities arising from a high stock of public debt. The envisaged fiscal adjustment is ambitious with a strong, frontloaded focus on expenditure restraint in 2011, following up on the fiscal consolidation successfully implemented in 2010. The 2011 budget seems sufficiently backed by concrete fiscal measures and risks seem particularly related to a less benign revenue performance. The credibility of the fiscal programme beyond 2011 could be strengthened by providing more information on expenditure measures and their quantitative effects. The link between structural reform priorities and the realisation of fiscal targets could be further strengthened. Finally, the programme contains little evidence that the structure and composition of spending will change to support a more growth-oriented public finance strategy.
- During the crisis, the central bank has maintained its focus on price stability but shifted towards exchange rate stabilisation as an intermediate instrument. This choice has proven to serve the country well, as inflation declined more rapidly than expected and inflation expectations became anchored. Going forward, as the Icelandic economy gradually recovers, a number of areas will require attention. First, the authorities need to move ahead with a careful liberalisation of capital account restrictions. Second, maintaining exchange rate stability during the successive phases of capital account liberalisation will become more challenging and adequate foreign reserves will be needed in support of the exchange rate regime. Third, there are still financial risks in the banking sectors, as banks face liquidity risk or funding risk as a consequence of their unstable funding basis. Fourth, as macroeconomic stabilisation is restored, the central bank will need to carefully consider its monetary policy strategy. In the short to medium run, a continued focus on exchange rate stability is appropriate given that capital account liberalisation will be a gradual process. Looking beyond the short term, once capital account liberalisation is advanced, the authorities need to carefully consider an appropriate monetary policy and prudential framework that takes into account the specific characteristics of the Icelandic economy and the lessons learned from the past experience. A continued focus on price stability should be a primordial element of any such future strategy.

- The PEP covers a broad range of potential structural reform areas. However, the presentation is largely backward looking with a strong emphasis on legislation. Looking forward, the PEP presents little concrete structural reform measures to address the key structural priorities and policy objectives of the programme.

Ministers generally stressed that economic policy challenges in Iceland are manifold. A core challenge will be to lay strong foundations for an economic recovery based on a sustainable growth pattern. To this end, tackling a huge domestic debt overhang which at present strongly impedes on growth, investment and income will continue to be of prime importance. A revised framework for advancing household and corporate debt restructuring was put in place end-2010 and needs now to be implemented vigorously. Attention will have to be paid to limiting negative financial repercussions on the banking sector so as to allow the emergence of a healthier and stronger financial sector capable of pursuing its financial intermediation tasks in an efficient manner. The gradual lifting of extensive capital controls is a prerequisite for sustainable growth based on domestic and foreign investments and needs to be implemented in a careful manner, in close coordination with macro policies, to preserve price, exchange rate and financial stability. Job creation will remain a challenge for some time, but a generally flexible labour market, if preserved, should support raising employment levels and disposable incomes. Last, but certainly not least, in order to ensure public debt sustainability, a core challenge will be to continue the implementation of the authorities' ambitious medium-term fiscal consolidation plan, supported by a set of growth-friendly revenue and spending measures.

Montenegro

- Montenegro submitted its fifth Economic and Fiscal Programme (2011 EFP), covering the period 2011-2013. Like in the previous programme, the key objective is to reduce the fiscal deficit so as to reach a balanced budget by 2012. The programme has become a policy coordination instrument and has for the first time been fully integrated in the preparation of the main national fiscal documents. It would benefit from further efforts to develop a more detailed underlying analysis, notably of medium-term projections.

- After a sharp contraction of 5.7% in 2009, the Montenegrin economy started to recover from the effects of the crisis, growing by an estimated 1.1% in 2010 according to recent government and IMF projections; the external deficit narrowed while inflation remained subdued. The programme's macro economic baseline scenario projects real GDP growth to further increase to 2.5% in 2011 and reach 4% in 2013. Initially driven by net exports, growth would become more broad-based over the programme period as domestic demand is supported by the recovery of bank lending and inflows of FDI. While broadly plausible, this growth path is not immune from downside risks. A weak economic situation in Montenegro's main partners would affect exports and FDI inflows, the main drivers of investment, while limited credit growth from the banking sector would also hamper private consumption. Risks also surround the external accounts, given the projection of rather subdued imports, even in the higher growth path scenario, despite the expected recovery of the economy. The programme acknowledges risks and provides two alternative scenarios leading to a higher or lower growth path of the economy but converging towards a 4% real growth by 2013.
- The preliminary fiscal deficit in 2010 (3% of GDP) was lower than the EFP projection, while no budget rebalancing was needed. However, the final deficit for 2010 could reach 4% of GDP when incorporating irrecoverable budget arrears. The medium-term fiscal scenario focuses on an expenditure-based consolidation in 2011-2013 to avoid jeopardizing the incipient recovery. The adjustment will take place gradually, with the budget reaching equilibrium in 2012 and a surplus in 2013. While tax revenues could be lower than foreseen, main risks are related to the accumulation of tax arrears as well as a contingent activation of state guarantees extended during the crisis. Following the outbreak of the economic crisis, public debt has been driven by budgetary financing needs and is expected to peak in 2011 at 43% of GDP before decreasing to pre-crisis levels by end-2013.

- The global economic and financial crisis has challenged Montenegro’s policy framework. The fact that Montenegro is using the euro as its sole legal tender, and has therefore given up standard monetary policy tools, leaves fiscal policy as the sole effective macro policy tool with the difficult mission of striking a balance between restoring growth and proceeding with consolidation. Beyond the current economic cycle, it will be crucial to avoid renewed potential boom-bust cycles. Looking ahead, the central bank will continue to face several challenges, as its needs to redress the fragile banking sector, to diligently follow liquidity indicators and to closely monitor rising non-performing loans, which act as a drag on the economic recovery.
- The extensive structural reform agenda described in the 2011 EFP is an enhanced version of previous year's programme. Overall, it seems to a large extent aligned with the reform requirements for EU accession, as spelled out in the country's European Partnership priorities and in the Commission's Opinion. The reforms aim to consolidate the stability of public finances and to strengthen the competitiveness of the economy. The programme presents a summary account of measures undertaken in 2009 - 2010 and foreseen in 2011, but fails to detail implementation plans for the outer years. Preliminary quantitative estimates of the measures' budgetary impact over the period 2010-2013 are provided but additional efforts are still needed to fully articulate the reforms within the fiscal scenario, notably their impact on the revenue side of public finances.

Overall, Ministers emphasised that the key policy challenge for Montenegro is to reinforce the sustainability of public finances, returning to budget surpluses as of 2013 without threatening the recovery of the economy. To this end important measures to contain public expenditures have been adopted, like the reduction of the public services' payroll, a new financing scheme for municipalities and a pension reform increasing the retirement age. Montenegro has, through the budget execution for 2010 and the adoption of the budget law for 2011, continued with the fiscal consolidation commenced in 2009. Keeping the pace of reforms contributes decisively to attain fiscal targets in terms of deficit, public expenditure and debt level. By implementing the pension reform through the adoption of amendments to the Pension Law, Montenegro further improved its fiscal balances and put public finances on track for long-term sustainability. The programme's structural reforms agenda addresses a number of challenges reported in the Commission's Opinion on the country's application for EU membership, like vulnerabilities in the regulation of the banking sector, increasing public indebtedness, rising unemployment, weaknesses in education as well as insufficient energy and transport infrastructure. The rapid implementation of such reforms would help increase the economy's growth potential and competitiveness. Substantial progress on these fiscal and structural measures is all the more important as unilateral euroisation implies a lack of room for independent monetary policy and leaves the country vulnerable to boom-bust cycles.

Turkey

– Turkey submitted its tenth Pre-Accession Economic Programme (PEP 2011-2013), and thereby demonstrated a high degree of familiarity with the technical tools and analytical requirements of this exercise. At the same time, significant updating in the light of recent developments and further analysis in some key areas would enhance the PEP's role in guiding economic policy.

– Similar to last year's PEP, the programme’s key objectives are to ensure sustainable growth, in tandem with a rapid convergence of per capita income towards the EU-average. To this end, the monetary and fiscal policy mix aims at price stability and continued fiscal prudence while structural reforms are to enhance the role of the private sector, and to improve financial sector intermediation and increase the value of human capital.

– Thanks to recent in-depth reforms, the Turkish economy, which contracted by 4.8% in 2009, has grown by a robust 8.9% in 2010. Headline inflation came down significantly from 9.2% in September 2010 to 6.4% in December 2010. The general government budget deficit is estimated to have fallen from 5.5% in 2009 to 3.7% in 2010 and the gross debt stock to GDP ratio decreased to 41.6% by the end of 2010. The unemployment rate declined to 11% by the end of-2010 from 13.5% a year before. However, the current account deficit edged up rapidly from 2.3% of GDP to 6.6% of GDP in 2010, in tandem with the widening trade deficit, pointing to a high dependence on foreign financing.

– Over 2011-2013, the PEP expects the Turkish economy to grow at rates around 5%. However, some of the PEP's key assumptions are outdated. The current account deficit widened more rapidly than anticipated, and its further widening is likely on the back of higher imports stemming from the continuously buoyant domestic demand, higher energy prices, and likely lower exports as a result of the political turmoil in the Middle-East and Africa Region, the destination of over 20% of Turkey's exports. These developments, together with mounting inflationary pressures, may pose an additional risk to internal and external stability in 2012-2013 and may call for a more restrictive monetary and fiscal policy mix than what is presented. In fact, some measures have already been taken since the submission of the PEP. In light of those measures, the PEP would greatly benefit from a major revision that includes a more thorough analysis of the challenges in these areas, and a better quantification of the risks.

- In 2010, the general government budget deficit is estimated to narrow to 3.7% of GDP from 5.5% in 2009, and is thereby estimated to perform better than the deficit envisaged in the budget planning, mainly due to the strong growth which resulted in higher budget revenues than originally anticipated. The PEP's medium-term fiscal programme envisages an improvement of the consolidated general government balance, from a projected deficit of 2.1% of GDP in 2011 to 1.8% in 2012 and 1.1% in 2013, largely in line with the growth scenario. The public debt to GDP ratio is anticipated to fall gradually from 41.6% of GDP in 2010 to 36.8% by 2013. In the light of Turkey's booming economy and the programme's growth objectives, the fiscal policy objectives appear realistic, albeit not sufficiently ambitious. Turkey has accomplished a remarkable effort of fiscal consolidation in previous years, but ensuring a high-quality fiscal adjustment will be a key challenge in the coming years. A stronger fiscal anchor and an acceleration of key structural reforms would be highly beneficial.
- The central bank pursued a successful policy path over the past year, and managed to achieve the announced inflation target in 2010. As in the previous year, a negative output gap contributed to the achievement of this positive outcome, which was also supported by favourable base effects. However, the central bank needs to carefully monitor a number of risks that emerged in the course of 2010 and early-2011, including upward pressures on inflation, the widening current account deficit, and the rapid pace of credit growth. The central bank has started to address these risks by using a new policy mix consisting of a lower policy rate, higher required reserve ratios and a wider spread between the central bank's overnight lending and borrowing rates to stem short-term capital inflows and slow domestic credit growth. While early signs may be promising, it still remains to be seen whether this unconventional mix of policy measures will be sufficient to stem the upcoming monetary and financial risks. Nevertheless, the outcome of the monetary policy mix should be monitored closely, and further tightening measures, including possible interest rate increases, should be taken, if needed, so as to stem inflationary risks and slow down credit growth, and a fiscal policy should continue to support monetary policy to rein in domestic absorption and a widening current account deficit.

– The programme's structural and institutional reform agenda, which covers a broad range of issues, is insufficiently linked to the fiscal scenario, and partly aligned with the reform requirements in view of the country's EU accession perspective, as spelled out in the latest Progress Report and the Accession Partnership. The Turkish economy has benefited from recent in-depth reforms in areas such as banking, energy and education. However, reforms still have to be pursued in several important areas, such as labour markets and the investment climate. The programme is quite clear on what has been achieved but would benefit from a more precise strategy on future reforms and their expected implementation.

In general, ministers stressed that, in view of the persistent and growing external imbalances and the mounting inflationary pressures, the main challenge for Turkey is to adopt and implement a balanced monetary and fiscal policy mix aimed at fostering macroeconomic stability, ensuring a sustainable growth path, and pushing for deeper labour market and business climate reform.

Statistics

Ministers welcomed the Progress Report of April 2011 on the Action Plan on Economic, Monetary and Financial Statistics in Candidate Countries. Ministers welcomed in particular the ongoing efforts by Candidate Countries towards fulfilling the requirements set-out in the Action Plan and the further progress achieved, but stressed that significant efforts are still needed in some statistical areas to realize full compliance with the Action Plan requirements. Ministers emphasised that the implementation of the Action Plan should continue to be a top priority and statistical offices and national central banks should have the necessary resources to be able to meet this objective. Ministers noted that this year the report also considered the two new candidate countries, Montenegro and Iceland.

In the area of *economic statistics*, progress has been made in specific areas since 2010 and further working priorities can be summarised as follows:

- National Accounts: Although main national accounts aggregates are now provided by all candidate countries (except Montenegro) some problems persist regarding the length of time series as well as specific expenditure components and breakdowns. Regarding employment and income data, further progress is still needed for Croatia, Turkey and Iceland, whereas the Former Yugoslav Republic of Macedonia Major has registered some improvements. None of the countries does yet provide information regarding hours worked and Turkey has not yet allocated FISIM to intermediate consumption by activities.
- Government deficit and debt statistics: Some improvements could be noted in the area of annual general government deficit and debt statistics, but there are still significant data gaps and methodological issues. Montenegro has not provided data to Eurostat so far. Annual government finance statistics (GFS) was only provided by Croatia, Turkey and Iceland.
- Harmonised Index of Consumer Prices (HICP): Concerning the HICP, the preparations in the Former Yugoslav Republic of Macedonia are at an advanced state: regular monthly transmissions of the HICP indices will start during the second quarter of 2011. Montenegro has already published first experimental results and will be ready to start the regular and timely transmission of HICP data to Eurostat as of 2012.
- Europe 2020 indicators: The data series provided from Turkey and Croatia are extensive and only data on some of the poverty indicators is missing. Iceland has provided data on the whole set of indicators, but there is a break in the series for most of the poverty indicators and for the data on education and training. The Former Yugoslav Republic of Macedonia has provided data only on the employment rate and there are no data from Montenegro.
- Infra-annual statistics: General improvements in timeliness and coverage were recorded in infra-annual statistics, notably in the area of short-term business statistics, nevertheless, important gaps continue to exist, in particular for employment and short-term public finance statistics, where significant progress needs still to be made. Moreover, the candidate countries are called upon to generally enhance efforts to improve availability, coverage and timeliness of short-term indicators. Again, there are no data from Montenegro.

Overall, candidate countries should continue to pursue the Action Plan objectives and address the caveats that persist in specific areas. In particular, Montenegro is called upon to enhance its capacity to produce and transmit annual and infra-annual economic statistics.

In the area of *monetary and financial statistics*, Ministers welcomed the regular contacts established between the European Central Bank (ECB) and the central banks of candidate countries, with the aim to raise the awareness in the candidate countries of the ECB's statistical requirements. An early preparation of European statistics under the responsibility of the European System of Central Banks is welcome.

The EFC was invited to maintain the monitoring of progress towards the fulfilment of the Action Plan implementation and to prepare an updated report on the implementation of the Action Plan on statistics in spring 2012, assessing in particular progress made in the specific areas identified in the 2011 report.

Conclusion

Ministers underlined their commitment to carry on monitoring with the support of the Economic and Financial Committee, the Economic Policy Committee and the Commission the progress achieved with respect to macroeconomic, budgetary and structural policies in the candidate countries to ensure continued anchoring of their medium-term economic programmes. Ministers will meet again in the course of 2012 to continue their dialogue. Likewise, the dialogue at the level of the Economic and Financial Committee and its counterparts will continue in 2012.