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Ohessa lähetetään perustuslain 97§:n mukaisesti komission 25.1.2006 julkaisema edistymisraportti vuonna 2005 uudistetun Lissabonin strategian toimeenpanosta EU:ssa ja jäsenmaissa (*Time to deliver. The first Annual Progress Report on the new partnership for growth and jobs*).

Perusmuistio komission edistymisraportista sekä raportin suomen- ja ruotsinkieliset käännökset toimitetaan eduskunnalle tiedoksi myöhemmin.

Lisäksi ohessa lähetetään EU-ministerivaliokunnassa 13.1.2006 käsitelty muistio ”Lissabonin strategia - Suomen keskeisiä viestejä vuodelle 2006”.

EU-asioiden alivaltiosihteeri

Jari Luoto

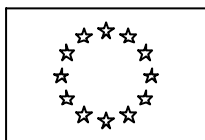
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COMMUNICATION FROM THE COMMISSION TO THE SPRING EUROPEAN
COUNCIL

TIME TO MOVE UP A GEAR

The new partnership for growth and jobs

PART 1

EN

ominaisuuden nimi.

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Virhe. Tuntematon asiakirjan

TIME TO MOVE UP A GEAR: THE NEW PARTNERSHIP FOR GROWTH AND JOBS

Last year saw a decisive shift in the European Union, with a new momentum agreed for growth and jobs. In 2005, the logic that our common challenges need common responses was recognised as never before. The renewed Lisbon strategy showed how a European growth and jobs strategy could be, and must be, more than the sum of its parts. The meeting of European leaders at Hampton Court made clear that Europe is indispensable in the search for solutions to global problems. There was full support for the European Commission's analysis of the challenges ahead, and for an ambitious framework for tackling them. All agreed that the potential of the enlarged Europe could not be taken for granted – action is needed to exploit that potential to the full and to secure sustainable development into the future.

This emerging consensus has again been shown in the national reform programmes prepared by every Member State. They add up to a promising start for the new approach. Now the momentum needs to be stepped up and the national programmes put into action.

What are the most urgent steps needed? We need more research and development, with more efficiency and better coordination. We need to work together on a European scale to ensure that research is translated into innovative products and services, which feeds into growth and jobs. For our companies, particularly small and medium-sized companies, to compete successfully on an increasingly competitive global market, they must be able to draw strength from a European-wide home market. A market free of barriers and red tape, where rules are predictable and where dynamic companies can prosper.

We need more people in work to finance pensions and health care as populations get older. We need a lifecycle approach to work. Young people need help starting their working lives. Parents need affordable childcare and a decent work-life balance. And we cannot afford to have people drop out of the labour market when they are in their fifties.

We have been reminded in recent times, in various ways, of the importance of energy to our economies. We cannot afford to waste it. We need to get more of it from renewable, non-polluting sources. And we need security of supply at affordable prices. Competition can help here too. But Europe also needs to speak with one voice in ensuring supply from beyond its borders.

So we know what we are aiming for, and we know how to get there. But now for the difficult part: turning good intentions into action. Reform needs to be the guiding principle for national as well as European economic policy. It is vital that Member State and EU measures complement each other to create a powerful growth and jobs engine. This is our common responsibility, and the job is not finished until every worker, every business, every consumer can enjoy the benefits of reform.

The first year of the strategy has offered real hope that progress towards economic reform is under way, that Europe is on the move. If we can redouble our energies and make reform our top priority, the renewed Lisbon strategy will be seen as a genuine turning point towards growth and jobs in Europe. It is up to us all to make that happen.

It is time to move up a gear.

J-M BARROSO

EXECUTIVE SUMMARY

The Lisbon strategy has entered a new phase. Last year saw a fresh start, and a step change in how Lisbon works. The spotlight is now on delivering results. By submitting national reform programmes, Member States have accepted a new responsibility, setting out detailed commitments for action. At the same time, the Community Lisbon Programme specifies what has to be done at EU level to complement national, regional and local efforts.

The national reform programmes add up to a good basis for driving the reform agenda forward. The case for prioritising growth and employment is compelling, with a wide consensus about the key challenges we face. In parallel, EU-level action is on track and will receive new impetus once EU spending plans for 2007-2013 are finalised. So the instruments are in place; the national programmes have kept up the momentum; now political will is needed to translate commitments into real results for growth and jobs. It is time to move up a gear.

National programmes must now be implemented based on a real national consensus. This will not come overnight. We must explain better to our citizens why our growth and jobs strategy is the route to prosperity and social justice in the long term.

The programmes must be strengthened so that reform covers all the key policy areas for growth and jobs in all Member States. As the meeting of European leaders in Hampton Court has shown, there are key areas where Europe could make a difference, where implementing bold decisions will give a new impetus to reform:

- A decisive leap in investment for research and innovation will realise Europe's potential to offer the goods and services citizens will want. This needs more public investment, with existing spending shifted to research and innovation and with better coordination between Member States. Just as importantly, the environment must be right to carry research through to innovation and to spur growth: the fruits of research excellence must not be squandered by unnecessary barriers to commercial use or by tying the hands of the universities.
- Unlocking Europe's business potential means creating a business climate that encourages businesses to start and to grow. Europe must have the confidence to let entrepreneurs flourish by clearing the way for new businesses. Governments must be ready to help smooth the path for businesses at every stage of their development, with less red tape to help SMEs develop at home and cross-border, as well as positive action to ease access to the finance they need.
- An ageing population means that European society must be ready to help more people to work, to work longer, and work in a way that uses their talents to best effect. That means employment policies that help people to find jobs at every stage of their working lives and remove barriers for those who wish to work. People need the right skills at the right time, they need help in facing change and finding new openings, and they need to be able to fit the demands of work into the rest of their lives.
- A secure, affordable energy supply is a crucial springboard for growth. But energy is a finite resource to be shepherded with care. A European energy policy is needed to offer a real internal market, to maximise the benefits of energy efficiency and renewables, and to safeguard supply inside EU borders and beyond.

National experience shows what is possible, and what needs to be done. Member States should exploit this potential and do more to draw lessons from their partners.

Alongside full delivery of the national programmes, the next steps should centre on key actions to maintain the momentum:

- The Commission calls upon the European Council to commit themselves to a series of precise, time-limited actions across all these areas: on research and education spending, on the ease of starting and running a business, on helping the jobless to find work, on childcare, on an integrated energy policy in Europe. Citizens, workers, entrepreneurs must

feel that public policy is designed to help what they are trying to achieve, not to hold them back.

- Efforts to build a real national consensus behind the programmes should be stepped up. The EU institutions and the Member States should ensure that a dedicated communication strategy should be established involving all national, regional and local stakeholders. There should also be a special role for the social partners.

TABLE OF CONTENTS

Time to move up a gear: the new partnership for growth and jobs	3
Part I – Time to move up a gear.....	7
1. Europe on the move: working together for more growth and jobs	7
2. Making it happen: the policy response.....	8
2.1. The Community Lisbon programme	9
2.2. The national reform programmes	10
2.2.1. Evaluation of the different policy areas	11
2.2.2. Overall conclusions	13
3. Moving up a gear: four actions for more growth and jobs.....	14
3.1. Investing more in knowledge and innovation.....	16
3.2. Unlocking the business potential, particularly of SMEs	17
3.3. Responding to globalisation and ageing.....	18
3.4. Moving towards an efficient and integrated EU energy policy	20
4. Follow-up after the 2006 Spring European Council	22
4.1. Implementation and monitoring of national reform programmes:.....	23
4.2. Delivery of Community action.....	24
4.3. Mobilising all players behind a common agenda.....	24
Appendix – List of illustrative examples of Member States’ policies and measures in support of the growth and job objectives, particularly in the four priority areas identified in section 3	25

Part I – Time to move up a gear

Europe on the move: working together for more growth and jobs

We live in a fast-changing and interdependent world. This provides us with many opportunities but we also face many challenges if we are to secure a prosperous and fair society. Above all, if we are to address the core task of creating more growth and jobs, public policy at every level needs to factor in modern realities like globalisation and the ageing of our population. This is the only way to successfully modernise our economies and safeguard and promote Europe's values at home and abroad. And delivering results can restore a sense of confidence in our ability to meet citizens' expectations.

At the Spring European Council in March 2005, EU leaders put **growth and jobs** at the top of Europe's political priorities. The **renewed Lisbon Strategy** meant a fresh commitment by all to mobilise behind a positive reform agenda. At its origin was a recognition that success depends on a comprehensive approach, bringing the maximum of levers to bear and touching every corner of every Member State in Europe.

This commitment was given further weight by agreement on the integrated guidelines for growth and jobs¹, which provide a clear roadmap for the design of national reforms, and by the informal meeting at Hampton Court in October. At Hampton Court, EU leaders analysed how European values can underpin modernisation in our economies and societies and help us to tackle key challenges in a distinctively European way. And at the end of last year, the agreement in the European Council on the financial perspectives meant another step forward: once finalised with the European Parliament, this will open the way to new investment to modernise the European economy.

So there is a common vision and a strong consensus about what needs to be done - supported at the highest level. Europe needs to bring the full range of policies and instruments into play: it cannot afford to pick and choose only the politically convenient options. Sound macro-economic policies are an essential requirement for realising its growth potential. Europe also needs a climate which lets Europeans' creativity flow by offering a more attractive place to invest, innovate and work. Freeing business from unnecessary red tape and outdated bureaucratic controls encourages new businesses, sparks expansion in existing businesses, and creates new jobs. Greater and more efficient private and public investment is the catalyst for the knowledge economy, galvanising the fruits of research and the high skills which promote social inclusion and higher earning power over a longer, healthier working life. Promoting eco-innovation and spreading environmental technologies brings sustainability as well as growth. Modernising our labour markets and our social protection systems mean more people in work, greater adaptability to change, higher productivity and a more sustainable and fairer economic growth. And further opening up world trade by reaching a successful WTO agreement by the end of 2006 will create new opportunities and boost competitiveness both inside and outside the Union. All these goals must be achieved respecting the imperatives of sustainable development.

The first step to **translate this ambition into action** has been to set up the tools to deliver the job. This needs a partnership approach, with the right measures taken at the right level.

¹ OJ L 205 (06.08.2005)

- Member States have drawn up country-by-country national reform programmes on the common basis of the integrated guidelines. These are the key tool to drive implementation of the Lisbon Strategy: they offer a checklist of national commitments and benchmarks to monitor progress in the months and years ahead.
- The Council, the European Parliament and the Commission are working together on the actions needed at Community level to make the growth and jobs agenda work: The Community Lisbon programme², which was welcomed by the European Council in December 2005, has started to deliver on a substantial number of important proposals to complement initiatives taken by Member States.

In many areas, the centre of gravity for action lies at **Member State level** (or regional or local) – such as for employment and labour market policies where the role of the social partners is also crucial. But the fact that actions are applied locally, regionally or nationally does not mean that they do not have Europe-wide consequences: with the inter-dependence of the single market, even the best performing economies suffer from the shortcomings of others. At the same time, the common challenges faced mean that responses can be shared. All too rarely do governments look to their partners for ideas and solutions. Every country can point to examples of good ideas and good experience. The national reform programmes provide a store of knowledge and experience to be shared and spread: exploiting this treasure trove of best practice to the full is the best way to draw value added from the Lisbon Strategy. As a first step, this Report proposes a set of key steps as a common programme for national action. In addition, there are also goals which cannot be delivered by Member States acting alone but where results require action at **Community level**. The success of many national initiatives will depend on supporting national efforts through Community action and Community investment making Europe the right place to live and work. The European Commission is committed to driving this agenda forward.

This partnership must now be taken into a new phase. The tools are in place. The policy consensus is there. If the Lisbon Strategy is to make the difference, the focus must now shift to implementation.

This Communication to the Spring European Council sets out where we stand on the road to creating a new dynamism for growth and jobs in Europe:

- Part I evaluates the process of drawing up the reform programmes and highlights a limited number of key initiatives for agreement at the European Council. An illustrative list of examples of national initiatives and measures is attached which shows how a fruitful exchange of national experiences can bring real mutual benefit.
- Part II is a detailed assessment of the national reform programmes, pointing out their strengths as well as areas where they need review and updating by Member States. It also contains an assessment of the euro area.
- A more detailed analysis of the macro-, micro-economic and employment aspects of the national reform programmes can be found in annex I. As far as the employment part is concerned, this also serves as the basis for the Joint Employment Report.

² COM (2005) 535 final

Making it happen: the policy response

The two main instruments to implement the new Lisbon strategy are the Community Lisbon programme, setting out what should be best done at Community level, and the 25 national reform programmes: each Member State's policy response to the key challenges they have identified. These instruments must work in tandem to have the best effect.

The Community Lisbon programme

In the six months since its adoption, significant progress has been made on the Community Lisbon programme. The Commission has already adopted two thirds of the actions foreseen. However, legislative proposals will only produce practical effects once adopted by Council and Parliament. In addition, many of the financing actions depend on the finalisation and implementation of the financial perspectives 2007-2013.

The Community Lisbon programme includes a number of important initiatives to tackle the decisive cross-border impact of research and innovation and the fragmentation of European research efforts: namely the 7th framework programme for research, technological development and demonstration and the competitiveness and innovation framework programme. The Commission has also set out concrete initiatives to improve the research and innovation environment in Europe in its Communication "More research and innovation for Europe: a common approach"³. The 7th framework programme introduces a new model of research support – joint technology initiatives – in the form of public-private partnerships to back promising new research and to give European industry a head start in areas ranging from hydrogen and fuel cells, aeronautics and air transport, to innovative medicines, and nano-electronics. Galileo, the satellite navigation initiative and the development of integrated rail and air traffic management systems are other key examples of cutting-edge industrial projects which have a strong European dimension.

Reforming the Community's state-aid policy framework for R&D, as planned, will facilitate public-private partnerships and should leverage more private R&D investment. The programme also includes actions aimed at stimulating eco-innovation and the take-up of environmental technologies. The framework may be extended to cover new provisions to support innovation, especially for small and medium-sized enterprises. In addition, state support to young and innovative companies should be facilitated, not only through direct financial support but also through easier access to risk capital funding. As an additional important step in the delivery of the Community Lisbon programme, the Commission has launched a new, more integrated industrial policy to improve the framework conditions for manufacturing industries. These industries employ more than 34 million people, accounting for more than 80% of EU private sector R&D expenditure.

A number of actions in the Community Lisbon programme aim at making Europe a more attractive place to invest and work. These include initiatives to make the internal market for services a reality, steps to drive forward regulatory reform, improve the tax and customs environment for economic activity, and promoting market access and more competitive markets, particularly in energy and financial services where the Commission has launched inquiries.

Legislation has been proposed to create a "single payment area" in the EU, to make cross-border payments as easy and affordable as domestic payments. This alone could save the EU economy between €50 and €100 bn per year. Other notable initiatives include improving

³ COM (2005) 488 final

access to venture capital, particularly for SMEs. New Community funding, for example in the form of guarantees and risk capital investments, will become available through the competitiveness and innovation programme. This programme will also help bring to market innovative solutions to improve energy supply (in particular for renewables) as well as demand (through energy efficiency measures). In addition, the Commission has put forward ambitious measures to help the creation of more and better jobs through the removal of obstacles to mobility, a common approach to economic migration and efforts to deal with the social consequences of economic restructuring.

Community institutions and Member States have a shared responsibility for the quality of the regulatory environment. The Commission has stepped up its efforts to improve the quality of Community legislation. The impact of these actions will of course be much greater if they are matched by a determined effort by Member States to improve the quality of their national rules and reduce the administrative costs they impose on citizens and businesses.

The national reform programmes

Nearly one year into the new Lisbon Strategy for growth and jobs, the partnership is off to a promising start. Responsibilities for action are clearly defined. All Member States have drawn up a national reform programme on the basis of a single set of integrated policy guidelines. These national reform programmes are the main tools to implement the new Lisbon Strategy, to translate the integrated policy guidelines into reform owned by Member States and which Member States are responsible for delivering. The fact that all Member States have done so, often under tight deadlines, has been an important first test.

In line with the new partnership approach, and to facilitate co-operation and public visibility, all Member States have appointed national Lisbon co-ordinators. Meanwhile, many Member States have used the opportunity of drafting national reform programmes to streamline internal co-ordination between different government departments. For its part, the Commission has maintained close contacts with the national authorities responsible for the preparation of the national reform programmes, helping where it can to make national policy development work well.

The Commission has carefully assessed each national reform programme, taking into account work carried out by the Economic Policy and the Employment Committees⁴. A detailed assessment of each national programme, pointing out particular strengths as well as a number of issues which can be further developed and strengthened, can be found in Part II. The Commission encourages Member States to take up the points highlighted in its conclusions. It will give particular attention to these aspects in its follow up discussions with Member States and its monitoring of the implementation of the national reform programmes throughout 2006. In the interest of consolidation and stability of the process, the Commission proposes to maintain the integrated guidelines on the basis of which the national programmes have been drawn up. In addition, the Commission has decided not to propose formal, country-specific recommendations in response to the national reform programmes. This is the first year of the partnership: national reform programmes need some time to be fully integrated into national policies and structures. The Commission attaches high priority to forging a strong relationship of trust and co-operation with Member States, based on ownership of the programmes by Member States themselves. However, the Commission will not refrain from using the

⁴ Economic Policy Committee: Report on the Lisbon National Reform Programmes 2005, ECFIN/EPC(2005)REP/55392, available under: http://europa.eu.int/comm/economy_finance/epc/documents/2005/nationalreports/nrp_report_en.pdf. The Employment Committee's so-called Cambridge review country examinations of the employment sections of the national reform programmes are available at: http://europa.eu.int/comm/employment_social/employment_strategy/emco_en.htm.

instruments at its disposal, including proposing country-specific recommendations, when it considers that this contributes to the smooth implementation of the Lisbon Strategy. In spite of the tight time schedule, most Member States have made a real effort to involve national parliaments, stakeholders, and representatives from regional and local authorities in the formulation of their national programme. As the Lisbon strategy is a medium to long-term agenda requiring implementation on the ground, the sustained involvement of parliaments, local governments, social partners and civil society is essential. In fact, public acceptance depends on citizens and businesses recognising that reform is needed and will help improve their lives; an ownership that can only come from having a role in shaping reform, either directly or through representative organisations. A lot remains to be done to convince people that reforms will contribute to greater, shared prosperity and to involve them in the process. This will require a major effort from both Member States and the EU institutions.

Evaluation of the different policy areas

The integrated guidelines set out three main policy areas for action: the macro-economic, the micro-economic, and the employment dimensions. Conclusions can be drawn from the national reform programmes in these three areas.

The macro-economic dimension

- Budgetary discipline stands out as the most important macroeconomic challenge identified by Member States. It is typically formulated in terms of public finance sustainability - pension, health and labour market reforms as well as short-term budgetary consolidation are tools to ensure the long-term sustainability of public finances in an ageing society. The related challenge of improving the quality of public finances tends to be addressed by measures aimed at increasing the efficiency of the public administration. Some new Member States have identified the introduction of the euro as a key policy challenge requiring budgetary consolidation and the convergence of inflation rates to euro area levels. Other factors mentioned by some Member States include the external account and price stability.
- To balance public finances, Member States tend to prefer spending cuts to increased taxes, though the source of the cuts is often unclear. However, the specific measures to achieve short-term budgetary consolidation are not spelled out in enough detail in several countries, particularly within the euro area. Most Member States clearly have the intention to improve the quality of public finances by setting aside public resources for strengthening infrastructure, human capital and R&D investment. However, few national reform programmes are explicit about the budgetary implications of proposed measures.
- Member States participating in the euro have presented rather comprehensive and mostly forward looking national programmes to ensure the sustainability of public finances, to boost labour productivity through R&D, innovation and attractive business environment, and to increase employment and participation rates. Measures are mainly aimed to raising the effective pension retirement age, increasing labour supply and cutting red tape. These programmes are broadly supported by the Commission. However, measures should also aim to improve budgetary positions faster, to support labour market adjustments, to create more competitive and integrated markets for services, and to complete a better functioning internal market.
- Over the coming decades, ageing populations in Europe will put increasing pressure on public finances. Member States recognise that modernising public and private retirement and pension systems is an essential prerequisite for ensuring public finance sustainability,

while responding to social concerns and economic changes. However, in most countries, the measures already taken or envisaged appear to be piecemeal or insufficient.

- It is important that the overall reform strategy is coherent, with reforms in one area supporting those in another. In this respect, some Member States make a link between sustainable public finance and reduced unemployment (lower unemployment benefit costs; higher tax revenues resulting from a better use of labour). Such an integrated approach strengthens the coherence between the different parts of the national reform programmes.

The micro-economic dimension

- The need to build a knowledge economy and to improve Europe's attractiveness as a location to do business and invest is generally well reflected in the national reform programmes. Research and innovation policies are key priorities for all Member States. Many Member States highlight actions to strengthen the industrial base, in particular through the promotion of clusters. These clusters combine universities, research institutes, small and large enterprises which through their close co-operation and interaction have a positive impact on innovation and knowledge transfer. This, in turn, generates considerable benefits for the economy as a whole. Member States recognise that facilitating access to finance is an important issue, even though they take different approaches to achieve this. Most Member States also highlight the business environment and entrepreneurship, the sustainable use of resources (including renewables and energy efficiency), transport connections and logistics among the main issues to be tackled.
- If R&D spending targets are met in the eighteen countries that have set them (in some cases, partially), R&D expenditure is estimated to go up to around 2.6% by 2010. Spending as a share of GDP has been more or less stagnant since 2001 at around 1.9% for the EU. In the medium to long term a further strengthening of national R&D and innovation systems will be necessary in most Member States. In addition, whilst all Member States appreciate the importance of the spread and effective use of information and communication technologies and environmental technologies, the link between the identified challenges and the measures proposed to address them is not always clear.
- The national reform programmes contain many examples of interesting policy initiatives across a range of policy areas. For example, most Member States are looking to exploit the synergies between economic growth and environmental protection (by investing in alternative sources of energy, by promoting energy efficiency, and by promoting eco-innovation and protecting natural assets). Most national programmes also focus on the importance of modern transport infrastructure and of information and communication technologies (e.g. broadband availability). These are examples of precisely the kind of investments that Member States should seek to promote with the help of the resources of cohesion and rural development policies.
- The functioning of the internal market and the need to enhance competition and market access in general deserved greater attention. Only a few Member States mention concrete actions, for example, to ensure full implementation of Community directives, where greater efforts need to be made, for example on the effective opening of energy markets, to improve access to public procurement contracts or to ensure effective competition in services.
- Regarding SMEs, most programmes do not go far enough to foster a more positive attitude towards entrepreneurship and to encourage more people to start their own business. There

is an important role here for education, for making it easier to transfer existing businesses, and for reducing the stigma of failure. Additional measures regarding access to finance or related targeted measures to improve investment should also be considered.

- Better regulation is crucial to creating a more competitive business environment and removing obstacles to innovation and change. Nearly all Member States address parts of this agenda, but in many cases, a more integrated approach is necessary. Action at Community level is necessary, but will not in itself be sufficient. Much of the rule-making affecting business, for example in taxation, social security or regional planning, is done at national (or local) level. There are also important differences in the way Community directives are implemented by Member States, which may give rise to administrative costs which the Community measure itself does not require. To see a real difference in the business environment, a culture change in the way decisions are prepared and taken will be needed.
- A comprehensive and co-ordinated implementation of the different microeconomic policies will generate much greater benefits than the sum of the individual policies put together. For instance, the gains from increased investment in R&D will be higher when new technologies are swiftly adopted by the market, which in turn depends on the degree of competition in product and service markets.

The employment dimension

- All programmes attach high importance to attracting and retaining more people in employment. This is vital to address the impact of ageing on the labour supply and the sustainability of public finances. Seventeen Member States now plan their measures with the help of national employment rate targets. Particular efforts are made or foreseen to improve the employment situation of women. Other measures are developed to help older workers, to support the integration of young and disadvantaged people into the labour market and to modernise social protection systems. These efforts are broadly in line with commitments taken in the framework of the Community objectives for social protection and social inclusion. However, the effectiveness and sustainability of these is hampered by a tendency towards piecemeal policies. The chances of ensuring effective delivery would be enhanced if they were based on lifecycle approaches to facilitate swifter employment transitions throughout a career.
- The importance of further measures to improve the adaptability of workers and enterprises is largely neglected. Increasing the responsiveness of European labour markets is crucial to promoting economic activity and higher productivity. However, the current balance between flexibility and security in many Member States has given rise to increasingly segmented labour markets. Greater attention should be given to establishing conditions of 'flexicurity'. This consists of a combination of sufficiently flexible work contracts coupled with effective and active labour market policies to support switches from one job to another, a reliable and responsive lifelong learning system, and adequate social protection. The potential for progress through links between the tax and benefits systems is a good example where Member States can look to their partners for inspiration. More attention should also be given to the active involvement of the social partners.
- Member States acknowledge the crucial importance of developing the skills needed in knowledge-based economies and the need to invest in human capital through better education and skills. However, the policy response concentrates more on qualitative

reforms in education systems, better access to and transparency of qualifications, rather than on stepping up investment and achieving a real breakthrough.

Overall conclusions

The national programmes are a good basis for driving the reform agenda forward even though not all are of equal quality. There is a large convergence of views on the diagnosis and on which key challenges need to be addressed as a matter of priority: for example, sustainability of public finances, labour supply, R&D and innovation, the business environment and environmental sustainability.

The main conclusions that can be drawn at this early stage are:

- Recognising that Member States start from different positions, there are important differences between the programmes. For example, the approach to targets varies widely: some Member States have gone a long way towards integrating Community and national targets and have set clear, often quantitative, targets and timetables which can serve to measure progress. Other programmes, however, are less complete at this stage and could benefit from studying approaches adopted by other Member States facing similar challenges. Whilst some programmes clearly describe the content and form of policy measures taken or proposed, in others this information is often lacking. Targets and timetables as well as further details on the budgetary aspects of envisaged reforms are also often missing. This will make it more difficult to deliver.
- The integration between the three dimensions (macro-, micro- and employment) can be strengthened. The national reform programmes are vital tools to develop a coherent approach, but some programmes have achieved this more than others. Gains from action in one area often depend on progress made in another. For example, the returns on extra investment in R&D will be much greater if the necessary conditions are in place to convert it into growth: conditions such as competitive markets, an appropriate regulatory framework, and a highly skilled work force.
- Whilst competition and removing obstacles to market access, particularly in services, is identified as a challenge for around half of the Member States, only a few national reform programmes actually tackle this challenge effectively. Competitive markets are a prerequisite to achieving the Lisbon objectives. In addition, many Member States have set national targets for R&D investment and employment, but some have not, despite the decisions of the European Council.
- A large number of Member States also need to ensure that Community cohesion and rural development spending is targeted towards supporting the Lisbon Strategy in general. Indeed, it should be programmed to give direct backing to the national reform programmes. In addition, stronger efforts are needed to develop coordination mechanisms between those responsible for the national reform programmes and those preparing the structural funds programmes for 2007-2013. These links must be established quickly as the preparation of these programmes intensifies, beginning with the adoption of national cohesion policy strategies (the so-called “national strategic reference frameworks”).
- Last but not least, with only a few exceptions, public ownership of the Lisbon growth and jobs strategy falls short. Media coverage has also been fairly limited. We cannot yet say, therefore, that broad sections of the population have been made aware, let alone taken ownership, of the strategy. This points to the need for a dedicated communication strategy,

making full use of economic analysis and showing how action will bring real benefits for individual citizens. Similarly, social partners, who have an important role to play both as participants in the process and as message multipliers, should become more actively involved in the governance process.

Moving up a gear: four actions for more growth and jobs

The Commission urges Member States to implement their **national reform programmes in full and on time**. However, the process of producing and evaluating the national reform programmes has highlighted gaps to be filled and synergies to be exploited. In many cases, gaps can be tackled by Member States improving their national programmes, drawing inspiration from their partners' experiences. In a number of cases, several Member States have developed successful responses to particular challenges which, if implemented by all Member States, could yield major benefits for the Union as a whole. There are also challenges which cannot be addressed at Member State level alone, and where genuine success depends on co-ordinated action at both European and national level:

- The national reform programmes show that many Member States expect to increase their **R&D spending**, but that we will fall short of the overall EU target of 3% of GDP. Every Member State needs to make a contribution if this target is to be reached. Well-functioning markets, increased spending, better targeting of spending and effective dovetailing of national and Community budgets are all needed. Increased R&D spending will also need to go hand in hand with improving our knowledge infrastructure, promoting educational and research excellence, strengthening our innovation systems and ensuring that internal market policies fully contribute to converting research and innovation into value.
- Many national reform programmes pay limited attention to **improving market access and competition**. National rules and practices, as well as self-regulation, can often fragment the market and hinder competition. Member States need to do more to identify ways to remove such rules and restrictions in their programmes. The Community also has important responsibilities for effective and fair competition (for example, by taking vigorous action against price-fixing and market sharing cartels which raise input costs for business and harm the consumer) and to achieve a real EU-wide internal market. On the other hand, many national programmes highlight actions to make it easier to set up and run a business, promote a more entrepreneurial culture and create a more supportive environment for SMEs.
- Over the coming decades, Europe will be confronted with the implications of an **ageing population**. National programmes recognise that a thorough overhaul of retirement and pension systems is necessary to ensure increased employment and sustainable public finances. However, in most Member States, the measures already taken or foreseen are not up to the scale of the challenge. Urgent action is needed to facilitate entry of young people into the labour market, in line with the Youth Pact, achieve a better work-life balance for families and make it more attractive for older workers to remain employed. Moreover, the adaptability of labour markets will become an increasing challenge. Globalisation also brings new challenges for the EU. It reinforces the need for greater labour market adaptability but it also offers us new opportunities as a result of increased openness of third countries' markets.

- Many programmes underline the importance of energy. Europe needs **a truly integrated energy policy** which promotes growth, provides greater security of supply and which contributes to greater efficiency and environmental sustainability. Whilst important progress has been made in opening domestic markets, there is as yet no European-wide energy market. Energy is a global issue; only a European response will meet our needs.

On this basis, the Commission has identified **4 priority actions** which require a strong impetus from the highest political level and which should be implemented quickly – no later than the end of 2007. In this way, the Spring European Council in 2008 can launch the second cycle of the growth and jobs strategy on a firm foundation.

The four actions follow an integrated approach – they span different policy areas, several of which were discussed at the Hampton Court meeting, and which are intimately linked. Separately, they will make an important contribution to growth and jobs and to making Europe fit for the future. Acting on all of them together, as part of the new partnership between the Community and Member States, will create a forceful dynamo effect, moving the European engine for growth and jobs into higher gear.

Investing more in knowledge and innovation

In view of the importance of R&D for future growth and in providing solutions for many of the problems confronting our society today, it is a cause for serious concern that the EU is unlikely to meet its target of boosting research spending to 3% of GDP by 2010 (of which two thirds is by the private sector and one third by the public sector).

The Commission is mindful of the need for Member States to control public spending, but believes there is considerable scope for improving the quality of public expenditure by shifting resources, notably state aid, to more productive use and by closer co-ordination between Member States to avoid costly duplication of efforts. The effectiveness of public sector support for R&D can also be improved, for example through a wider and better use of fiscal incentives (e.g. tax credits or vouchers), which many Member States have included in their national programmes. The European Council's decision to earmark Lisbon-related cohesion spending shows how priorities like research can be mainstreamed across a range of policies.

The biggest contribution, however, should come from the private sector. To get industry to invest more in R&D in Europe, it is essential to gear internal market policies more towards fostering the knowledge economy and to boosting market dynamism for research-intensive and innovative goods and services. This will require improving market access conditions, facilitating access to external sources of financing (venture capital, loans, risk-sharing instruments) and integrating financial markets, using public procurement more as leverage to promote innovative private-sector solutions, enhancing the development of researchers' careers, including by removing obstacles to their mobility (across border and across sectors) and putting in place a modern and affordable industrial and intellectual property rights regime which strikes the right balance between protecting the right holder and ensuring that ideas can circulate in a dynamic information society. More effective methods to agree standards for high technology products, which are interoperable and reflect the interests of European business, are also needed. Competition policy is another powerful tool to enhance interoperability and stimulate innovation⁵.

⁵ All these aspects are highlighted in the report drawn up by a group of authoritative experts established after the Hampton Court meeting under the chairmanship of former Finnish Prime Minister Esko Aho, which argues, inter alia, for the establishment of a pact for R&D.

Whilst investing more in knowledge and innovation is necessary, it is not in itself sufficient to secure Europe's economic future. Ultimately, the contribution to growth and jobs comes from the outcomes of R&D through innovation, i.e. attractive products and services that people from all over the world will want to buy. The quality of our innovation systems therefore requires particular attention⁶. This may include exploring the potential of clusters as innovative poles for growth and jobs, in particular the formation and cooperation of trans-national clusters within the EU. The Hampton Court meeting also called for urgent action to promote excellence in both research and education, particularly world-class universities with adequate funding streams and closer links with business.

Action 1: Investing more in knowledge and innovation

- Member States should make a stronger commitment to R&D and innovation. By the Spring European Council, Member States should all set an R&D expenditure target for 2010 so that the European Council can set a credible R&D expenditure target for the Union as a whole. This can be done within the framework of the European Council's previous calls for less and better targeted aid, by redirecting public expenditure towards R&D; for example, by doubling the share of state aid allocated to this area to 25% (from 12% at present). This could be used, for example, to step up the provision of targeted fiscal incentives to the private sector in accordance with orientations which the Commission will provide. In addition, spending a significantly greater share of EU structural funds on R&D, innovation and ICT (e.g. infrastructure and applications to speed up the roll-out of broadband) can foster competitiveness, regional cohesion and benefit SMEs in particular⁷. As regards private R&D investment, more attractive conditions for technology-intensive markets should be created. This includes a better use of public procurement, innovation-friendly regulation and standards based on an early identification of needs. Member States and the Commission should launch initiatives to create European-wide lead markets in key technology sectors⁸, drawing on the work of European technology platforms.
- The EU needs to step up its investment in higher education⁹ (the EU currently spends only 1.28% of GDP compared to 3.25% in the USA: the gap is mainly a result of greater private funding). By the end of 2007, universities should be allowed and encouraged to seek complementary private sources of funding; legal and other barriers to public-private partnerships between universities and businesses should be removed; all technical universities should have a technology transfer office; and a European Institute for Technology should be set up. Proficiency in maths and science will need to be stepped up to enhance people's ability to innovate; Member States should provide for compulsory teaching of two foreign languages in their national education systems. The aim should be for the EU to devote at least 2% of GDP to higher education by 2010.

⁶ National reform programmes highlight a variety of promising initiatives. In addition, the latest Commission innovation scoreboard (<http://www.trendchart.org/>) highlights that many Member States face still important challenges which need to be taken into account when programmes are updated

⁷ 5.9% of the overall envelope of the European regional development fund and the European social fund are at present spent on R&D and innovation support

⁸ These include in particular e-health, pharmaceuticals, transport and logistics, environment, digital content and energy and security.

⁹ See Commission Communication "Mobilising the brainpower of Europe: enabling universities to make their full contribution to the Lisbon strategy (SEC 2005 518 of 20.04.2005)

Unlocking the business potential, particularly of SMEs

Compared with other successful regions in the world, Europe's markets, in particular in services, remain badly fragmented. This carries a serious price tag in the form of lower levels of innovation and lagging productivity growth¹⁰. Far too often, poor or late implementation of Community directives denies our companies the benefits of easy access to a large internal market. This can only weaken them in the face of international competition. If some Member States fail to act, they tilt the playing field and end up harming the interests of all.

One of the most frequently used examples of where entrepreneurship in the EU is stifled, is the difficulty in setting up a business, as well as wide variations in the costs of running a business in different parts of the EU. It takes no more than 5 days to start a business in some Member State compared to 60 days in others. The administrative cost of starting a business can be nothing in some Member States, whereas in others it can be many thousands of euros. Long and complicated procedures and red tape not only discourage people from going into business, but also reflect a negative attitude towards entrepreneurship in general.

The Commission has identified a number of commitments which will help unlock the full potential of Europe's considerable capabilities, particularly in the services sector. These measures, taken together with the swift finalisation of the directive on services and enhanced administrative co-operation between Member States, would help to create a new business and employment dynamic in the EU.

Action 2: Unlocking the business potential, particularly of SMEs

- It should become much easier to set up and run a business in all Member States. By the end of 2007, every Member State should have set up a one-stop shop to assist would-be entrepreneurs and to enable businesses to fulfil administrative requirements all in one place – where possible electronically – and under short deadlines. The average time taken to set up a business should be reduced by half¹¹, with the ultimate objective of being able to do this within one week anywhere in the EU. Start-up fees should be as low as possible, and recruitment of a first employee should not involve more than one public administration contact point. Every student should have access to entrepreneurship training, which should become part of national school curricula in all Member States. Furthermore, Member States should facilitate cross-border activities of SMEs by implementing the home state taxation pilot projects. The Council should swiftly adopt the Commission's proposals for a VAT one-stop shop and for a modernised customs environment to simplify procedures. To facilitate access to finance, particularly for SMEs, the financial instruments at Community level will be further developed under the competitiveness and innovation framework programme. Member States should make full use of possibilities offered under the structural funds, notably the future funding scheme for joint European resources for micro- to medium enterprises (JEREMIE).
- In order to cut red tape and simplify administrative procedures, by the end of 2007, all Member States should adopt and implement a methodology for measuring administrative costs (for national rules and regulations). For its part, the Commission will launch a major exercise to measure the administrative cost arising from

¹⁰ See, for example, the Conference Board's annual analysis of global productivity trends: "As US productivity slows, emerging economies grow rapidly, but Europe falls further behind" by Van Ark et al., Executive action series, January 2006. The report highlights that whereas EU-15 productivity growth slowed from 1.4% in 2004 to 0.5% in 2005, the EU's new Member States increased the labour productivity growth rate from 4.1% in 2004 to 6.2% in 2005.

¹¹ The present average is 29 calendar days.

Community rules (or the way in which they have been implemented) in specific policy areas as part of the ongoing work on legislative simplification, with a special emphasis on SMEs. It will identify what share of these costs flows directly from the Community rules and what share can be attributed to their implementation by Member States. The Commission will, on this basis, come forward with proposals for reducing these administrative costs where appropriate. By the end of 2007, the Commission will remove the obligation to notify certain categories of smaller state aid, which should ease administrative burdens, particularly for SMEs.

Responding to globalisation and ageing

Europe's population is getting older. The fertility rates remain below the natural replacement rate. The life expectancy of Europeans continues to increase. Net inward migration is likely to continue. These demographic changes have important economic consequences. Less people will be of working age in the next decades. Currently, for every elderly citizen four people are at work, but by 2050 the ratio will be 2 to 1. Europe's workforce will start to shrink from roughly 300 million people today, to approximately 250 million by 2050. A smaller workforce will act as a brake on potential growth, reducing it from 2-2.5% today to just 1.25% in forty years time. The costs of an ageing population (pensions, health care) will swell; and the sustainability of current social welfare systems will come under severe strain. Government budget positions should be improved urgently and debt set on a steady downward trajectory. Pension and healthcare systems should ensure sustainability as well as access and adequacy.

Against this background, we need more people to work and for people to work longer. We also need faster increases in labour productivity. Higher labour productivity and increased employment must go hand in hand. This will happen if people are able to obtain the skills required to introduce and apply new technologies, and if they have a greater opportunity to combine family life, work, education and care for dependents, in a balanced way. The evidence from Member States shows that there is a double dividend to gain – in terms of higher birth rates and female labour market participation – if gender policies, proper childcare facilities, appropriate fiscal incentives and work organisation are in place. More flexibility and individual responsibility for one's own life cycle is not only important for people with children. Older people will also benefit from flexible working arrangements that allow them to combine part-time work with part-time retirement. Older workers participate too little in vocational training. If they upgrade their skills, it will be more rewarding to keep working; both for the worker and the company. Likewise far more can be done to facilitate the transition of young people moving from school to work. There is a clear advantage for young people to obtain work experience as an apprentice or trainee during the school/university period. Young people who have just left school should be able to obtain a job as soon as possible. If no immediate job is available, additional training and/or internships should be an alternative.

Globalisation and demographic ageing call for an urgent improvement in the adaptability of workers and enterprises, their capacity to anticipate, trigger and absorb change and restructuring, and to thrive in highly competitive markets. In many Member States, however, dual labour markets do not properly allow for this. This limits innovation and technological change, constrains life-long learning and restricts individual life-style choices. More open and responsive labour markets should be combined with policies to help workers to remain employed and to progress in work. This is the best way to achieve labour market flexibility and employment security in a lifecycle perspective. In all of this, there should be a strong emphasis on social justice, not reform for its own sake or simply to cut costs.

Action 3: Responding to globalisation and ageing

- Member States should secure the sustainability of their public finances by improving government budget positions and steadily reducing current debt ratios. Member States should, as part of their reforms to public pension systems, enhance financial incentives for older worker to remain active, seek a closer link between pension entitlements and life expectancy at retirement, through, for example, adaptation of statutory retirement ages, whilst curtailing recourse to early retirement schemes. Disability schemes, together with health care and long-term care systems, should be reviewed to include incentives to make more effective use of scarce resources.
- Member States, should aim to increase entry into the labour market for young people, achieve a better work-life balance for families, and make it more attractive for older workers to stay employed for longer:
 - by the end of 2007, every young person who has left school and is unemployed, should be offered a job, apprenticeship, additional training or other employability measure within 6 months. This period should be shortened to no more than 100 days by 2010. Financial or other incentives should be offered to make it more attractive for companies, particularly SMEs, to give students and the young unemployed experience in the workplace;
 - the availability of quality childcare should be increased in line with Member States' own national targets. Policies aimed at enhancing gender equality as well as further measures to promote family friendly policies should be implemented. The Commission is currently consulting social partners on better ways to reconcile family and professional life;
 - active ageing strategies should be implemented which include financial incentives for prolonging working lives; gradual retirement and use of part-time work, and improving quality at work. Targeted incentives should be put in place to ensure that the number of workers over the age of 45 participating in training rises much faster than that for the overall workforce.
- Member States should seek convergence of views on the balance between flexibility and employment security ('flexicurity'). The Commission will present a report with a view to facilitating agreement, by the end of 2007, on a set of common principles, comprising the following elements:
 - modern labour laws allowing for sufficiently flexible work arrangements and reducing labour market segmentation and undeclared work, should enable people to optimise their working patterns throughout their life. The Commission will consult social partners and other stakeholders on this particular subject in the course of this year;
 - reliable and responsive lifelong learning systems and active labour market policies should help people to cope with rapid change, unemployment spells and transitions to new jobs; financial and other incentives should be reviewed to achieve a breakthrough. Member States should deliver on their commitment to establish comprehensive life-long learning strategies by the end of 2006. The European Social Fund and the new Globalisation Adjustment Fund should

strongly support these enhanced efforts. The Commission will work with Member States to devote a higher share of structural fund spending to education and training;

- modern social security systems should combine the need to facilitate labour market mobility with the provision of adequate income support. The Council should reach agreement on the Commission's proposal on the portability of supplementary pension rights. Member States should consider accelerating the removal of all restrictions on the mobility of workers within the EU.

To achieve these objectives, Member States will work closely with social partners. The Commission proposes to hold an extraordinary Social Summit which should be devoted to identifying concrete steps to make progress in all of the above fields

Moving towards an efficient and integrated EU energy policy

Energy is vital for growth and jobs. Global demand for energy is up. At the same time supply of energy remains tight. Market prices for oil and gas have been rising. The main challenge facing Europe's energy system is to ensure that energy is available at competitive prices. We need to safeguard security of supply and develop autonomous sources so as to avoid interruptions and price shocks with damaging economic effects. A competitive and integrated Community energy market will provide us with the most efficient and sustainable base for diversification and security of supply. Production and consumption of energy has to take full account of environmental considerations. Europe will become even more dependent on external suppliers and will need to import most of its oil and gas in the future. We need a coherent, single voice in our dialogue with major energy suppliers and in international energy discussions.

There are important gains to be made from saving energy. Energy efficiency cuts costs, makes our goods and services more competitive and contributes to a cleaner environment.

Investments in energy-efficient equipment and services will help European industries to maintain and increase their global lead. This drive for energy efficiency should go hand in hand with diversification of energy sources. Europe should consider all sources of energy, giving special attention to renewable energy sources, including the development of clean indigenous sources. Lower emissions from our energy sources will reduce air pollution and help our fight against climate change. Again, Europe's enterprises will be rewarded by the market for early investments in this field.

Measures to realise these objectives should be implemented without delay. A partnership between the Member States and the European Union is needed for an integrated approach towards energy. An integrated European energy policy can make a crucial contribution to securing Europe's future energy supply in a sustainable way, hence the call from the Heads of State and Government meeting at Hampton Court to move swiftly into this direction.

Action 4: Moving towards an efficient and integrated EU energy policy

- **Strengthening and deepening the internal energy market** promotes competitiveness and security of supply. Measures that are required include:
 - timely implementation and more effective regulation of the energy markets in order to achieve full and effective market opening by 1st July 2007, as the European Council has agreed;
 - promoting more competition on the electricity and gas markets, taking account of the Commission's sector competition enquiry, in particular by taking steps to address continued dominance of national incumbent operators; insufficient market transparency; inadequate unbundling of network and supply activities; and barriers to cross-border supply which prevents a truly integrated EU energy market;
 - More and better cooperation and integration between the grids and gas pipeline systems of the Member States, so that from the customers' viewpoint, there is only one European network. To this end, missing or inadequate cross-border interconnection links should be identified and completed. Financial assistance is available through EU financial instruments to help Member States achieve the 10% inter-connection objective.
- **Exploiting the potential of renewable energy sources, such as bio-fuels and bio-mass, and more efficient use of energy** can also help to increase security of supply in Europe, whilst reducing greenhouse gas emissions, improving air quality, and strengthening competitiveness. Member States' efforts could be complemented by a **renewables technology push and demand pull policy** at European level. An appropriate regulatory framework should be put in place. Research and innovation for indigenous energies, including renewable energies, bio-fuels and bio-mass, clean coal and carbon sequestration and the treatment and disposal of nuclear waste, should be stimulated. Similar priority needs to be given to research to develop new energy efficient technologies. The development of a European framework of incentives to promote renewables could significantly boost their use. The present patchwork of differing national and regional systems creates artificial barriers between national markets, holding back the potential of promising new technologies.
- Developing a more **focused, coherent and integrated approach to ensuring the security of energy supply** in Europe, including with respect to emergency mechanisms, is also needed. The Community and Member States should speak with one voice in international fora and with third countries supplying energy to the Community.

The Commission will set out ideas on how these priorities can best be pursued at Member State and Community level in a green paper to be published in the first quarter of this year.

Follow-up after the 2006 Spring European Council

It is important to maintain the momentum following the European Council, to bring our vision of a stronger Europe with higher growth and more jobs to life. To this end, the following steps are proposed over the coming months:

Implementation and monitoring of national reform programmes:

- Effective implementation of the national reform programmes and their contribution to growth and jobs must now become the prime focus of attention. Over the coming months, the Commission therefore intends to work closely with the Member States to help them with their efforts and to monitor progress. Consultations with national (and regional) parliaments, local authorities, social partners and other stakeholders will need to be pursued, particularly where there has not been sufficient time during the preparation of the programmes to receive input and engage in dialogue¹². As Lisbon is a medium-term agenda, such a dialogue and contacts will need to take place on a regular basis;
- Another logical step will be for the Commission and Member States to discuss (both collectively and bilaterally) how the national reform programmes can be strengthened and developed, with due respect to national traditions, to take more account not only of the Community dimension, but also of the impact of policy decisions by other Member States. The Commission will organise this process. At the same time, the Commission will continue to seek improvements in the way it contributes to the success of the partnership. Member States which have not yet set targets with regard to future R&D spending and/or the employment rate should do so before the 2006 Spring European Council;
- Member States should ensure coherence between their national reform programmes and the use they will make of cohesion and rural development funding under the new financial perspectives. Member States should take into account the macro-economic impact of transfers from the structural funds in the short term, particularly where these amount to several percentage points of GDP. The Commission will work closely with Member States as they draw up their national strategic reference frameworks to ensure that the new generation of cohesion policy programmes reflects the priorities contained in the national reform programmes and the 4 priority actions highlighted under section 3. They should put in place appropriate mechanisms to provide the necessary coordination between both processes at national and regional level. In the context of the new cohesion programmes, the new Member States are encouraged to earmark the resources of the structural funds for measures in pursuit of the Lisbon objectives, as is already agreed for EU-15¹³;
- The national reform programmes contain a wealth of interesting policies on the basis of which Member States should exchange experiences. The Commission will identify some specific policy areas where the scope for mutual learning is particularly large and organise meetings with Member States representatives to discuss specific policy ideas. Member States should seek to apply the most promising policy ideas included in other national reform programmes. The Commission and Member States should also ensure that EU open

¹² UNICE and ETUC in a statement issued on 15.03.2005 welcomed the launch of the new Lisbon Strategy, committing themselves actively to work in support of the growth and jobs agenda. They have just agreed a work-programme for 2005-2008 in support of the strategy.

¹³ For the convergence objective, the earmarked resources should represent a minimum of 60% of the total funding, whereas for the regional competitiveness objective it should be 75%.

coordination in the areas of education and training, social protection and social inclusion makes a strong contribution.

Member States are invited to take the elements above into account when drawing up their annual reports later this year.

Delivery of Community action

- The Council, the European Parliament and the European Commission should finalise the financial perspectives 2007-2013 and Council and European Parliament should adopt the necessary legal instruments as quickly as possible to be in time to allow investment of the growth and jobs agenda as from 1st January 2007;
- The Community Institutions will need to bring swiftly into force the measures foreseen in the Community Lisbon programme, and especially those which are required to implement the decisions taken by the European Council with regard to the four key actions proposed in the previous section. The Commission will work with Member States (including the Lisbon national co-ordinators) to ensure that all necessary steps are taken for these four actions to be fully implemented by the end of 2007. To this end, it will propose a roadmap setting out the steps required and key dates for their completion. On the basis of the Commission's next assessment of the implementation by Member States of their national programmes, the Commission will identify the necessary measures to complement Member States' efforts – and update the Community Lisbon programme accordingly.

As regards both the Community Lisbon programme and the national reform programmes, the Commission will take stock of developments in its Report to the 2007 Spring European Council.

Mobilising all players behind a common agenda

- Major communication efforts need to be made to increase awareness and ownership of the national reform programmes and of the Community actions towards more growth and jobs, by the Parliament, the Commission, European Economic and Social Committee, the Committee of the Regions, Member States, regional and local actors, civil society and social partners. As representative of the European citizens, the European Parliament has a key role to play in this enhanced communication effort - which should be closely co-ordinated with the national and regional debates on the future of Europe;
- Social partners are invited to play an even greater role in the development and implementation of the renewed Lisbon Strategy, particularly by making joint proposals on how they can directly contribute to its success. The Commission proposes that the Presidency of the Union holds an extraordinary Social Summit devoted to identifying concrete steps to making progress in all of the actions proposed in this Communication and in particular to deal with the impact of globalisation and demographic change on more and better jobs.

Appendix

List of illustrative examples of Member States' policies and measures in support of the growth and job objectives, particularly in the four priority areas identified in section 3

R&D and innovation

About half of the Member States use fiscal incentives to stimulate private R&D and several other Member States intend to apply such measures as well. Spain is considering reducing taxes for firms investing in R&D, as the Netherlands is doing already. Hungary will simplify its tax allowance scheme and France will triple its tax credits for research by 2010.

Spain, Denmark and Estonia have specific programs aimed at increasing the number of researchers in enterprises. Germany has launched an 'Excellence Initiative' to promote excellent research at universities. This initiative aims at developing some of Germany's universities into international top locations for scientific research.

Italy is developing centres of excellence for teaching and research, including the Euro-Mediterranean university distance-learning system, and promoting mobility of teachers and students throughout the Mediterranean region. Spain and Portugal have created a joint research institute.

Slovakia, Spain and France plan to introduce monitoring and evaluation systems in order to improve the effectiveness of public R&D spending.

In France, 'Pôles de Compétitivité' are being established as public private partnerships. These 'Pôles' will support and coordinate a number of complementary policies for businesses of which R&D is pivotal. A recent Slovenian cluster initiative has already yielded promising results: 18 cluster offices facilitating cooperation between 350 companies and 40 education/research institutes were operational by 2004. In Lithuania, the government is establishing an Institute of Technology assisting business in research, technological development and innovation.

In Ireland, measures have been taken to promote commercialisation of public research results by licensing it to the private sector or by helping researchers to bring their ideas to a marketable stage and help them achieve commercial success.

Italy is addressing shortcomings in the area of intellectual property rights (IPR) through a set of measures aimed at improving companies' patenting capabilities and by reducing patenting costs. In Germany, the patent exploitation agencies will be further developed and expanded.

In Belgium the federal government, the European Patent Office, research centres and universities are cooperating in an initiative to support SMEs in using the IPR system. Latvia has developed a public support programme to protect and enforce IPR and raise awareness in the business community.

Improving the business environment and the functioning of markets

Latvia has made a strong political commitment to implement Community law backed up by concrete targets and deadlines to ensure timely and correct transposition of internal market directives. Ireland has strengthened its internal procedures for monitoring implementation of Community directives. In order to avoid complicating legislation, several Member States actively discourage adding provisions when implementing Community directives (Austria, the Netherlands). In order to avoid late implementation, some Member States have put in place fast-track procedures (Italy, France).

Many Member States have made great strides in e-government, such as setting up one-stop shops for business' and citizens' enquiries (Belgium, Estonia, Finland, France, Ireland, Italy, Poland, Portugal). This cuts paperwork and considerably reduces response time. One can start up a business in less than two weeks in Denmark, France, the Netherlands, Italy and

Finland. There is only one procedure to fulfil when hiring the first employee in Lithuania; two in the case of the UK, Sweden and Ireland.

Many Member States (Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, France, Germany, Lithuania, Luxembourg, the Netherlands, Portugal, Slovenia, the UK) are carrying out - or intend to carry out - analyses of the administrative costs imposed by legislation. A significant number of them are using variants of the standard cost model initially developed in the Netherlands and whose features have inspired key aspects of the EU common methodology proposed by the Commission to the Council and the Member States in October 2005. Five countries (Czech Republic, Denmark, the Netherlands, Sweden and the UK) have also set quantitative targets for reducing administrative costs (ranging from 20 to 25% reductions by 2010).

Eight Member States (Austria, Estonia, Germany, Italy, Poland, Slovenia, Spain and the UK) are planning to launch simplification programmes, in addition to the four Member States (Denmark, Ireland, Luxembourg, Sweden) which have already done so. The focus is on improving legislation on tax, audit and fiscal measures, setting up business, insolvency and labour and consumer protection.

Many countries, including Ireland and the Netherlands have removed specific restrictions to market access in liberal professions, financial services and energy markets. Slovakia is identifying barriers preventing the opening of the power supply market and will define measures for their elimination. It is also taking steps to improve competition in financial services. The UK will implement measures promoting competition in legal services. Estonia intends to implement a pro-active competition policy through sector analysis and awareness-raising of competition law. Denmark is undertaking a screening of domestic rules to remove obstacles to imports and investments into the country (“Task Force for the Internal Market” – TIM).

Cyprus will evaluate all existing and new aid schemes to check whether they adequately address market failures. Finland will review its subsidy policy with a view to reducing its overall volume and ensuring that aid does not distort competition.

Slovakia has launched an initiative to set up a Central European Stock Exchange addressing a lack of equity markets not only in Slovakia but also in neighbouring countries. Hungary and the Czech Republic are invited to participate. The Slovakian domestic market is too small to support a well functioning and liquid equity market; cooperation between several countries is therefore necessary.

Portugal proposes several programmes to support the internationalisation of businesses. It is also implementing a specific programme to accelerate industrial transition and restructuring. Lithuania plans to organise promotion campaigns around successful business examples in order to promote the image of entrepreneurship amongst the general public. The UK is providing five days of enterprise courses at schools to all pupils aged 14-16. Spain plans to address the fear of stigma of failure by enabling students at all school levels to learn about the value of entrepreneurship and business failure.

A number of countries have also taken interesting initiatives to strengthen access to capital for SMEs; for example, the Czech KAPITAL programme, the Finnish PreSeed package and the UK Enterprise Capital Funds. Denmark plans to introduce a tax relief for growth entrepreneurs. The relief starts when the entrepreneur generates profits for the first time and is granted for three years.

Employment, financial sustainability and demography

A number of Member States have improved the quality of their government finances, taking into account their national priorities, with the view to raising the long-term potential of their economies. For instance, Denmark, the UK, Ireland and Finland have significantly increased

government expenditure in education, with the view to increasing productivity and employability of the labour force.

Several Member States have improved the financial sustainability of their pension schemes. Belgium, Spain, France, Austria, Portugal and Finland have all strengthened the link between contributions and benefits, for example through making the number of contribution years a more important criteria regarding retirement than the age of the retiree, or by allowing early or late retirement with corresponding changes in benefits.

A number of new Member States (Estonia, Latvia, Lithuania, Poland, Hungary and Slovakia) have diversified the risk of pension systems by switching part of the statutory social security pension into private funded schemes. Sweden, Italy, Latvia and Poland have set up schemes, where pension benefits are directly linked to contributions paid during one's working life and also depend on life expectancy at retirement. France has decided to increase the required contribution years for a full pension in line with increasing life expectancy. Germany has introduced a sustainability factor in the indexation of its public pension scheme making indexation depend on the ratio between the numbers of the employed and pensioners. Such changes have improved the financial sustainability of pension schemes even if some challenges remain in the face of ageing population.

Pension reform is an important factor explaining the large increase in the employment rates amongst older workers since 2000 in some Member States. Finland, for example, has significantly increased the employment rate for older workers (from 35% in 1995 to 50.9% in 2005) as a result of changes to the pensions system as well as targeted training, more attention to older workers' well-being in the workplace and targeted subsidies for low-paid jobs.

The Irish Skill-nets programme makes it easy for companies to access flexible, innovative and cost-effective training. The initiative has already helped to upgrade the skills of some 30.000 staff. Estonia is planning to reform vocational training and Luxembourg intends to set up a system of recognition of non-formal learning.

Austria aims to fill 5000 vacancies which are currently hard to fill because the wage is too low (in many cases because the jobs in question are part time). The new 'Kombi-Lohn', rewards both employer and worker if a vacancy is filled. Target groups are young people unemployed for more than 6 months and older workers unemployed for more than one year. The Netherlands has taken concrete measures to encourage workers to spread work, care and education more evenly over the lifecycle. A new voluntary savings scheme will enable workers to save a percentage of their wage to cover periods of leave, such as care leave, education or other. Savings are fiscally supported.

Slovakia is seeking to improve the work/life balance of young families. Schools and pre-schools will have longer opening hours. The state supports new day-care facilities for small children, facilitates part-time work and has put in place individual support programs for women returning to the labour market after maternity/parental leave.

In Greece, a new law reforms the national life long learning system. A committee will be co-ordinating the national efforts, encouraging business oriented education, implementing best practices and tackling exclusion.

Energy and environmental technologies

The Nordic countries have set up an integrated market for buying and selling electricity. Additional connections between the Netherlands and Norway, between Finland and Estonia and between Denmark and Sweden will facilitate trade and support power generation also from alternative sources such as water and wind, reducing harmful emissions.

Austria, the Czech Republic, Cyprus, Malta and the UK are taking steps to use public procurement as leverage to promote environmental technologies and energy efficiency. Germany provides incentives to promote energy savings in buildings, and has launched a

major renovation programme. Cyprus has elaborated a concrete plan and timetable to address environmentally-harmful subsidies in order to review, reform or abolish them. Sweden aims to break the dependence on fossil fuels by 2020. To do so, Sweden will apply green taxes, support wind power and a green electricity certificate. This certificate makes it mandatory to buy a certain share of one's electricity consumption from renewable sources. Denmark and Sweden have already a high proportion of environmental taxes in their fiscal panoply and intend to further develop them. Estonia this year launched an ambitious environmental tax reform with the view to shift the tax burden of labour to consumption and pollution and thereby promoting the sustainable use of natural resources. Supportive national and regional policies for wind power in Germany, Spain and Denmark are showing results. Germany has more than one third of world wind power capacity and wind accounts for 6.5% of Spain's electricity output. In Denmark, the wind power manufacturing industry is a major commercial success. The sector has grown faster than any other business sector and Danish turbines now dominate the world market. The industry provides jobs for over 20,000 people in Denmark. The UK is negotiating with oil suppliers for a higher share of bio fuels in gasoline.

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 24.1.2006 – 21h00.
PART II to COM(2006)

**COMMUNICATION FROM THE COMMISSION TO THE SPRING EUROPEAN
COUNCIL**

TIME TO MOVE UP A GEAR

Country chapters

PART 2

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TABLE OF CONTENTS

<i>Explanatory note on statistical table and graphs</i>	<i>7</i>
<i>The table</i>	<i>8</i>
<i>The charts.....</i>	<i>8</i>
<i>Data sources.....</i>	<i>8</i>
 <i>Assessment of national reform programmes</i>	 <i>11</i>
<i>Austria.....</i>	<i>13</i>
<i>Part I: General Assessment</i>	<i>13</i>
<i>Part II: Assessment by policy area.....</i>	<i>13</i>
<i>Part III: Conclusions</i>	<i>16</i>
<i>Part IV: Statistical graphs and data.....</i>	<i>16</i>
 <i>Belgium.....</i>	 <i>18</i>
<i>Part I: General Assessment</i>	<i>18</i>
<i>Part II : Assessment by policy area</i>	<i>19</i>
<i>Part III : Conclusions.....</i>	<i>21</i>
<i>Part IV: Statistical graphs and data.....</i>	<i>22</i>
 <i>Cyprus</i>	 <i>24</i>
<i>Part I: General Assessment</i>	<i>24</i>
<i>Part II: Assessment by policy area.....</i>	<i>24</i>
<i>Part III: Conclusions</i>	<i>27</i>
<i>Part IV : Statistical graphs and data.....</i>	<i>27</i>
 <i>Czech Republic.....</i>	 <i>29</i>
<i>Part I: General Assessment</i>	<i>29</i>
<i>Part II: Assessment by policy area</i>	<i>29</i>
<i>Part III: Conclusions</i>	<i>32</i>
<i>Part IV: Statistical graphs and data.....</i>	<i>33</i>
 <i>Denmark.....</i>	 <i>35</i>
<i>Part I: General Assessment</i>	<i>35</i>

<i>Part II: Assessment by policy area</i>	<i>35</i>
<i>Part III: Conclusions</i>	<i>38</i>
<i>Part IV : Statistical graphs and data.....</i>	<i>39</i>
<i>Estonia.....</i>	<i>41</i>
<i>Part I: General Assessment</i>	<i>41</i>
<i>Part II: Assessment by Policy Area</i>	<i>41</i>
<i>Part III: Conclusions</i>	<i>44</i>
<i>Part IV : Statistical graphs and data.....</i>	<i>45</i>
<i>Finland.....</i>	<i>47</i>
<i>Part I: General Assessment</i>	<i>47</i>
<i>Part II: Assessment by policy area</i>	<i>47</i>
<i>Part III: Conclusions</i>	<i>50</i>
<i>Part IV: Statistical graphs and data.....</i>	<i>50</i>
<i>France</i>	<i>52</i>
<i>Partie I - Evaluation globale</i>	<i>52</i>
<i>Partie II - Evaluation des politiques</i>	<i>53</i>
<i>Partie III - Conclusions</i>	<i>56</i>
<i>Part IV : Statistical graphs and data.....</i>	<i>56</i>
<i>Germany.....</i>	<i>58</i>
<i>Part I: General Assessment</i>	<i>58</i>
<i>Part II: Assessment by policy area</i>	<i>58</i>
<i>Part III: Conclusions</i>	<i>62</i>
<i>Part IV : Statistical graphs and data.....</i>	<i>62</i>
<i>Greece.....</i>	<i>64</i>
<i>Part I: General assessment</i>	<i>64</i>
<i>Part II: Assessment of policies</i>	<i>64</i>
<i>Part III: Conclusions</i>	<i>67</i>
<i>Part IV : Statistical graphs and data.....</i>	<i>68</i>
<i>Hungary</i>	<i>70</i>

<i>Part I: General Assessment</i>	<i>70</i>
<i>Part II: Assessment by policy area</i>	<i>70</i>
<i>Part III: Conclusions</i>	<i>73</i>
<i>Part IV : Statistical graphs and data.....</i>	<i>74</i>
<i>Ireland.....</i>	<i>76</i>
<i>Part I: General Assessment</i>	<i>76</i>
<i>Part II: Assessment by Policy Area</i>	<i>76</i>
<i>Part III: Conclusions</i>	<i>79</i>
<i>Part IV : Statistical graphs and data.....</i>	<i>79</i>
<i>Italy.....</i>	<i>81</i>
<i>Part I: General Assessment</i>	<i>81</i>
<i>Part II: Assessment by policy area</i>	<i>82</i>
<i>Part III: Conclusions</i>	<i>84</i>
<i>Part IV : Statistical graphs and data.....</i>	<i>85</i>
<i>Latvia.....</i>	<i>87</i>
<i>Part I: General assessment</i>	<i>87</i>
<i>Part II: Assessment by policy area</i>	<i>87</i>
<i>Part III: Conclusions</i>	<i>90</i>
<i>Part IV : Statistical graphs and data.....</i>	<i>90</i>
<i>Lithuania.....</i>	<i>92</i>
<i>Part I: General Assessment</i>	<i>92</i>
<i>Part II: Assessment by policy area</i>	<i>92</i>
<i>Part III: Conclusions</i>	<i>95</i>
<i>Part IV : Statistical graphs and data.....</i>	<i>96</i>
<i>Luxembourg.....</i>	<i>98</i>
<i>Partie I: Evaluation globale</i>	<i>98</i>
<i>Partie II : Evaluation des politiques</i>	<i>98</i>
<i>Partie III : Conclusions</i>	<i>101</i>
<i>Part IV : Statistical graphs and data.....</i>	<i>102</i>

Malta	104
Part I: General Assessment	104
Part II: Assessment by policy area	104
Part III: Conclusions	107
Part IV : Statistical graphs and data.....	107
the Netherlands	109
Part I: General Assessment	109
Part II: Assessment by policy area	110
Part III: Conclusions	112
Part IV : Statistical graphs and data.....	113
Poland	115
Part I: General assessment	115
Part II: Assessment by policy area	115
Part III: Conclusions	118
Part IV : Statistical graphs and data.....	119
Portugal	121
Part I: General Assessment	121
Part II: Assessment by policy area	122
Part III: Conclusions	124
Part IV : Statistical graphs and data.....	125
Slovakia	127
Part I: General Assessment	127
Part II: Assessment by Policy Area	127
Part III: Conclusions	130
Part IV : Statistical graphs and data.....	130
Slovenia	132
Part I: General Assessment	132
Part II: Assessment by policy area	132
Part III: Conclusions	135

<i>Part IV : Statistical graphs and data.....</i>	<i>136</i>
Spain.....	138
<i>Part I: General Assessment</i>	<i>138</i>
<i>Part II: Assessment by policy area</i>	<i>138</i>
<i>Part III: Conclusions</i>	<i>141</i>
<i>Part IV : Statistical graphs and data.....</i>	<i>141</i>
Sweden	143
<i>Part I: General Assessment</i>	<i>143</i>
<i>Part II: Assessment by policy area</i>	<i>143</i>
<i>Part III: Conclusions</i>	<i>146</i>
<i>Part IV : Statistical graphs and data.....</i>	<i>147</i>
United Kingdom.....	149
<i>Part I: General Assessment</i>	<i>149</i>
<i>Part II: Assessment by Policy Area</i>	<i>149</i>
<i>Part III: Conclusions</i>	<i>152</i>
<i>Part IV : Statistical graphs and data.....</i>	<i>153</i>
Euro Area.....	155
<i>Part I: General Assessment</i>	<i>155</i>
<i>Part II: Assessment by policy area</i>	<i>155</i>
<i>Part III : Conclusions.....</i>	<i>158</i>
<i>Part IV : Statistical graphs and data.....</i>	<i>159</i>

Explanatory note on statistical table and graphs

The statistical annex presents 14 short-listed structural indicators derived from the European statistical system. The full database of structural indicators, including data and metadata relating to the EU Member States, the acceding and candidate countries, USA, Japan and EEA/EFTA countries, is publicly available on the Eurostat structural indicators website: <http://europa.eu.int/comm/eurostat/structuralindicators>. For each EU Member State, all 14 structural indicators are presented in one table and two charts.

The 14 short-listed indicators

<i>GDP per capita in PPS</i>	Gross Domestic Product (GDP) in Purchasing Power Standards (PPS) (EU-25 = 100)
<i>Labour productivity per person employed</i>	GDP in Purchasing Power Standards (PPS) per person employed relative to EU-25 (EU-25 = 100)
<i>Employment rate</i>	Employed persons aged 15-64 as a share of the total population of the same age group
<i>Employment rate of older workers</i>	Employed persons aged 55-64 as a share of the total population of the same age group
<i>Gross domestic expenditure on R&D (GERD)</i>	Gross domestic expenditure on R&D as a percentage of GDP
<i>Youth education attainment level</i>	Percentage of the population aged 20 to 24 having completed at least upper secondary education
<i>Comparative price levels</i>	Comparative price levels of final consumption by private households including indirect taxes (EU-25 = 100)
<i>Business investment</i>	Gross fixed capital formation by the private sector as a percentage of GDP
<i>At-risk-of-poverty rate after social transfers</i>	Share of persons with a disposable income below the risk-of-poverty threshold, which is set at 60 % of the national median disposable income
<i>Dispersion of regional employment rates</i>	Coefficient of variation of employment rates across regions (NUTS 2 level) within countries
<i>Long-term unemployment rate</i>	Long-term unemployed (12 months and more) as a percentage of the total active population
<i>Total greenhouse gas emissions</i>	Index of greenhouse gas emissions and targets according to Kyoto Protocol / EU Council Decision for 2008-2012 (Actual base year = 100).
<i>Energy intensity of the economy</i>	Gross inland consumption of energy divided by GDP (at constant prices, 1995=100), measured in kgoe (kilogram of oil equivalent) per 1000 Euro
<i>Volume of freight transport relative to GDP</i>	Index of inland freight transport volume relative to GDP, measured in tonne-km / GDP (at constant prices, 1995=100)

THE TABLE

The country-specific table presents data from 1999 to 2004 for that country and the EU-25 average. Following the last EU enlargement, the indicators on GDP per capita in PPS, Labour productivity per person employed and Comparative price levels are now expressed in relation to the EU-25 average. Therefore data are not comparable with data released in previous years, which were based on EU-15=100.

The following flags are used in the data tables:

- b break in series;
- e estimates;
- p provisional value;
- f forecast;
- : not available;
- not relevant.

THE CHARTS

The 14 indicators are presented in two charts and compare the actual value with the EU-25 value¹⁴, illustrating in which areas a particular Member State is performing better or worse than the European average.

The “At risk of poverty” indicator measures relative poverty in a particular country and the EU-25 average is computed as a population weighted average of individual national values. A comparison of national values with the EU-25 average can therefore be difficult to interpret, and may give a different impression than computing risk-of-poverty rates by use of a common reference threshold. During the transition to data production under the new EU-SILC regulation by all Member States with effect from 2005, indicators are drawn from national sources which are not fully harmonised and there can be breaks in the time series of comparable data. The indicators are computed using an income definition which until 2007 excludes imputed rent revenues and mortgage interest payments.

For the presentation in charts, indicators have been divided into two groups:

First chart; those indicators for which increasing values indicate a positive trend, i.e. where a value of the indicator above 100 when compared to EU-25 is a relatively good performance;

Second chart; those indicators for which decreasing values indicate a positive trend, i.e. where a value of the indicator below 100 when compared to EU-25 is a relatively good performance.

The charts also display the two central EU targets of reaching 3 % of expenditure on Research and Development and an overall employment rate of 70 % by 2010. In the same way as the indicators are compared to the EU-value, the targets have been converted to a ratio which compares the EU target to the real EU-25 value in 2004 (or latest year available).

¹⁴ Values in the chart = Current national value / Current EU -25 value * 100

DATA SOURCES

All indicators were extracted from the Eurostat database on 20 December 2005. The source of the information is Eurostat in all cases except for Greenhouse gas emissions (European Environment Agency and European Topic Centre on Air Climate Change) and Gross Domestic expenditure on R&D (Eurostat and OECD).

The European Council has invited Member States to set up national targets on the employment rate and on the gross domestic expenditures on R&D as a share of GDP. The table presents national targets on these indicators in response to the invitation. The targets have been extracted from the National Reform Programs. Member States may have other related targets.

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Assessment of national reform programmes

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Virhe. Tuntematon asiakirjan

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Austria

1. Over the last decade, the Austrian economy has grown in real terms by just over 2% on average annually, slightly better than the euro area. Labour productivity growth as well has been just above the euro area average. GDP per capita at 123% of the EU average in 2004 was one of the highest in Europe. The employment rate stood at 67.8% in 2004, well above the EU average. Unemployment increased for the third consecutive year to reach 4.8% in 2004, hitting young people in particular. The employment rate for older workers, around 29% in 2004, is one of the lowest in the EU.

PART I: GENERAL ASSESSMENT

2. The Austrian National Reform Programme (NRP) identifies seven “strategic priority areas” namely sustainability of public finances; R&D and innovation; infrastructure; international competitiveness; environmental sustainability; labour market and employment; and education and training. The Commission broadly shares this analysis of the main priorities but also regards the issue of competition in services as important.
3. Overall, the NRP focuses on continuity without any radical shift in policy or providing a new medium-term vision. Most of the measures referred to are either already in place or planned for 2006. This approach can be considered adequate and realistic in a short-term perspective. However, a clearer identification of challenges ahead and a more ambitious approach to tackling them would have been welcome. In general, the NRP is based on an integrated approach and presents a largely coherent set of policy measures. However, the degree of precision in the definition of implementing measures varies widely across the different areas covered. More information would be required to allow full verification of the consistency of the financial commitments in the NRP, with the overall aim of reaching budgetary balance. The NRP announces important targets (for example for the overall tax burden and for R&D expenditure) but does not set a national target for the overall employment rate. The NRP has some information on how Structural Funds will support its implementation.
4. Consultation and efforts to develop ownership of the document have been fairly substantial. The Federal Chancellery involved several ministries in the preparation of the NRP. A wide range of stakeholders was consulted, including social partners, regions, municipalities and economic research institutes. The Austrian Parliament adopted a favourable resolution.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

5. The NRP identifies the sustainability of public finances as the key macro-economic challenge, an analysis shared by the Commission.

6. The strategy to tackle this challenge is based on a three-pronged approach: a balanced budget over the economic cycle; lowering the tax burden to 40% of GDP by 2010 and increasing potential growth by fostering investment in research, education and infrastructure. The NRP takes stock of macro-economic measures already implemented rather than presenting new ones. It refers in general terms to expenditure cuts, cost-saving administrative reforms and improvement in the quality of public finances by shifting expenditure towards areas conducive to growth. The NRP emphasises the contribution of the latest pension reforms to ensuring financial and social sustainability. References are made to various growth and employment packages, as well as to recently introduced measures aimed at enhancing Austria's attractiveness as a business location. The programme draws attention to the fact that the ratio of public expenditure to GDP has fallen from 57% to under 50% over the last decade but acknowledges that tax reforms in 2004/2005 contributed to a temporary weakening of the budget.
7. The macro-economic section is coherent but is not detailed enough to demonstrate convincingly when a return to a balanced budget – or to the surpluses that a balanced budget over the economic cycle would require - could reasonably be expected. In this respect, the Austrian stability programme, submitted after the NRP, provided some more details on the provisions designed to improve fiscal sustainability.

Micro-economic policies

8. In relation to micro-economic policies, the NRP focuses on R&D and innovation, infrastructure investments, international competitiveness and environmental technologies.
9. For R&D investment, Austria is committed to meet a target of 3% of GDP in 2010 (2.5% for 2006, 2.35% currently), in line with the overall EU target. To this end, research funding has been increased in 2005, through both direct support measures and tax incentives. The planned increase in R&D spending seems sufficient to bring Austria to 1% of public research investment by 2010 (0.86% currently), but substantial additional efforts may well be needed to leverage investments from the private sector. The NRP recognises weaknesses in the innovation system and tackles them adequately by measures to improve access to finance for innovative ventures and strengthen the qualifications of the workforce. Although the NRP stresses the intention to implement the EU's i2010 initiative to focus ICT developments on contributing to growth and jobs, the measures specified are not comprehensive, and ICT related policies could further benefit from support in related policy areas such as innovation, research and skills.
10. The programme acknowledges that Austria, as an export oriented economy, has strongly benefited from the internal market. Measures supporting the export effort of Austrian companies such as the "Go International" initiative should bring further benefits. Austria is also taking steps to improve its regulatory environment, particularly by reducing administrative costs and boosting competitiveness. The NRP contains a commitment to further strengthen impact assessment procedures.
11. Austria's horizontal industrial policy approach is complemented by sector specific initiatives in life sciences, nano-technology and environmental technologies. The latter is consistent with the inclusion in the NRP of environmental technologies and

resource efficiency, including renewable energy. Measures, like the "klima:aktiv" programme, which provide financial support for the introduction of climate-friendly technologies in various sectors, are an important contribution to help Austria limit CO₂ emissions. Most of the measures to improve the business environment or to address specific SME needs are built on past experience. Planned initiatives concerning entrepreneurship are not set out in detail and doubts remain as to their likely effect in fostering an entrepreneurial culture.

12. The NRP stresses the need to improve its transport, energy and ICT infrastructure. It is essential that projects such as the Vienna-Bratislava railway link, or the Brenner-tunnel, are now realised and the NRP provides grounds for optimism in this respect.
13. The NRP does not contain a clear commitment to improve Austria's performance in implementing internal market legislation or to reduce state regulation of liberal professions.
14. The programme addresses all relevant areas of microeconomic policies except competition in services. Objectives are generally clearly set out, though specific measures are not always precisely described, which makes it difficult at this stage to assess their likely effectiveness.

Employment policies

15. The employment part of the NRP focuses mainly on attracting people into employment; promoting active ageing; adaptability issues including fighting against undeclared work and promoting "flexicurity"; and on qualifications and education reforms.
16. A number of appropriate measures are proposed to attract and retain more people in employment, for example increased expenditure on active labour market policy and the strengthening of the Public Employment Service. In the context of rising youth unemployment a number of measures have been introduced, in particular to modernise and reinforce the apprenticeship system. Existing successful programmes for people with disabilities are to be continued. Although some measures to improve qualifications for women and work-life balance are mentioned, limited attention is paid in the NRP to improving availability of childcare facilities. The integration of migrants into the labour market is also only given relatively limited attention in the NRP. Previous pension reforms begun in 2003 and continued in 2005 have already strengthened incentives to work longer. Other initiatives related to qualifications and quality at work, along with reductions in statutory non-wage costs for older workers, seem likely to contribute to increasing the very low employment rate of older workers. In 2006, the government will experiment with wage subsidies to make low-paid work sufficiently attractive to disadvantaged workers.
17. Initiatives aiming at improving the adaptability of workers and enterprises rely to a large extent on social partners. Stronger emphasis is given to preventing undeclared work. An unemployment insurance scheme for self-employed people is yet to be implemented. Very moderate wage developments have contributed to competitiveness and real unit labour costs have declined since 1999. The relatively high gender pay gap is only addressed to some extent by measures to reduce the segmentation of the labour market. The rapid development of new forms of work

also calls for special attention to preserve an adequate balance between flexibility and security.

18. Austria is performing well against several EU education and training benchmarks. The NRP focuses strongly on improving education, vocational training for young people and universities, which should contribute to raising the quality of labour supply and meeting skill demands. Nevertheless, additional attention to raising reading standards and to maths and science teaching at all levels would seem necessary. Although incentives for employers and individuals to invest in training have increased and this may prove effective, the NRP does not present a fully-fledged strategy for lifelong learning.
19. The NRP sets out a comprehensive set of measures, mostly already in place, to address the employment challenges identified. The measures taken to increase the low employment rate of older workers are appropriate but given the very low base, more radical steps and a stronger commitment from all stakeholders are needed.

PART III: CONCLUSIONS

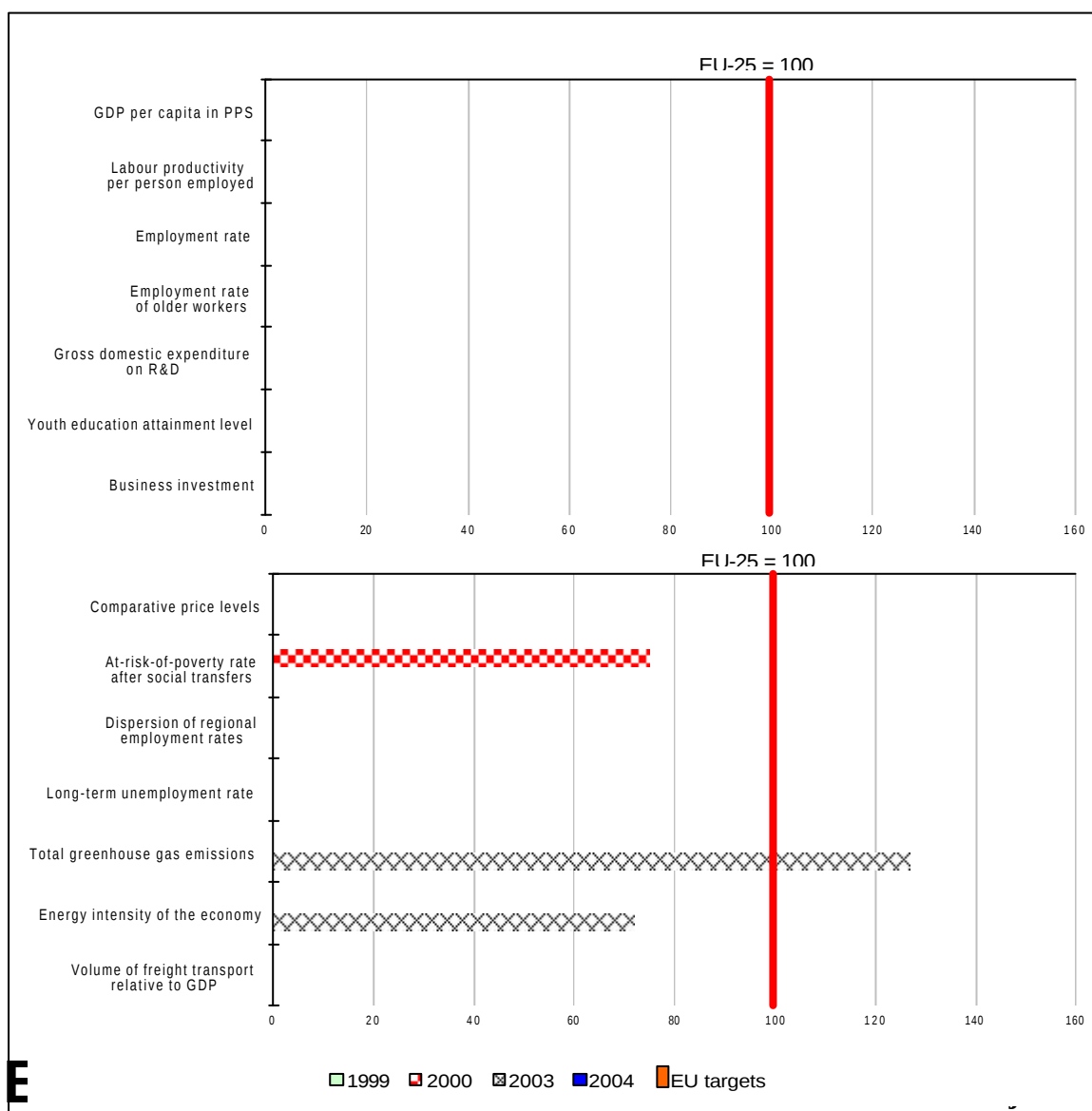
20. In line with the Integrated Guidelines, the Austrian National Reform Programme identifies and responds to the main challenges facing Austria, namely sustainability of public finances; R&D and innovation; infrastructure; international competitiveness; environmental sustainability; labour market and employment; and education and training. However competition in services has not been addressed as a main challenge. Overall, the different policy areas are well integrated within the NRP, which is coherent and for the short-term adequate and realistic. A more ambitious and longer-term approach would have been welcome.
21. Implementing measures are not always described with precision. More information would be required to assess whether the financial commitments in the NRP are fully consistent with the overall aim of reaching budgetary balance.
22. The programme's strengths include:
 - coherent strategies to boost innovation and environmental technology;
 - appropriate measures to attract and retain more people in employment, including reinforcing active labour market policy and reductions in non-wage costs;
 - initiatives to modernise and promote apprenticeships for young people.
23. Among the points requiring further attention are:
 - improving competition in services, where there are currently severe regulatory obstacles;
 - further measures to address the low employment rate of older workers and investment in the vocational training of adults.

24. Taking due account of the above, Austria is invited to implement its NRP with vigour. The 2006 progress report on the implementation of the NRP should cover in particular the way Austria has dealt with the issues mentioned in paragraph 23. In this context, the Commission looks forward to discussions with the Austrian authorities as part of the new partnership for growth and jobs.

PART IV: STATISTICAL GRAPHS AND DATA

AUSTRIA

	AT							EU-25						
	1999	2000	2001	2002	2003	2004	2010 National target	1999	2000	2001	2002	2003	2004	2010 EU target
GDP per capita in PPS	125.7	126.4	122.6	120.5	121.4	123.2	3.0	100.0	100.0	100.0	100.0	100.0	100.0	70.0
Labour productivity per person employed	104.6	105.9	103.6	102.5	103.5	105.9		100.0	100.0	100.0	100.0	100.0	100.0	
Employment rate	68.6	68.5	68.5	68.7	68.9	67.8b		61.9	62.4	62.8	62.8	62.9	63.3	
Employment rate of older workers	29.7	28.8	28.9	29.1	30.3	28.8b		36.2	36.6	37.5	38.7	40.2	41.0	
Gross domestic expenditure on R&D	1.88	1.91	2.04	2.12	2.19e	2.26e		1.87e	1.89e	1.93e	1.93e	1.92e	1.90pe	
Youth education attainment level	84.7	84.7	84.1	85.1	83.4b	86.3b		74.8	76.3	76.1	76.5	76.5	76.6	
Comparative price levels	104.7	102.0	102.6	105.2	105.7	103.6p		100.0	100.0	100.0	100.0	100.0	100.0p	
Business investment	20.4	21.3	20.9	19.4	20.2	19.9		17.9	18.3	17.7	17.1	16.7	16.9	
At-risk-of-poverty rate after social transfers	12.0	12.0	12.0	:	13.0b	13.0		:	16.0	15.0	15.0	15.0	16.0	
Dispersion of regional employment rates	2.3	2.5	2.6	2.5	2.9	3.5		13.3	13.4	13.5	13.3	12.9	12.2	
Long-term unemployment rate	1.2	1.0	0.9	1.1	1.1	1.3b		4.1	3.9	3.8	3.9	4.0	4.1	
Total greenhouse gas emissions	102.4	103.2	108.1	110.1	116.6	:		90.6	90.5	91.4	90.7	92.0	:	
Energy intensity of the economy	139.6	134.4	142.8	139.9	150.5	:		214.9	208.8	209.7	206.5	209.5	:	
Volume of freight transport relative to GDP	109.8	112.3	117.1	119.0	117.8	117.0b		100.7e	100.4e	99.4e	100.3e	99.7e	104.7e	



Belgium

1. After steady real GDP growth in 1996-2000 averaging 2.7%, Belgium experienced a sharp downturn. However, since the end of 2002, growth has rebounded somewhat more strongly than the euro-area average. GDP per capita was at 119% of the EU average in 2004. Labour productivity growth has been slightly below the EU average over the last decade, but the level is among the highest of the EU. Since 2000, Belgium has managed to maintain a balanced budget and to achieve a substantial reduction of the high debt ratio (97.4% in 2004)¹⁵. Employment rate is low (60.3% in 2004), especially for young and older people. The unemployment rate was at 7.9% in 2004.

PART I: GENERAL ASSESSMENT

2. The Belgian National Reform Programme (NRP) identifies six main priorities in order to create growth and jobs: the sustainability of public finances; the reduction of labour costs; the creation of a more dynamic labour market; the stimulation of the economy through investment and reforms; strengthening the social security system; and the strengthening of synergies between environmental protection and growth. The Commission shares the NRP's analysis of the main priorities.
3. The NRP provides a fairly coherent national strategy to address the challenges, setting reasonable and consistent objectives across policy areas and presenting measures which in most instances appear relevant and adequate. The NRP could benefit from a more coordinated approach between the federal and regional governments. For the total proportion of GDP invested in R&D, the NRP sets for Belgium the target of 3% of GDP by 2010, equal to the EU-wide target. It also sets the same target as the EU as a whole for employment rate (70%), though without a precise timeframe. The programme sets out in addition a number of realistic national targets. Information on budgetary allocations or impact is scarce. In particular, the programme is not explicit on how the budgetary impact of the new initiatives will be reconciled with budgetary targets. The NRP refers only in passing to potential financial support from the EU Structural Funds. Combining measures to raise the average exit age from the labour force with measures to reduce the tax burden on labour while also building up budgetary surpluses is a particularly tough challenge.
4. Consultation and efforts to develop ownership of the document at government and administrative level have been fairly substantial. The NRP has been adopted by all Belgium's federal and regional governments, though the relevant parliaments were not involved. The drafting of the NRP was coordinated at federal level by the Prime Minister's Cabinet. Regional authorities and social partners have contributed extensively and are expected to play an important role in the implementation of many of the proposed measures. One region has elaborated a regional reform programme, attached to the NRP, whilst for other regions and communities reference to other specific programmes has been made.

¹⁵ For 2005, discussions with Eurostat on the statistical treatment of some operations have not yet been finalised.

PART II : ASSESSMENT BY POLICY AREA

Macro-economic policies

5. The main macro-economic challenges identified in the NRP are the sustainability of public finances, while preserving the social security system, and the improvement of the competitiveness of Belgian enterprises through strict control of the cost of labour. The Commission shares this analysis.
6. Since 2000, Belgium has managed to maintain a balanced budget and achieved a substantial reduction of its high debt ratio. The NRP sets the aim of reducing the debt ratio further by maintaining a balanced budget and gradually building up surpluses from 2007 onwards (0.3% of GDP in 2007 and 0.6% in 2008). It presents a comprehensive strategy based on fiscal consolidation aiming at financial sustainability and ensuring adequate pensions, notably through improvements to minimum pension levels and further steps to strengthen incentives to work longer. The programme also covers recent measures taken to limit the growth of healthcare expenditure but it does not fully explain how the authorities plan to achieve the budgetary surpluses announced. Increasing employment could contribute significantly to this by widening the tax base while reducing the cost of unemployment benefits, but the NRP does not assess the anticipated budgetary impact of its employment policy.
7. The NRP sets the objective of reducing the current tax burden on labour (currently at 42.6% of the wage cost) to the average of the neighbouring countries (38.4%) by 2010. The Commission supports this objective but the NRP does not comprehensively set out the measures the government will take to compensate for the anticipated loss in tax revenues (estimated at 2.2% of GDP), especially in view of the budgetary targets. The NRP also emphasises the importance of wage moderation to preserve Belgium's competitiveness. In this respect, the programme refers to Belgium's institutional context, in particular the 1996 competitiveness law and the existing system of wage negotiations, as instruments facilitating continued wage moderation. However, this system seems to be vulnerable in a context of increasing national inflation and wage moderation in the neighbouring countries.
8. Overall, the NRP sets rather ambitious macro-economic objectives. Only a few specific measures or new initiatives are presented for the period 2005-2008. The targets set will help focus policy and implementation efforts but some further fundamental choices remain to be made regarding alternative sources of revenues and/or specific measures to restrict expenditure, so as to ensure that budgetary, competitiveness and employment targets are compatible.

Micro-economic policies

9. The NRP presents a wide range of priorities, including: the promotion of R&D and innovation; the improvement of market functioning; support for entrepreneurship; investments in infrastructure; and the encouragement of sustainable use of natural resources.
10. Belgium confirms its objective of reaching investment of 3% of GDP in R&D by 2010, which would involve reversing the downward trend in R&D intensity since 2001 (from 2.2% in 2001 to 1.9% in 2003). The programme intends to intensify public investment and to stimulate private investment in R&D, through supporting

“competitiveness clusters”, enhanced co-operation between enterprises and strategic research centres, the promotion of innovation in SMEs, in particular by a better use of patents and through the protection of intellectual property rights. Measures are also set out to strengthen human resources in R&D in the private sector. The stimulation of research and innovation in the services sector and the use of public procurement receive relatively little attention. As regards co-operation and networking, it is not wholly clear from the NRP whether there is a strong enough strategy to encourage international cooperation through participation in cross-border projects and clusters.

11. To enhance the economic climate for investments and enterprises, the NRP stresses the need to improve market functioning. Proposals to reform competition policy include further removal of barriers to competition in services markets including in network industries, redirection of state aid towards horizontal objectives such as R&D, innovation or environment, and the reinforced role of the competition authorities. A new competition law aims at redesigning the architecture of the regulatory framework, in particular by amending the role of the Competition Council towards the sectoral regulators in network industries. It will be important to equip such regulatory bodies with adequate resources and to ensure their independence.
12. The programme also presents useful measures to expand investment in infrastructure, to attract foreign investment, to spread access to ICT through a national plan to reduce the digital divide, and to improve energy efficiency and the use of renewable energies. The reinforcement of the drive for better regulation described in the NRP, including the use of ex-ante impact assessment of new legislative proposals, can make a significant contribution to improving the business environment by reducing administrative costs. The NRP makes a commitment to improve the implementation of internal market law by intensifying efforts to reduce both Belgium’s deficit in writing EU Directives into national law and the number of infringement cases against the country.
13. Overall, the NRP presents a wide range of positive micro-economic initiatives seeking to raise Belgium’s economic growth potential. The coherence of the NRP would benefit from better coordination of specific measures across the different levels of government.

Employment

14. The NRP identifies two main employment priorities: first, raising employment rates, in particular by tackling youth and long-term unemployment and by promoting active ageing; and second, further reducing the high tax burden on labour. The Commission supports this choice.
15. Given the low employment rates, especially for youth, older people and women, attracting and retaining more people in employment is central to the Belgian NRP. To help achieve the employment rate targets, a “Pact Between Generations” has been agreed by the government. The Pact contains some new measures to strengthen existing active labour market measures, to tackle youth unemployment and to promote a more comprehensive active ageing strategy. The eligibility criteria for early retirement schemes will be gradually tightened, although the impact of these measures will depend on the extent to which exceptions and alternative routes

remain. The Pact seems an interesting first step to increase the employment rate of older workers.

16. As regards long-term unemployment, recent measures imposing stronger job search requirements show some early positive results and are entering their second phase covering 30 to 40 year olds. The reinforced work bonus scheme should further reduce the marginal effective tax rate for unemployed people taking up a job, which is currently the highest in the EU. The integration of ethnic minorities is identified as a priority but no new measures are proposed. Cooperation between public employment services - for example through a better exchange of vacancies - and increased language training are included in the NRP and should promote interregional mobility, which is particularly important for the Brussels region and surrounding areas. However, no information is provided on budgets or timing.
17. In order to promote the adaptability of workers and enterprises, the NRP highlights targeted reductions of non-wage labour costs. The tax wedge has been reduced substantially over the last five years but is still the highest in the EU. The goal of bringing the tax burden on labour down to the average in neighbouring countries by 2010 will require additional efforts compared to previous years. The NRP also sets out measures to better accompany the restructuring of enterprises, with a view to making early retirement a last resort. The change of legislation intended to involve temporary work agencies in fighting youth unemployment is interesting.
18. Increasing investment in human capital is an important element of the NRP. The commitment to raise private investment in training to 1.9% of the wage bill, set for 2004 but not yet reached, is reconfirmed for 2006. A "Training Agenda 2010" will include measures aiming at one in two workers receiving training every year by 2010. These plans are likely to lead to significant and necessary improvements to the results from Belgium's training policies, which until now have been rather limited. Measures announced for the recognition of informal qualifications and competencies are particularly interesting.
19. Overall, the employment strand of the NRP is based on assessing, implementing and building on measures already taken. Many initiatives with high potential are included, although their impact will need to be carefully monitored given the size of the challenges. The NRP provides a timeframe for most measures, but limited information on budgetary resources. Addressing important regional labour market disparities is left to the regional authorities, whereas a more coordinated approach might provide added value.

PART III : CONCLUSIONS

20. In line with the Integrated Guidelines, the Belgian National Reform Programme identifies and responds to the main challenges facing Belgium, namely the sustainability of public finances; the reduction of labour costs; the creation of a more dynamic labour market; the stimulation of the economy through investment and reforms; strengthening the social security system; and the strengthening of synergies between environmental protection and growth. Overall, the NRP provides an integrated national strategy to address the challenges, with clear analysis, a number of realistic targets and relevant measures.

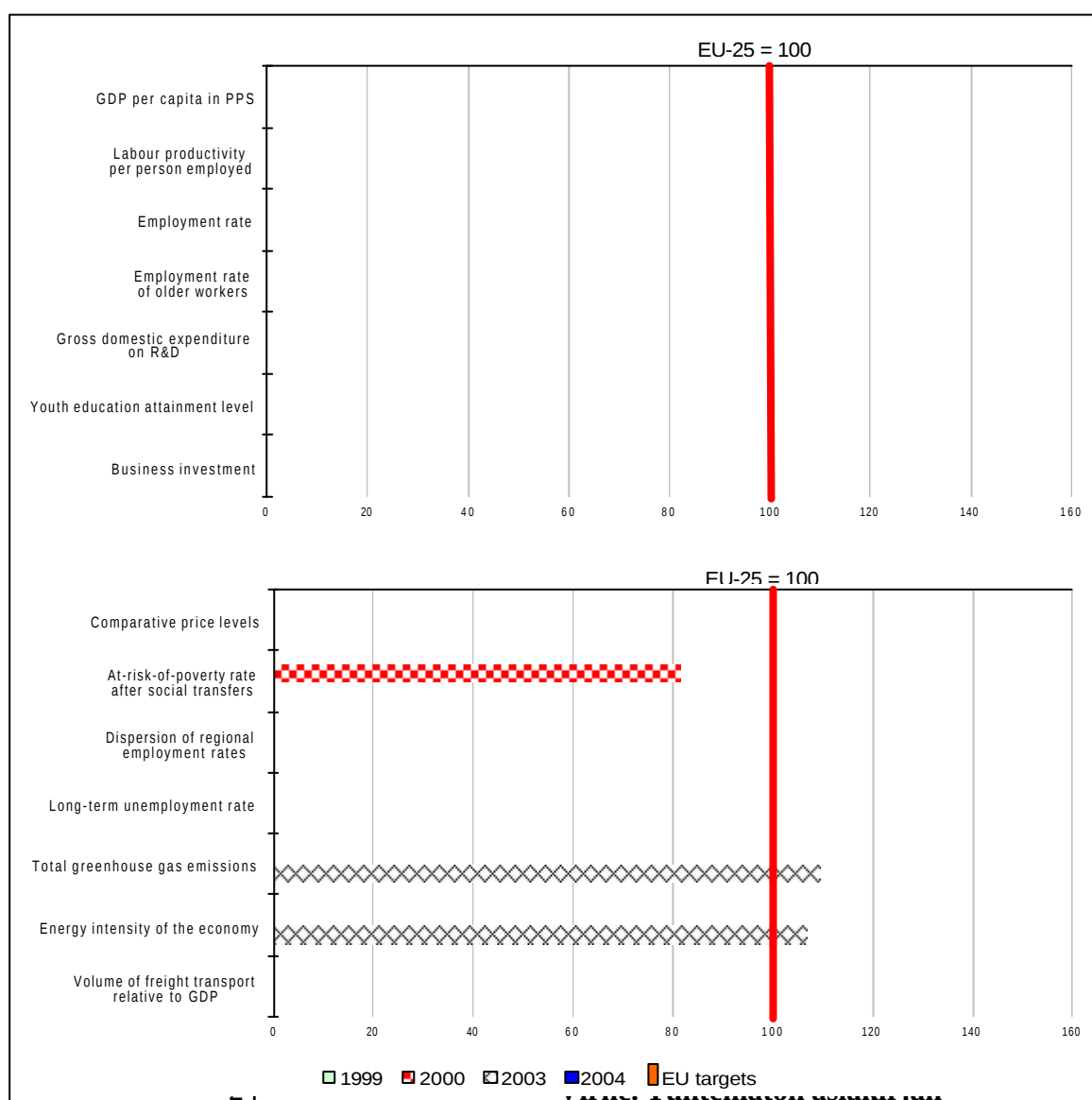
21. In some policy fields, the programme would benefit from a more coordinated approach between the federal and regional governments. It is not explicit on the financial impact of the new initiatives or on reconciling that impact with budgetary targets, particularly in so far as combining a reduction of the tax burden on labour with increasing budgetary surpluses is concerned. Effective implementation and monitoring of measures to raise the effective exit age from the labour market will be needed.
22. The programme's strengths include:
- measures to expand investment in infrastructure, increase access to ICT and improve energy efficiency;
- good first steps towards the development of a comprehensive active ageing strategy.
23. Among the points requiring further attention are:
- additional efforts to bring down the tax burden on labour, to meet the target of matching the average in neighbouring countries by 2010 in the context of sustained budgetary consolidation;
- tackling regional employment disparities.
24. Taking due account of the above, Belgium is invited to implement its NRP with vigour. The 2006 progress report on the implementation of the NRP should cover in particular the way Belgium has dealt with the issues mentioned in paragraph 23. In this context, the Commission looks forward to discussions with the Belgian authorities as part of the new partnership for growth and jobs.

PART IV: STATISTICAL GRAPHS AND DATA

BELGIUM

	BE							EU-25						
	1999	2000	2001	2002	2003	2004	2010 National target	1999	2000	2001	2002	2003	2004	2010 EU target
GDP per capita in PPS	116.0	117.3	117.7	118.1	118.6	118.9	70.0*	100.0	100.0	100.0	100.0	100.0	100.0	70.0
Labour productivity per person employed	125.5	126.7	127.1	128.3	129.3	129.6		100.0	100.0	100.0	100.0	100.0	100.0	
Employment rate	59.3	60.5	59.9	59.9	59.6	60.3		61.9	62.4	62.8	62.8	62.9	63.3	
Employment rate of older workers	24.6	26.3	25.1	26.6	28.1	30.0	3.0	36.2	36.6	37.5	38.7	40.2	41.0	3.0
Gross domestic expenditure on R&D	1.96	2.04	2.17	1.99	1.92	1.93f		1.87e	1.89e	1.93e	1.93e	1.92e	1.90pe	
Youth education attainment level	76.2	80.9	79.4	81.1	81.3	82.1		74.8	76.3	76.1	76.5	76.5	76.6	
Comparative price levels	108.6	105.8	102.8	102.3	104.0	104.2p		100.0	100.0	100.0	100.0	100.0	100.0p	
Business investment	18.7	19.0	18.8	17.6	17.2	17.3		17.9	18.3	17.7	17.1	16.7	16.9	
At-risk-of-poverty rate after social transfers	13.0	13.0	13.0	:	15.0b	15.0		:	16.0	15.0	15.0	15.0	16.0	
Dispersion of regional employment rates	8.0	7.9	8.0	8.0	7.7	8.7		13.3	13.4	13.5	13.3	12.9	12.2	
Long-term unemployment rate	4.9	3.7	3.2	3.6	3.6	3.9		4.1	3.9	3.8	3.9	4.0	4.1	
Total greenhouse gas emissions	99.7	100.6	99.9	99.0	100.6	:		90.6	90.5	91.4	90.7	92.0	:	
Energy intensity of the economy	244.0	236.1	228.1	213.6	223.9	:		214.9	208.8	209.7	206.5	209.5	:	
Volume of freight transport relative to GDP	78.9	98.1	100.0	99.1	95.0	89.7		100.7e	100.4e	99.4e	100.3e	99.7e	104.7e	

* National target: 70% as soon as possible



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Cyprus

1. In 2004, Cyprus's GDP per capita stood at 84% of the EU average, the highest of the ten new Member States. With an average annual GDP growth rate of 4.1% in 1995-2004, Cyprus was among the best performers in Europe. Since the mid-1990s real wage growth has outpaced productivity increases, even though productivity growth has been slightly above the EU average, leading to some loss of price competitiveness. Nevertheless, unemployment is low at 5.2% in 2004. The total employment rate at 69.1% is close to the Lisbon target.

PART I: GENERAL ASSESSMENT

2. The Cypriot National Reform Programme (NRP) emphasises the objective of increasing the growth potential of the economy and living standards for citizens, aiming at real convergence with the EU. It identifies challenges in the following areas: fiscal sustainability; quality of public finances; R&D, innovation and ICT; increasing the diversification of the economy; competition and business environment; environmental sustainability; infrastructure; human capital; and social cohesion. The Commission shares this analysis, though in the employment field it would give particular emphasis to lifelong learning and skills.
3. The NRP provides a clear and comprehensive overview of numerous specific measures and links them well to final objectives. It includes an ambitious and challenging target for investment in R&D, 0.65% of GDP for 2008 and an ambitious but realistic target for an employment rate of 71% by 2010. Most measures are described in detail, with an implementation schedule, and with the annual budgetary impact indicated where relevant. At the same time, the links between the overall strategy and some objectives could be explained more clearly. The role of EU Structural Funds is highlighted, but not elaborated upon, despite the importance of this funding for realising certain aspects of the Cypriot NRP.
4. Consultation and efforts to develop ownership of the document have been substantial. The NRP was formally adopted by government and discussed at parliament. It has gone through extensive consultations with social partners and will be subject to continuous dialogue in the implementation period. A monitoring and follow-up mechanism will be established under the Ministry of Finance.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

5. The main macro-economic focus in the NRP is on fiscal consolidation through expenditure restraint and increased revenues. It also targets restructuring government expenditure toward capital outlays, enhancing fiscal management and transparency. It includes reforms in health care and social insurance, and labour supply and wage moderation measures. To a large extent, the Commission shares Cyprus's point of view on these challenges.

6. According to the NRP, these measures should result in reducing the general government deficit to 1.2% of GDP and government debt to below 60% of GDP by 2008 (and a deficit of 0.9% of GDP in 2009). Most measures are described in detail. Nevertheless, measures and time-schedules regarding the delayed reform of the healthcare system (part of the package of measures to address fiscal sustainability) are only summarily indicated. On social security reform, government proposals are presented, though the precise adjustments to be made to the system are to be agreed with social partners. Their budgetary impact is left open.
7. Overall, the macroeconomic reform measures outlined in the NRP are appropriate and their full and timely implementation would clearly help address the challenges identified in the NRP.

Micro-economic policies

8. There are four microeconomic key challenges referred to in the NRP: promotion of R&D, innovation and ICT; enhancing competition/improving business environment; environmental sustainability; and upgrading basic infrastructure. These are consistent with the objective of diversifying the economy and strengthening its competitive advantages.
9. The need to further increase R&D investment, in particular by private business and to promote innovation and ICT diffusion is recognised as essential to securing long-term growth. Given the low level of R&D in Cyprus, reaching the ambitious target of 0.65% by 2008 represents a considerable challenge, notwithstanding impressive public spending growth in this area in recent years. The proposed policy mix concentrates on boosting the scientific base and private R&D and developing human resources. It assembles the necessary building blocks for developing a full-scale research and innovation system, although questions remain regarding potential bottlenecks along the way and links between public and private R&D spending. The programme appropriately envisages the creation of innovation poles, along with “business incubators” to help emerging companies survive and grow during the start-up period. Some important issues, such as promoting cross-border knowledge transfer and venture capital for innovation, may deserve more attention. The clear presentation in terms of timing, costing, and measurability of the large number of measures on ICT bodes well for their effectiveness.
10. The strategy for improving investment and growth conditions by enhancing the business climate and competition must be seen against the background of a generally favourable business environment and strong competition in much of the economy. The measures proposed to enhance competition in sectors where it was absent until recently can be seen as initial steps. Introducing comprehensive evaluations of state aid and focussing on market failures is appropriate and builds on progress already made. Reducing the burden of regulation and systematically assessing its impact will be particularly important for SMEs. The proposed loan guarantee facility will help SMEs overcome financing constraints during the start-up phase. The intended amendment to the bankruptcy law is not fully clear from the NRP. The steps envisaged to increase public sector efficiency could do much to help improve the business climate, although the absence of projected funding for most of them raises questions about their effectiveness. Measures to upgrade basic infrastructure respond well to the challenge identified.

11. Given current environmental problems, the importance of environmental sustainability for growth and jobs is well recognised in the NRP, in particular with regard to the impact of environmental degradation on tourism. The policy priorities to increase energy efficiency (including the use of renewables) are set out clearly and reflected in relevant and concrete measures that promise to be effective in reaching their specified objectives.
12. For the most part, micro-economic policies are clearly described and details of timetables and budgetary impacts are included. However, more prioritisation and consideration of synergies between the key challenges would be beneficial.

Employment Policies

13. The employment challenges set out in the NRP are achieving full employment, improving quality and productivity at work and strengthening social and territorial cohesion. Five priorities flow from these: promoting more effective use of domestic labour reserves; better managing economic migration; increasing the flexibility of the labour market; developing human capital; and further enhancing social inclusion. The Commission subscribes to these priorities.
14. The NRP aims to attract and retain more people in employment through a lifecycle approach involving a wide range of measures. There is high priority for implementing appropriate active labour market measures and substantial funding is allocated to this. The already high female employment rate is expected to increase to an ambitious but realistic target of 63% by 2010, through the reconciliation of work and family life, flexible forms of work, upgrading of skills and reducing the gender pay gap, which is higher than the EU average. With an appropriate legal framework already in place, the authorities are due to discuss with social partners the development of a detailed policy favouring flexible but secure forms of work, including by making part-time work more attractive for those currently inactive. Further measures to activate older workers are underway, and it has been agreed that the retirement age in the public sector will gradually increase to 63 by 2008. While the employment of Turkish Cypriots is actively encouraged, a review of the economic migration strategy is awaiting endorsement by the social partners. New legislation is expected in 2006.
15. The development of a comprehensive lifelong learning strategy to respond to the shift towards a knowledge-based economy could benefit from more clarity and focus. High priority is given to numerous measures to reform the vocational education and training systems. There is limited clarity on how these reforms will make vocational education and training, as well as the outdated apprenticeship scheme, more attractive and credible and on how they will offer vocational career paths which are alternative to general education. Reducing the relatively high rate of early school leaving is not addressed. A system of continuing education and training is well established. Measures to improve opportunities for university studies in Cyprus are expected to reduce the "brain drain". A quality certification system for training providers is proposed and will be followed by the establishment of a quality certification scheme for vocational qualifications.

16. The challenge of social and labour market integration of vulnerable groups is addressed in an integrated manner in the NRP, with appropriate initiatives targeting most groups.
17. Clear employment targets are set in the NRP, but other indicators in the field and benchmarks are scarce, thus making the evaluation of results a difficult task. Budgetary resources are earmarked, but for some important measures, notably the reform of the apprentice scheme, appear insufficient.

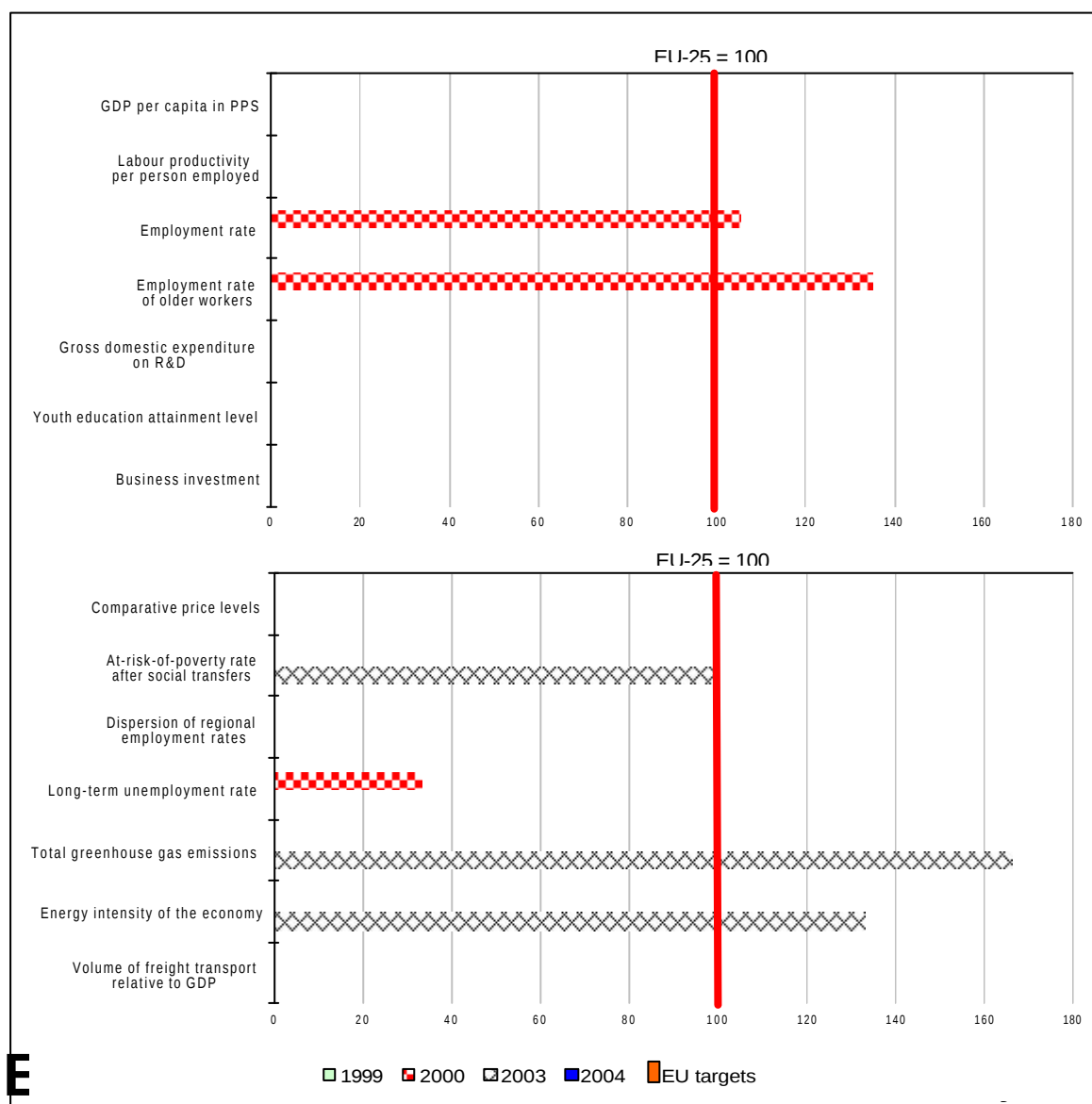
PART III: CONCLUSIONS

18. In line with the Integrated Guidelines, the Cypriot National Reform Programme identifies and responds to the main challenges facing Cyprus, namely fiscal sustainability; quality of public finances; R&D, innovation and ICT; increasing the diversification of the economy; competition and business environment; environmental sustainability; infrastructure; human capital; and social cohesion, though more attention could have been paid to the development of vocational skills and lifelong learning. Overall the programme is clear, comprehensive and ambitious. However, more prioritisation in the micro-economic area will be necessary.
19. Most measures are described in detail, with an implementation schedule, and with the annual budgetary impact indicated where relevant. The extensive consultations undertaken with social partners and the clear provision for ongoing dialogue will facilitate effective and timely implementation.
20. The programme's strengths include:
 - the initiative to develop a research and innovation system;
 - the priority and funding allocated to active labour market measures;
 - efforts to further increase the already high female employment rate.
21. Among the points requiring further attention are:
 - addressing long term sustainability of the public finances, including reforms of social security;
 - measures to reduce the rate of early school leaving.
22. Taking due account of the above, Cyprus is invited to implement its NRP with vigour. The 2006 progress report on the implementation of the NRP should cover in particular the way Cyprus has dealt with the issues mentioned in paragraph 21. In this context, the Commission looks forward to discussions with the Cypriot authorities as part of the new partnership for growth and jobs.

PART IV : STATISTICAL GRAPHS AND DATA

CYPRUS

	CY							EU-25						
	1999	2000	2001	2002	2003	2004	2010 National target	1999	2000	2001	2002	2003	2004	2010 EU target
GDP per capita in PPS	80.5	81.3	83.2	82.4	80.5	83.6	71.0	100.0	100.0	100.0	100.0	100.0	100.0	70.0
Labour productivity per person employed	75.1	73.6	73.6	72.4	71.1f	74.5f		100.0	100.0	100.0	100.0	100.0	100.0	
Employment rate	:	65.7	67.8	68.6	69.2	68.9		61.9	62.4	62.8	62.8	62.9	63.3	
Employment rate of older workers	:	49.4	49.1	49.4	50.4	49.9		36.2	36.6	37.5	38.7	40.2	41.0	
Gross domestic expenditure on R&D	0.24	0.25	0.26	0.31	0.35	0.37p		1.87e	1.89e	1.93e	1.93e	1.92e	1.90pe	
Youth education attainment level	80.8	79.0	80.5	83.5	79.5	77.6		74.8	76.3	76.1	76.5	76.5	76.6	
Comparative price levels	90.5	91.3	91.9	90.9	96.5	93.3p		100.0	100.0	100.0	100.0	100.0	100.0p	
Business investment	15.4	14.3	14.1	15.2	14.3	15.3		17.9	18.3	17.7	17.1	16.7	16.9	
At-risk-of-poverty rate after social transfers	:	:	:	:	15.0	:		:	16.0	15.0	15.0	15.0	16.0	
Dispersion of regional employment rates	-	-	-	-	-	-		13.3	13.4	13.5	13.3	12.9	12.2	
Long-term unemployment rate	:	1.3	1.0	0.8	1.1	1.4		4.1	3.9	3.8	3.9	4.0	4.1	
Total greenhouse gas emissions	135.4	141.6	140.7	145.1	152.8	:	0.65 (2008)	90.6	90.5	91.4	90.7	92.0	:	3.0
Energy intensity of the economy	282.0	282.3	274.4	269.9	278.6	:		214.9	208.8	209.7	206.5	209.5	:	
Volume of freight transport relative to GDP	96.2e	94.6e	93.9e	95.7	99.5	76.5		100.7e	100.4e	99.4e	100.3e	99.7e	104.7e	



Czech Republic

1. Over the period 1996-2000 economic growth in the Czech Republic averaged 1.5%, but since then growth has increased to 2.9% on average, and has been even more robust in recent years, driven mainly by investment and strong exports. Labour productivity growth has been slightly above the EU average over the last decade. GDP per capita has risen to 71% of the EU average (2004). The employment rate is slightly above the EU average at 64.2% (2004) and employment performance has started to improve. The unemployment rate is at 8.3 % (2004).

PART I: GENERAL ASSESSMENT

2. The Czech National Reform Programme (NRP) identifies three main overall challenges: to continue public finance reform; to strengthen and increase industrial competitiveness while respecting the need for sustainable resources; and to increase labour market flexibility. The Commission shares this analysis of the main priorities.
3. The strategy presented in the NRP is essentially a continuation of existing policies. The 46 policy areas identified for action in the NRP are relevant and represent a set of consistent and mutually interlinked measures but there is little information on prioritisation between them. The NRP has been drafted as a brief general document with the intention of making it accessible to a wide public and intentions are described often only in general terms. In only certain areas are concrete reforms set out and information on their budgetary impact is limited, though in some cases more detail is available in specific national strategic documents. Quantitative targets are identified for public finances, for public expenditure on R&D (1% of GDP by 2010) and employment rates (66.4% for overall employment in 2008). The role of Structural Funds is specified in several parts of the NRP, in particular the employment part.
4. Consultation and efforts to develop ownership of the document have been fairly substantial, with more envisaged. In preparing the NRP, the Deputy Prime Minister for Economic Affairs was appointed as political coordinator. A governance structure was established involving relevant ministries and social partners. The NRP was discussed with the Parliament and with the social partners. The government has announced that the general public will be consulted and measures to achieve a high degree of visibility for the Lisbon process will be undertaken.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

5. Continuing reform of public finance is expected to contribute to macroeconomic stability and sustainable growth. The strategy proposed in the NRP outlines six priorities with respect to these objectives, with particular focus in the medium term on meeting the Maastricht criteria on budget deficits and government debt and emphasis in the long term on safeguarding the sustainability of public finances. The Commission subscribes to the focus on these two key areas.

6. According to the NRP, the macroeconomic policies it sets out should result in decreasing the general government deficit to less than 3% of GDP and in keeping government debt below 60% of GDP by 2008, in order to be able to join the euro area by 2010. After 2008, the target is gradually to reduce deficits to below 1% of GDP. However, these objectives are not very ambitious in the light of the better than expected budgetary outcomes in 2004 and 2005. The programme refers to the main instrument of medium-term budgetary consolidation – expenditure ceilings for central government but the record on implementing these is mixed so far. The NRP recognises that the long-term sustainability of public finances is a central problem in the Czech Republic but not enough detail is presented to permit an assessment of the strategy proposed to deal with this. To improve long-term sustainability a coordinated action plan is proposed, requiring medium-term budgetary consolidation along with reforms of pensions, the health care system and the labour market. Although this coordinated approach is evidence of good intentions, insufficient detail is given on how it will be implemented in practice. There are positive measures to increase the transparency of public finances, in particular by disclosing state guarantees and contingent liabilities.
7. The fiscal strategy proposed is not very ambitious and is not supported by a clear schedule for implementation. For medium-term consolidation it will be important to ensure that the expenditure ceilings are respected and to improve budgetary planning. The long-term sustainability issue requires more specific attention and especially a clearer picture of health care and pension reforms.

Micro-economic policies

8. Among numerous microeconomic priorities the following four receive most attention in the NRP: R&D and innovation; the business environment; the modernisation and development of transport and ICT networks; and sustainable use of resources. The Commission shares the view that these are key to improving economic growth and employment.
9. R&D expenditure is currently 1.3% of GDP, one half of which comes from public funds. A target has been set for public R&D investment to reach 1% of GDP by 2010, and budgetary plans reflect this targeted increase up to 2008. However, no target is included in the NRP for overall R&D intensity. Efforts covered in the NRP to stimulate private research expenditure by tax deductions have the potential to help boost competitiveness, as does a planned change to make the funding mechanism for public research institutions more favourable to industrial research. The NRP presents a thorough analysis of the current problems with the R&D system. Changing the R&D structure favouring special-purpose financing over institutional financing is envisaged. However, issues such as prioritisation in the R&D budget, improving R&D infrastructure or specific measures to deal with developing and investing in highly qualified personnel for R&D need further development. With respect to innovation policy, the NRP addresses the challenges created by insufficient infrastructure and finance in rather general terms, while the coverage of the direct support for innovation activities needs further clarification. The NRP does not explicitly discuss measures to improve the quality of innovation support services and to strengthen innovation links between domestic and foreign-owned companies.

10. The NRP sets out a plan to enhance the business environment through better regulation and by supporting SMEs. The measures to improve regulation are focused on administrative costs and impact assessment and represent a very strong reform agenda in the area of better regulation. The NRP lists a number of ongoing SME programmes that will end in 2006 but no indication is given in the NRP itself on further action in this area.
11. In other important areas such as the modernisation and development of ICT and transport networks and the sustainable use of resources, issues are well identified in the NRP, but the measures proposed to deal with them are somewhat scattered. The NRP presents strongly focused measures to invest in broadband connections (the target of making the broadband internet available to 50% of the population by 2010 is mentioned) and stimulate the availability of online public services.
12. The ongoing micro-economic policy initiatives presented in the NRP are numerous and in general useful. However, there are certain gaps in them and it remains to be seen whether they bring solutions to the problems and challenges identified. Linkages between different policy measures should be further developed. Attention will need to be paid to ensuring the timely and full implementation of ongoing policies.

Employment policies

13. The key challenge of increasing labour market flexibility is complemented by seeking greater inclusion in the labour market and improving education. Within these challenges numerous general priorities are identified. The Commission subscribes to the choice of challenges, though three issues deserve more attention: the most disadvantaged groups in the labour market; regional disparities in unemployment; and the gender dimension.
14. Labour market flexibility is given prominence in the NRP, which lists a number of useful initiatives to promote making work pay and geographical mobility. The programme includes measures such as reducing taxes for low-wage earners and reforming the social benefits system to encourage the activation of benefit claimants. The current legal provisions promoting flexible forms of labour relations (part-time work, fixed-term contracts, teleworking) are still only partly used, though the new Labour Code being discussed by the Czech Parliament is expected to allow for more operational flexibility in the organisation of work and working time arrangements and to provide greater contractual freedom in employment relationships. The practical effects of these measures, once adopted and applied, will need to be carefully assessed. The NRP recognises the modernisation of public employment services as essential for the success of employment policy, though few concrete measures are proposed in this area and the problems of limited personnel and funding remain to be resolved.
15. The NRP identifies problems of inclusion in the labour market and of potential labour market shortages and strives to address these problems by improving the inclusion of three specific groups: the young, the elderly, and women. The measures proposed are based mainly on an extension of existing labour market policies. Particular attention is paid to active immigration policy and the inclusion of foreigners in the labour market. The NRP does not cover measures targeted at

promoting the inclusion of disabled people or of resident ethnic minorities such as the Roma population, though the Czech authorities have indicated some separate information on this.

16. In the area of investment in human capital, the NRP gives particular priority to reforming curricula for primary education and to improving relations between employers and educational and professional institutions in order to better adapt education and training systems to labour market needs. There has been some progress in stimulating participation in tertiary education and lifelong learning. More effort is needed however, to implement a comprehensive lifelong learning strategy, especially in continuing education. The NRP stresses the need to increase incentives for individuals and employers to invest in training.
17. The NRP identifies a broad set of problems in the Czech labour market and attempts to address them. However, more effort will be needed to increase investment in human capital so the proposed reforms in the educational system can be fully implemented.

PART III: CONCLUSIONS

18. In line with the Integrated Guidelines, the Czech National Reform Programme identifies and responds to the main challenges facing the Czech Republic, namely to continue public finance reform; to strengthen and increase industrial competitiveness while respecting the need for sustainable resources; and to increase labour market flexibility. Overall, the NRP includes some useful initiatives, notably in micro-economic policy, but in some areas lacks clear priorities and concrete measures.
19. The budgetary impact of measures is not always clearly spelled out in the NRP. It will be crucial to develop targets, time schedules for the implementation of reforms and appropriate monitoring processes for the successful implementation of the strategy.
20. The programme's strengths include:
 - important steps to improve regulation and the business environment;
 - a wide-ranging set of measures to address potential shortages in the labour market, especially with regard to making work pay and to particular groups such as the young, the elderly, and foreigners.
21. Among the points requiring further attention are:
 - securing the long-term sustainability of public finance, especially with regard to reforms of pension and health care systems;
 - more emphasis on improving human capital through lifelong learning, taking account of the most vulnerable groups, and regional disparities in unemployment;
 - policies to improve R&D and innovation and in particular to develop human capital for the R&D system and improve its functioning.

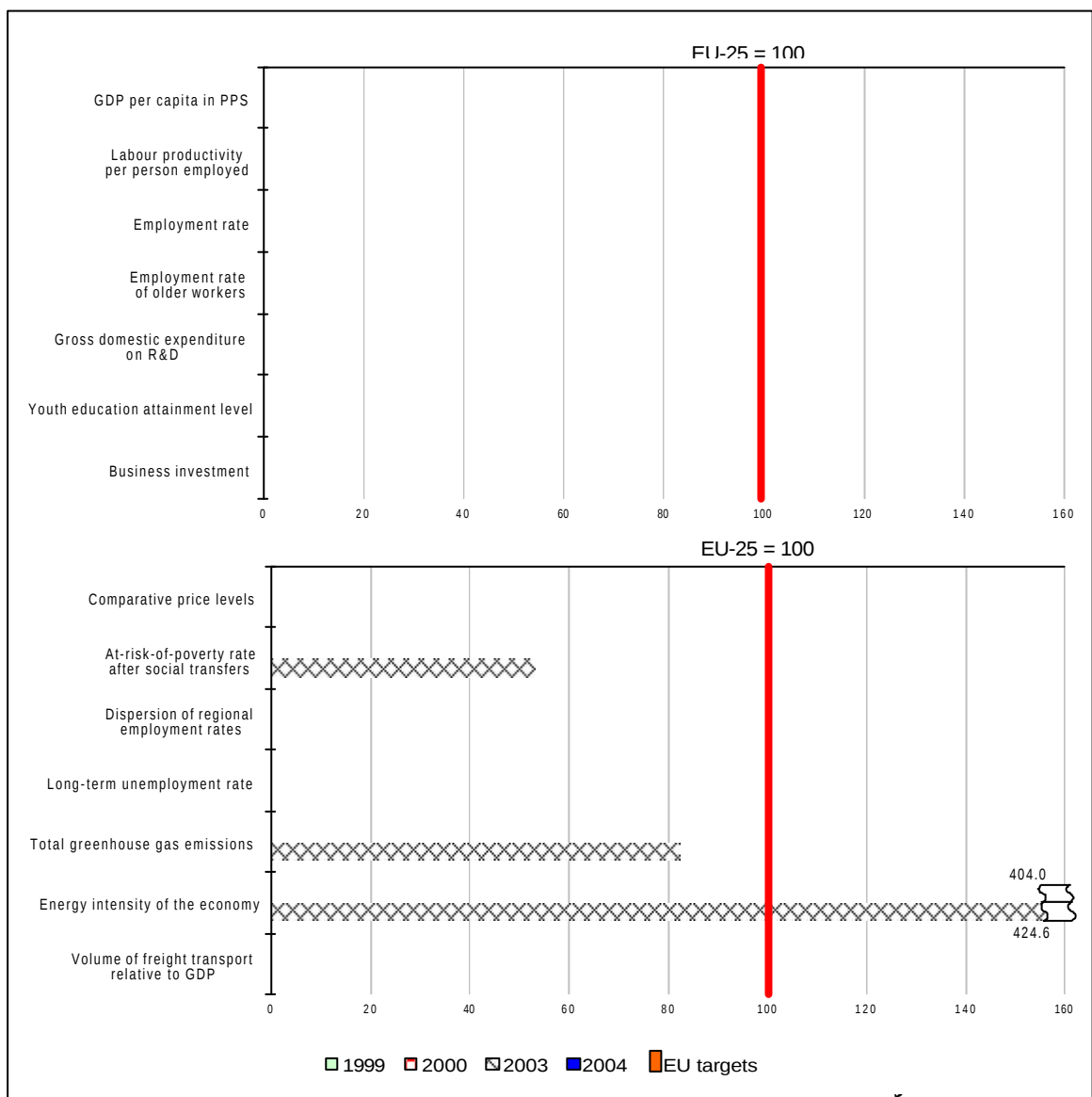
22. Taking due account of the above, the Czech Republic is invited to implement its NRP with vigour. The 2006 progress report on the implementation of the NRP should cover in particular the way the Czech Republic has dealt with the issues mentioned under paragraph 21. In this context, the Commission looks forward to discussions with the Czech authorities as part of the new partnership for growth and jobs.

PART IV: STATISTICAL GRAPHS AND DATA

CZECH REPUBLIC

	CZ							EU-25						
	1999	2000	2001	2002	2003	2004	2010 National target	1999	2000	2001	2002	2003	2004	2010 EU target
GDP per capita in PPS	65.1	64.0	65.1	66.6	68.1	70.6	66.4 (2008) *	100.0	100.0	100.0	100.0	100.0	100.0	70.0
Labour productivity per person employed	58.7	58.9	59.9	60.4	62.4	64.8		100.0	100.0	100.0	100.0	100.0	100.0	
Employment rate	65.6	65.0	65.0	65.4	64.7	64.2		61.9	62.4	62.8	62.8	62.9	63.3	
Employment rate of older workers	37.5	36.3	37.1	40.8	42.3	42.7		36.2	36.6	37.5	38.7	40.2	41.0	
Gross domestic expenditure on R&D	1.16	1.23	1.22	1.22	1.26	1.28		1.87e	1.89e	1.93e	1.93e	1.92e	1.90pe	
Youth education attainment level	91.8	91.1	90.5	91.7	92.0	90.9		74.8	76.3	76.1	76.5	76.5	76.6	
Comparative price levels	45.4	47.2	50.3	54.7	55.5	55.0p		100.0	100.0	100.0	100.0	100.0	100.0p	
Business investment	24.0	24.7	24.3	22.9	22.7	22.6		17.9	18.3	17.7	17.1	16.7	16.9	
At-risk-of-poverty rate after social transfers	:	:	8.0	:	8.0	:		:	16.0	15.0	15.0	15.0	16.0	
Dispersion of regional employment rates	5.6	5.8	5.7	5.6	5.8	5.6		13.3	13.4	13.5	13.3	12.9	12.2	
Long-term unemployment rate	3.2	4.2	4.2	3.7	3.8	4.2		4.1	3.9	3.8	3.9	4.0	4.1	
Total greenhouse gas emissions	73.1	76.8	77.0	74.3	75.7	:		90.6	90.5	91.4	90.7	92.0	:	
Energy intensity of the economy	868.4	888.4	883.9	875.8	889.6	:		214.9	208.8	209.7	206.5	209.5	:	
Volume of freight transport relative to GDP	95.7	94.0	93.5	97.9	99.5	93.3		100.7e	100.4e	99.4e	100.3e	99.7e	104.7e	

* National target: 1% (2010) for the public sector



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Denmark

1. Denmark benefits from high GDP per capita (122% of EU average in 2004), productivity and employment levels. Annual real GDP growth has been some 2% on average in the last decade, while labour productivity growth per person employed has been at the speed of the EU average. The employment rate is the highest in the EU (75.7% in 2004). Employment growth has been strong since 2004 and the unemployment rate (5.4% in 2004), one of the lowest in the EU, has been further reduced.

PART I: GENERAL ASSESSMENT

2. The Danish National Reform Programme (NRP) outlines four broad challenges: to prepare for the ageing of the population; reap the benefits of globalisation; strengthen the framework for improved productivity; and increase value for the users of public services. These broad challenges are translated into a number of priorities: improving competition in certain sectors; enhancing public sector efficiency; developing a knowledge society; securing environmental sustainability and energy; encouraging entrepreneurship; and increasing the labour supply. The Commission shares the NRP's analysis of the main priorities.
3. The Danish reform strategy is presented clearly and coherently. The NRP's approach is broad, ambitious, long-term and realistic. It aims to carry out existing policies and, if necessary, to reinforce them. Quantitative targets with timetables are set in some areas. The target set for R&D investment is to exceed 3% of GDP by 2010, the same level as the overall target for the EU. The employment target is to increase employment by between 50 000 and 60 000 people, corresponding to around 2% of the labour force, by 2010. The policies presented in the NRP often refer to broad lines for action and relatively few specific measures are presented. This is particularly the case for initiatives aiming at improving competition and increasing the labour supply. The NRP states, however, that further measures to raise labour supply and to strengthen education, innovation and entrepreneurship will follow on the basis of the reports and recommendations of two key advisory bodies appointed by the Government: the Welfare Commission, whose report was presented in December 2005, and the Globalisation Council, due to report in Spring 2006. The NRP also describes how EU structural funds will be used to promote the objectives.
4. Consultation and efforts to develop ownership of the document have been substantial. The NRP has been endorsed by the Government and presented to Parliament. The views of social partners, local authorities and representatives of civil society have been collected and are presented in annexes to the programme.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

5. The overall macro-economic aims are sound public finances, a stable exchange rate, price stability and high employment. The Commission fully subscribes to these aims.

6. The strategy to assure long-term fiscal sustainability is a continuation of the one in place for a number of years, consisting of building up government funds by saving budget surpluses in combination with increasing employment by around 2 per cent of the labour force by 2010. In the medium and long term, a higher level of employment is necessary to secure the future funding of welfare commitments. Policy to ensure fiscal sustainability in view of an ageing population continues to be based on the objective of an average annual general government budget surplus of 0.5-1.5% of GDP until 2010. On the expenditure side, a key objective is to limit the annual growth of real public consumption to 0.5 per cent up to 2010. Income taxes were cut by 0.7 per cent of GDP in 2004 and taxes will be further reduced to the extent that there is budgetary scope. Monetary policy aims at keeping the krone's exchange rate with the euro stable. This policy lays the basis for price stability in line with the euro area.
7. The implementation of the measures outlined in the programme should contribute significantly to attaining the objectives of the macro-economic strategy. However, few concrete measures are set out to achieve the increase in employment necessary for long-term fiscal sustainability.

Micro-economic policies

8. The Danish government identifies as important challenges: enhancing competition in some sectors; strengthening public sector efficiency; developing a knowledge society; securing environmental sustainability and encouraging entrepreneurship. The Commission shares this analysis.
9. The NRP points to the objective of halving the number of sectors facing competition problems by 2010, in order to help bring consumer prices in Denmark, consistently the highest in the EU, more into line with the rest of the Union. Sectors currently affected by a lack of competition include parts of the construction sector, utilities, food processing and professional services. The NRP describes concretely how the authorities identify sectors facing significant competition challenges. It sets out measures to increase competition through amendments to the Competition Act and a review of competition-restricting rules. This will complement action already under way to make shop opening hours more flexible and to amend the Public Tender Act. While the measures envisaged have good potential to enhance competition, full details and clear schedules are not always given. Against this background, a swift implementation of these measures, including strengthening competition through combating cartels more effectively, would be positive.
10. The NRP also includes proposals to make public services more efficient. A planned reform will lead in 2007 to a large cut in the number of municipalities and is likely to deliver efficiency gains through economies of scale. In addition, the NRP presents measures to increase competition in the provision of public services, including enhanced competition between public and private providers.
11. Total R&D spending amounted to 2.6 per cent of Denmark's GDP in 2003, well above the EU average of 1.9 per cent. About 70 per cent of R&D spending is financed by the private sector. If Denmark maintains its current strategy and increases public R&D as intended, the 2010 target of 3 percent of GDP seems realistic. There remains scope to maximise the results of Denmark's relatively high

R&D spending in terms of further boosting productivity. In this respect, the NRP includes promising plans to better exploit technological opportunities by improving knowledge transmission between universities and the private sector, though it is not yet clear to what extent these plans will change incentives for public sector researchers to collaborate with the private sector. In addition, Denmark aims to promote e-government, use of ICT by SMEs, ICT skills and research. Broadband take-up is to be stimulated through competition, enhanced by a framework that strengthens convergence and security. The “National ICT policy initiatives”, however, lack detail.

12. The NRP makes positive efforts to decouple the link between economic growth and environmental impacts. Environmental taxes, such as the new tax on mineral phosphorous in animal feed and the reduction in tax on sulphur-free petrol, are used to ensure that prices better reflect the costs of environmental degradation for society. The 2005 energy strategy promotes energy-saving initiatives addressing in particular energy consumption in the transport sector.
13. While Danish entrepreneurship looks healthy on the basis of the indicator of business start-ups, few of the new firms develop into high-growth companies. The NRP therefore includes plans to grant certain entrepreneurs a three-year period of tax relief to provide an incentive for further growth. This is an interesting initiative and should be followed by a careful evaluation. The relatively small and illiquid stock market could hinder firm growth and the measures presented in the NRP to ease access to capital will help address this problem. An example is the Entrepreneurship Fund that provides early stage venture capital. The government aims to reduce the administrative costs of enterprises by 25 per cent between 2001 and 2010, and has developed a strategy to achieve this objective. With regard to internal market policy, Denmark’s efforts in terms of implementing internal market policy, for instance through a special task force, are encouraging.
14. The micro-economic policy initiatives in the NRP are likely to make a positive contribution to jobs and growth. In some cases, the proposed measures need to be more concrete in order to guarantee successful implementation. For example, few details are given on the timing of the measures to enhance competition.

Employment policies

15. Against the background of the ageing population, the Danish NRP identifies increased labour supply through higher labour force participation as an important challenge. In addition, the NRP focuses on improving the adaptability of employees and enterprises, improving the basic school system and increasing the number of students in secondary and tertiary education. The Commission shares this analysis of the main challenge and priorities.
16. The NRP outlines a number of measures to attract and retain more people in employment in order to increase the labour supply by 2010 and beyond: tighter requirements to seek a job for immigrants who receive benefits; a lower average age for finishing tertiary education; reducing absence due to illness; increasing the average retirement age; and improved functioning of the labour market through overhauling employment policies. These measures have potential to further increase

the already high employment rates but might be insufficient to meet the challenge of a targeted increase of 50-60,000 persons in employment by 2010.

17. The Danish labour market is generally characterised by a high degree of adaptability of workers through mechanisms and measures reviewed and reinforced on a continued basis through involvement of social partners. In terms of adaptability of workers and enterprises, no specific measures have been taken so far. However, to realise national objectives for lifelong learning, the government and the social partners have established a Tripartite Task Force to reform the vocational and adult training system. This is an important first step in a long-term process. The first recommendations from this Task Force are expected in early 2006.
18. Regarding investments in human capital, the focus is again on addressing more long-term challenges and preparing Danish society for the effects of globalisation and technical change. One set of new initiatives aims at increasing the proportion of young people completing upper-secondary education by establishing more cohesion and interaction between subjects, and by improving apprenticeships and vocational colleges. Another set of initiatives aims at increasing the numbers of young people completing higher education and the speed with which they do it. Youth unemployment, which is linked to early school-leaving in particular, will be tackled through measures to ensure participation in individualised education or training. These measures are adequate and focused, with overall targets identified for 2010 and 2015, although some of those seem over optimistic.
19. Overall, the Danish employment strategy is wide-ranging and ambitious but specific measures to increase employment are so far limited, partly because the government is awaiting important advisory reports. In general, budgetary information is scarce in the employment section of the NRP.

PART III: CONCLUSIONS

20. In line with the Integrated Guidelines, the Danish National Reform Programme identifies and responds to the main challenges facing Denmark, namely to prepare for the ageing of the population; reap the benefits of globalisation; strengthen the framework for improved productivity; and increase value for the users of public services. These broad challenges are translated into a number of priorities: improving competition in certain sectors; enhancing public sector efficiency; developing a knowledge society; securing environmental sustainability and energy; encouraging entrepreneurship; and increasing the labour supply. Overall the NRP's approach is broad, coherent and long-term, with ambitious and achievable objectives based on a comprehensive and clear short, medium and long-term analysis and taking account of important EU policies. Action on the recent and forthcoming recommendations of key advisory bodies is likely to lead to an increase in the number of specific reform measures proposed.
21. Clear timetables are given for some measures, but more detail and clearer implementation schedules are necessary for others. Medium-term budgetary implications are set out for most objectives.
22. The programme's strengths include:

it aims to actively incorporate environmental aspects across different policy fields;
measures on energy, education, improving the efficiency of the public sector and promoting R&D and innovation;
the tax relief granted to entrepreneurs in order to provide incentives for further growth is particularly interesting.

23. Among the points requiring further attention are:

more concrete and specific measures to increase labour supply, which may flow from the recommendations of the Welfare Commission (see above);

more detailed measures to enhance competition;

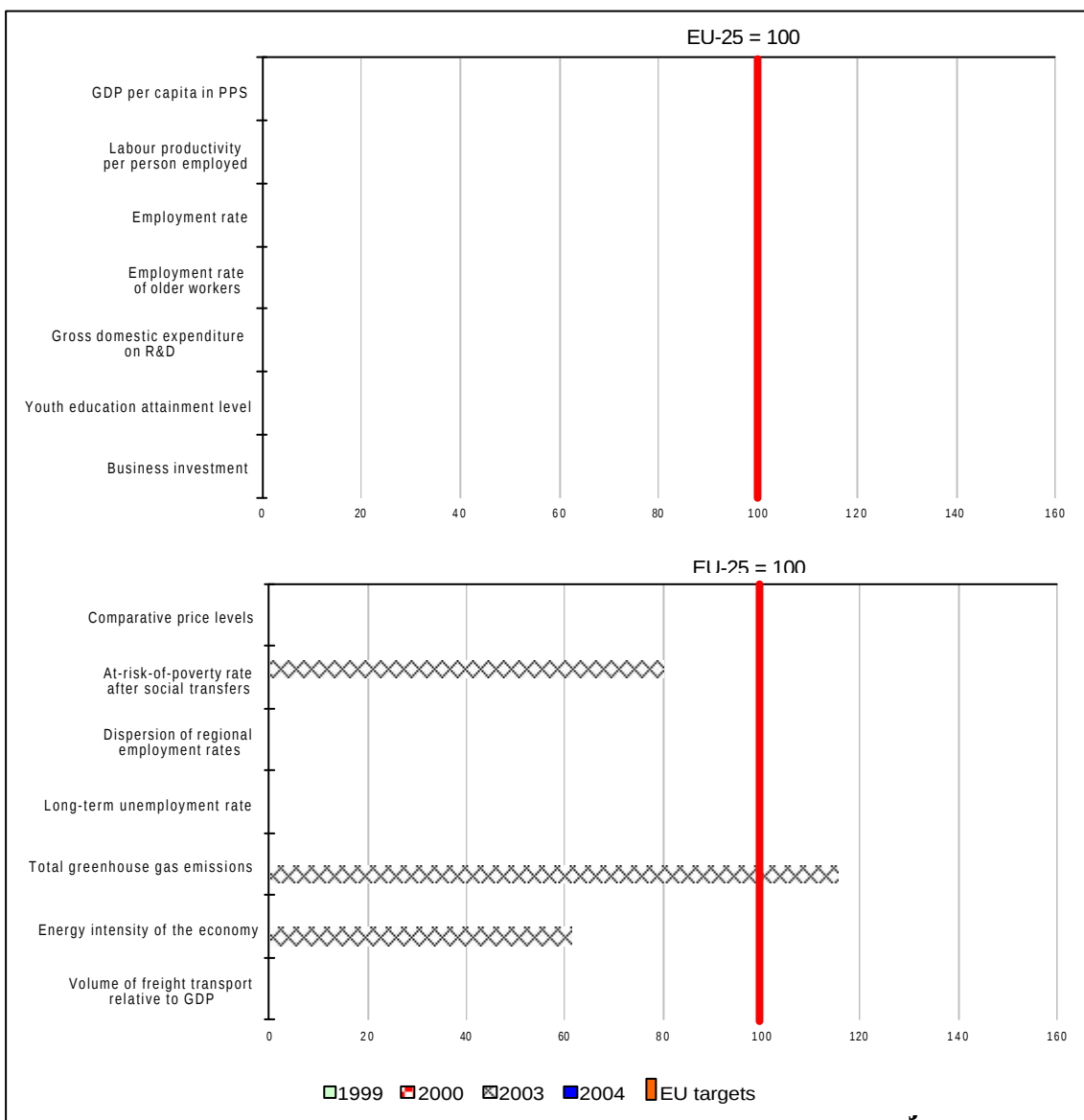
24. Taking due account of the above, Denmark is invited to implement its NRP with vigour. The 2006 progress report on the implementation of the NRP should cover in particular the way Denmark has dealt with the issues mentioned in paragraph 23. In this context, the Commission looks forward to discussions with the Danish authorities as part of the new partnership for growth and jobs.

PART IV : STATISTICAL GRAPHS AND DATA

DENMARK

	DK							EU-25						
	1999	2000	2001	2002	2003	2004	2010 National target	1999	2000	2001	2002	2003	2004	2010 EU target
GDP per capita in PPS	126.8	126.9	125.4	121.1	120.9	121.7	3.0	100.0	100.0	100.0	100.0	100.0	100.0	70.0
Labour productivity per person employed	104.1	105.6	105.1	102.1	103.3	104.3		100.0	100.0	100.0	100.0	100.0	100.0	
Employment rate	76.0	76.3	76.2	75.9	75.1	75.7		61.9	62.4	62.8	62.8	62.9	63.3	
Employment rate of older workers	54.5	55.7	58.0	57.9	60.2	60.3		36.2	36.6	37.5	38.7	40.2	41.0	
Gross domestic expenditure on R&D	2.10	2.27	2.40	2.55	2.59	2.63p		1.87e	1.89e	1.93e	1.93e	1.92e	1.90pe	
Youth education attainment level	73.2	69.8	78.3b	79.6	73.0b	74.8		74.8	76.3	76.1	76.5	76.5	76.6	
Comparative price levels	128.4	127.8	130.7	135.6	138.8	137.0p		100.0	100.0	100.0	100.0	100.0	100.0p	
Business investment	18.1	18.5	17.9	17.8	17.6	17.5		17.9	18.3	17.7	17.1	16.7	16.9	
At-risk-of-poverty rate after social transfers *	10.0	:	10.0	:	12.0b	11.0		:	16.0	15.0	15.0	15.0	16.0	
Dispersion of regional employment rates	-	-	-	-	-	-		13.3	13.4	13.5	13.3	12.9	12.2	
Long-term unemployment rate	1.0	1.0	0.9	0.9	1.1	1.2		4.1	3.9	3.8	3.9	4.0	4.1	
Total greenhouse gas emissions	104.7	98.1	100.2	99.1	106.3	:	-	90.6	90.5	91.4	90.7	92.0	:	3.0
Energy intensity of the economy	132.1	125.0	126.6	123.8	128.2	:		214.9	208.8	209.7	206.5	209.5	:	
Volume of freight transport relative to GDP	93.1	93.0	85.5	86.2	87.7	86.8		100.7e	100.4e	99.4e	100.3e	99.7e	104.7e	

* Alternative computation for Denmark using income definition including imputed rent revenue and mortgage interest payments: 2003 10.0b and 2004 10.0



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Estonia

1. Estonia's economic transition to a market economy started from a very low position with respect to GDP per capita and productivity. Employment declined significantly during the transition, but drastic economic reforms have led to over 6% real GDP growth during the last decade. Rapid productivity growth has been reflected in a sharp increase in wages. As a result, GDP per capita has risen rapidly to 51% of the EU average in 2004. The employment rate in 2004 was 63%. Unemployment has fallen rapidly (9.2% in 2004).

PART I: GENERAL ASSESSMENT

2. The Estonian National Reform Programme (NRP) focuses on two key challenges: first, R&D and innovation and second, employment. The Commission shares this analysis of the main priorities.
3. The strategy in the NRP is forward-looking, ambitious and linked well with existing policies. References are made to other strategic initiatives that are already being implemented or are in the pipeline. The programme is integrated and coherent across the macro-economic, micro-economic and the employment policy chapters. The NRP is structured clearly, indicating objectives and policies to achieve them, including detailed measures. For most measures a set of quantitative indicators is provided with the target values set for 2008, allowing progress to be measured. The NRP sets targets to increase R&D spending to 1.9 percent of GDP by 2010 from 0.82 percent in 2003 and to raise the employment rate to 67.2 percent in 2010 from 63 percent in 2004. The budgetary implications of the planned initiatives are only broadly defined. The presentation of the link between measures envisaged in the NRP and Structural Funds (estimated at some 4 % of GDP) is not sufficiently concrete.
4. Consultation and efforts to develop ownership of the document have been very substantial. The Prime Minister's office coordinated the preparation of the Estonian NRP and will also oversee implementation. A competitiveness working group, established for the preparation of the programme under the chairmanship of the Director of the EU Secretariat of the State Chancellery, brought together representatives of several ministries, social partners, local authorities, and civil society. The draft NRP was posted on the internet for public consultation. The programme was discussed in various parliamentary committees and the NRP approved by the EU Affairs Committee of the Parliament.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

5. Maintaining sound public finances and the conditions for low inflation and price stability are the core objectives for macro-economic policies. These priorities are particularly appropriate as Estonia has a currency board pegging the kroon to the euro. Raising the employment rate is seen as a key for sustaining the economy's strong growth performance in the future and raising the living standard.

6. The NRP strongly emphasises budget balance and financial sustainability, notably through the tax system and the allocation of government spending. For the rest, reliance on market forces is considered the key condition for sustained strong growth. A business friendly tax reform, shifting the burden of taxation to consumption and environmental taxes and away from labour and income are complemented by public spending reform. If successfully implemented, this policy direction should yield important benefits for growth and employment. The Estonian NRP addresses the external account deficit in the context of the broader objective of ensuring a stable macroeconomic environment.
7. The focus of macro-economic policies and measures proposed in the NRP on fiscal sustainability and creating conditions for employment growth are fully appropriate in the context of Estonia's economic situation.

Micro-economic policies

8. Estonia has identified R&D and innovation as a key challenge for sustaining strong economic growth and enhancing competitiveness. In addition to addressing this key challenge, the NRP proposes measures to improve the business environment, the functioning of markets and infrastructure. Given that the recent strong growth has been achieved largely in low-productivity sectors whose competitiveness may come under pressure in the context of globalisation, these micro-economic priorities are particularly relevant for Estonia's long-term growth prospects.
9. The NRP presents a clear diagnosis of the main weaknesses and constraints for R&D and innovation. It formulates quantified objectives and provides clear timetables for reaching them. Estonia plans to continue its efforts towards achieving investment in R&D of 3% of GDP – the target level set for the EU as a whole - by 2014, building on progress made in recent years. The intermediate objectives set (1.5% of GDP by 2008, 1.9 % by 2010) are ambitious but not unrealistic. Explicit budgetary commitments for achieving them still need to be made. Several measures aim at improving the quality of research and innovation as well as the development of human capital. More emphasis may be needed on increasing the low level of private investment in R&D to reach the overall target. The R&D and innovation strategy would benefit from clearer prioritisation. The central role of foreign direct investment (FDI) in financing R&D and fostering the transition from a relatively low-tech to a high-tech based industrial portfolio are not mentioned in the plan.
10. The objective of further enhancing the business environment and stimulating entrepreneurial culture, where Estonia has already achieved much, is addressed by measures on improving the regulatory framework, reducing the administrative cost for business and simplifying legal requirements for start-ups. Impact assessments of new legislation related to enterprise policy are also envisaged. The creation of the Estonian Development Fund in 2006 and the establishment of a network of local "business angels" will help improve access to capital for start-up companies, especially SMEs with high growth potential. The strengthening of access to finance for innovative firms is particularly important in this regard.
11. In several areas beyond the identified key challenges, the NRP proposes measures to enhance competitiveness. The planned development of the public transport infrastructure of rail and road systems and the proposed establishment of nation-wide

broadband access will have a positive impact on Estonia's competitiveness. The NRP also proposes measures to improve e-services in the public sector in order to enhance communication between businesses and the administration. The pro-active competition policy envisaged along with the strengthening of competition authorities are likely to improve the functioning of product and financial markets. Important steps towards the opening the electricity market to competition are also envisaged.

12. The objectives set for environmental policy are clear and the programme identifies important links between environmental sustainability and growth potential. Moreover, planning for ecological tax reform is well advanced. The NRP recognises the energy sector as a main polluter and proposes specific reforms to improve the situation.
13. The micro-economic part of the NRP is both focused and comprehensive. The policies proposed to enhance Estonia's growth potential are presented fully and clearly in the programme and if fully implemented are likely to be effective.

Employment policies

14. The NRP reflects the government's determination to address the employment challenges facing Estonia. The programme lists those challenges as a low employment rate, structural unemployment, skills and lifelong learning. It specifically addresses the issues of: long-term unemployment; the unemployment of youth and women; the high drop-out rate from school; the low quality of vocational education and training of employees; and the fragmented higher education system. Special attention is also paid to improving the adaptability of workers and enterprises. The Commission shares the NRP analysis of where employment priorities lie.
15. To attract and retain more people in employment, Estonia plans to further develop public employment services, including introducing personalised case management, and to improve the coordination between labour markets and social services. These measures are supplemented by special instruments targeting the young and long-term unemployed. Reforms of the pension system are intended to increase the employment rate of older workers. The integration of significant numbers of currently inactive people into the labour market will be necessary to reach the targeted levels for overall employment (67.2% by 2010) and for the employment of disabled people (30% by 2008). The NRP does not fully explain how these levels are to be achieved. The integration of certain categories of the inactive and unemployed, such as ethnic minorities, is not covered by the programme. In order to increase female participation to 65% in 2010, the availability of childcare services will be improved. Other measures to increase the female participation rate, including gender mainstreaming measures, are not considered in the NRP.
16. To increase adaptability, measures are announced to improve the functioning of the labour market, reduce undeclared work, modernise labour relations and improve the working environment so as to sustain productivity and workers' ability to stay in employment longer. Shortcomings in the current legal framework for labour relations are addressed through a number of amendments to employment acts and regulation on collective agreements. The social partners' role in keeping wage developments in line with productivity improvements is insufficiently considered.

17. Despite an already high general level of education, Estonia is committed to increasing investment in human capital. Further raising the skills and education levels of the labour force to reduce structural unemployment features prominently in the programme. National targets set for the effectiveness and quality of formal education are ambitious but achievable through full implementation of the measures proposed in the NRP. Several policy measures, particularly related to vocational training and support to lifelong learning are presented in a clear and detailed way. A comprehensive lifelong learning strategy is scheduled to be formally approved by the Government by the end of the year. Attention is given to enhancing young people's employability and to reducing the drop-out rate, with the NRP focusing appropriately on improving educational quality and access.
18. Estonia makes a strong effort to meet the key challenge it sets itself of increasing employment and to address the issue of structural unemployment. By fully implementing the proposed measures the ambitious objectives can be reached.

PART III: CONCLUSIONS

19. In line with the Integrated Guidelines, the Estonian National Reform Programme identifies and responds to the main challenges facing Estonia as a fast growing economy, namely R&D and innovation and employment.. Overall, the NRP is integrated, coherent and clearly structured, with explicit links made between policy areas. Objectives are ambitious, with clear paths and detailed measures set out for achieving them.
20. For most measures a comprehensive set of quantitative indicators and targets is provided. These, along with the extensive consultation with stakeholders and the clear structures for implementation will be significant advantages in putting the NRP into practice. However, the budgetary implications of the planned initiatives are only broadly defined. More emphasis is needed on linking the measures in the NRP with the forthcoming substantial injection of structural funds and on enhancing Estonia's administrative capacity to manage the funds.
21. The programme's strengths include:
 - the importance attributed to achieving synergies between environmental sustainability and growth;
 - the credible effort to introduce ICT in the public sector, which builds on impressive existing achievements and is a good example for other countries;
 - plans to improve the working of the labour market, reduce undeclared work, modernise labour relations and improve the working environment.
22. Among the points requiring further attention are:
 - a stronger focus on increasing private R&D investment and on the role of FDI in that context;

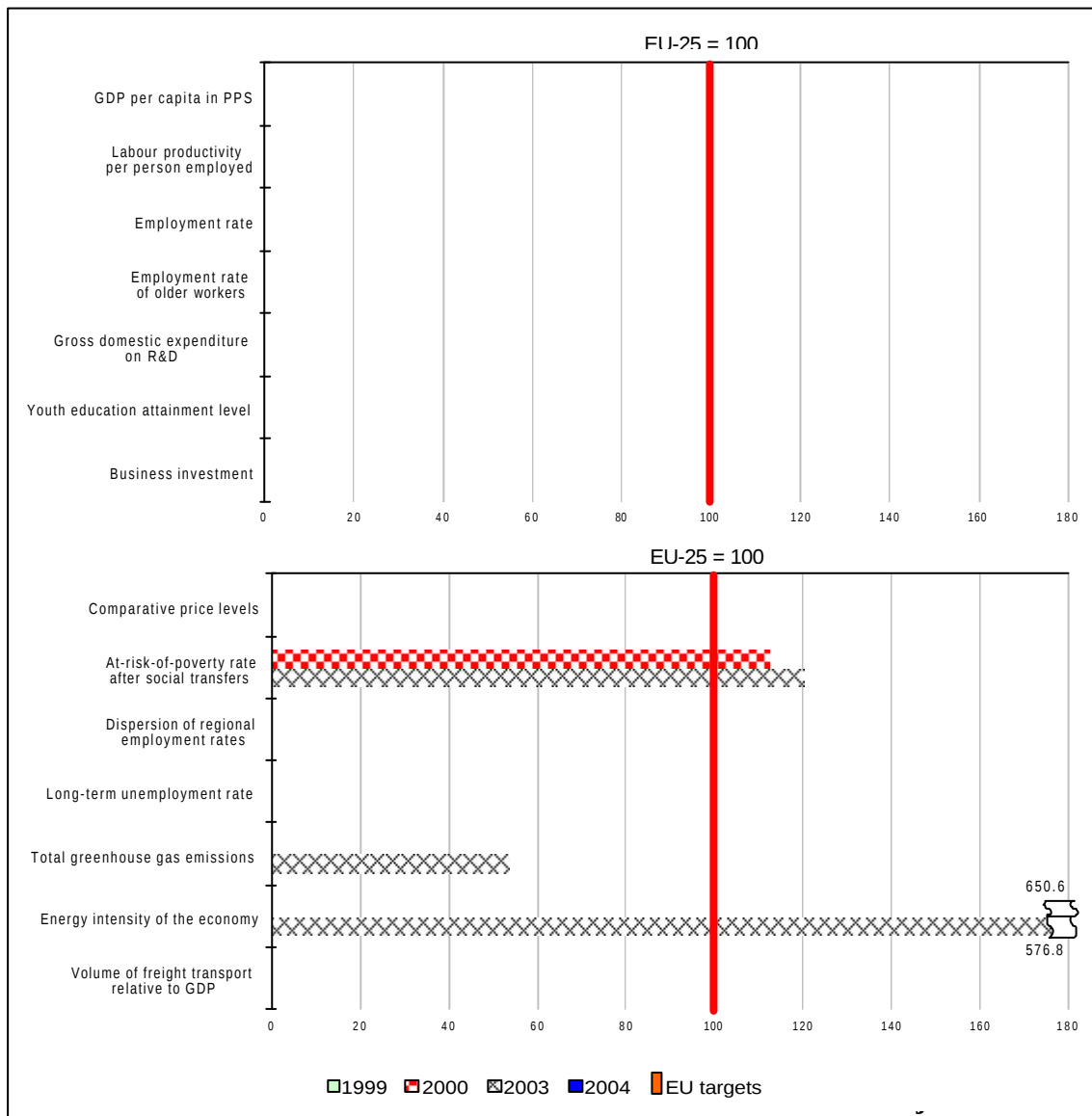
further measures to develop a comprehensive active labour market policy and to improve skills in order to achieve the ambitious employment rate target set .

23. Taking due account of the above, Estonia is invited to implement its NRP with vigour. The 2006 progress report on the implementation of the NRP should cover in particular the way Estonia has dealt with the issues mentioned in paragraph 22 In this context, the Commission looks forward to discussions with the Estonian authorities as part of the new partnership for growth and jobs.

PART IV : STATISTICAL GRAPHS AND DATA

ESTONIA

	EE							EU-25						
	1999	2000	2001	2002	2003	2004	2010 National target	1999	2000	2001	2002	2003	2004	2010 EU target
GDP per capita in PPS	39.0	41.2	42.4	45.3	48.5	51.5	67.2	100.0	100.0	100.0	100.0	100.0	100.0	70.0
Labour productivity per person employed	39.3	42.6	43.8	46.0	48.2	51.3		100.0	100.0	100.0	100.0	100.0	100.0	
Employment rate	61.5	60.4	61.0	62.0	62.9	63.0		61.9	62.4	62.8	62.8	62.9	63.3	
Employment rate of older workers	47.5	46.3	48.5	51.6	52.3	52.4		36.2	36.6	37.5	38.7	40.2	41.0	
Gross domestic expenditure on R&D	0.70	0.62	0.73	0.75	0.82	0.91p	1.9	1.87e	1.89e	1.93e	1.93e	1.92e	1.90pe	3.0
Youth education attainment level	83.0	83.6	79.5	80.4	81.4	82.3		74.8	76.3	76.1	76.5	76.5	76.6	
Comparative price levels	57.3	56.8	59.7	62.1	63.2	62.9p		100.0	100.0	100.0	100.0	100.0	100.0p	
Business investment	20.5	21.7	22.9	24.0	25.5	25.2		17.9	18.3	17.7	17.1	16.7	16.9	
At-risk-of-poverty rate after social transfers	:	18.0	18.0	18.0	18.0	:	-	:	16.0	15.0	15.0	15.0	16.0	
Dispersion of regional employment rates	-	-	-	-	-	-		13.3	13.4	13.5	13.3	12.9	12.2	
Long-term unemployment rate	5.0	5.7	5.7	5.0	4.7	4.8		4.1	3.9	3.8	3.9	4.0	4.1	
Total greenhouse gas emissions	45.2	45.4	44.7	44.9	49.2	:		90.6	90.5	91.4	90.7	92.0	:	
Energy intensity of the economy	1398.1	1214.8	1273.0	1153.2	1208.4	:		214.9	208.8	209.7	206.5	209.5	:	
Volume of freight transport relative to GDP	164.4	182.8	165.2	172.3	158.5	167.9		100.7e	100.4e	99.4e	100.3e	99.7e	104.7e	



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Finland

1. After expanding at an annual rate of nearly 5% during 1995-2000, Finland's economic activity slowed with the global downturn in 2001, although growth has remained well above the EU average. Yet, growth of the labour productivity per person employed has been only slightly above the EU average over the last decade. There are, however, marked differences between sectors. GDP per capita was at 113% of the EU average in 2004. The employment rate was at 67.6%. In 2004, the unemployment rate was 8.8%, which is slightly below the EU average.

PART I: GENERAL ASSESSMENT

2. The Finnish National Reform Programme (NRP) presents three medium-term challenges: the sustainability of public finances, improving competitiveness and productivity and improving the functioning of the labour market. There is a target of attaining balanced central government finances by 2007. These challenges are defined in a very broad sense and linked to eleven macro, micro and employment key priorities. The Commission broadly shares the NRP's analysis of the main priorities, and it also sees increasing competition, particularly in services markets, as an important challenge.
3. The NRP gives an overview of the Government's ongoing and planned policy actions. The NRP describes the main strategic orientations, while the reader is referred to the underlying policy documents for details of specific action proposed. The NRP is coherent across the different policy areas and contains a range of ambitious but achievable quantitative targets, including an annual increase in labour productivity of at least 2.5 per cent to 2010 and the creation of 100,000 new jobs by 2007, which would raise the employment rate to about 70 per cent. The longer-term objective is to raise the employment rate still further, to 75 per cent by 2011. Targets are also set for research spending, reduction of the dropout rate from school and lowering the entry age into tertiary level education and the graduation age. The NRP describes how EU Structural Funds will be used to promote the objectives.
4. Consultation and efforts to develop ownership of the document have been very substantial, in part based on the preceding broad and inclusive debate on Finland's globalisation strategy. The NRP was prepared by a group composed of the key Ministries and the Prime Minister's office, under the leadership of a Director General at the Ministry of Finance. Other Ministries, social partners, local government, the science community and independent NGOs were consulted. The NRP was presented to the Finnish parliament for information.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

5. The overarching policy goal is to ensure the sustainability of public finances in the face of demographic change, which means that while Finland's overall macro-economic performance is quite strong, new challenges will be faced in the medium

and long term. Key priorities are controlling public expenditure, ensuring the capacity to fund welfare services and improving public sector productivity.

6. The NRP includes a well-designed strategy for boosting public sector efficiency and quality in the provision of services, through for example the public sector productivity programme for the central government, the basic services programme assessing income and expenditure for local governments and a project to reform municipal and social services structures. Other on-going measures include phasing in pension reform and the maintenance of central government spending limits. The objective is set to restore balance in central government finances under conditions of normal economic growth by 2007. The goal for local government finances is to improve the balance, but no quantified targets are given.
7. The implementation of the measures outlined in the programme should contribute to the long term sustainability of public finances and help address long term challenges arising from population ageing.

Micro-economic policies

8. The NRP prioritises the functioning of markets and competition; knowledge and innovation; entrepreneurship; ICT and transport networks; energy and climate policy. In general, the NRP outlines many valuable micro-economic policy measures which should stimulate growth and jobs.
9. Competition issues are a key challenge for Finland. Consumer prices are relatively high – some 25 per cent above the EU25 average in 2002 – which is likely to partially reflect a lack of competition in some sectors. The NRP points to regulations which directly prevent competition in pharmacy services, opening hours for the sale of consumables and in the transport and construction sectors. Some measures are proposed in the NRP to address these issues, including a new law on public procurement. Several ongoing research projects are analysing competition issues. The NRP does not address in detail the specific issue of ensuring that the Finnish competition authority possesses and exercises sufficient powers to speedily and decisively remove barriers to open competition.
10. Total R&D spending amounted to 3.5 per cent of Finland's GDP in 2003, well above the overall 3 per cent EU target for 2010. About 70 per cent of R&D spending is financed by the private sector. In the NRP, the Finnish government announces a target of raising total R&D spending to 4 per cent of GDP by the end of the decade. Public spending on R&D is projected to increase by 5-7 per cent each year over the same period. This commitment to research is not fully reflected in the country's performance in terms of creating innovative products and services. The NRP sets out plans to continue the process of strategic prioritisation in the allocation of research funding, as well as stronger focus on the international dimension of the research and innovation system. The NRP aims simultaneously at increasing excellence in cutting edge technological research and broadening innovation policy to the service sector.
11. The rate of business start-ups in Finland is significantly below the EU average, though the procedures and time required to set up businesses in Finland are already quite favourable by international standards. Furthermore, too few firms grow into medium-sized or large enterprises. To promote entrepreneurship and a favourable business environment, the NRP refers to a forthcoming national action plan for better

regulation and to the existing entrepreneurship policy programme. The proposed steps to reduce further the administrative cost for private businesses are promising. The reform of corporate and capital income taxes in 2005 and the ending of property tax from 2006 also appear to have potential to improve the environment for entrepreneurship and SMEs. The government also plans to invest an additional 11.5 million euro in a new type of venture capital fund.

12. To facilitate the spread and effective use of ICT, several measures are presented, such as the launch of programmes to promote the uptake of ICT in SMEs and increased broadband availability. The NRP presents plans for promoting the environmental technologies and includes a commitment to reform tax structures with a view to promoting sustainable development.
13. In view of the opportunities and challenges increased globalisation presents for its leading industries, the reform of the research and innovation system and the increase in investment set out in the NRP are appropriate and of strategic importance for Finland, even in the light of its existing strong performance in these areas. The better regulation, ICT and environmental measures are also potential sources of jobs and growth. Some of the other micro-economic policies proposed in the NRP are not set out in a way detailed enough to allow a comprehensive assessment of their potential impact. For example, it is not wholly clear how extensive the effect of the measures proposed to boost competition will be.

Employment policies

14. The NRP identifies extending working life, improving the incentives of tax and benefit systems, wage formation and improving the balance between labour demand and supply as key employment priorities. The focus is on increasing labour supply at both ends of the working age population. The Commission shares this point of view.
15. To attract and keep more people in employment, Finland focuses on the retention of older workers in the labour market. The employment rate among older people has increased rapidly in recent years, and recent pension reforms should contribute to further increases in the average exit age. Nevertheless, the effectiveness of the pension reforms needs careful monitoring and more measures may prove necessary to remove remaining disincentives to stay in work. Measures for preventing exclusion, especially of young people, as well as for “making work pay” through developing the tax and benefit system have been strengthened in the 2006 budget proposal. The decentralised implementation of active labour market measures through the labour force service centres is appropriate and can help reduce structural unemployment and meet employer demand for skills, though it will need to be closely monitored to ensure effective delivery. Limited attention is given to employment-based immigration in the Programme as the Government is currently in the process of adopting a new immigration policy programme.
16. The NRP acknowledges that improving working conditions is an important precondition for further increases in productivity and the employment rate. Comprehensive programmes are being implemented to this end. Finland has a well-balanced and targeted approach to lifelong learning and has already achieved the EU benchmarks on education and training. Tackling early school leaving remains a key priority. An overall target for the proportion of working age people participating in

training is set at 60 per cent by 2008, compared to 54 per cent in 2000. To maximise the effect of this, more attention may need to be paid to workers with lower educational levels. In order to promote the occupational mobility of an ageing workforce, further measures could be taken on "learning at work" methods, as well as on the recognition of qualifications and competencies.

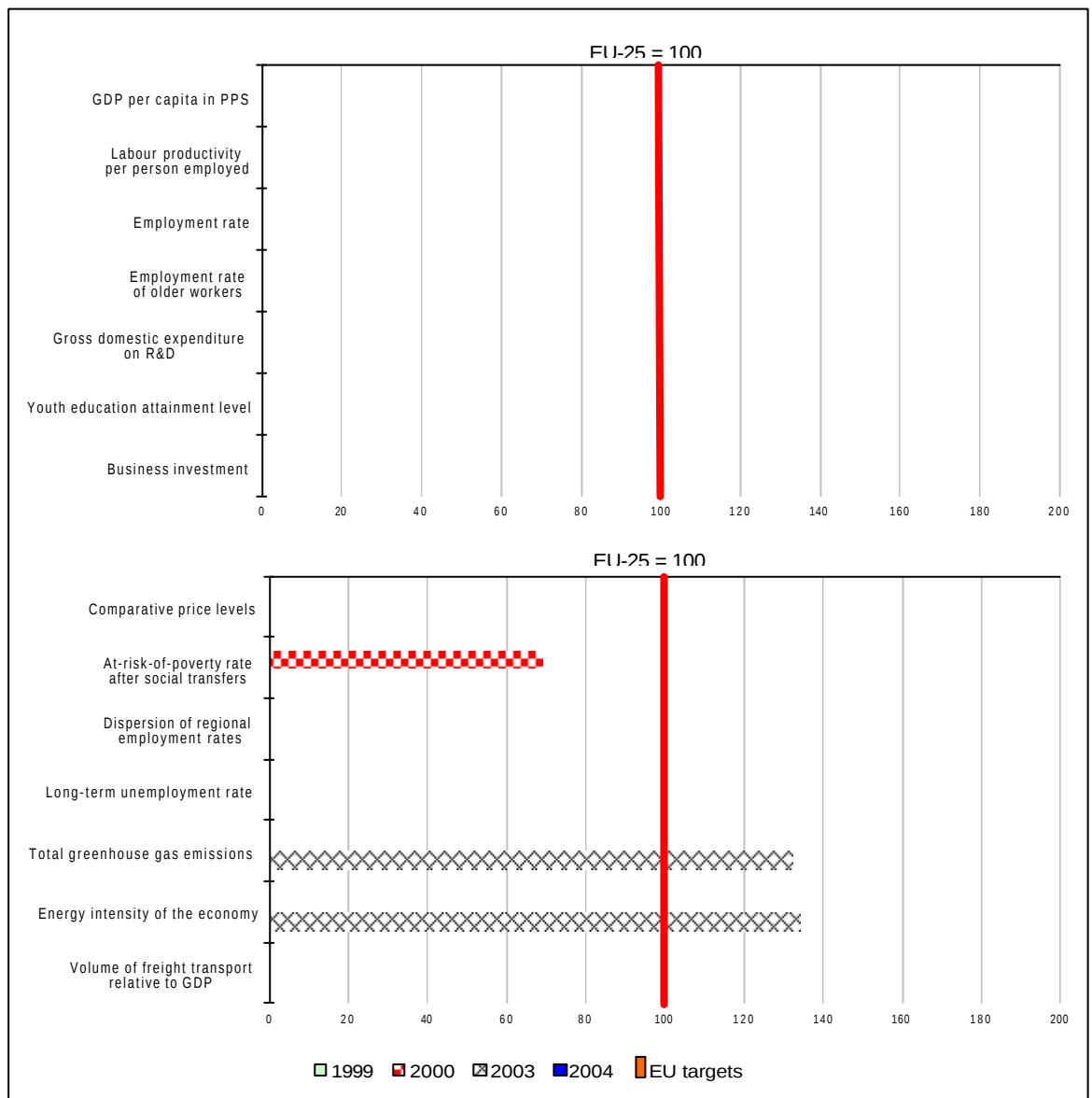
17. The employment measures proposed in the NRP are likely to make an important contribution to increasing the labour supply and reducing structural unemployment. However, to reach the ambitious 75% employment rate target by 2011, further measures need to be considered to encourage older workers to stay longer in employment and to integrate immigrants and disabled people into the labour market.

PART III: CONCLUSIONS

18. In line with the Integrated Guidelines, the Finnish National Reform Programme identifies and responds to most of the main challenges facing Finland, namely three medium-term challenges: the sustainability of public finances, improving competitiveness and productivity and improving the functioning of the labour market and a target of attaining balanced central government finances by 2007. However, increasing competition, particularly in services markets, is an important challenge for Finland which is only partially addressed in the programme. Overall, the NRP is coherent and sets out ambitious yet achievable objectives and a range of concrete and appropriate policy measures to build on the recent successes of the Finnish economy.
19. The NRP includes fairly comprehensive information on timetables, targets and budgeting. The broad debate organised with stakeholders to discuss Finland's globalisation strategy and the resulting sense of ownership is likely to pay dividends in the implementation phase
20. The programme's strengths include:
 - the sense of urgency with respect to the sustainability of public finances;
 - the set of measures to promote entrepreneurship and improve the business climate;
 - the ambitious R&D investment target of 4% by 2010 and the move towards stronger specialisation of research and a wider application of innovation, in particular in the service sector.
21. Among the points requiring further attention are:
 - increasing competition in service markets;
 - further initiatives to keep older workers longer in employment.
22. Taking due account of the above, Finland is invited to implement its NRP with vigour. The 2006 progress report on the implementation of the NRP should cover in particular the way Finland has dealt with the issues mentioned in paragraph 21. In this context, the Commission looks forward to discussions with the Finnish authorities as part of the new partnership for growth and jobs.

FINLAND

	FI							EU-25						
	1999	2000	2001	2002	2003	2004	2010 National target	1999	2000	2001	2002	2003	2004	2010 EU target
GDP per capita in PPS	111.5	113.6	113.2	112.7	111.7	112.8	70.0 (2007)	100.0	100.0	100.0	100.0	100.0	100.0	70.0
Labour productivity per person employed	108.6	110.1	109.4	108.4	107.4	108.5		100.0	100.0	100.0	100.0	100.0	100.0	
Employment rate	66.4	67.2	68.1	68.1	67.7	67.6		61.9	62.4	62.8	62.8	62.9	63.3	
Employment rate of older workers	39.0	41.6	45.7	47.8	49.6	50.9		36.2	36.6	37.5	38.7	40.2	41.0	
Gross domestic expenditure on R&D	3.21	3.38	3.38	3.43	3.48	3.51	4.0	1.87e	1.89e	1.93e	1.93e	1.92e	1.90pe	3.0
Youth education attainment level	86.8	87.8b	86.5	86.2	85.2	84.6		74.8	76.3	76.1	76.5	76.5	76.6	
Comparative price levels	124.3	123.0	122.8	124.4	125.9	122.9p		100.0	100.0	100.0	100.0	100.0	100.0p	
Business investment	16.6	17.1	17.6	16.0	15.3	15.8		17.9	18.3	17.7	17.1	16.7	16.9	
At-risk-of-poverty rate after social transfers	11.0	11.0	11.0b	11.0	11.0	11.0b		16.0	15.0	15.0	15.0	15.0	16.0	
Dispersion of regional employment rates	6.7	6.8	7.0	6.7	6.1	5.5		13.3	13.4	13.5	13.3	12.9	12.2	
Long-term unemployment rate	3.0	2.8	2.5	2.3	2.3	2.1		4.1	3.9	3.8	3.9	4.0	4.1	
Total greenhouse gas emissions	102.9	99.7	107.6	109.7	121.5	:		90.6	90.5	91.4	90.7	92.0	:	
Energy intensity of the economy	276.0	260.1	263.8	272.2	280.7	:		214.9	208.8	209.7	206.5	209.5	:	
Volume of freight transport relative to GDP	97.6	99.3	94.2	95.1	91.4	91.3		100.7e	100.4e	99.4e	100.3e	99.7e	104.7e	



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France

1. Après une période de faible croissance au début des années 2000, l'activité économique s'est sensiblement redressée en 2004 mais a progressé sur un rythme un peu moins rapide en 2005. Depuis 2000, la croissance de l'économie française est supérieure à celle de la moyenne de l'Union européenne (UE25). La croissance de la productivité du travail par tête se situe juste en dessous de la moyenne européenne sur les dix dernières années. En revanche, la progression de la productivité horaire est supérieure à celle de la moyenne européenne. Le PIB par habitant s'élève à 110% de la moyenne de l'Union européenne en 2004. Au cours des deux dernières années, le taux d'emploi (63,1% en 2004) n'a que faiblement progressé, mais il est en augmentation de 1 point par rapport à 2000. Le taux de chômage est resté à un niveau élevé (9,6% en 2004). Cette situation a contribué à dégrader davantage la position budgétaire de la France, déjà mise à mal par le triplement du taux d'endettement au cours des vingt dernières années.

PARTIE I - EVALUATION GLOBALE

2. Le programme national de réforme (PNR) de la France est construit sur un concept de « croissance sociale » et identifie trois priorités principales : créer les conditions d'une croissance économique forte ; réduire le chômage et élever les niveaux d'emploi ; construire une économie de la connaissance. Il met l'accent sur la nécessité d'assainir les finances publiques, sur le retour à l'emploi et sur le renforcement de la compétitivité des entreprises. La Commission partage le choix de ces priorités, tout en notant que les aspects liés à la concurrence et à l'ouverture des marchés sont peu abordés dans ce programme.
3. Le PNR se présente comme un document de politique générale, mettant l'accent sur les trois priorités françaises, sans référence explicite aux lignes directrices européennes pour la croissance et l'emploi. Celui-ci met l'accent sur les actions déjà entreprises ou décidées en matière de finances publiques, de politique d'emploi, de politique industrielle et de politique d'innovation et de recherche. Beaucoup de ces actions semblent pertinentes et susceptibles de créer une dynamique réelle. Toutefois, le PNR ne lève pas les incertitudes sur l'objectif préalable de réduction du déficit public. L'articulation des mesures entre les différents domaines ne semble pas toujours établie et le PNR ne fournit pas d'informations sur leur financement par le budget national, ni sur l'utilisation des fonds structurels européens. Le PNR fixe des objectifs en matière de déficit public et de dette publique mais ne fixe pas d'objectifs quantitatifs pour l'emploi et l'investissement dans la recherche et le développement. Le manque d'objectifs quantifiés, d'évaluations d'impact et d'informations plus détaillées sur les conditions de mise en œuvre de certaines mesures limite le caractère prospectif et opérationnel du programme.
4. Des efforts pour assurer la consultation des acteurs concernés ont été faits, mais ils doivent être renforcés dans le but d'améliorer l'appropriation du document. Le PNR a été élaboré par un travail interministériel, coordonné au niveau technique par le secrétariat général pour les affaires européennes, rattaché au Premier ministre et validé par le Comité interministériel sur l'Europe. Il a fait l'objet d'une discussion en

commission parlementaire mais n'a pas pu profiter d'une couverture médiatique spécifique. Il a été présenté aux partenaires sociaux et certaines de leurs observations ont été intégrées dans la version finale du document. Un suivi au niveau du Conseil économique et social est prévu pour l'ensemble de la durée couverte par le PNR.

PARTIE II - EVALUATION DES POLITIQUES

Politiques macroéconomiques

5. Le PNR fait de la consolidation des finances publiques un préalable à une croissance durable, en lien notamment avec les défis posés par le vieillissement démographique. Il fixe un objectif de solde des administrations publiques compris, selon les scénarii de croissance, entre $-1,4\%$ et $+0,1\%$ en 2009. Le programme souligne que cette consolidation des finances publiques doit aller de pair avec l'élévation du potentiel de croissance de l'économie française, grâce à l'augmentation des niveaux d'emploi et la diffusion d'une économie de la connaissance. La Commission partage ce choix de priorités.
6. Afin de consolider la situation des finances publiques, le PNR confirme l'approche de rigueur budgétaire de la France, qui s'articule autour des axes suivants : une progression de la dette inférieure à celle de la richesse nationale, grâce à un effort continu de réduction des déficits publics ; une poursuite de la maîtrise des dépenses publiques, notamment en amplifiant l'effort de l'Etat au-delà de la stabilité en volume de ses dépenses en 2007; une modernisation du cadre réglementaire des finances publiques devant permettre une meilleure gestion des dépenses publiques ; la poursuite des réformes en matière de protection sociale. A court terme, la montée en charge de la réforme de l'assurance maladie et la diminution des dépenses d'assurance chômage sont censées contribuer au redressement budgétaire, en dépit d'une hausse des dépenses des collectivités locales.
7. En ce qui concerne le lien entre protection sociale et finances publiques, le programme présente des objectifs chiffrés pour la réforme des retraites, tandis que l'impact des réformes du système de santé reste plus imprécis. Ces réformes vont dans la bonne direction même si elles sont probablement insuffisantes, à elles seules, pour assurer la viabilité à long terme des finances publiques.
8. Globalement, l'approche mise en avant dans le PNR n'est pas nouvelle et s'inscrit dans l'effort français de réduction du déficit public engagé ces dernières années, en lien notamment avec l'ouverture d'une procédure européenne pour déficit excessif. Toutefois, si les objectifs sont clairs, la Commission estime que des mesures supplémentaires sont nécessaires pour garantir la correction du déficit excessif de façon permanente. Il est vrai que le récent engagement politique concernant la réduction de la dette va dans le bon sens. La conférence des finances publiques visant à sensibiliser tous les acteurs publics à la nécessité du partage de la contrainte budgétaire en est une bonne illustration.

Politiques microéconomiques

9. Le PNR met l'accent sur l'amélioration de la compétitivité des entreprises. Il insiste notamment sur le renforcement de la recherche, le soutien à l'innovation et aux PME. La Commission partage globalement cette approche, tout en notant que les aspects liés au marché intérieur sont peu détaillés. Le PNR fait également état de mesures

prises en matière d'environnement, de changement climatique et d'efficacité énergétique.

10. En matière de recherche et d'innovation, le programme vise à accroître l'investissement privé dans la R&D et l'efficacité de la recherche publique, ainsi qu'à soutenir la diffusion de l'innovation dans l'économie. Le programme présente une série d'actions positives visant à rendre l'évaluation de la recherche publique plus systématique et à renforcer la coopération avec les entreprises. Le programme aurait toutefois gagné à être plus détaillé en ce qui concerne la réforme de la recherche universitaire, pour laquelle un projet de loi est en cours de discussion. En matière d'innovation, le PNR annonce plusieurs projets ambitieux : agence de l'innovation industrielle, création de 67 "pôles de compétitivité", mise en place d'une structure visant à favoriser l'accès des PME à l'innovation. Ces propositions constituent un socle solide pour le soutien à l'innovation et le développement d'une politique industrielle dans les années à venir. La multitude des acteurs et des mécanismes impliqués pose la question de leur bonne coordination. Le PNR prévoit aussi des mesures dans le domaine des TIC visant l'amélioration de l'accès au haut débit, de la sécurité des réseaux et de l'administration électronique.
11. Afin de soutenir le développement des PME et d'améliorer l'environnement réglementaire pour les entreprises, le PNR présente certaines mesures ayant pour but une simplification du droit du travail, un allègement de la fiscalité, de meilleurs accès au financement, la diffusion des technologies de l'information et de la communication, des mesures d'aménagement du territoire et le développement d'infrastructures de transport et d'énergie. Le PNR gagnerait à être précisé pour ce qui touche à l'amélioration de la « qualité de la législation ». Cela concerne les politiques, les structures et les outils qui pourraient être mis en œuvre pour réduire et simplifier la législation, évaluer plus systématiquement l'impact des nouvelles initiatives ainsi que la diffusion de bonnes pratiques réglementaires au sein de l'administration.
12. En ce qui concerne la concurrence et l'ouverture des marchés des industries de réseau, le PNR se limite essentiellement à un constat juridique concernant le respect des directives européennes. Le PNR aborde peu les autres aspects liés à la concurrence et à l'ouverture des marchés, tels que la question des professions réglementées ou encore l'approfondissement du marché intérieur. En revanche, des avancées ont été apportées en matière de concurrence dans le secteur du commerce et dans le secteur bancaire et des réformes sont également annoncées en matière de protection des consommateurs.
13. Globalement, le PNR français reprend à son compte des mesures récentes et relativement fortes en matière de recherche, d'innovation et de politique industrielle. Il est encore trop tôt pour évaluer les effets de ces mesures et juger de leur efficacité dans la durée. Un enjeu particulier concerne la bonne articulation de ces dispositifs afin de limiter les risques de superposition et/ou d'éparpillement des moyens même si ceux-ci s'inscrivent dans un schéma d'ensemble. Par ailleurs, le PNR s'avère moins détaillé et plus prudent sur les questions relevant du marché intérieur.

Politiques d'emploi

14. Les priorités du PNR sont centrées sur le développement de la demande de travail par la poursuite d'une politique d'allègement des charges sociales, l'augmentation de l'offre de main-d'œuvre via des politiques de retour à l'emploi et des réformes du fonctionnement du marché du travail. La Commission partage ce choix des priorités mais regrette que les aspects liés à l'investissement dans le capital humain ne soient pas abordés de manière plus explicite.
15. La France se caractérise par un taux de chômage relativement élevé et par la faiblesse de ses taux d'emploi aux deux extrémités de la pyramide des âges. Afin d'attirer et de retenir davantage de personnes dans l'emploi, le PNR insiste sur le renforcement des incitations financières à la reprise d'un emploi, le développement de contrats aidés, l'activation des revenus d'assistance, un accompagnement renforcé et une responsabilisation accrue des demandeurs d'emploi. Sur ce dernier point la France a mis au point un mécanisme de suivi, assorti de sanctions. L'insertion des jeunes constitue une priorité particulière et le PNR met également l'accent sur la prévention de l'échec scolaire et l'élargissement de l'accès à l'apprentissage. L'accent mis sur l'insertion de groupes cibles en difficulté représente une inflexion par rapport aux années précédentes. Ces mesures vont dans le bon sens. Il sera également important d'assurer la cohérence entre ces mesures et les évolutions futures des règles relatives à l'assurance chômage et aux minima sociaux. En ce qui concerne l'emploi des travailleurs âgés, la France a engagé une politique de réformes pour améliorer le maintien et le retour à l'emploi des personnes de plus de 50 ans. Le programme privilégie la voie du dialogue social et annonce un plan d'action concerté entre l'Etat et les partenaires sociaux. Le détail des mesures doit encore être précisé suite à la concertation avec les partenaires sociaux. Le développement d'une stratégie globale pour l'emploi des seniors reste un défi essentiel pour la France.
16. Concilier capacité d'adaptation des travailleurs et adaptabilité des entreprises est un enjeu particulier pour la France, qui se caractérise par une segmentation forte du marché du travail entre personnes dans l'emploi et personnes en situation de précarité professionnelle. Dans ce contexte, le PNR met en avant l'instauration du contrat nouvelle embauche (CNE) visant à favoriser le recrutement dans les entreprises comportant jusqu'à vingt salariés. Une évaluation du CNE est prévue fin 2008. Parmi les autres enjeux prioritaires pour la France, le PNR n'aborde qu'indirectement la question de l'anticipation et de la gestion des mutations économiques. Par ailleurs, le programme ne présente pas d'évaluation de l'impact sur l'emploi et la productivité de certaines mesures d'une importance particulière, comme la diminution des charges sur les bas salaires et l'assouplissement de la législation sur le temps de travail.
17. En dehors des éléments concernant l'accès des jeunes au marché du travail, le PNR pourrait être plus complet sur la nécessité d'investir davantage dans le capital humain. Des mesures récentes ont été annoncées qui vont dans ce sens. Sur ce point, le PNR renvoie essentiellement à des mesures consacrées à l'égalité entre hommes et femmes, à la santé au travail et à la lutte contre l'exclusion et contre les discriminations. Augmenter l'accès à la formation tout au long de la vie reste un enjeu pour la France, notamment pour les personnes les moins qualifiées et les travailleurs âgés. De ce point de vue, la mise en œuvre de la loi sur la formation professionnelle tout au long de la vie pourrait être davantage développée dans le PNR.

18. Le PNR présente un ensemble de mesures visant à répondre à certains problèmes caractéristiques du marché du travail français. Un accent nouveau est mis sur les personnes en difficulté, notamment les jeunes. La montée en charge de mesures actives et de contrats aidés devrait contribuer à réduire le chômage à court terme. Toutefois, la portée, la cohérence et l'impact des politiques d'emploi sont difficiles à évaluer à partir du PNR. Il est à espérer que le dialogue entre partenaires sociaux aboutisse à une avancée significative sur la question de l'emploi des travailleurs âgés.

PARTIE III - CONCLUSIONS

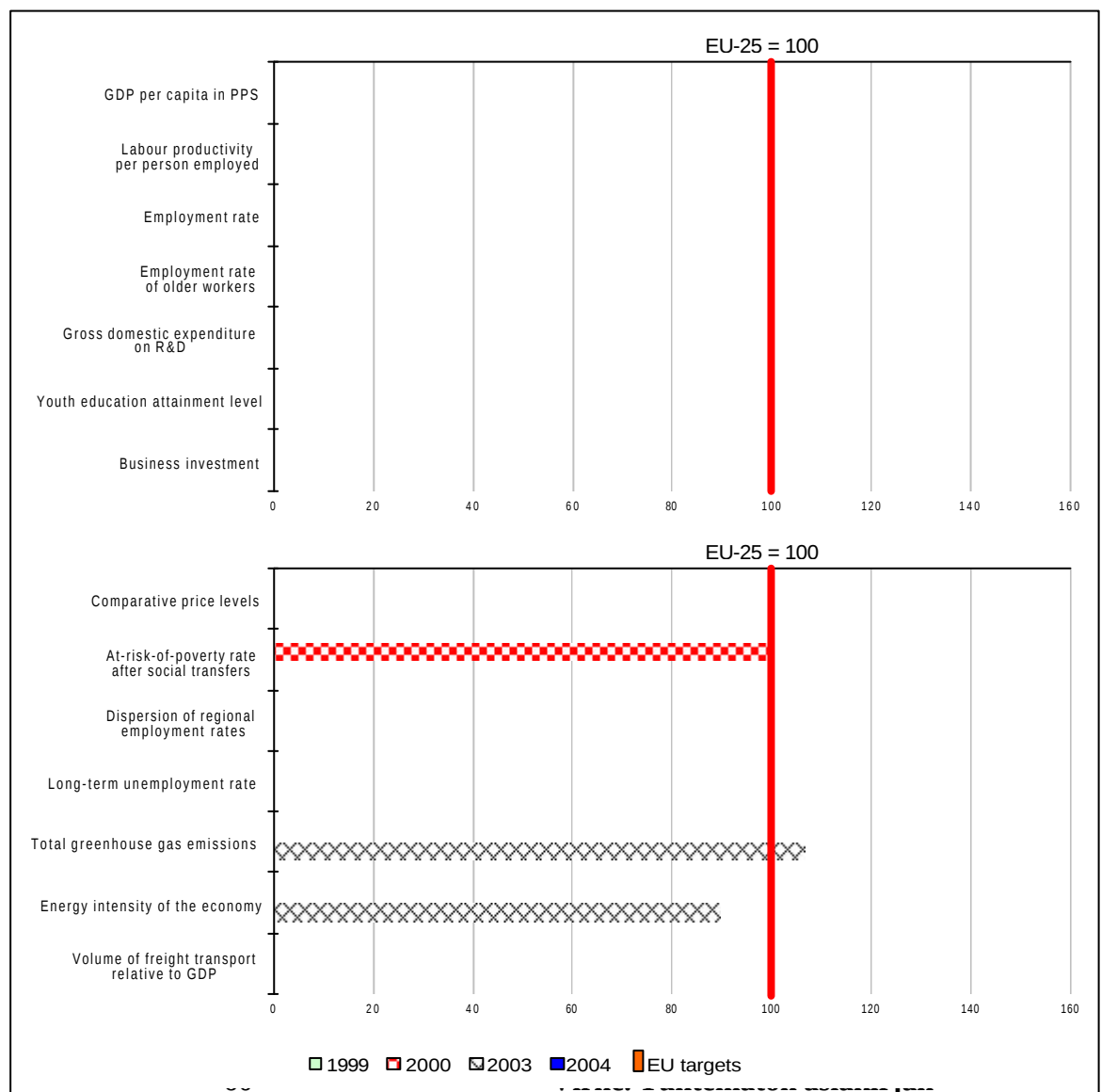
19. Dans l'axe des Lignes directrices intégrées, le programme national de réforme français identifie et répond à un grand nombre des défis majeurs auxquels la France est confrontée, notamment créer les conditions d'une croissance économique forte ; réduire le chômage et élever les niveaux d'emploi ; construire une économie de la connaissance. Il met l'accent sur la nécessité d'assainir les finances publiques, sur le retour à l'emploi et sur le renforcement de la compétitivité des entreprises. Il n'aborde que partiellement les questions importantes de la concurrence et de l'ouverture des marchés et du renforcement du capital humain. Le PNR présente plusieurs réformes et actions positives qui pourraient cependant être précisées davantage en termes de la quantification et réalisation des objectifs. Le programme profiterait également d'une articulation plus cohérente entre les différents domaines traités.
20. Le PNR gagnerait à être clarifié au niveau de l'articulation avec les lignes directrices européennes pour la croissance et l'emploi, ainsi que sur le plan des moyens d'évaluer la portée exacte d'un certain nombre de mesures et de l'allocation des ressources budgétaires mis à disposition pour les mettre en œuvre.
21. Parmi les points forts du programme sont:
- l'accent donné à l'emploi des jeunes;
 - la mise en place d'une politique volontariste en matière d'innovation, notamment à travers le développement de "pôles de compétitivité".
22. Une attention supplémentaire sera nécessaire pour:
- assurer une correction permanente du déficit public;
 - renforcer les initiatives visant l'amélioration de la réglementation et la promotion de l'ouverture des marchés, notamment celui des industries de réseau;
 - renforcer les stratégies intégrées dans le domaine de l'emploi, y compris en ce qui concerne la segmentation du marché de travail, l'adaptabilité des travailleurs et des entreprises et l'emploi des seniors.
23. La France est invitée à prendre ces éléments en compte et à mettre en œuvre le PNR avec vigueur. Le rapport de progrès sur la mise en œuvre du PNR en 2006 devrait en particulier prendre en considération la manière dont la France a abordé les points mentionnés sous le paragraphe 22 ci-dessus. Dans ce contexte, la Commission sera à

la disposition des autorités françaises afin de tenir des discussions dans le cadre du nouveau partenariat pour la croissance et pour l'emploi.

PART IV : STATISTICAL GRAPHS AND DATA

FRANCE

	FR							EU-25						
	1999	2000	2001	2002	2003	2004	2010 National target	1999	2000	2001	2002	2003	2004	2010 EU target
GDP per capita in PPS	114.1	114.2	114.5	112.7	111.8	109.8	:	100.0	100.0	100.0	100.0	100.0	100.0	70.0
Labour productivity per person employed	123.5	122.9	123.2	121.2	120.9	119.6		100.0	100.0	100.0	100.0	100.0	100.0	
Employment rate	60.9	62.1	62.8	63.0	63.3	63.1		61.9	62.4	62.8	62.8	62.9	63.3	
Employment rate of older workers	28.8	29.9	31.9	34.7	36.8	37.3		36.2	36.6	37.5	38.7	40.2	41.0	
Gross domestic expenditure on R&D	2.16	2.15b	2.20	2.23	2.18	2.16p		1.87e	1.89e	1.93e	1.93e	1.92e	1.90pe	
Youth education attainment level	80.0	81.6	81.8	81.7	80.9	79.8		74.8	76.3	76.1	76.5	76.5	76.6	
Comparative price levels	109.4	107.0	105.5	106.1	105.8	108.0p		100.0	100.0	100.0	100.0	100.0	100.0p	
Business investment	15.8	16.3	16.4	15.7	15.6	15.9		17.9	18.3	17.7	17.1	16.7	16.9	
At-risk-of-poverty rate after social transfers	15.0	16.0	13.0b	12.0	12.0	14.0b		:	16.0	15.0	15.0	15.0	16.0	
Dispersion of regional employment rates	7.1	6.9	8.3b	8.0	7.2b	7.1		13.3	13.4	13.5	13.3	12.9	12.2	
Long-term unemployment rate	4.1	3.5	3.0	3.1	3.7	3.9		4.1	3.9	3.8	3.9	4.0	4.1	
Total greenhouse gas emissions	99.6	98.7	99.3	97.5	98.1	:		90.6	90.5	91.4	90.7	92.0	:	
Energy intensity of the economy	191.0	186.6	188.3	186.1	187.6	:		214.9	208.8	209.7	206.5	209.5	:	
Volume of freight transport relative to GDP	103.3	100.0	96.8	94.6	92.4	92.8		100.7e	100.4e	99.4e	100.3e	99.7e	104.7e	



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Germany

1. Real GDP growth in Germany averaged 2 % over the period in 1996-2000, but has fallen to half that rate since then. Over the last decade, labour productivity growth has been slightly above the EU average, and has been improving in recent years. GDP per capita stood at 109 % of the EU average in 2004. The employment rate stands at 65 % of the working age population. The employment rate of older workers (in 2004 at 41.8 %) is slightly above the EU average, but significantly below the Lisbon target (50 %). Unemployment rose by 0.5 percentage points to 9.5 % in 2004.

PART I: GENERAL ASSESSMENT

2. The German National Reform Programme (NRP) identifies six key challenges: the knowledge society; market functioning and competitiveness; business environment; the sustainability of public finances (including sustainable growth and social security); ecological innovation; and the re-orientation of the labour market. The Commission largely shares the analysis of the main priorities, but considers that a stronger response is needed regarding competition in services.
3. The NRP provides a coherent and integrated strategy to address the challenges identified. However, in many cases, as a result of the limited time-span between the constitution of the new government and the required submission of the NRP, the programme tends to present intentions without providing further detail regarding goals, funding, and timetables. The programme would also benefit from a clearer prioritisation among the main challenges in each policy area. It presents a national R&D target for 2010 of 3 percent of GDP, compared to 2.5 percent in 2004. It does not set a target for the employment rate. The role of the structural funds is only described in passing. The plan to reduce the number of laws requiring co-decision by the *Bundestag* and *Bundesrat* has the potential to facilitate future reforms.
4. The drafting of the NRP has been coordinated by the chancellor's office. The NRP recognises that, owing to the recent formation of a new government, efforts to develop ownership of the document have been rather limited. It presents a firm commitment by the authorities to involving all stakeholders much more closely in the period ahead. The Commission recognises that the German NRP was produced under special circumstances, preventing a stronger involvement of stakeholders and constraining a more detailed elaboration. While the *Länder* contributed to the drafting, *Bundestag* and *Bundesrat* were not formally consulted. Parliamentary groups, local authority organisations and social partners received the document for information.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

5. In the area of macro-economic policy, the programme identifies sustainability of public finances (including sustainable growth and social security) as the key challenge.

6. The NRP envisages reducing the overall fiscal deficit from 3.7 percent of GDP in 2004 to below 3 percent by 2007 and reaching structural balance afterwards. The planned measures include the phasing out of tax allowances from 2006 and raising the VAT rate by three percentage points in 2007. Part of the related revenue increase will be used to lower non-wage labour costs. The measures envisaged seem sufficient to reach the deficit target. However, the consolidation effort by the *Länder*, which are responsible for about half of the overall fiscal deficit in Germany, remains vague.
7. The NRP sets out to improve the quality of public finances by shifting from consumption to investment on the expenditure side and from direct to indirect taxation on the revenue side. This approach is appropriate in the context of the overall fiscal strategy. However, the breakdown of the intended quality shift in terms of broad budget items and timelines is not provided. Questions remain whether the envisaged reduction in the contribution rate to unemployment insurance can be partly funded as intended by efficiency gains in its administration. Further reforms in the pensions system, such as the increase in the statutory retirement age, are also intended to underpin long-term fiscal sustainability. On health, the NRP announces a future reform of financial instruments without giving details. The reform aims primarily at reducing non-wage labour costs. Moreover, statutory long-term care insurance will be adapted to demographic changes by introducing elements of a funded scheme.
8. The NRP sees the consequences of unification as a main obstacle to higher growth in Germany. It recognises that the catching-up process of the eastern *Länder* was accompanied by high unemployment and a review of regional policy is deemed appropriate. A thorough analysis of the situation is, however, not provided in the NRP and it does not substantiate how the already legislated transfers to the eastern *Länder* until 2019 can be used more effectively.
9. The macro-economic key challenge identified in the NRP is appropriate against the background of fiscal developments in recent years. The choice of priorities in this regard is shared by the Commission. If fully implemented, the proposed measures will make a significant contribution to addressing the key challenge.

Micro-economic policies

10. In the area of micro-economic policy, the programme presents the key challenges of knowledge society; market functioning and competitiveness; business environment; and ecological innovation.
11. Focusing on Germany's strong international position with regard to R&D and innovation, the NRP proposes efforts to enhance further this comparative advantage by extending the knowledge society. The importance of strengthening the systems of education and life-long learning is recognised in that context. The R&D investment target (3% of GDP by 2010) is ambitious, given the stagnation in R&D spending in recent years. However, recent initiatives provide substantial additional public funding until 2011 to promote excellence in universities and large public research organisations. Regular evaluations of subsidised research will help ensure proper targeting of public R&D spending to sustain the leverage effect on private R&D. The policy mix and the strong involvement of stakeholders bode well for the effectiveness of the strategy. The intention of the *Länder* to support closer

cooperation between science, research, and businesses, if followed up by appropriate measures, is likely to reinforce existing synergies. Timing and funding of the measures envisaged in that regard are, however, not specified. The measures announced for innovation and ICT to improve incentives for inventions and provide support for their marketing will help sustain Germany's strong innovative capacity. However, the lack of detail regarding the proposed measures in this area makes their full evaluation difficult.

12. To improve the business environment through better regulation, the NRP envisages a substantial reduction in the number of federal laws on the books. The proposed systematic use of the standard-cost model should help reduce administrative costs for businesses. The creation of an independent federal monitoring institution for impact assessments and the intention of the *Länder* to introduce such systematic assessments are important steps in the right direction. However, the crucial function of municipalities in this context is not mentioned. The envisaged reduction in reporting requirements for SMEs, the creation of a web-based, one-stop agency for start-ups, and entrepreneurship education at all levels, are particularly promising for enhancement of the business environment. The financing instruments for SMEs described in the programme are suitable to strengthen framework conditions. A more competitive corporate tax system is announced for 2008, albeit without details. The switch to degressive subsidies with firm expiry dates will enhance subsidy efficiency. On infrastructure, the NRP outlines a programme to improve the efficiency of transport systems. Simplifying regulations on infrastructure planning will accelerate respective policy measures. On corporate governance, the NRP broadly describes measures already taken to enhance transparency and investor protection, while preserving the system of co-decision.
13. The NRP recognises the need to improve market functioning further. The new structure of the federal regulatory office is designed to achieve this in the area of network services. The intention to exempt investment in broadband networks from regulatory interventions for an unspecified period, in order to create investment incentives, raises regulatory and competition issues, which need to be checked on a case-by-case basis by the competent European and German institutions. Reforming the regulation of intensely regulated professional services, beyond what was partly achieved in the craft sectors, is not mentioned. On public procurement, where competition is limited, only general intentions for reform are announced. Furthermore, the NRP aims to increase the competitiveness of specific sectors through targeted R&D subsidies and the support of information networks.
14. Energy efficiency and security, as well as innovation in environmental technologies, are the components of the response to the key challenge of "ecological innovation". The strategy to achieve the clearly defined objectives in this area appears solid. It is closely linked with objectives and strategies for R&D and innovation. Ongoing and new measures aim to provide economic incentives for technological modernisation in industrial energy production and use. Targets are set for upgrading the energy efficiency of housing, the share of renewable energy in total consumption, and of biological fuels in transport. The commitment to the existing target for the reduction in greenhouse gas emissions is reaffirmed.

15. The programme addresses all relevant areas of micro-economic policies except competition in services. Addressing the key challenges decisively still promises to contribute to enhancing the growth potential of the German economy. The proposed measures are generally relevant to the challenges. However, in many cases, only intentions are presented.

Employment policies

16. The NRP focuses on the education system and lifelong learning in the context of promoting the knowledge society. It calls for adapting the labour market to the demographic challenge through structural reforms of labour market institutions, an increase in labour market participation, raising adaptability and employability and improving the reconciliation of family life and work.
17. As regards the need to attract and retain more people in employment, the further implementation of the comprehensive labour market reforms launched since 2002 and their possible adaptation after the evaluation announced in the NPR remains at the centre of the employment strategy. These reforms can make a substantial contribution to reducing unemployment. However, overcoming the administrative and financial difficulties continues to be a major challenge, especially in a context of budgetary consolidation.
18. The programme presents ambitious and clear objectives for the integration of young people into the labour market, such as ensuring that they shall not be unemployed for longer than three months and securing more apprenticeship places through the successful National Training Pact. The intention to improve the employment situation for older workers, among other measures, through an agreement with social partners, focusing on access to qualifications, appears appropriate in the light of demographic trends and the planned increase in the statutory retirement age. The response to the issue of women's participation in the labour force appears weak, given wide gender gaps regarding pay and part-time work. The NRP proposes to strengthen transfers to families but does not report on progress towards the announced increase in the number of childcare places. The commitment of municipalities is crucial in this respect.
19. With regard to improved adaptability of workers and enterprises, the measures set out to reduce non-wage labour costs would support the recent favourable trend in unit labour costs, mainly due to wage moderation. In view of the concentration of long-term unemployment among the low-skilled, the plans specified to review the tax/benefit systems and to introduce in-work benefits should be implemented without delay. The extension of the probationary period from six to 24 months may have a positive impact on labour demand, but care should be taken that it does not contribute to further labour market segmentation.
20. The NRP recognises the need to strengthen school and higher education. The proposed measures should help to improve the quality of, and access to, education from early childhood onwards, with a focus on disadvantaged and migrant children. Their successful implementation, however, depends largely on the commitment of the *Länder*. The intention to develop continuing education and training into a fourth pillar of the education system is appropriate and a rapid introduction of the planned financial instruments is desirable.

21. The NRPs priorities regarding employment are ambitious and coherent. More clarity with respect to policy implementation, including financial and administrative capacities, and close cooperation with Social Partners, *Länder* and municipalities will be important for the success of the strategy.

PART III: CONCLUSIONS

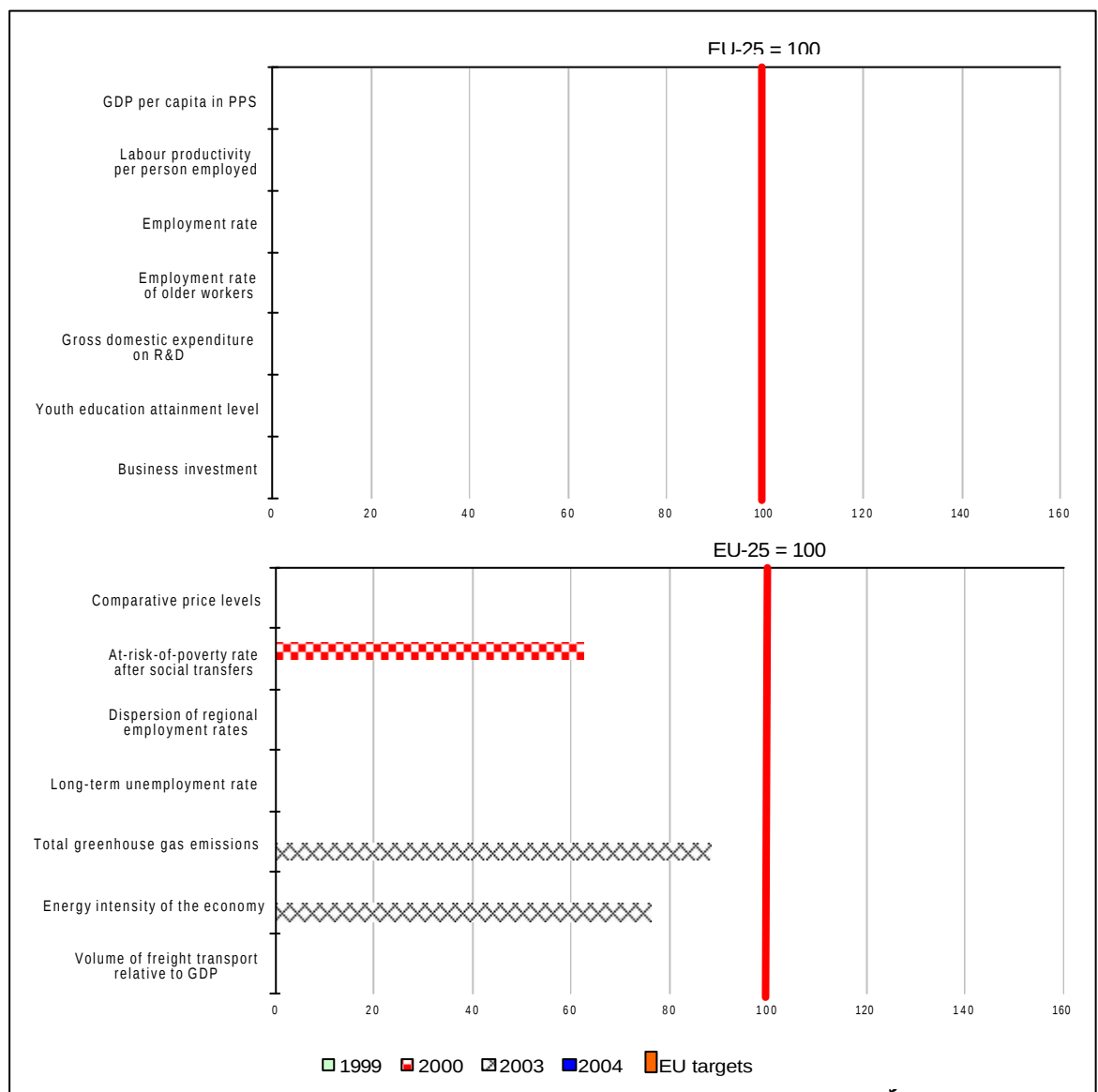
22. In line with the Integrated Guidelines, the German National Reform Programme identifies and responds to most of the main challenges facing Germany, namely the knowledge society; market functioning and competitiveness; business environment; the sustainability of public finances (including sustainable growth and social security); ecological innovation; and the re-orientation of the labour market, though competition in services is an important area only partially addressed. Overall, the NRP sets out a coherent, integrated and appropriate strategy. However, given the large number of measures included a clearer prioritisation would have been called for.
23. The NRP was drawn up under very tight deadlines, given the recent elections. This makes the limited consultation and degree of detail on objectives, funding and timetables understandable. The plan to reduce the number of laws requiring co-decision by the *Bundestag* and *Bundesrat* has the potential to facilitate the adoption of reforms. The involvement of the *Länder* and of municipalities, particularly with regard to their responsibilities in policy areas such as better regulation, education, and R&D, is not always evident from the NRP.
24. The programme's strengths include:
- measures to improve the business environment, such as regular assessment of the impacts of regulation at regional and federal level, measures to support start-ups and improve access to finance for SMEs;
 - the approach to promoting "ecological innovation", for example in the field of energy efficiency and of environmental technologies;
 - the determined approach to tackling youth unemployment.
25. Among the points requiring further attention are:
- improving competition, notably in public procurement, in professional services and in the provision of broadband networks;
 - a more comprehensive approach to improve the integration of low-qualified workers, including immigrants;
 - a more concrete and operational plan to achieve the intended increase in childcare facilities.
26. Taking due account of the above, Germany is invited to implement its NRP with vigour. The 2006 progress report on the implementation of the NRP should cover in particular the way Germany has dealt with the issues mentioned in paragraph 25. In

this context, the Commission looks forward to discussions with the German authorities as part of the new partnership for growth and jobs.

PART IV : STATISTICAL GRAPHS AND DATA

GERMANY

	DE							EU-25						
	1999	2000	2001	2002	2003	2004	2010 National target	1999	2000	2001	2002	2003	2004	2010 EU target
GDP per capita in PPS	114.1	112.5	110.5	109.2	108.9	109.1	3.0	100.0	100.0	100.0	100.0	100.0	100.0	70.0
Labour productivity per person employed	103.6	101.8	100.8	100.4	101.0	100.9		100.0	100.0	100.0	100.0	100.0	100.0	
Employment rate	65.2	65.6	65.8	65.4	65.0	65.0		61.9	62.4	62.8	62.8	62.9	63.3	
Employment rate of older workers	37.8	37.6	37.9	38.9	39.9	41.8		36.2	36.6	37.5	38.7	40.2	41.0	
Gross domestic expenditure on R&D	2.40	2.45	2.46	2.49	2.52	2.49e		1.87e	1.89e	1.93e	1.93e	1.92e	1.90pe	
Youth education attainment level	74.6	74.7	73.6	73.3	72.5	72.8		74.8	76.3	76.1	76.5	76.5	76.6	
Comparative price levels	108.5	105.6	107.1	107.5	108.7	106.6p		100.0	100.0	100.0	100.0	100.0	100.0p	
Business investment	19.4	19.7	18.3	16.6	16.3	16.0		17.9	18.3	17.7	17.1	16.7	16.9	
At-risk-of-poverty rate after social transfers	11.0	10.0	11.0	15.0b	15.0	16.0		11.0	16.0	15.0	15.0	15.0	16.0	
Dispersion of regional employment rates	5.5	5.7	6.1	5.9	6.0	6.2		13.3	13.4	13.5	13.3	12.9	12.2	
Long-term unemployment rate	4.1	3.7	3.7	3.9	4.5	5.4		4.1	3.9	3.8	3.9	4.0	4.1	
Total greenhouse gas emissions	81.8	81.4	82.3	81.3	81.5	:		90.6	90.5	91.4	90.7	92.0	:	
Energy intensity of the economy	163.9	159.7	162.5	158.7	159.5	:		214.9	208.8	209.7	206.5	209.5	:	
Volume of freight transport relative to GDP	103.7	103.3	103.3	102.2	103.1	107.5		100.7e	100.4e	99.4e	100.3e	99.7e	104.7e	



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Greece

1. Greece has experienced strong economic growth of 4.4% on average since 1999 with a labour productivity growth clearly above the EU average. GDP per capita stands at 82% of the EU average (2004). With job creation generally low, the employment rate (59.4% in 2004) remains far below the Lisbon target, particularly for women and elderly workers, and unemployment (10.5%) is still high. Greece has a high public deficit (6.6% of GDP) and the highest public debt ratio in the EU (at 109.3 % of GDP) (2004 figures).

PART I: GENERAL ASSESSMENT

2. The Greek National Reform Programme (NRP) identifies key challenges in the field of public finances, employment, education and lifelong learning as well as in a very broad range of micro-economic and environmental policy areas. Modernisation of the public administration is presented as crucial for addressing these challenges and ensuring sustainable growth of the economy as a whole. The Commission broadly shares the NRP's analysis of the main priorities.
3. The NRP sets out a consistent strategy, backed up by relevant policies and measures, but more prioritisation would improve the prospects of achieving important reforms in a timely way. An immediate target is to reduce the budget deficit below 3% of GDP in 2006, compared to 6.6% in 2004. Ambitious targets are also set for employment (62.5 %) and unemployment rates (8.4 %) for the year 2008, as well as for R&D expenditure (1.5% by 2010) and public expenditure for education (5% of GDP by 2008). The programme presents numerous measures, both on-going and new, across the macro-economic, micro-economic and employment areas. Significant attention has been given to the contribution of the European Structural Funds for the implementation of the NRP, both in the current period and for the period 2007-2013.
4. Consultation and efforts to develop ownership of the document have been very substantial. The NRP was prepared under the coordination of the Minister of Economy and Finance. It was approved by the government and discussed in the relevant Parliamentary committees. Its preparation involved extensive consultations with the social partners. Regional and local authorities, NGOs and civil society were also consulted. The Greek Economic and Social Committee (OKE) has established an observatory to monitor the evolution of the reform process set out in the programme.

PART II: ASSESSMENT OF POLICIES

Macro-economic policies

5. Given the high public deficit and public debt ratio, the programme sets as priorities to restore fiscal balance in the short-term and to ensure the long-term sustainability of public finances. The Commission shares this analysis.

6. Although it is expected in the programme that the deficit will fall in 2005 and 2006, it remains unclear in the programme how the government deficit will be reduced in a sustainable manner below 3% of GDP by 2006 and beyond. The NRP announces structural measures both on the expenditure side (a 3.5% reduction of government consumption in nominal terms in 2006) and on the revenue side (fighting tax evasion, broadening the tax base), as well as a series of interventions to improve resource allocation and the quality of public finances. However, while the fiscal consolidation is based to a large extent on permanent measures, the NRP includes one off measures, such as the sale and extension of concession rights (airport, roads, casinos). Achieving the target presupposes that the deficit figures for 2004 and earlier years are not revised upwards and that the increasing co-financing requirements of the Structural Funds up to 2008 are properly taken into account.
7. Achieving a more durable fiscal consolidation is recognised as a challenge. The programme assumes that the expected increase in employment levels - with rather ambitious targets set in this field - will make an important contribution to sustain public finances. It also puts forward a number of reforms in the healthcare sector, such as the introduction of an information system allowing better cost control and the increased use of public private partnerships. However, the NRP does not present a comprehensive strategy for reforming the pension system to improve adequacy and sustainability. Except for in the banking sector, important measures such as reforms of early retirement, reform of the pay-as-you go system, or the development of the second pillar, are postponed to a future social agreement, with an imprecise calendar.
8. The NRP has potential for steering the process of reforming public finances in a successful direction. However, to the extent that the fiscal consolidation path outlined in the NRP is partially based on one-off measures, uncertainties remain on the medium-term deficit reduction and on the path to reduction of the debt ratio. Given the sharp deterioration of the dependency ratio and the large budgetary impact of ageing, the slow progress on pension reform is a particular concern.

Micro-economic policies

9. The Greek NRP includes policies covering the following areas: structural reforms in product markets to strengthen the business environment, competition and export promotion; developing the knowledge society; improving capital markets; environment and sustainable development; regional and social cohesion; and modernisation of public administration. The Commission subscribes to the objectives of this very broad range of micro-economic policies but sees improving the business environment and competition and strengthening R&D and innovation as the first priorities in making Greece more attractive as a business location and in improving productivity levels.
10. The NRP addresses a wide-range of business environment and competition issues. To reinforce entrepreneurship, the NRP includes support for business start-ups, better access to finance for SMEs and one-stop-shops. It also seeks to contribute to a more favourable fiscal environment by reform of corporate taxation and of the investment incentives regime. The regulatory framework is to be enhanced through various measures covering issues such as land use planning, industrial zoning, public-private partnerships, bankruptcy law, e-commerce, independence for competition and regulatory authorities and a reform of opening hours. The NRP also refers to

improvements to public procurement and the regulation of public works and the wider use of impact assessment. The degree of specificity and detail varies across policy areas. With its bearing on the business environment and better regulation, the priority given to modernising public administration appears well chosen, although implementation will be a challenging task.

11. Most R&D and innovation measures put forward are of a spending nature, to be co-financed by the European Structural Funds. The programme sets a target to increase the level of public and private R&D expenditure to 1.5% of GDP by 2010 (from 0.61% in 2003). Some concerns remain as to whether this can be achieved and it is not clear to what extent measures put forward will prove effective, given the absence of a global framework for action and the limited absorption capacity of the economy. In spite of their reliance on the Structural Funds, R&D and innovation initiatives are not given a high priority in the planning for use of the Funds after 2007.
12. The programme addresses additional issues relevant to the Greek situation. For example, it includes action to spread the use of ICT across Greek society, economy and territory. The NRP presents a number of projects contributing to the ambition to become a regional energy hub, including the development of infrastructure and cross-border projects. The NRP also highlights, several, mostly ongoing, measures on the environment and the sustainable use of resources, although measures on ETAP and information on future financing of environmental policy are missing. The NRP does not include structural measures to speed-up implementation of Internal Market directives. On strengthening the competitive advantages of the industrial base, only broad objectives and declarations of intent are included.
13. Overall, the programme addresses micro-economic challenges coherently, although a more comprehensive strategy for R&D and innovation, addressing institutional aspects and covering both the private and public sector seems to be missing. Specific targets, timetables and data on budgetary resources are also scarce. Moreover, instead of streamlining and simplifying policy development and administration, in many cases it adds new layers and institutions to existing ones.

Employment policies

14. The NRP highlights the need to increase low employment rates, in particular for women, to tackle high unemployment and to develop education and lifelong learning as central employment priorities. It also seeks to improve the functioning of the labour market and the adaptability of workers and enterprises. The Commission shares this analysis of the priorities.
15. The programme sets out a number of measures to attract and retain more people in employment, in particular in regions lagging behind. It assumes sustained levels of economic growth and therefore of labour demand in the years to come. Active labour market policies are being strengthened to support job-seekers, with significant efforts to modernise public employment services, including improving identification of labour market needs. It is still not clear, however, how these services, together with private operators, will be in a position to deliver personalised services. At the same time, possible financial disincentives for taking-up a job are being partially eliminated through employment subsidies granted for registered unemployed people. However, a more in-depth review of the impact of the tax and benefit system would

seem appropriate. Measures proposed to address high youth unemployment (26.9%), reduce gender pay gaps, and to promote older workers' participation would also benefit from greater clarity. In particular, the programme could be clearer and more ambitious in responding to the long-term challenge of population ageing, for example by raising the average exit age as part of a wider modernisation of the social protection system.

16. A number of important commitments are made to improve investment in human capital, concentrating on enhancing the quality of education and increasing participation in lifelong learning. Particularly important steps are efforts to increase public expenditure on education, measures to reduce the number of pupils dropping out of school, the adoption of a new framework law on lifelong learning and skills development measures in public administration. However, rapid and effective implementation of the measures proposed will be essential if they are to succeed. Particular attention will be needed to ensure that education and training cater better for labour market needs, and that there is better access to training for low-skilled workers, older workers and for SME staff.
17. In order to improve the functioning of the labour market and the adaptability of workers and enterprises, measures are presented to support geographical and occupational mobility, diversify working time arrangements and promote part-time work through encouraging it in the public sector and improvements in the regulatory framework. Policies in other important areas, such as non-wage labour costs, undeclared work, quality and health and safety at work, are limited or unclear.
18. Assuming continuing high growth rates and the rapid implementation of reforms, the NRP sets out ambitious commitments and targets to increase employment. The employment challenges are addressed by a combination of on-going and new measures, which will require a sustained commitment to ensure their effectiveness and realism. Delivering all of these in a relatively short timescale will be a major organisational challenge and good implementation will be crucial, in particular for the delivery of personalised services as part of the modernisation of public employment services, as well as for the reforms of the education and training systems.

PART III: CONCLUSIONS

19. In line with the Integrated Guidelines, the Greek National Reform Programme identifies and responds to the main challenges facing Greece, namely in the field of public finances, employment, education and lifelong learning as well as in a very broad range of micro-economic and environmental policy areas. Modernisation of the public administration is presented as crucial for addressing these challenges and ensuring sustainable growth of the economy as a whole. The NRP presents many appropriate policies and measures, though a strategic framework is not always clear.
20. The extensive consultation of stakeholders and the planned involvement of the Greek Economic and Social Committee during the implementation phase will facilitate putting the measures in the NRP into practice. Nevertheless, delivering the very wide range of initiatives covered in the NRP within the 2005-2008 period will require a

strong and sustained commitment. Specific targets, timetables and budgetary details are provided only for some initiatives.

21. The programme's strengths include:

strong linkage of the priorities in the NRP with current and future EU funding;

the systematic integration of an ICT dimension in sectoral policies.

22. Among the points requiring further attention are:

fiscal consolidation through the use of more permanent measures;

ensuring that measures for R&D and innovation cover both financial and institutional aspects and are part of a consistent strategy involving both public and private partners;

putting into practice modernisation of the public administration;

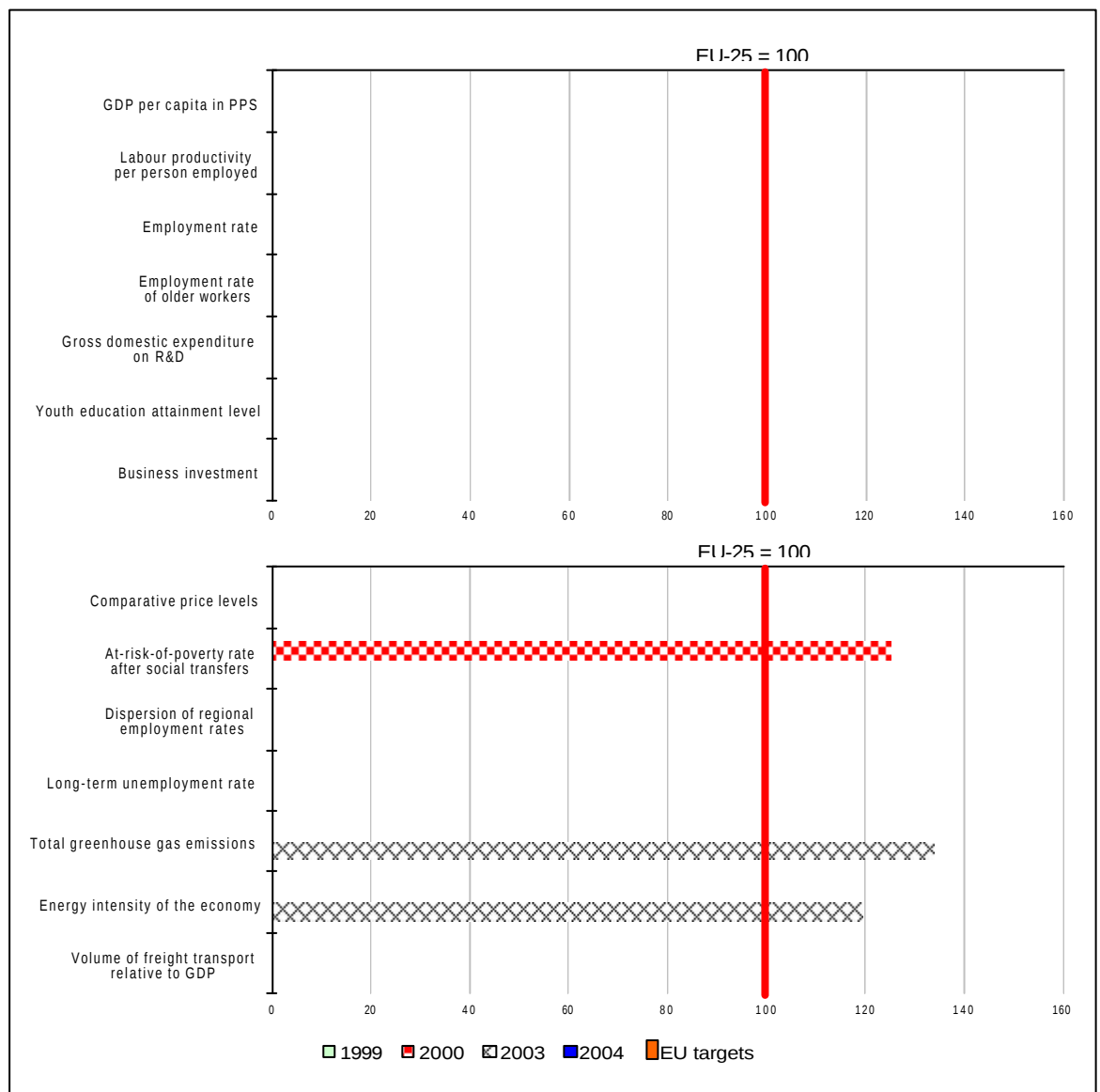
reinforcement of active labour market measures and of education and training reform.

23. Taking due account of the above, Greece is invited to implement its NRP with vigour. The 2006 progress report on the implementation of the NRP should cover in particular the way Greece has dealt with the issues mentioned in paragraph 22. In this context, the Commission looks forward to discussions with the Greek authorities as part of the new partnership for growth and jobs.

PART IV : STATISTICAL GRAPHS AND DATA

GREECE

	GR							EU-25						
	1999	2000	2001	2002	2003	2004	2010 National target	1999	2000	2001	2002	2003	2004	2010 EU target
GDP per capita in PPS	71.1	71.6	72.8	76.9	80.7	81.8	62.5 (2008) 1.5	100.0	100.0	100.0	100.0	100.0	100.0	70.0
Labour productivity per person employed	84.5	86.4	89.3	94.7	98.1	96.3		100.0	100.0	100.0	100.0	100.0	100.0	
Employment rate	55.9	56.5	56.3	57.5	58.7	59.4		61.9	62.4	62.8	62.8	62.9	63.3	
Employment rate of older workers	39.3	39.0	38.2	39.2	41.3	39.4		36.2	36.6	37.5	38.7	40.2	41.0	
Gross domestic expenditure on R&D	0.67	:	0.64	:	0.62p	0.58p		1.87e	1.89e	1.93e	1.93e	1.92e	1.90pe	
Youth education attainment level	78.6	79.3	80.0	80.7	81.7	81.9		74.8	76.3	76.1	76.5	76.5	76.6	
Comparative price levels	87.0	84.0	84.5	82.2	84.5	85.1p		100.0	100.0	100.0	100.0	100.0	100.0p	
Business investment	19.2	19.5	19.8	20.2	21.5	21.3		17.9	18.3	17.7	17.1	16.7	16.9	
At-risk-of-poverty rate after social transfers	21.0	20.0	20.0	:	21.0b	20.0		:	16.0	15.0	15.0	15.0	16.0	
Dispersion of regional employment rates	5.2	5.1	4.3	3.8	3.2	4.1		13.3	13.4	13.5	13.3	12.9	12.2	
Long-term unemployment rate	6.5	6.2	5.5	5.3	5.3	5.6		4.1	3.9	3.8	3.9	4.0	4.1	
Total greenhouse gas emissions	114.1	118.5	119.6	119.6	123.2	:		90.6	90.5	91.4	90.7	92.0	:	
Energy intensity of the economy	262.5	263.6	260.6	258.0	250.1	:		214.9	208.8	209.7	206.5	209.5	:	
Volume of freight transport relative to GDP	141.7e	:	:	:	:	:		100.7e	100.4e	99.4e	100.3e	99.7e	104.7e	



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Hungary

1. Since the mid-1990s, the Hungarian economy has grown at an average annual rate of 4%, one of the highest growth rates in the EU. Labour productivity growth is also well above the EU average. However, the budget deficit (5.4% in 2004) will, instead of declining as foreseen, increase above 6% in 2005. GDP per capita is currently at 60% of the EU average. Following a temporary acceleration in 2003, employment growth turned negative in 2004 and the overall employment rate has decreased to 56.8%, far below the Lisbon target, while unemployment has increased (6% in 2004), though remaining below the EU average. Low unemployment is however coupled with a very low rate of activity (60.5% in 2004)

PART I: GENERAL ASSESSMENT

2. The Hungarian National Reform Programme (NRP) identifies nine main challenges: reducing the fiscal deficit; R&D and innovation; business environment; competition; infrastructure; raising the employment and activity rate; improving the labour market situation of the disadvantaged; reducing regional labour market disparities; and enhancing human capital through better education & training. The Commission shares this analysis of the main priorities.
3. The medium-term strategy presented in the NRP aiming at a continuous catching-up with EU average GDP per head through robust economic growth and increasing employment appears realistic, but the level of ambition implied in the programme is difficult to assess, as in places, the presentation of measures is not fully clear or concrete. The programme does not fully explain how the reforms in various areas are integrated and whether there are possible synergies between them. Their overall coherence across policy areas is not always evident, for example when assessing the objectives regarding infrastructure investment against the background of aiming also for fiscal consolidation. The NRP refers to the ambitious employment rate target of 63% by 2010, as set by the Government in 2004. No target for R&D spending by 2010 is specified. For some measures, the NRP highlights support from the Structural Funds. Given the strong emphasis on development needs, the role of cohesion policy in the delivery of the “growth and jobs” agenda could have been more strongly highlighted.
4. Consultation and efforts to develop ownership of the document have been substantial. The programme has been formally endorsed by the Hungarian government. It has been subject to wide consultation with social partners and local authorities. Furthermore, a consultation conference has been organised for a wide range of key partners. In addition, the draft was available on-line for comments. The document was presented to the Employment Committee of the Hungarian parliament.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

5. The macro-economic key challenge of reducing the fiscal deficit is a central issue for the Hungarian economy. The policies and measures proposed are generally relevant to respond that challenge but they lack detail and quantified estimates of their impact. A clearer presentation of the integration and the overall coherence of the proposed measures would facilitate their assessment.
6. The strategy of ensuring long-term sustainability by complementing a gradual approach to cutting the fiscal deficit with further progress with healthcare and pension reforms addresses crucial issues for the Hungarian economy. Coupled with a planned reform of the tax regime, including a considerable reduction in the VAT rate, the measures presented seem likely to be effective in contributing to growth and employment and to improving the business climate. However, the information provided in this regard is not sufficient to assess fully the consistency of the proposed measures with the medium-term macroeconomic objectives. The absence of a clear timeline for achieving budgetary balance and the reduction of government debt makes it difficult in general to assess the macro-economic strategy.
7. While the policy objectives, strategies, and measures presented in the programme to tackle the macroeconomic key challenge can be regarded as a suitable response in principle, several questions remain unanswered owing to insufficient detail in the programme. The absence of clear timelines risks undermining the credibility and effectiveness of the strategy, in particular given the importance of careful sequencing of those measures envisaged which will have a fiscal impact.

Micro-economic policies

8. The programme identifies R&D and innovation, the business environment, competition, and the development of infrastructure as micro-economic key challenges. The Commission subscribes to these priorities.
9. The NRP recognises the importance of achieving stronger R&D and innovation and analyses many problems that need to be addressed in that regard. First is the small contribution by the private sector to overall R&D spending, which stands at a comparatively low level of 0.95 % of GDP. Regulatory problems, weak links between business and research institutions, surprisingly small spillover effects for innovation from cooperation with foreign companies, as well as the fragmentation of research activities, are all seen as key factors constraining Hungary's innovative capacity. While the R&D and innovation challenge is well presented in its various dimensions, the corresponding policy response is only in some cases clearly laid out. The NRP does not set out to a monitoring and evaluation system for the R&D and innovation strategy. To facilitate the move toward a more knowledge-based society, the inefficiencies identified in the Hungarian education system need a more concrete response. The programme fully recognises the importance of spreading the use of ICTs, but says little on how this objective can be achieved in practice.
10. Measures presented to improve the business environment in Hungary comprise the tax reform in 2006, the assessment and reduction of the administrative cost to enterprises and efforts to achieve better regulation through the introduction of impact assessments. The NRP recognises the importance for SMEs of better access to finance, although insufficient detail in the presentation of measures in this area makes assessing them difficult. The relatively low level of attention paid to practical

measures to achieve efficient bankruptcy procedures and company restructuring regulations contrasts with the programme's clear recognition of the importance of these issues. Encouraging and supporting entrepreneurship at all school levels remains an important challenge.

11. The programme proposes to increase competition in the network industries, where incumbents' market shares remain high, and in the case of the gas and electricity sectors, the switching rate is very low. However, apart from stating the general need to continue the process of opening markets and to improve the efficiency and independence of regulatory bodies, policies and implementation measures to achieve more competition are not specified.
12. While the NRP identifies the environmental challenges and corresponding budget allocations, little is said on the steps and timing for putting them in practice. The programme places a strong emphasis on the development of high-quality infrastructure, as regional disparities in this field are increasing, limiting the country's economic potential and regional competitiveness. The important budgetary implications of modernising the infrastructure are not addressed very clearly.
13. The microeconomic key challenges identified are all presented clearly and existing constraints on increasing potential economic growth in Hungary are analysed in considerable detail. The strategies, policy objectives, and measures presented to address these well-understood problems sometimes do not match the analysis in clarity and detail. This raises questions about their level of ambition and likely effectiveness.

Employment policies

14. Raising the low employment and activity rate, improving the labour market situation of the disadvantaged, reducing regional labour market disparities and enhancing human capital through better education and training are the four key challenges identified for Hungary's employment policies. These priorities reflect well the country's needs in this area.
15. The NRP places strong emphasis on attracting more people to employment and retaining them. Appropriate principles are laid down for a coherent reform of the unemployment and social benefits system, with a view to boosting activity through setting more coherent incentives, for example by making unemployment benefits conditional on an active job search. Without a comprehensive review of the social benefits system, including disability benefits, the effectiveness of the proposed measures remains in doubt. Incentives encouraging active ageing need to be backed by further measures to limit early retirement and by reducing the flow of new recipients of disability pensions. Measures to reach the inactive population through the public employment service by involving municipalities and setting up, with European Social Fund assistance, an integrated employment and social services system promise to deliver results. These measures can build on progress already made with the reduction in employers' social security contributions. Improving the health situation of the population and related health care reforms could also contribute to increasing participation and employment rates. Measures to improve the situation of people with disabilities and of the Roma population and to reduce

persistent regional disparities may require stronger coordination and monitoring and closer cooperation with stakeholders.

16. The NRP shows the clear determination of the authorities to transform undeclared work into regular employment through measures instituting strong and coherent incentives and sanctions. In this respect, linking health service entitlements to contribution payments made is an important step forward. The measures proposed to reduce the tax wedge, particularly in the lower income segment, can contribute to more employment and help combat undeclared work. The impact of recent minimum wage increases on the levels of low-skill and low-wage employment needs to be closely monitored.
17. On enhancing human capital, the lifelong learning strategy adopted by the government is not described in the programme in enough detail to permit a full assessment. The measures to reduce the number of drop-outs from school, to ensure equal access to education, and to adjust education and training systems better to labour market needs, do not seem to reflect a clear strategic policy approach. The emphasis placed on upgrading skill levels may fall short with regard to the particularly disadvantageous labour market situation of low-skilled persons.
18. Building on the existing national employment strategy, the programme presents a number of important forward-looking measures aimed at increasing activity. While the clear focus on this area enhances the likelihood of the measures being effective, the policy response to the challenges in the area of education and lifelong learning deserves a similar level of attention.

PART III: CONCLUSIONS

19. In line with the Integrated Guidelines, the Hungarian National Reform Programme identifies and responds to the main challenges facing Hungary, namely reducing the fiscal deficit; R&D and innovation; business environment; competition; infrastructure; raising the employment and activity rate; improving the labour market situation of the disadvantaged; reducing regional labour market disparities; and enhancing human capital through better education & training. Overall, the medium-term strategy presented in the NRP appears appropriate given the Hungarian context of aiming to push GDP rapidly towards the EU average. Nevertheless, the programme is not fully integrated, in particular with the fiscal stability strategy, and measures across the different policy areas do not always appear coherent.
20. The NRP contains a clear presentation of challenges and a frank and thorough analysis of existing problems and constraints. The wide and transparent consultation process bodes well for the implementation of the outlined policies. However, in places, the presentation of measures and particularly their medium-term budgetary impact could be clearer and more concrete.
21. The programme's strengths include:

measures to improve the effectiveness of the public employment service and the intention to set up an integrated system of employment and social services;

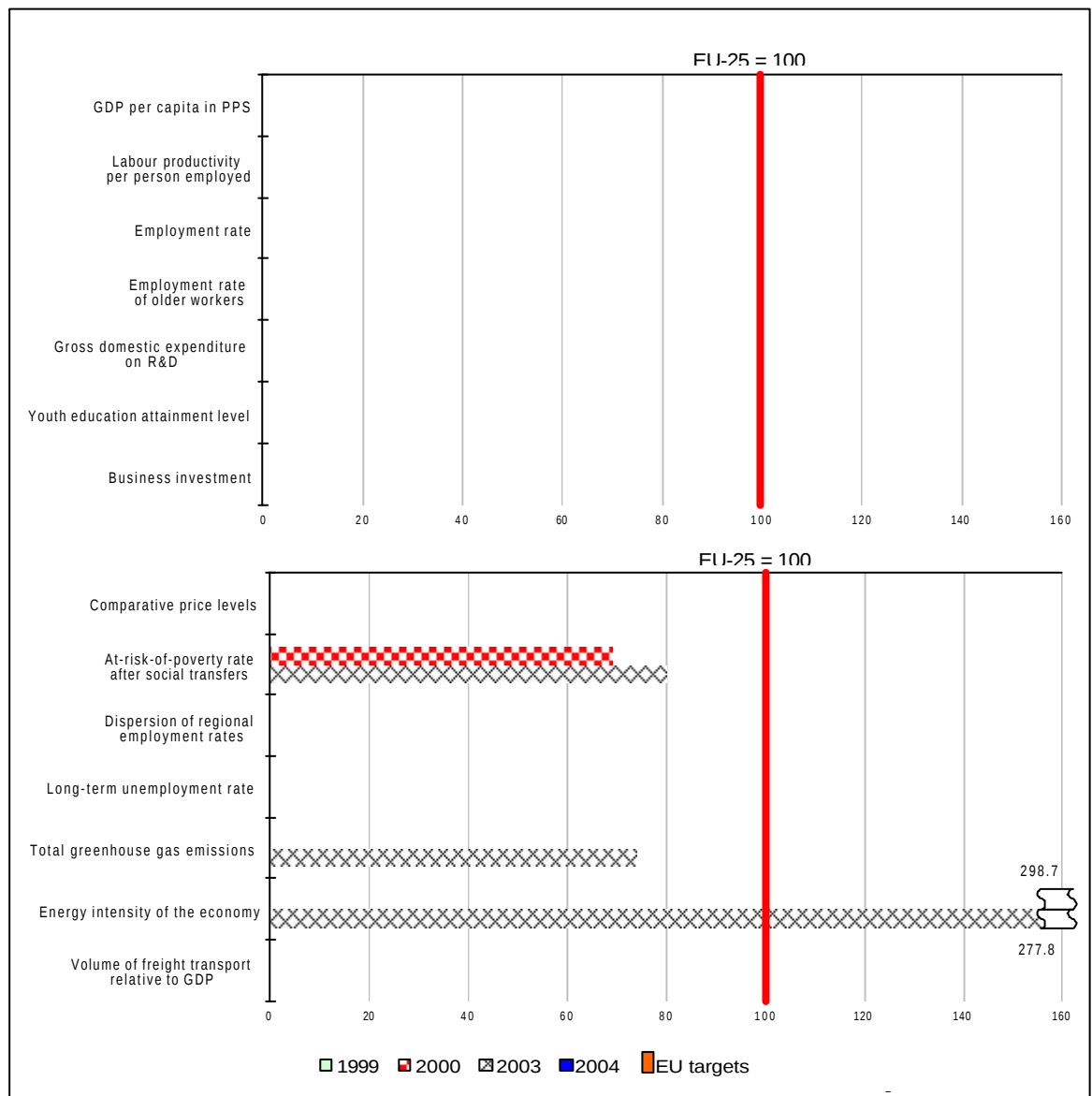
measures to transform undeclared work into regular employment.

22. Among the points requiring further attention are:
- strategies to ensure sustainable public finances;
 - clearer and more robust measures to enhance competition in network industries;
 - improving the business environment including SMEs' access to finance;
 - increasing the responsiveness of education and training systems to labour market needs and upgrading skill levels, particularly for low-skilled persons.
23. Taking due account of the above, Hungary is invited to implement its NRP with vigour. The 2006 progress report on the implementation of the NRP should cover in particular the way Hungary has dealt with the issues mentioned in paragraph 22. In this context, the Commission looks forward to discussions with the Hungarian authorities as part of the new partnership for growth and jobs.

PART IV : STATISTICAL GRAPHS AND DATA

HUNGARY

	HU							EU-25						
	1999	2000	2001	2002	2003	2004	2010 National target	1999	2000	2001	2002	2003	2004	2010 EU target
GDP per capita in PPS	52.0	53.2	56.1	58.4b	59.6	60.4	63.0	100.0	100.0	100.0	100.0	100.0	100.0	70.0
Labour productivity per person employed	59.6	60.9	64.6	67.1b	67.2	68.6		100.0	100.0	100.0	100.0	100.0	100.0	
Employment rate	55.6	56.3	56.2	56.2	57.0	56.8		61.9	62.4	62.8	62.8	62.9	63.3	
Employment rate of older workers	19.4	22.2	23.5	25.6	28.9	31.1		36.2	36.6	37.5	38.7	40.2	41.0	
Gross domestic expenditure on R&D	0.69	0.80	0.95	1.02	0.95	0.89		1.87e	1.89e	1.93e	1.93e	1.92e	1.90pe	
Youth education attainment level	85.2	83.6	84.4	85.8	85.0b	83.4		74.8	76.3	76.1	76.5	76.5	76.6	
Comparative price levels	46.8	48.4	52.0	56.9	59.0	61.9p		100.0	100.0	100.0	100.0	100.0	100.0p	
Business investment	21.0	20.2	19.5	18.3	18.8	19.3		17.9	18.3	17.7	17.1	16.7	16.9	
At-risk-of-poverty rate after social transfers	:	11.0	11.0	10.0	12.0	:		:	16.0	15.0	15.0	15.0	16.0	
Dispersion of regional employment rates	9.1	9.0	8.8	9.4	8.5	9.4		13.3	13.4	13.5	13.3	12.9	12.2	
Long-term unemployment rate	3.3	3.0	2.5	2.4	2.4	2.6		4.1	3.9	3.8	3.9	4.0	4.1	
Total greenhouse gas emissions	68.5	66.3	68.5	66.1	68.1	:		90.6	90.5	91.4	90.7	92.0	:	
Energy intensity of the economy	642.0	600.5	588.6	579.6	582.0	:		214.9	208.8	209.7	206.5	209.5	:	
Volume of freight transport relative to GDP	99.6	97.5b	91.8	86.9	85.4	91.9		100.7e	100.4e	99.4e	100.3e	99.7e	104.7e	



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Ireland

1. Over the last few decades, Ireland has experienced a rapid increase in real GDP per capita and employment levels. Labour productivity growth has been well above the EU average over the last decade. In terms of GDP per capita Ireland was close to the EU average ten years ago, but now it stands at 138% (2004), the second highest in Europe. Recent employment growth has been driven by increased participation and, notably, by immigration from the new Member States, resulting in the employment rate of 66.3% and the lowest unemployment rate in the EU, at 4.5% in 2004.

PART I: GENERAL ASSESSMENT

2. The Irish National Reform Programme (NRP) recognises that the overall challenge now for Ireland is to sustain and improve its recent good economic performance, based on taking advantage of the opportunities presented by globalisation and the internal market. The NRP therefore identifies an extensive set of priorities which can be summarised as: maintain a stable macroeconomic environment; investment in economic and social infrastructure; improve labour supply; better regulation; improve R&D, innovation and entrepreneurship; promote social inclusion and sustainable development. The Commission broadly shares the NRP's analysis of the main priorities, but identifies pension coverage as an additional area of concern.
3. The measures presented in the NRP are based on the current social partnership agreement: "*Sustaining Progress*", which will shortly be renegotiated, after which new policies will emerge. Consequently, very few new policies are for now proposed in the NRP, which presents existing policies clearly and within the well-established national strategic framework. Ireland's national target for investment R&D is 2.5% of GNP for 2013 - no intermediate targets are given. Neither are formal employment rate targets specified. The link between use of Structural Funds and the NRP priorities is not clearly presented, as the role of cohesion policy is mentioned only in the annex.
4. Consultation and efforts to develop ownership of the document have been very substantial, assisted by the fact it is based on building on policies on which there was a fair degree of existing consensus. The Department of the Taoiseach co-ordinated the overall preparation of the NRP with the Departments of Finance and Enterprise, Trade and Employment. An extensive consultation with other departments and agencies took place. The social partners were consulted in the course of preparation and the programme was considered in both houses of the Parliament. There were also bilateral discussions with a number of Member States.

PART II: ASSESSMENT BY POLICY AREA

Macroeconomic policies

5. The NRP identifies three key priorities in this domain: ensuring macro-economic stability; prioritising public investment in infrastructure and other growth-promoting

expenditure; and managing anticipated long-run fiscal pressures, including those arising from the population ageing. The Commission supports this approach.

6. The NRP reiterates and reviews ongoing macroeconomic policies, in particular those aimed at achieving long-term sustainability and quality of public finances, which to an important extent are based on pension reform. The programme refers to some existing policy initiatives in the area of pension coverage, recent improvements of minimum pensions and further steps envisaged to strengthen the incentives to work longer. However, coverage remains significantly below government targets and detail is lacking on how Ireland will address the problem of a growing imbalance between income in work and in retirement. The NRP refers to the preparation of a new 2007-2013 National Development Plan, which will set out a new strategy for infrastructure, human capital and R&D investment.
7. The macroeconomic policies set out largely involve continuing the successful approach Ireland has taken in recent years and appear sufficient to underpin further growth and job creation. Attaining the stability-oriented macro-economic objectives should facilitate the implementation of the structural reforms envisaged. However, the Commission believes that more attention could be given to the issue of pension coverage as a key element behind financial and social sustainability.

Microeconomic policies

8. The NRP identifies several micro-economic priorities: improving competitiveness, infrastructure, regulation and social inclusion; increasing R&D investment and efficiency; encouraging greater innovation and entrepreneurship; and sustainable development. The Commission largely supports the choice of these priorities, noting however that the NRP does not identify competition in services as a key challenge.
9. Ireland provides a comprehensive set of measures to consolidate and improve the competitiveness of its industrial base, but relatively little information is given on the measures to address comparatively high price levels in Ireland, which tend to underline the problem of overall competitiveness. Measures to enhance the transport infrastructure are described, but without references to how they are related to important ongoing projects. Better regulation measures described in the NRP include the impact assessment system now in place, the planned simplification exercise and the creation of a business forum for consultation purposes. Measures to extend and deepen the Internal Market are clearly addressed and detailed information is provided. No specific information is given on reform of the regulation of professional services.
10. Ireland's research and innovation policies build on existing measures. A key initiative mentioned in the NRP is the Science, Technology and Innovation (STI) Strategy to follow-up Ireland's 2004 R&D action plan, but no detail on the content and time schedule of the STI strategy is provided. The action plan's R&D targets for 2013 are referred to but no intermediate targets are given. Some other individual R&D initiatives are referred to but insufficient information is provided for their evaluation. A general analysis and list of on-going policy measures in the annex to the NRP reflects recent efforts to increase the scale and efficiency of research and innovation investment over the long-term. The 2005-2007 Enterprise strategy "Transforming Irish Industry" represents a major effort to address shortcomings in

innovation performance, for example regarding the creation of start-ups, “incubators” and innovation centres, as well as the availability of venture and equity capital. Measures to improve business support services for SMEs with specific focus on key sectors are presented, but here the NRP would benefit from more clarity and detail.

11. To strengthen the Irish position in the global information society, the NRP addresses various areas to stimulate ICT use, but the proposals set out are either rather vague, for example on e-government and ICT in schools, or already implemented, such as actions on broadband communication and e-business development.
12. Concrete measures to support more sustainable production and consumption patterns as well as green public procurement initiatives, such as financial support for bio fuels and renewable electricity, are presented. The Irish climate strategy, currently under revision, will be of key importance in delivering results.
13. Overall, the NRP identifies a number of important micro-economic policy priorities. The initiatives in relation to these are largely on-going initiatives and in general are producing or have the potential to produce good results. More details on new policies to address bottlenecks in infrastructure and competition in services would be helpful. Achievement of the relatively ambitious R&D target will depend on maintaining a high level of R&D investment by foreign subsidiaries and on major increases in R&D investment by Irish industry. This will require a bigger leverage effect of public funding on private investment and creation of more extensive linkages between public research and industry.

Employment policies

14. Ensuring that the Irish labour force is cost competitive is a key government objective reflected in the three employment priorities: the overarching priority of higher levels of employment, improved quality and productivity at work, and social cohesion; labour supply issues, including tackling inactivity and developing a skill-based migration system; and developing a highly skilled and adaptable workforce.
15. In striving to further raise employment rates, against the background of the overall employment rate target for the EU of 70 % by 2010, Ireland will seek to improve labour supply through intensified measures to address specific target groups in the inactive population, to address remaining disincentives in the tax and welfare systems and to increase female participation. The NRP does not explain how the provision of affordable, high quality childcare services will be further developed. Greater integration of vulnerable groups is envisaged, with recent measures to support the employment of people with disabilities highlighted. The NRP also mentions the current development of a skills-based migration policy as an essential element to ensure the sustainability of economic growth.
16. With regard to adaptability of workers and enterprises, the NRP focuses on the implementation of the National Workplace Strategy, a promising initiative aimed at supporting workplace innovation, skills development and work-life balance. Apart from health and safety in the workplace, relatively little attention is paid to the issues of quality of work and poverty among employed people. The linkages between human capital and productivity are not directly addressed, though this issue is relevant for securing the long-term sustainability of economic growth.

17. The problem of improving skills in the labour force is clearly recognised in the NRP. It indicates that increased investment in human capital will focus on development of skills relevant both to enterprises and individuals and ranging from improving general skill levels to targeting more specific sectoral and occupational skills. The need to improve the position of the low skilled is recognised, though details of measures addressing this issue, especially with respect to older workers, are not presented in detail.
18. The NRP provides a comprehensive approach to reaching its employment objectives, though a ranking of priorities would be helpful. The measures set out are mostly on-going and generally sufficient to make good progress. The specific manner in which inactivity is to be addressed, the enhancement of adult participation in learning and provision of affordable and improved childcare services could usefully have received more attention.

PART III: CONCLUSIONS

19. In line with the Integrated Guidelines, the Irish National Reform Programme identifies and responds to most of the main challenges facing Ireland, namely maintaining a stable macroeconomic environment; investment in economic and social infrastructure; improving labour supply; better regulation; improving R&D, innovation and entrepreneurship; promoting social inclusion and sustainable development, though pension coverage is an important question not fully addressed. Overall, the NRP takes an integrated and ambitious approach to further reinforcing factors which have underpinned Ireland's recent economic success, based on a well-established national strategic framework.
20. Details on measures, their objectives and their budgetary implications are incomplete in some areas, including among others promoting ICT use, improving skills and enhancing childcare provision. The extensive consultations on the NRP and the level of existing consensus on many of policies presented in it will be a considerable advantage as implementation of the reforms proceeds.
21. The programme's strengths include:

its approach to sustaining macro-economic stability;

measures to enhance the quality of industrial development;

the emphasis on the need to integrate inactive people into the labour market, to increase female participation and to address skills development.
22. Among the points requiring further attention are:

ensuring policies on R&D and science and innovation investment are sufficiently robust to reach the ambitious targets set;

more specific measures to address pensions coverage.
23. Taking due account of the above, Ireland is invited to implement its NRP with vigour. The 2006 progress report on the implementation of the NRP should cover in

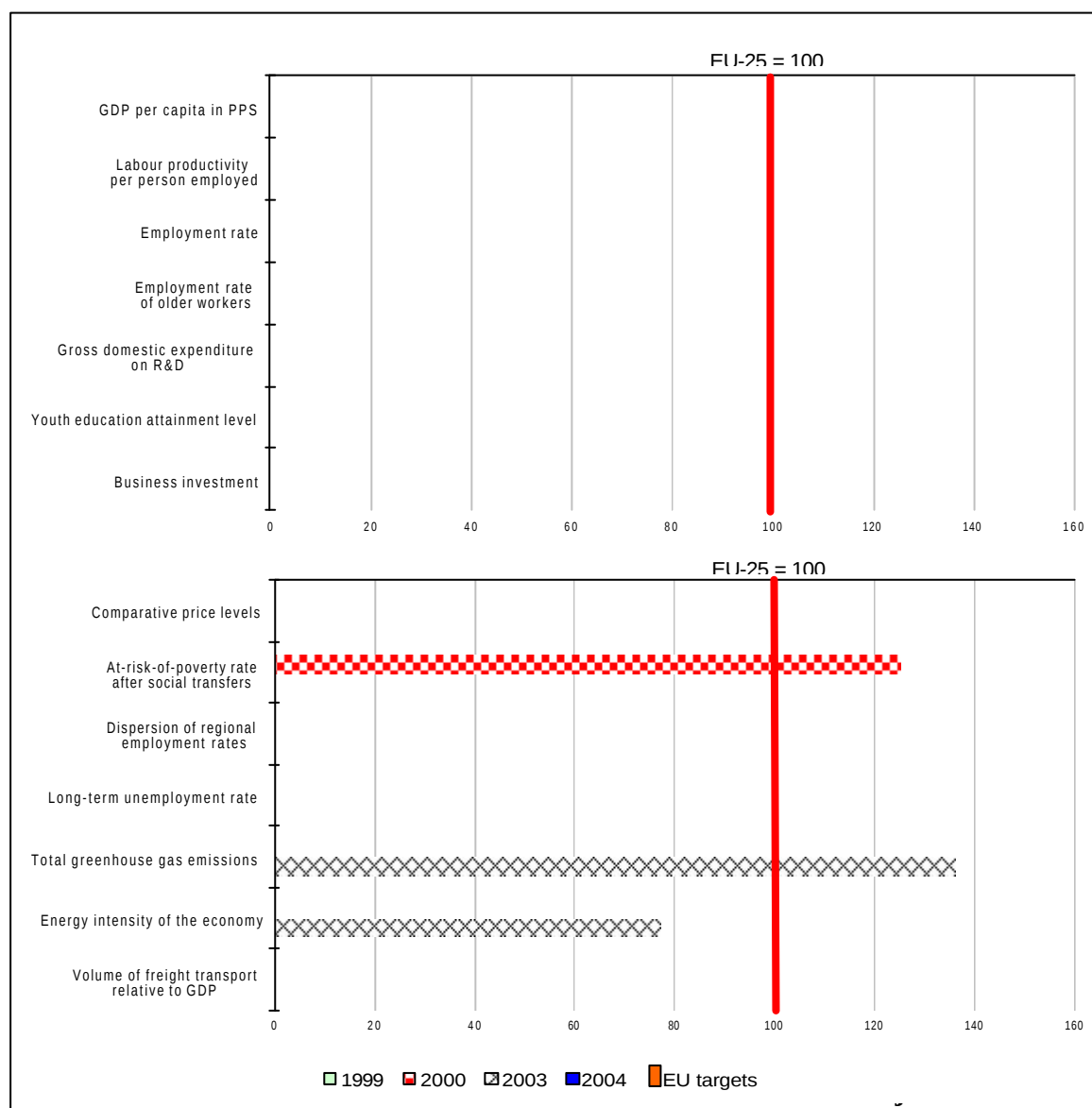
particular the way Ireland has dealt with the issues mentioned in paragraph 22 here-above. In this context, the Commission looks forward to discussions with the Irish authorities as part of the new partnership for growth and jobs.

PART IV : STATISTICAL GRAPHS AND DATA

IRELAND

	IE							EU-25						
	1999	2000	2001	2002	2003	2004	2010 National target	1999	2000	2001	2002	2003	2004	2010 EU target
GDP per capita in PPS	122.6	126.8	129.4	133.5	134.7	137.7	:	100.0	100.0	100.0	100.0	100.0	100.0	70.0
Labour productivity per person employed	120.5	122.4	124.5	128.5	129.0	130.2		100.0	100.0	100.0	100.0	100.0	100.0	
Employment rate	63.3	65.2	65.8	65.5	65.5	66.3	:	61.9	62.4	62.8	62.8	62.9	63.3	70.0
Employment rate of older workers	43.7	45.3	46.8	48.0	49.0	49.5		36.2	36.6	37.5	38.7	40.2	41.0	
Gross domestic expenditure on R&D	1.18	1.13	1.12	1.10	1.16	1.20	*	1.87e	1.89e	1.93e	1.93e	1.92e	1.90pe	3.0
Youth education attainment level	82.0	82.4	84.6	83.9	85.3p	85.3p		74.8	76.3	76.1	76.5	76.5	76.6	
Comparative price levels	108.1	111.6	116.0	122.4	126.6	123.1p	:	100.0	100.0	100.0	100.0	100.0	100.0p	70.0
Business investment	20.8	20.7	18.9	18.1	19.2	20.9		17.9	18.3	17.7	17.1	16.7	16.9	
At-risk-of-poverty rate after social transfers	19.0	20.0	21.0	:	21.0b	21.0	-	:	16.0	15.0	15.0	15.0	16.0	70.0
Dispersion of regional employment rates	-	-	-	-	-	-		13.3	13.4	13.5	13.3	12.9	12.2	
Long-term unemployment rate	2.4	1.6	1.3	1.3	1.5	1.6	-	4.1	3.9	3.8	3.9	4.0	4.1	
Total greenhouse gas emissions	123.9	127.8	131.1	128.6	125.2	:		90.6	90.5	91.4	90.7	92.0	:	
Energy intensity of the economy	187.7	175.1	172.5	166.1	161.7	:	-	214.9	208.8	209.7	206.5	209.5	:	
Volume of freight transport relative to GDP	121.2	132.0	125.1	135.0	141.0	147.5		100.7e	100.4e	99.4e	100.3e	99.7e	104.7e	

* National target: 2.5% (2013) of the Gross National Product (GNP)



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Italy

1. Italy's GDP per capita in 2004 was 103% of the EU average. Between 1995 and 2004, Italian GDP grew by 1.6% per year on average, compared to 2% for the euro area. During that period the growth of productivity per person employed was also below the euro area average. In spite of low growth, robust job creation in recent years has contributed to a fall in the unemployment rate to 8% in 2004, below the EU average. At the same time, the employment rate, at 57.6% (2004) remains far below the Lisbon target. Italy has faced a reduction of its international competitiveness and has a very large public debt.

PART I: GENERAL ASSESSMENT

2. Italy's National Reform Programme (NRP) highlights five priorities to boost output growth and employment: extending the area of free choice for citizens and companies (by opening up energy and services markets); granting incentives for scientific research and technological innovation; strengthening education and training; upgrading infrastructure; protecting the environment. A sixth priority, long-term fiscal sustainability, is addressed in a separate document (see paragraphs 5 and 6 below). The Commission shares this analysis but also sees general enhancement of competition in all markets, including through deepening the internal market, as a major challenge for Italy. Furthermore, the Commission believes that the challenge of increasing employment rates and reducing regional employment disparities will indeed benefit from reforms to strengthen education and training, but additional initiatives should be considered as well. These measures were presented to the Commission in a separate document.
3. The Italian programme contains many realistic and valuable measures, most of which are already planned or on-going. However, the main steps for 2005-2008 are not always accompanied by timetables or information on monitoring and evaluation procedures. There is recognition in the NRP of the importance of integration between micro-economic, macro-economic and employment policies. The programme focuses largely on the micro-economic area, while macroeconomic and employment policies are largely covered in the annexes. The estimated total cost of the programme is €46.5 billion, most of which was already included in the 2005 budget. The remaining part (€13 billion) is conditional on expected revenues deriving from sales of public sector real assets in 2006-2008. Seventy per cent of the overall funding is allocated to infrastructure. The Programme is to some extent coordinated with other policies, partly covered by the annexed background material. No targets are set for R&D spending. Cohesion policy, expected to provide a large contribution to achieving the aims of the Programme, is discussed mainly in relation to the current implementing period. General references to the possible use of financial resources from the Structural Funds 2007-2013 are made.
4. Consultation and efforts to develop ownership of the Italian NRP at government, administrative and expert level have been substantial. A new internal governance structure (Comitato Tecnico) was charged of inter-ministerial co-ordination. The results of a survey of 120 economists were taken into account. Regional authorities

and social partners had the opportunity to express their views both formally and informally. The NRP was presented to the parliament after its adoption.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

5. The NRP's five priorities for action relate mainly micro rather than to macro-economic policies. However, the programme states that the consolidation of public finances according to the plans in the economic and financial planning document for the years 2006-2009 (DPEF)¹⁶ is to be considered an integral part of the Programme.
6. Those plans identify long-term sustainability of public finance as a priority, to be achieved based on the recovery of economic growth, the budgetary effects of the 2004 pension reform and medium-term fiscal consolidation. The DPEF aims to reduce the general government deficit to below 3% of GDP by 2007 (from 4.3% in 2005) and to reduce the debt-to-GDP ratio from 108% in 2005 to 101% in 2009. This is primarily thanks to an increase in the primary surplus from 0.6% to 3% of GDP over the same period. However, the Commission's analysis is that long-term fiscal sustainability in Italy would require maintaining a minimum primary surplus of around 4% of GDP, underpinned by reforms to permanently restrain public spending. The Italian NRP does not cover pensions in detail but reforms since the early-1990s have sought to address long-term sustainability by reducing future pension liabilities. In particular, the 2004 reform, to take effect from 2008, raises the retirement age, and foresees the development of the "second pillar" (funded pensions). Full implementation of that reform together with raising employment rates, in particular of women and older workers, will be important for the pensions system to combine social adequacy and financial sustainability in future.
7. In the light of Italy's high public debt, low potential GDP growth rate and the expected increase in ageing-related expenditure, the macro-economic strategy and targets might not prove sufficiently ambitious. In particular, the planning document does not adequately address the continuing increases in health care expenditure. However, the approval of the 2006 "Legge Finanziaria" represents, if fully implemented a further step towards the goals of consolidation of public finances as stated in the DPEF.

Micro-economic policies

8. The Italian NRP highlights four micro-economic priorities: R&D, "free choice for citizens and companies", infrastructure and environment. It includes various initiatives to improve the business environment, including better regulation. However, the programme does not address in full challenges such as strengthening competition and deepening of the internal market.
9. The proposed action to boost R&D includes interesting elements, for example fiscal measures to make undertaking R&D more attractive for companies. The proposed

¹⁶ Documento di Programmazione Economico-Finanziaria per gli anni 2006-2009 submitted by the government to parliament on 15 July 2005. The document is available in Italian at: http://www.tesoro.it/Documentazione/DPEF_2006-2009/DPEF_2006-2009.pdf

reorganisation of the national research system should also over time help to improve R&D performance, despite limited detail in the programme on cooperation between Ministries and the regions and on fostering links between SMEs and between business and the public sector. Research and innovation resources tend to be concentrated on specific sectoral projects rather than on structural measures with a potentially broader economic impact. The programme states that the combination of measures and projects in research and innovation should enable Italy to approach the 3% of GDP goal for R&D spending. A strong commitment to achieving that objective and the 66% target for the private contribution to R&D expenditure will be necessary. The programme tackles the most important issues in ICT but without prioritising fully the measures proposed.

10. Under the theme of “free choice for citizens and companies” the Italian NRP aims to increase competition, especially through more open utilities markets (including energy) and in services, but does not give full details on how these goals will be achieved. The removal of barriers restricting competition in professional services is envisaged, even though specific implementation measures are not mentioned in detail. The programme proposes a series of specific measures to improve the business environment by improving regulation and public sector efficiency, such as simplification of existing legislation, a project on the application of the Standard Cost Model for measuring administrative costs, guidelines for consultation exercises and increasing the use of impact assessments. These initiatives are likely to contribute to reducing the burden on businesses. The newly approved framework law reforming bankruptcy legislation should also encourage entrepreneurs. Provisions for speeding up and improving the implementation of EU legislation should be specified in the NRP.
11. The NRP sets out plans for investment in upgrading road, sea and rail infrastructure by completing major projects. There are also interesting initiatives to introduce or improve IT infrastructure in schools, healthcare, tourism and public administration. The programme would benefit largely from a detailed reference to the regional dimension. The Trans-European Transport Network projects are at the centre of the strategic framework for transport policy. Little reference is however made to the railway network outside TENs, which merits improvements especially in the Southern Italy.
12. The fairly strong emphasis on environmental protection in the NRP is not reflected in the budgetary allocation for 2006-2008. The proposed measures to promote research and innovation in renewable energy would need to be specified.
13. The micro-economic chapter of the Italian NRP contains important elements, notably on boosting research and making the business environment more attractive, which have the potential to contribute effectively to growth and jobs. The infrastructure investment set out in the programme should also help the economy to function better. Overall the aim of the measures proposed constitutes the type of micro-economic reforms which, in synergy with macro-economic stability and labour market reform, could reduce Italy’s dependence on traditional sectors, help SMEs to grow and new businesses to emerge and thus help to tackle the reduction of international competitiveness which Italy is facing. Their effective, full and timely implementation will be crucial to attain such goals.

Employment policies

14. The Italian programme cites strengthening of education and training as its main employment priority. Employment is considered as “endogenous” to all the other priorities in the NRP. Other significant employment-related challenges such as employment rates significantly below the EU averages and the sharpest regional employment disparities in the EU are addressed in the annex.
15. Most of the education and training measures mentioned are already in place. The NRP covers the 2003 education and training reform (operational as from 2007-2008) and university reform. There are useful initiatives to support higher education - particularly in scientific subjects – to ease the school-to-work transition, to reduce early school leaving and to train civil servants. Further substantial information on the evaluation and monitoring of reforms, on quality assurance mechanisms to ensure common standards across regions or on training measures for low-skilled and older workers should be provided. The overall funding included in the NRP for education and training is very limited. The key role in employment policy of regions and social partners could have been better highlighted.
16. Given its approach (with employment as an endogenous element) the Italian NRP does not address directly the issue of attracting and retaining more people in employment. The focus on youth employment, female participation, childcare, active ageing, integration into work of people with disabilities or active labour market policies is addressed in the annex, as are certain specific aspects important for Italy such as flexibility and security, wage developments, geographical productivity differentials, undeclared work and non-wage labour costs.
17. As far as employment policy is concerned, the Italian NRP devotes its attention to education and training. There is cause for optimism over some of the individual measures proposed, such as the reform in the educational system. However, significantly more efforts would be certainly needed to boost educational and training levels up to the EU average, despite some positive trends. As stated, more information on other employment policies is available in other documents but the provision of some details in the NRP itself would have allowed a more coherent analysis of the links and synergies with other policy areas.

PART III: CONCLUSIONS

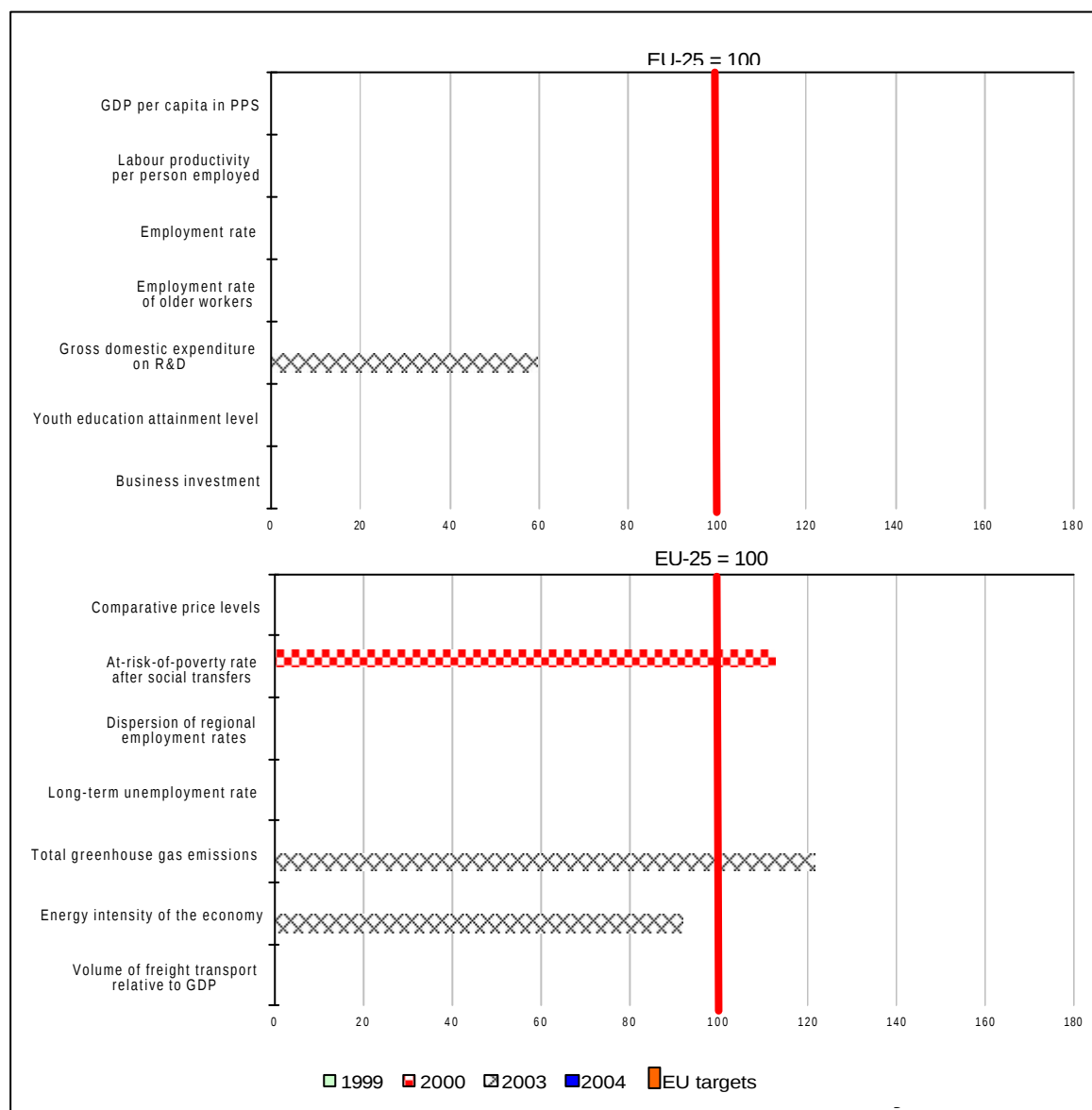
18. In line with the Integrated Guidelines, the Italian National Reform Programme identifies and responds to many of the main challenges facing Italy, namely extending the area of free choice for citizens and companies (by opening up energy and services markets); granting incentives for scientific research and technological innovation; strengthening education and training; upgrading infrastructure; protecting the environment. A sixth priority, long-term fiscal sustainability, is addressed in a separate document. However, a wider coverage in the NRP of the approach to increasing employment rates and reducing regional employment disparities would have allowed it to present a clearer strategy covering all policy areas and the links between them. Competition and regional issues are major challenges for Italy but are addressed only in a limited way in the NRP.

19. Targets, timetables and details on monitoring and evaluation procedures are often not provided in the NRP. The distribution of implementing responsibilities between different Ministries and between central government and regional and local authorities is not always clear.
20. The programme's strengths include:
- measures to improve the regulatory environment for business, notably reducing administrative costs and reform of bankruptcy legislation;
- certain measures aimed at improving educational performance, in particular in higher education.
21. Among the points requiring further attention are:
- further efforts to achieve fiscal sustainability;
- stronger and more specific measures to boost competition, particularly in network industries and services;
- increasing labour supply and raising employment rates, including tackling regional disparities.
22. Taking due account of the above, Italy is invited to implement its NRP with vigour. The 2006 progress report on the implementation of the NRP should cover in particular the way Italy has dealt with the issues mentioned in paragraph 21. In this context, the Commission looks forward to discussions with the Italian authorities as part of the new partnership for growth

PART IV : STATISTICAL GRAPHS AND DATA

ITALY

	IT							EU-25						
	1999	2000	2001	2002	2003	2004	2010 National target	1999	2000	2001	2002	2003	2004	2010 EU target
GDP per capita in PPS	111.0	110.0	109.7e	107.6e	105.5f	103.4f	:	100.0	100.0	100.0	100.0	100.0	100.0	70.0
Labour productivity per person employed	119.8	118.4	115.5	111.7	108.9	107.0		100.0	100.0	100.0	100.0	100.0	100.0	
Employment rate	52.7	53.7	54.8	55.5	56.1	57.6b		61.9	62.4	62.8	62.8	62.9	63.3	
Employment rate of older workers	27.6	27.7	28.0	28.9	30.3	30.5b		36.2	36.6	37.5	38.7	40.2	41.0	
Gross domestic expenditure on R&D	1.04	1.07	1.11	1.16	1.14	:		1.87e	1.89e	1.93e	1.93e	1.92e	1.90pe	
Youth education attainment level	66.3	68.8	67.0	69.1	69.9	72.9		74.8	76.3	76.1	76.5	76.5	76.6	
Comparative price levels	94.6	94.0	95.5	97.9	102.3	102.7p		100.0	100.0	100.0	100.0	100.0	100.0p	
Business investment	16.6	17.4	17.3	17.9	16.6	16.9		17.9	18.3	17.7	17.1	16.7	16.9	
At-risk-of-poverty rate after social transfers	18.0	18.0	19.0	:	:	19.0b		:	16.0	15.0	15.0	15.0	16.0	
Dispersion of regional employment rates	17.4	17.5	17.1	16.7	17.0	15.6		13.3	13.4	13.5	13.3	12.9	12.2	
Long-term unemployment rate	6.7	6.3	5.7	5.1	4.9	4.0		4.1	3.9	3.8	3.9	4.0	4.1	
Total greenhouse gas emissions	106.5	108.0	109.0	108.7	111.6	:		90.6	90.5	91.4	90.7	92.0	:	
Energy intensity of the economy	190.9	186.9	184.0	184.1	192.6	:		214.9	208.8	209.7	206.5	209.5	:	
Volume of freight transport relative to GDP	100.9	102.1	100.9e	102.6e	93.4e	104.4be		100.7e	100.4e	99.4e	100.3e	99.7e	104.7e	



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Latvia

1. Supported by one of the highest productivity growth rates in the EU, real GDP in Latvia has grown at an annual average rate exceeding 7% since 2000. GDP per capita rose to 43% of the EU average in 2004, still the lowest in the EU. This contrast with much slower progress in the labour market – the total employment rate (62.3% in 2004) remains 1% below the EU average and the unemployment rate has only recently fallen below 10%. Imbalances, as evidenced by high inflation and a wide external account deficit, persist.

PART I: GENERAL ASSESSMENT

2. The Latvian National Reform Programme (NRP) identifies five main economic policy directions: securing macro-economic stability; stimulating knowledge and innovation; developing a favourable and attractive environment for investment and work; fostering employment; and improving education and skills. The Commission shares the NRP's analysis of the main priorities.
3. The NRP builds on a number of national programmes already in place. There is in general coherence between macro-economic, micro-economic and employment areas but the NRP envisages very ambitious reforms in many sectors. This raises doubts over whether the ambitions set out are fully realistic. The programme links each Integrated Guideline to specific measures and, where appropriate, includes the planned contribution of EU Structural Funds. Some measures are set out in detail, while others are broader lines for action. Action plans and funding commitments have been set for most guidelines. National targets are set for 2010 for employment rate (67%) and for R&D investment (1.5% of GDP).
4. Consultation and efforts to develop ownership of the document have been substantial. A clear internal governance structure has been established to ensure inter-ministerial coordination. The parliament was consulted. Regional and local government bodies will be responsible for implementing some of the proposed reforms and participated in debate during the drafting of the NRP. Social partners and other stakeholders will be involved in the implementation process where appropriate and were consulted during the drafting process, along with civil society.

PART II: ASSESSMENT BY POLICY AREA

Macroeconomic policies

5. The objective of macro-economic stability is to be reached by meeting four key challenges: fulfilment of the Maastricht criteria on the government budgetary position; the introduction of the euro; strengthening fiscal discipline and budgetary planning procedures; and balancing budgetary discipline with improving social conditions. The Commission subscribes to these objectives.
6. Policies for wage developments, pensions and income taxation are described in detail, but there are in many other cases no clear timelines or analysis of budgetary implications. The NRP does not deal with savings-investments imbalances that are at

root of the current account deficit or with the rapid expansion of credit that is contributing to inflationary pressures. Fiscal policy aims at maintaining a sustainable budgetary position and achieving a balanced budget position in the long rather than medium term.

7. The Commission believes that the macro-economic policy initiatives described in the NRP could contribute to the sustainable economic development of Latvia.

Microeconomic policies

8. The Latvian NRP presents two micro-economic priorities: (i) stimulating knowledge and innovation and (ii) developing a favourable and attractive environment for investment and work. The Commission's analysis is in line with this.
9. The Latvian NRP demonstrates clear ambition to move towards a more knowledge-based economy by substantially increasing public investment in research and innovation. To reach the objective for public R&D spending of 1.1% of GDP by 2008, public investments will be increased by 0.15% GDP each year. Many new R&D measures are presented, though not in detail. The strategic framework seems incomplete, and specific targets for the results of the various measures are set only in certain cases. Creating conditions for increased cooperation between research institutes and businesses is an important part of the policy mix not covered comprehensively in the NRP. The main instrument to promote industrial research is the technology agency, which may need to be complemented by other tools in order to meet the ambitious goals for overall R&D spending. The programme outlines policies to improve technology transfer through technology/business incubators. A mechanism is set out for seed capital and promotion of clusters: this seems to be an effective response to the need for increased co-operation between stakeholders in the innovation system, though no details are given on the budget and scope of this measure.
10. ICTs are mentioned as an important tool to strengthen the knowledge-based economy. Measures to widen their use are focused on five areas: e-government; e-learning; development of internet access points; improvement of internet security; and the extension of broadband infrastructure to remote and rural areas. The Commission supports this choice of priorities but a more detailed implementation plan and a more precise budget allocation would be helpful in assessing the likely results. The NRP presents a general outline of a support programme for patent applications and protection. Within a context of sustainable growth, the NRP gives a high priority to the promotion of renewable energy, supported by a limited number of measures on environmental technology.
11. Regarding the business environment, implementation focuses on measures to support SMEs and includes access to finance and support for participation in international events. The NRP sets out a general outline of a limited number of new measures for the development of competitive markets. These aim to improve the functioning of the internal market by stronger market surveillance, promote the free movement of services, reform public procurement rules, widen use of e-procurement and further develop e-government. The NRP contains a comprehensive set of measures to improve the road and railway infrastructure. However, no details are provided on energy infrastructure measures.

12. The programme covers all key micro-economic topics and proposes measures that are often well focused. Detail on implementation is not always provided. Latvia would benefit from a more integrated research and innovation strategy to absorb effectively the planned increase in public investment and to turn it into growth and jobs. Increased use of market-based instruments in both R&D and environmental policy may be needed to achieve the objectives outlined in those areas. Measures to promote entrepreneurship in education could be strengthened.

Employment policies

13. The Latvian NRP broadens the overarching strategic objectives of fostering employment and improving education and skills into four key employment challenges: reducing regional disparities in employment and unemployment; reducing undeclared work; tackling the high unemployment risk for the young, persons after child-care leave and people with poor knowledge of Latvian; and matching education and skills to labour market requirements. The Commission supports this choice of priorities, which the NRP addresses mostly through continuing and refining existing policies.
14. The NRP addresses the marked regional disparities in employment mainly through supporting business start-ups, infrastructure and geographical mobility. The role of local governments and social partners, as well as the importance of local employment plans are highlighted. However, no information is provided regarding the measures envisaged to address the sharp rural-urban divide.
15. The NRP provides a comprehensive set of measures to prevent undeclared work and improve the adaptability of the labour market. The administrative capacity of the State Labour Inspectorate and the role of the social partners will be reinforced to ensure compliance with health and safety and labour legislation and to combat undeclared work. The Commission supports this choice of measures and looks forward to their effective implementation.
16. There is a wide range of measures to strengthen labour supply. Measures to attract more people to the labour market concentrate mainly on registered job-seekers and to a much smaller extent on the other inactive people who wish to work. The NRP focuses on policies covering the life-cycle approach, inclusive labour markets and meeting labour market needs. It lists comprehensive measures to prepare the young for the labour market and sets out a strategy to promote inclusive labour markets, including reinforcing active labour market policies, unemployment prevention, childcare and social services. Measures are foreseen for non-Latvian speakers and disabled people. The NRP does not place planned increases in the minimum wage in the context of possible risks to job creation for the low-skilled. Despite the increase in the tax-free threshold, the tax wedge for the low paid is still high, which contributes to an unemployment trap. Inflation is eroding efforts to make work pay. The policy objective to reduce the “at-risk-of-poverty” rate to 11% by 2008 is ambitious in these circumstances.
17. Efforts to match education and skills to labour market requirements seek to increase the attractiveness of professional education, engineering and natural sciences through modernising the establishments where these options are offered, increasing subsidised study places in engineering and natural sciences and providing access to

study loans and grants. Strengthening co-operation with employers will help in designing training programmes and will improve forecasting of future needs. Although the NRP mentions early school leaving and improving access to education at all levels, few details are provided on specific action. The NRP provides very limited information on progress expected in developing and implementing a lifelong learning strategy. Further assessment of labour supply issues, including labour emigration, is important for Latvia in dealing with potential bottlenecks in its transformation to a knowledge-based society.

18. Overall, the NRP presents a comprehensive overview of the current approach to tackling labour market challenges. The lack of implementation details in some cases makes it difficult to assess the likely effectiveness of the measures. Areas seeming to require further attention are reducing inactivity, the urban-rural divide, mismatch of education and skills with labour market demand and developing a comprehensive lifelong learning strategy.

PART III: CONCLUSIONS

19. In line with the Integrated Guidelines, the Latvian National Reform Programme identifies and responds to the main economic challenges facing Latvia, namely securing macro-economic stability; stimulating knowledge and innovation; developing a favourable and attractive environment for investment and work; fostering employment; and improving education and skills. Overall, the NRP is coherent and ambitious and takes a broad approach to addressing the difficult challenges of economic transition and structural adjustment. 20. Budgetary information is included for most areas. However, details on the implementation and timing of measures, for example on disseminating ICTs, reducing urban-rural wealth disparities and on some aspects of education and training reform, are often lacking.
21. The programme's strengths include:

the focus on R&D and ICT and the reforms envisaged in these areas;

the measures aiming at improving transport infrastructure;

measures to promote inclusive labour markets.
22. Among the points requiring further attention are:

a clearer and stronger commitment to achieving macro-economic stability including by stepping up fiscal consolidation ;

policies to stimulate partnerships between research and education institutions and businesses;

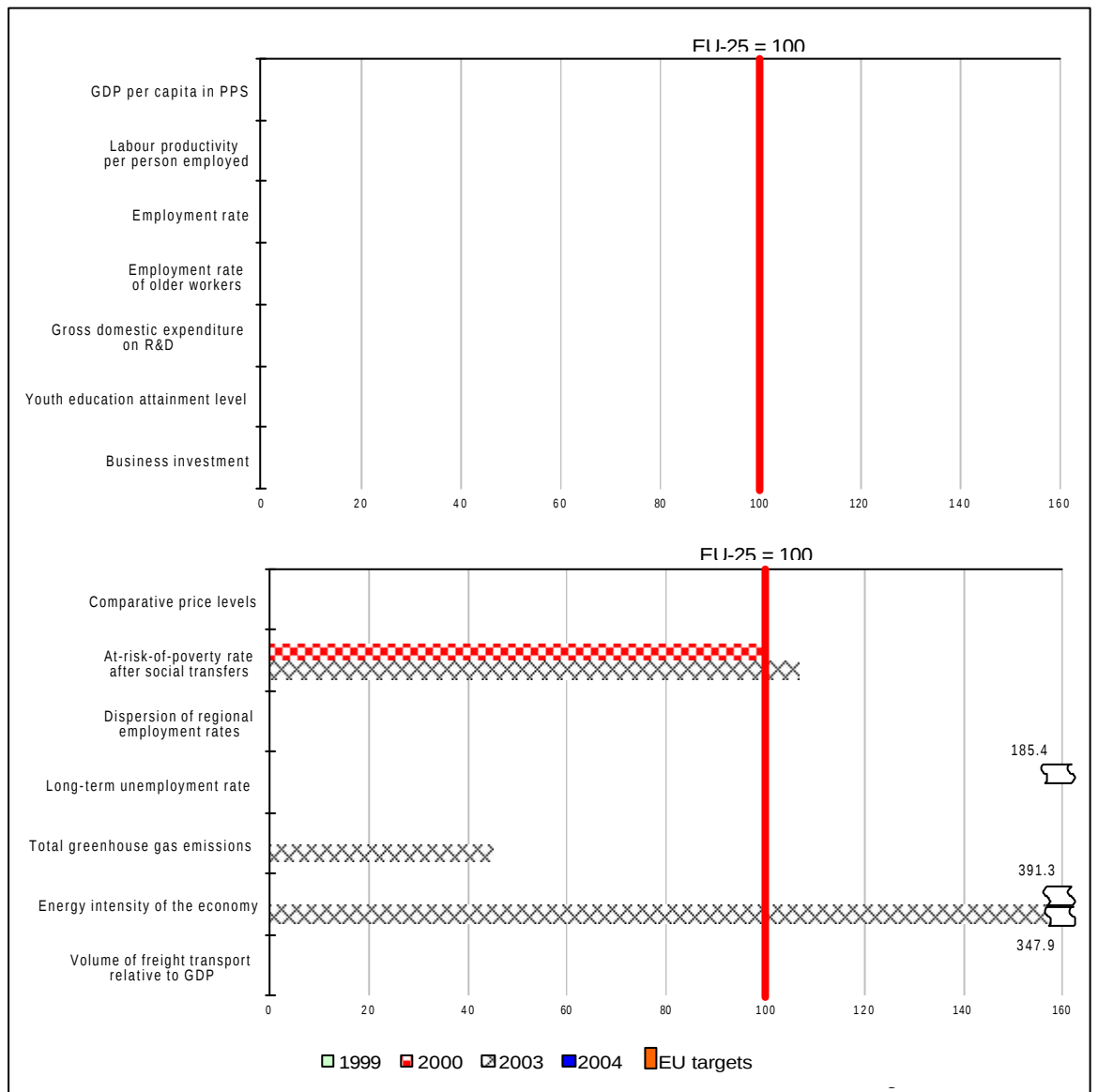
stronger measures to adapt education and training to labour market needs and to develop and implement a coherent lifelong learning strategy.
23. Taking due account of the above, Latvia is invited to implement its NRP with vigour. The Commission 2006 progress report on the implementation of the NRP should cover in particular the way Latvia has dealt with the issues mentioned in paragraph

22. In this context, the Commission looks forward to discussions with the Latvian authorities as part of the new partnership for growth and jobs.

PART IV : STATISTICAL GRAPHS AND DATA

LATVIA

	LV							EU-25						
	1999	2000	2001	2002	2003	2004	2010 National target	1999	2000	2001	2002	2003	2004	2010 EU target
GDP per capita in PPS	33.9	35.1	36.9	38.4	40.5	43.1	67.0	100.0	100.0	100.0	100.0	100.0	100.0	70.0
Labour productivity per person employed	35.4	38.0	39.2	40.0	41.2	43.1		100.0	100.0	100.0	100.0	100.0	100.0	
Employment rate	58.8	57.5	58.6	60.4	61.8	62.3		61.9	62.4	62.8	62.8	62.9	63.3	
Employment rate of older workers	36.6	36.0	36.9	41.7	44.1	47.9		36.2	36.6	37.5	38.7	40.2	41.0	
Gross domestic expenditure on R&D	0.37	0.45	0.41	0.42	0.38	0.42	1.5 (2008)	1.87e	1.89e	1.93e	1.93e	1.92e	1.90pe	3.0
Youth education attainment level	74.6	76.8	70.3	73.2b	74.0	76.9		74.8	76.3	76.1	76.5	76.5	76.6	
Comparative price levels	51.1	57.5	58.2	57.6	55.4	56.4p		100.0	100.0	100.0	100.0	100.0	100.0p	
Business investment	21.7	23.2	24.0	22.8	23.2	25.5		17.9	18.3	17.7	17.1	16.7	16.9	
At-risk-of-poverty rate after social transfers	:	16.0	:	16.0	16.0	:	-	:	16.0	15.0	15.0	15.0	16.0	
Dispersion of regional employment rates	-	-	-	-	-	-		13.3	13.4	13.5	13.3	12.9	12.2	
Long-term unemployment rate	7.6	7.9	7.2	5.7	4.3	4.3		4.1	3.9	3.8	3.9	4.0	4.1	
Total greenhouse gas emissions	41.3	39.2	42.3	41.9	41.5	:		90.6	90.5	91.4	90.7	92.0	:	
Energy intensity of the economy	840.9	756.0	816.5	750.3	728.8	:		214.9	208.8	209.7	206.5	209.5	:	
Volume of freight transport relative to GDP	116.2	120.2	120.1	122.5	133.4	129.3		100.7e	100.4e	99.4e	100.3e	99.7e	104.7e	



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Lithuania

1. Lithuania has been experiencing rapid economic growth since 1996, supported by the second highest labour productivity growth rate in the EU. Over the period 2001-2004 real GDP growth averaged 7.9%. However, GDP per capita was only 48% of the EU average in 2004. Domestic demand has accelerated rapidly in the last three years, overtaking exports as the driver of economic growth and leading to higher external account deficits. The employment rate is at 61.2%. Unemployment fell sharply from 12.7% in 2003 to 10.9% in 2004.

PART I: GENERAL ASSESSMENT

2. The Lithuanian National Reform Programme (NRP) sets three key national priorities: (1) macroeconomic policies to sustain fast growth of the economy and a stable macroeconomic environment; (2) microeconomic policy to promote the competitiveness of Lithuanian companies; (3) employment policy to promote employment and investment in human capital. The Commission shares this analysis.
3. The NRP sets out an ambitious forward-looking strategy, while building on a number of national programmes already in place. Although the sections on macro-economic, micro-economic and employment policies contain cross-references, in terms of content it is not clear that they are consistent. Several targets are set for 2010 and for 2005-2008, including ambitious targets for overall employment (68.8% in 2010) and investment in R&D (2% of GDP in 2010). The presentation of measures, however, varies in the level of detail. This sometimes makes a full appreciation difficult of how measures will contribute to growth and jobs and of whether they are sufficient to respond to the challenges identified or to meet the targets set. While the preparations for the next programming period for the Structural and Cohesion Funds are described, it is not entirely clear how a coherent approach with the NRP will be achieved in practice.
4. Consultation and efforts to develop ownership were very substantial. Lithuania has established an ad-hoc inter-ministerial committee to ensure coordination and ownership of the NRP within the government. Steps were taken to involve key stakeholders. The parliament was involved in the preparation of the plan, the social and economic partners were consulted, civil society was invited to comment on the draft NRP and a conference was held in September. The NRP also attributes to the social partners a role in implementing certain measures but does not set out in detail what specific tasks or responsibilities this would involve.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

5. In a context of accelerating wage growth and inflation, the NRP aims to maintain high productivity growth through tax and labour market reforms, together with the promotion of R&D and innovation activities. Those activities are expected to be underpinned, to a certain extent, by foreign direct investment. The NRP also

acknowledges the importance of an efficient allocation of bank credit for macro-economic stability and highlights the need for reforms of the pension and healthcare systems to guarantee the sustainability of public finances in the long term. The Commission largely shares Lithuania's point of view on these priorities.

6. The macro-economic strategy builds on the policies implemented in previous years. Monetary and fiscal policies will aim for participation in the eurozone in 2007. The most important macro-economic measures outlined in the NRP are reforms in pension and healthcare systems, the promotion of flexible wage setting and tax reform. These will be accompanied by microeconomic and labour market reforms that should strengthen competitiveness and productivity. The programme presents some detailed measures for tax reform but very little on measures to attract foreign direct investment or in relation to financial stability. Most of the macro-economic measures are difficult to assess fully as they are presented only in general terms: further measures to increase employment rates and the retirement age would contribute to the future adequacy and sustainability of pensions.
7. Lithuania plans to meet the conditions for participation in the euro by a sustainable fiscal policy and timely legal and administrative preparations. In the short to medium term, the NRP projects a reduction in general government deficit from 2.3% of GDP in 2005 to 1.5% in 2007, which from the point of view of the Commission, is realistic. However, reducing the deficit further to 1.3% of GDP in 2008 might be considered optimistic without measures to compensate for the decrease in the personal income tax. Furthermore, the budgetary targets presented in the NRP involve a more expansionary fiscal stance which would make fiscal policy less supportive of price stability. On the other hand, the latest update of Lithuania's Convergence Programme, submitted to the Commission in December 2005, presents lower general government deficit targets. The NRP also highlights an increase in competition as a factor that should help to keep inflation down but does not set out clear measures in this respect. The Commission would be interested in learning more about plans to strengthen competition in network industries. The inflation projection of 2.1% for 2006 is considered optimistic, particularly in view of the acceleration of wage growth that is predicted in the NRP.
8. Overall, however, the macro-economic strategy presented in the NRP seems realistic provided the reforms envisaged are implemented in full.

Micro-economic policies

9. The NRP identifies the promotion of competitiveness as the key priority. The Commission shares this view and would stress the importance of infrastructure, R&D and innovation policies.
10. Infrastructure remains a key problem and Lithuania devotes considerable financial resources to connecting its energy network with West European networks and modernising transport (road and rail). Here the focus is on environmentally sustainable forms of transport, for example multimodal transport systems and the creation of "rail Baltica", linking Lithuanian railways with rail networks in Western Europe. The NRP envisages activities in three areas of information and communication technologies: citizens' use of ICT, e-government and the use of ICT

in the economy. Funding efforts concentrate on broadband infrastructure, where the Structural Funds are to play an important role.

11. The government plans structural reforms to boost R&D. Investment both in public and private sectors, knowledge transfer and the reform of the education system are key points, aiming at strengthening the public science base and upgrading the innovation system. Lithuania will need to increase considerably public sector spending on research, if it wants to reach the target of 1% of GDP by 2010 (from about 0.5% in 2002), and also has a very ambitious target for private sector research investment. Substantial efforts to leverage private sector spending will be needed to achieve the ambitious overall 2% target for research investment (0.68% in 2003).
12. The NRP contains many measures to improve innovation performance. The Business Innovation Programme tries to provide a coherent national research and innovation strategy. While the development of clusters is well covered, little priority is given to efforts to increase intellectual property. Furthermore, a reliable national statistical system is not yet – despite recent efforts – fully developed in Lithuania. Such a system could be used for industrial research and innovation monitoring purposes.
13. Overall, the NRP conveys a sense of where the government sees the key priorities and how it tries to address them, though assessing policies in detail is not easy because the description of measures is not always very precise. This is also the case in a number of other important areas such as the internal market, competitive markets, better regulation, or policy on SMEs, which represent 99.3% of Lithuanian enterprises.

Employment Policies

14. The key priorities are boosting employment and investing in human capital. The challenges referred to include: responding to the rapid ageing of the labour force; reducing high long-term and youth unemployment; ensuring that the labour force has the skills employers need; reducing labour market imbalances between sectors and regions; and the need to boost productivity and participation in education and lifelong learning. The Commission shares this analysis and the resulting choice of priorities.
15. Measures to attract and retain more people in employment focus on promoting a lifecycle approach to work, improving health care, strengthening labour market institutions and social partnership. Key targets are set, including an ambitious overall employment rate target (68.8% in 2010, 61.2% in 2004). To retain older workers in employment, the scope for part-retirement and increasing the pension age are to be analysed with a view to rising the pension age to 65 by 2026. Social inclusion measures have a strong emphasis on disabled people and there is a clear reference to the national action plan on social inclusion. There is a varied and appropriate policy mix on youth employment, with youth organisations involved in delivery. Whilst general healthcare is covered, health and safety at work is not, though relevant prevention measures could improve productivity. The development of the network of vocational guidance centres is a step towards better meeting employers' needs in terms of skills.
16. To improve adaptability, Lithuania intends to take a number of initiatives that the Commission considers generally appropriate. These include: the implementation of

unemployment prevention programmes; the promotion of flexible forms of employment; strengthening measures against undeclared work; the promotion of labour mobility; increasing investment in training and the reduction of labour taxation. However, the description of these policies in the NRP is not very detailed and targets are not set. In particular, it is doubtful whether the policy response to the challenge of labour mobility will prove sufficient, despite its importance given existing regional disparities. The NRP envisages a reduction of the income tax rate and an increase in the minimum wage, but it is not entirely clear from the document whether there is a comprehensive overall approach to ensuring employment-friendly developments in labour costs and wage setting.

17. The NRP covers investment in human capital exhaustively, but not entirely systematically, which makes it difficult to identify the priorities. Lithuania has a lifelong learning strategy, which is mentioned along with measures to develop teachers' skills, improve learning conditions in schools, enhance vocational guidance and training curricula, develop the national system of qualifications and establish quality assessment. The low-skilled and those with special educational needs receive particular attention. Regarding higher education, strong emphasis is put on increasing efficiency by creating centres of excellence, promoting entrepreneurship and developing self-government. Important national targets are set. The target for participation in lifelong learning (10% in 2010) would, if achieved, represent a significant improvement compared with the present situation (6.5%).
18. Overall, the analysis of the employment situation is sound and the priorities chosen respond to the key challenges. Important and ambitious targets are set. However, many measures are not yet sufficiently concrete, their link to the objectives is not always apparent. More quantitative indicators would clarify their expected impact. The financial resources mentioned, when identified, mainly refer to the current Structural Funds programme.

PART III: CONCLUSIONS

19. In line with the Integrated Guidelines, the Lithuanian National Reform Programme identifies and responds to the main challenges facing Lithuania as an economy seeking to maintain high growth in order to reach EU average levels of per capita income, namely (1) macroeconomic policies to sustain fast growth of the economy and a stable macroeconomic environment; (2) microeconomic policy to promote the competitiveness of Lithuanian companies; (3) employment policy to promote employment and investment in human capital.. Overall, the NRP is ambitious and builds on existing policies. However, coherence between policy areas is not always clear.
20. Implementation will be facilitated by the Lithuanian authorities' efforts to launch a public debate about the reform agenda and to involve stakeholders, including in ensuring that structural funding is used effectively. Nevertheless, the detail given in the NRP on the content, funding, timing and monitoring of measures is in many cases insufficient to allow a complete assessment of their likely effectiveness.
21. The programme's strengths include:

the attention and financial resources devoted to improving transport and energy infrastructure, including by better international connections;

the focus on raising youth employment rates;

the attention given to improving skills.

22. Among the points requiring further attention are:

strengthening the science and technology base, including by increasing public sector spending on R&D to reach the ambitious target set for 2010;

additional efforts to strengthen innovation systems;

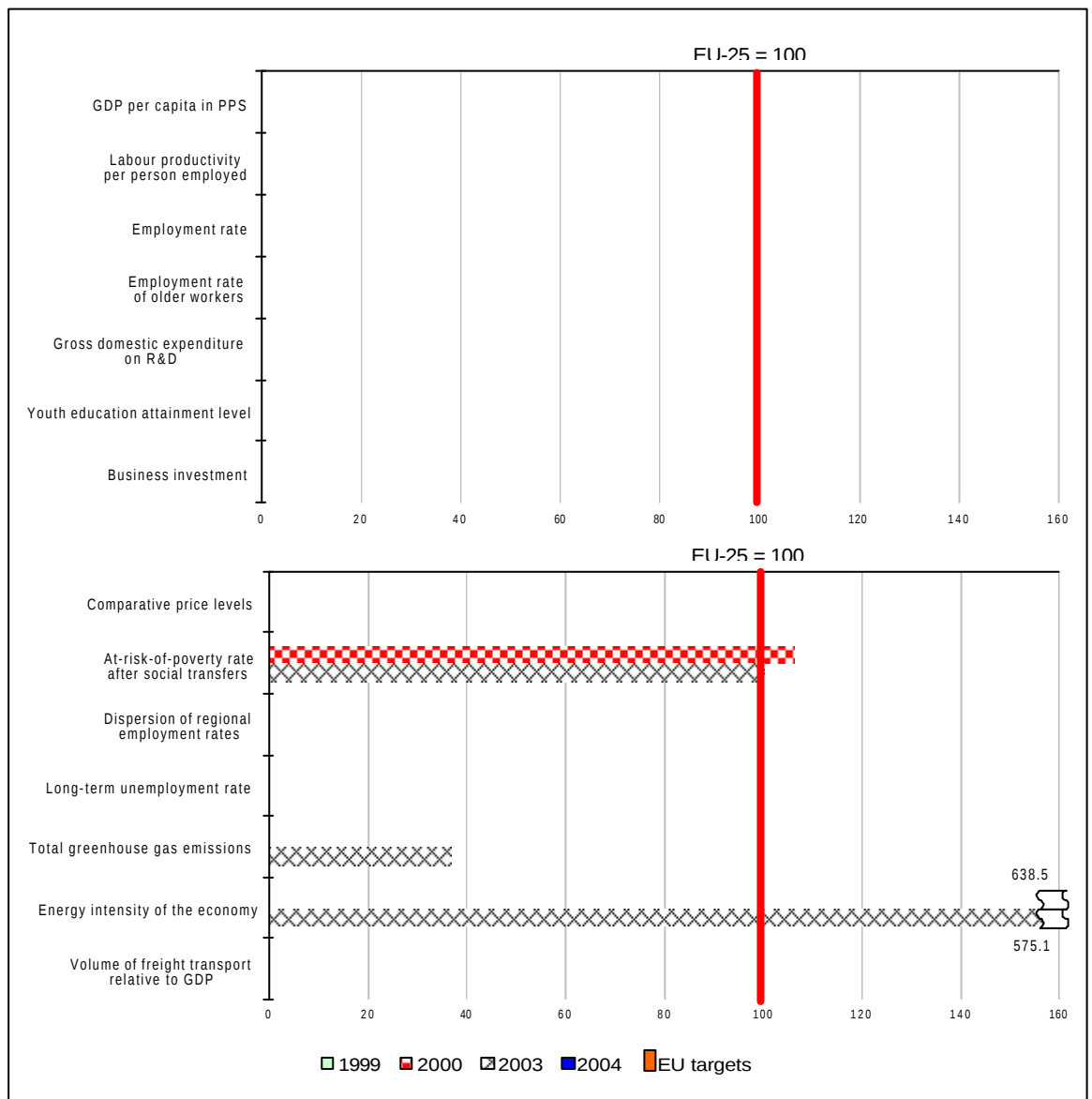
further reinforcement of active labour market policy and of the promotion of labour mobility.

23. Taking due account of the above, Lithuania is invited to implement its NRP with vigour. The 2006 progress report on the implementation of the NRP should cover in particular the way Lithuania has dealt with the issues mentioned in paragraph 22. In this context, the Commission looks forward to discussions with the Lithuanian authorities as part of the new partnership for growth and jobs.

PART IV : STATISTICAL GRAPHS AND DATA

LITHUANIA

	LT							EU-25						
	1999	2000	2001	2002	2003	2004	2010 National target	1999	2000	2001	2002	2003	2004	2010 EU target
GDP per capita in PPS	37.3	38.3b	40.3	42.1	45.5	48.0	68.8	100.0	100.0	100.0	100.0	100.0	100.0	70.0
Labour productivity per person employed	33.9	41.2b	45.1	45.1	47.4	49.9		100.0	100.0	100.0	100.0	100.0	100.0	
Employment rate	61.7	59.1	57.5	59.9	61.1	61.2		61.9	62.4	62.8	62.8	62.9	63.3	
Employment rate of older workers	40.9	40.4	38.9	41.6	44.7	47.1		36.2	36.6	37.5	38.7	40.2	41.0	
Gross domestic expenditure on R&D	0.51	0.59	0.68	0.67	0.68	0.76		1.87e	1.89e	1.93e	1.93e	1.92e	1.90pe	
Youth education attainment level	81.3	77.9b	81.2	79.3b	82.1	86.1		74.8	76.3	76.1	76.5	76.5	76.6	
Comparative price levels	46.1	51.6	53.0	54.6	54.9	54.6p		100.0	100.0	100.0	100.0	100.0	100.0p	
Business investment	19.6	16.3	17.9	17.4	18.2	18.5		17.9	18.3	17.7	17.1	16.7	16.9	
At-risk-of-poverty rate after social transfers	:	17.0	17.0	17.0	15.0	:		:	16.0	15.0	15.0	15.0	16.0	
Dispersion of regional employment rates	-	-	-	-	-	-		13.3	13.4	13.5	13.3	12.9	12.2	
Long-term unemployment rate	5.3	8.0	9.2	7.2	6.1	5.6		4.1	3.9	3.8	3.9	4.0	4.1	
Total greenhouse gas emissions	41.9	40.9	40.0	38.5	33.8	:	-	90.6	90.5	91.4	90.7	92.0	:	3.0
Energy intensity of the economy	1372.2	1208.4	1256.8	1272.7	1204.8	:		214.9	208.8	209.7	206.5	209.5	:	
Volume of freight transport relative to GDP	106.5	109.7	98.2	117.6	119.1	116.2		100.7e	100.4e	99.4e	100.3e	99.7e	104.7e	



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Luxembourg

1. La croissance du PIB luxembourgeois a été deux fois moins importante en 2004 qu'en 2000, mais elle reste forte, égale à 4,5%. Lors de cette période, la croissance de la productivité a ralenti considérablement. Le PIB par habitant s'élève à 227% de la moyenne européenne en 2004. Le taux d'emploi (61,6% en 2004) reste légèrement plus bas que la moyenne européenne tandis que le taux de chômage se maintient à un niveau historiquement élevé (4,8% en 2004, en augmentation de 2,7 points par rapport à 2001) et qu'un chômage structurel semble apparaître. Le Luxembourg se distingue par la part très importante prise par les travailleurs transfrontaliers dans la population active: ils représentent 40% des emplois occupés et plus des deux tiers des nouveaux emplois.

PARTIE I: EVALUATION GLOBALE

2. Le programme national de réforme (PNR) du Luxembourg fait du plein emploi et de l'innovation les deux fondements de sa stratégie, tout en soulignant la nécessité de pérenniser le modèle social existant. Le programme identifie cinq priorités d'action : un système d'éducation et de formation de haute qualité, une économie intégrée dans le contexte européen et international, un environnement économique attractif, un cadre macro-économique stable et le respect des principes du développement durable. La Commission partage ce choix de priorités. Néanmoins, certaines problématiques importantes, comme celle des travailleurs âgés, auraient mérité davantage de visibilité.
3. Le PNR fournit, au moins au niveau des principes, une vision pertinente des politiques à mener en réponse à ces défis. Le PNR ne permet cependant pas d'évaluer la portée exacte d'un certain nombre de mesures, étant donné que leurs conditions de mise en œuvre ne sont pas précisées. Dans une large proportion, les mesures présentées sont en effet à l'état de projets ou constituent des manifestations d'intention du Gouvernement. Le programme fixe un objectif pour l'investissement dans la R&D (3% du PIB en 2010) mais ne fournit pas d'objectifs quantifiés en matière d'emploi, ni ne présente d'échéancier pour la mise en œuvre des principales mesures. Le lien entre la stratégie développée et l'apport des fonds structurels européens n'est que brièvement mentionné.
4. Les initiatives prises pour assurer des procédures de consultation et garantir l'appropriation du document ont été significatives. L'élaboration du PNR a été coordonnée par le Ministre de l'économie et du commerce extérieur au nom du gouvernement. Une structure ad hoc a été constituée, dans laquelle les principaux ministères concernés sont représentés. L'observatoire de la compétitivité, rattaché au Ministère de l'économie, assiste le coordinateur "Lisbonne" dans ses tâches. Le programme a fait l'objet d'une importante concertation entre gouvernement, Parlement et partenaires sociaux. Ces derniers seront directement impliqués dans la mise en œuvre du programme.

PARTIE II : EVALUATION DES POLITIQUES

Politiques macroéconomiques

5. Le PNR identifie deux défis macroéconomiques principaux : la stabilité économique, grâce à la réduction du déficit public, et la pérennité économique et budgétaire à plus long terme, en lien avec la viabilité sociale et financière du système de sécurité sociale. La Commission partage ce choix de priorités.
6. Le Luxembourg a enregistré pour la première fois un solde budgétaire négatif en 2004, équivalant à -2,3% du PIB en 2005. Dans ce contexte, le PNR souligne l'engagement du gouvernement, matérialisé dans le budget 2006, de réduire le déficit des administrations publiques à -1,8% en 2006. Le PNR affirme que cet effort sera poursuivi en 2007 et 2008 sans indiquer les moyens pour y parvenir. Le PNR souligne également que des mesures de consolidation plus structurelles seront nécessaires à plus long terme.
7. Quant au second défi, le PNR confirme l'intention du gouvernement de poursuivre l'adaptation du système de sécurité sociale aux besoins de la population tout en garantissant la pérennité du modèle social existant. Il rappelle les principales mesures prises récemment en ce sens. Il n'annonce toutefois pas de mesures nouvelles.
8. En dehors des objectifs et des mesures annoncées par le budget 2006, le PNR ne présente donc pas de mesures nouvelles et détaillées qui permettraient de répondre aux deux défis identifiés dans le domaine macroéconomique.

Politiques microéconomiques

9. Le programme identifie trois défis micro-économiques principaux: l'innovation, l'environnement économique et le développement durable. La Commission considère que ce choix reflète bien les besoins du pays.
10. La recherche et l'innovation sont présentées comme des priorités essentielles du programme, notamment afin de diversifier et de redéployer l'économie vers des secteurs de pointe. L'objectif affiché est d'atteindre 3% du PIB en investissement pour la R&D en 2010. Cet objectif est ambitieux au regard du niveau actuel de 1,8% du PIB et du niveau de la part publique dans la recherche, qui est parmi les plus faibles de l'UE. Beaucoup dépendra de la capacité à accroître les ressources publiques consacrées à la recherche et à l'innovation tout en assurant une augmentation du niveau d'investissement privé. Atteindre cet objectif nécessite également un effort particulier en termes de capacité institutionnelle, de suivi et d'évaluation des programmes. Le PNR annonce un soutien renforcé au développement des ressources humaines dans ces domaines et met l'accent sur le développement de grappes d'innovation et le soutien aux entreprises innovatrices. Ces mesures vont dans le bon sens. Toutefois, des mesures plus concrètes semblent nécessaires dans plusieurs domaines, tels que les brevets et l'accès au financement.
11. Afin d'améliorer l'environnement économique, le programme met l'accent sur la création de pôles de compétitivité spécialisés et ciblés sectoriellement. Il affiche aussi des actions vers l'amélioration de l'offre de réseaux à haut débit. Il insiste sur l'amélioration du contexte réglementaire et administratif, au moyen d'une simplification des procédures et du développement de l'administration électronique. Des mesures spécifiques sont également prévues en faveur des PME, notamment afin

de promouvoir l'esprit d'entreprise auprès des jeunes et d'améliorer la législation sur les faillites. Pour le reste, le Luxembourg devrait également accélérer la mise en œuvre des directives relatives au marché intérieur, dans le domaine des finances, de l'énergie et des professions libérales.

12. Dans une logique de développement durable, le programme souligne la complémentarité entre l'environnement et la compétitivité. De nombreuses mesures se concentrent sur le renforcement de l'efficacité énergétique des différents secteurs économiques et sur l'utilisation de sources d'énergies renouvelables. Des aides financières spécifiques et un recours plus systématique aux marchés publics "verts" sont prévus à cet effet. De plus on prévoit le développement d'infrastructures de transports durables permettant de mieux réguler le trafic dû aux navetteurs transfrontaliers. En revanche, les mesures proposées en matière de changement climatique et de taxes environnementales semblent manquer d'éléments concrets. Seules des études concernant les taxes sont prévues à ce stade.
13. Globalement, les priorités microéconomiques mises en avant dans le PNR vont dans le bon sens. Toutefois, les mesures présentées manquent souvent de précision et leur mise en œuvre n'est dès lors pas établie sur base de ce programme.

Politiques d'emploi

14. Insistant sur la nécessité de redéployer l'activité économique et de mieux anticiper et gérer les restructurations économiques en cours, le PNR identifie deux défis principaux en matière d'emploi : faire participer un plus grand nombre de résidents au marché du travail et renforcer la fréquentation et la qualité des systèmes d'éducation et de formation. La Commission partage ce choix de priorités.
15. Le Luxembourg bénéficie d'une forte création d'emplois, en grande partie occupés par les frontaliers. Afin de favoriser la participation d'un plus grand nombre de résidents au marché du travail, le programme présente un ensemble relativement équilibré de mesures. Le PNR vise tout d'abord à renforcer l'efficacité des services d'orientation, d'information et de suivi ainsi que des procédures d'activation, par une modernisation du service de l'emploi et une prise en charge plus précoce des demandeurs d'emploi. Il met également l'accent sur la promotion d'une "culture" de gestion prévisionnelle des emplois afin de réduire l'inactivité et de prévenir les retraits du marché du travail. Tous les acteurs sont invités à y contribuer et le gouvernement se propose de constituer un tableau de bord, basé entre autres sur les indicateurs de Lisbonne. Le PNR vise enfin à permettre une meilleure conciliation entre vie privée et vie professionnelle par une meilleure sécurité physique, juridique et financière au travail - incluant une meilleure prévention des risques, une réforme de l'inspection du travail, l'égalité salariale et la lutte contre le stress et le harcèlement - ou encore par une adaptation des régimes de protection sociale afin de renforcer les incitations à la reprise ou à la continuation d'un emploi. Dans leur ensemble, ces mesures restent toutefois peu concrètes et certaines thématiques importantes, telles que la situation des travailleurs âgés, le statut des travailleurs handicapés ou le traitement de l'exclusion sociale, manquent de visibilité.
16. En ce qui concerne le renforcement de la participation et de la qualité des systèmes éducatif et de formation, le PNR offre une réponse en demi-teinte. Certains dispositifs importants inscrits dans les plans nationaux d'action pour l'emploi

antérieurs, tels que la stratégie globale pour le développement de la formation et les projets de loi sur l'école, ne sont pas mentionnés dans le PNR. En outre, des thèmes importants tels que la lutte contre les abandons scolaires ou l'intégration des enfants d'immigrés bénéficient d'une attention assez réduite. Le PNR offre toutefois de nouveaux accents, qui vont dans le bon sens: renforcement des possibilités de formation pour les jeunes avec le développement des jobs de vacances et d'un service volontaire; mise en place d'un mécanisme d'assurance qualité pour les systèmes d'éducation et de formation; développement de mécanismes de validation des compétences formelles ou non formelles.

17. Afin de renforcer les capacités d'adaptation de l'économie luxembourgeoise, le PNR met l'accent sur la capacité d'anticipation des restructurations économiques et sur la promotion de nouvelles formes d'emploi, tels que le travail à temps partiel, le télétravail, le travail à domicile et les mécanismes d'épargne-temps. Il souligne également la nécessité d'assurer le lien entre salaires et gains de productivité en maintenant, et si besoin en aménageant, le mécanisme actuel d'indexation automatique des salaires. Le PNR manifeste sur ce point le souci de responsabiliser les acteurs privés et publics et d'assurer en même temps l'équilibre entre modernisation et sauvegarde du modèle social national.
18. Globalement, le PNR répond de manière adéquate aux deux défis qu'il se fixe en insistant sur la nécessité de rendre le travail plus attrayant, de renforcer l'efficacité des mesures d'activation, de développer une meilleure gestion prévisionnelle de l'emploi et de promouvoir davantage la valorisation des compétences. Toutefois, les mesures présentées restent souvent peu concrètes et leur continuité par rapport aux plans nationaux d'action pour l'emploi et pour l'inclusion sociale antérieurs n'est pas clairement établie.

PARTIE III : CONCLUSIONS

19. Dans l'axe des Lignes directrices intégrées, le programme national de réforme luxembourgeois identifie et répond aux défis majeurs auxquels le Luxembourg est confronté, notamment un système d'éducation et de formation de haute qualité, une économie intégrée dans le contexte européen et international, un environnement économique attractif, un cadre macro-économique stable et le respect des principes du développement durable. Dans l'ensemble, le programme est cohérent, mais le manque actuel d'objectifs, d'échéances et d'indicateurs clairs rend difficile l'analyse de l'efficacité probable du programme.
20. L'implication prévue des partenaires sociaux et d'autres acteurs importants dans la mise en oeuvre du PNR pourrait faciliter la concrétisation des réformes envisagées.
21. Parmi les points forts du programme sont:
 - l'attention consacrée à la création de pôles technologiques spécialisés
 - les mesures visant la complémentarité entre l'environnement et la compétitivité, notamment dans le domaine de l'efficacité énergétique;

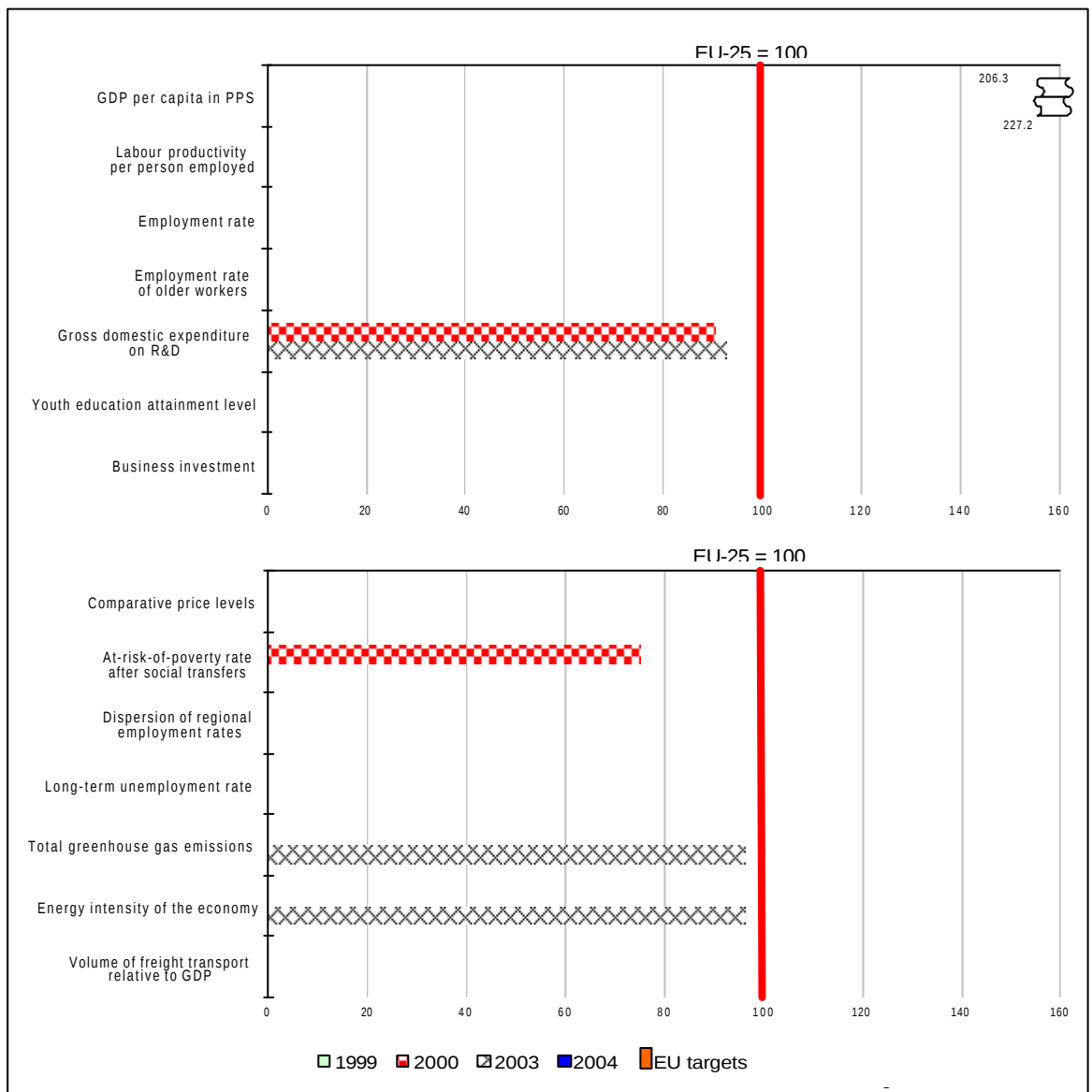
les initiatives en matière de gestion prévisionnelle des emplois, d'activation des demandeurs d'emploi et de certification des compétences.

22. Une attention supplémentaire sera nécessaire pour:
- la mise en œuvre des objectifs ambitieux en matière de recherche et d'innovation;
- dans le domaine de l'emploi, aborder la situation des travailleurs âgés et le statut des travailleurs handicapés.
23. Le Luxembourg est invité à prendre ces éléments en compte et à mettre en œuvre le PNR avec vigueur. Le rapport de progrès sur la mise en œuvre du PNR en 2006 devrait en particulier prendre en considération la manière dont le Luxembourg a abordé les points mentionnés sous le paragraphe 22 ci-dessus. Dans ce contexte, la Commission sera à la disposition des autorités luxembourgeoises afin de tenir des discussions dans le cadre du nouveau partenariat pour la croissance et pour l'emploi.

PART IV : STATISTICAL GRAPHS AND DATA

LUXEMBOURG

	LU							EU-25						
	1999	2000	2001	2002	2003	2004	2010 National target	1999	2000	2001	2002	2003	2004	2010 EU target
GDP per capita in PPS	206.3	216.2	210.3	210.0	219.1	227.2f	3.0	100.0	100.0	100.0	100.0	100.0	100.0	70.0
Labour productivity per person employed	151.3	154.4	144.6	141.8	146.2	149.2		100.0	100.0	100.0	100.0	100.0	100.0	
Employment rate	61.7	62.7	63.1	63.4	62.7	61.6		61.9	62.4	62.8	62.8	62.9	63.3	
Employment rate of older workers	26.4	26.7	25.6	28.1	30.0	30.8		36.2	36.6	37.5	38.7	40.2	41.0	
Gross domestic expenditure on R&D	:	1.71	:	:	1.78	:		1.87e	1.89e	1.93e	1.93e	1.92e	1.90pe	
Youth education attainment level	71.2	77.5	68.0	69.8	71.0	71.1		74.8	76.3	76.1	76.5	76.5	76.6	
Comparative price levels	102.3	100.9	102.9	102.5	105.3	106.1p		100.0	100.0	100.0	100.0	100.0	100.0p	
Business investment	19.2	16.9	18.4	16.8	14.9	14.3		17.9	18.3	17.7	17.1	16.7	16.9	
At-risk-of-poverty rate after social transfers	13.0	12.0	12.0	:	10.0b	11.0		:	16.0	15.0	15.0	15.0	16.0	
Dispersion of regional employment rates	-	-	-	-	-	-		13.3	13.4	13.5	13.3	12.9	12.2	
Long-term unemployment rate	0.7	0.6	0.6	0.8	0.9	1.1		4.1	3.9	3.8	3.9	4.0	4.1	
Total greenhouse gas emissions	70.9	74.7	76.9	84.9	88.5	:	-	90.6	90.5	91.4	90.7	92.0	:	3.0
Energy intensity of the economy	192.9	186.6	190.7	196.7	201.5	:		214.9	208.8	209.7	206.5	209.5	:	
Volume of freight transport relative to GDP	88.9	96.5	106.4	107.3	109.0	104.8		100.7e	100.4e	99.4e	100.3e	99.7e	104.7e	



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Malta

1. After strong expansion at an annual average of 5% during 1994-2000, the Maltese economy practically stopped growing over 2001-2004, reflecting intensive industrial restructuring and deteriorating international competitiveness. Labour productivity growth has been well below EU average during the same period. GDP per capita has grown less than in the rest of the EU during that period and stood at 69% of the EU average in 2004. Malta's employment rate is only 54%, despite significant potential gains that could be achieved from the development of human capital. The unemployment rate was 7.6% in 2004.

PART I: GENERAL ASSESSMENT

2. The Maltese National Reform Programme (NRP) identifies five broad themes as key challenges: sustainability of public finances; competitiveness; the environment; employment; and education and training. The Commission broadly shares the NRP's analysis of the main priorities, though it would tend to place more emphasis on competition issues, addressed in the NRP as one of several areas under the key challenge of competitiveness.
3. The programme presents the individual challenges comprehensively and bases future strategy and the large number of new measures on an analysis of the current situation. It is well structured with a clear timeframe and budgetary implications for most measures. However, an overall strategic vision integrated across all policy areas and justifying and linking the choice of themes, priorities, objectives and measures is present only to a limited extent. The NRP specifies an ambitious employment target of 57 percent by 2010, but does not set an overall target for R&D expenditure. The policy objectives presented are appropriately ambitious, though the reform measures outlined may not be fully sufficient to deliver them. Synergies among the measures are not clearly identified, which may raise difficulties in implementation. The coherence of measures across policy areas is not systematically addressed. The NRP states that priorities for the use of Structural Funds are currently being prepared in a separate document.
4. Consultation and efforts to develop ownership of the document have been very substantial. The programme was produced by a coordination team in the Office of the Prime Minister, which will also plan and monitor implementation, and approved by the Cabinet. The final programme was presented to the parliament after a wide consultation process including a launch conference and a public consultation document. There were meetings with social partners and the government intends to pursue the dialogue with them and with other stakeholders during the implementation phase.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

5. Fiscal sustainability through reducing public sector expenditure on the one hand and measures to foster economic growth on the other is the key challenge referred to in the macro-economic part of the programme. Priorities to address it include ensuring the sustainability of pension and healthcare systems and reviewing the tax framework. The Commission subscribes to this general approach.
6. The policy objectives and targets set out are coherent with previous government commitments. Reaching them would mean good progress towards addressing the fiscal sustainability challenge successfully. The strategy to limit the role of the government in the economy and to stimulate private sector activity is appropriate for Malta. However, the prioritisation between the various sets of measures is not sufficiently clear and they do not seem fully integrated. Potential synergies between them may be missed as a consequence. Furthermore, budgetary implications of the macro-economic measures are not spelled out. In some cases, such as the tax and pension reforms, the absence of a clear time schedule raises questions about the effectiveness of the overall macro-economic strategy.
7. The policy objectives and measures are relevant and would seem to constitute a strong response to the macro-economic key challenge if fully implemented. But as no information is provided on timelines and budgetary impact of several important measures a full assessment of the reform package in the macro-economic area is difficult.

Micro-economic policies

8. Competitiveness and environment are identified as priority themes in the programme. The competitiveness challenge comprises the sub-categories of enterprise, tourism, and infrastructure. These priorities are appropriate for enhancing the growth potential of the Maltese economy, although a stronger focus on competition issues would be justified.
9. As response to the competitiveness challenge, enterprise policy adopts a strong sectoral focus and many of the planned measures aim at strengthening specific areas of economic activity. The issue of building closer links between sectors with strong Foreign Direct Investment and the rest of the economy is not taken up in the NRP. While the programme acknowledges current heavy administrative costs for businesses, it is not clear whether measures in the NRP to increase the efficiency of public administration will respond adequately to that problem, though the proposed creation of a Better Regulation Unit is a useful step, in particular if one of its roles is to perform systematic impact assessments of new regulations. The limited measures to enhance competition include the opening of the electricity market and the privatisation of yacht marinas.
10. Research and innovation policy has a low profile in the NRP. While a target for public R&D investment of 0.2 percent of GDP is presented for 2007, the NRP does not include an integrated R&D strategy aiming at an overall R&D target for 2010. Although the need for a strategy on innovation is recognised, the schedule and process for developing one is not clearly set out. The programme highlights the objective of furthering the use of ICT but adds little detail. In view of these weaknesses, the effort on R&D and innovation may not be sufficient to make a substantial contribution to business competitiveness.

11. Malta has placed the environment high on its reform agenda. Almost two-thirds of the funding envisaged in the NRP is allocated to a detailed action plan of environmental measures. The substantial attention paid to this issue is particularly appropriate for Malta, in its own right and also given the importance of tourism for the economy. However, the link between environmental policies and competitiveness is not presented in the programme. Regarding infrastructure, the potential role of transnational cooperation in reducing the problems arising from Malta's peripheral position is considered mainly through the use of sea ways.
12. The proposed objectives and measures are largely relevant in the light of the challenges and priorities identified. An overall strategic approach that integrates policy objectives and measures across themes is, however, not spelled out. In a few cases, primarily in areas dealt with under the competitiveness challenge, the proposed measures may be insufficient to achieve the policy objectives.

Employment policies

13. The employment level and education and training are identified in the NRP as key challenges. The programme stresses that an effective response is crucial for economic growth and the sustainability of public finances. The priorities identified for employment policies are appropriate in view of the labour market situation in Malta.
14. Reforms set out in the NRP seek to attract and retain more people in employment and to expand labour supply, mainly by increasing employment rates for women and older workers, which are particularly low at 33.7% and 32.6 % respectively. The proposed measures target these groups and, by changing the impact of the current tax and benefits systems, aim at setting the appropriate incentives to increase participation. Making unemployment benefits conditional on participation in a mixture of training and community service is an important step in that direction and should also help increase the mobility of labour. While the approach is generally sound, reviewing comprehensively the incentives resulting from the tax and benefit system is still not a sufficiently high priority, given the Maltese labour market situation. The NRP expresses the Maltese authorities' intention to closely involve the social partners during the implementation process and this should increase the effectiveness of the strategy.
15. Meeting the challenge of improving education and training, and generally increasing investment in human capital is seen as a crucial priority in the programme. The policies set out in the NRP in this field are appropriate and focus on raising general educational levels, reducing the number of school drop-outs and higher participation in training and lifelong learning, in particular for the low-skilled. The measures envisaged to achieve these aims build on the implementation of reforms already initiated in the compulsory education system. They are complemented by a coherent set of new measures aiming at ensuring the quality and comprehensive provision of education. These include formally involving the relevant stakeholders in monitoring the match between the demand for skills on the labour market and the supply. The initiative to provide for the certification of all forms of competencies achieved through learning, including training in basic computer skills and teacher training, can help make the labour market more efficient.

16. The NRP complements in a number of ways efforts to improve the adaptability of workers and enterprises. It sets out plans to provide employees with support to help them cope with changes in employment conditions. It also includes initiatives to manage economic migration and to enhance generally the capacity of individuals - and therefore of the economy - to absorb the impact of economic restructuring. The measures proposed to help make employment practices more flexible, such as lower tax rates for part-time work and tele-working, are appropriate to improve labour mobility. Nevertheless, reducing administrative costs and the tax burden on labour are not directly addressed.
17. The objectives and measures set out are coherent and sufficient to achieve progress towards addressing the key challenges. A fully comprehensive review of the incentives provided in the labour market by the tax and benefits system could be valuable in ensuring that the effectiveness of the overall employment strategy is maximised.

PART III: CONCLUSIONS

18. In line with the Integrated Guidelines, the Maltese National Reform Programme identifies and responds to the main challenges facing Malta, namely sustainability of public finances; competitiveness; the environment; employment; and education and training. Overall, the NRP is clear and based on a good analysis of the current situation, with ambitious objectives and concrete measures. However, those measures do not in all cases appear sufficient to achieve the objectives, prioritisation is limited and integration and coherence across policy areas is not always evident.
19. The programme contains clear information on budgets and time schedules for measures in the micro-economic and employment fields, though this is not the case for the macro-economic section. Implementation will be facilitated by the clear and inclusive governance structure and the continuity envisaged.
20. The programme's strengths include:
 - the emphasis on improving human capital by raising educational levels and participation in training and lifelong learning;
 - the emphasis given to environmental sustainability.
21. Among the points requiring further attention are:
 - strengthening competition and improving the quality of the regulatory system;
 - reducing the tax burden on labour and making work more attractive through a comprehensive review of the tax and benefit system.
22. Taking due account of the above, Malta is invited to implement its NRP with vigour. The 2006 progress report on the implementation of the NRP should cover in particular the way Malta has dealt with the issues mentioned in paragraph 21. In this context, the Commission looks forward to discussions with the Maltese authorities as part of the new partnership for growth and jobs.

PART IV : STATISTICAL GRAPHS AND DATA

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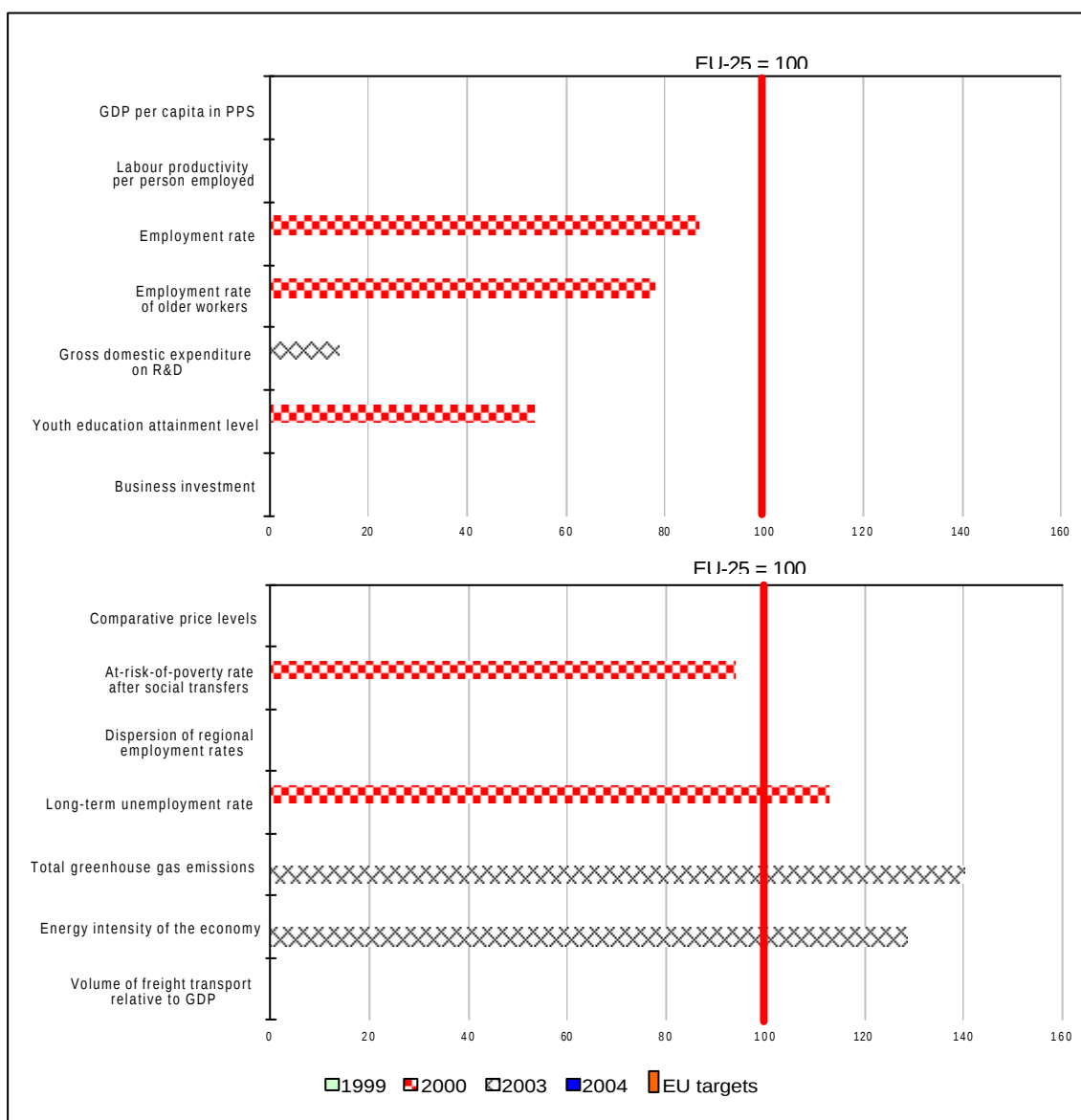
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MALTA

	MT							EU-25						
	1999	2000	2001	2002	2003	2004	2010 National target	1999	2000	2001	2002	2003	2004	2010 EU target
GDP per capita in PPS	76.2	76.3	72.7	72.6	71.7	69.4	57.0	100.0	100.0	100.0	100.0	100.0	100.0	70.0
Labour productivity per person employed	95.2	87.9	83.5	84.7	84.6	81.4		100.0	100.0	100.0	100.0	100.0	100.0	
Employment rate	:	54.2	54.3	54.4	54.2	54.0		61.9	62.4	62.8	62.8	62.9	63.3	
Employment rate of older workers	:	28.5	29.4	30.1	32.5	31.5		36.2	36.6	37.5	38.7	40.2	41.0	
Gross domestic expenditure on R&D	:	:	:	0.28	0.27	0.29	*	1.87e	1.89e	1.93e	1.93e	1.92e	1.90pe	3.0
Youth education attainment level	:	40.9	40.1	39.0	43.0	51.4		74.8	76.3	76.1	76.5	76.5	76.6	
Comparative price levels	71.5	74.8	75.5	73.7	74.4	74.9p		100.0	100.0	100.0	100.0	100.0	100.0p	
Business investment	15.3	18.1	15.8	11.0	14.3	16.0		17.9	18.3	17.7	17.1	16.7	16.9	
At-risk-of-poverty rate after social transfers	:	15.0	:	:	:	:	-	:	16.0	15.0	15.0	15.0	16.0	3.0
Dispersion of regional employment rates	-	-	-	-	-	-		13.3	13.4	13.5	13.3	12.9	12.2	
Long-term unemployment rate	:	4.4	3.7	3.4	3.3	3.5		4.1	3.9	3.8	3.9	4.0	4.1	
Total greenhouse gas emissions	125.9	129.0	124.4	129.7	129.1	:	-	90.6	90.5	91.4	90.7	92.0	:	3.0
Energy intensity of the economy	332.3	303.2	266.6	263.9	269.0	:		214.9	208.8	209.7	206.5	209.5	:	
Volume of freight transport relative to GDP	:	:	:	:	:	:		100.7e	100.4e	99.4e	100.3e	99.7e	104.7e	

* National target: 0.2% (2010) for the public sector



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the Netherlands

1. Real GDP growth was booming in the Netherlands in 1996-2000, averaging 3.7% annually. Labour productivity growth, however, was close to the EU average. Economic growth in the Netherlands came to a near standstill in 2002 and only recovered somewhat in 2004, to 1.7%. GDP per capita at 125% of the EU average in 2004 was one of the highest in Europe. The overall employment rate declined slightly to 73.1 % in 2004, while continuing to exceed the Lisbon target. Unemployment rose to 4.6%. The share of part-time employment in the overall employment rate is very high.

PART I: GENERAL ASSESSMENT

2. The Dutch National Reform Programme (NRP) places particular emphasis on improving labour supply. The other key challenges it identifies are: achieving faster growth in labour productivity, in particular by strengthening R&D, innovation and education; and improving price competitiveness, in particular by containing labour costs. The Commission shares the NRP's analysis of the main priorities.
3. The National Reform Programme is clear. There is coherence between the macro-economic, micro-economic and employment policy chapters. The policies presented build on a number of key reforms already in progress or announced. Quantitative targets have been adopted for many guidelines, although these are sometimes less ambitious than previous policy goals. The ambitious target for private sector investment in R&D is expressed relative to other EU Member States rather than in quantitative terms and there is no target set for R&D overall or for employment rate. The Programme refers to recently approved funding of € 2.3 billion for knowledge, innovation, education, mobility and environmental projects, but only for the latter does the NRP provide detailed funding information for specific initiatives, though the Dutch authorities have also recently submitted limited additional information on the specific funding for innovation and education. The National Reform Programme also sets out the intention to concentrate any 2007-13 EU structural funding on innovation, knowledge and human capital.
4. Consultation and efforts to develop ownership of the document have been substantial. The Secretary-General of the Ministry of Economic Affairs, as Chairman of the Central Economic Committee, took overall responsibility for drafting the programme, which was approved by the Dutch Council of Ministers. Social partners were consulted and a partial consensus reached. Their own contribution to the Strategy for Growth and Jobs is in a separate document¹⁷. Regional and local government bodies will be responsible for implementing some of the proposed reforms and were involved in the drafting through standing consultation bodies. The NRP was discussed in parliament.

¹⁷ http://www.stvda.nl/uploads/nota_20050900_engels.pdf

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

5. The NRP refers to objectives in four broad macro-economic policy areas: promoting economic stability; maintaining a sustainable budgetary position; improving coherence between macroeconomic, structural, and employment policies; and ensuring employment-friendly wage developments. The Commission subscribes to these objectives.
6. The NRP does not set out new macro-economic measures but refers to a number of policies that have been or are being implemented. The most important are efforts to curb the budget deficit (from 3.2% in 2003 to a projected 1.8% in 2005), a new surveillance scheme for pension funds and the introduction of new health insurance and disability schemes by 2006. Together with recent moderation in wages in sectors where pay levels are agreed collectively by the social partners, these measures are expected to contribute to the recovery of growth and employment expected in 2006. The NRP refers to the fact that open economies such as the Netherlands are very sensitive to external factors. When the performance of its main trading partners and activity in the EU as a whole recovers, positive effects of recent reforms should be reinforced. However, global developments, particularly higher oil prices, may act as a brake.
7. The policies outlined in the Dutch NRP appear sufficient to improve the macro-economic situation.

Micro-economic policies

8. Improving labour productivity growth by boosting innovation and R&D is one of the key challenges addressed in the Dutch NRP. There is a range of measures to improve the business climate, but strengthening competition could have been addressed more comprehensively.
9. The Programme contains a set of policies for stimulating R&D and innovation, including tax incentives, changes to curricula, funding reforms in the university system, innovation contracts with companies and a scheme for innovation vouchers for SMEs. It notes the need for better use of investment in industrial research. The NRP states that €660 million have been allocated so far to stimulate R&D and innovation. Further funds are also expected and the assumption is that improving competition and the general climate for investment will also contribute to reaching R&D and innovation objectives. The NRP acknowledges the need for more highly qualified researchers and to strengthen cooperation between universities and businesses but does not set out an overall strategy or a clear timetable.
10. The target of privately-financed R&D expenditure matching the EU average as a proportion of GDP in 2007 and being in the EU top five in 2010 is ambitious. Given that private R&D intensity in the Netherlands declined over the 1997-2003 period to 0.99 %, it is likely that achieving it would require a doubling of expenditure by 2010. The Dutch NRP does not set an explicit target for public or total R&D expenditure,

although it indicates that private sector expenditure should be at the level of the five best performing Member States.

11. The programme seeks to boost innovation by building up critical mass in key areas. Sector-specific policies and incentives for the development of clusters and “innovation poles” are set out. Synergies with international clusters are not specifically mentioned in the NRP. Measures are proposed to improve diffusion of new technology among SMEs and through public procurement and to address ICT priorities such as e-government, improved use of the internet and the EU’s i2010 strategy on focusing ICT developments on contributing to growth and jobs. There is limited information on implementation in the NRP itself.
12. There are new initiatives to improve the business and investment climate, complementing ambitious policies in place. Special loans for enterprises to participate in European aircraft and space industries and in shipbuilding are proposed. The NRP also contains promising measures to complete and strengthen the Internal Market, including targets for implementing EU Directives, with mechanisms to achieve them. There is a commitment to stop adding additional national provisions when Directives are written into national law. Financial market supervision will be streamlined. Competition will be stimulated by new legislation on public procurement and by enhancing supervisory powers.
13. Specific measures are set out to improve the regulatory environment by improving licensing and continuing good progress towards the target of reducing regulatory costs for businesses by 25% between 2002 and 2007. SME-friendly policies include facilitating start-ups and improving access to credit and tax reductions. Measures to improve infrastructure are relatively limited, do not address in detail high quality cross-border transport links such as high-speed rail and concentrate on relieving domestic bottlenecks, though cooperation with Belgium and France in energy transport is referred to. There will be new investment (€700 m) in environmental projects, including improving air quality. The NRP contains quantitative targets for emissions and sustainability but no time plan for realisation. Measures focus on the promotion of environmental technologies.
14. The Commission’s assessment of the micro-economic chapter is generally positive. New policies on the business environment and on better regulation appear likely to build further on a successful track record. The measures to stimulate R&D and innovation are sensible but may be insufficient to achieve the target – top five in the EU by 2010 – set for private R&D investment, or to improve total R&D intensity to the extent needed. Timetables for implementing measures are not always given in the NRP.

Employment

15. The Dutch programme identifies labour supply as a principal employment challenge both in terms of integrating those outside the labour market and increasing the relatively low average number of hours worked, in particular by those currently working part-time. Enhancing productivity growth through investment in human capital, as well as moderate wage development, are also identified as priorities.

16. There are significant measures to increase financial incentives to work for recipients of social and disability benefits, older workers and the unemployed, including from 2006 new disability and unemployment benefit schemes with tightened eligibility requirements. The duration of unemployment benefit will be reduced from five years to three years and two months. The national interim target for older workers (40 % working at least 12 hours weekly by 2007) is reiterated in the NRP and there are continued efforts to raise the effective exit age from the labour market. For example, tax advantages will no longer be offered for schemes providing pre-pensions before the age of 65. The intention stated in the NRP of combining making work financially attractive with proactive policies to help people to find jobs is appropriate. But successful delivery will depend on the agencies and municipalities which implement active labour market policies offering effective job search support and on the establishment of monitoring mechanisms. For example, currently only 37% of adult unemployed people are offered a new start (training, etc) during the first year of unemployment. So far, municipalities have tended to focus on those benefit recipients easiest to help back into the labour market, leading to a slight decline in the number of benefit recipients. However, the sustainability of this reintegration effort is yet to be determined.
17. Policies to increase the employment of women, despite the presence of a national target (65% working at least 12 hours weekly by 2010), are rather limited, centering on tax reforms, improving the supply of affordable child care and better reconciliation of work and private life. These may not be sufficient to stimulate a widespread transition from part-time to full-time work as they do not fully tackle the marginal tax burden on the second income or the gender pay gap. No overall employment rate target has been set for 2008 or 2010, although the NRP reiterates the government's commitment to helping achieve the 70% overall target for the EU. Neither does it mention the existing national target for youth (not more than double the overall unemployment rate), though there is an integrated approach to support for disadvantaged young people. The programme acknowledges that the employment rate target for ethnic minorities of 54% will not be attained in 2005, but addresses this issue only to a limited extent.
18. To increase the adaptability of workers and enterprises, wage moderation in line with the "Tripartite Autumn Agreement" between the social partners and the government will be complemented by changes in employment protection legislation. The greater responsibility given to the social partners on health and safety at work and risk prevention should help improve quality at work and productivity. To improve human capital, the Dutch NRP concentrates on reducing early school leaving to 8% by 2010, raising the educational attainment of 22-year-olds, and creating better links between education and the labour market. However, the NRP acknowledges that national targets are ambitious and difficult to reach, despite substantially increased efforts. Initiatives by the Dutch authorities and the social partners appear to have good potential for building on the already relatively high adult participation in lifelong learning.
19. The employment policies in the NRP are extensive, coherent and reflect the government's determination to increase labour supply. Successful implementation will depend on strong cooperation between government, implementing agencies, municipalities and social partners and on effective monitoring. Appropriate

assistance to reintegrate people in the job market will be needed, as well as a stronger focus on vulnerable groups such as recipients of social and disability benefits, long-term and low-skilled unemployed and ethnic minorities.

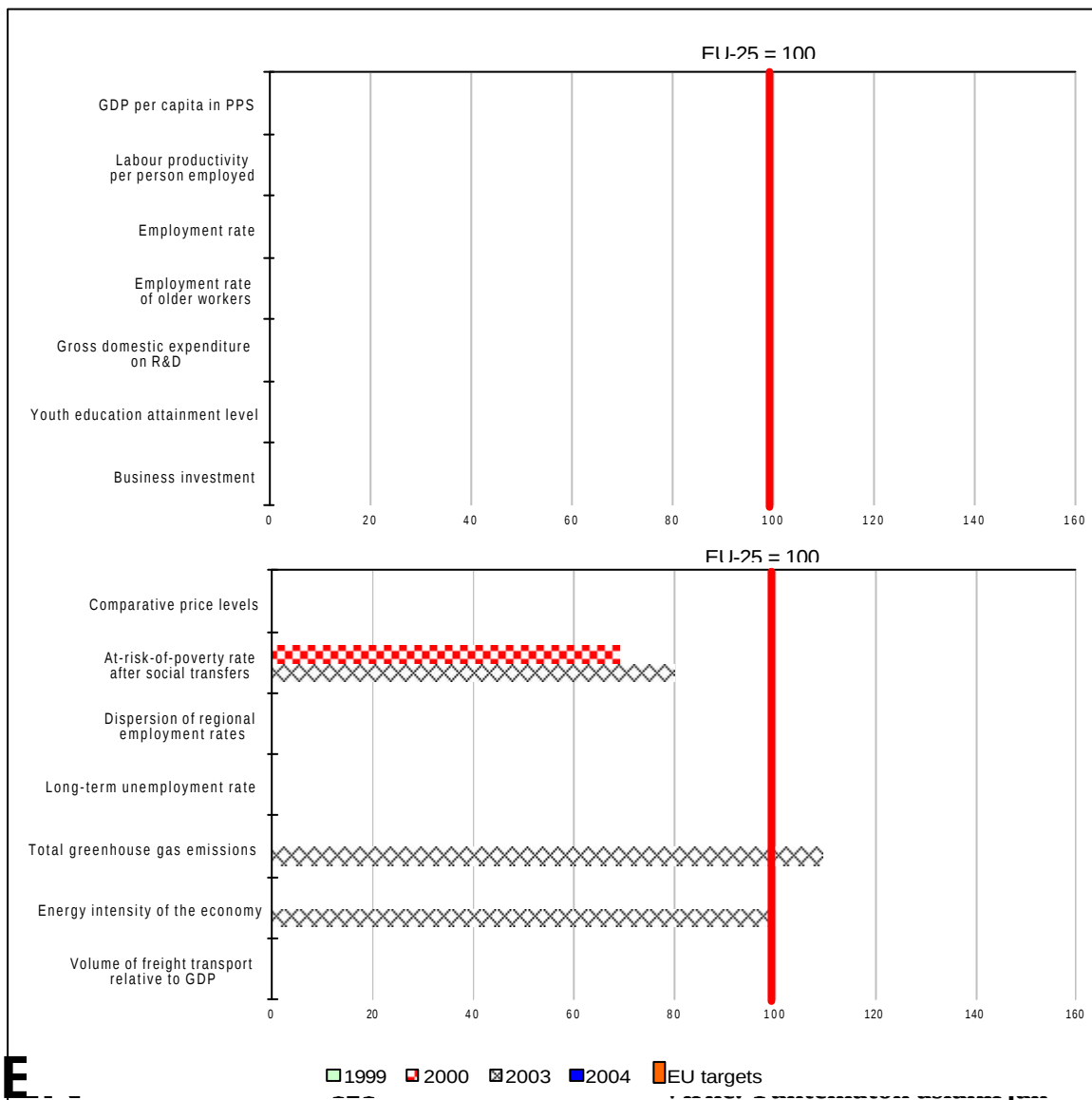
PART III: CONCLUSIONS

20. In line with the Integrated Guidelines, the Dutch National Reform Programme identifies and responds to the main challenges facing the Netherlands, namely improving labour supply, achieving faster growth in labour productivity, in particular by strengthening R&D, innovation and education; and improving price competitiveness, in particular by containing labour costs. A more developed policy for R&D as well as measures to strengthen competition, thereby improving the resilience of the economy, would be appropriate. Overall the NRP is clear and coherent and in several areas shows ambition and originality.
21. The involvement and commitment of social partners in many of the reforms is likely to facilitate implementation. In some areas, such as innovation and active labour market measures, only limited detail on funding, implementation schedules and evaluation is provided.
22. The programme's strengths include:
 - initiatives to reduce regulatory burdens on businesses, which have recently inspired other Member States to develop policies along similar lines;
 - measures to increase financial incentives to work for recipients of benefits;
 - efforts to raise the effective exit age from the labour market.
23. Among the points requiring further attention are:
 - enhanced measures to increase the number of hours worked by part-time workers;
 - further efforts to facilitate the integration of ethnic minorities into employment.
24. Taking due account of the above, the Netherlands is invited to implement its NRP with vigour. The 2006 progress report on the implementation of the NRP should cover in particular the way the Netherlands has dealt with the issues mentioned in paragraph 23. In this context, the Commission looks forward to discussions with the Dutch authorities as part of the new partnership for growth and jobs.

PART IV : STATISTICAL GRAPHS AND DATA

NETHERLANDS

	NL							EU-25						
	1999	2000	2001	2002	2003	2004	2010 National target	1999	2000	2001	2002	2003	2004	2010 EU target
GDP per capita in PPS	119.5	120.2	127.6b	125.9	125.3	125.0	:	100.0	100.0	100.0	100.0	100.0	100.0	70.0
Labour productivity per person employed	101.0	101.6	107.7b	106.5	107.0	108.6		100.0	100.0	100.0	100.0	100.0	100.0	
Employment rate	71.7	72.9	74.1	74.4	73.6	73.1		61.9	62.4	62.8	62.8	62.9	63.3	
Employment rate of older workers	36.4	38.2	39.6	42.3	44.3	45.2		36.2	36.6	37.5	38.7	40.2	41.0	
Gross domestic expenditure on R&D	2.02	1.90	1.81	1.72	1.76	1.77p		1.87e	1.89e	1.93e	1.93e	1.92e	1.90pe	
Youth education attainment level	72.3	71.7	72.1	73.3	74.5	74.2		74.8	76.3	76.1	76.5	76.5	76.6	
Comparative price levels	105.0	104.2	104.0	105.3	106.6	105.2p		100.0	100.0	100.0	100.0	100.0	100.0p	
Business investment	19.5	19.0	17.9	16.4	15.7	16.3		17.9	18.3	17.7	17.1	16.7	16.9	
At-risk-of-poverty rate after social transfers	11.0	11.0p	11.0p	11.0p	12.0p	:		:	16.0	15.0	15.0	15.0	16.0	
Dispersion of regional employment rates	2.3	2.2b	2.3p	2.2	2.3	2.3		13.3	13.4	13.5	13.3	12.9	12.2	
Long-term unemployment rate	1.2	0.8	0.6	0.7	1.0	1.6		4.1	3.9	3.8	3.9	4.0	4.1	
Total greenhouse gas emissions	100.8	100.4	101.1	100.2	100.8	:		90.6	90.5	91.4	90.7	92.0	:	3.0
Energy intensity of the economy	202.1	198.5	200.7	201.1	208.7	:		214.9	208.8	209.7	206.5	209.5	:	
Volume of freight transport relative to GDP	105.2	98.9	96.8	94.9	96.0	105.5		100.7e	100.4e	99.4e	100.3e	99.7e	104.7e	



Poland

1. Over the period 1996-2000 economic growth averaged 5.1%, but was followed by a sharp economic downturn in 2001-2002 which triggered a rapid deterioration in the fiscal accounts. Nevertheless, more recently Poland has experienced an export-led upswing. GDP per capita exceeded 49% of the EU average in 2004 and was the third lowest in the EU. Labour productivity growth has been well above the EU average over the last decade. Labour market conditions have recently been improving slowly. At 18.8% in 2004, the unemployment rate is still the highest in the EU and the employment rate (51.7% in 2004) the lowest.

PART I: GENERAL ASSESSMENT

2. The Polish National Reform Programme (NRP) sets as the main policy objective maintaining a high economic growth rate fostering job creation, while respecting the principles of sustainable development. To achieve this, the NRP identifies six main priorities: consolidating public finances and correcting their management; developing entrepreneurship; making enterprises more innovative; developing and modernising infrastructure and ensuring a competitive environment in network industries; creating and sustaining new jobs and reducing unemployment; and improving the adaptability of workers and enterprises by investing in human capital. The Commission shares this analysis of the main priorities.
3. The NRP focuses on continuity but also introduces some shifts in on-going policies. Its assessment of areas where improvements are needed is comprehensive and frank. There are in general coherence and cross-references between macro-economic, micro-economic and employment strands but the degree of precision in the definition of implementing measures varies widely. Main steps for 2005-2008 are not accompanied by indications of which institutions are responsible. Neither are timetables, budgetary implications or information on monitoring and evaluation procedures provided, making it difficult to assess the practicability of proposed solutions. However, the Polish authorities have indicated that as part of the new government's work programme they are preparing much of this information. No target is set for the overall employment rate. Quantified assumptions are made for 2008 (no target is set for 2010) for R&D spending (1.65% of GDP compared to 0.58% in 2004) and for the unemployment rate (14.6% compared to 18.8% in 2004). However, the measures presented do not appear sufficient to meet them. The role of the Structural and Cohesion Funds - that are and will continue to be a major source for public investments in the coming years - is mentioned but the NRP gives only general guidance on how they will be used to fulfil the Lisbon agenda.
4. There were wide consultations on the first draft of the NRP, with parliament, social partners and civil society. Owing to the recent formation of the new government, efforts to develop ownership of the final version of the NRP have inevitably been rather limited. While the Commission recognises these special circumstances, cooperation with stakeholders will need to be reinforced as the NRP is implemented and updated.

PART II: ASSESSMENT BY POLICY AREA

Macroeconomic policies

5. The NRP identifies one key challenge in the area of macroeconomic policies: the consolidation and better management of public finances. The Commission supports this choice.
6. The NRP outlines a number of reform initiatives. The main measures are first, social security reforms, including reform of early paths out of the labour market and of the farmers' special social security system and second, stricter monitoring and reductions of extra-budgetary expenditure managed by special government agencies. The NRP also points to the continuation of changes to the healthcare system as an important element in stabilising public finances. In addition, the programme envisages a further decentralisation of public finances and a reduction in state aid aimed at financing increased spending on R&D, job creation and the environment. The NRP does not contain any macroeconomic outlook integrated with the proposed reforms— though the new government is preparing one as part of its update of the Convergence Programme – or consider the effects of the expected inflow of EU funds reaching up to 4% of GDP. No targets for the general government deficit are set. The proposed 4-year nominal anchor covers the state budget only. The programme is silent about the budgetary impact of the planned measures, including those which may entail significant short-term spending. For example, the programme does not estimate the cost of its extensive ambitions for improving housing and infrastructure, introducing comprehensive monitoring of medical prescriptions or of a comprehensive computer system for administering the state budget. The Ministries responsible are understood to be preparing such costings now.
7. The approach to the sustainability of public finances is broad and covers the appropriate areas. However, the limited detail provided on the macro-economic and budgetary impact of reforms makes it difficult to assess the realism of the overall strategy.

Microeconomic policies

8. The NRP identifies developing entrepreneurship, increased innovation by companies, infrastructure development and upgrading and ensuring a competitive environment in network sectors as key microeconomic challenges. The Commission broadly shares this view, though a stronger and more general emphasis on competition policy, where the NRP concentrates largely on network sectors, would be appropriate.
9. There is a range of initiatives in the NRP to improve the business environment and develop entrepreneurship. These have positive potential, including in improving the competitiveness of the manufacturing sector, if integrated into an industrial policy strategy. A “one-stop-shop” system for the registration of new businesses, an *e-platform* for businesses and a system to identify administrative costs are useful steps. Improvements in the impact assessment system (OSR) are also set out but the approach to Better Regulation needs to be further developed. The plan to rationalise commercial jurisprudence is appropriate, though more ambitious measures to accelerate proceedings, to reduce their costs and to remove legal uncertainties are necessary. Reform of regulations covering professional services is not fully addressed in the NRP. Since access to finance is a chronic problem for Polish SMEs,

the initiatives proposed to improve this are valuable, though more specific attention for technology-based start-ups would be useful. Areas not dealt with in the NRP include improving the transparency of tax procedures, reducing fiscal uncertainty, implementing Internal Market law and building on existing efforts to promote entrepreneurship to citizens through the education system, where entrepreneurship is already part of the curriculum for secondary schools. The NRP explicitly mentions the goals of redirecting state aid expenditure towards horizontal objectives while reducing the overall level of state aid. This is particularly necessary in relation to shipbuilding, steel and coal-mining, without, however, hampering the necessary restructuring processes in these sectors.

10. The assumption of reaching R&D intensity of 1.65% by 2008, from the very low current base, is ambitious but is only supported to a very limited extent by detailed proposals for concrete measures linked to performance indicators. The NRP correctly identifies a lack of business innovation as the principal weakness of Polish innovation performance. The measures to improve this are based on changes to regulation and on encouraging private funding. More emphasis on reforming public sector R&D and innovation support, in line with clear research priorities, as well as on upgrading technical skills, is necessary. Finally, the programme addresses only in a limited way the role of foreign-owned companies in the innovation system and the decline in patenting.
11. The NRP sets out in general terms a range of initiatives to improve transport, energy and housing infrastructure. The national and regional programmes will have to be coordinated closely with regulatory measures in order to bring maximum benefits: simplification of investment processes is particularly important. The opening of network markets presented in the NRP will increase competition, but the detail provided is not sufficient to assess its likely impact, in particular in electricity and telecommunications. While the NRP highlights the link between environmental technologies and increased competitiveness, setting out in more detail measures to support such technologies and the use of economic instruments to internalise external costs would allow a better assessment of their likely effect. Similarly, ICT initiatives are not precisely described. Poor housing is identified as a factor in social exclusion, unemployment and lack of labour mobility. The extensive initiatives to address this are not presented in detail or costed.
12. The micro-economic measures in the NRP would, if fully implemented, boost the business environment, innovation, entrepreneurship and infrastructure. The likely extent of that effect is unclear in the absence of details on the measures or on targets, timetables, implementation mechanisms and budgetary impacts.

Employment policies

13. Creating and sustaining jobs and reducing unemployment, along with improving the adaptability of workers and enterprises by investing in human capital are among the main priorities of the NRP. The Commission subscribes to this.
14. Measures to attract and retain more people in employment focus on changes in active labour market policies, including measures to improve labour market services and to make public employment services more effective. The efforts envisaged to improve labour market information (including statistics) should allow better targeting of

labour supply to meet the economy's needs. Measures are proposed to integrate disadvantaged persons and disabled people into employment. To retain older workers in employment, efforts to reform access to early retirement schemes will continue. Gradual reforms envisaged to increase flexibility in the retirement age and to equalise the retirement age of women and men could contribute to increasing the employment of older people, thus strengthening the adequacy and sustainability of pensions. However, their successful delivery will depend on the result of a public consultation and on overall developments in the labour market. More resolute steps are needed to reduce the very large number of inactive people, to raise the employment rate and to meet the ambitious assumption of reducing unemployment to 14.6%. Cutting youth unemployment is considered a priority and the programme builds on existing policies but given the scale of the challenge new measures are needed. The issues of undeclared work, the creation of alternative jobs in rural areas, the reconciliation of work and family life and the emigration of qualified workers are not addressed. The NRP does not refer to strengthening territorial cohesion, reducing regional disparities or to the marked urban-rural divide.

15. To improve the adaptability of workers and enterprises, planned reforms concentrate on reducing the tax burden on workers with the lowest incomes and on increasing flexibility and differentiation in forms of employment. These initiatives are appropriate but described only in general terms which make it difficult to judge their likely effect. Widening the use of flexible forms of employment is raised in the NRP but is not fully backed-up by specific measures making them financially attractive. Issues of health and safety at work are not covered, though relevant prevention measures could improve productivity. Still incomplete industrial restructuring processes, which may entail job losses in coming years, also need special attention. The issue of occupational and geographical mobility, is addressed only partially.
16. In terms of investment in human capital, the NRP aims to improve the education and training system, better match education and training programmes with labour market needs and increase participation in lifelong learning, in cooperation with social partners. Measures to remove barriers to access to education, particularly those resulting from poverty and disability, include the development of distance learning and of vocational counselling systems. A strategy for lifelong learning is to be developed and implemented. However, a fully-fledged strategy for vocational training is not visible in the programme, despite the fact that over half of employers do not invest in employees' training.
17. The employment challenges are well identified in the NRP but proposed measures seem too modest both in scope and scale given the extent of the problems facing the Polish labour market. The lack of implementation details makes it difficult to assess the likely effectiveness of the measures, though the Polish authorities intend to add some of the necessary material in their Annual National Action Plan for Employment.

PART III: CONCLUSIONS

18. In line with the Integrated Guidelines, the Polish National Reform Programme identifies and responds to the main challenges facing Poland, namely consolidating public finances and correcting their management; developing entrepreneurship;

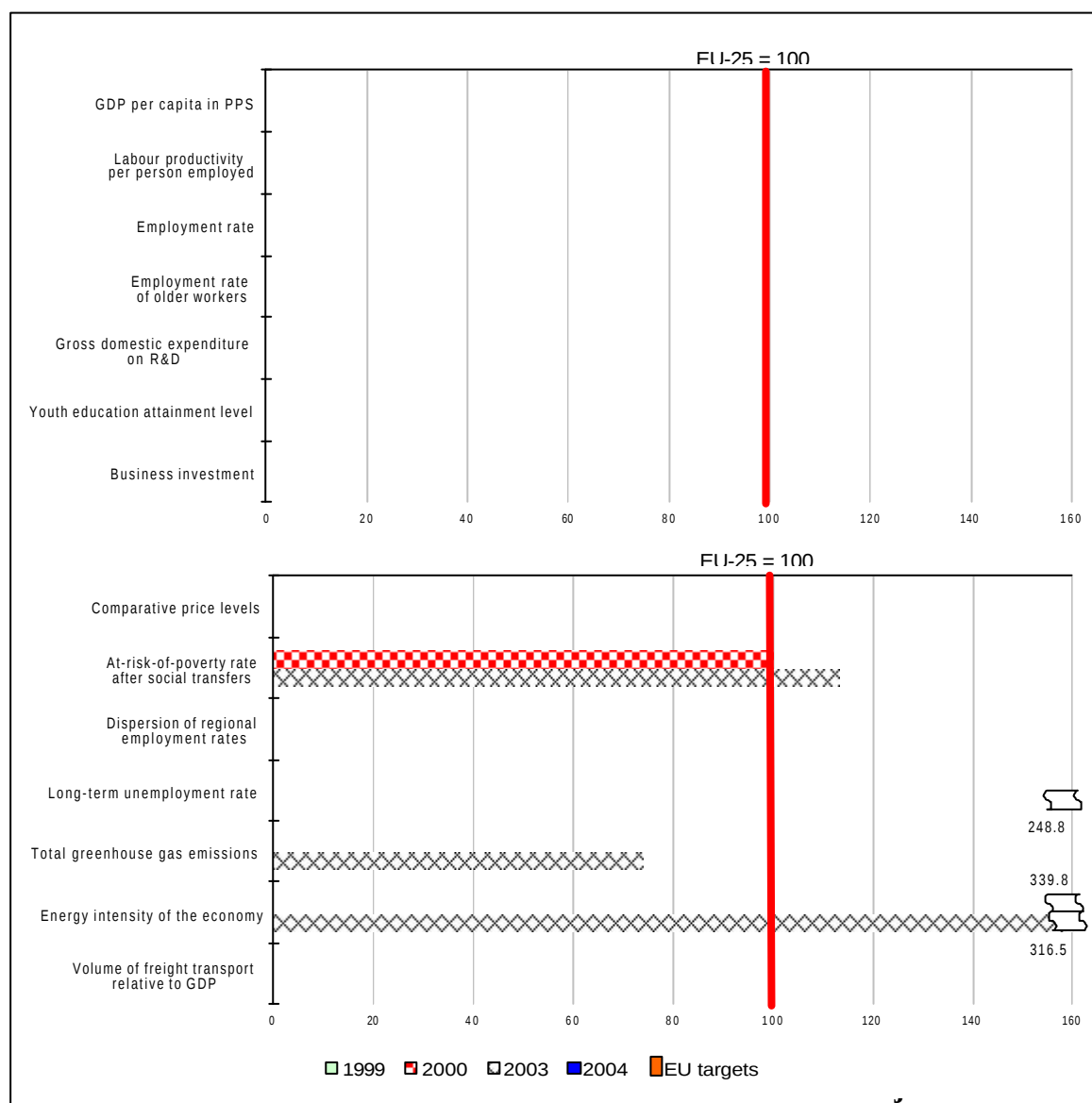
making enterprises more innovative; developing and modernising infrastructure and ensuring a competitive environment in network industries; creating and sustaining new jobs and reducing unemployment; and improving the adaptability of workers and enterprises by investing in human capital. It is based on a coherent analysis and states the intention to take a wide range of ambitious and appropriate measures. However, many are described only in the most general terms and are not yet situated within a comprehensive strategy establishing clear priorities for early action.

19. The NRP was drawn up under very tight deadlines, given the recent elections. Targets, timetables, budgetary information and details on monitoring and evaluation procedures are in general not provided. The links with Structural Funds and the distribution of implementing responsibilities is not always clear.
20. The programme's strengths include:
 - some initiatives aimed at improving the business environment by reducing administrative costs and improving SME's access to finance;
 - the focus on improving education, training and lifelong learning.
21. Among the points requiring further attention are:
 - more emphasis on competition, on reinforcing public sector R&D and innovation;
 - a comprehensive strategy for infrastructure investment and on environmental protection;
 - a more robust approach to raising employment rates and addressing regional disparities.
22. Taking due account of the above, Poland is invited to implement its NRP with vigour. The 2006 progress report on the implementation of the NRP should cover in particular the way Poland has dealt with the issues mentioned in paragraph 21. In this context, the Commission looks forward to discussions with the Polish authorities as part of the new partnership for growth and jobs.

PART IV : STATISTICAL GRAPHS AND DATA

POLAND

	PL							EU-25						
	1999	2000	2001	2002	2003	2004	2010 National target	1999	2000	2001	2002	2003	2004	2010 EU target
GDP per capita in PPS	46.1	47.0	46.3	46.6	47.2	49.1	:	100.0	100.0	100.0	100.0	100.0	100.0	70.0
Labour productivity per person employed	49.3	51.6	50.6	51.9	59.9	62.5		100.0	100.0	100.0	100.0	100.0	100.0	
Employment rate	57.6	55.0	53.4	51.5	51.2	51.7		61.9	62.4	62.8	62.8	62.9	63.3	
Employment rate of older workers	31.9	28.4	27.4	26.1	26.9	26.2		36.2	36.6	37.5	38.7	40.2	41.0	
Gross domestic expenditure on R&D	0.70	0.66	0.64	0.58	0.56	0.58		1.87e	1.89e	1.93e	1.93e	1.92e	1.90pe	
Youth education attainment level	81.6b	87.8	88.6	88.1	88.8	89.5		74.8	76.3	76.1	76.5	76.5	76.6	
Comparative price levels	50.7	56.3	62.9	59.5	53.4	52.4p		100.0	100.0	100.0	100.0	100.0	100.0p	
Business investment	20.0	20.5	16.8	14.9	14.5	14.1		17.9	18.3	17.7	17.1	16.7	16.9	
At-risk-of-poverty rate after social transfers	:	16.0	16.0	17.0	17.0	:		:	16.0	15.0	15.0	15.0	16.0	
Dispersion of regional employment rates	4.8	6.9b	7.2	7.3	7.2	6.4		13.3	13.4	13.5	13.3	12.9	12.2	
Long-term unemployment rate	5.8	7.6	9.3	10.8	10.8	10.2		4.1	3.9	3.8	3.9	4.0	4.1	
Total greenhouse gas emissions	71.0	68.3	67.7	65.5	67.9	:		90.6	90.5	91.4	90.7	92.0	:	
Energy intensity of the economy	730.2	680.2	673.5	654.2	663.1	:		214.9	208.8	209.7	206.5	209.5	:	
Volume of freight transport relative to GDP	85.1	82.9	81.0	81.7	83.1	90.3b		100.7e	100.4e	99.4e	100.3e	99.7e	104.7e	



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Portugal

1. From a high annual average 4% in the period 1995-2000, economic growth declined to only 0.5% per year between 2001 and 2005. This reflects the necessary unwinding of imbalances in the economy, in particular in government finances (a general government deficit of some 6% of GDP in 2005) and the external account. GDP per capita was 75% of the EU average in 2004, and labour productivity the lowest in the euro area. The recent economic slowdown has led to a decline in the employment rate (67.8% in 2004) and an increase in unemployment (6.7% in 2004).

PART I: GENERAL ASSESSMENT

2. The Portuguese National Reform Programme (NRP) is built on four strategic objectives: the strengthening of budgetary consolidation, fostering economic growth, increasing overall competitiveness and reinforcing social, territorial and environmental cohesion. In order to achieve these strategic objectives a few key policy areas are identified, the majority concentrating on the micro-economic area: economic growth and sustainability of public finances; public administration reform; competitiveness and entrepreneurship; R&D and innovation; territorial cohesion and environmental sustainability; market efficiency; qualifications, employment and social cohesion. The Commission shares the analysis of the key policy areas.
3. The programme identifies clearly the main weaknesses affecting the Portuguese economy. It reviews many recently initiated policy measures. While some measures are presented in detail and with ambitious quantified targets, others are less specific, and would benefit from more detail on timing and sources of funding. This could be partly attributed to the fact that the NPR started to be prepared by a government empowered only a few months before; since the submission of the NRP some of its measures have been further detailed and implemented. Measures vary considerably in importance and relevance. Integration between the different areas could be enhanced. Furthermore a better treatment in the NPR of the modalities for its implementation and monitoring would have allowed to better assess whether the measures will be sufficient to address the key challenges. Addressing in a proper way the NPR's internal governance and in particular how its implementation is monitored is essential for the success of the NPR. The NRP defines as a key target an employment rate of 69% by 2008. While not setting an explicit quantified target for total investment in R&D, it aims to double public and to triple private R&D expenditure by 2010, thus setting an implicit target of around 2% of GDP, against the background of the overall 3% target for the EU. The NRP should specify more clearly the role of Structural Funds in providing support.
4. Consultation and efforts to develop ownership of the document have been fairly substantial. A new ad hoc team, coordinating a network consisting of representatives of all Ministers, was established at Cabinet level under the authority of the Lisbon-coordinator, reporting directly to the Prime Minister. Both the Economic and Social Council and the Parliamentary Committee for European Affairs were consulted and had a specific session on the draft programme.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

5. The NRP identifies two key policy areas in the area of macro-economic policy. The first is enhancing economic growth and promoting the sustainability of public finances. The NRP restates Portugal's commitment to the fiscal consolidation strategy, adopted earlier this year and attached to the NRP. The second is the reform of public administration. Both these challenges are relevant for Portugal.
6. Fiscal consolidation is crucial for Portugal to return to sustained economic growth. Based on a favourable economic outlook, the NRP identifies a key target as achieving a general government deficit below 3% of GDP by 2008. The most important measures for fiscal consolidation are the Central Government Restructuring Programme (*PRACE*) and changes in the social security schemes for various categories of government employees. Other measures concentrate on strengthening the expenditure control framework. The programme mentions concern over the long-term sustainability of public finances given the ageing population and acknowledges the importance of reforms in social protection to improve sustainability and fairness. Recent initiatives, notably changes in civil servants' retirement rules and on curbing early retirement, have positively contributed to address this problem. The programme recognises, however, that further measures might need to be adopted to assure the sustainability of social security and for the authorities' fiscal targets to be reached..
7. The reform of the public administration mainly refers to changes in the relations with individual citizens and enterprises, and to issues of internal organisation. While the selection of areas for action seems appropriate, the measures envisaged are not presented in a detailed manner, which makes it difficult to assess them.
8. The reform measures in the area of macro-economic policy outlined in the NRP are promising steps in relevant areas. Their implementation should both support growth and improve the sustainability of public finances. In addition, they would help curb Portugal's heavy net external borrowing. However, while some measures are described in detail, the programme does not quantify their expected impact on growth and public finances.

Micro-economic policies

9. The micro-economic part of the NRP is divided among four "transversal policies": competitiveness and entrepreneurship; R&D and innovation; territorial cohesion and environmental sustainability; and market efficiency. The Commission agrees that these are priority areas, and would particularly emphasise the need to ensure adequate levels of competition in network industries.
10. The NRP deals with science and technology measures largely on the basis of the government's "Technological Plan". It sets ambitious objectives to bring Portugal close to the EU average in scientific and technological capacity and contains many useful measures in this regard. However, the coordination of policy design and of implementation is not explicitly addressed and the NRP would benefit from more specific information on how to achieve most of the science and technology targets. More information could be provided to help in assessing the scale of the expected interventions or the strategic vision behind individual measures. Making investment

more effective would require development of the research and innovation system and closer integration of science and industry policies, among other things in order to avoid bottlenecks in human resources. Monitoring and evaluation mechanisms could be given more attention, for example in the promotion of private investment in R&D and innovation. Stimulation of private R&D is dealt with by a mix of complementary measures (risk capital, tax credits, and thematic support programmes), but it is unclear whether this is sufficient to create enough absorption capacity and avoid crowding out private financing.

11. It should be specified how some of the measures proposed to improve competition in services, particularly in network industries such as telecommunications and energy, will address the problem. Most measures in the energy sector concern the writing of EU Directives into national law. No deadlines are set for the integrated energy market in the Iberian Peninsula and no timetable is given for opening the gas sector to competition. With regard to financial services, the NRP mentions the implementation of the measures in the EU Financial Services Action Plan and envisages a reinforcement of the Guarantee Fund and adapting the legal framework for risk capital. The process of gradually introducing competition into postal services will be supervised by a regulatory body in the period 2006-2008.
12. Synergies between environmental protection and growth are addressed by seeking energy efficiency and by increasing the share of renewables. But measures to promote environmental technologies are limited. Better regulation measures concern mainly the reduction of administrative costs and no explicit reference is made to impact assessment and stakeholders' consultation. Improving the implementation of EU law is mentioned. Introduction of entrepreneurship training in secondary schools is planned. Widespread access and use of ICTs is presented as a priority, both as a tool to cut red tape in public administration and to foster regional development and enhance productivity.
13. The NRP announces a vast set of micro-economic policy measures associated with ambitious objectives. However, it is difficult to discern the strategic priorities. The measures differ greatly in importance, relevance and details on costs and timing. There is insufficient information on implementation and monitoring mechanisms.

Employment policies

14. The employment chapter is based on the National Action Plan for Employment. "Qualifications, Employment and Social Cohesion" is a key policy area in the NRP. The Commission supports the top priority given to enhancing qualification levels.
15. The NRP proposes a comprehensive set of education and training measures with very ambitious targets. Due to serious structural weaknesses in qualification levels, the priority given to investment in human capital and to lifelong learning is appropriate. The proposed expansion of the double certification system at secondary level can strongly contribute to improving skills and reduce early school leaving. Further efforts are required to improve the efficiency and labour market relevance of education and training. The involvement of the social partners will be crucial to the success of the ambitious measures to certify acquired skills and to increase the qualifications of the adult population. Measures to boost vocational training relevant to company-specific needs, should be strongly pursued.

16. Employment is addressed through policies to attract more people to the labour market and promote the adaptability of workers and enterprises. Targets for full employment by 2010 have been set and appear to be realistic. The measures to attract and retain more people in employment focus on increasing the employability of the young, disabled people, increasing female participation, promoting active ageing, and modernising public employment services. The increasing number of long-term unemployed and the gender pay gap in the private sector require further attention. Most of the measures rely heavily on the efficient and effective provision of public employment services in close contact with the social partners. The NRP could be more specific on how this is going to be achieved. Adaptability is pursued through measures to improve the anticipation and management of restructuring and the reform of labour relations. Measures on critical issues such as labour market segmentation, modernisation of work organisation, labour cost developments and productivity and quality at work are not proportionate to the challenges ahead. Some measures correctly address flexibility, but with little emphasis on security. This response may lead to imbalances and may weaken the effectiveness of the approach to adaptability.
17. Social cohesion is a fundamental component of the employment challenge. The “at-persistent-risk-of-poverty rate” and the inequality of income distribution are the highest in the EU, justifying this concern. However, the NRP would greatly benefit from a focused approach on fighting poverty and only partially addresses the challenge by including measures for the disadvantaged and socially excluded among other items such as education, active labour market policies. The NRP also refers to major actions to improve the sustainability and fairness of the social protection system, notably pension and healthcare. Mainstreaming of gender equality is identified as a priority but is scarcely addressed.
18. The ambition of some measures is encouraging, but in many cases there is little information on the means and instruments for implementation and on how the crucial involvement of the social partners will work in practice.

PART III: CONCLUSIONS

19. In line with the Integrated Guidelines, the Portuguese National Reform Programme identifies and responds to the main challenges facing Portugal, namely the strengthening of budgetary consolidation, fostering economic growth, increase overall competitiveness and reinforcing social, territorial and environmental cohesion. In order to achieve these strategic objectives a few key policy areas are identified, the majority concentrating on the micro-economic area: economic growth and sustainability of public finances; public administration reform; competitiveness and entrepreneurship; R&D and innovation; territorial cohesion and environmental sustainability; market efficiency; qualifications, employment and social cohesion. . The NRP presents a large number of measures. Many of the measures proposed appear promising, but there is considerable variation in importance and relevance. Strategic priorities, detail and integration between the different policy areas could be further enhanced.
20. The NRP does not provide extensive information on the implementation and monitoring progress or on the implications for public finances and only in certain

cases are objectives clear. It is therefore difficult to assess whether the measures will be sufficient to address the key challenges.

21. The programme's strengths include:

the priority given to addressing shortcomings in science and technology through the Technological Plan;

the focus on investing in human capital, with ambitious measures throughout the NRP.

22. Among the points requiring further attention are:

addressing the sustainability of the public finances;

stronger measures for effective competition in network industries, in particular telecommunications and energy;

more emphasis on promoting the adaptability of workers, notably the low-skilled, and of enterprises by modernising work organisation, while ensuring a less segmented labour market.

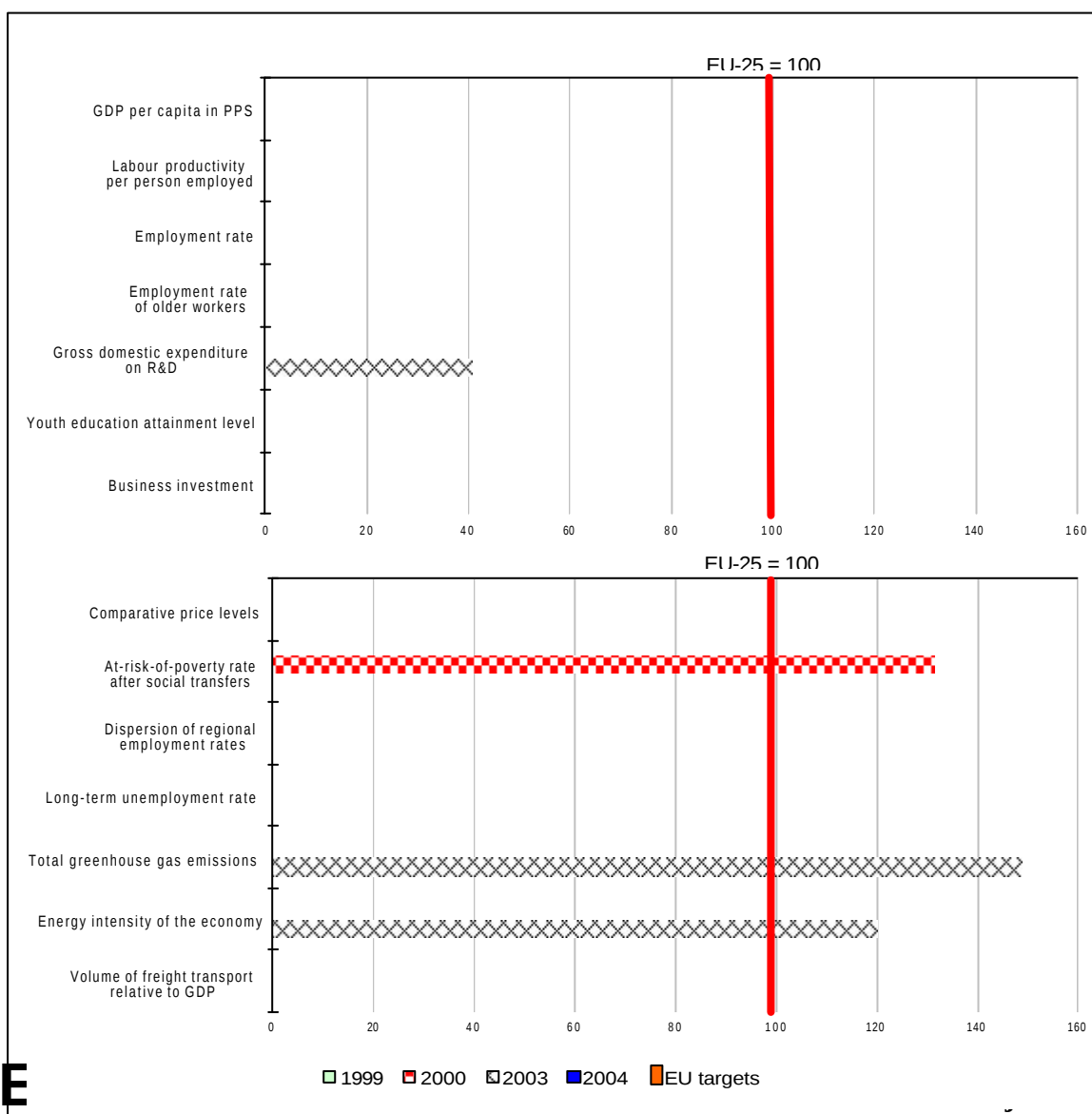
23. Taking due account of the above, Portugal is invited to implement its NRP with vigour. The 2006 progress report on the implementation of the NRP should cover in particular the way Portugal has dealt with the issues mentioned under paragraph 22. In this context, the Commission looks forward to discussions with the Portuguese authorities as part of the new partnership for growth and jobs.

PART IV : STATISTICAL GRAPHS AND DATA

PORTUGAL

	PT							EU-25						
	1999	2000	2001	2002	2003	2004	2010 National target	1999	2000	2001	2002	2003	2004	2010 EU target
GDP per capita in PPS	80.8	80.9b	80.1	79.6	72.9b	72.4f	70.0	100.0	100.0	100.0	100.0	100.0	100.0	70.0
Labour productivity per person employed	71.3	72.4b	71.8	71.5	66.1bf	66.2f		100.0	100.0	100.0	100.0	100.0	100.0	
Employment rate	67.4	68.4	69.0	68.8	68.1	67.8		61.9	62.4	62.8	62.8	62.9	63.3	
Employment rate of older workers	50.1	50.7	50.2	51.4	51.6	50.3		36.2	36.6	37.5	38.7	40.2	41.0	
Gross domestic expenditure on R&D	0.72	:	0.85	0.80e	0.78	:		1.87e	1.89e	1.93e	1.93e	1.92e	1.90pe	
Youth education attainment level	40.1	42.8	43.5	44.2	47.7	49.0		74.8	76.3	76.1	76.5	76.5	76.6	
Comparative price levels	74.3	73.4	74.6	76.2	87.3b	85.7p		100.0	100.0	100.0	100.0	100.0	100.0p	
Business investment	22.9	23.4	22.7	21.1	19.0	18.3		17.9	18.3	17.7	17.1	16.7	16.9	
At-risk-of-poverty rate after social transfers	21.0	21.0	20.0	20.0p	19.0p	21.0b		:	16.0	15.0	15.0	15.0	16.0	
Dispersion of regional employment rates	3.6	4.3	3.5	3.8	3.9	3.5		13.3	13.4	13.5	13.3	12.9	12.2	
Long-term unemployment rate	1.8	1.7	1.5	1.7	2.2	3.0		4.1	3.9	3.8	3.9	4.0	4.1	
Total greenhouse gas emissions	139.4	135.0	136.8	144.3	136.7	:		90.6	90.5	91.4	90.7	92.0	:	
Energy intensity of the economy	247.4	241.5	243.9	254.7	251.3	:		214.9	208.8	209.7	206.5	209.5	:	
Volume of freight transport relative to GDP	115.8	114.5	124.2	122.8	114.9	165.9b		100.7e	100.4e	99.4e	100.3e	99.7e	104.7e	

* National target: 1% (2010) for the public sector



Slovakia

1. The average annual real GDP growth rate equalled 3.7% over the period 1996-2000. Labour productivity growth was well above the EU average. Slovakia has recorded even sharper GDP growth since then, with 5.5% in 2004. GDP per capita was at 52% of the EU average in 2004. However, strong economic growth has not been reflected in the labour market performance in 2004, when the employment rate stood at 57%. The unemployment rate remained the second highest in the EU at 18.2% in 2004, particularly hitting young people. The employment rate for older people, at around 26.8% in 2004, is one of the lowest in the EU, but rising.

PART I: GENERAL ASSESSMENT

2. The Slovak National Reform Programme (NRP), which was preceded by a National Competitiveness Strategy, aims at equalling the living standards of Europe's most advanced economies, through a competitive and diversified market economy with social balance, environmental responsibility and eurozone membership. To this end, it identifies four key challenges: information society; R&D and innovation; business environment; and education and employment. The Commission shares the NRP's analysis of the main priorities.
3. The NRP tries to integrate the different policy strands in a sound and responsible way, given the necessity for sometimes difficult policy choices. It outlines a coherent national strategy aimed at increasing the competitiveness of the country, building on several important recent reforms in the areas of public finances, taxation, pensions, healthcare, and labour market. The policy measures set out mainly concentrate on the employment and micro-economic areas. A few national targets have been set (general deficit, employment growth and unemployment rate) but not in relation to the EU targets on R&D and the overall employment rate. The target for annual employment growth of 1-2% appears achievable. The target for reducing the registered unemployment rate to under 10% by 2010 appears less ambitious given that the current level of registered unemployment is considerably lower than under the Eurostat definition referred to in paragraph (1). The NRP is less precise on the regional dimension as well as on the programme for investing the expected major inflow of structural funds.
4. Consultation and efforts to develop ownership of the document have been fairly substantial, though the role of local and regional authorities is not mentioned in the programme. The NRP was developed under the leadership of the Office of the Government and the Ministry of Finance. All the relevant ministries participated in the process, together with social partners, academic representatives and members of the Parliamentary Committee for EU Affairs.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

5. The macroeconomic part of the NRP mainly focuses on achieving long-term sustainability of public finances by 2010 and entry into the eurozone in 2009, as well as contributing to raising employment rates. The Commission subscribes to these macro-economic priorities.
6. The fiscal policy challenge is translated into a short-term goal of reducing the general government deficit, excluding pension reform cost, to below 3% of GDP in 2006 and of meeting the same target, including the cost of the pension reform, in 2007. The NRP contains only limited details about the measures on fiscal and monetary policy, usually without timetables or budgetary analyses, instead referring readers to the update of the convergence programme. The reforms already adopted in the areas of pension, healthcare, tax and public finance management are mentioned. The NRP reiterates the government's intention to achieve the fiscal policy goals by allocating additional public revenues primarily to faster reduction of the deficit.
7. The Commission's analysis of reforms already undertaken and in progress is generally positive but further measures may be necessary to meet the fiscal targets mentioned above.

Micro-economic policies

8. The Slovak programme identifies the business environment, R&D and innovation and information society as the key challenges in the micro-economic area. The Commission shares this view.
9. The NRP recognises the need to create a favourable business environment in order to ensure long term competitiveness. The efforts mentioned towards establishing an integrated system of impact assessment and to make improve and expand consultation are promising but require completion. The programme also contains an interesting initiative to audit barriers to business in 2006. Efforts are made to reduce and redirect state aid from sectoral state aid assistance to horizontal priorities, including R&D and SMEs. A proposal to increase access to finance by setting up a stock exchange with the participation of neighbouring countries is interesting, though the NRP remains vague on the project and its participants. The NRP announces measures to improve law enforcement in 2006, though there is no information on implementation of the new bankruptcy law. The policy measures to improve the links between indigenous and foreign-owned companies are not fully developed and more could be done to improve businesses support services specifically targeted at SMEs. There is no indication of measures aimed at reducing the deficit in writing EU Internal Market legislation into national law.
10. The NRP lists a quite comprehensive range of planned actions targeting R&D and innovation, focused on three priorities: developing and supporting highly qualified scientists; research of international quality, adequately linked with the business sector; and effective public support for R&D and innovation. Despite the low starting point in terms of overall investment in R&D (0.58% of GDP in 2003), the NRP does not set national targets. It could focus more explicitly on R&D and innovation in SMEs (including early stage financing), on increasing the impact of the high level of foreign direct investment on R&D and innovation and on more and better leveraged public spending on R&D and innovation. A stronger emphasis on applied R&D

together with an improved patenting regime would be needed to strengthen the bridge from sciences and technology towards innovation.

11. The strong emphasis on the role of ICTs in education, digital literacy, e-government and broadband infrastructure is appropriate, as well as the commitment to introduce ICT-based methods in public administration management. Full implementation of these initiatives could provide a range of benefits in terms of human capital, improving the business environment and job creation.
12. The NRP proposes interesting measures to deal with certain aspects of the micro-economic challenges identified, but does not present an integrated strategy catering for different types of businesses. The action planned addresses crucial weak points in the Slovak R&D, ICT and innovation system. However, it remains to be seen whether the measures are sufficient to reverse current negative trends. A reinvigorated commitment to advance the implementation of planned policy measures and particular attention to their early evaluation will be indispensable.

Employment policies

13. Four key priorities are identified by the Slovak authorities in the field of employment, namely: achieving a high employment rate; modern educational policy; coping with demographic changes and social inclusion. The Commission's assessment coincides with this.
14. In order to support employment growth, attract and retain more people in employment, the NRP puts forward an extensive set of policy measures, focusing on: reduction of the tax burden for those on low incomes; simplification of administrative procedures linked to employment and self-employment; support for geographical mobility; and active labour market policy measures for disadvantaged job seekers. Although the mobility measures and housing policy are well established and linked together, they might not be sufficient to resolve the significant regional employment disparities. The high level of structural unemployment and the gender pay gap, which remains among the highest in the EU, deserves more attention in the programme. The NRP includes several measures aimed at creating inclusive labour markets. However, some groups require more attention, such as disabled people, large families and Roma. The measures put forward to respond to demographic changes in Slovakia do not include support for "active ageing".
15. A long-term objective to further reduce the tax and social security burden is set, with priority given to low-income earners. However, the NRP does not formulate a strong commitment to reform the overall system of social contributions. Increased flexibility for enterprises in hiring staff is planned, whilst support for flexible working arrangements is limited. The NRP proposes to continue with labour inspection measures in order to reduce undeclared work, but little attention is given to reduction of the tax wedge. Although the Labour Code in 2003 transferred the responsibility for wage setting to company level, the NRP recognises the need for more commitment by the social partners in setting up the wage bargaining mechanism. In-company training needs more specific attention, also in connection with the use of Structural Funds.

16. The NRP considers education policy a top priority in the light of young people's often poor levels of key skills and the low rate of adult participation in training. It refers to the new law on education to be adopted in 2006, which if fully implemented has potential to be effective in improving human capital over time. The planned educational reform is focused on all levels of the system and covers ICT use, foreign language training, lifelong learning and education for disadvantaged children. The priorities in education policy are clearly defined, with a short reference to the future use of Structural Funds. . More emphasis could be put on cooperation with the private sector in the reform of secondary and higher education and to promoting entrepreneurship education in general.
17. The NRP presents a wide set of measures aimed at addressing the employment challenges identified. However, more developed responses to some issues would be warranted - in particular structural unemployment, regional employment disparities, investment in in-company training, and the integration of vulnerable groups into the labour market. More developed policies are also needed to tackle long-term unemployment and youth unemployment.

PART III: CONCLUSIONS

18. In line with the Integrated Guidelines, the Slovak National Reform Programme identifies and responds to the main challenges facing Slovakia, namely information society; R&D and innovation; business environment; and education and employment. Overall, the NRP builds on recent reforms. However, it is not always clear that measures presented are sufficient to meet the objectives set out.
19. The level of detail given on the various policy initiatives varies widely. The data provided is insufficient to allow an assessment of whether the financial commitments for individual initiatives are consistent with the target for the general budget deficit. In order to facilitate implementation, more should be done to foster the participation of all stakeholders and ensure efficient monitoring and evaluation.
20. The programme's strengths include:

measures to improve the business environment including plans to introduce an integrated system of impact assessments;

the priority given to developing the use of ICT, including in education;

the comprehensive set of measures supporting employment growth.
21. Among the points requiring further attention are:

stimulating R&D and innovation;

tackling regional disparities and structural unemployment;

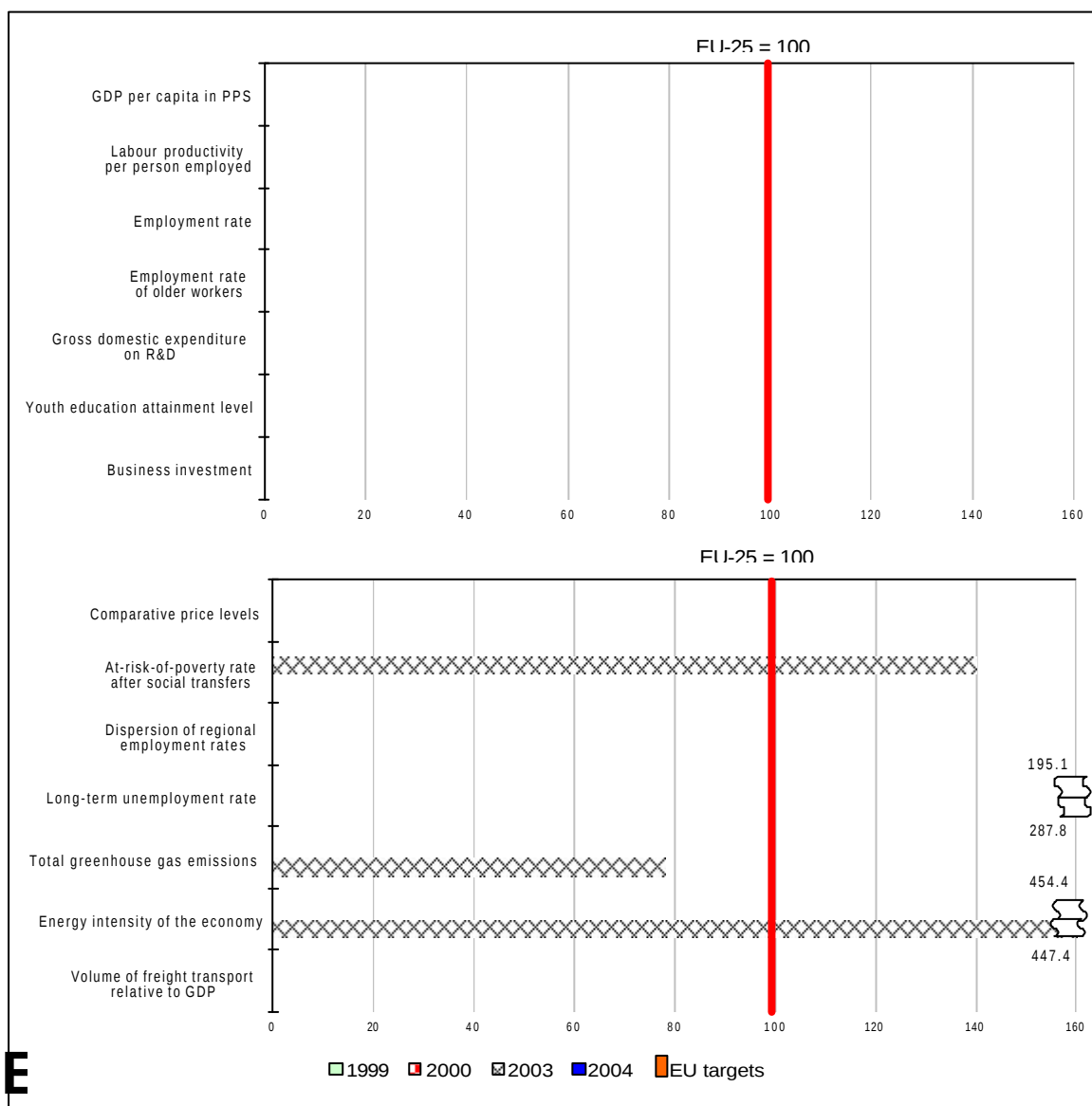
the issue of integration of vulnerable groups, such as disabled people and the Roma.
22. Taking due account of the above, Slovakia is invited to implement its NRP with vigour. The 2006 progress report on the implementation of the NRP should cover in

particular the way Slovakia has dealt with the issues mentioned in paragraph 21. In this context, the Commission looks forward to discussions with the Slovak authorities as part of the new partnership for growth and jobs.

PART IV : STATISTICAL GRAPHS AND DATA

SLOVAKIA

	SK							EU-25						
	1999	2000	2001	2002	2003	2004	2010 National target	1999	2000	2001	2002	2003	2004	2010 EU target
GDP per capita in PPS	46.7	47.3	48.2	50.6	51.7	52.1	:	100.0	100.0	100.0	100.0	100.0	100.0	70.0
Labour productivity per person employed	51.9	54.4	55.6	58.7	58.7	59.4		100.0	100.0	100.0	100.0	100.0	100.0	
Employment rate	58.1	56.8	56.8	56.8	57.7	57.0		61.9	62.4	62.8	62.8	62.9	63.3	
Employment rate of older workers	22.3	21.3	22.4	22.8	24.6	26.8		36.2	36.6	37.5	38.7	40.2	41.0	
Gross domestic expenditure on R&D	0.66	0.65	0.64	0.58	0.58	0.53		1.87e	1.89e	1.93e	1.93e	1.92e	1.90pe	
Youth education attainment level	93.3	94.5	94.4	94.0	94.1	91.3		74.8	76.3	76.1	76.5	76.5	76.6	
Comparative price levels	40.3	44.1	44.6	44.6	50.5	54.9p		100.0	100.0	100.0	100.0	100.0	100.0p	
Business investment	26.7	23.1	25.7	24.3	23.1	22.2		17.9	18.3	17.7	17.1	16.7	16.9	
At-risk-of-poverty rate after social transfers	:	:	:	:	21.0	21.0p		:	16.0	15.0	15.0	15.0	16.0	
Dispersion of regional employment rates	8.1	9.1	8.3	7.3	7.6	9.0		13.3	13.4	13.5	13.3	12.9	12.2	
Long-term unemployment rate	8.0	10.2	11.4	12.2	11.4	11.8		4.1	3.9	3.8	3.9	4.0	4.1	
Total greenhouse gas emissions	71.1	66.6	73.6	72.8	71.8	:	:	90.6	90.5	91.4	90.7	92.0	:	3.0
Energy intensity of the economy	976.5	955.9	1015.8	976.0	937.3	:		214.9	208.8	209.7	206.5	209.5	:	
Volume of freight transport relative to GDP	61.4	54.0b	49.7	46.8	47.6	47.4		100.7e	100.4e	99.4e	100.3e	99.7e	104.7e	



Slovenia

1. The Slovene economy has experienced robust GDP growth averaging 3.9% over the last decade. GDP per capita reached 79% of the EU average in 2004. Even though labour productivity has grown faster than the EU average, it remains well below the EU-15 average. Inflation, which has been one of the main concerns since 2000, is now approaching the EU average. While the employment rate is slightly above the EU average (65.3% in 2004) and the unemployment rate is one of the lowest (6.0% in 2004), the labour market is characterised by low employment of older workers and high youth unemployment.

PART I: GENERAL ASSESSMENT

2. The Slovene National Reform Programme (NRP) identifies, in line with the “Slovenia’s Development Strategy”, five development priorities: a competitive economy and faster growth; a knowledge-based society; an efficient state; a modern social state and higher employment; and sustainable development. These priorities are subdivided into a number of more concrete objectives. The Commission shares the NRP’s analysis of the main priorities.
3. In order to address the above challenges, the NRP presents a comprehensive set of largely appropriate measures. It is very wide in scope and as a result the prioritisation is sometimes difficult to discern. Some reform measures are concrete, backed up with quantified targets and specific deadlines, while others appear to be only general aims. Ambitious targets are set for total R&D investment (3% of GDP by 2010, in line with the overall target for the EU) and employment (raising the overall employment rate from 65.3% to 67% by 2008) as well as in other key areas. However, as targets do not always bear a close link to specific measures, it is difficult to assess the general level of ambition and feasibility of the plan. The NRP does not elaborate on the budgetary implications of the measures it outlines. While the document stresses that the success of the reforms hinges on appropriate support from the EU budget, the links between the NRP priorities and the use of Structural and Cohesion Funds are not very explicit.
4. Consultation and efforts to develop ownership of the document have been very substantial. The government endorsed the programme, which closely corresponds to the framework document “Slovenia’s Development Strategy”. This strategy has been widely debated in public involving the tripartite Economic and Social Council, local authorities and the media. A discussion on the NRP is planned in parliament and may lead to adjustments. A new government office headed by a Minister without portfolio has been set up to co-ordinate the implementation of the reforms and a monitoring procedure will be developed.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

5. With a view to adopting the Euro in 2007 as the key priority, the NRP identifies macro-economic policies geared to achieving, as key priorities, nominal convergence and sustainable fulfilment of the Maastricht criteria related to inflation, long-term interest rate and exchange rate stability, as well as criteria regarding public finances. It seeks to achieve a balanced budgetary position by 2010 and cites as crucial in this respect reducing the scale of public expenditure, reforming the tax system, renewing the social agreement to keep wage policy stringent and encouraging prolonged activity on the labour market. The Commission supports this choice of goals. The expected relatively favourable macro-economic growth conditions in 2005 and 2006, with the economy growing slightly above potential, offer the opportunity to speedily proceed with reforms.
6. The policy measures to be applied to enhance the long-term sustainability of public finances remain largely unspecified in the NRP, without clear schedules for action. They can thus be seen as constituting merely broad lines for action. This lack of firm plans and of detail makes it difficult to assess the credibility of objectives for reducing general government expenditure and making public spending more flexible, while ensuring the stability of general government revenue. The NRP refers to the gradual abolition of the payroll tax by 2009 as well as the simplification of the direct tax regime and the possible introduction of a flat tax rate in 2007. There is a risk that these tax reforms could impinge on the general government balance, should the revenue shortfall due to the abolition/reduction of certain taxes not be off-set with curbs on expenditure. The NRP does not cover the details of the reform package designed to cut the high share of fixed spending commitments, currently still accounting for more than 80% of total outlays.
7. The programme presents a comprehensive approach to respond to the challenge of successfully introducing the Euro. However, policy measures put forward for improving public finances remain vague and do not allow an assessment of the feasibility of the strategy in the longer term.

Micro-economic policies

8. The NRP addresses competition, R&D and innovation, business environment, better regulation, and foreign direct investment as key microeconomic challenges. The Commission's analysis is in line with this.
9. The competition challenge is addressed through a wide range of measures. The proposal to strengthen the legal basis for the Competition Protection Office is useful, but the on-going measures are needed to strengthen its staffing and financing need to be implemented. The proposed privatisation measures are not accompanied by a detailed timetable. Details are also missing on the proposals for stimulating market entry and removal of abuse of dominant position in those segments of the telecom sector with weak competition. There is nothing on reform of regulation in the professional services sector. Further proposals for increasing cross-border electricity transmission capacity, so as to increase competition in the domestic market, would be useful.
10. On R&D and innovation, a very heterogeneous set of measures has been proposed that are not sufficiently integrated to ensure the development of a coherent and successful national research and innovation system. In particular, the NRP does not

sufficiently address the key issue of improving the contribution from the private sector to R&D. Other issues requiring attention are encouraging cross-border knowledge transfer, increasing protection for intellectual property rights and the role of public procurement. An ambitious target to increase investment in R&D as a proportion of GDP to 3% by 2010 is set but does not seem realistic. The target for private R&D is not concrete enough. Whilst the initiative to increase public funding of R&D and to redirect it gradually towards technological research constitutes an important step, this needs to be combined with an increased concentration of efforts in a limited number of priority areas with sufficient critical mass. ICT measures such as the development of wireless broadband, improved ICT education, support for people buying computers and focus on e-content in Slovene are appropriate.

11. With respect to business environment, the NRP addresses pertinent issues. The measures to simplify legislation, to reduce state aid, lighten the tax and administrative costs to enterprises and set up a structure to steer this process are serious efforts to improve regulation. The introduction of mandatory impact assessment is important step but reflection is needed on appropriate structures and consultation practices. The programme also includes appropriate measures to encourage entrepreneurship. These include improved SME access to finance, notably through the establishment of risk capital funds, and the promotion of entrepreneurial skills.
12. Although the penetration of foreign direct investment (FDI) into the Slovene economy has been low, the NRP recognises its importance and sets a quantitative target. Further privatisation should attract a significant proportion of foreign capital but the links between FDI and the privatisation strategy are not coherent. The NRP proposes measures to strengthen the industrial base that will have a positive impact on industry and will improve attractiveness for FDI. The importance given to supporting the internationalisation of SMEs is also positive.
13. The NRP focuses on important major transport initiatives which can make a significant contribution to competitiveness. However, these initiatives have to be implemented in order to improve infrastructure for railways and other forms of public transport and to manage congestion. The focus on improved environmental and spatial planning policy is appropriate and these policies need to be closely integrated to ensure that the tourism potential of the economy is realised. More emphasis on environmental technologies, energy efficiency and the use of renewables would be helpful.
14. Overall, the NRP provides a convincing response to the main micro-economic challenges identified and encouraging progress is being made on better regulation. However more action will be needed to meet certain challenges, such as improving the interaction between research activities and industry, strengthening the Competition Protection Office and increasing effective competition in the electricity market.

Employment policies

15. A knowledge-based society, a modern social state and higher employment are among the priorities of the NRP. The Commission's analysis of the employment and education related challenges facing Slovenia is in line with this.

16. Ambitious targets for 2008 are set for attracting and retaining more people in employment. The target for the overall employment rate is 67%, up from the current 65.3%, and the target for older workers is 35%, compared to 29% currently. These are combined with less ambitious targets for the unemployment rate (from 6% to 5.5%) and female employment rate (2 percentage points above the EU 15 average). The intention to complement a gradual increase in retirement age with an active ageing strategy and integrated programmes for older workers is a positive development. Measures on the promotion of youth employment largely concentrate on improving employment opportunities for university graduates and preventive measures to reduce the drop-out rate from schools. The NRP sets the target of ensuring that graduates and post-graduates seeking a first job find employment within six months of completing their studies. Activation measures are foreseen to help tackle the high youth unemployment. However, the poor performance in terms of activation and prevention raises concerns over the approach. In this context, the stated intention of modernising public employment services and encouraging the development of private employment agencies is helpful. Among disadvantaged groups, only disabled people are targeted while action against discrimination is narrowly focused on gender.
17. Increased flexibility in the labour market is the main instrument put forward in the NRP to promote adaptability of workers and enterprises. All regulations hindering flexibility will be revised. The NRP recognises the need for a balance between flexibility and security but remains unspecific on how this goal will be achieved. Special attention needs to be paid to the low-skilled, older workers and workers threatened by the restructuring of some sectors. Measures increasing geographical mobility are constructive. However, no measures to prevent undeclared work are included.
18. Slovenia is performing well in education and lifelong learning relative to several EU benchmarks. The reforms in higher education and the preparation of a new lifelong learning strategy are the most important measures mentioned in this respect but attention needs to be given to achieving a minimum critical size for new universities. The NRP also states aspirations to promote private investment in human capital and increase access to lifelong learning for low skilled workers. However, concrete action to realise these aims is not specified.
19. The structural weaknesses of the labour market are well identified in the programme. Key labour market reforms are set out, aiming to increase flexibility, reduce the tax burden on labour and reform the system of social transfers. Overall, the NRP addresses the right priorities. However, the major reforms announced are not yet sufficiently well defined to permit an assessment of their probable results and many individual measures are too vaguely presented for their feasibility to be determined.

PART III: CONCLUSIONS

20. In line with the Integrated Guidelines, the Slovene National Reform Programme identifies and responds to the main challenges facing Slovenia, namely a competitive economy and faster growth; a knowledge-based society; an efficient state; a modern social state and higher employment; and sustainable development. Overall, the NRP

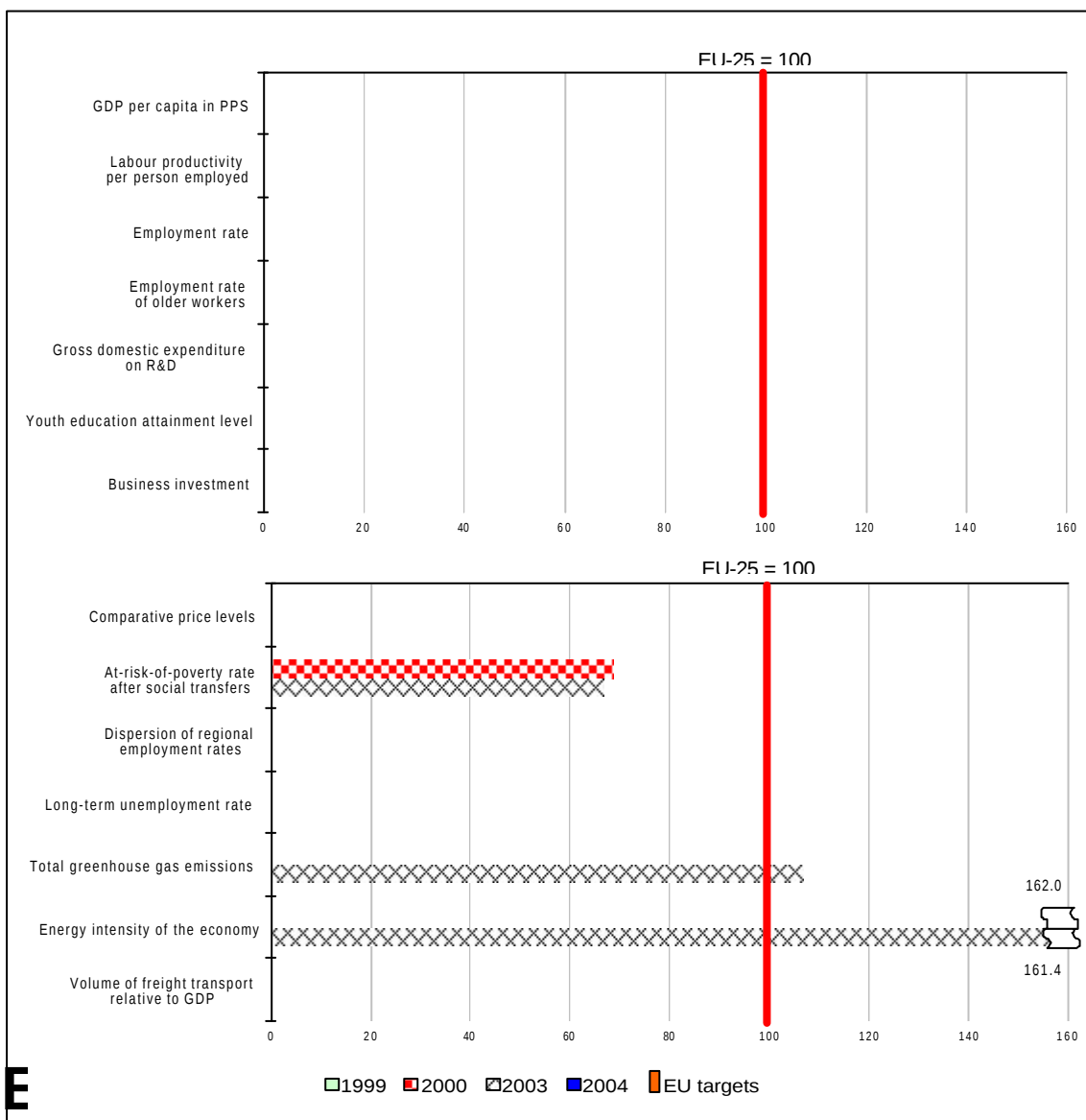
is comprehensive and the wide range of measures presented is generally appropriate, although clearer prioritisation would have been welcome.

21. There are quantified targets and specific timetables only for some of the reforms presented. Better links between targets and specific measures would allow a better assessment of the ambition and feasibility of the plan. The budgetary implications of the measures proposed are not covered in detail. However, the wide public consultation and the clear arrangements for coordinating implementation and monitoring are likely to be a significant advantage in putting the NRP into practice.
22. The programme's strengths include:
 - measures to improve regulation, including by simplifying legislation and lightening the administrative costs to enterprises;
 - efforts to support the development and internationalisation of SMEs, including by improving their access to finance.
23. Among the points requiring further attention are:
 - stronger measures to ensure the long term sustainability of pension systems and to promote active ageing;
 - a more coherent strategy for R&D and innovation, in particular improving the contribution from the private sector to R&D.
24. Taking due account of the above, Slovenia is invited to implement its NRP with vigour. The 2006 progress report on the implementation of the NRP should cover in particular the way Slovenia has dealt with the issues mentioned in paragraph 23. In this context, the Commission looks forward to discussions with the Slovene authorities as part of the new partnership for growth and jobs.

PART IV : STATISTICAL GRAPHS AND DATA

SLOVENIA

	SI							EU-25						
	1999	2000	2001	2002	2003	2004	2010 National target	1999	2000	2001	2002	2003	2004	2010 EU target
GDP per capita in PPS	74.1	73.2	74.2	74.9	76.3	79.5	67.0 (2008)	100.0	100.0	100.0	100.0	100.0	100.0	70.0
Labour productivity per person employed	70.4	70.2	71.6	71.4	72.9	75.7		100.0	100.0	100.0	100.0	100.0	100.0	
Employment rate	62.2	62.8	63.8	63.4	62.6	65.3		61.9	62.4	62.8	62.8	62.9	63.3	
Employment rate of older workers	22.0	22.7	25.5	24.5	23.5	29.0	3.0	36.2	36.6	37.5	38.7	40.2	41.0	:
Gross domestic expenditure on R&D	1.42	1.44	1.56	1.53	1.54e	1.61e		1.87e	1.89e	1.93e	1.93e	1.92e	1.90pe	
Youth education attainment level	85.8	87.0	85.9	90.0	90.7	89.7		74.8	76.3	76.1	76.5	76.5	76.6	
Comparative price levels	74.8	73.1	73.2	75.5	77.9	75.8p	-	100.0	100.0	100.0	100.0	100.0	100.0p	:
Business investment	26.4	22.5	21.2	19.8	20.5	21.3		17.9	18.3	17.7	17.1	16.7	16.9	
At-risk-of-poverty rate after social transfers	:	11.0	11.0	10.0	10.0	:		:	16.0	15.0	15.0	15.0	16.0	
Dispersion of regional employment rates	-	-	-	-	-	-	-	13.3	13.4	13.5	13.3	12.9	12.2	:
Long-term unemployment rate	3.2	4.0	3.5	3.4	3.4	3.1		4.1	3.9	3.8	3.9	4.0	4.1	
Total greenhouse gas emissions	93.3	94.0	98.6	99.3	98.1	:		90.6	90.5	91.4	90.7	92.0	:	
Energy intensity of the economy	348.1	341.7	349.6	344.6	338.1	:	-	214.9	208.8	209.7	206.5	209.5	:	:
Volume of freight transport relative to GDP	89.0e	87.6e	88.5	84.0	87.1	101.1		100.7e	100.4e	99.4e	100.3e	99.7e	104.7e	



Spain

1. Over the last decade, Spain experienced annual average real GDP growth above 3% and a sustained pace of catching-up to GDP per capita of 98% of the EU average in 2004. As a result of strong job creation, the employment rate (61.1% in 2004) has increased significantly, but remains far below the Lisbon target, especially for women, while unemployment (11% in 2004) has considerably decreased over recent months. Low productivity growth, which during the last decade has been below the EU average, coupled with persistently high inflation is damaging competitiveness.

PART I: GENERAL ASSESSMENT

2. The Spanish National Reform Programme (NRP) presents two overarching policy objectives related to growth and employment: completing the real convergence of Spain with the EU-25 in terms of per capita income and increasing the employment rate to 66% by 2010. In order to achieve these two main objectives, the programme identifies seven key policy areas: budgetary stability; R&D strategy; a better environment for business; the achievement of higher competition; infrastructure development; a better functioning of the labour market; and better education and human capital. The Commission shares this analysis of the main priorities.
3. The Spanish NRP is ambitious and focuses on the most urgent challenges facing the country. The programme sets out a fairly comprehensive strategy to address Spain's economic and employment challenges, although the selection of priority measures for the period 2005-2008 is not always clear and some of the measures remain vague. Quantified targets are set for R&D spending (2% of GDP by 2010) and for the overall employment rate (66% by 2010). The target for the employment of women is 57% by 2010. An extensive set of indicators is provided to help monitor implementation. However, details on timetables and budgetary implications are limited making it difficult to assess the practicability of measures; for instance, how Spain envisages using EU Structural Funds to help reach the objectives in the programme for the period beyond 2007.
4. A clear internal governance structure has been established to ensure inter-ministerial coordination and governmental ownership of the programme. There is a call to reinforce regional governments' involvement during implementation of the programme. They have been invited to appoint "Lisbon coordinators" and draft their own programmes. Also positive is the announced involvement of stakeholders at the monitoring and evaluation stages of the programme. However, the programme provides limited information on the level of involvement and consultation of other stakeholders during its development as well as on efforts to consult and raise awareness of civil society at large.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

5. On the macro-economic side, reinforcing macroeconomic and budgetary stability is considered paramount to support real GDP convergence, which is a top priority of the NRP.
6. The NRP sets the target of real GDP per capita reaching 100% of the EU-25 average by 2010 (no indication is given for 2008). This target is easily attainable as real GDP per capita increased from 92.8% of the average EU-25 in 2000 to 98% in 2004. All measures presented in the NRP are expected to contribute to the overall convergence process.
7. The main quantified target is to reduce the ratio of public debt to 34% of GDP by 2010 (38% in 2008). This confirms existing commitments and policies to reduce public debt, a key aspect of which is the reform of the General Budgetary and Stability Law. The aim is to ensure greater budgetary stability over the economic cycle, to increase transparency of public accounts and to improve co-ordination with regional and local administrations. Other policy areas important for the sustainability of public finances, such as health care and pensions, are referred to but the effectiveness of on-going reforms is difficult to assess on the basis of the NRP. In the case of healthcare, success will depend on further cooperation with the regional governments.
8. Overall, the macro-economic policies outlined in the NRP appear suitable. They build on the good performances that have been achieved, notably in terms of fiscal consolidation.

Micro-economic policies

9. The programme identifies four key policy areas for action in the micro-economic area: setting up a R&D and innovation strategy; improving the business environment; achieving greater competition; and developing infrastructure.
10. Concerning the R&D and innovation strategy, the research investment objective is ambitious (2% of GDP by 2010) but achievable if Spain sustains current increases in public research investment (with an objective of a 25% minimum annual increase) and succeeds in mobilising private expenditure, including through the financial participation of regional governments. The programme puts forward a wide array of measures, with quantified objectives and clear timetables. In particular, reforms of the legal and administrative framework for R&D, the new monitoring and evaluation system and the new "Plan Avanz@" to improve take-up of ICT are useful steps. Widening the use of ICT is also highlighted as a driver for modernising public administration. Further efforts would seem needed to ensure that SMEs and new firms have the capacity to engage in R&D activities and benefit from innovation.
11. With respect to improving the business environment and achieving greater competition, the new measures proposed appear appropriate, although detailed information on implementation is limited. Particular consideration is given to better regulation and achieving greater efficiency in public administration, although the plan does not discuss better regulation challenges in detail. Some important issues related to competition are not sufficiently addressed, in particular as far as the retail sector and the electricity market are concerned. For example, for the latter, improving interconnection with neighbouring countries is essential.

12. As regards infrastructure and sustainable development, the NRP refers to the Strategic Plan for Infrastructures and Transport and identifies a very complete set of objectives for road and rail networks for 2020, but does not set intermediate targets. Increased energy efficiency and decreased CO₂ emissions are also presented as overarching objectives.
13. Overall, the list of micro-economic policies put forward in the NRP appears relevant and should contribute to increasing productivity growth. However, except for R&D and infrastructure, it is difficult to assess the exact scope and likely impact of the measures based on the programme. The specific needs of SMEs deserve greater attention.

Employment policies

14. Together with convergence in income per capita, increasing the employment rate to 66% by 2010 is the overarching objective of the NRP. Raising female employment is considered crucial in this respect and the NRP sets a target of increasing the employment rate of women from 48.3% in 2004 to 57% by 2010. The programme also seeks to address the segmentation of the labour market caused by the proportion of fixed-term contracts, which is the highest in the EU. Increasing investment in human capital through better education and skills is also considered a key priority to sustain employment and productivity growth. The Commission supports all these objectives.
15. In order to attract and retain more people in employment, measures focus on increasing the participation of women, older workers, young people and disadvantaged groups, including migrant workers. These measures include the revision of incentives for early retirement, an income tax reform and increasing the number of places in public childcare facilities, as part of a wider endeavour to modernise the social protection system. The objective of increasing public care facilities for children under three by 2% a year is helpful but would seem insufficient given the size of the challenge. While the high level of youth unemployment is considered a priority, the programme builds on existing policies and no new measures are presented. It also sets the target of reducing the current youth unemployment rate to close to the EU average by 2010 (from 22.1% to 18.7%).
16. The NRP includes measures to reduce the use of fixed-term contracts through a review of different contract types and their respective costs. These, along with measures to promote self-employment and improve health and safety at work, would constitute a first step in addressing the segmentation of the labour market. However, overall progress in improving the functioning of the labour market and the adaptability of workers and enterprises will depend on the outcome of current dialogue between social partners. Particular attention is given in the NRP to the collective bargaining agreement signed by the social partners in March 2005, which covers wage moderation. Measures to develop the market for rental housing seem likely to facilitate geographical mobility.
17. Measures to foster human capital are taking shape through a recently-adopted framework Law on education and a new joint system for occupational and continuous vocational training, due for adoption on January 2006. Action focuses on preventing learning problems in primary education, better integrating children of

immigrant origin in schools, developing the use of foreign languages and ICT, supporting higher education reforms and developing lifelong learning. Important commitments are made, although for most measures without funding being specified. The commitment to halve early school leaving by 2010 seems realistic. It will require a significant effort to achieve the objectives of 80% of 24-year-olds completing upper secondary education and of increasing the share of population in continuous training from 5.2% to 12.5% by 2010.

18. Overall, the programme reinforces the employment objectives set in previous national action plans for employment, at least in so far as most of the fairly ambitious but realistic targets are concerned. Measures would in general benefit from greater clarity, including more consideration of regional disparities, more specific information on action to raise female employment and clearer references to budgetary means. Success will depend to a large extent on the results of the on-going process of social dialogue.

PART III: CONCLUSIONS

19. In line with the Integrated Guidelines, the Spanish National Reform Programme identifies and responds to the main challenges facing Spain, namely budgetary stability; R&D strategy; a better environment for business; the achievement of higher competition; infrastructure development; a better functioning of the labour market; and better education and human capital. Overall, the NRP is ambitious, coherent and fairly comprehensive. It builds appropriately on existing policies, although prioritisation between measures could be improved.
20. An extensive set of indicators is provided to help monitor implementation. However, timetables, budgetary implications and clear links with the use of EU funding are often missing, making it difficult to assess the practicability of measures. It will be important to involve stakeholders in implementing the NRP, thus spreading ownership beyond governmental circles.
21. The programme's strengths include:

continuing efforts on achieving greater budgetary stability over the economic cycle;

the comprehensive R&D and innovation plan set out;

the complete set of objectives for road and rail networks in the Strategic Plan for Infrastructures and Transport.
22. Among the points requiring further attention are:

competition issues, in particular in the retail and electricity sectors, for example by improving interconnection with neighbouring countries.

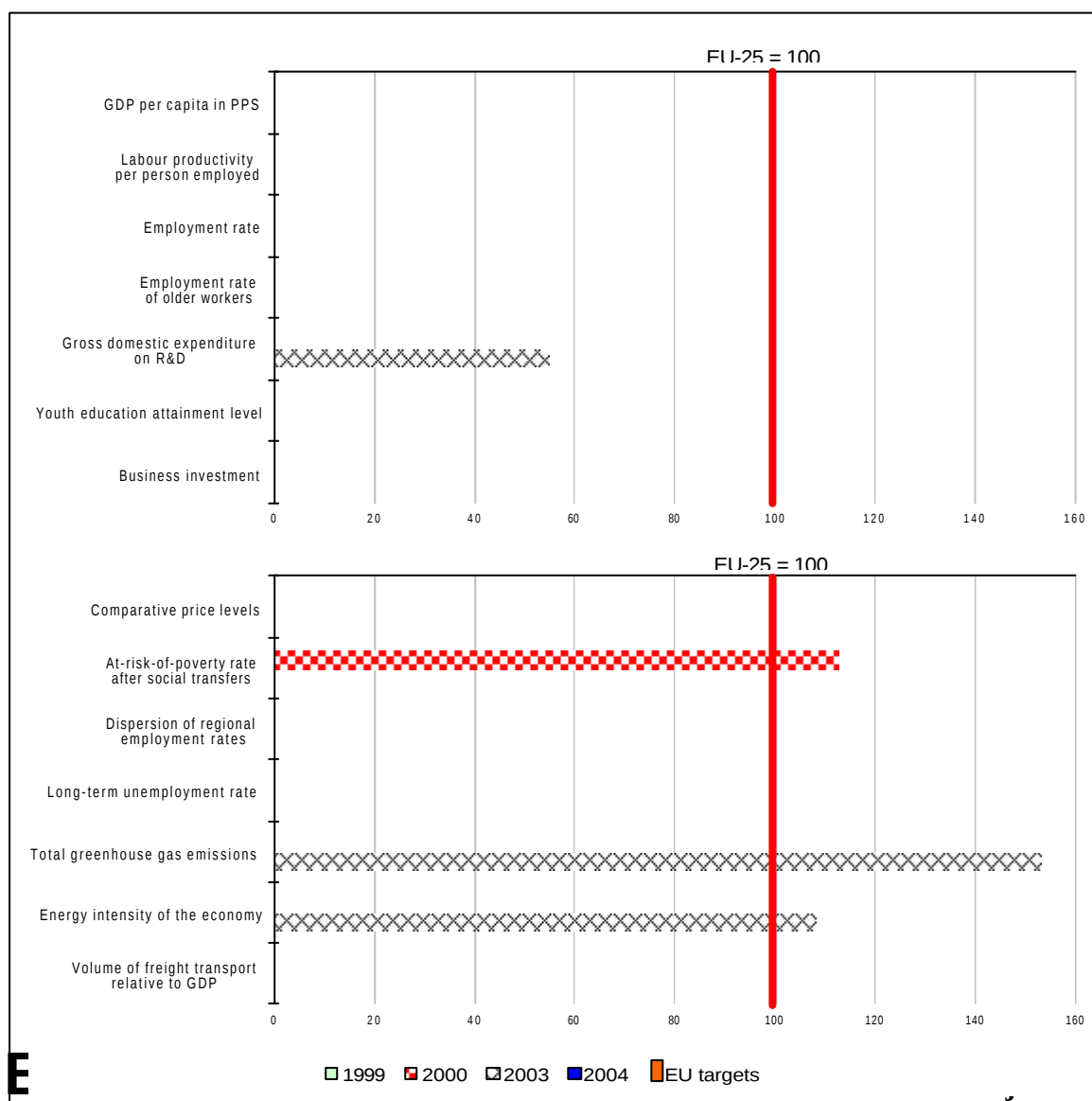
the segmentation in the labour market, the need to increase female employment;
23. Taking due account of the above, Spain is invited to implement its NRP with vigour. The 2006 progress report on the implementation of the NRP should cover in particular the way Spain has dealt with the issues mentioned in paragraph 22. In this

context, the Commission looks forward to discussions with the Spanish authorities as part of the new partnership for growth and jobs.

PART IV : STATISTICAL GRAPHS AND DATA

SPAIN

	ES							EU-25						
	1999	2000	2001	2002	2003	2004	2010 National target	1999	2000	2001	2002	2003	2004	2010 EU target
GDP per capita in PPS	92.6	92.8	93.5	95.6	97.8f	98.0f	66.0	100.0	100.0	100.0	100.0	100.0	100.0	70.0
Labour productivity per person employed	100.6	98.2	97.9	99.3	100.5	99.9		100.0	100.0	100.0	100.0	100.0	100.0	
Employment rate	53.8	56.3	57.8	58.5	59.8	61.1		61.9	62.4	62.8	62.8	62.9	63.3	
Employment rate of older workers	35.0	37.0	39.2	39.6	40.7	41.3	2.0	36.2	36.6	37.5	38.7	40.2	41.0	3.0
Gross domestic expenditure on R&D	0.88	0.91	0.92	0.99	1.05	:		1.87e	1.89e	1.93e	1.93e	1.92e	1.90pe	
Youth education attainment level	65.2	65.9	64.8	64.0	62.1	61.1		74.8	76.3	76.1	76.5	76.5	76.6	
Comparative price levels	84.8	85.0	85.1	85.0	86.6	87.4p		100.0	100.0	100.0	100.0	100.0	100.0p	
Business investment	21.3	22.8	22.6	22.7	23.5	24.5		17.9	18.3	17.7	17.1	16.7	16.9	
At-risk-of-poverty rate after social transfers	19.0	18.0	19.0	19.0b	19.0	20.0b		:	16.0	15.0	15.0	15.0	16.0	
Dispersion of regional employment rates	10.8	10.7	10.0	9.3	9.0	8.7		13.3	13.4	13.5	13.3	12.9	12.2	
Long-term unemployment rate	5.9	4.8	3.9	3.9	3.9	3.5		4.1	3.9	3.8	3.9	4.0	4.1	
Total greenhouse gas emissions	127.6	133.0	132.6	139.3	140.6	:		90.6	90.5	91.4	90.7	92.0	:	
Energy intensity of the economy	227.0	227.0	225.4	226.3	226.6	:		214.9	208.8	209.7	206.5	209.5	:	
Volume of freight transport relative to GDP	111.7	117.7	122.5	135.4	137.1	151.4		100.7e	100.4e	99.4e	100.3e	99.7e	104.7e	



Sweden

1. Sweden is in a good position with respect to GDP per capita (118% of EU average in 2004), productivity and employment levels. Real GDP growth has been slightly below 3% on average over the last decade. Labour productivity growth has been just above the EU average. The employment rate is one of the highest in the EU (72.1% in 2004). However, over recent years employment growth has been weak and employment rates have declined, while unemployment (6.3% in 2004) has increased.

PART I: GENERAL ASSESSMENT

2. The Swedish National Reform Programme (NRP) puts a strong emphasis on sustainable development and integrates this theme into the social, economic and environmental policies set out. The NRP does not explicitly set clear priority areas but emphasises high labour market participation and hours worked and promotes a knowledge-based economy with environmentally efficient production processes. The Commission broadly supports this approach but also regards competition in services as a key area for attention.
3. The strategy of the NRP is broad, guided by the notion of sustainable development. The NRP spells out long-term ambitions under each guideline, emphasises continuity with existing policies and appears realistic. Timetables for implementing measures are not in most cases given and budgetary information is not always complete. The NRP does not always provide a full strategic vision and more priority setting would improve this. Some measures still need to be made more concrete. The NRP mentions ambitious targets for employment rate (80% for 20-64 year olds) and for publicly financed R&D (the annual target of 1% of GDP). No overall national target for investment in R&D is mentioned in the NRP, but at 3.75% of GDP (2004) recent investment has been high, against the background of the overall target for the EU of 3%. Relatively little new policy is set out in the section dealing with competition in services. Measures already proposed in the 2006 budget are described in more specific terms than those for subsequent years, although the NRP signals many reports and studies in the pipeline that may lead to interesting additional measures during those years. The NRP also describes how EU structural funds will be used to promote the objectives.
4. Consultation and efforts to develop ownership of the document have been fairly substantial. The Programme was formally endorsed by the Government and presented to Parliament for discussion. Meetings to consult social partners, including local and regional public authority employers, and civil society were arranged.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

5. The macro-economic strategy presented in the NRP is a continuation of policies already in place for a number of years. The strategy aims for sound public finances, low and stable inflation and wage setting in line with productivity. The NRP

acknowledges that, in the medium to long term, reaching a high level of employment and hours worked in the economy are important to sustain public welfare commitments, a view shared by the Commission.

6. The macro-economic strategy implies that fiscal policy will continue to be set within a general government budget surplus objective of 2% of GDP on average over the economic cycle and within rolling 3-year nominal expenditure ceilings. The NRP emphasises the continued need for social partners to set wages in a responsible way, supported by the national mediation office. The general government budget balance is forecast to remain in surplus over the period, but below the 2% objective. Were it to do so, the funds that could be built up would be an important element in meeting the budgetary demands created by the ageing of the population.
7. The NRP mentions ongoing investigations into the efficiency of the welfare insurance systems and the appropriateness of the way responsibilities are divided across different levels of government. The proposals based on this work may prove to be important for the long-term provision of public welfare services. The NRP mentions that the government intends to conduct a general overview of the tax system taking into account changes both in that system and in the economy as a whole since the 1990/91 reform. This work may also yield important efficiency benefits contributing to growth and incentives to work.
8. Overall, there is no urgent macro-economic challenge for Sweden and the stability-oriented framework is well designed. There is nothing in the short-term outlook that appears likely to prevent Sweden continuing to achieve its macro-economic policy objectives.

Micro-economic policies

9. The micro-economic policy priorities are R&D, innovation, and ICT diffusion. The business environment and strengthening competition policy are cited as the key areas for action. The NRP sees the knowledge-based economy as its main objective.
10. R&D, innovation and ICT diffusion are identified by the government as key challenges in the context of the national "Innovative Sweden strategy". The NRP sets clear priorities in these areas and shows a readiness to finance them. These priorities are: strengthening the role of industrial research institutes as a bridge between science and industry; improving the commercialisation of R&D; and strengthening research and training of researchers. Concerted measures to improve the intellectual property regime are set out. While the NRP contains some measures for SMEs, there would be scope for further measures focusing on research-driven and innovative SMEs, particularly encouraging links with larger firms. On ICT, the objective of a recently adopted law is a sustainable information society for all, to be complemented by a national action plan on electronic procurement and an increase in R&D investment on ICT.
11. To increase entrepreneurship, weak by international comparisons, the government plans to create a more competitive business environment. An action programme to reduce administrative costs to enterprises is being implemented, including a target to reduce such burdens arising from tax legislation by 20% by 2010. More targets will be set in 2006. Improving the use of impact assessment is mentioned, but without information on specific implementation measures. Six sectoral industrial strategies

are proposed to strengthen the competitiveness of the industrial base. Improving co-operation between industry, government, and universities at national and regional level will play an important role in this. The implementation of the long-term strategic framework on transport infrastructure, including a prioritised Trans-European Transport Network project, will contribute to links between major Swedish cities and the rest of Europe. The NRP envisages that Sweden's competitiveness increasingly will build on environmentally-friendly production processes. In particular, measures for green electricity certificates, financial support for wind power, investment programmes for renewables and energy efficiency in the construction and renovation of buildings are included.

12. The NRP acknowledges the need to strengthen competition policy and a government appointed commission is looking into streamlining the legal framework governing competition cases. No specific measures to remove barriers to entry in services markets are set out. While the NRP acknowledges that Sweden will need to adjust national rules to future EU legislation, it makes no specific commitments or initiatives to increase competition in key service sectors. 13. As regards the efficiency of the public sector, the e-government proposals are appropriate, but lack a precise timetable for implementation. No concrete measures are presented in the NRP to encourage outsourcing and benchmarking in the public sector or to strengthen the prevention of direct procurement contravening EU law.
14. The Commission's assessment of the innovation and ICT strategies is positive. Additional micro-economic measures could usefully be taken to promote a more effective market for services and improve the efficiency of the public services. The emphasis on sustainable development in the micro-economic chapter, and in particular the series of measures that will increase energy efficiency and improve the environment can help drive growth over time.

Employment Policies

15. The NRP identifies increased labour supply through higher labour force participation and more working hours as a high priority given the ageing population and the current high level of welfare services. The Commission shares this view.
16. To attract more people into employment, Sweden maintains its commitment to achieve as soon as possible its existing targets on employment rate (80% for 20-64 year olds) and unemployment rate (4%). The main priority is a reinforced active labour market policy to tackle the recent increases of youth, long-term and overall unemployment, and to help the young, immigrants and disabled persons into work. The NRP recognises the need to improve the integration of immigrants into the labour market and to tackle discrimination given the high employment gap between immigrants and native born Swedes (16 percentage points). The NRP proposes a number of measures, including rehabilitation and work-based solutions, to reduce sick leave and entrants into disability pension – some progress has been made on this already. However, the large number of people already on disability pensions receives less attention and makes more active measures necessary for these people. A better balance between incentives and a substantial social safety net in the tax and benefit systems remains a challenge, in view of a persistently high unemployment trap and a high tax wedge on labour.

17. Plans to address the adaptability of workers and enterprises mainly relate to issues such as the right to full-time employment, the use of temporary employment, subsidies for mobility and preventing undeclared work. With the currently high gender pay gap (16% unadjusted), the future action plan to eliminate gender-based wage discrimination is a positive move.
18. Sweden exceeds all the EU benchmarks for investment in human capital. The NRP focuses on the need to develop further improve quality throughout the education system and to increase equality in levels of attainment. The government's target that at least 50% of 25-year olds should begin higher education seems challenging but achievable. The NRP is weak on skills development in the workplace and participation in lifelong learning by the low-skilled, is currently lower than participation by men and women with higher skills, remains a priority.
19. Overall, the NRP provides a fairly ambitious yet not entirely complete response to the challenge of increasing labour supply. The NRP addresses most of the key areas but would have deserved a more in depth consideration of issues like unemployment and inactivity traps, maintaining a continued high labour supply of older workers and reducing the number of people on disability pensions.

PART III: CONCLUSIONS

20. In line with the Integrated Guidelines, the Swedish National Reform Programme identifies and responds to most of the main challenges facing Sweden, emphasising namely high labour market participation and hours worked and promoting a knowledge-based economy with environmentally efficient production processes. However, competition in services is a key issue only partially addressed in the NRP. Overall the programme is broad, builds appropriately on existing initiatives and recent economic successes and sets out clear and realistic long-term ambitions. It includes many innovative measures underpinned by a strong effort to reinforce the three pillars - economic, social and environmental - of sustainable development. The programme's strategic vision and practicability could be enhanced by more prioritisation.
21. Timetables for implementing measures are not in most cases given and budgetary information is not always complete. Some measures could be described further. The NRP refers to various reports and studies that may give rise to further initiatives in the second half of the 2005-2008 implementation period.
22. The programme's strengths include:
 - the high priority and the associated funding commitment for promoting R&D, innovation and ICT;
 - the comprehensive approach to integrating environmental and energy aspects in the production process;
 - measures to reduce unemployment, including reinforced active labour market policies.

23. Among the points requiring further attention are:
- enhancing competition in services;
- increasing labour supply, including by addressing incentives in tax and benefit systems.
24. Taking due account of the above, Sweden is invited to implement its NRP with vigour. The 2006 progress report on the implementation of the NRP should cover in particular the way Sweden has dealt with the issues mentioned in paragraph 23. In this context, the Commission looks forward to discussions with the Swedish authorities as part of the new partnership for growth and jobs.

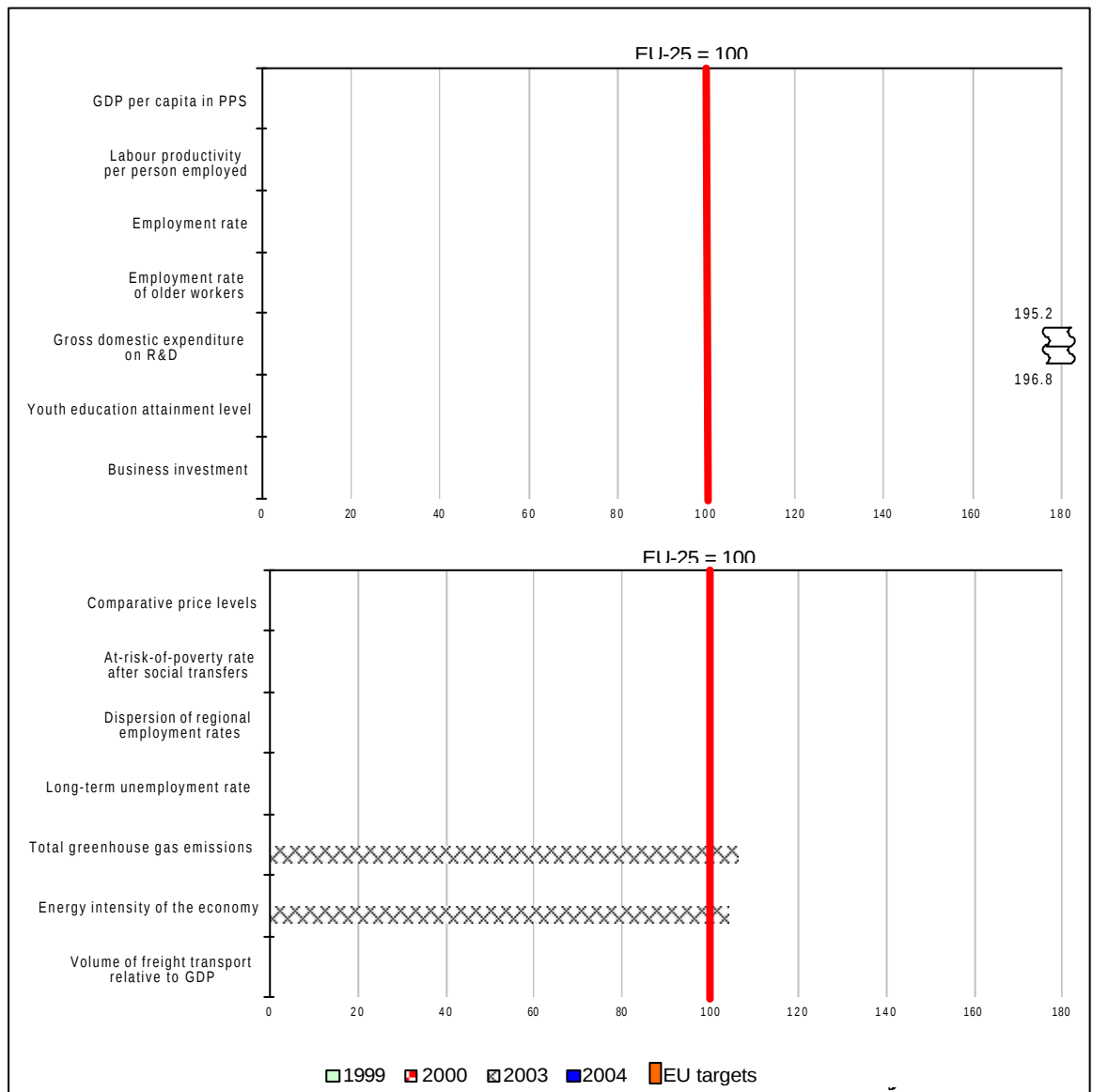
PART IV : STATISTICAL GRAPHS AND DATA

SWEDEN

	SE							EU-25						
	1999	2000	2001	2002	2003	2004	2010 National target	1999	2000	2001	2002	2003	2004	2010 EU target
GDP per capita in PPS	118.4	119.6	115.7	114.2	116.4	117.9	*	100.0	100.0	100.0	100.0	100.0	100.0	70.0
Labour productivity per person employed	107.1	107.3	103.2	102.1	104.6	107.1		100.0	100.0	100.0	100.0	100.0	100.0	
Employment rate	71.7	73.0	74.0	73.6	72.9	72.1	**	61.9	62.4	62.8	62.8	62.9	63.3	3.0
Employment rate of older workers	63.9	64.9	66.7	68.0	68.6	69.1		36.2	36.6	37.5	38.7	40.2	41.0	
Gross domestic expenditure on R&D	3.65	:	4.27	:	3.98	3.74		1.87e	1.89e	1.93e	1.93e	1.92e	1.90pe	3.0
Youth education attainment level	86.3	85.2	85.5b	86.7	85.6	86.3		74.8	76.3	76.1	76.5	76.5	76.6	
Comparative price levels	125.3	126.7	117.0	121.1	124.0	121.1p		100.0	100.0	100.0	100.0	100.0	100.0p	
Business investment	13.9	14.7	14.3	13.3	12.9	13.0		17.9	18.3	17.7	17.1	16.7	16.9	
At-risk-of-poverty rate after social transfers	8.0	:	9.0	11.0b	:	11.0b		:	16.0	15.0	15.0	15.0	16.0	
Dispersion of regional employment rates	4.8	4.5	4.2b	4.6	4.3	4.4		13.3	13.4	13.5	13.3	12.9	12.2	
Long-term unemployment rate	1.9	1.4	1.0	1.0	1.0	1.2		4.1	3.9	3.8	3.9	4.0	4.1	
Total greenhouse gas emissions	96.7	93.0	94.4	96.1	97.6	:		90.6	90.5	91.4	90.7	92.0	:	
Energy intensity of the economy	238.2	215.0	228.9	224.3	218.6	:		214.9	208.8	209.7	206.5	209.5	:	
Volume of freight transport relative to GDP	91.1e	93.1	88.8	90.6	90.8	89.3		100.7e	100.4e	99.4e	100.3e	99.7e	104.7e	

* National target: 80% for the population aged 20-64

** National target: 1% (2010) for the public sector



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United Kingdom

1. The United Kingdom's real GDP grew 3.2% on average in 1996-2000, well above the EU average, with GDP per capita at 117% of the EU average in 2004. GDP continued to grow relatively well with favourable labour market outturns. Labour productivity growth has been a bit faster than the EU average. The employment rate at 71.6% is high and exceeds the Lisbon target. The unemployment rate has been broadly stable and is at an historic low (4.7% in 2004).

PART I: GENERAL ASSESSMENT

2. The UK National Reform Programme (NRP) sets out broad policy priorities: maintaining fiscal sustainability in the face of demographic challenges; building an enterprising and flexible business sector; promoting innovation and R&D; widening opportunities for the acquisition of skills; increasing innovation and adaptability in the use of resources; and ensuring fairness through a modern and flexible welfare state. The Commission broadly shares the NRP's analysis of the main priorities but notes that improving transport infrastructure is also an important challenge in some regions.
3. The UK has already made considerable progress in structural economic reforms and the NRP largely reflects existing strategies. Some potential synergies between different policies are not addressed. The NRP presents a series of measures that are likely to build on to the successful structural economic reforms already undertaken in the UK through further opening markets, encouraging employment and improving the business environment. However, a number of other important challenges remain such as the fiscal balance, the efficiency of public expenditure, the quality of transport infrastructure, skill levels, pension reform and R&D policy. The UK already exceeds the employment rate target of 70% set for the EU as a whole. The NRP refers to a target of 80% for the long term, although there is no target for 2010. In addition, the government has set an R&D investment target of 2.5% of GDP for 2014, against the background of the overall target for the EU of 3% by 2010. The UK sets no target for that date, but will review progress to the UK's own target and calibrate policy on an annual basis. The role of Structural Funds in supporting the NRP is not fully explained.
4. Consultation and efforts to develop ownership of the document have been rather limited. The UK NRP was issued by H.M. Treasury. Some consultation took place, for example with the devolved administrations responsible for Scotland, Northern Ireland and Wales, but wider consultation could have strengthened the integration and ownership of the NRP. Annexed to the NRP is a joint declaration with the Irish Government on North/South cooperation to promote growth and jobs throughout the island of Ireland. A short stakeholder consultation was undertaken over the summer to gauge general interest in the Lisbon Strategy.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

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5. In terms of macroeconomic strategy, the NRP focuses on efficiency improvements to public expenditure and new initiatives for pension provision. Improving the structural fiscal balance is a challenge for fiscal policy not addressed in the NRP.
6. On the quality of public finances, the government has set an ambitious target to improve the efficiency of public spending, involving redirecting some £20bn (€29bn or 1.7% of GDP) to priority spending areas by 2007/08. The redeployment of resources to frontline health services should increase their effectiveness, but more emphasis could be given to reducing sickness costs for businesses. The NRP could have specified in more detail the monitoring mechanism and the incentives for efficiency improvements, especially in some cases where achieving savings might be particularly challenging. The 2007 Comprehensive Spending Review is expected to assess further the effectiveness of central government expenditure.
7. On public and private pension provision, the NRP reviews a number of existing policy initiatives. The low level of public pension provision is one of the determinants of the favourable long-term outlook for UK public finances. However, projected public and private pension provision appears insufficient to avoid a growing imbalance between income in work and in retirement, despite recent reforms. The report from the Pensions Commission published on 30 November 2005 suggests a possible way forward for further pension reforms.
8. Improving the structural fiscal balance is a remaining challenge. The macro-economic framework underpinned a significant fiscal consolidation in the late 1990s but the fiscal situation has deteriorated since 2002. There is a risk that revenues will continue to be below initial projections so that the deterioration of the structural balance might not be reversed sufficiently.
9. The Commission's overall analysis of the macro-economic chapter of the UK NRP is that the reforms to large areas of public expenditure, provided the necessary further efforts are made to deliver them, should provide significant efficiency benefits. On pensions, it is too early to tell whether current policy deliberation will lead to the extensive revisions necessary. The NRP gives insufficient attention to the improvement of the structural fiscal balance.

Micro-economic policies

10. The UK authorities have identified R&D and innovation and the encouragement of entrepreneurship as key micro-economic challenges. The Commission broadly shares this analysis but also identifies the quality and efficiency of the transport infrastructure as a key theme because of its importance for productivity growth.
11. The mix of measures for R&D and innovation broadly matches the longer term UK policy priorities, as identified by recent strategic reviews such as the Lambert report on business-university links. In particular, the 10-year Science and Innovation Investment Framework can help rectify a period of consistent under-investment. The NRP, however, mainly describes existing schemes and measures. Further policy initiatives will be needed in order to achieve the government's 2.5% R&D target for 2014. A timetable and intermediate investment targets for 2008 and 2010 are missing, and few details are given on the expected impact of the proposed measures on business R&D investment and innovation. The development of innovation

clusters linked to universities and cross-border knowledge transfers are issues that could be examined in more detail.

12. Funding of railway infrastructure has been substantially increased and the London congestion charge has proved successful. However, the NRP would be enhanced by more measures to improve other specific transport needs outside London and the South East, particularly accessibility to local employment opportunities. The NRP contains interesting policies on innovation for improved energy and resource efficiency, but more could be done to increase energy efficiency and to promote environmental technologies.
13. Concerning the business environment, the UK identifies encouraging entrepreneurship and better regulation as key priorities. The NRP mentions a number of recent SME initiatives, some implemented successfully using significant support from Structural Funds. Nevertheless, more could be done to reduce the time period for business VAT registration, to tackle the recent decline in entrepreneurship among ethnic minorities and to achieve the very ambitious target set for female entrepreneurship. Current better regulation initiatives include: improvements to regulatory impact assessment guidelines, cross-government initiatives to reduce administrative costs and measures to simplify legislation and tax administration.
14. UK competition policy appears to be working well and contributes to the development of an open and dynamic internal market. The on-going market reviews by the Office of Fair Trading (OFT), particularly that on public subsidies, will assist in maintaining and further improving this, as will the independent review of legal services. The UK's review of the Financial Services and Markets Act allows for the speeding up of the implementation of the EU Financial Services Action Plan.
15. On the microeconomic challenges, whilst clear progress is being made in some areas from a strong policy base, additional policy initiatives will be required to ensure the achievement of the UK government's own R&D target for 2014 and in order to sufficiently improve the quality and efficiency of transport infrastructure.

Employment policies

16. The UK NRP refers to the aspiration of raising the employment rate to 80% over the long term, but sets no targets for 2008 and 2010. Raising employment is to be achieved through increasing employment opportunity for all, removing barriers to participation and 'making work pay'. Increasing skills in the workforce, particularly at low and intermediate levels, is identified as key to productivity growth. The UK also recognises other on-going concerns, especially over labour market integration of vulnerable groups.
17. Key to achieving this ambitious target for attracting and retaining more people in employment will be the integration into the labour market of vulnerable groups such as incapacity benefit claimants, disabled people, lone parents, some ethnic minority groups, older people and those from areas of high deprivation. Barriers to participation in work are addressed through individually tailored support to increase employability and help people find jobs as well as by skills improvement and additional measures to 'make work pay'. As the focus of activation measures shifts to harder to reach groups, success will depend upon ensuring the continued capacity of

public employment services to intervene flexibly according to the needs of individuals, in the context of substantial administrative efficiency savings, as well as on the strength of private sector labour demand. In addressing the particularly large number of people inactive for reasons of ill-health or disability, a pilot scheme “Pathways to Work” is showing encouraging results. The scheme combines employment advice, health support and financial incentives to take up work. Notwithstanding considerable recent improvements in the availability and affordability of childcare, further progress on both aspects is needed for all parents to have a real choice to work.

18. On adaptability of workers and enterprises, there is a clear commitment in the NRP to drive productivity improvements by addressing skills challenges, particularly for low-skilled adults, and enhancing human capital. Growing emphasis is placed on the responsibilities of employers and individuals to invest in education and training, supported by incentives. The dovetailing of national/regional skills strategies and newly-created Sector Skills Councils will be vital in ensuring effectiveness. Reforms to secondary curricula seek to provide more flexible learning pathways and reduce high levels of early school leaving, to improve qualification levels and eliminate skill mismatches.
19. Overall, the employment approach is well-balanced and focused on achieving results in areas of identified weakness and piloting solutions. Against the background of the already high employment rate of 71.6%, the initiatives to engage various groups in the labour market are likely to make a positive contribution.
20. The commitments made in the NRP to address the skills challenge are indispensable in order to improve the situation on the ground. Though concerted efforts have been made to address issues such as the low level of job retention and the working poor through the introduction of the national minimum wage and child and working tax credits, further efforts are still required.

PART III: CONCLUSIONS

21. In line with the Integrated Guidelines, the UK’s National Reform Programme identifies and responds to the main economic challenges facing the UK, namely maintaining fiscal sustainability in the face of demographic challenges; building an enterprising and flexible business sector; promoting innovation and R&D; widening opportunities for the acquisition of skills; increasing innovation and adaptability in the use of resources; and ensuring fairness through a modern and flexible welfare state.. Overall the NRP is coherent and contains many concrete, ambitious and original measures appropriate to build on successful structural reforms already undertaken, though integration across different policy areas is not always fully evident.
22. More detail on timetables, monitoring and evaluation methods would be necessary to allow a comprehensive assessment of the likely effectiveness of the measures proposed. Involving stakeholders in the implementation phase will be important in order to increase ownership and the effective application of policies on the ground.

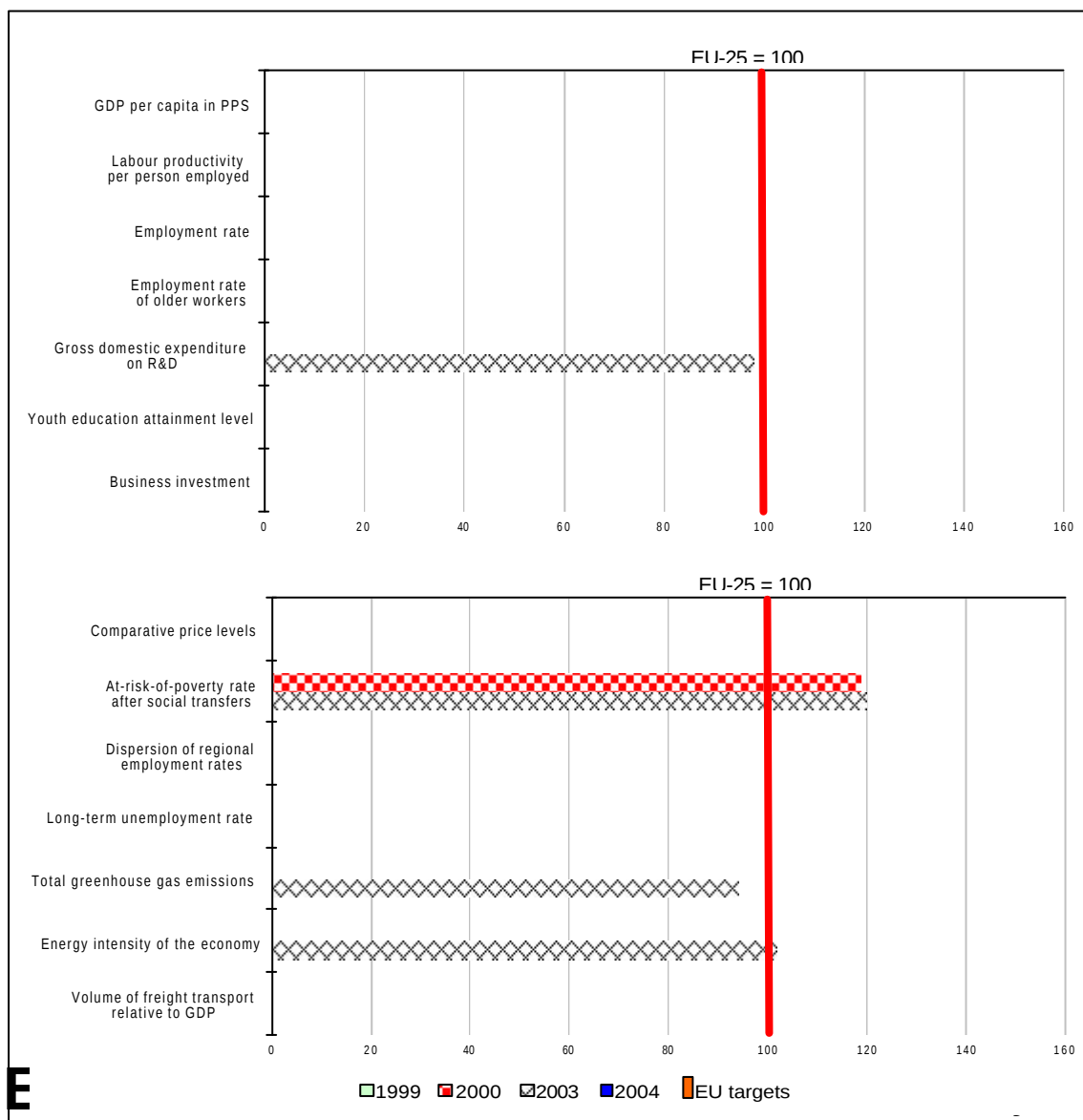
23. The programme's strengths include:
- the better regulation initiatives;
 - the "Pathways to Work" pilot initiative to assist incapacity benefit claimants to re-enter the labour market;
 - policies on competition and entrepreneurship.
24. Among the points requiring further attention are:
- budgetary consolidation, in the light of the need to upgrade transport infrastructure and to ensure an adequate pension system;
 - additional policy initiatives to boost R&D and improve transport infrastructure;
 - efforts to address skills challenges and to improve employment prospects for the most disadvantaged.
25. Taking due account of the above, the UK is invited to implement its NRP with vigour. The 2006 progress report on the implementation of the NRP should cover in particular the way the UK has dealt with the issues mentioned in paragraph 24. In this context, the Commission looks forward to discussions with the UK authorities as part of the new partnership for growth and jobs.

PART IV : STATISTICAL GRAPHS AND DATA

UNITED KINGDOM

	UK							EU-25						
	1999	2000	2001	2002	2003	2004	2010 National target	1999	2000	2001	2002	2003	2004	2010 EU target
GDP per capita in PPS	112.4	113.1	113.7	116.6	116.7	116.8f	* 2.5 (2014)	100.0	100.0	100.0	100.0	100.0	100.0	70.0 3.0
Labour productivity per person employed	102.8	104.1	105.5	108.0	107.3	106.9		100.0	100.0	100.0	100.0	100.0	100.0	
Employment rate	71.0	71.2b	71.4	71.3	71.5	71.6		61.9	62.4	62.8	62.8	62.9	63.3	
Employment rate of older workers	49.6	50.7b	52.2	53.4	55.4	56.2		36.2	36.6	37.5	38.7	40.2	41.0	
Gross domestic expenditure on R&D	1.84	1.84	1.89	1.89	1.88	:		1.87e	1.89e	1.93e	1.93e	1.92e	1.90pe	
Youth education attainment level	75.3	76.4	77.0	77.2	78.1	76.4		74.8	76.3	76.1	76.5	76.5	76.6	
Comparative price levels	112.0	117.3	114.3	110.7	103.8	105.6p		100.0	100.0	100.0	100.0	100.0	100.0p	
Business investment	15.9	15.7	15.2	15.1	14.3	14.6		17.9	18.3	17.7	17.1	16.7	16.9	
At-risk-of-poverty rate after social transfers	19.0	19.0	18.0	18.0	18.0	:		:	16.0	15.0	15.0	15.0	16.0	
Dispersion of regional employment rates	7.5	7.1	6.8	6.6	6.1	5.8		13.3	13.4	13.5	13.3	12.9	12.2	
Long-term unemployment rate	1.7	1.4	1.3	1.1	1.1	1.0		4.1	3.9	3.8	3.9	4.0	4.1	
Total greenhouse gas emissions	86.8	86.7	88.3	85.7	86.7	:		90.6	90.5	91.4	90.7	92.0	:	
Energy intensity of the economy	234.3	227.3	223.7	214.5	213.1	:		214.9	208.8	209.7	206.5	209.5	:	
Volume of freight transport relative to GDP	93.6	89.6	87.2	85.5	84.8	84.3p		100.7e	100.4e	99.4e	100.3e	99.7e	104.7e	

* National target: 80% following the national definition



Euro Area

1. Since the launch of the Lisbon strategy in 2000, the annual growth rate for the euro area averaged 1.8% per year, lagging behind its main competitors. Hourly productivity rose 1.2% yearly between 1999 and 2003 and exhibited a declining trend. The employment rate rose from 60.6% in 1999 to 63% in 2004, whereas unemployment declined just marginally, from 9.1% in 1999 to a still high 8.9% in 2004. Employment rates for older workers and for women remained particularly low, at 38.6% and 54.5% in 2004.

PART I: GENERAL ASSESSMENT

2. The euro area is more than just the sum of its parts. Membership to the Economic and Monetary Union (EMU) places a particular premium on effective policy coordination to ensure fiscal discipline and structural reforms that enhance the capacity for absorption of asymmetric shocks and to preserve price stability, low interest rates and the euro's exchange rate. In this respect, the Integrated Guideline No. 6 calls on the euro area Member States to contribute to a dynamic and well-functioning EMU.
3. The National Reform Programmes (NRPs) of the euro area countries rightly place particular emphasis on sustainability of public finances and the need to boost labour productivity through R&D, innovation and an attractive business environment and on increasing employment and participation rates. On the other hand, some important challenges such as competition in services appear to have been omitted in many NRPs.
4. The euro area countries present rather comprehensive and mostly forward-looking and consistent strategies. However, their in-depth assessment is made difficult due to limited level of detail on measures, targets, timetables and resources involved. Only some euro area programmes present quantitative targets for R&D or employment rates. Possible budgetary implications of reforms are in most cases missing. Moreover, the Programmes widely rely upon already foreseen measures which amount to just incremental improvements, rather than highly ambitious new strategies.
5. The NRPs also generally demonstrate the commitment of the national governments to the renewed Lisbon strategy. All the governments have adopted the Programmes and invited parliaments to discuss them. Social Partners were involved to some degree, whereas this was rare as regards local and regional authorities.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

6. The euro area needs coordinated policies that achieve and maintain sound and sustainable macro-economic positions thereby contributing to a policy-mix which helps its economy to become more dynamic and resilient. Since national interest rate and exchange rate instruments are no longer available, particular emphasis is

necessary on achieving and maintaining sound budgetary positions over the cycle which will provide sufficient budgetary margin to help absorb through the working of automatic stabilisers the impact of cyclical fluctuations. Fiscal discipline is also a precondition for promoting long-term growth as well as creating the capacity to respond to future fiscal policy challenges stemming from population ageing.

7. The Programmes identify fiscal discipline, both short-term budgetary stability and long-term sustainability of public finances, as their main challenge in the area of macro-economic policies. Other challenges considered in the NRPs are efficiency of public administrations and quality of public finances, including reforms of social security and pension schemes as well as health care reforms. Nonetheless, the measures proposed to achieve the budgetary consolidation are often not sufficiently detailed thereby involving risks as regards the targets to be achieved and the timetables envisaged.
8. The fiscal consolidation strategies highlighted in the NRPs are typically expenditure-based. In general fiscal consolidation is embedded in a broader structural reform effort. The budgetary implications of the actions envisaged in other policy areas, such as employment and social policies, are seldom spelled out. To some extent one-off measures to support the process of budgetary consolidation (such as the privatisation of state assets) have been presented. A number of measures have been launched to reform pension schemes, health care and social security systems. Concerning policies for improving the quality of public finances, the euro area members typically refer to national strategies for strengthening infrastructure, human capital and R&D investment.
9. The euro area deficit is estimated at 2.9% in 2005 and according to the Commission services' autumn 2005 forecast, the deficit is expected to diminish again marginally in 2006, based on unchanged policies, and to stabilise in 2007 in the context of a moderate economic recovery. Accordingly, the upward trend in the debt ratio would continue, albeit at a diminished pace. Despite recently announced measures to strengthen the adjustment, overall, the measures announced are unlikely to significantly improve the situation. A number of Member States will still have budgetary deficits above the reference value in 2007.
10. The Programmes often neglect to take into account, and thereby give due priority, to reforms that, justified at national level, can also enhance the ability of the euro area as a whole to adjust smoothly to shocks and the changing economic environment. Some of the reforms envisaged can be expected to reinforce such resilience, for example, through support for easier matching of demand and supply in the labour market, more adaptable workforce and 'better regulation' initiatives to foster business dynamism. However, attention should be paid too to the importance of wage developments, wage flexibility and wage differentiation and to product market reforms that will increase competition and will improve the functioning of the Internal Market.

Micro-economic policies

11. Comprehensive structural reforms in product, services and capital markets are particularly important for the euro area to increase its adjustment capacity. Moreover, in the view of the persistence of growth differences across some euro area Member

States structural reforms are necessary to boost the responsiveness of the economy through changes in prices (the so-called competitiveness adjustment mechanism).

12. Promoting R&D and innovation are singled out in the euro area programmes along with improving business environment and entrepreneurship. Further key challenges are the strengthening of competition and the opening up of markets. The efficiency of public administrations, upgrading infrastructures and promoting ICT investment and use are identified to a lesser degree. The Commission generally subscribes to these priorities though notes that the competition challenge, notably in services and network industries, is not treated well enough.
13. R&D expenditures in the euro area stand at around 2% of GDP, thus significantly short of the EU-wide objective of 3%. In terms of public R&D expenditures, the Programmes foresee further increases in spending and outline measures to increase efficiency of public research. To achieve the overall objective on R&D, it is crucial to enhance more private spending in R&D. Several Programmes intend to use tax incentives and/or to make the regulatory or institutional framework more supportive for innovation, in particular among SMEs. Several Programmes also propose to identify and support clusters and innovation poles, although cross-border cooperation between them is not addressed.
14. The Programmes acknowledge the need for better business environment for companies and in particular, for SMEs. Measures to improve business environment include better regulation, easier market entry and exit, tax reforms, reforms of public administration, diffusion of ICT and upgrading infrastructures. These measures, together with those in the labour markets, are likely to lead to some reduction in costs for business and contribute positively to economic dynamism.
15. A well functioning and competitive Internal Market is particularly important for the euro area as a whole inasmuch as it will enhance its capacity to adjust smoothly to asymmetric shocks. The Programmes should address more explicitly how to reduce current transposition deficits and the number of pending infringement cases. Likewise more concrete measures should aim to increase effective competition in services and network industries and remove the significant remaining barriers in these sectors.
16. Microeconomic measures go broadly in the right direction, particularly the measures to boost R&D or to improve business environment, including better regulation. It is also however not clear whether the measures proposed to raise business R&D will be sufficient to achieve the stated objectives. In addition, the essential issues of increasing competition and improving the Internal Market have not been given appropriate attention.

Employment policies

17. Achieving more and better jobs and better responsiveness of labour markets is another major contribution to make the euro area more resilient to asymmetric shocks. This requires encouraging higher labour participation, especially among women and older people, increased adaptability of workers and enterprises, and more and better investment in human capital.

18. The Programmes in the euro area aim at raising employment and labour force participation and tackling high (structural) unemployment. They are relatively scattered and generally address the groups with low employment/high unemployment, namely youngsters, females and older workers. One measure frequently proposed is a reform of the tax and benefit. Overall, the challenges identified in the NRPs with respect to retaining and attracting more workers correspond reasonably closely to those resulting from the Commission's analysis.
19. Some Member States envisage measures to strengthen adaptability. Steps are envisaged in the direction of loosening employment protection for new work contracts, geographical and occupational mobility, and easier job placement. Overall, however, more comprehensive reforms leading to greater responsiveness of labour markets through adaptation of employment legislation and the effectiveness of active labour market policies are paid insufficient attention in the programmes (i.e. the concept of flexicurity).
20. Enhancing the quality of human capital through improving education and upgrading skills, including the long-life learning strategies, are also considered to be important. Reforms of the education system find a prominent place as precondition for boosting labour productivity. The Programmes develop less on measures to boost investment in education, training for adults, and life-long learning, despite their potential for greater productivity and adaptability of the current labour force.
21. The measures have indeed a potential to contribute to increasing labour utilisation, adaptability and improving human capital. Nonetheless, the strategies put insufficient emphasis on important, though arguably difficult measures: for instance, linked to flexicurity, including changes of employment legislation, and achieving a rapid breakthrough in human capital investment.

PART III : CONCLUSIONS

22. The National Reform Programmes of the countries in the euro area are broadly supported by the Commission as they address some main economic challenges for the euro area as a whole. However, further reinforcement of measures in several areas is deemed necessary to achieve a more substantial impact to address the quite sizeable challenges ahead.
23. The Programmes lay out rather comprehensive and forward-looking strategies. However, their degree of concretion varies considerably and reference to monitoring procedures are very often missing. The Commission notes, in particular, the need for more details on synergies and best sequencing of reforms and their budgetary implications.
24. The strengths of the Programmes of the countries in the euro area include:

Measures to ensure the sustainability of public finances in the longer term, through increases in effective pension retirement age;

Measures to improve regulatory environment and cut administrative costs on businesses;

Measures to provide financial and other incentives to increase labour supply.

25. Among the points requiring further attention for a better functioning of the euroarea are:

the need to reinforce the long-term sustainability of public finances, in particular by reverting the upward trend in the debt ratio, in line with the revised Stability and Growth Pact.

R&D and innovation policies need to be enhanced in order to achieve the desired objectives;

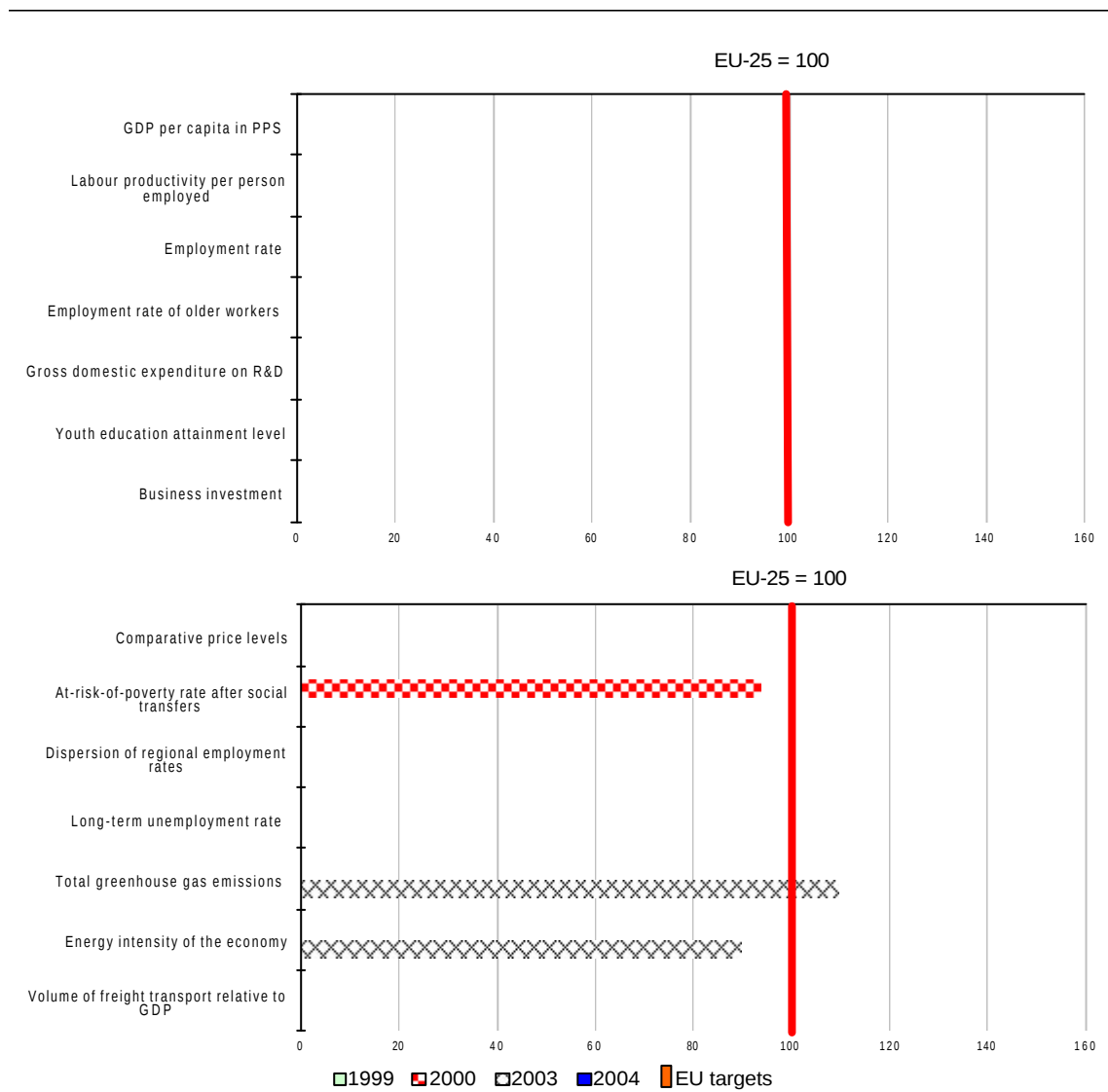
challenges of competition in services and in network industries and the need of a better functioning of the Internal Market are not treated sufficiently;

the importance of increased adaptability deserves greater attention, including wage developments, flexicurity, and investment in training for adults.

PART IV : STATISTICAL GRAPHS AND DATA

EUROZONE 12

	EU-12							EU-25						
	1999	2000	2001	2002	2003	2004	2010 National target	1999	2000	2001	2002	2003	2004	2010 EU target
GDP per capita in PPS	109.0	108.5	108.5	107.6	107.2f	106.6f		100.0	100.0	100.0	100.0	100.0	100.0	
Labour productivity per person employed	109.3	108.0	107.6	106.8	106.5f	106.0f		100.0	100.0	100.0	100.0	100.0	100.0	
Employment rate	60.4	61.5	62.2	62.4	62.6	63.0		61.9	62.4	62.8	62.8	62.9	63.3	70.0
Employment rate of older workers	33.9	34.4	35.2	36.5	37.9	38.6		36.2	36.6	37.5	38.7	40.2	41.0	
Gross domestic expenditure on R&D	1.90e	1.90e	1.90e	1.90e	1.90e	1.89pe		1.87e	1.89e	1.93e	1.93e	1.92e	1.90pe	3.0
Youth education attainment level	71.5	72.8	72.2	72.6	72.5	72.9		74.8	76.3	76.1	76.5	76.5	76.6	
Comparative price levels	101.6	99.9	100.3	101.1	102.9	102.7p		100.0	100.0	100.0	100.0	100.0	100.0p	
Business investment	18.3	18.8	18.3	17.6	17.3	17.5		17.9	18.3	17.7	17.1	16.7	16.9	
At-risk-of-poverty rate after social transfers	15.0e	15.0e	15.0	15.0	14.0	17.0		:	16.0	15.0	15.0	15.0	16.0	
Dispersion of regional employment rates	13.3	12.9	12.7	12.1	11.5	10.5		13.3	13.4	13.5	13.3	12.9	12.2	
Long-term unemployment rate	4.5	3.9	3.6	3.6	3.9	4.0		4.1	3.9	3.8	3.9	4.0	4.1	
Total greenhouse gas emissions	98.1e	98.6e	99.6e	99.6e	100.7e	:		90.6	90.5	91.4	90.7	92.0	:	
Energy intensity of the economy	192.0	188.6	190.0	184.9	188.2	:		214.9	208.8	209.7	206.5	209.5	:	
Volume of freight transport relative to GDP	104.1e	104.7e	104.5e	105.3e	103.6e	109.7e		100.7e	100.4e	99.4e	100.3e	99.7e	104.7e	



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Virhe. Tuntematon asiakirjan



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, xxx
ANNEX to COM(2006) yyy final

**ANNEX TO THE
COMMUNICATION FROM THE COMMISSION TO THE SPRING EUROPEAN
COUNCIL
TIME TO MOVE UP A GEAR**

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Virhe. Tuntematon asiakirjan

TABLE OF CONTENTS

Introduction	4
Part I Macroeconomic part	5
1. Summary and conclusions	5
2. Macroeconomic developments in the EU	5
2.1. Macroeconomic conditions	5
2.2. Budgetary policy developments.....	6
3. Path towards achieving the main Lisbon objectives	8
4. Macroeconomic policy challenges.....	9
4.1. Challenges from a EU-wide perspective	9
4.2. Challenges identified by the Member States.....	10
5. Assessment of Member States' strategies in response to macroeconomic policy challenges.....	11
6. Promoting coherent macroeconomic, structural and employment policies	13
Part II Microeconomic part	15
1. Summary and conclusions	15
2. Knowledge and innovation — engines of sustainable growth.....	16
2.1. Research.....	16
2.2. Innovation.....	18
2.3. Information society	19
2.4. Industry.....	20
2.5. Sustainable use of resources.....	21
3. Making Europe a more attractive place to invest and work.....	23
3.1. Internal Market	23
3.2. Competitive markets	24
3.3. Business environment and better regulation	25
3.4. Entrepreneurship and SMEs	27
3.5. European infrastructure.....	28
Part III Draft Joint Employment Report 2005/2006	30

More and Better Jobs : Delivering the Priorities of the European Employment Strategy	30
1. Summary and conclusions	30
2. Achieving the objectives	32
3. Implementing the priorities for action.....	35
3.1. Attract and retain more people in employment, increase labour supply and modernise social protection systems.....	35
3.2. Improve the adaptability of workers and enterprises	38
3.3. Increase investment in human capital through better education and skills	40

Introduction

This annex complements the communication from the Commission to the 2006 Spring European Council “Time to move up a gear” presented after the renewal of the Lisbon Strategy. It draws on the Commission’s assessment of the national reform programmes (NRP) drafted by Member States on the basis of the new integrated guidelines for growth and jobs endorsed by the European Council in June 2005¹⁸. It also takes into account action taken at the European level, particularly, in the framework of the Community Lisbon programme¹⁹. While the key findings of the Commission’s analysis are presented in the communication “Time to move up a gear”, this annex, an integral part of the communication, provides a more detailed picture within the three broad strands of the integrated guidelines: macroeconomic, microeconomic and employment. The latter section constitutes at the same time the draft joint employment report 2005/2006 of the Commission, in accordance with article 128 of the Treaty. A more detailed assessment of the individual national reform programmes can be found in Part II of the communication “Time to move up a gear” containing country chapters as well as a chapter on the euro area.

¹⁸ Brussels European Council, Presidency Conclusions, point 10
(http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/ec/85349.pdf).

¹⁹ Common Actions for Growth and Employment: The Community Lisbon Programme, COM(2005) 330 of 20.7.2005.

Part I

Macroeconomic part

1. SUMMARY AND CONCLUSIONS

This part of the Annex assesses the progress made towards achieving the Lisbon growth and job objectives, and it evaluates the macroeconomic policy strategies of the Member States as set out in their National Reform Programmes (NRPs).

During the first five years of the Lisbon strategy over 6.5 million new jobs were created in the Union. Nevertheless, the 70% Lisbon employment rate target is not expected to be reached by 2010. Labour productivity growth in the EU has been below that of the US, which explains why – in spite of the substantial number of new jobs created – EU GDP per capita has failed to catch up with that of the US.

The EU economy has started to recover following the global downturn at the beginning of the decade. In spite of this, the average EU budget deficit is expected to remain at 2.7% of GDP up until 2007.

An investigation of the NRPs shows that budgetary discipline stands out as the most important macroeconomic challenge identified by Member States. It is typically formulated in terms of public finance sustainability, including pension, health and labour market reforms as well as short-term budgetary consolidation as tools to ensure the long-term sustainability of public finances in an ageing society. However, the specific measures to achieve short-term budgetary consolidation are not spelled out in enough detail in several countries, particularly within the euro area.

Most Member States express the intention to improve the quality of public finances by increasing the efficiency of the public administration and by setting aside public resources for strengthening infrastructure, human capital and R&D investment. However, few NRPs are explicit about the budgetary implications of proposed measures.

Over the coming decades, ageing populations in Europe will put increasing pressure on public finances. Member States appear to recognise that a thorough overhaul of retirement and pension systems is an essential prerequisite for ensuring public finance sustainability. However, in most countries the measures already taken or envisaged are insufficient to negate the effects of ageing populations.

The majority of Member States have put forward NRPs which show broad coherence between macroeconomic, microeconomic and employment policies, even if synergies between policy actions in different domains could be further developed.

2. MACROECONOMIC DEVELOPMENTS IN THE EU

2.1. Macroeconomic conditions

EU growth performance since 2000

Since the launch of the Lisbon strategy in 2000, the annual growth rate for the EU-15 has averaged 1.9% per year compared to 2.8% on average for the period 1995-2000. In comparison, the US grew at a rate of 2.7% between 2000 and 2005. In per capita terms, EU-15 growth (1.4%) has been only slightly below that in the US (1.7%). Growth in the recently-acceded Member States has been considerably more dynamic (around 4.6%), although their small economic weight means that this is not apparent in the 1.9% growth rate observed in the EU as a whole.

The pattern of EU growth reflects a combination of cyclical and structural factors, which led to a sluggish and protracted recovery following the global downturn at the beginning of the decade. The potential growth rate of the European economy is currently estimated to be around 2.0%. GDP grew by 1.5% on average in the EU in 2005, encompassing a rebound of economic activity in the second half of the year.

Structural factors have become the main force behind the relative growth performance of the euro-area countries: those with a strong/weak growth performance in recent years have by and large maintained this position since the 1990s. On the other hand, growth differences linked to different positions in the cycle have diminished in the last decade.

In 2005, GDP growth in the EU accelerated from a quarterly rate of 0.3% (q-o-q) in the first quarter to 0.6% in the third quarter. This coincided with a similar acceleration in final domestic demand. The contribution of private consumption to domestic demand growth was subdued, since consumer confidence remained weak. This is mainly due to pessimism about employment prospects and a limited rise in the purchasing power of households. On the other hand, the pick-up in investment in the second and third quarters of 2005 reflected improvements in profits and corporate balance-sheets. Net exports – supported by a healthy external environment and by a depreciation of the nominal effective exchange rate of the euro – made a positive but small contribution to GDP growth.

Growth prospects for 2006 and 2007

In line with the positive signals from business survey indicators, it is anticipated that growth will be close to potential during 2006, at 2.1%, and will accelerate further, to 2.4%, in 2007. The recovery expected in 2006-2007 is underpinned by a further strengthening of domestic demand. Investment, in particular, is projected to pick up considerably, followed by a more gradual recovery of private consumption.

Labour market conditions are also set to improve, with an expected 6 million new jobs in the EU in 2005-2007 resulting from the projected rise in economic growth. It is also expected that the unemployment rate will diminish from 8.7% in 2005 to 8.1% in 2007.

2.2. Budgetary policy developments

Budgetary positions

Since 2000, the situation in public finances in the euro area and the Union as a whole has deteriorated, reflecting to a large extent the impact of the economic cycle. In several Member States, part of the deterioration also stemmed from a discretionary loosening of fiscal policy. Despite a slight improvement in the budgetary position of the euro area and the EU in 2004, budgetary consolidation did not advance any further. Due to the lacklustre growth, net borrowing in 2005 is expected to increase slightly to 2.9% of GDP in the euro area and 2.7% of GDP in the EU.

Excessive deficits

The Commission's autumn 2005 economic forecasts project that the average EU budget deficit will remain at 2.7% of GDP in 2006-2007. For the euro area, a marginal decline in the general government deficit in 2006 and 2007 is anticipated, in the context of a moderate economic recovery. However, current policies are expected to be insufficient to bring the deficit below the 3% reference value by 2007 in any of the euro-area Member States currently under excessive deficit procedure (DE, EL, FR, IT and PT).

Outside the euro area, the fiscal outlook across countries is relatively heterogeneous. The budget deficit in three of the six non-euro-area countries currently under excessive deficit procedure (CZ, HU and PL) is expected to stay above 3% of GDP. The same is true for the UK. Cyprus, Malta and Slovakia, on the other hand, are projected to correct their excessive deficits.

Debt ratios

The deterioration in budgetary positions since 2000 has led to an increase in gross debt within both the euro area and the EU as a whole. Debt ratios in 2005 were well above the 60% of GDP threshold in Belgium, Germany, Greece, France, Italy, Austria, Portugal, Cyprus and Malta.

Budgetary impact of ageing populations

Over the coming decades, ageing populations in Europe will put increasing pressure on public finances. The old-age dependency ratio, that is, the number of people aged 65 years and above relative to those in the 15 to 64 age group, is projected to double, reaching 51% in 2050. This sharp increase is expected to result in a substantial burden of public spending on age-related items, in particular on pensions, health care and long-term care. The 2005 Council Opinions on the Stability and Convergence Programmes identified serious risks to the long-term sustainability of public finances in ten countries (BE, CZ, DE, EL, FR, IT, CY, HU, MT and SI). Seven countries (DK, IE, LU, AT, FI, SE and ES) appear to face relatively limited risks associated with population ageing, while the remaining EU Member States are somewhere in between.

Quality of public finances

While the current EU economic policy framework considers budgetary discipline and fiscal sustainability to be essential elements of a sound and growth-supportive economic environment, the quality of public finances has gradually been gaining importance in the policy debate. An investigation of the composition of public expenditures in the Member States shows that many of the countries that benefited from large decreases in interest payments since the late 1990s used this room for manoeuvre to raise government consumption and current transfers, rather than consolidating their public finances. Other Member States, however, have managed to reallocate public resources more effectively towards longer-term targets such as knowledge and innovation, while maintaining fiscal discipline. Denmark and Sweden, for example, have been able to redirect public spending by introducing national expenditure rules and performance budgeting schemes within a medium-term framework.

3. PATH TOWARDS ACHIEVING THE MAIN LISBON OBJECTIVES

Change in GDP per capita

Considering the enlarged EU of 25 Member States, GDP per capita stands at around 65% of the US level with no significant improvement since the launch of the Lisbon strategy. In the first half of the decade, it has not been possible to complement the relatively positive developments in terms of employment creation with the required acceleration of productivity growth (see graph 1).

Graph 1: European Union performance 1999-2004 (US=100) ⁽⁴⁾



- 1) Calculated - Employment rate = $100 * (\text{GDP per capita} / \text{Labour productivity per person employed})$
 2) Calculated - Hours worked per worker $\approx 100 * (\text{Labour productivity per person employed} / \text{Hourly labour productivity})$
 3) EU15 values for Hours worked per worker and Hourly labour productivity
 4) 2004: forecasts

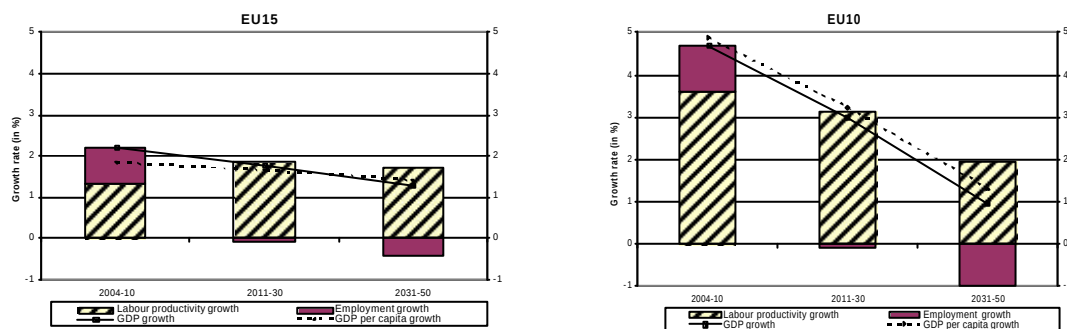
Labour productivity growth

The Commission's analysis indicates that the deteriorating labour productivity performance can be attributed to lower investment per employee and a slowdown in the rate of technological progress. More recently, however, EU labour productivity growth appears to be accelerating. This may be due to the upturn in the business cycle but it is also likely to be attributable to more structural factors such as the delayed impact of investments in ICT and possibly outsourcing, which has been shown to provide a productivity boost if the outsourced activities are well integrated in international networks (as is the case in the German motor vehicle industry, for example). Productivity increases, combined with wage moderation, should help to maintain the EU's competitive position in an increasingly integrated world economy.

Job creation and the effects of ageing populations

Despite some progress in job creation (see draft Joint Employment Report), the Lisbon employment targets will be difficult to reach. During the first five years of the Lisbon strategy, over 6.5 million new jobs were created in the Union, bringing the employment rate up from 61.9% in 1999 to 63.3% in 2004. Recent work by the Economic Policy Committee and the European Commission (see graph 2) projects a further rise in the overall employment rate to 67% in 2010, with the 70% Lisbon employment rate target being reached in 2020. Meeting the Lisbon employment target, albeit with a delay, will cushion the economic effects of ageing. However, after 2017, total employment will start to contract as a result of the decline of the working age population. This means that, all things being equal, the contribution of employment to growth will turn significantly negative and that Europe's economic growth will increasingly depend on productivity increases in the longer run.

Graph 2: Projected (annual average) potential growth rates in the EU15 and EU10 and their determinants (employment/productivity)



Source: EPC and European Commission (2005), "The 2005 EPC projections of age-related expenditure (2004-2050) for the EU25 Member States: underlying assumptions and projection methodologies" in European Economy Reports and Studies, No. 4, Brussels (http://europa.eu.int/comm/economy_finance/publications/european_economy/reportsandstudies0405_en.htm)

4. MACROECONOMIC POLICY CHALLENGES

4.1. Challenges from a EU-wide perspective

Macroeconomic policy challenges

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Europe faces the twin challenges of raising the level of potential growth and of fully realising its growth potential through well-balanced economic expansion. Sound macroeconomic policies are essential to meet these challenges. They are vital for establishing framework conditions that will promote adequate levels of savings and investment, together with a stronger focus of the latter on knowledge and innovation. Securing a sound budgetary position will allow full and symmetric operation of the automatic budgetary stabilisers over the cycle with a view to stabilising output around a higher and sustainable growth trend. On the other hand, structural reforms may widen the room for manoeuvre for macroeconomic policy-makers. Better functioning product and labour markets, for example, will help limit inflationary pressures in the event of a positive demand shock. This illustrates the importance of developing a coherent overall strategy, which takes full account of the interrelationships between macroeconomic, microeconomic and employment policies (see Section 5).

Budgetary policy challenges

The weakening of policies aimed at budgetary consolidation is an issue for concern, because it will limit the margin for manoeuvre at times when the economy requires a true stimulus. Moreover, the deterioration of budgetary positions has led to an increase in debt levels, which is not good news from a longer-term perspective, especially in the light of Europe's ageing population. With the projected increase of age-related expenditures, such as health, social security and pensions, it will be increasingly challenging for the Member States to safeguard the long-term sustainability of public finances, while ensuring the social adequacy of social protection systems. Finally, meeting the needs for increased spending on education and research within a tighter budgetary environment requires a greater effort to improve the overall quality of public spending.

4.2. Challenges identified by the Member States

Most Member States identify the stimulation of (potential) economic growth as an overarching challenge. The other challenges, including the more specific macroeconomic challenges, are seen as tools for achieving this single challenge. Broadly speaking, there is a convergence of views between Member States and the Commission on the macroeconomic challenges identified.

Macroeconomic policy challenges

All but three National Reform Programmes have identified macroeconomic policy challenges. Two of the three exceptions, namely, Netherlands and Sweden, outline in their Programmes broad strategies that appear adequate to maintain the current overall satisfactory macroeconomic stance. Italy's Programme, by contrast, makes reference to other government policy documents, notably the annual Economic and Financial Planning Document, which typically provides the basis for the update of the Stability and Convergence Programme and which, according to the Italian authorities, should be seen as an integral part of the National Reform Programme. The macroeconomic policy challenges identified in the Programmes are broadly in line with those highlighted by the Commission in its contributions to multilateral surveillance.

Budgetary policy challenges

According to the Programmes, by far the most important macroeconomic challenge facing the EU Member States concerns the achievement and/or maintenance of budgetary discipline, the latter being typically formulated in terms of public finance sustainability. Only three countries (EL, ES and LV) have identified short-term budgetary consolidation as a separate challenge, and this despite the fact that no less than eleven countries (not including ES and LV) are currently in a situation of excessive deficit. The related challenge of improving the quality of public finances, which is mostly formulated in terms of increasing the efficiency of the public administration, is considered to be important in seven Programmes.

The identification of fiscal discipline as the key national macroeconomic policy priority reflects widespread recognition of its advantages in terms of maintaining macroeconomic stability and promoting long-term growth, as well as creating the capacity to respond to future fiscal policy challenges, such as those stemming from population ageing. This recognition is strongly embodied in the EMU policy framework, where fiscal rules are seen as necessary to ensure the smooth co-existence of a common monetary policy geared to price stability with the maintenance of fiscal policy in the hands of national governments.

External balances and inflation convergence

Challenges identified in the Programmes, other than those related to public finances, are more difficult to categorise. The external account deficit is explicitly recognised as a challenge – in the context of the broader goal of securing a stable macroeconomic environment – only in one case (EE), although in the view of the Commission other countries (LV, LT, PT) may face challenges on this front. In taking a relatively sanguine view of external imbalances, national authorities presumably reason that current account deficits are the result of investment and saving decisions by rational economic agents and, hence, are consistent with economic fundamentals and likely to have a welfare and growth-enhancing effect, for example by supporting an economic catching-up process. By otherwise emphasising the challenge of fiscal discipline, the national authorities may still recognise that budgetary policy has a role to play in addressing external imbalances, through its impact on savings and, more generally, on the confidence of investors.

Inflation convergence is considered a challenge in a number of countries (LV, LT, SI) in connection with their plans to join the euro area.

Interestingly, neither external imbalances nor inflation divergence seem to be considered as significant challenges by any country in the euro area, with the exception of Ireland, which recognises moderating inflation as part of a broader challenge of maintaining macroeconomic stability. However, it may also betray an excessively benign view of the eventual unwinding of external imbalances in these countries.

5. ASSESSMENT OF MEMBER STATES' STRATEGIES IN RESPONSE TO MACROECONOMIC POLICY CHALLENGES

By and large, the priorities identified in the National Reform Programmes are in line with the principles underlying the recent revision of the Stability and Growth Pact, one aspect of which is the increasing weight assigned to considerations of durability of the correction of fiscal imbalances and long-term sustainability of public finances. The key Treaty provisions on fiscal discipline and their detailed implementation by the Stability and Growth Pact are explicitly indicated in a number of Programmes as providing the framework for the conduct of fiscal policy.

Fiscal consolidation strategies

The fiscal consolidation strategies highlighted in the Programmes are typically expenditure-based (the German Programme is an exception in this respect) and embedded in the broader structural reform plan. Measures to achieve short-term budgetary consolidation are insufficiently explicit in several countries, including FR, IT and PT. Another potential weakness of the Programmes is that the budgetary implications of the actions envisaged in other policy areas, such as employment and social policies, are seldom spelled out.

Only the German Programme envisages increases in taxation, although improvements in revenue collection are explicitly mentioned in some other cases. By contrast, tax cuts are envisaged by several Programmes; in some cases, notably Hungary, even in the presence of significant budgetary imbalances. Measures include tax incentives for enterprises to invest more in R&D and training, the introduction of new energy and/or environmental taxes and measures to reduce the tax burden on labour. While many specific measures seem appropriate, a more systematic approach to reviewing the impact of tax systems on growth and jobs often seems to be missing.

Budgetary consequences of an ageing population

In response to the projected increase in age-related public expenditure, further pension and/or health care reforms figure prominently in the public finance agenda of several Member States. In fact, about half of the Programmes highlight reform measures in these two areas. Coping with the budgetary consequences of ageing is seen as a key challenge also in countries such as DK, IE, LU and FI, which from a cross-country perspective are generally seen to carry a low risk in terms of public finance sustainability. Although not necessarily involving changes in the pension or health care system, the policy responses to ageing in these countries take into account the need to increase the efficiency of public services as well as, in some cases, to guard against the possible erosion of tax bases.

At the opposite end of the spectrum, EL, PT and, among the recently-acceded Member States, CZ - where the need for a thorough overhaul of the pension system has been highlighted as a pre-requisite for ensuring public finance sustainability - generally recognise the need for such a reform. Nevertheless, the comprehensiveness and the concreteness of the measures envisaged remain somewhat limited.

Countries where the projected increase in age-related public expenditure is contained by already-enacted pension reforms may, nevertheless, find themselves at serious

risk through failure to achieve a lasting correction of the present budgetary imbalances, especially if these are coupled with relatively high debt levels. This is the case for most of the countries currently subject to the excessive deficit procedure, including IT and FR and, among the recently-acceded Member States, HU and PL. In general, the need to consolidate quickly is recognised in these cases, although there is a notable lack of clarity in the measures envisaged in the case of Hungary, while Italy, as already noted, does not directly address macroeconomic policy issues, including fiscal consolidation, in its Programme.

Quality of public finances

Concerning policies for improving the quality of public finances, Programmes typically refer to national strategies for strengthening infrastructure, human capital and R&D investment. In addition, some Programmes single out across-the-board improvements in public sector productivity, inter alia, through administrative reform, as an objective on its own. The quality of public finances seems more likely to be recognised as a challenge in its own right by countries experiencing better-than-average growth performance (for example, IE, FI, UK and, among the recently-acceded Member States, EE).

6. PROMOTING COHERENT MACROECONOMIC, STRUCTURAL AND EMPLOYMENT POLICIES

In addition to Member States putting in place macroeconomic policies that can provide conditions conducive to job creation and growth, alongside structural reforms more directly aimed at raising productivity and employment, it is important for the overall reform strategy to be coherent, with reforms in one area supporting those in another. For example, labour market reforms such as those which increase incentives to work through changes in the tax and benefit system can increase the adaptability of the EU economy, particularly in the light of increasing globalisation, and thus allow a more supportive role for macroeconomic policies. Similarly, without policies to safeguard macroeconomic stability, the lower cost and price pressures from structural reforms will not translate into permanently lower prices. The National Reform Programmes also provide the opportunity for Member States to consider the most advantageous way of sequencing reforms. Liberalising product markets early on in the reform process, for example, may help to spur labour market reform, given that in a more competitive product market there will be less excess profit to distribute between employers and workers, thus increasing the incentives for labour market reform.

Coherence of the National Reform Programmes

The majority of Member States have put forward National Reform Programmes which show broad coherence between macroeconomic, microeconomic and employment policies. Only a small minority of Programmes appear to be the result of a departmental rather than a strategic approach (HU and, to a lesser extent, IT). Most National Reform Programmes also avoid having a large number of macroeconomic priorities, allowing the focus to be on key structural challenges (PT, SI and FI being notable exceptions). In some cases (notably EE and, to a lesser extent, ES and LV), the Programmes make cross-references between the different policy areas and

elaborate upon the synergies resulting from such policy links. However, for the majority of Member States, this is an area in which National Reform Programmes could be further developed. Future National Reform Programmes could also provide more indication of how consideration has been given to the appropriate sequencing of reforms.

Budgetary implications of reform measures proposed

A number of Member States have presented reform measures which will, at least in the short term, increase public expenditure. The budgetary implications of such measures need to be considered in the light of their impact on macroeconomic policy. While some National Reform Programmes provide information on the budgetary implications of reform proposals (e.g. CY, MT, LV), this information is missing from most Programmes. Moreover, it is not always clear how high public investment can be reconciled with budgetary consolidation (e.g. in the case of BE).

Similarly, information on the intended use and expected growth and employment impact of structural and cohesion funds is often missing. While a small number of countries (LV, NL and FI) are relatively explicit regarding their planned use of structural funds, the majority of countries (particularly EE, ES, IE, IT, LT, PT, SI, SK and UK) provide less detail.

Part II

Microeconomic part

1. SUMMARY AND CONCLUSIONS

This part of the Annex assesses the microeconomic policy reforms reported by Member States in their National Reform Programmes (NRPs) and links them to the action at Community level.

The main themes of the microeconomic part of the revised Lisbon strategy – knowledge and innovation, and making Europe a more attractive place to invest and work in – are clearly reflected in the NRPs. Microeconomic reforms take the largest share in the reform efforts in the Member States; most of the key challenges identified in the Member States' programmes fall into the microeconomic area. For example, all Member States address research and innovation policies as one of their key priorities. Most Member States also identify the business environment, entrepreneurship, sustainable development and selected competition issues among the key challenges to be tackled.

While the choice of priorities is in general appropriate to the current situation in the Member States, competition issues will require further attention. Often the beneficial effect of competition for European citizens is not sufficiently anchored in the NRPs. In particular, ensuring competition in services – especially professional and financial services – and in network industries is often not addressed to the extent that the situation on those markets would require. Liberalisation of the energy markets is advancing but will take a long time to complete, especially for gas. Postal and railway services are often not considered priorities.

In the field of research and innovation, the main challenge for the Member States is to put in place the right framework conditions, instruments and incentives. While the commitments taken on by Member States imply significant progress towards the R&D target, it remains unlikely that the 3% objective for total R&D spending will be reached by 2010. Further action by Member States will be needed, such as defining national R&D targets to bring the Union closer to the 3% objective and building better coordinated innovation strategies aiming at entrepreneurial innovation.

The goal of promoting a stronger entrepreneurial culture and creating a supportive environment for SMEs is being pursued by increased R&D investment, intensified competition and better regulation. A proactive strategy to foster entrepreneurial mindsets through education is still missing in most countries.

While the large potential benefits for consumers and entrepreneurs from extending and deepening the Internal Market are recognised, particularly in the areas of services and network industries and in Member States with weak transposition and implementation records at present, few Member States have put forward specific action to reduce the transposition backlog or to improve enforcement. Substantial positive potential could also be unlocked in the area of public procurement.

Expansion and improvement of European infrastructure should contribute to improving the business environment and enhancing competition. Most NRPs focus on transport and ICT (e.g. broadband availability) infrastructure; cross-border links are addressed less frequently. Many Member States are taking measures to use ICT to modernise public services.

Most Member States seek to exploit the synergies between economic growth and environmental protection; measures to support environmental technologies as well as energy efficiency and renewable energy or the introduction of environmental tax reform, for instance, can yield both economic and environmental benefits.

The integrated microeconomic guidelines constitute an interdependent set of goals to strengthen the European knowledge economy. The gains from progress on one objective depend on progress on the others. For instance, the gains from increased investment in R&D will be higher when new technologies are swiftly adopted by the market, which in turn depends on the competitive situation on the markets. During the implementation phase, attention needs to be paid to the synergies between extending and deepening the Internal Market, greater competition, enhancing infrastructure, and the business environment.

The governance reforms introduced in the revised Lisbon strategy included a streamlining of existing reporting requirements. The March 2005 European Council concluded that the reports on the follow-up to the Lisbon strategy sent to the Commission by Member States each year, including the application of the open method of coordination, would be combined in a single document. Subsequently, the Commission invited the Member States to cover in their NRPs the measures taken to implement four processes: the European Charter for Small Enterprises; the Environmental Technologies Action Plan; eEurope/i2010; and the 3% investment in R&D Action Plan. Such reporting would replace separate reports on each of the four processes. Four Member States (CZ, EE, FI, MT) have presented such information in a separate annex to the NRP, while others often provide relevant information in the main text of the programme. The degree of detail in reporting varies across the NRPs.

The following sections give more detail on the reform measures, following the structure of the microeconomic guidelines. While the emphasis is on overall trends, individual measures are frequently singled out as interesting examples.

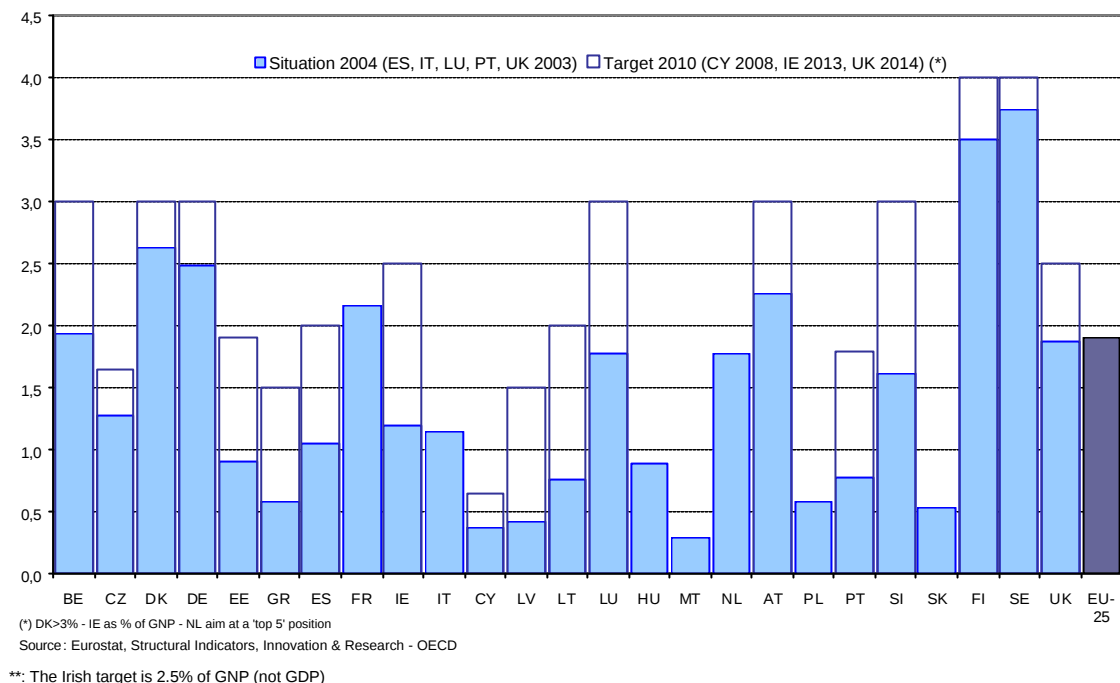
2. KNOWLEDGE AND INNOVATION — ENGINES OF SUSTAINABLE GROWTH

2.1. Research

Relatively low levels of private R&D investment in the EU are an impediment to knowledge accumulation and long-run growth. In 2004 the EU spent 1.9% of its GDP on R&D, of which 55% was financed by business. Twelve Member States reported explicit R&D spending targets for 2010 in their NRPs, and six Member States provided sub-targets or targets for a different year. Seven Member States provided no target at all. Assuming that all the R&D expenditure targets which 18 Member States provided in their NRPs were met, R&D expenditure in these 18 Member States would increase significantly to an approximate average of 2.6% of

GDP in 2010²⁰. Despite the expected increase, the EU-25 would however remain substantially below the 3% target in 2010.

Graph 3: Gross domestic expenditure on R&D (GERD) as % of GDP**



Increasing the leverage effect of public R&D investment on private R&D investment is key to increase private R&D investment. Several Member States (ES, LV, AT, FI) have taken specific action to increase public expenditure on R&D. In order to make public R&D expenditure more effective, a number of Member States (SK, ES, FR) plan to introduce systems for monitoring and evaluating public R&D. About half of the Member States already use fiscal measures to leverage private R&D and several others are considering such measures. Spain is planning to introduce a scheme that would reduce wage taxes for firms which invest in R&D, similar to the scheme in the Netherlands. Hungary has decided to simplify its tax allowance scheme for R&D. In France the “Crédit d’Impôt de Recherche” tax break is set to triple in volume by 2010.

Developing and strengthening centres of excellence in educational and research institutions, promoting public-private partnerships and improving cooperation and transfer of knowledge between public research institutes and private enterprises are keys to competitiveness in all Member States. Several Member States plan to reform or improve the mechanisms for transferring knowledge. Germany intends to introduce a “grace period” to allow researchers to publish their research results without losing the possibility to patent them. Spain will include knowledge transfer aspects in the career appraisal and incentive structures for public research staff and will transform large public research organisations into public agencies to increase their autonomy.

²⁰ The R&D intensity for 2010 was calculated on the basis of the estimated GDP weightings for 2007 for Member States having presented targets for 2010. Targets were not available for FR, IT, HU, MT, NL, PL and SK.

Most Member States see a need to ensure a sufficient supply of qualified researchers. In Spain the Torres Quevedo programme aims at quadrupling the number of PhD holders taken on by enterprises, by co-financing contracts. In Denmark the industrial PhD programme has proved to be successful in placing researchers in enterprises and will be stepped up. Estonia aims to increase R&D staff in enterprises by more than 50% between 2003 and 2008.

In conclusion, Member States have generally presented a well-founded analysis of the strengths and weaknesses of their R&D systems and put forward a variety of measures to address them. Overall the NRPs reflect a greater awareness of the need to have a coherent policy mix to support R&D. However, a stronger commitment from those Member States that have set no R&D spending target for 2010 combined with a determined emphasis on implementation and mutual learning by all Member States would lead to a quantum leap in R&D. The Commission believes that there is a real opportunity for a break-through in this area.

2.2. Innovation

A far-reaching reform of Europe's innovation system is needed. The innovation gap between the European Union and its main competitors, the United States and Japan, persists, mainly in the number of patent applications, the share of the population with tertiary education and ICT investment²¹. Big differences remain between the new Member States and leading countries with world-class innovation systems such as Sweden, Finland or Germany.

A majority of Member States have identified innovation as a key priority in their NRPs. Most Member States address the strategic importance of innovation poles, networks and incubators bringing together universities, research institutions and enterprises at regional and local level in order to bridge the technology gap between regions. Action is mainly focusing on high-tech sectors, while other sectors which might also hold considerable innovation potential often seem neglected.

France has identified 67 promising "Pôles de compétitivité" which will receive strong public support. A recent law in Greece established "regional innovation poles", with the aim of promoting regional development by creating centres of technological skill and excellence in peripheral areas. Italy is aiming at further developing, consolidating and linking the 24 existing technological districts. Ireland is working on developing applied research centres in universities and has established new incubation and innovation centres.

Measures to encourage cross-border knowledge transfer are included in a small number of NRPs. For example, in Sweden the "Visanu" initiative is aiming at increasing international awareness of the competitiveness of regions and attracting foreign investors. Very few Member States present plans to use public procurement to promote innovation; Portugal, for instance, plans to allocate 20% of large public contracts to R&D and innovation projects.

²¹ The 2005 European Innovation Scoreboard is available at <http://www.trendchart.org/scoreboards/scoreboard2005/index.cfm>

Several Member States are seeking to improve access to finance by reforming the rules on venture capital and foreign direct investment or by establishing funds to this effect. Member States are generally focusing on start-up companies, while paying less attention to financing conditions for more mature innovative enterprises. For example, Spain has established a risk-capital fund for seed and start-up capital and has expanded the participative loans scheme for innovative and high-tech companies. Sweden's "Innovation bridge" initiative establishes a regional structure providing seed capital at seven university locations for commercialising research results. In Hungary a reform of the law should increase the availability of venture capital, while Lithuania is planning to set up an Innovation Foundation aimed at specifying measures to promote private capital investment.

Italy is addressing shortcomings in the area of intellectual property rights (IPR) through a set of measures aimed at improving companies' patenting capabilities and protection, e.g. reduction of patenting costs. In Germany the patent exploitation agencies will be further developed and expanded. In Belgium the federal government, the European Patent Office, the Patlib-centres, research centres and universities are collaborating in an initiative to support SMEs in using the IPR system. Latvia has developed a public support programme to protect and enforce IPR and raise awareness, in the business community, of their importance.

In conclusion, Member States have generally presented a coherent analysis of the strengths and weaknesses of their innovation system. Many of the measures proposed in the NRPs would, however, need to be strengthened in order to make a substantial contribution to bolstering national innovation systems. Several Member States would in particular benefit from a better coordinated national innovation strategy that builds on identified strengths and improves entrepreneurial innovation.

2.3. Information society

Production and use of ICT have a significant impact on productivity growth of modern economies. However, the share of the ICT industry in the economy as a whole is smaller in the EU than, for example, in the United States. Europe is also lagging behind several of its competitors in terms of investment in ICT and in ICT R&D.

ICT issues are declared as challenges in many NRPs (most prominently by CY, EE, ES, FI, PT). The main tools proposed to achieve the goals of the NRP are legislation and public funding. Other instruments, such as creation of new institutional frameworks, cooperation networks between ICT players or promotion of standardisation efforts, are also considered. NRPs most commonly address the issues of e-government, broadband and e-skills/e-literacy. Uptake by firms and households, implementation of the electronic communications regulatory framework and network security are addressed in around half of the NRPs. Most do not address promotion of the ICT industry, except as far as the regulatory framework is concerned.

Many NRPs present e-government as a way to cut red tape, reorganise the public administration and improve its efficiency (CZ, DK, LT, LV, PL, SI, ES, IE, EE, PT, FR, SK, MT). A number of countries have made facilitation of companies' access to government services a priority (NL, FI, FR, CY, EE, LV). Other measures put

forward include: communication with society; e-procurement; e-signature; e-health; and the introduction of innovative electronic means of identification.

Finland is one of the leading countries in terms of availability of online public services. Nonetheless, a major reorganisation of the public administration's information management system is envisaged. The use of government online services will be stimulated through investment in identification methods. Meanwhile, electronic ID cards and PIN codes issued by banks may be used to access public services. Requirements for e-administration are taken into account in the Act on Electronic Signature and the Act on Electronic Services. Promotion of electronic public procurement facilitates electronic exchanges of information with businesses. In health care, progress is being made with the introduction of electronic patient records.

Issues of broadband coverage and take up have been addressed by all NRPs. Competition is considered the primary driver of broadband developments. However, in the less developed areas of the Union, public support is used to accelerate deployment. Significant broadband programmes have been put forward in several NRPs (AT, IE, EE, FI, FR, HU, IT, LU, LT, PT, SI, ES). France for example is aiming at making broadband available to 80% of households in every municipality by 2007. Small municipalities will be equipped with at least two public internet access points. The main industrial areas will benefit from affordable high-speed offers (around 100 MBps). The objectives will be achieved through upgrades of the existing infrastructure by commercial operators, while local authorities may stimulate broadband roll-out in under-served areas from national and structural funds. Deployment will be further stimulated by support to emerging broadband technologies.

e-literacy and e-skills programmes are proposed in many NRPs to improve human capital (AT, BE, CY CZ, IT, LT, LU, SK, IE, EL, EE, ES, UK, FR, PT, PL). The topical issues in this area include the introduction of ICT knowledge into school curricula, provision of on-line libraries and on-line knowledge resources, and addressing the digital divide, in particular between better and less educated and between urban and rural residents.

In conclusion, all NRPs are addressing ICT, and in some of them ICTs play a prominent role. The main areas for action are e-government, broadband and digital literacy. Many NRPs refer to the EU i2010 framework, therefore recognising common objectives.

2.4. Industry

European industrial performance varies from high growth sectors such as ICT and automobiles to negative growth sectors such as textiles, clothing and footwear²². Competitiveness is hampered by Europe's relatively low specialisation in high technology sectors. The share of high-tech industries in manufacturing value-added

²² Implementing the Community Lisbon Programme: A policy framework to strengthen EU manufacturing - towards a more integrated approach for industrial policy, SEC(2005) 1215 of 5.10.2005.

in EU-25 in 2002 was 16.0%, whereas it stood at 23.3% in the US²³. In the context of mounting competition from countries such as China, there is a need to look carefully at sectoral competitiveness.

A large number of Member States (FR, IE, LT, LV, MT, NL, PT, SL, SK, SE) propose to monitor the competitiveness of sectors and to promote high value-added sectors. Technology policy measures include the promotion of technological upgrading in SMEs (AT, CY), support to European industrial research projects (FI, NL) or promotion of private-public partnerships. Most NRPs stress the need to support clusters (in particular BE, FR, FI, LT).

To reap the benefits of internationalisation, many Member States propose measures to support exports (AT, BE, EE, EL, ES, FR, LT, PT, SL, SK) or to attract foreign direct investment (FDI) (BE, CY, ES, HU, IE, LT, LV, MA, PT, SL). Cyprus plans to set up an agency to promote the country as an industrial base and to attract FDI. Spain and Portugal presented programmes to support the internationalisation of businesses.

Many Member States display regional specialisation in sectors at risk of being hit by international competition. This is the case, for example, with the southern European countries with their strong specialisation in fashion industries (textile, clothing, footwear, leather, furniture). Six Member States (CY, EL, HU, IE, LT and PT) explicitly mention the need to foster structural changes. The Portuguese NRP proposes a programme to accelerate the industrial transition and restructuring processes. New Member States are generally aiming at reorienting their economies towards high value-added activities.

In conclusion, many NRPs address ways to strengthen the industrial base. The approaches range from horizontal policies to sectoral measures. Many NRPs propose measures to foster the internationalisation of business, but measures to facilitate structural change are seldom discussed.

One promising development in many Member States is the formation of clusters and innovation poles aimed at furthering innovation, strengthening the industrial fabric and facilitating the setting-up and subsequent growth of SMEs. Cluster development therefore brings together several important strands of the microeconomic guidelines. Public support for such clusters is justified since they typically generate significantly wider benefits for society, through technology spill-overs, the opening of new markets, and the possibility to upgrade the value chain and to improve the way the market works. However, the approach taken varies considerably across Member States and thereby hampers the potential exploitation of synergies that are so crucial for clusters. This makes the case for a cluster policy at the European level, aiming at complementing and supporting national and regional clusters policies and the development of trans-national cooperation.

²³

Report on European Technology Platforms and Joint Technology Initiatives: Fostering public-private R&D partnerships to boost Europe's industrial competitiveness, SEC(2005) 800 of 10.6.2005.

2.5. Sustainable use of resources

The EU economy consumes a relatively high level of resources: its material intensity is slightly better than that of the US, but twice as high as Japan's. The integrated guidelines invite Member States to encourage the sustainable use of resources and strengthen the synergies between environmental protection and growth. Growth should be decoupled from environmental degradation and as far as possible environment policy should be designed in a way that supports growth and job creation.

Environmental sustainability is addressed in all NRPs and many Member States have chosen to include environmental sustainability issues among their key priorities or key challenges.

All of the NRPs address the promotion of renewable energy sources. Wind energy seems to have the greatest support, but several Member States are also increasing the promotion of biofuels (AT, CY, DE, ES, IE, LV, LT, MT, SE). Measures to promote energy saving and energy efficiency in buildings are included in several programmes, with varying levels of detail.

The vast majority of the Member States (AT, BE, CY, CZ, DE, DK, ES, FI, FR, GR, IE, IT, LV, LT, LU, MT, NL, PT, SK, SI, SE, UK) refer to climate change or the Kyoto protocol and have either already started implementing climate change programmes or plan to do so. Measures that are being considered to contribute to combating climate change include: promotion of climate-friendly technologies (e.g. AT), environmental taxes on cars (e.g. SE, CY, FR) use of biofuels and capture of methane from waste disposal and treatment (e.g. MT, LV).

The majority of Member States have highlighted the importance of strengthening the synergies between environmental protection and growth, as environmental investments can generate jobs, reduce resource dependence and also increase competitiveness, provided they are cost-effective. Most Member States (AT, CY, CZ, DE, DK, EE, FI, GR, LU, NL, PT, SK, SI, ES, SE, UK) report that they have taken or will take steps towards internalising external environmental costs via economic instruments – notably in the area of transport and energy taxation. Some plan to achieve the Lisbon goals by shifting the tax burden away from labour towards resource use and pollution (e.g. EE, SI, CZ).

Environmental technologies play an important role in e.g. Austria, where support will be given to improve the market conditions for environmental technologies via green public procurement and an export initiative geared to SMEs in particular. In the Czech Republic environmental technologies are supported through environment-friendly public contracts. Malta will develop green criteria for inclusion in public purchasing procedures. Cyprus proposes greening the public procurement process by making energy performance one of the selection criteria.

Two thirds of the Member States (BE, CY, DK, EE, FR, GR, IE, LV, LT, LU, MT, NL, PT, SK, SI, SE, UK) refer to biodiversity or nature protection in their NRPs. Some of them consider biodiversity a particularly crucial resource due to the important economic contribution from nature tourism, notably in Cyprus, Malta, Slovenia and the three Baltic countries.

In conclusion, the issues of resource pressures and global problems like climate change and biodiversity loss are recognised by most Member States which attach high importance to protecting the environment in their NRPs. Most Member States want to foster growth and at the same time preserve a high-quality environment. This is leading them to try to harness the synergies between the economy and the environment, notably through measures to stimulate the development and uptake of eco-innovations (e.g. research and the Environmental Technologies Action Plan) and by advancing the use of economic instruments.

3. MAKING EUROPE A MORE ATTRACTIVE PLACE TO INVEST AND WORK

3.1. Internal Market

Internal Market policy is by nature a Community responsibility. Correct transposition, implementation and enforcement of Community law in all related policy areas is, however, the responsibility of individual Member States. In 2005 the transposition record of Member States improved considerably. The average transposition backlog stood at 1.9 percent in 2005 compared to 7.1 percent in 2004. This significant improvement is due in good part to the accession of the ten new Member States. Further progress has been made since the re-launch of the Lisbon strategy.

Many NRPs recognise the importance of a competitive marketplace and while many Member States concede that their national goods, services and energy markets are not yet fully competitive, only a few have identified extending and deepening the Internal Market as a key challenge at national level.

Although many NRPs mention the importance of transposition of Internal Market legislation, they only rarely suggest concrete operational improvements. Improving the transposition record is particularly important for those Member States which are lagging behind. The Latvian and Irish NRPs are good examples of how to speed up the transposition of Internal Market Directives. The Latvian NRP combines a political commitment to improving implementation of EU law with firm targets and a timetable for transposition of the Internal Market Directives. The Irish NRP provides detailed information on how the internal mechanisms and procedures for monitoring the transposition of Directives have been reviewed and strengthened.

Most Member States recognise the importance of the completion of the Internal Market in services. Measures such as the simplification of the regulatory environment and the increased use of information technology also contribute to this aim. To further integrate the financial services markets, the implementation and enforcement of the related Directives are addressed as key issues in the Financial Services Policy paper for 2005-2010.

Liberalisation of the railways has been driven largely by European initiatives and developments differ widely across Member States. Not all the Member States have transposed the railway *acquis* that aims at opening and technically de-fragmenting rail markets. NRPs rarely refer to opening the rail market even though a common European rail market, especially in freight, would contribute to a smoother flow of goods in intra-Community and international trade. It will also be important to press

ahead with reforms in the postal sector, in preparation for the further opening of the market targeted for 2009 in the Directive; a small number of NRPs address the liberalisation of this sector.

Few NRPs take up the issue of public procurement rules. Any action envisaged in that area tends to be limited and can be regarded only as first steps. The deadline for implementation of the legislative package on public procurement is 31 January 2006. In conclusion, considerable progress has been made in 2005 and since the relaunch of the Lisbon strategy both on the transposition record of Member States and on several legislative proposals. However, the potential benefits consumers and entrepreneurs could reap from additional improvements in operation of the market remain very large, particularly in the areas of services and network industries and in those Member States with a weak transposition and/or implementation record. Many NRPs recognise this positive potential and concede that markets are not yet fully competitive.

3.2. Competitive markets

The open global economy offers opportunities for stimulating growth and competitiveness in the EU economies. Competition policy is crucial in ensuring a level playing field for firms in the EU and can be instrumental in creating the conditions for firms to compete effectively. A regulatory framework that facilitates market entry is an effective tool for enhancing competition and can bring dynamic efficiency gains by improving incentives for innovation. Implementation of the measures already agreed to open up network industries to competition should help ensure lower prices and greater choice. Increased competition in the services sector in general would also have the same effect.

A majority of the Member States have acknowledged the need to do more in the area of competition and, to varying degrees, proposed measures to address these issues. Around half the NRPs envisage strengthening the powers of national competition authorities and several NRPs provide for selective screening of markets and regulation by competition and regulatory authorities. For example, Estonia proposes implementation of a pro-active competition policy through sector analysis and raising awareness of competition law.

Implementation of the Community legislation on liberalisation of network industries varies significantly across Member States. Though most NRPs note the importance of opening the electricity and gas markets, often presenting the on-going national measures, progress is still generally relatively slow, especially for gas. Among the NRPs from the Member States, Slovakia plans to identify barriers preventing the opening of the power supply market and measures to remove them. Detailed measures to improve competition in financial services will also be identified.

At Community level, the first market enquiry launched under the Community's Lisbon programme confirmed a number of serious malfunctions in the Internal Market for electricity and gas. The initial findings confirm long-standing concerns about competition on electricity and gas markets: market concentration, vertical foreclosure, lack of market integration, lack of transparency and price issues. An inquiry concerning financial services is also under way.

A competitive telecommunication sector is a major factor in enhancing competitiveness and fostering adoption of ICT. Nevertheless, competition on and liberalisation of the telecommunications markets are not covered well by many of the NRPs.

Most NRPs make no mention of reform and promotion of competition in professional services, although in many Member States these are highly regulated, including price regulation, bans on advertising or restrictions on business structure and inter-professional cooperation. The UK will implement recommendations to promote competition made in a review of the regulatory framework for legal services.

Member States have largely re-oriented or intend to re-orient their State aid measures towards horizontal objectives (particularly aid for R&D, innovation, SMEs, environmental purposes and energy saving) and some Member States have reduced sectoral aid. Some Member States intend to focus State aid on areas where market failures exist and intend to conduct ex ante and ex post evaluations and monitoring. Nonetheless, the trend in the total amount of aid granted over the past five years has been static²⁴. Though a large majority of Member States still envisage measures favouring horizontal objectives, most NRPs included no concrete proposals aimed at reducing the overall volume of State aid.

Cyprus proposes an interim evaluation of all existing State aid schemes by the implementing authorities and an ex ante evaluation for all proposed State aid measures to identify whether there is a market failure in the area to be supported. Finland envisages a review and assessment of government subsidy policy as a whole aiming at reducing the overall volume of subsidies and at ensuring that aid does not distort competition.

In conclusion, while several Member States include competition as a challenge to be addressed, more urgent and concrete action is needed, in particular to remove barriers hindering competition and to open up services and network industries to competition.

3.3. Business environment and better regulation

Better regulation plays an important role in achieving the Lisbon objectives and creating a more competitive business environment, as it leads to better quality legislation, creates greater incentives for business, cuts unnecessary costs and removes obstacles to adaptability and innovation. However, action at EU level alone is not sufficient, as a large proportion of the administrative costs arise because of the way in which EU law is implemented by the Member States and national legislation is drafted. Better regulation does not disrupt the decision-making process in Member States but changes the culture and conditions under which decisions are made.

All countries acknowledge the role of better regulation in improving the business environment and reducing the administrative costs borne by businesses. The majority of Member States consider the business environment to be a key priority.

²⁴ State Aid Scoreboard, COM(2005) 624 of 9.12.2005.

Eight Member States (DK, DE, EL, HU, IE, NL, SE, UK) have provided information on a systematic approach to better regulation but only two others (FI, LT) have indicated any such plans for the future. Most of the Member States with a strategy for better regulation have an institutional body to implement it..

Six Member States (AT, DK, IE, NL, PL, UK) already require impact assessments and another five Member States (BE, CZ, EE, DE, SI) presented plans to introduce obligatory impact assessments. Only four Member States (AT, DK, FI, SK) explicitly acknowledge a need for a fully integrated assessment of the economic, social and environmental impacts. Little information was provided on the institutional arrangements for operating an impact assessment system.

Twelve Member States (AT, BE, CY, DK, FR, DE, LT, LU, NL, PT, SI, UK) have created, or expressed an intent to create, institutional structures to manage or to support analysis of the administrative costs, while ten (CZ, EE, DK, FR, IT, DE, HU, PL, NL, UK) intend to base their system on the standard cost model and one (LU) is considering the EU standard cost model. Five countries (CZ, DK, NL, SE, UK) specified quantitative targets for reducing administrative costs (e.g. 20 or 25% by 2010). The legislation indicated as primary targets for this exercise already exists but the focus has shifted towards legislation in preparation. Some of the efforts identified to support this exercise relate to e-government, one-stop shops and central registration offices, all of which should simplify registration and administrative procedures for businesses.

Eight Member States (AT, EE, DE, IT, PL, SI, ES, UK) are planning to launch simplification programmes, in addition to the four Member States (DK, IE, LU, SE) which have already done so. They are targeting on legislation on tax, reporting, fiscal measures, setting up business, insolvency, labour and consumer protection.

Only the United Kingdom currently imposes obligatory consultation of stakeholders but four Member States (DK, DE, IE, IT) are planning new moves in this area.

In parallel to these efforts at Member State level, significant progress in the area of better regulation was also made at Community level during 2005: the guidelines for impact assessments²⁵ were revised, a common methodology for assessing administrative costs²⁶ was agreed, pending legislation was screened²⁷ and a strategy for simplification of the regulatory environment²⁸ was launched.

In conclusion, given the varying degrees to which better regulation is already implemented in the Member States, the Commission identifies three stages of progress. The first one is characterised by developing better regulation awareness, strategy and tools. At this stage it is essential to raise better regulation awareness, put

²⁵ Impact Assessment Guidelines, SEC(2005) 791 of 15.6.2005.

²⁶ Communication from the Commission on an EU common methodology for assessing administrative costs imposed by legislation, COM(2005) 518 of 21.10.2005.

²⁷ Communication from the Commission to the Council and the European Parliament – Outcome of the screening of legislative proposals pending before the Legislator, COM(2005) 462 of 27.9.2005.

²⁸ Communication of the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – Implementing the Community Lisbon programme: a strategy for the simplification of the regulatory environment, COM(2005) 535 of 25.10.2005.

in place tools for stakeholder consultation, and to develop an integrated better regulation strategy and institutional structure.

The second stage includes those Member States which are advanced in using some better regulation tools, however with scattered and an insufficiently coordinated approach. Key challenges are the implementation of the announced strategy and focus on all integral better regulation tools: integrated assessment of economic (incl. administrative costs), social and environmental impacts, consultation and simplification.

The most advanced stage has full better regulation awareness and an integrated better regulation system, so for those countries the challenge is to stay focused. This will require monitoring progress, evaluating the results of existing programmes together with stakeholders, exchanging best practices with other Member States as well as launching new initiatives when and where this might be appropriate.

3.4. Entrepreneurship and SMEs

Small and medium-sized enterprises are a key source of growth and jobs, a breeding ground for business ideas and a powerful driver for entrepreneurship and innovation. Yet the EU is not fully harnessing its entrepreneurial potential and not enough people want to become entrepreneurs. More than half of the Member States have recognised SME and entrepreneurship policies as a priority in their NRPs.

Entrepreneurial mindsets can be fostered through education. Several Member States have already included (AT, ES, FI, IE, PL, UK), or plan to include (EE, MT, PT, SK), entrepreneurship as an objective of secondary school curricula. Other Member States are planning to adopt supportive measures in this field (LT, SE). For example, as of September 2005 the United Kingdom is providing five days of enterprise teaching to all pupils aged 14 to 16. Estonia is planning to introduce business studies into the general and secondary vocational education curricula and to develop complementary entrepreneurship training. Lithuania will organise campaigns to promote entrepreneurship and publicise examples of successful businesses in order to promote the image of entrepreneurship among the general public.

Little is said in the NRPs about measures to address the stigma of failure. One interesting example, however, is Spain where the new national curricula will teach students at all levels not only about the business environment, but also about the value of entrepreneurship and business failure.

Several Member States are gearing their efforts to providing funds to innovative companies (CZ, IE, LU, MT, NL, SE). One good example of this form of activity is the new KAPITAL programme in the Czech Republic which includes both private and State funds. Such private-public partnerships can efficiently stimulate further private-sector interests to invest. The introduction of venture capital instruments is the most common financial measure, with one third of the Member States planning to launch initiatives (DK, EE, GR, IE, LT, LV, LU, SI, SE). A number of countries are also setting up loan guarantees (CY, GR, LT, LV, MT).

Several Member States are simplifying their tax systems or reducing their corporate tax rate (ES, FI, FR, GR, HU, SI, UK). Some are also introducing tax relief for SMEs

(DK, MT, UK). For example, Denmark plans to introduce tax relief for growth entrepreneurs. It would start when the entrepreneur generates profits for the first time and be granted for three years.

A number of Member States are improving their business support services (AT, FI, IE, IT, LT, MT, SK). For example, Italy has introduced the “manual of e-government” and guidelines for on-line public services. SMEs, especially the smallest ones, will benefit from this reform. The improvements include a big reduction in the number of paper certificates, increased use of e-mails since they will have legal force, standardisation and increased availability of databases and electronic archives, and improvement of the services offered by one-stop shops. The situation with regard to improving business support for SMEs varies, with some countries taking measures actively and others not addressing the issue at all.

Some Member States plan to take measures to facilitate business start-ups (BE, CZ, ES, GR). By contrast, few measures are in the pipeline to help the transfer of businesses (SE). Approximately one third of the NRPs include plans to reform the national insolvency legislation (CY, EL, HU, IT, LT, LU, LV, PL, SI, SK). For instance Luxembourg and the Netherlands are in the process of analysing how substantially to improve their bankruptcy laws. Several Member States have recently reviewed their bankruptcy legislation, amongst other things to promote the continuity rather than liquidation of viable enterprises and to speed up proceedings.

In conclusion, all the NRPs address entrepreneurship and SMEs, although the emphasis of the measures varies significantly between countries. Issues that, in general, have received little attention in most NRPs include women entrepreneurship, transfer of businesses and the stigma of failure.

3.5. European infrastructure

Completion of the trans-European transport network is indispensable for creating a sustainable transport system in Europe. Of particular importance are the trans-border projects, both for transport and energy networks. New physical infrastructure is often a pre-condition for achieving effective competition in network industries. For example, electricity interconnection capacity remains lower than needed for efficient integration of electricity markets.

Infrastructure is addressed in around 20 NRPs. In half of them (CZ, EL, ES, IE, IT, CY, LT, HU, AT) infrastructure building is ranked as a first priority. The reasons given are primarily to improve economic integration – within the Single Market, but also globally – and, in second place, to enhance productivity growth by modernising the physical business environment. Building integrated logistic platforms, improving public transport and the regional and intermodal balance, and tackling congestion are other objectives taken into consideration.

Modernising and upgrading transport infrastructure (roads, railways, airports, seaports and canals) comes first in the NRPs which address the infrastructure guideline. Member States usually specify the projects they consider as a priority, in some cases also giving details of the financial envelopes (DK, LV, LT, NL, AT, UK). The *TEN corridors* are well integrated in national planning and are addressed explicitly in 15 NRPs. Among the priority projects identified at EU level, the

Brenner tunnel, the Paris-Brussels-Cologne-Amsterdam-London high-speed rail link, Rail Baltica, the Fehmarn belt railway and motorways of the sea are mentioned in the NRPs.

Some also pay particular attention to energy infrastructure, especially international link-ups (EL, ES, IE, LV, LT, PO, SE). The Nordic electricity network and its southward links, the Iberian network and the Republic of Ireland-Northern Ireland network are all mentioned by the relevant Member States.

ICT infrastructure is addressed by all NRPs as far as broadband availability is concerned (see section 2.3).

Public-private partnerships (PPPs) in the context of transport infrastructure are addressed by EL, ES, FR, LV, NL, PO and the UK. Depending on specific national conditions, issues considered in this context include privatisation, introduction to the stock market, redesign of PPP contracts or introduction of new legislation governing PPPs.

Finally, some Member States address infrastructure pricing in their NRPs. The Netherlands is exploring shifting taxation from vehicle ownership to road use by introducing bottleneck and kilometre levies, Portugal, Belgium, Cyprus, Sweden, and France plan to internalise environmental and infrastructure costs in vehicle taxation and Sweden will experiment with a congestion charge for Stockholm. Infrastructure pricing is also mentioned in the Hungarian and Irish NRPs as an issue for future consideration.

In conclusion, transport infrastructure modernisation, upgrading and cross-border connections for transport and energy feature prominently in many NRPs. They are considered key priorities in a significant number of Member States. Priorities linked to the TEN corridors are well embedded in most NRPs. However, not all the agreed priority projects are addressed. The preferred modes vary significantly between countries, from a clear focus on road in many new Member States to a more balanced approach linking different modes of transport. Public-private partnerships for infrastructure development and infrastructure pricing systems that take into account investment and external costs are discussed in a limited number of NRPs.

Part III

Draft Joint Employment Report 2005/2006

More and Better Jobs : Delivering the Priorities of the European Employment Strategy

1. SUMMARY AND CONCLUSIONS

Reform pays off. This is the lesson learnt from the structural changes Member States have pursued since the mid-1990s and their positive impact on a wide range of labour market characteristics. Reform has helped raise the employment content of growth, provide more employment-friendly wage developments, and lower structural rates of unemployment. However, for the EU as a whole, the scope and the depth of reform has lacked ambition and conviction. Structural progress remains insufficient to fuel more economic and employment growth and a more rapid movement towards the EU employment rate targets²⁹.

The refocused Lisbon strategy concentrates on this deficiency, in the knowledge that the challenges confronting the EU economy and society will magnify. Demographic ageing is altering the composition of the labour force and will reduce labour supply and ultimately employment. Accelerating economic change caused by globalisation will continue to upset existing balances. The EU and the Member States have the capacity to adjust to this changing environment. The Lisbon Strategy provides the EU with the framework for successfully making this adjustment.

The European Employment Strategy (EES), the employment pillar of the Lisbon Strategy, is based around three objectives: full employment, productivity and quality at work, and social and territorial cohesion. As part of the Guidelines for Growth and Jobs, the Employment Guidelines provide the policy framework to focus action. They highlight three priorities: attracting and retaining more people in employment, increasing labour supply and modernising social protection systems; improving the adaptability of workers and enterprises; and increasing investment in human capital through better education and skills. A comprehensive approach requires building upon the interaction of measures under these priorities. Improving the governance of employment policies is also an integral part of the guidelines.

²⁹

The employment rate targets are outlined in table 2. For a review of the latest employment trends and structural changes in the EU labour markets, see European Commission, *Employment in Europe 2005*.

Although well-designed employment policies are essential to boost employment and productivity growth, they cannot succeed alone. Sound macro-economic policies and efficient reforms to foster entrepreneurship, research and innovation, and the functioning of goods and services markets are critical for recovering from weak economic growth and raising employment and productivity. The integrated nature of the Lisbon strategy provides the basis for a policy mix that corresponds to the specific challenges of each Member State and for setting in motion a wide partnership for reform.

The analysis of the employment aspects of the National Reform Programmes (NRPs) leads to the conclusion that Member States give most prominence to attracting and retaining more people in employment. The determination to increase employment rates is welcome, as is the fact that a majority of Member States now plan measures with the help of national employment rate targets. However, the effectiveness and sustainability of the policies to deliver this goal is impeded by piecemeal actions, targeting a limited number of specific groups. This should be complemented by a lifecycle approach, including gender mainstreaming, with a view to facilitating employment and career transitions.

The theme of more investment in human capital to improve employment and productivity growth receives widespread attention, although efforts to improve the efficiency of investment receive less attention. To reach the breakthrough required to meet the economy's human capital needs, policies need to overcome the fragmented nature of the measures. Implementing lifelong learning, embracing education, training and adult learning, particularly for the low-skilled, demands a coherent policy linked to the economic and social situation of each Member State. The structure and sources of financial investments need to be reviewed, with a special focus on the incentives governing investment in lifelong learning.

The NRPs neglect the importance of further measures to increase the adaptability of workers and enterprises. The current balance between flexibility and security in many Member States has led to increasingly segmented labour markets, with the risk of augmenting the precariousness of jobs, damaging sustainable integration in employment and limiting human capital accumulation. This neglects the interaction with policies to raise productivity and ensure labour market inclusiveness. Greater attention should therefore be given to establishing efficient conditions of 'flexicurity'. Sufficiently flexible work contracts, coupled with effective active labour market policies to support labour market transitions, a reliable and responsive lifelong learning system, and modern social security systems combining the provision of adequate income support with the need to facilitate labour market mobility are necessary ingredients. More attention should be given to the active involvement of the social partners, who have a significant responsibility in this domain.

The NRPs provide evidence that Member States are committed to reform, notably since they have singled out key challenges and priorities. Whereas the overall direction is appropriate, there is reason for concern that the gap between ambition and realisation cannot be bridged with the actions announced. For instance, whereas there is evidence that government ownership of the strategy at national level is well articulated, there is less indication that the agenda is shared widely across society and is firmly built on social partnerships for reform. Combined with the vagueness about national local and regional administrative capacity and budgetary allocations, including the use of the European structural funds, this gives cause for vigilance. The country-specific challenges outlined in the country chapters of the Commission's communication focus on those areas where individual Member States need to step up efforts³⁰.

2. ACHIEVING THE OBJECTIVES

Member States' policies should foster full employment, quality and productivity at work and social and territorial cohesion. These objectives, together with good governance, frame the EES. In the NRPs, most attention is devoted to increasing employment. Few Member States pay attention to improved productivity and quality at work, or social and territorial cohesion, and in particular the synergies between these objectives and increasing employment rates.

Full employment

Sluggish economic growth has held back labour market performance over recent years, and explains much of the slow progress towards the Lisbon and Stockholm employment objectives. Employment growth was limited in 2004 at 0.6%, slightly up from the last year's level (0.3%). As a result, the employment rate for the EU increased to 63.3%. Unemployment remained unchanged compared to 2003 (9.0% - provisional figure 2005 8.7%), although long-term unemployment increased to 4.1%. The rise in the employment rate was again driven by women (0.7 of a percentage point) and older people (0.8 of a pp).

³⁰ See the country-specific chapters of the communication.

Table 1: Overall employment rates

Pace of progress since 1997 Rates in 2004 (%)	Low	Close to average	High
> 70		DK, SE, UK, NL	
65-70	AT	CY, DE, PT, FI, SI	IE
< 65	CZ, EE, LT, MT, PL, SK	BE, EL, HU, FR, LU, LV	ES, IT

Explanation: Pace of progress is defined as the percentage point change in the employment rate between 1997 and 2004:

- a) Low progress: the employment rate increased below the EU25 average minus half of the (un-weighted) standard deviation
- b) Close to average: the employment rate increased inside a band of one standard deviation centred on the EU25 average
- c) High progress: the employment rate increased above the EU25 average plus half of the (un-weighted) standard deviation

The employment rate of women continued to rise, reaching 55.7% in 2004. The employment gender gap further narrowed to 15.2 percentage points in 2004 (down from 17.6 in 2000). However, the progress has been slower in full-time equivalents (21.7 pp in 2004 compared to 23.3pp in 2001).

Older people have seen employment rates rise markedly since 2000, with an accumulated increase of 4.4 pp to a rate of 41.0%, accounting for the majority of the increase in employment. In contrast, half of the Member States have seen the labour market situation for the young deteriorate. At 18.7%, youth unemployment is about twice the overall rate. This needs to be addressed through policies to ensure that young people receive a good start to their labour market participation, and throughout the lifecycle.

Despite some progress over the years, the overall employment rate remains 7 pp or some 20 million jobs below the 2010 target, and whilst female and older people's employment rates have risen more rapidly, they still remain 4 and 9 pp below their respective 2010 targets. An increasing number of Member States have set out their ambition through employment rate targets. 18 Member States have set national targets on employment rate, 15 for women and 11 for older workers³¹.

Quality and productivity at work

Since the mid-1990s, there has been a relative decline in productivity growth compared with the US. Average labour productivity growth (in terms of GDP per person employed) was 1.9% in 2004, an improvement on the previous three

³¹ See tables 2 and 3 for a complete list of employment targets set by Member States.

years, but not a significant improvement on the sluggish performance since the mid-90s. This still compares unfavourably with the US (3.3%) and Japan (2.5%). The disparity is less marked looking at productivity growth in terms of GDP per hour worked, with EU growth at 2.5% in 2004, similar to growth in Japan, although the gap with respect to the US has been growing .

Progress in terms of increased quality at work remains mixed³². Participation in lifelong learning has risen, as have youth education levels. Nevertheless, further progress is essential in other elements of quality at work, especially both the transitions from temporary to permanent jobs and out of low-paid jobs and labour market segmentation. Few Member States pay attention to the synergies between improved quality and productivity at work and to developing increasing employment.

Social and territorial cohesion

After several years of decline, long-term unemployment again increased slightly in 2004 and the job prospects of vulnerable groups have deteriorated. The NRPs place emphasis on the provision of employment opportunities as the best solution for developing inclusive labour markets. Although such an approach is essential, this should be complemented by policies promoting access to quality employment, training, health care and housing, and an income enabling full participation in society.

Regional employment and unemployment disparities remain widespread, with very high rates of unemployment in many regions. Regions with low levels of employment also tend to be the ones with lower productivity levels. Rises in labour productivity in regions with low overall levels of productivity have not yet been followed by substantial increases in employment.

Governance of employment policies

The drafting of the NRPs marks a new departure for employment policies, building on the experience of the EES since its launch in 1997. The NRPs take over previous national action plans for employment, which helped structure and develop national employment policies. In the majority of cases, the priorities outlined by the Member States are in line with the EU country-specific Employment Recommendations adopted in 2004.

The timing and novelty of the process partly constrained the consultation process in 2005. The involvement of national parliaments was very limited. Few played a role in the approval procedure. This should improve with fewer timing constraints. Social partners were consulted to a varying degree by almost all

³² For details of the 10 dimensions of quality at work see: Improving quality in work: a review of recent progress, COM (2003) 728 of 26.11.2003.

Member States, but the NRPs generally remain government documents. In Member States where tripartite bodies exist, these have not always been closely involved and the preparation of the NRPs did not sufficiently include social partnership commitments. Again, this should improve in the next phases.

Implementation structures are referred to by Member States in their NRPs, but there is much less detail on the precise delivery and monitoring mechanisms that need to be put in place at national, regional and local level.

The guidelines call for reforms to be backed by adequate financial means and effective use of public funds, with transparent information about the expected outputs and timetables of the main measures. There is too little information in the programmes to illustrate whether this is the case. The role of the European Social Fund (ESF) is often highlighted but reporting is uneven.

3. IMPLEMENTING THE PRIORITIES FOR ACTION

In order to achieve EU employment objectives and targets, the Employment Guidelines are built around three priorities for action. The NRPs give prominence to attracting and retaining more people in employment and more and better investment in human capital. They tend to neglect the importance of further measures to increase the adaptability of workers and enterprises. Employment policy often appears fragmented and unbalanced in this area. More attention should be given to establishing conditions of 'flexicurity', by combining sufficiently flexible work contracts with effective policies to support labour market transitions, lifelong learning for all, and adequate social insurance.

3.1. Attract and retain more people in employment, increase labour supply and modernise social protection systems

Promote a lifecycle approach to work

Member States generally do not explicitly develop an integrated lifecycle approach (LV, NL and the UK do). Many pay attention to most of its components but not in a systematic manner. The emphasis is on young jobseekers and on closing down exit routes for older workers. Policies to support female employment and bring about gender equality are somewhat underdeveloped.

Most Member States pay considerable attention to young people, although the approach tends to be piecemeal. A majority include measures for building employment pathways combining work/apprenticeship with education and training. Many aim to increase apprenticeships, but with little emphasis on increasing offers of employment. Greater integration of policies on education, training, mobility, employment and social inclusion, with specific targets and

objectives, would lead to effective strategies for young people. Member States respond to the ambition to offer a new start to every young jobseeker within 6 months by presenting measures to offer individual action plans containing support such as career consultancy, vocational (re)training, job search assistance and apprenticeships.

The European Youth Pact

The Heads of State and Government at the European Council of March 2005 adopted the European Youth Pact as one of the instruments to achieve the Lisbon objectives of growth and jobs. The Youth Pact aims to improve the education, training, mobility, employment and social inclusion of young people, and to facilitate the reconciliation of working life and family life. The response to the Youth Pact in most Member States has been encouraging, although its full potential remains to be realised. A number refer explicitly to it (AT, BE, DE, ES, FI, FR, IE, NL, PT, SI, SE, UK), although not always in depth, and several have integrated measures consistent with the Pact without giving it visibility. As foreseen by the European Council, involvement of youth organisations should be strengthened – only SE has consulted young people in preparing the NRP.

Most Member States recognise the need to raise the employment rates of older workers but measures are often ad hoc. Wide-ranging initiatives aim at reviewing incentives to discourage early retirement, creating more flexible pathways to retirement, and increasing retirement age. The EU objective to raise the effective average exit age by five years by 2010 (now 61.0 compared to 59.9 in 2001), will not be met unless policies are implemented with greater urgency. Only seven Member States set explicit targets in this area. Pension reform continues in many Member States, in an effort to lengthen working lives, but this should be better accompanied by measures to ensure job opportunities for older workers. Measures to fight unemployment of older workers and improve their position within companies are not widespread.

The potential contribution of women to raising employment rates is not strongly emphasised. Measures concentrate on improving the availability and affordability of care for children and other dependants. Seven Member States set targets for extra care places. However, the Barcelona childcare targets are far from being reached. Reconciliation of work and private life are often considered to be a women's issue, and the need to strengthen the role of men in care and parental leave is not stressed. Commitments to closing employment and unemployment gender gaps are rare. The issue of gender pay gaps is discussed more widely, but only a few propose concrete actions (DK, FR, NL, and SE). Others are in the stage of drafting possible steps or general commitments to reinforce equal pay legislation and reduce labour market segmentation.

Most Member States are putting efforts into modernising social protection systems, reinforcing the incentives to take up a job and remain in work longer, as well as offering personalised support to those furthest away from the labour market. Many Member States are faced with the substitution effect between benefit schemes used as exit routes, placing emphasis on reducing the particularly high numbers of people who are inactive for reasons of ill-health or disability, where often eligibility criteria are less stringent for older workers (FI, NL, PL, SE, and UK are facing particular sustainability challenges in this context). A small number of Member States (DE, NL, PT, UK) undertake a systematic reassessment of several branches of social protection systems to tackle this substitution effect.

Synergies with EU Social inclusion and protection objectives

There is broad consistency between the NRPs and Member State commitments at EU level in terms of social policies through the open method of coordination for social inclusion, pensions and health. The NRPs recognise that the exclusion of people and groups from participation in society and the labour market is a waste of resources which should be addressed for economic and social justice reasons. Pension reforms aimed at strengthening sustainability are improving the incentives for working longer. The adequacy of pensions now depends on opening labour markets for older people and fighting segmentation. Some NRPs (especially in new Member States) stress the importance of health issues as a precondition for raising the quantity and quality of labour.

Ensure inclusive labour markets, enhance work attractiveness, and make work pay for job-seekers, including disadvantaged people, and the inactive

The effectiveness of Member States' efforts to increase work incentives in social protection systems will depend on their ability to help people find employment through active labour market policies. Policies to strengthen work incentives in tax-benefit systems include reductions in taxes or social contributions for (low-paid) work, in-work benefits, benefit levels, and eligibility criteria and their enforcement. Most Member States adopt the EU target that every unemployed person is offered a new start in the form of e.g. training, work practice, or a job before reaching 6 months (young people) or 12 months (adults) of unemployment. However, only eight Member States are close to meeting it. The target that 25% of long-term unemployed should participate in active measures is met by eleven Member States, although the NRPs generally do not set targets.

Member States' plans to improve efforts to support the inclusion of those furthest away from the labour market focus on the young and jobseekers with disabilities. Other groups such as non-EU nationals or minorities often receive insufficient attention. Combating inactivity, encouraging active participation, and greater promotion of policies to increase job retention rates are essential, in

view of the number of working-age people who become disabled and do not return to work.

Improve the matching of labour market needs

Several countries are making important organisational changes in their public employment services (PES) to meet demands for labour market integration. Closer cooperation or a merger between the PES, social security authorities, and unemployment benefit organisations is ongoing in several countries (BE, CZ, DE, DK, EE, FI, FR, NL, UK), aiming to improve work with people furthest away from the labour market. Cooperation between public and private employment services is developing (CZ, ES, FR, NL). Early identification of jobseekers' labour market opportunities is an established practice in a number of countries (DK, FI, MT, NL, SE, SK, UK) and being developed in others (EE, HU). Most Member States have already joined the EURES vacancies platform to ensure that job seekers are able to consult PES job vacancies throughout the EU.

Member States rarely address the contribution occupational and geographic mobility, better management of economic migration and better anticipation of skill needs can make to the functioning of the labour market.

3.2. Improve the adaptability of workers and enterprises

The policy components of this priority received less attention in the response from Member States, despite being a major issue for a number. This is worrying given the increasingly segmented nature of labour markets. Measures to improve the functioning of the labour market, better anticipate restructuring and deliver employment-friendly labour costs are often vague. The core of adaptability lies in finding the right combination of flexibility and security to reduce labour market segmentation. Many Member States approach this priority by emphasising flexibility for the employer.

Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of social partners

Many Member States, including some large ones, give little attention to steps to address labour market segmentation. Although essential for employment, as well as productivity and quality at work, the modernisation of labour law and improvements in work organisation, including working time issues and working conditions, are rarely mentioned. The promotion of non-standard forms of employment is rarely elaborated upon despite varied use of flexible forms of contracts across Member States. A number illustrate specific measures to amend employment legislation (making labour contracts more flexible in DE, EE, FR, NL). Self-employment is also seen as a way to cope with restructuring needs (AT, SK, LV). Sweden and the Netherlands undertake efforts to increase total hours worked.

Health and safety at work is an important aspect of this priority (with DK, EE, ES, FR setting targets to reduce accidents at work). However, it is insufficiently covered in many Member States. Only a few pay attention to tackling undeclared work (AT, EE, HU, MT, LV, LT SE, SK). The extent of the problems is not recognised by most Member States.

Although the issue of relocation is often highlighted, creating the right conditions for positive anticipation and management of economic restructuring is not sufficiently seen as a priority (it is discussed by BE, LT, PT and SI). Portugal and Slovakia tackle the issue with incentives for self-employment and reform of labour relations. Slovakia is also targeting measures at those at risk of large-scale layoffs by introducing a special guarantee fund. . Beyond managing sectoral and/or company-level restructuring, a more favourable business environment is obviously crucial to sustain economic development in the longer run.

A Globalisation Adjustment Fund: The success of the Lisbon strategy depends on confidence in Europe's ability to achieve prosperity and solidarity. A European shock absorber, taking the form of a Globalisation Adjustment Fund, responding to sudden redundancies shall offer an additional EU level mechanism to help affected workers adjust to the consequences of restructuring through one-off, time-limited individualised support, covering training, relocation and outplacement services.

The concept of 'flexicurity' is a response to the needs of both employers and workers in a rapidly changing labour market aimed at providing adequate bridges during periods of labour market transition. In some countries, conditions for a good combination of flexibility and security exist, notably in Denmark and the Netherlands. The Danish approach provides actors with a maximum of freedom to shape their employment relationship in combination with good access to unemployment benefits and measures supporting employability. The Dutch approach relies on the availability of different contractual forms, balancing rights and obligations for each individual contract form, while providing for active measures for the unemployed.

Each Member State starts from a different position. Four ingredients are essential in achieving a good balance between flexibility and security without increasing the risk of labour market segmentation.

Firstly, the availability of contractual arrangements, providing adequate flexibility for both workers and employers to shape the relationship according to their needs. A proliferation of different forms of contracts should be avoided and sufficient homogeneity between these forms of contracts preserved to facilitate transitions between them.

Secondly, active labour market policies should effectively support transitions between jobs, as well as from unemployment and inactivity to jobs (e.g. AT's *Arbeitsstiftungen* serve as transition agencies to support job-to-job placement in cases of threatened mass dismissal; in Sweden social partners actively negotiate off-the-job placement). This highlights the importance of achieving the activation targets of the Employment Guidelines (see 3.1 above).

Thirdly, credible lifelong learning systems should enable workers to remain employable throughout their career (see 3.3 below).

Fourthly, modern social security systems should be in place to ensure that all workers are adequately supported during absences from the labour market and to facilitate labour market mobility and transition.

Moving from any initial situation towards such a balanced framework requires broad partnerships and consensus.

Ensure employment-friendly labour cost developments and wage setting mechanisms

The importance of labour costs for job creation is given little attention in the NRPs. The EU has witnessed moderate wage developments, with real unit labour costs declining in most Member States as well as for the EU25 and the euro area. Wage moderation is seen as a priority for some (e.g. NL). In line with social partner agreements (BE, NL), the commitment to wage moderation is often combined with changes in social protection arrangements. It is to be noted that the contribution of wage developments to job creation is seldom addressed as such, rather being dealt with in the macro sections (BE, EE, DE) or under the 'wage moderation' theme (AT, ES, NL). The need to review wage-bargaining systems is hardly addressed.

More emphasis is given to reducing the (high) tax burden on low-wage earners by focusing on income taxation or employers' social contributions in order to achieve an overall reduction in the tax wedge (BE, CZ, EE, FI, LT, LV, PL and SK). Measures to reduce non-wage labour costs would support the recent trend of wage moderation. A declining trend is noticeable in some Member States with a high tax wedge (AT, BE, DE, DK, FR), but not in some other Member States where an increase is observed in 2004 (IT, PL, LV, SE). The idea of targeting reductions of non-wage labour-costs at specific labour market groups (e.g. subsidies for the employment of older workers in FI) is gaining prominence, but evaluation of the impact of past measures is often lacking. A coherent approach to reducing labour costs should take account of the need to consolidate public finances and include the wider considerations of minimum wage provisions and a review of the impact of the tax system on employment. For a number of countries, reforms to reduce the tax burden on labour imply

substantial modification to the tax base, including the creation of alternative sources of public revenues.

3.3. Increase investment in human capital through better education and skills

This priority receives widespread attention, with Member States acknowledging the crucial importance of developing the skills needed in knowledge-based economies. The policy response to the objective of investing more in education and training concentrates on qualitative reforms in education systems. Reforms to stimulate adult learning, particularly for the low-skilled, and to improve the governance of the systems to ensure comprehensive lifelong learning strategies are less visible. Replies to the call for better investment responsive to changing needs are also less ambitious. The focus here is placed on improving quality standards in education and training, better access and improving the definition and transparency of qualifications. The majority of NRPs are shown to be consistent with the implementation of the Education and Training 2010 work programme. Clear objective-setting with respect to the EU targets and reference to the use of European instruments in national policies can be found in few NRPs.

Expand and improve investment in human capital

The three EU human capital targets set out in the Employment Guidelines have been addressed by the majority of countries but with varying degrees of ambition. Despite a decreasing trend in the average proportion of early school leavers over recent years (2000: 17.7%, 2005: 14.9%) a major policy effort is still essential to reduce early school leaving to 10% in line with the EU target (especially in CY, ES, FR, IT, LU, MT, PT, and UK).

The EU average rate for completing upper secondary education has stagnated at around 77% since 2000. Half of the Member States achieve the benchmark, a further six are nestled around the EU average, while in seven countries (DE, ES, IT, LU, MT, NL, PT) greater efforts are necessary to catch up.

The performance divide across countries in lifelong learning participation is wider, illustrating the lack of a comprehensive approach in a number of countries. The good performance of a few Member States (DK, FI, NL, SK, SI, UK) significantly contributes to the average EU level of 10.8% in 2005 (2004: 10.3%). A slight upward trend can be noted in a majority of countries. However, the culture of learning needs to be improved and the systems modernised in the majority of countries if the EU is to achieve the 12.5% benchmark.

Some Member States have adopted targets and benchmarks linked to those at EU level. However, more needs to be done to raise participation in lifelong learning and the skill and competence levels of the population, especially among the less-advantaged. Legislative measures have been introduced in some

countries, while others follow a strategy with legislative and non-legislative components. Progress in establishing lifelong learning systems is noted in countries which previously had little experience of lifelong learning. Ensuring a truly comprehensive approach embracing education, training, adult learning (particularly for the low-skilled) and the involvement of all stakeholders remains a considerable challenge for many.

Education & Training 2010 work programme

The EU Education & Training 2010 Work Programme is a comprehensive agenda for Member States' cooperation in improving education and training systems in Europe. It therefore supports the economic and social objectives of the Lisbon Strategy, making a key contribution towards implementing the integrated guidelines for jobs and growth, in particular those on human capital development. There is a good deal of coherence between Member States approaches reported under this work programme and in the NRPs. Member States are making a range of in-depth reforms to support more effective lifelong learning. However, the development of truly coherent and comprehensive lifelong learning strategies by 2006 remains a challenge for many countries.

Despite a commitment by Member States to improve investment in human capital, there is little evidence of actual or planned increases in public and private investment. Few provide information on levels of public spending or touch upon increasing private investment. Budgetary information on specific measures is rare. However, since 2000, an encouraging upward trend in public expenditure on education (as a % of GDP) in the EU is notable. There is little evidence of an increase in the contribution from the private sector or in employer investment in continuing training. The role of the Structural Funds in supporting national policy is highlighted in a number of NRPs, but specific details are lacking. The financing of learning in terms of fair and transparent sharing of costs and responsibilities between actors is addressed in few NRPs. A number of countries focus on the quality and efficiency of investment in education and training, which tends to be a major theme for reform.

The European Social Fund (ESF) and the European Employment Strategy

The Structural Funds have a crucial role to play in supporting the delivery of NRP priorities. It is fundamental to ensure that ESF support underpins the implementation of reforms needed in the context of the EES. In defining the national Strategic Reference Frameworks for the period 2007-13, Member States and the Commission must give particular attention to the commitment to increase EU support for investment in human capital, increasing labour market adaptability, and support for improved administrative capacity,

especially under the convergence objective.

To increase investment in human capital, to achieve a significant breakthrough in establishing a lifelong learning culture, and thus help deliver the EU economic and social needs, it is necessary to review the incentives for households, enterprises and public authorities to invest in people. More emphasis needs to be placed on the importance of improving the efficiency of investment in human capital in the public sector, particularly in the cohesion countries.

This investment can significantly influence overall economic performance via a direct impact on overall output and productivity as a result of its size and efficiency.

Adapt education and training systems in response to new competence requirements

Many of the reforms outlined in the previous guideline also have implications for this guideline. The responsiveness of training to changing economic and labour market needs is acknowledged as an important aspect of modernising education and training systems. It is reflected in curricula reforms and the extension of vocational training opportunities. Progress is also noted in the development of systems for the validation of non-formal and informal learning. A stronger response would clearly go hand in hand with further development of comprehensive lifelong learning strategies, including a strengthening of the quality and attractiveness of vocational training and the modernisation of higher education. Regarding the updating of skills of the workforce, policies focus mainly on specific groups of the population (young people, women) and in particular on active labour market measures for unemployed people and groups underrepresented in the labour market.

Table 2: Employment rate targets set by Member States for 2010^{33*}

Country	Employment rates: Total	Female workers	Older workers
EU targets	70%	At least 60%	50%
BE	70% as soon as possible	60% as soon as possible	50% as soon as possible. Activity rate ? 1.5 times faster than EU15
CY	71 %	63 %	53 %
CZ	66.4% (2008)	57.6% (2008)	47.5% (2008)
DK	50,000-60,000 extra jobs	-	-
DE	-	-	-
EE	65.8% (2008); 67.2% (2010)**	63.3% (2008)65% (2010)**	54.8% (2008)**
EL	64.1 % **	51%**	-
ES	66%	57%	-
FI	70% (2007); 75% (2011)	-	-
FR	-	-	-
HU	63%	57%	37%
IE	-	-	-
IT	-	-	-
LT	68.8 %	61 %	50 %
LU	-	-	-
LV	65% (2008); 67% (2010)	62%	50%
MT	57%	41%	35%
NL	-	65% working = 12 hrs a week	40% working = 12 hrs a week 2007
AT	-	Align with overall employment rate	-
PL	-	-	-
PT	69% (2008); 70% (2010)	63% (2008)	50%
SE	80% (aged 20-64)	-	-
SI	67% (2008)	2008 - At least 2 pp above EU15 average	35% (2008)
SK	Annual ? of 1-2 pp.	-	-
UK	80 % (national definition, no date)	-	-

*Targets are for 2010 unless mentioned otherwise**Presented as projections

³³ For a full list of targets under the European Employment Strategy, see: Council Decision of 12 July 2005 on Guidelines for the employment policies of the Member States (2005/600/EC).

Table 3: Other employment targets set by Member States for 2010*

	Raising effective exit age	Childcare provision	New start	Long term unemployed in active measures	Early school leavers	Upper secondary education	Participation in life-long learning	Other targets
EU	+5 yrs (from 59.9** in 2001)	Coverage: 33% (children <3 yrs old) and 90% (children 3 years -school age)	Offer active support after 6 months (young) and 12 months (adults)	25% participating in an active measure	No more than 10%	At least 85% of 22 yr olds to complete	Participation rate of 12.5% of working age population	
BE	Min age for pre-pension systems 58 to 60 in 2008	33% of < 3yr olds; 13.000 extra places in 2009	Personalised pathway for all within 6 months	-	Under 10%	85%	12.5% of employees per month and 50 % of employees/year	--
CY	? retirement age to 63	-	-	-				
CZ	-	-	-	-	-	-	-	25,000 more jobs for refugees and immigrants 2005; 50% of university students to end studies with bachelor degree; 2006 50% adults basic IT literacy
DK	? by 6 months	-	-	-		95% by 2015		
DE	-	230,000 extra places for < 3 yr olds.	Offer new start for <25 yrs old within 3 months	-	-	-	-	40% of an age group to start tertiary education; 2004-2007 per yr 30.000 new apprenticeship and 25.000 new traineeship places
EE	-	-	-	35% in 2007	< 10% in 2014	85%	10% by 2008	Disabled ? to 30% in 2008 ? until 2008 by 8% participation rate in vocational training
EL	-	-	-	-	-	-	-	Unemployment rate ?7.3% ? public expend on education to 5% GDP
ES	-	-	-	-	Halve the rate	80%	12.5%	? youth unemployment to 18.6%; ? work accidents by 15%
FI	? by 3 years in the long run	-	-	? by 50% in 2008	-	-	60 % by 2008	96% of those completing basic education to move on to further education by 2008
FR	-	-	-	-	-	-	-	500,000 apprenticeship places by 2010
HU	-	-	-	-	-	-	-	employment rate for men: 69%
IE	-	13,000extra places	-	-	-	-	-	--
IT	-	-	-	-	-	-	-	--
LT	? to 64.5	30% for < 3 yr.ols.; 90% for 3 - school age	Meet EU target	25%	9 %	No	10%	50,000 new jobs by 2008? youth unemployment by 15%; LTU by 3.5%; unemployment down to 8%; Unemployment rate in all regions below 135% of national average. 45% of pupils to study under technological profile and VET programmes (ISCED level 3)
LU	-	X2 the number of places by end of 2007	-	-	-	-	-	--
LV	-	-	-	-	-	-	-	Labour productivity 53% of EU average; LTU 3.8%

	Raising effective exit age	Childcare provision	New start	LTU in active measures	Early school leavers	Upper secondary education	Participation in life-long learning	Other targets
MT	-	-	-	-	35%	65%	7%	--
NL	-	-	-	-	8%	85%	20%	--
AT	-	-	-	-	-	-	-	Further ? school drop-out rates; 4.200 new study places at universities
PL	-	-	-	-	-	-	-	Unemployment 14.6% in 2008
PT	-	100% for 5 y.o.; 90% for 3-5 y.o.; 35% < 3y.o.	Meet EU target. For unemployed <23 yrs and not completed yr 12 of schooling this is brought forward to 3months.	25%	Halve the rate	65%	12.5%	qualify 1 million through training & recognition of qualifications; 25.000 young people in VET per year by 2009; To raise n° of new graduates in scientific and technological areas, to attain 12 per 1000 in the population with ages between 20 and 29; to raise n° of new doctorates in scientific and technological areas, to attain 0,45 per 1000 in the population with ages between 25 and 34 years.
SE	-	-	-	-	-	-	-	Unemployment ? to 4%; Halve sick leave 50% of 25yr olds to have started Higher Education
SI	Gradual rise from 58 to 65	-	young graduates to be offered a first job within 6 months	-	-	-	-	Unemployment 5.5% in 2008
SK	Raise by 9 months a year to 62	-	-	-	-	-	-	--
UK	-	sufficient childcare for 3-14 y.o.	-	-	? proportion of 19yr olds with upper secondary by 5% 2004-2008	90% by 2015	-	50% participation rate of 18-30yr old in Higher Educ by 2010; improve basic skills of 2.25 Mio. Adults in 2001-2010; reduce by 40% number of workers with only basic skills by 2010

*If no target year mentioned: 2010. ** subsequently revised upwards to 60.3 year.

NON-PAPER 13 January 2006

FINLAND

**IMPLEMENTING THE LISBON STRATEGY —
KEY MESSAGES FOR THE YEAR 2006**

The European Union's response to the challenges of globalisation and ageing is a determined and timely implementation of the revised Lisbon Strategy. Therefore, the Union must make decisive use of the new opportunities that the Strategy offers for speeding up a broad-based reform process in Europe. The progress achieved, both in the Union and in the Member States, will be evaluated for the first time in 2006.

Europe has no time to lose. The opportunities offered by globalisation must be exploited, and Europe must actively seek ways to succeed in global competition. The welfare of Europe requires strong and sustainable economic growth. This, in turn, requires a higher employment rate and, in particular, a more rapid growth of productivity than today. In order to boost productivity, we need:

- to examine and understand the different factors influencing productivity in a more holistic way than before;
- more openness in both the EU internal market and the world economy;
- more sustainable investments in knowledge and innovations, and more efficient use of these investments.

The EU must focus on measures that support growth and employment. Further legislation to open up the services market, in particular, and common action to promote innovation are good examples of what Europe needs. At the same time, the first Lisbon National Reform Programmes have already generated a new kind of ownership and reform-consciousness in the Member States. This strengthens possibilities to coordinate economic policy — structural policy in particular — and to make full use of the efficiency gains created by economic structural reforms throughout the Union. National Reform Programmes serve as a basis for identifying the areas of action where there is room for common European solutions.

SUCCESS REQUIRES A RISING EMPLOYMENT RATE AND PRODUCTIVITY GROWTH

Attaining the Lisbon goals demands a long-term economic policy built on stability, a rising employment rate and a more rapid growth of productivity. This is the only way to ensure the sustainability of public finances, and social and health care services for the ageing population. It is important to realise that increased employment and faster productivity growth are not mutually exclusive. On the contrary, taken together, they support the goals of the Lisbon Strategy.

The employment rate must be increased by providing the entire labour force with the capacity to respond to the changing needs of working life. This is a task for the labour market and education systems. Social protection systems must, for their part, effectively support and encourage participation in working life. This will promote citizens' wellbeing and social inclusion. The coordination of tax and benefit systems must be developed continuously.

The declining supply of labour highlights the central importance of productivity growth. Therefore, the various factors affecting productivity growth must be considered in a comprehensive way. Technological development and investments in human capital are the cornerstones of productivity growth. Investments in R&D and a smoothly running education system are crucial for technological development and its utilisation. The introduction and dissemination of new technologies and procedures are, in turn, largely dependent on well-functioning product, capital and labour markets, and on the rewards available for those enterprises that innovate.

The availability of skilled labour, particularly in high-productivity sectors, has to be ensured by developing labour market policies and improving competences. Occupational and regional mobility of labour must be increased. The quality and attractiveness of working life must be improved. Tomorrow's workplaces need social innovations and efficient and creative use of new technologies.

DEVELOPING THE INTERNAL MARKET AND OPENING UP THE WORLD TRADE REQUIRE FURTHER WORK

Competitive pressures, generated by the common market, constitute a major engine for productivity. The European single market is a unique mechanism for responding to the challenges of globalisation. In order to make better use of the benefits of economic integration, the internal market must be developed further, and the liberalisation of world trade continued.

The services market is of crucial importance. EU legislation must continue to promote openness in the internal market. Opening up the internal market to services will benefit 450 million European consumers, create new jobs, enhance competition and boost economic growth. Thus, the proposed services directive is one of the Union's most important tools in promoting the Lisbon Strategy. Speedy adoption of the services directive remains, thus, a priority. While noting that there are sensitive issues involved, the original goal of the directive must be safeguarded. It must be as broad as possible in scope in order to genuinely improve service providers' freedom of establishment and opportunities for enterprises to provide services temporarily in other Member States, too.

The energy market is also very important. Decisions already taken on opening up the energy market must be put into practice efficiently. We must ensure that European consumers receive tangible benefits from the improved functioning of the market.

While developing the internal market, Finland stresses the Union's foundation that combines social equity and environmental issues with growth and economic performance. Furthermore, improving the European regulatory environment is an important tool in fostering growth and employment, promoting competitiveness and achieving the targets of sustainable development.

An open world economy and global trade support efficient competition and encourage innovation. In this international setting, the EU must function as a genuinely global actor. In order to attain the goals of the Lisbon Strategy, the EU must continue to promote the liberalisation of international trade. Europe must take its own place in the context of accelerating global competition and in the international division of labour. Multilateral agreements and well-functioning, equitable rules of international trade are of vital importance for Europe. Furthermore, globalisation is an opportunity for promoting welfare and social justice worldwide.

INVESTMENTS IN KNOWLEDGE AND INNOVATION MUST BE INCREASED AND EXPLOITED

Knowledge and skills are becoming increasingly important as competitiveness factors. Investments in human capital and technological development are of key importance in attaining the Lisbon goals. Member States must be able to attain the common goal of investing 3% of the GDP in R&D activities. At the EU level, negotiations concerning the Seventh Framework Programme for research and development as well as the new Competitiveness and Innovation Framework Programme must be concluded in 2006.

While adding to investments in research, human capital and skills, it is increasingly important to exploit these resources as efficiently and productively as possible. Resources must be allocated in a way that combines the benefits of knowledge, creativity and risk-taking in the best possible way. Entrepreneurship, private sector initiatives and a business environment encouraging risk-taking and innovation are of prime importance.

Europe needs a broad-based innovation policy capable of translating investments in knowledge and research into projects and products that generate actual growth and jobs. The main elements of such a policy are research, technology, education and venture capital. The European university system must also be developed into an attractive, competitive and high-quality system capable of attracting talent from outside Europe. European centres of excellence must strive to be world leaders in their fields. Openness and the mobility of both researchers and research results require particular attention.

Innovations also play an important role in the promotion of sustainable development, as in the case of eco-innovations which help enterprises boost their competitiveness, reduce reliance on raw material sources outside the EU and eliminate adverse environmental effects.