2019 EU COUNTRY REPORT

AUSTRIA

(https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-austria_en.pdf)

Austria appears to have considerable scope for shifting the tax burden away from labour to revenue sources that favour more growth and inclusiveness.
Standing at 55.3 % in 2017, Austria ranks third in the share of labour taxes over total tax revenue among EU Member States (EU average: 49.7 %). In 2017, the tax wedge for a single earner with the average wage (a rough indicator of work attractiveness) was at 47.4 %, and among the highest in the EU.
Also, low wage and secondary earners, who are considered particularly responsive to changes in after-tax wages, face comparatively high tax burdens.
The largest component of the labour tax wedge is social contributions (European Commission, 2018c). At the same time, more growth-friendly sources of revenue appear underutilised from a cross-country perspective. Corporate income and capital taxes but also environmental and wealth-related taxes only generate minor shares of total tax revenue and fall well below the respective EU averages. Especially given Austria's striking wealth inequality, the absence of taxes on inheritance and gifts or net wealth, and the low recurrent property tax, provide scope for tax shifts to relieve the burden on labour.
While income inequality is relatively low, wealth remains highly concentrated.
Public debt is expected to continue its downward path, decreasing from 78.3 % of GDP in 2017 to 67.8 % of GDP in 2020.

BELGIUM

(https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-belgium_en.pdf)

According to the Commission’s autumn forecast, Belgium’s structural deficit is expected to reach 1.4 % of GDP in 2018. The gradual reduction of public debt is projected to continue, allowing a debt-to-GDP ratio of 98.7 % in 2020.
Public debt is on a declining trend, but its high level is a source of vulnerability. Debt is projected to have declined to 101.4 % of GDP in 2018, from a peak of 107.6 % of GDP in 2014. The gradual reduction of public debt is expected to continue, allowing a debt-to-GDP ratio of 98.7 % in 2020 according to the Commission 2018 autumn forecast.
Short-term debt sustainability does not seem to give cause for concern.
In the medium and long term, Belgium fiscal sustainability faces substantial challenges. Both the debt sustainability analysis and the S1 indicator (4.3 pps of GDP) indicate high risk in the medium term. This is mostly due to the high level of public debt and to a lesser extent to the projected increase in age-related expenditure.
Small and medium-sized enterprises (SMEs) continue to have good access to finance although the situation has relatively deteriorated. Belgium is performing well in equity funding and professional ‘business angel’ funding for new and growing firms. Belgian corporates tend to be significantly less dependent on loans from the financial sector than their EU peers. This relative (albeit decreasing) preference for equity over debt might be partly due to the former Belgian regime of "notional interest deduction".
Income and wealth inequality remain stable and below the EU average. In 2017, the income of the top quintile of the income distribution was 3.8 times larger than the income of the bottom quintile (against 5.1 times larger for the EU in 2017). Taxes and the benefit system, especially, have a large impact on reducing income inequality. Compared to other euro area countries, wealth is relatively evenly distributed in Belgium.

BULGARIA

(https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-bulgaria_en.pdf)

Bulgaria’s strong growth momentum and the soundness of government finances offer an opportunity to tackle its remaining structural challenges and raise growth potential. Levels of poverty, social exclusion and income inequality are still among the highest in the EU.
Bulgaria still has one of the highest shares of people living at risk of poverty or social exclusion, as well as high levels of income inequality. Social transfers have a low impact on poverty reduction. Major challenges for the education and training system remain, including providing quality inclusive education and tackling early school leaving. The population's level of digital skills remains very low.
The impact of taxes and benefits on reducing poverty and inequality is significantly lower than the EU average.

The rate of people living in poverty is still very high and income inequality is growing. Despite a slight decrease, the rate of poverty or social exclusion in 2017 was 38.9 %, well above the EU average of 22.5 %.
Inequality of opportunities remains a key challenge.

The private sector is reducing its debt, but the level remains high. The high debt of non-financial corporations continues to present a challenge, although it has been decreasing over the last few years, partially due to robust nominal GDP growth.
There is scope to further reduce nonperforming loans and debt levels in the nonfinancial corporate sector. High levels of debt and non-performing loans mostly reflect the situation of non-financial corporations.

CROATIA

(https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-croatia_en.pdf)

The share of people at risk of poverty or social exclusion remains high. Although it has been declining since 2013, it remained high at 26.4 % of the resident population in 2017. Inequality, as measured by the S80/S20 income quintile share ratio, was just below the EU average in 2017 for those under 65, but higher for older persons.
During the protracted recession, the general government debt more than doubled, driven by deficits and costs related to state-owned enterprises. The debt ratio started falling in 2015 and has declined by more than 12 percentage points since then, to a projected 73.5 % of GDP in 2018. Its decrease has been driven by economic growth but also by restraint in spending. Croatia does not appear to face immediate risks of 'fiscal stress', despite remaining vulnerability to foreign exchange movements, and the lower sovereign risk has been reflected in the declining cost of servicing the debt.
The level of corporate debt in proportion to GDP is decreasing and associated risks are moderating.
Private sector debt further decreased despite the recovery of bank lending, especially to households.
Having fully corrected its excessive general government deficit, Croatia continued with a prudent fiscal policy.
Government debt continues decreasing. During the protracted recession, large budget deficits and costs induced by state-owned enterprises contributed to a significant accumulation of government debt, which peaked in 2014 at 84 % of GDP.

CYPRUS

(https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-cyprus_en.pdf)

Poverty and inequality continue to decrease according to indicators, almost reaching the pre-crisis levels. The percentage of people at risk of-poverty or social exclusion declined further to 25.2 % in 2017 (though this is somewhat above the EU average), compared to 27.7 % in 2016.
Overall wealth inequality in Cyprus is still among the highest in the euro area and wealth is disproportionately concentrated in the wealthiest 10 % of households. The recent recovery in economic growth has nonetheless been relatively non-inclusive, as the real gross disposable income of households per capita is still well below 2008 levels. Inequality of opportunity also remains relatively high in Cyprus compared to the EU average.
The redistributive power of the Cypriot tax and benefit system has more than offset the post-crisis rise in income inequality in 2015-2016. In 2004-2012, Cyprus' income inequality after taxes and benefits was at around the EU average level, even though the redistributive power of the tax and benefit system was among the lowest in the EU.
The large progressivity of taxes and the current social pension scheme have helped to reduce income inequality in Cyprus. Public pensions contribute to reducing income inequality in Cyprus thanks to its social pension scheme.
Consumption and environmental tax revenues in terms of GDP are also expected to remain above the EU averages, in spite of some policy measures envisaged on environment-related taxation. Moreover, as in other EU countries, Cyprus' corporate tax system favours debt over equity financing (i.e. is subject to the 'debt bias'). This debt bias may lead to excessive leverage and make companies more vulnerable to economic shocks. However, such bias is lower in Cyprus compared to the EU average. Although the effective corporate income tax rate is below the EU average (13 % vs 20 % in 2017), the tax on capital revenue in Cyprus is similar to the EU average (8.6 % of GDP in 2016) mainly due to relatively high corporate income tax revenue.
Following an increase in 2018, public debt exceeds now 100 % of GDP, making Cyprus vulnerable to economic shocks. Due to the government's support in the sale of the Cyprus Cooperative Bank, public debt is projected to increase to 105 % of GDP in 2018, partly reversing the sharp decrease in 2017.
Public debt is projected to fall steadily in 2019- 2020, underpinned by the expected continuation of strong fiscal performance.

CZECH REPUBLIC

(https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-czech-republic_en.pdf)

The overall picture of relatively low inequality and the continued rise in living standards masks some increasing regional disparities. While disparities are lower than in some other peer countries, the distribution of opportunities and challenges remains concentrated within certain regions.

Overall, income inequality remains low in the Czech Republic. The income of the richest 20 % of the population was around 3.4 times higher than the income of the poorest 20 % in 2017, significantly lower than the 5.1 ratio in the EU.

DENMARK

(https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-denmark_en.pdf)

Denmark continues to have one of the highest mortgage debt tax biases in the EU. Denmark is among the nine countries in the EU with mortgage tax relief.
While income inequality remains low, the distribution of net wealth and opportunities are becoming more unequal. High market income inequality is contained by an effective tax and transfer system, which reduces headline income inequality to well below the EU average.
Poverty and income inequality remain low. The share of the population at risk of poverty or social inclusion (AROPE) is relatively low, but it has not yet returned to pre-crisis levels.

ESTONIA

(https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-estonia_en.pdf)

Estonia performs relatively well on most indicators of the Social Scoreboard supporting the European Pillar of Social Rights, but some concerns remain.
Estonia's labour market is one of the best performers in the EU.
Social transfers are still not effective in reducing poverty and the weak social safety net has had limited impact on poverty and inequality, although both indicators show signs of improvement.
Indicators of poverty and social exclusion show a mixed picture. The proportion of people living in low work intensity households has decreased since 2012 and severe material deprivation has also declined. Conversely, the at-risk-of-poverty rate, measuring relative poverty, shows an upward trend since 2011 and is above the levels witnessed before and during the crisis.

Income inequality has decreased but remains above the EU average.
In 2016, taxes and transfers together reduced income inequality by 33.9 %. Taxes reduced inequality by 10.3 % (compared to 12.4 % in the EU as a whole), while benefits did so by another 23.6 % (compared to an EU average of 31.9 %).
In 2017, the tax and benefits system has been reformed in a way that was intended to reduce income inequality.

Estonia is shifting the tax burden away from labour, but the tax-benefit system does little to reduce income inequality.
The 2018 reform of the personal income tax system has reduced the tax wedge for low income earners, but inequality remains high.
Overall, the tax reform seems to have had a limited effect on reducing income inequality as measured by the Gini coefficient.
The poverty-reduction impact of social transfers remains below the EU average but is increasing.
Taxes reduced inequality by 12 % (compared to 13 % in the EU), while benefits by another 26 % (compared to 35 % in the EU).
Estonia's economic growth was strong in 2018 at 3.5 % but is expected to gradually slow down.
Medium- and long-term risks to the sustainability of public finances are limited, given the current very low level of public debt. Estonia's public debt was 8 % of GDP in 2018, by far the lowest level in the EU.

FINLAND

(https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-finland_en.pdf)

Finland's current economic growth provides an opportunity to increase the economy's resilience and its growth potential amid rising macroeconomic risks. Finland shows low social inequality and its education system is performing well. Overall inequalities remain low but the risk of poverty for children with low-skilled parents is of concern. In terms of income inequality, Finland ranks among the best performers in the EU. The income transfer system performs above the EU average in reducing income inequality. Income inequalities are among the lowest in the EU. In 2017, the income of the richest 20 % was stable at 3.5 times that of the poorest 20 %, compared to an EU average of 5.1. The tax-and benefit system perform above the EU average in reducing income inequality.
Finland is the only euro area country where the macroeconomic forecast underpinning the budgetary planning is prepared by the Ministry of Finance.

FRANCE

(https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-france_en.pdf)

Inequality of opportunity, as seen through the strong dependence of educational and labour market outcomes on socio-economic and migration background, may be associated to suboptimal investment in human capital. Social indicators are relatively good overall in comparison to the rest of the EU.

Revenues from inheritance and gift taxes have strongly increased. Tax revenues are expected to reach EUR 14.3 billion in 2019 (It stood at EUR 9.1 billion in 2012). This increase is explained by 2011-2012 reform of the inheritance and gift taxes and the increase in wealth of older cohorts.
On the other end, average tax rate remains low, despite high marginal inheritance tax rates (OFCE, 2017), which limit the redistributive effects of inheritance and gift taxes. This discrepancy stems from possibilities to decrease inheritance tax through exemptions, life insurance contracts and split of property between usufruct and bare ownership. On average, the wealth of households receiving inheritances or donations is 1.7 times higher (Insee, 2018). Inheritance represented 19 % of households' disposable income in 2015 against 8 % in 1980 and could reach 25 % in 2050 (France Stratégie, 2017).
Income inequality remained slightly below the EU average but well above pre-crisis levels with the Gini index at 29.3 % in 2017 and the S20/S80 ratio at 4.4.
General government debt remains high. At above 98 % of GDP in 2018, it reduces the room for fiscal manoeuvre in order to respond to future shocks. This combined with a high level of private debt (or debt accumulated by households or businesses) weighs on long-term growth prospects.
France is among the countries with a positive debt gap and not adjusting (European Commission, 2018c).
Some reduction in the general government debt is envisaged by the end of 2020.

GERMANY

(https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-germany_en.pdf)

Improving the design of the inheritance and gift taxes could reduce inequality, as inherited wealth preserves the large wealth inequality observed in Germany. The Gini coefficient for net wealth in Germany is one of the highest in the euro area. Wealth in Germany is very unevenly distributed: the richest 10 % of households own almost

two-thirds of national wealth, the richest 1 % one-third, the richest 0.1 % have 17 % of assets that is 41 000 households averaging EUR 40 million. As large income and wealth inequalities may be detrimental to economic growth, to macroeconomic stability, and to social cohesion, well-designed inheritance and gift taxes can combat wealth inequality, supporting social mobility and ensuring equality of opportunities in the least distortive manner and with an acceptable level of administrative complexity (OECD, 2018a; Iara, 2015). In 2017 revenues from inheritance and gift tax accounted for 0.19 % of GDP (about 0.5 % of total taxation). In Germany every year, EUR 250 to 300 billion are inherited or given away, and the trend is rising as the wealth of German households has risen to more than EUR 10 trillion. The distribution of inheritances is strongly unequal.

The majority inherits nothing or only a little. 45 % of the population can expect to inherit more than EUR 50 000, only 8 % more than EUR 200 000, and 0.1 % more than EUR 5 million, EUR 17 million on average (Bach, 2018).

The German inheritance and gift tax grants large tax exemptions when family businesses are transferred to the next generation. This makes the system complex and inefficient, and disadvantages family businesses that change ownership via market transactions. These exemptions are considered fairly high and result in low effective inheritance tax burden for large and very large capital transfers (Bach and Thiemann, 2016; Dorn et al., 2017). Reforms in 2016 and 2018, following a judgment by the German Constitutional Court that such exemptions are too far reaching and unconstitutional, have changed the situation only marginally. Also, the economic rationale behind granting very generous tax exemptions for family owned businesses is questionable, as it is not clear why a change in ownership via inheritance, where a tax of 7 % to 30 % would be due, is harming jobs or the continuity of the business, whereas the acquisition through an independent third party who needs to pay the full market value is not (BMF, 2012; Kiziltepe and Scholz, 2016). So far, the inheritance and gift tax yields about EUR 6 billion a year, corresponding to an effective tax rate of about 2 %. This revenue could be approximately doubled if the tax exemptions were abolished. The additional revenues that would be generated from abolishing or substantially reducing the exemptions could be used to lower the tax rates of the inheritance and gift tax and in this way reduce the burden on smaller family businesses (Bach, 2018; see also Box 4.1.1, scenario 1). Potential perceived liquidity and financing constraints of new business owners could be addressed by allowing for a longer payment period of the tax obligation, or by financial market solutions, whereby heirs could borrow at favourable conditions as the sum due would only be a fraction of the linked collateral.

GREECE

(https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-greece_en.pdf)

Greece is facing high income inequality, mainly due to the low redistributive power of the tax and benefit system. Income inequality has long been relatively high in Greece, and it remained stable during the crisis as the fall in incomes broadly affected the entire population.
In 2017, benefits reduced income inequality by only 20 %, as against an EU average of 40 %, while taxes had no inequality reducing effect. However, this should improve following the latest welfare reforms.
Corporate and personal tax rates and the implicit tax rate on labour (including social security contributions) remain high in Greece compared to other EU member states. The corporate tax rate of 29 % and the top personal tax rate of 55 % are above most other Member States.
Moreover, Greece continues to have a very high debt bias in corporate taxation (3rd highest in the EU in 2017) (European Commission, 2018h) that could limit investments by young, innovative and high-risk companies that rely on equity financing.
The stock of government debt remains exceptionally high, but the debt measures adopted in 2017 and agreed in June 2018 ensure that the annual debt burden remains at a manageable level. The debt stock stood at over 180 % of GDP at the end of 2018, the highest in the EU.
Greece currently has large debt stocks, which are slowly unwinding. High levels of public and external debt, combined with high non-performing loans (NPLs) in the banking system, expose the country to adverse shocks with potentially harmful implications for the real economy.
Greece has the highest gross public debt in the EU. Public debt stood at 176.1 % of GDP at the end of 2017 and it is expected to have further increased in 2018, due to the large disbursement at the end of the European Stability Mechanism programme.

HUNGARY

(https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-hungary_en.pdf)

While inequality is lower than in other Member States, it has increased since 2008, partly as a result of changes in the tax and benefit system.
The deficit is one of the highest in the European Union, while public debt also remains high for Hungary's level of development.
The public debt is high for a middle-income economy, at above 70 % of GDP.

IRELAND

(https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-ireland_en.pdf)

Wealth inequality is high, in part due to the effects of the financial crisis on households in negative equity.
In the near term, rising property prices are expected to dampen net wealth inequality, given the large number of households in negative equity.
However, as the rate of home ownership continues to fall in favour of a larger tenant population, continued increases in property prices have the potential to exacerbate wealth inequalities in the longer term.
The strong redistributive effect of the tax and benefit system still reduces high market income inequality to levels below the EU average and the inequality ratio after taxes and transfers also remains below the EU average.

Wealth inequality is high, in part due to the effects of the financial crisis on households in negative equity.
Ireland's income inequality is comparatively low, but concerns related to the opportunities for those from a disadvantaged background remain.
Public and private debt, as well as rapidly rising housing prices, are a source of vulnerability for the economy. Debt of households and domestic companies, including redomiciled public limited companies, relative to GDP, fell below the indicative macroeconomic imbalance procedure threshold in 2017. However, relative to modified gross national income, debt of the domestic private sector remains elevated.

ITALY

(https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-italy_en.pdf)

After solid real GDP growth in 2017 at 1.6 %, economic activity slowed down over 2018. Financial market tensions and negative wealth effects associated with falls in asset prices appear to have curbed consumer spending and led households to increase savings.
The distribution of wealth remains relatively even in Italy, due to high rates of home ownership.
Disposable incomes are lower than in 2008 and income inequality remains high. In 2017, real gross disposable income per capita was almost 9 % lower than in 2008 and income growth continues to lag behind the EU average.

The ability of the tax-and-transfer system to mitigate interregional inequality via interregional income transfers appears limited.
Inter-regional income inequality remains persistent and social disparities loom large. Italy has a progressive personal income tax system, but social benefits for people at working age are generally low and are thus not effective in reducing poverty and inequality.
Poverty risk and income inequality remain high. In 2017, the share of people at risk of poverty or social exclusion (AROPE) declined to 28.9 % from 30.0 % in 2016. However, it remains well above both pre-crisis levels.
Income inequality in Italy is above the EU average.
The impact of social transfers (excluding pensions) on poverty and inequality reduction was one of the lowest in the EU in 2017. Social spending is strongly biased towards old-age pensions, which largely depend on income.

Measures on corporate taxation have temporarily increased the tax burden on firms at an aggregate level. After being postponed by the 2018 budget, the previously legislated tax regime for personal income from entrepreneurial activities ("Imposta sul Reddito Imprenditoriale"), aimed at harmonising the tax treatment of small firms and corporations, has been abrogated.
Only a few of the tax expenditures to support private investment and innovation, expiring in 2018, have been extended, while also being reduced in scope.
At the same time, the tax deductibility of specific costs for some categories of firms, especially banks, will be limited, with a temporary positive effect on revenues in 2019. The 2019 budget also introduced a tax on digital services and on money transfers. Furthermore, the "allowance for corporate equity" (ACE), introduced in 2011 to reduce the corporate debt bias, has been replaced by a new tax rebate on firms' profits used to increase investment or hire new employees, with an overall positive impact on tax revenues in the short run. The tax rebate consists in a reduction of the standard corporate income tax (IRES) rate from 24 % to 15 %. As the main beneficiaries of ACE have been de facto financial institutions, this reform shifts the tax burden from non-financial to financial corporations.
Furthermore, the abolition of ACE will reduce firms' incentives to use equity financing, worsening the debt bias in corporate taxation.
Italy's public debt is not expected to decrease substantially in the coming years. After a slow decline observed in recent years, the government debt-to-GDP ratio is set to have increased in 2018 to 131.7% based on the government projections.

LATVIA

(https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-latvia_en.pdf)

Latvia remains among the countries whose economy is catching up fastest with the EU average, but addressing population decline and ensuring that economic growth benefits all of society continue to be important challenges. Latvia's economic and labour market performance has been solid in recent years and government borrowing has remained broadly sound. However, growth has not been fully inclusive, as inequality has remained high and growth in peripheral regions has lagged behind the Riga region.
Inequality remains high due to low redistribution through the tax and benefit system.
Income inequality remains well above the EU average. In 2018, the income of the richest 20 % of the Latvian population was 6.8 times higher than that of the poorest 20 %; a significantly more uneven distribution than in the EU as a whole.
Wealth inequality in Latvia is among the highest in the EU. With a Gini coefficient for distribution of wealth of 78.5, the wealth inequality in Latvia is among the highest of Member States.

Around half of the wealth reflects ownership of the main residence and a quarter reflects ownership of other real estate, which is similar to the EU average.

LITHUANIA

(https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-lithuania_en.pdf)

Increasing social inclusion could help reduce high levels of income inequality and poverty, and uneven access to employment. Strengthening innovation in the private sector and increasing its capacity to absorb technology could support the shift toward activities that are more knowledge-based and add higher value to the economy.
The design of the tax and benefit system has slightly improved, but its impact on income inequality and poverty reduction remains limited.
Recent tax reform introduced some progressivity in the personal income taxation, but the effects on reducing income inequality are expected to be small.
income inequality and poverty remain high, even though the impact of social transfers on reducing poverty has slightly improved.
The tax and benefits system are having little impact on reducing income inequality.
Levels of poverty and inequality remain among the highest in the EU. Poverty and income inequality remain major challenges despite Lithuania's fast economic growth.
The tax-benefit system has one of the weakest powers to correct income inequality in the EU.

LUXEMBOURG

(https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-luxembourg_en.pdf)

General government debt is expected to continue to fall in 2019, from around 21 % of GDP in 2018.
Despite being wealthy at the aggregate level, households have high levels of debt compared to their incomes.
Increasing debt means that some lower income households may struggle to make ends meet, particularly if interest rates go up or if there is an economic downturn.

MALTA

(https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-malta_en.pdf)

Overall poverty and social exclusion are receding, but it is increasing for some groups. Poverty and social exclusion risks have declined and compare favourably with 2008.
Inequality in both income and wealth is moderate, but efforts on universal access to education need to continue. While the share of income held by the richest 20 % of households remains fairly stable, there is evidence of an increase in the richest quintile in 2017.
Net wealth is also relatively evenly distributed, reflecting the even distribution of housing assets across the population.
Inequality in both income and wealth is moderate, but efforts on universal access to education need to continue. While the share of income held by the richest 20 % of households remains fairly stable, there is evidence of an increase in the richest quintile in 2017.
Small and medium-sized enterprises account for the great majority of firms. Small and medium-sized enterprises (SMEs) are particularly relevant in Malta, as they generate 81 % of value added and of employment, significantly higher shares than the respective EU averages of 56.8 % and 66.4 %. The majority of SMEs are represented in wholesale and retail trade, and in professional, scientific and technical activities (European Commission, 2018k).
Policy measures have been put in place to address financing difficulties of small and medium-sized enterprises. A number of financial instruments grant schemes and tax incentives launched in the last decade by the government and co-financed by the EU

aim at providing finance for small and medium-sized enterprises (SMEs) and start-ups. In addition, SMEs are adapting slowly to market-based finance.
While the Notional Interest Deduction introduced in 2018 (European Commission, 2018c) is expected to significantly decrease Malta's previously high debt-bias (3.8 %) in 2017, the highest in the EU together with France), the scheme's anti-abuse rules, combined with its high return rate and non-incremental nature, warrant close monitoring.
Gross government debt is below 60 % of GDP and is projected to continue falling.
Malta is one of the EU countries with the highest difference between consolidated and non-consolidated nonfinancial corporations' debt.
Public debt has fallen sharply and is well contained in the short-to-medium term.

POLAND

(https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-poland_en.pdf)

The public finances have improved. The fiscal deficit is estimated to have further narrowed in 2018, supported by the robust economy and new measures to improve tax collection. Public debt as a share of GDP further declined and is significantly below the threshold of 60 % GDP.
Between 2017 and 2018 foreign public debt fell the most among its components.
The public debt is expected to continue falling gradually to around 47 % of GDP at the end of 2020.

PORTUGAL

(https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-portugal_en_0.pdf)

Overall, despite some improvements, there is scope to strengthen the growth-friendliness of the Portuguese tax system. As a result of the introduction of a Notional Interest Deduction regime (effective from 1 January 2017), the so-called debt bias in corporate taxation has decreased substantially and is now zero (Centre for European Economic Research, 2017). The same holds for family businesses that tend to have a higher share of equity-financing. This low debt bias could in particular reward investments by young, innovative and high-risk firms that usually rely more on equity

financing. The same holds for family businesses that tend to have a higher share of equity-financing. However, it remains burdensome to comply with taxes in Portugal.
Wealth indicators (e.g. the Gini coefficient of net wealth or the share of net wealth owned by the wealthiest 10 % households, as measured by European Central Bank) are close to the euro area average.
Over the past years Portugal improved debt restructuring mechanisms and reduced the debt bias.
The high private indebtedness and large share of non-performing loans accumulated during the crisis increased the need for debt restructuring mechanisms. Portugal has also reduced the debt bias in taxation. Overall, despite some improvements, there is scope to strengthen the growth-friendliness of the Portuguese tax system. As a result of the introduction of a Notional Interest Deduction regime (effective from 1 January 2017), the so-called debt bias in corporate taxation has decreased substantially and is now zero (Centre for European Economic Research, 2017).
Public and private debt has been reduced. Although all main indicators are moving in the right direction, public and private sector debt and foreign debt are still significantly above the benchmarks set.

The country's high public debt has started to decrease, and further growth-friendly fiscal consolidation would help to keep it steadily declining.

ROMANIA

(https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-romania_en.pdf)

The tax cuts and expenditure increases are being financed with public debt. Because of the widening of the public deficit, the general government debt is projected to increase from 35.1 % of GDP in 2018 to 38.2 % of GDP in 2020.
Assuming no policy change, public debt is projected to increase to above 60 % of GDP in 2029.
The public debt ratio is expected to gradually increase, leading to debt sustainability risks in the medium term.
Inequality and poverty remain high, with increasing regional disparities. Ensuring continuity with past reforms and shifting the growth model to investment could set the economy on a sustainable path towards convergence with EU living standards and help reduce inequality.
Despite recent improvements, poverty and income inequality remain high, and regional disparities are deepening.

Income inequality is one of the highest in the EU, reflecting in part the low redistributive capacity of the tax and benefit system. Inequality of opportunity is also high.
Inequality of opportunity is also high. Social services have insufficient quality and coverage, and uneven territorial distribution.
High poverty and inequality rates hamper Romania's ability to achieve inclusive growth.
Although decreasing, poverty and inequality rates remain very high.
The power of the tax system to reduce poverty and correct social disparities is limited.
Income inequality remains one of the highest in the EU and a third of Romanians are at risk of poverty, the highest rates in the EU.
Income inequality remains high, with regional and gender gaps. Despite a considerable decrease since peaking in 2015, income inequality remains well above the EU average.

SLOVAKIA

(https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-slovakia_en_0.pdf)

Income and wealth are comparatively evenly distributed, but inequality of opportunities remains high.

Wealth inequality is also among the lowest in the EU, partly due to a high rate of home ownership. Inequality of opportunities remains high, as shown by the high poverty risk faced by children of low skilled parents.
Poverty rates remain low but social exclusion remains a serious challenge in some regions. In 2017, the at-risk-of poverty or social exclusion rate decreased further and reached 16.3 %, significantly below the EU average of 22.4 %, reflecting also low - income inequality.
Inequality of opportunities remains high, as shown by the high poverty risk faced by children of low-skilled parents.
The government deficit is projected to move further towards a balanced budget position in 2019 and the ratio of government debt to GDP ratio is projected to decline to under 47 % of GDP.
Slovakia’s fiscal deficit is falling and fiscal revenues in relation to GDP are increasing from low levels. The general government deficit fell from 2.6 % of GDP in 2015 to 0.8 % in 2017, and government debt was reduced to 50.9% of GDP over the same period.

SLOVENIA

(https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-slovenia_en.pdf)

The economy is growing strongly and remains competitive internationally. Investment is growing, but it is still below the EU average as a share of GDP, which slows down Slovenia's convergence in terms of productivity. Social indicators generally signal progress, while inequality (between both citizens and regions) is below the EU and OECD average.
Slovenia is performing well on most indicators of the Social Scoreboard supporting the European Pillar of Social Rights. Income inequality is low.
Inequality in Slovenia is low and the share of people at risk of poverty and social exclusion has decreased but remains high for the elderly.
Inequality as measured by the ratio of incomes of the richest 20 % of households compared to the poorest 20 % of households, continued to decrease and remains among the lowest in the EU.
The government balance is expected to have increased to 0.8 % of GDP in 2018. Public debt is forecast to decrease further to 62.5 % of GDP in 2020, from a peak of 82.6 % in 2015, thanks primarily to the economic recovery and active debt management to reduce interest payments.
The debt-to-GDP ratio continues to decline. Supported by the economic recovery and active debt management, public debt is forecast to come down steadily to 62.5 % of GDP in 2020.
The public debt to GDP ratio was reduced but pressure on public finance in the long term remains.

SPAIN

(https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-spain_en.pdf)

Spain has continued to record strong economic growth and rapid job creation, but important challenges remain. Debt has been further reduced, but still represents a source of vulnerability. Unemployment is falling rapidly, in turn leading to a slight fall in poverty and social exclusion, but too many people remain without a job or work on temporary contracts and income inequality is marked. Productivity is growing in line with the euro area average. The total tax revenue ratio to GDP has regained the level prior to the boom and bust episode of a decade ago. While indirect taxes, such as Value Added Tax, are now clearly above its 2005-2017 average (+0.7 pps) and personal income taxes are somewhat above (+0.2 pps.), social contributions (-0.2 pps.) and, in particular, corporate income taxes (-0.4 pps.) still fall short of that level. The 2019 Draft Budgetary Plan contained tax measures that the authorities estimated would yield about 0.6 % of GDP in additional revenue. These included planned increases in

corporate and personal income taxes, environmental taxes and wealth taxes and the introduction of new taxes on the digital economy and on financial transactions (see European Commission, 2018c).
Risks to the sustainability of government finances remain significant in the medium to long term. Public debt is expected to have further declined slightly in 2018, to 96.9 % of GDP. Reduction of private debt has continued but it remains high.

SWEDEN

(https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-sweden_en.pdf)

Inequality and poverty levels are low. The incomes of the richest 20 % of the population were around 4.3 times higher than the incomes of the poorest 20 % in 2017.
The distribution of market incomes is relatively equal, due to compressed wage distribution. In addition, taxes and transfers have an equalising effect, which is among the largest in the EU.
Reforming the tax incentives for home ownership and mortgage debt could contribute to reducing inequality and benefit job creation.
Tax incentives for property ownership and mortgage debt are aggravating the problems of growing household debt and overvalued house prices.
Public debt is set to continue declining due to prudent fiscal management and a strengthened fiscal framework.
Public debt is expected to continue declining. Strong economic growth, primary budget surpluses and prudent fiscal management have brought about a decline in the general government gross debt in recent years.
Private-sector debt stands at 194 % of GDP, among the highest in Europe. While overall private debt has roughly stabilised relative to GDP, household debt remains on an upward trajectory.

THE NETHERLANDS

(https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-netherlands_en_0.pdf)

Wealth inequality is higher, although this is mainly driven by households with negative net housing equity following the decline in house prices during the crisis.
The Netherlands has a low level of income inequality.
While growth is moderating, the still favourable economic environment provides a window of opportunity to sustain the reform momentum. This includes tackling long-

term challenges in the housing market, labour market and pensions. Recent structural reforms have borne fruit in terms of a job-rich recovery. Although measures to reduce the debt bias for households have been adopted, incentives to incur debt remain.
The private debt level in the Netherlands continues to decline but remains very high.

THE UK

(https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-united-kingdom_en.pdf)

High market income inequality is mitigated by an effective tax and benefits system, but wealth inequality is high. Income inequality is among the highest in the EU before taxes and transfers are taken into account (market income inequality).
The impact of the income tax system and social transfers reduces disposable income inequality to slightly above the EU average. On the other hand, the top 10 % of the population owned 44 % of the UK's wealth.
Social indicators have improved, and income inequality is now close to the EU average. Income inequality before social transfers is relatively high. However, the tax and benefit system significantly reduce inequality in disposable income.
Income inequality is among the highest in the EU before taxes and transfers are taken into account (market income inequality).

However, the impact of the income tax system and social transfers reduces disposable income inequality to slightly above the EU average.
High general government debt is a potential source of vulnerability. The fiscal deficit was 2 % of GDP in 2017-2018, down from 2.4 % in 2016-2017. General government debt has started to fall, to 85.7 % of GDP in 2017-2018, but it is projected to remain above 80 % in 2020-2021. In the long term, a projected increase in spending on public pensions, health and care in the UK poses risks to fiscal sustainability.
General government debt remains high but has started to fall.