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COVER NOTE

From:	General Secretariat of the Council
To:	Delegations
Subject:	Draft Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey

In view of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey of 25 May 2016, delegations will find attached the updated

"Draft Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey".

Draft

JOINT CONCLUSIONS OF THE ECONOMIC AND FINANCIAL DIALOGUE BETWEEN THE EU AND THE WESTERN BALKANS AND TURKEY

Economic and Financial Affairs Council meeting
Brussels, 25 May 2016

Representatives of the EU Member States, the Western Balkans and Turkey, the European Commission and the European Central Bank, as well as representatives of the central banks of the Western Balkans and Turkey[1] met for their annual economic policy dialogue[2]. Participants welcomed the submission of the 2016 Economic Reform Programmes (ERPs) of the Western Balkans and regretted that Turkey's ERP had been submitted with a significant delay. The programmes outline the medium-term macroeconomic and fiscal framework as well as structural reforms (affecting labour markets, transport, energy, education etc.) to enhance competitiveness and long-term growth. The programmes cover the period 2016-2018.

Participants took note of the Conclusions of the General Affairs Council on 15 December 2015 in which the Council took note of the Commission's communication on the EU enlargement strategy and the reports, which have a strengthened focus on economic governance. The dialogue on economic governance with the Western Balkans and Turkey is meant to prepare them for their future participation in the EU economic policy coordination. The dialogue reflects to some extent the European Semester process at EU level.

Participants recalled the commitment to set out a new set of targeted policy guidance to support efforts towards fulfilling the Copenhagen economic criteria. In this context, Participants agreed that the elements of the 2015 policy guidance which had not yet been fully implemented remained valid and needed be addressed by policymakers in the Western Balkans and Turkey.

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[1] Montenegro, Serbia, the former Yugoslav Republic of Macedonia, Albania and Turkey are candidate countries for EU accession.
[2] The conclusions of this dialogue are without prejudice to EU Member States' positions on the status of Kosovo.

Montenegro

Montenegro submitted its Economic Reform Programme 2016-2018 on 30 January 2016. The authorities have partially implemented the targeted policy guidance set out in the conclusions of the Economic and Financial Dialogue of May 2015.

The economy is strengthening supported by export of services and construction. However, the sluggish recovery of bank lending – partly reflecting continued challenges to banks' asset quality – reduces the growth potential of the economy. The budget deficit and public debt are growing fast and the fiscal framework does not offer an appropriate policy response to compensate for recent ad-hoc increases in current spending on wages and social transfers. Despite some delays, structural reforms have advanced. However, the economy still faces a number of challenges and is exposed to a multitude of external and domestic risks.

High but decreasing non-performing loans burden the banking system and also pose a risk to financial stability. Domestic authorities are therefore encouraged to continue with policy action in order to reduce risks to financial stability and support the real economy.

Major structural obstacles to growth and competitiveness include a lack of private sector dynamism combined with a limited access to finance and high long-term unemployment and low labour market participation of youth and women. The development of infrastructure is constrained by a difficult topography, which results in high investments and maintenance costs. It is important that such investments are based on sound cost-benefit analysis and complemented by less costly regulatory reforms, including the soft measures related to the regional connectivity agenda. Further efforts are needed to build up high quality business support services, strengthen the rule of law, reduce the informal sector and tackle corruption. The increased diversification of the industrial sector, the adoption of a comprehensive Public Financial Management (PFM) Reform Programme and the efforts made towards trade integration are welcome.

Participants welcome the progress in the domain of energy statistics and the start of data transmission on the basis of the ESA2010 standard and encourage further efforts to fill in the remaining statistical gaps.

In light of this assessment, Participants hereby invite Montenegro to:

1. Stabilise the debt-to-GDP ratio net of debt related to capital investments already underway in 2016, and then reduce it over the remainder of the programme period.

2. Take immediate measures to restrain current spending, including on pensions and the public sector wage bill. To generate budgetary savings and improve revenue collection, conduct a comprehensive review of tax expenditure as well as exemptions, and implement tax increase in a growth-friendly manner.

3. Develop a comprehensive strategy to further foster the disposal of non-performing loans by banks, including participation by all relevant stakeholders, while establishing a bank lending survey to better gauge underlying credit dynamics.

4. Ensure effective, efficient and independent regulatory and safety authorities to implement the full opening of rail and energy markets.

5. Continue to facilitate the provision and range of financial and non-financial support services for SMEs with a view to foster participation in global value chains. Support the development of the private consultancy market.

6. Prolong working lives and reduce disincentives to work through strengthening the link between activation measures and social assistance, in order to improve the labour market participation of the long-term unemployed, women and youth. Implement strategies to align education and skills policies with labour market needs.

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Serbia

Serbia submitted its draft Economic Reform Programme 2016-2018 on 2 February 2016. The document was adopted by the government on 3 March and officially transmitted to the European Commission on 11 March 2016. The authorities have partially implemented the targeted policy guidance set out in the conclusions of the Economic and Financial Dialogue of May 2015.

The economy has recovered faster than expected, supported by increased confidence as a result of implemented reforms and low oil prices. Economic activity is foreseen to gradually accelerate on the back of robust investment and export performance. The budget deficit has been reduced markedly last year, providing room for monetary policy relaxation. Fiscal consolidation is set to continue, reversing the growth of government debt as of 2017. However, the economy still faces significant challenges and is exposed to multiple external and domestic risks.

On the financial stability side, challenges to banks' asset quality through non-performing loan burdens remain high, although authorities have developed a strategy to foster the resolution of bad loans and the conduct of special diagnostic studies for systemically-important banks has also contributed to increasing the transparency of the asset quality of the banking system. However, in spite of the dinarisation strategy in place, trends as regards the use of local currency in the financial system have been limited, such that this issue still demands policy action by authorities on account of its positive effects for both financial stability and the real economy.

Major structural obstacles to growth and competitiveness include an excessive state influence in the economy and a lack of private sector dynamism. Under-execution of capital expenditure remains an issue. Weak physical networks and inter-connections and inefficient markets in the energy and transport sectors are slowing down international economic integration. Private investment remains hampered by a costly, unpredictable and non-transparent system of para fiscal charges, difficult access to finance and red tape. The level of state aid remains relatively high. Transparency of publicly supported FDI projects should be improved. On the other hand, structural reforms have advanced with some positive effects on the business environment. Despite recent improvements, low employment and high unemployment persist. The effectiveness of the social assistance system in reducing poverty is weak.

Participants welcome the improvements in the domains of annual national accounts, short-term business statistics and international trade in goods statistics and encourage further progress, in particular with respect to the government finance statistics and government deficit and debt statistics.

In light of this assessment, Participants hereby invite Serbia to:

1. Further strengthen fiscal consolidation by using any excess revenue and current expenditure savings, and take additional measures, if needed, in order to achieve a primary surplus in 2016 and reduce overall budget deficits in the following years.

2. Support fiscal consolidation by taking steps to find a sustainable resolution of the remaining state-owned enterprises and continuing the organisational and financial restructuring of large utility companies. Advance the reform of the public administration as envisaged. Further improve revenue collection in a systematic and business-friendly way by implementing the tax administration transformation programme.

3. Continue to address risks to financial stability and the real economy by following-up on the NPL action plans which have been adopted, reinforcing the strategy already in place to promote the use of the local currency ('dinarisation strategy') in the financial system and shedding increased light on the asset quality of smaller banks that were not covered by the special diagnostic studies. Throughout this process, the central bank's monetary policy stance may remain accommodative insofar as both inflation expectations remain anchored and a favourable fiscal consolidation path is maintained.

4. Address the under-execution of public capital expenditure by improving its prioritisation and management; as a priority, make significant progress in the preparation of the construction of the Bulgaria-Serbia gas interconnector project and finish road works on Corridor X by end of 2017.

5. Improve the business environment and promote private investment by developing a more transparent and less burdensome system of para-fiscal charges, putting in place a guarantee scheme for loans to SMEs and re-launching the 'regulatory guillotine.'

6. Step up the provision of targeted active labour market policies to facilitate in particular the reintegration of workers made redundant in the resolution of state-owned enterprises and public administration rightsizing. Increase the capacity of the National Employment Services to roll out such measures to larger numbers of beneficiaries.

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The former Yugoslav Republic of Macedonia

The former Yugoslav Republic of Macedonia submitted its Economic Reform Programme 2016-2018 on 31 January 2016. The authorities have partially implemented the targeted policy guidance set out in the conclusions of the Economic and Financial Dialogue of May 2015.

The economic recovery accelerated, driven by strong household and government spending, and robust export growth, with bank lending remaining dynamic. The programme expects the pace of economic expansion to increase further, but projections are subject to considerable domestic and external risks. Amid a lower unemployment rate, the labour market continues to face important challenges. Although the budget deficit narrowed noticeably, fiscal discipline disappointed again. The government remains committed to fiscal consolidation, but has not specified any concrete supporting measures. The efficiency of public spending remains hampered by shortcomings in budget planning and a recurring under-execution of public investment. Rising financing needs of state-owned enterprises charged with managing the government's investment agenda are driving public debt levels and the stabilisation of general government debt remains elusive as well.

On the financial stability side, trends as regards the use of the local currency in the banking system have been encouraging, supported by certain measures undertaken by the central bank. However the share of foreign exchange indexed or denominated-loans in the total loan stock still remains sizeable and thus indirect market risks to banks remain. In addition, the sizeable burden of non-performing loans on banks' balance sheets has been relatively stable in spite of the upturn in credit extension. Although some measures have been undertaken in this regards and total loan provisioning remains adequate, this issue continues to demand concerted policy action by authorities on account of its implications for both financial stability and the real economy.

Structural reforms in key areas of the economy have started, but have to be implemented consistently. Major structural obstacles to growth and competitiveness include an excessive state influence in the economy, an underdeveloped private sector, a regulatory environment which should provide more predictability and weak access to finance, informalities, high unemployment (especially youth and long-term) and low employment of women and people with low qualifications. Shortcomings in access to finance exist both on the supply and demand side. Public finance management (PFM) is affected by insufficient transparency and a weak procurement framework. The National Investment Committee and the single sector pipelines should improve prioritisation of public investments.

Participants welcome the progress towards ESA 2010 implementation for annual national accounts' main aggregates and regional accounts and stress the importance of making further efforts, in particular with respect to the compilation and transmission of government deficit and debt statistics.

In light of this assessment, Participants hereby invite the former Yugoslav Republic of Macedonia to:

1. Underpin fiscal consolidation by identifying concrete revenue and expenditure measures; move towards a better targeting of transfer spending and improve the growth-friendliness of public finance, in particular by fully executing planned priority public investment spending. Protect against fiscal risks by using any excess revenue to create fiscal buffers.

2. Improve fiscal transparency and budget planning capacity by the swift introduction of a medium-term expenditure framework; by providing multi-annual projections of detailed revenue and expenditure components in the medium-term strategy as well as by comprehensive reporting of extra-budgetary expenditure in the consolidated fiscal reports. Inform systematically about payments arrears.

3. Develop comprehensive strategies involving all relevant stakeholders in order to both further foster the resolution of non-performing loans by banks and further promote the use of the local currency with a view to reducing risks to financial stability and the real economy. There would be a case for a gradual removal of the central bank's accommodative monetary policy stance to the extent that authorities' sanguine macroeconomic scenario is realised (including through its impact on inflation expectations and on the output gap).

4. Adopt a credible public finance management reform programme. Prioritise public investments against clear policy objectives and identify the needs to which they respond. Increase the transparency on the selection criteria for the investments and on their impact on economic growth and on the fiscal path.

5. Ensure a reliable and predictable regulatory environment for businesses by reducing the use of the urgency procedure for legislation, ensuring proper consultation of the stakeholders and reinforcing the independence of commercial courts.

6. Strengthen the provision of activation measures especially for vulnerable youth, women and long-term unemployed and further improve the capacity of the Employment Service Agency for profiling and personalised counselling of job seekers.

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Albania

Albania submitted its Economic Reform Programme on 29 January 2016. The authorities have only partially implemented the targeted policy guidance set out in the conclusions of the Economic and Financial Dialogue of May 2015.

Albania is experiencing a gradual economic upturn that is expected to continue in 2016-2018. Nevertheless, the recovery is facing downside risks, notably due to sluggish bank lending amid a continuing high share of impaired loans and because falling commodity prices have weakened the outlook for the extractive industry. The central bank has maintained an accommodative monetary policy stance facilitated by fiscal consolidation, with further efforts foreseen to tackle vulnerabilities arising from high public debt. The country's fiscal adjustment plans are ambitious and are based mainly on ensuring better tax compliance and tightly controlling expenditure. However, implementing these plans will be challenging. Additional fiscal risks might stem in particular from public-private partnerships (PPPs) and local government arrears. The planned improvements to the fiscal framework thus appear as an important element to anchor the medium-term orientation of policy.

On the financial stability side, challenges to banks' asset quality through non-performing loan burdens remain high, although authorities have developed a strategy to foster the resolution of bad loans. Trends as regards the use of the local currency in the banking system have been mixed, but the share of foreign exchange indexed or denominated-loans in the total loan stock still remains high. As a result, policy action by authorities on this front is needed in order to reduce risks to both financial stability and the real economy.

Major structural obstacles to growth and competitiveness include poor access to finance, a high level of informality and corruption, still unclear land ownership, an excessive regulatory burden and unpredictability in the judiciary system, which acts as a major discouragement to both foreign and domestic investment. The need for large-scale investments, especially in the energy and transport sectors, can be met by creating favourable conditions for private investment, including PPPs that could be important for a smooth transition towards the re-structuring of infrastructure and energy markets. The envisaged liberalisation of the energy market is highly important. Youth unemployment and informal employment remain high while labour market participation of women is particularly low. Positive developments include the ongoing decrease in the level of NPLs, the clearance of central government arrears, the increased momentum to address informality and significant progress in improving payment discipline in the electricity sector.

Participants welcome the progress in energy statistics and towards ESA 2010 implementation for annual statistics and encourage further efforts to fill in the gaps for infra-annual statistics.

In light of this assessment, Participants hereby invite Albania to:

1. Pursue fiscal adjustment by ensuring that revenue and expenditure targets and, by extension, the deficit target, are met. Evaluate and quantify fiscal risks stemming from all active PPP and concession contracts and from local government arrears.

2. Underpin fiscal consolidation by improving the fiscal framework; in particular, (i) strengthen medium-term budget plans by empowering the Parliament to approve binding three-year ceilings at programme level and by clearly showing in the MTBP which funds are effectively committed and which are new expenditure under the ceiling; (ii) move decisively towards adopting a fiscal rule which ensures debt sustainability, counter-cyclicality and transparency.

3. Continue to address risks to financial stability and the real economy by following-up on the NPL action plan which has been adopted and developing a medium-term strategy to promote the use of the local currency in the financial system, including all relevant stakeholders. Throughout this process, the central bank's monetary policy stance may remain accommodative insofar as the path of fiscal consolidation remains favourable, but risks related to further policy easing should be carefully assessed.

4. Fully implement the obligations under the Energy Community Treaty including, in particular, the full unbundling of transmission and distribution activities in the electricity and gas sectors in order to improve energy security and allow market entry of independent operators.

5. Strengthen administrative capacities to ensure smooth legal land registration, the full functioning of the cadastre in general and especially the e-cadastre until 2019. Implement the e-procedure for building permits in order to cut red tape and encourage investments.

6. Increase the coverage of active labour market policies and improve the activation of unemployed and inactive persons, especially youth, women and long-term unemployed. Step up current efforts to achieve a comprehensive approach to reducing undeclared work.

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Bosnia and Herzegovina

On 1 February 2016, Bosnia and Herzegovina submitted its Economic Reform Programme covering the period 2016-2018. The quality of the ERP, in particular section 4 on structural reforms, needs to be improved by enhancing preparatory consultation and coordination, leading to the consolidation of the entities' contributions into a single coherent country-wide ERP. The authorities have only partially implemented the targeted policy guidance set out in the conclusions of the Economic and Financial Dialogue of May 2015. At the same time, the adoption of the Reform Agenda implies a welcome first step toward improved coordination and cooperation between different government levels based on a shared country diagnostic of main structural issues.

Economic activity rebounded in 2015. The recovery has been mainly driven by stronger private consumption, investment, but also exports. The stronger output growth had a positive effect on employment, although the level of unemployment is still very high. Inflation remained subdued, to a large extent due to low import prices for energy. The budget deficit remained limited, but an enforceable rules-based framework to instil discipline at all levels of government has yet to be developed. In addition, the quality of public spending is still low. External balances improved, benefitting from stronger exports and lower import prices. Foreign direct investment remained low, but financing of the current account was comfortable and foreign reserves increased. Structural reforms have gained some momentum, benefitting from an improved political support for proceeding with long overdue modernisation measures. However, actual progress still is rather mixed.

On the financial stability side, challenges to banks’ asset quality through non-performing loan burdens remain high, and thus demand policy action by authorities on account of the implications to both financial stability and the real economy. Authorities plan to upgrade the legal infrastructure underpinning the financial system and to shed light on smaller banking entities through an asset quality review.

Major structural obstacles to growth and competitiveness include the absence of a common economic space including non-recognition of business registration across the country, a large and inefficient public sector with multiple overlapping competences, a lack of a coherent country-wide quality infrastructure, widespread informalities and corruption affecting the business environment. Significant labour market challenges, reflected in very high unemployment are exacerbated by the lack of activation measures, coupled with an unsupportive tax burden on labour, disincentives to work and the poorly performing education qualification structure.

In light of this assessment, and also taking into account the Reform Agenda, Participants hereby invite Bosnia and Herzegovina to:

1. Improve the quality of public finances: Enhance the growth-friendliness of public spending, among others by increasing public investment, and contain spending for public employment. Improve the targeting of social spending and establish a comprehensive inventory of public sector payment arrears. Furthermore, strengthen the country-wide public debt management capacities, in particular improving cooperation and the flow of information from local data providers to the state level. Set-up of an enforceable rules-based framework to instil discipline at all levels of government.

2. Improve the provision of timely and exhaustive statistics, applying European and international standards, in particular in the area of population statistics, national accounts and government finance statistics. Furthermore, strengthen the provision of data from data providers to producers of official statistics.

3. Develop a comprehensive strategy to foster the resolution of non-performing loans by banks, including all relevant stakeholders with a view to reducing risks to financial stability and the real economy. Follow-up on plans to upgrade the legal infrastructure of the financial system and conduct an asset quality review of smaller banking entities. Establish a bank lending and inflation expectations survey in order to better gauge underlying credit and price dynamics.

4. Set up a common economic space and systematic coordination mechanisms between all government levels. Adopt a country-wide transport strategy and a country-wide energy sector reform strategy in compliance with the country's obligations under the Energy Community Treaty.

5. Introduce e-payment services on taxation and fully implement the law on electronic signature in order to increase transparency and reduce space for tax evasion, corruption and regulatory complexity.

6. Reinforce the capacities of the employment services and target active labour market policies in particular to vulnerable youth, women and long-term unemployed. Reduce the unsupportive tax wedge and disincentives for the unemployed and inactive persons to take up formal work. Improve the co-operation between the education system and labour market institutions.

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Kosovo [*]

Kosovo submitted its Economic Reform Programme 2016-2018 on 29 January 2016. The authorities have partially implemented the targeted policy guidance set out in the conclusions of the Economic and Financial Dialogue of May 2015.

The economy rebounded after low growth in 2014, supported by private demand and workers remittances. Economic growth is foreseen to stay around its long term average on the back of private consumption and robust investment growth. The state of public finance improved and was further reinforced under the new stand-by agreement with the IMF. The 2015 budget deficit was lower than planned and the 2016 budget contains realistic revenue projections but further efforts will be needed to limit increases in current spending, at the expense of capital investments. A newly introduced exception to the fiscal rule strengthens the need to set up fiscal rule's monitoring and enforcement mechanisms. Despite some delays, structural reforms have advanced. However, the economy still faces a number of challenges and is exposed to political and other domestic risks.

On the financial stability side, authorities are developing a new macro-prudential framework as well as the enhanced guidelines for on-site and risk-based supervision of banks in order to strengthen the resilience of the banking system. In spite of a pick-up in lending activity, the cost of credit remains high compared to most peer economies and access to finance and financial intermediation remains dampened by a number of legal and institutional factors.

Major structural obstacles to growth and competitiveness include widespread informalities in the economy, an unreliable energy supply, the weak rule of law, a poor track record of implementing legislation and a still weak, albeit improving, public administration. Private sector development continues to be hindered by a complex business environment with a large informal sector. The establishment of the Investment Committee and the appointment of the board members of the Procurement Review Body are welcome steps, as is the completion on the Kosovo side of the energy interconnection with Albania. Kosovo's labour market performance is not improving as a majority of the working age population remains inactive. Labour market integration of young people is hampered by weak education outcomes. Social challenges are significant.

[*] This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

In light of this assessment, Participants hereby invite Kosovo to:

1. To improve forecast accuracy enhance technical capacities of the services preparing the macro fiscal framework, strengthen parliamentary oversight capacities in evaluating budget planning and execution as well as fiscal risks and take first steps towards establishing an independent fiscal body.

2. Identify offsetting measures for recent increases in categorical benefits while preserving the share of capital spending and address persistent under spending of the capital budget by improving project preparation and management capacities at central and local administration levels.

3. Further address the underlying legal and institutional factors responsible for both high cost of credit and difficulties in access to finance so as to increase financial intermediation in the economy, while establishing a reliable measure of private sector inflation expectations so as to better gauge price developments.

4. Implement the action plan of the strategy for the fight against the informal economy. In particular, speed up the risk assessments focusing on the sectors and branches most vulnerable to informalities in order to identify and apply appropriate corrective measures.

5. Increase energy security by reinforcing the planned energy efficiency measures to include incentives for the private sector and households and by adopting a plan for the gradual adjustment of energy tariffs to reflect actual costs.

6. Set up an action plan for tackling youth unemployment based on an assessment of the challenges and focussing on improving education outcomes including through improved teacher training and supporting school-to-work transitions. Ensure that the Employment Agency has sufficient capacity. Take measures to increase labour market participation of women.

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Turkey

A draft version of Turkey's Economic Reform Programme for 2016-2018 was sent to the Commission on 4 March 2016. The final and formally approved ERP was submitted on 13 April, more than two months after deadline. It includes an expanded focus on structural reforms. The Turkish authorities did not take significant steps towards implementing the targeted policy guidance set out in the conclusions of the Economic and Financial Dialogue of May 2015. Efforts should be significantly stepped up.

The economy has grown faster than expected as strong consumer spending has more than offset a weak export performance. Employment growth has continued at a moderate pace. The programme projects economic activity to accelerate further on the basis of strongly improving exports and investments. Public finances have continued to show a modest budget deficit and a declining ratio of public debt to GDP, but the rigidity of public expenditures remains a challenge for adjusting the fiscal policy stance. Turkey's economy continues to face two major macroeconomic imbalances. On the external side, the current account continues to show a large deficit although it has declined by almost one percentage point of GDP last year as a result of the lower oil price. The need for correspondingly large capital inflows makes the economy vulnerable to changes in risk sentiments and international yield differentials. On the internal side, the economy continues to suffer from entrenched inflation in high single digits, with both inflation and inflation expectations remaining well above the central bank’s target. This is problematic in terms of macroeconomic stability, resource allocation and re-distributive effects.

Turkey is confronted with a number of challenges to growth and competitiveness. In particular, Turkey faces substantial labour market challenges, reflected in low female participation and employment rates, high numbers of inactive youth, high level of informal work and low qualification level of the workforce. The development of a universal rights-based social security system is hampered inter alia by a loss of revenues due to informal work. Spending on research and development is rather low but has an increasing trend and the cooperation between research institutions and economic operators could be improved.

Participants welcome the start of regular data transmissions on quarterly balance of payments and strongly encourage an earlier switch from the ESA 95 to the ESA 2010 methodology for national and regional accounts and the regular transmission of government deficit and debt statistics.

In light of this assessment, Participants hereby invite Turkey to:

1. Promote domestic saving in view of the persistently large current account deficit. Fiscal policy has an important role to play in this regard by following a sufficiently restrictive stance. Reducing the rigidity of public expenditures would help to make the fiscal policy stance more responsive to macroeconomic needs. The adoption of a fiscal rule would enhance budget transparency, provide an important fiscal anchor and enhance credibility.

2. Reinforce the central bank's focus on price stability in monetary policy by further tightening the policy stance against the backdrop of high (above-target) inflation rates and increasingly unanchored inflation expectations. A simplification of the monetary policy framework in line with the central bank's own forward guidance, published in August 2015, would help to buttress the credibility of the inflation targeting framework in place. Using the main policy rate, rather than a range of other instruments, in the conduct of monetary policy would be more transparent and strengthen the central bank's credibility in fighting inflation in the medium term.

3. Strengthen the rule of law and the judiciary with a view to restoring investors' confidence.

4. Enhance the comprehensive strategy in support of research and development; this should target an increase of total spending on research and development and build closer cooperation between research institutions and economic operators.

5. Enhance further the control capacity of the labour inspectorate and enable tax authorities and the social security institution to ensure a correct declaration of wages in order to reduce informality. Pursue the education agenda and improve the qualifications of low-skilled workers in order to make better use of human capital, in particular of young people.

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As regards statistics, Participants underline the importance of reliable and up-to-date data and therefore welcome the 2016 Progress Report on the Action Plan on Economic, Monetary and Financial Statistics for Candidate Countries. They were comforted that all the Candidate Countries made progress in fulfilling the Action Plan requirements, but noted that additional efforts in some statistical areas are still needed to achieve a full compliance with the Action Plan requirements.

Overall, Participants underlined their commitment to this surveillance process which should ensure a continued anchoring of medium-term economic programmes and commitment to structural reforms by the Western Balkans and Turkey. Participants encouraged the Western Balkans and Turkey to make further progress with respect to their macroeconomic, budgetary and structural policies. Participants also noted the links between the progress on rule of law/fundamental freedoms and the improvement in economic governance and the judiciary system. The dialogue will continue in 2017, including on the implementation of these conclusions.