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from: Secretary-General of the European Commission,
signed by Mr Jordi AYET PUIGARNAU, Director

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to: Mr Javier SOLANA, Secretary-General/High Representative

Subject: Communication from the Commission to the Spring European Council
Strategic report on the renewed Lisbon strategy for growth and jobs: launching
the new cycle (2008-2010) - Keeping up the pace of change
Assessment of the National Reform Programmes (Part II/V)

Delegations will find attached Commission document COM(2007) 803 final (Part II).

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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 11.12.2007
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PART II

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

**Strategic report on the renewed Lisbon strategy for growth and jobs: launching the new
cycle (2008-2010)**

Keeping up the pace of change

Assessment of the National Reform Programmes

Statistical Annex to the Country Fiches – explanatory notes

The statistical annex presents 14 short-listed Structural indicators derived from the European Statistical System, with a gender breakdown where possible.

The full database of Structural indicators, including data and metadata relating to the EU Member States, the Acceding and Candidate countries, USA, Japan and EFTA countries, is publicly available on the Eurostat Structural indicators website: <http://ec.europa.eu/eurostat/structuralindicators>. For each EU Member State, all 14 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-27 = 100)
<i>Labour productivity per person employed</i>	GDP in Purchasing Power Standards (PPS) per person employed relative to EU-27 (EU-27 = 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-27 = 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 kilogram of oil equivalent per 1 000 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)

* Indicators disaggregated by gender

The table

The country-specific table presents data from 2000, 2003-2006 for that country and the EU-27 average. The following flags are used in the data tables:

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

The charts

The 14 indicators are presented in two charts which compare the actual value with the EU-27 value¹, 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-27 average is computed as a population-weighted average of individual national values. A comparison of national values with the EU-27 average can therefore be difficult to interpret, and may give a different result than if risk-of-poverty rates were computed based on 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 were drawn from national sources which were not fully harmonised. The indicators are computed using an income definition which until 2007 excludes imputed rent revenues and mortgage interest payments.

¹ Values in the chart = Current national value / Current EU-27 value * 100.

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-27 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-27 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-27 value in 2006 (or latest year available).

Data sources

All indicators were extracted from the Eurostat database on 19 November 2007. 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 national targets presented are those that respond to this invitation and have been extracted from the respective National Reform Programs.

Explanation of abbreviations

EU-27: European Union (27 countries)

Euro Area: Euro Area (13 countries for all years)

Belgium

1. Economic growth in Belgium reached 2.8% in 2006 and should remain broadly the same in 2007. The unemployment rate is forecast to decline from 8.2% in 2006 to around 7.5% in 2007, slightly above the euro area average. The 2006 employment rate was 61%. It is expected to rise in 2007, but remains well below the EU average, especially for older people. Labour productivity is among the highest in the EU and expected to grow in line with the euro area average. After a government budget surplus of 0.4% of GDP in 2006, the budgetary outturn for 2007 is likely to be a small deficit. The debt-to-GDP ratio remains on a downward trend.
2. Economic policy focuses on controlling labour costs, creating a more dynamic labour market and stimulating innovation. To preserve competitiveness, wage negotiations are based on a bi-annual national indicative wage norm agreed by the social partners, the most recent covers 2007-2008 and takes into account developments in Germany, France and the Netherlands. Measures to further reduce the tax burden on labour need to be reconciled with budgetary targets necessary to reduce the still high debt level and prepare for the cost of an ageing population. Policies to increase employment combined with efforts to curtail public expenditure could enhance medium-term growth and improve the long-term sustainability of public finances. Economic growth could be fostered by removing barriers to competition in services markets (including some network industries) and implementing reforms to boost innovation.

PART I: GENERAL ASSESSMENT

3. Overall, the Belgian Implementation Report shows good progress on implementing the 2005 National Reform Programme (NRP) over the 2005-2007 period. The pace of progress appears to have decreased over the last year, due to the fact that the current federal government is a caretaker government since elections in June 2007. The continuation of such a situation is likely to delay the implementation of further necessary budgetary measures and thereby also jeopardise targets for 2008.
4. Overall, there has been some progress on responding to the two country specific recommendations adopted by the Council. Belgium has made some efforts to further reduce the tax burden on labour, although it remains high above the EU average. Some measures were also taken to reduce regional unemployment and employment disparities, but not through a comprehensive economic strategy and the disparities are increasing.
5. With regard to the other areas on which the Council concluded Belgium should focus, there has been some progress over the 2005-2007 period, but the pace slowed in 2007. There has been most progress on policies to reduce emissions.
6. Last year's Commission Annual Progress Report concluded that Belgium had launched a series of measures to respond to the commitments agreed at the 2006 Spring European Council in the priority action areas of knowledge, entrepreneurship, employment and energy. Since then, there has been some progress on most of the

commitments with a deadline of end 2007, but limited development in the flexicurity domain.

7. The Implementation Report specifically addresses the recommendations issued to the euro area countries. Belgium has made some progress on competition in services, although legislative action is still required in professional services. Progress is limited in the fields of the quality of public finance, employment protection, labour mobility and the development of a coherent flexicurity strategy. The budgetary balance is considerably better than the euro area average.
8. Consultation and efforts to develop ownership of the NRP by central and regional governments and the social partners continue. The Belgian federal government involves regional authorities in drafting the report. Social partners are extensively consulted and provide advice on policy areas, on some implementing measures and on the reporting process. Governance of the implementation of the NRP is strongly linked to structural funds programmes. EU Structural funds are being directed satisfactorily towards improving access to employment and promoting innovation and entrepreneurship.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

9. Belgium kept its budget balanced from 2000 until 2004. It planned to do so in 2005, but an exceptional and one-off assumption of debt from the railway company SNCB left a deficit of 2.3% of GDP. The 2006 government budget surplus of 0.4% of GDP exceeded the NRP's balanced-budget objective, but included revenue-raising one-off measures worth about 0.8% of GDP. For 2007, a budget surplus of 0.3% of GDP was planned, but the actual turnout is projected to be a small deficit as many one-off measures, initially budgeted at 0.5% of GDP, will not be executed by the caretaker government. Assuming no policy changes, the projected deficit would increase slightly to 0.4% of GDP in 2008-2009. The current federal government as a caretaker government is not in a position to contain an increase in the public deficit. The debt-to-GDP ratio continues to decline and should reach 84.6% of GDP in 2007 from 94.2% at end-2004.
10. The Council recommended Belgium to undertake further efforts while continuing fiscal improvement, to reduce the tax burden on labour towards the average of its neighbouring countries, especially by reducing the tax wedge on low-skilled workers. Following the income tax reform decided in 2001 and fully implemented in 2006, a further easing of fiscal pressure on earned incomes will follow, notably from a lump-sum reduction in income tax in the Flemish region, the upward revision of the fixed deductible amount for professional spending, and further tax reductions on high-skilled workers, shift work, night work and overtime work. However, the tax burden on labour remains above the EU average. Moreover, the measures seem insufficient to give low-skilled workers more incentives to take up work or to substantially improve the employment rate of older workers.
11. The Council also referred to the need to focus on the long-term sustainability of public finances. Belgium had already taken a number of relevant measures in the

past, including the Silver Fund and the Generation Pact. In 2007, Belgium established a "Fund for the future of the health system" to offset the medical costs of an ageing population. These measures are only a first response to the major budgetary challenge that ageing poses in Belgium, especially given the low effective retirement age. Responding to this challenge crucially hinges on maintaining high primary surpluses and strict control of government primary expenditure growth. The expected cost of age related expenditure has been upwardly revised from 3.5% to 4.4% of GDP between 2006 and 2030. Combined with expected budgetary deterioration in 2007, additional structural budgetary measures may therefore be needed. These should be complemented by growth and productivity enhancing reform measures encompassing the welfare system and product and labour markets.

12. Between 2005 and 2007, Belgium has achieved some progress in addressing the macro-economic challenges set out in its NRP. The country-specific recommendations and points to watch have to some extent been addressed but require further efforts, and they therefore remain valid.

Micro-economic policies

13. Belgium introduced some new measures in 2007 and continued implementing previously taken initiatives to address its micro-economic challenges. An R&D forum brought together all levels of governance and the private sector to pinpoint Belgium's R&D weaknesses and make recommendations to stop recent declines in investment. Existing initiatives such as fiscal incentives for R&D have been strengthened and public spending on R&D has increased. However, public R&D investment remains well below the EU average.
14. ICT measures continue to be implemented and the federal regulator should now progress with the analysis of the broadband market. The transposition deficit of EU legislation, including the EU Financial Services Action Plan measures, has improved significantly. However, three important directives are still only partially transposed and the public procurement package not yet at all. Work is on-going to reduce the time to start up a business from 26 days to 3 days. Simplification efforts have continued and the institutional set up for better regulation has further improved but no target for reducing administrative burden has been set. Round Table proposals on upgrading legislation could lead to more competition, especially in professional services where legislative action is still required. Competition authorities should enforce competition more actively, particularly in network industries.
15. The Council referred to the need to focus on improving competition in gas and electricity markets and on identifying further emission reduction measures. The measures taken by the federal government and the regions are insufficient, particularly to neutralise the incumbents' market power. The spot market for electricity has been extended, but to be effective, further interconnection capacity is required to remove congestion at the border. Liberalisation of the residential users market in 2007 has been only a partial success, with particularly slow progress in Brussels. The incumbents' presence in transmission and distribution network operators is still high. In Wallonia the incumbent exercises control over nearly all distribution networks. A recent anti-trust decision referred to concerns related to the gas incumbents' anti-competitive behaviour. Measures to ensure independent, clearly mandated, and adequately staffed regulators must be reinforced to ensure effective

regulation of the transmission and distribution network operators and the incumbents. Market rules and their effect on market transparency need reviewing to facilitate new entry.

16. Belgium took appropriate additional emission reduction measures in 2007 and should reach its Kyoto commitments. Financial incentives have been introduced to achieve further energy efficiency and some emission rights will be bought abroad. However, more measures to achieve the renewable target for electricity are needed.
17. Belgium has succeeded in implementing a significant number of measures to deliver on the micro-economic key challenges outlined in the NRP. Good progress has been made on better regulation and the time required to start-up a company. A coherent R&D policy with better coordination across all levels of governance is needed to further increase the level and the impact of public R&D funding if Belgium's R&D is to reach the target of 3% of GDP. The point to watch on competition in the gas and electricity markets has not been addressed sufficiently, and significant challenges remain. The point to watch on reducing emissions represents a good policy response and is therefore no longer merited.

Employment policies

18. Since 2005, Belgium has taken important initiatives covering active ageing, the quality of education and the rights and obligations of people receiving unemployment insurance. However, the overall employment rate (61.0%) and the employment rates for women (54.0%) and older workers (32.0%) remain considerably below the EU goals and getting further from the EU average. Further attention is needed to promote labour market adaptability. Progress over 2005-2007 with regard to the implementation of policies to address Belgium's labour market challenges is therefore mixed.
19. The Council recommended that Belgium should take further measures aimed at reducing regional disparities in unemployment and employment. Regional authorities have reacted to some extent. Data transmission between different public employment services has been improved and job vacancies in the regions are now systematically exchanged. Regional public employment services are also reinforcing language training and the active follow-up of jobseekers. Nevertheless, regional disparities in unemployment and employment have further widened. A comprehensive strategy in accordance with the flexicurity approach should reinforce policy measures taken to improve labour market performance.
20. The Council also referred to the need to focus on increasing the employment rate for older workers and vulnerable groups. New measures improve the transition from school to work but a coherent youth strategy is still to be further developed. To promote active ageing Belgium is gradually implementing an important number of measures agreed in the 2005 Generation Pact. Steps have been taken to encourage adaptability in the labour market, including diversity plans, one-to-one coaching, and concentration of older workers and vulnerable groups in active labour market policies. Further reductions of the tax burden on low wages may improve the integration of outsiders. This is a necessary policy response to Belgium's challenges in this area.

21. Recent policy initiatives are inspired by the flexicurity approach, such as a rebalancing between social security and active labour market policies. Overall however, Belgium is not yet addressing flexicurity in a fully integrated way; measures to tackle segmentation remain at the conceptual stage. Although the NRP underlines the importance for Belgium of enhancing participation in lifelong learning to foster flexibility and security in the labour market, opportunities for lifelong learning should be improved, particularly in-company training.
22. Between 2005 and 2007, Belgium has partially succeeded in implementing measures to deliver on the employment policy commitments expressed in its NRP. Some progress has been made to address the country specific recommendation on regional disparities. A first important package of measures have been taken towards increasing the employment rate of older workers and vulnerable groups, but this needs to be monitored to check whether further measures are required. Belgium requires a comprehensive labour market strategy to improve the performance of the labour market across the territory and the Commission therefore considers a recommendation merited in this area.

PART III: CONCLUSIONS

23. In the light of Belgium's 2007 Implementation Report and the Commission's assessment of progress made to implement key structural reforms and based on the Integrated Guidelines for Growth and Jobs, the following conclusions are appropriate.
24. Belgium has made good progress in implementing its National Reform Programme over the 2005-2007 period. Belgium has shown some progress in fulfilling the commitments agreed by the 2006 Spring European Council in the four priority action areas.
25. The Implementation Report shows some policy response to the Council recommendations, but further reform is still necessary. There has been some response on the additional areas identified in the Council conclusions as requiring attention. The Implementation Report also specifically addresses the recommendations issued to the euro area countries.
26. Among the strengths shown by the Belgium's 2007 Implementation Report are the emission reduction policies and the promising results of the guidance and monitoring system of unemployed people.
27. The policy areas in the Belgian National Reform Programme where challenges need to be tackled with the highest priority are reducing the tax burden on labour whilst strengthening fiscal consolidation and improving labour market performance. Against this background it is recommended that Belgium:
 - continues efforts to further reduce the tax burden on labour towards the average of its neighbouring countries, especially by reducing the tax wedge on low skilled workers, while strengthening fiscal consolidation;

- reinforces the policy measures to improve the performance of its labour market through a comprehensive strategy, in accordance with an integrated flexicurity approach, to enhance labour market participation, lower regional disparities, and increase participation in lifelong learning.
28. In addition, it will be important for Belgium to focus on the following challenges: to fully implement the strategy aiming to ensure the long term sustainability of public finances, including expenditure restraints, fiscal surpluses, and a persistent reduction of government debt; urgently take further measures to improve competition in gas and electricity markets, including through independent and effective regulators and additional measures concerning transmission and distribution operators; to increase substantially its commitment to stimulating R&D and innovation notably by increasing both the level and impact of public funding and developing a coordinated policy mix at all levels; continuing the implementation of the measures to increase the employment rate for older workers and vulnerable groups, monitor their impact and, if need be, take further activation measures.

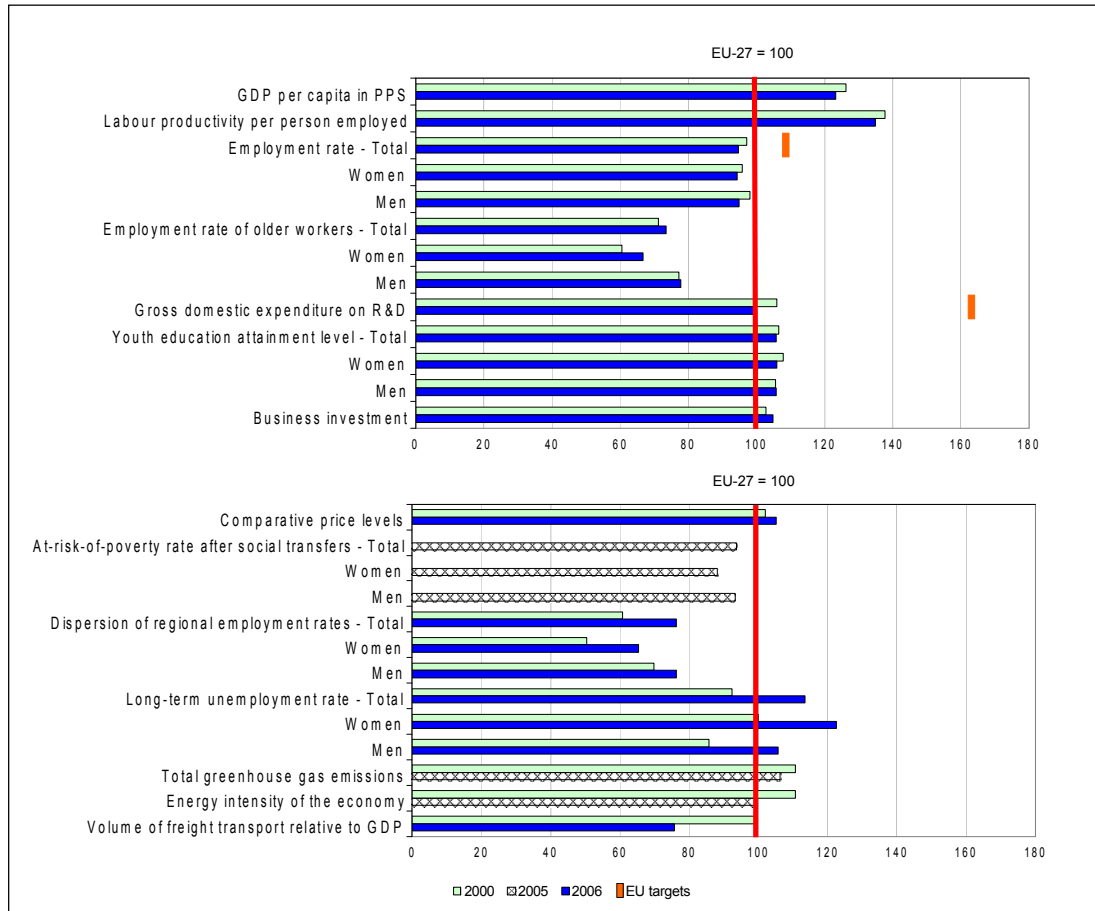
PART IV: STATISTICAL GRAPHS AND DATA

BELGIUM

	BE						EU27			
	2000	2003	2004	2005	2006	2010 National target	2000	2005	2006	2010 EU target
GDP per capita in PPS	126.4	123.5	124.5	124.4	123.3		100.0	100.0	100.0	
Labour productivity per person employed	137.7	134.4	135.6	135.2	134.9		100.0	100.0	100.0	
Employment rate						70.0*				70.0
Total	60.5	59.6	60.3	61.1	61.0		62.2	63.4p	64.4p	
Women	51.5	51.8	52.6	53.8	54.0		53.7	56.2p	57.2p	
Men	69.5	67.3	67.9	68.3	67.9		70.8	70.8p	71.6p	
Employment rate of older workers										
Total	26.3	28.1	30.0	31.8	32.0		36.9	42.3p	43.5p	
Women	16.6	18.7	21.1	22.1	23.2		27.4	33.5p	34.8p	
Men	36.4	37.8	39.1	41.7	40.9		47.1	51.5p	52.6p	
Gross domestic expenditure on R&D						3.0	1.86e	1.84e	1.84e	3.0
Youth education attainment level										
Total	81.7	81.2	81.8	81.8	82.4		76.6	77.4	77.8	
Women	85.6	84.6	84.8	85.3	85.6		79.3	80.1	80.7	
Men	78.0	77.9	78.9	78.4	79.1		73.8	74.7	74.8	
Comparative price levels	102.0	106.5	105.7	105.1	105.2		100.0	100.0	100.0	
Business investment	18.9	17.1	18.0	18.6	19.1		18.4	17.8	18.2	
At-risk-of-poverty rate after social transfers										
Total	13.0	15.0b	15.0	15.0	:			16.0e	:	
Women	14.0	16.0b	16.0	15.0	:			17.0e	:	
Men	12.0	14.0b	14.0	14.0	:			15.0e	:	
Dispersion of regional employment rates										
Total	7.9	7.7	8.7	8.4	8.7		13.0	11.9	11.4	
Women	10.1	9.1	10.7	10.5	10.6		20.0	16.8	16.2	
Men	6.7	6.9	7.2	6.8	7.1		9.6	9.7	9.3	
Long-term unemployment rate										
Total	3.7	3.7	4.1	4.4	4.2		4.0	4.1p	3.7p	
Women	4.6	4.2	4.7	5.0	4.9		4.6	4.5p	4.0p	
Men	3.0	3.3	3.7	3.8	3.7		3.5	3.8p	3.5p	
Total greenhouse gas emissions	100.4	100.8	100.5	97.9	:		90.7	92.1	:	
Energy intensity of the economy	236.1	217.4	207.4	205.7	:		213.1	208.1	:	
Volume of freight transport relative to GDP	98.0	95.0	89.3	83.7	80.9e		99.1e	105.4e	106.7e	

* National target: 70% as soon as possible

PERFORMANCE COMPARED TO EU-27



Bulgaria

1. Bulgaria's GDP growth rate has averaged around 4% over the last ten years, accelerating to above 6% per year since 2004. Accordingly, GDP per capita reached 37.1% of the EU average in 2006, but remains among the lowest in the EU. Although the employment rate increased from 49.7% in 2001 to 58.6% in 2006, it is still below the EU average. The unemployment rate fell to 9% in 2006, down from 19.5% in 2001, and is estimated to decline further to below 8% in 2007. Macro-economic imbalances have been increasing substantially in recent years, with widening external deficits and rising inflationary pressures. Moreover, the labour market has tightened since 2006, triggering an acceleration of wage growth to around 20% in the first three quarters of 2007, clearly outpacing productivity growth.
2. Bulgaria joined the EU on 1st January 2007. Its economy is at present performing strongly, but is showing signs of overheating with a high and growing external deficit, growing labour shortages, strong wage growth including in the public sector and rapid increases in credit growth which have fuelled inflationary pressures. The challenge for Bulgaria consists of further tackling these macro-economic vulnerabilities by maintaining a tight fiscal policy and speeding up structural reforms to strengthen its competitiveness. Improving administrative capacity is a prerequisite for a successful implementation of structural reforms.

PART I: GENERAL ASSESSMENT

3. Since the Bulgarian National Reform Programme (NRP) was submitted in March 2007, the Commission's assessment is mainly based on the quality of the policy response as well as on first steps taken towards its implementation. The NRP identifies five key challenges for the period 2007-2009: maintaining macro-economic stability; infrastructure; improving the business environment; improving the quality of human capital; and activating labour supply through using a flexicurity approach. Furthermore the NRP identifies improving administrative capacity as an overarching challenge.
4. The NRP identifies the right challenges. The NRP clearly prioritises and introduces the correct sequence for addressing the numerous challenges which the country faces. It is also rightly recognising that improving administrative capacity is an absolute prerequisite to achieve progress in other priority areas. The presentation of the NRP is operational. For each priority, based on a clear problem analysis, it briefly lays out the planned measures, the actions, the targets, the associated budgets, responsible services and timelines. The NRP is however weak in presenting concrete policy measures in some areas, in particular strengthening administrative capacity and cutting red tape. The implementation report does not provide sufficient additional information on concrete measures in those two areas.
5. In spite of some progress achieved so far, Bulgaria's economic and social development is still hampered by weak public administration. Corruption still affects the business environment and access to and quality of the public services. Significant

improvements on these aspects are urgently needed. In this context Bulgaria presented a report on the implementation of the Action Plan under the Strategy for Transparent Governance and for Prevention and Counteraction of Corruption. Progress in this area is monitored through the Commission's cooperation and verification mechanism.

6. Whereas legislation to reform the administration was adopted in 1998, the effects are not yet visible. The NRP and the Implementation report contain only measures either of a general or of a technical nature to improve administrative capacity. It does not address the need to develop a comprehensive human resources policy aimed in particular at tackling the high-turnover of senior staff, raising the independence of the civil service, increasing performance-based pay and career development schemes.
7. Furthermore, whereas the NRP rightly prioritises by focusing on only 5 policy areas that Bulgaria needs to tackle as a matter of urgency, this prioritisation is not reflected sufficiently in the planned measures to raise administrative capacity. This weakness could be remedied by recognising that the administrative capacity must first of all be improved in those departments (and regulatory authorities) that are in charge of elaborating and implementing policy measures in those 5 priority areas.
8. The NRP foresees several measures to meet the 2006 Spring European Council in the priority action areas of knowledge, entrepreneurship, employment and energy. It foresees the establishment of one-stop shops for setting up a business but greater effort will need to be made to ensure adequate simplification. Several projects in the field of entrepreneurship education are on-going, but their scope is limited.
9. Political ownership of the NRP is strong, with the appointment of a national Lisbon coordinator at political level and the quarterly monitoring of progress by the Prime-Minister and the Council of Ministers. Consultation of stakeholders, parliament and the social partners has been substantial. Pursuing this dialogue with stakeholders during the implementation phase will be important. Taking a strongly integrated policy approach across government departments will be key to the successful implementation of the NRP. Meeting the NRP's ultimate aim - to catch up with the rest of the EU by growing robustly and increasing the employment rate – will depend on maintaining strong political commitment throughout its implementation phase.
10. Bulgaria is eligible for € 6.852 billion from the Structural Funds in the period 2007-2013. The links between the priorities in the NRP and the programmes under the Structural and Cohesion Funds are fairly strong. Bulgaria needs to stay focused on strategic priorities and realistic targets, with Structural Funds-assisted activities complementing and not replacing policy developments set out in the NRP. To ensure the efficient absorption and delivery of cohesion policy programmes, the administrative capacity must be further reinforced at national, regional and local level.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

11. Maintaining macro-economic stability in the context of the currency board arrangements through tight fiscal policy, preserving long-term sustainability of public finances, and further structural reform is rightly identified as a key challenge in Bulgaria's NRP. The NRP shows ambition with regard to the medium-term budgetary surpluses (in the order of 1.5%-2% of GDP), but could be more ambitious with regard to the acceleration of structural reforms.
12. The current account deficit rose to around 19% of GDP in the first half of 2007 due largely to buoyant growth of domestic demand and especially investments. This, combined with accelerated wage growth and increasing food and energy prices, contributed to annual inflation rising to over 10% in September 2007. Despite comparatively low employment rates, growing shortages and skills gaps in the labour market have implied a significant acceleration of wage growth. Although Bulgaria targets a budgetary surplus, given rising macro-economic imbalances and signs of overheating, Bulgaria faces risks regarding the sustainability of its growth path. Structural reforms must be accelerated in order to reinforce the economy's ability to adjust, whilst sticking to tight fiscal and income policies to contain domestic demand.
13. The Implementation Report confirms the commitment to high medium-term budgetary surpluses and to avoiding pro-cyclical fiscal easing. Fiscal policy has been tightened in recent years, with the fiscal surplus projected to reach 3% of GDP in 2007. Maintaining this tight fiscal stance is essential given the rising external deficit and inflation. With wage growth in the public sector accelerating during 2007 and a scheduled increase of minimum wages by over 20% in 2008, ensuring that public sector wage policy contributes to wage moderation will be crucial to control inflation and to preserve competitiveness. Moreover, improving the efficiency of public expenditures will also be important to strengthen potential growth. The presentation of the 2008 budget on a programme basis and the envisaged public expenditure reviews, notably in health care and education, are important positive steps in this respect.
14. Bulgaria faces a demographic challenge to its long-term financial sustainability. To limit the expected negative budgetary impact, the NRP acknowledges the need for continued pension and health reform. A special demographic reserve fund has been capitalised to underpin the first-pillar pension system, but the respective legislation is still to be adopted. Furthermore, pensions have been increased twice by 10% in 2007, contrary to existing legislative provisions on pension indexation. Refraining from such discretionary measures would be important to support long-term sustainability. After several delays, a draft national health strategy has been elaborated which provides for an increase in public health expenditure, but needs to be complemented with concrete measures aimed at improving efficiency.
15. In summary, maintaining tight fiscal and income policies while improving public expenditure efficiency and accelerating structural reforms to ease labour market

pressures, improve skills and to increase competitiveness of product and service markets will be crucial to contain external imbalances and inflationary pressures.

Micro-economic policies

16. The NRP identifies improving the business environment and modernising infrastructure as the micro-economic challenges. The Commission subscribes to these priorities. Improving the business environment, transport, telecommunications and energy infrastructure, and opening network markets and the services sector will require an integrated policy approach.
17. The NRP sets out some measures, but of a rather general nature, to improve the business environment, such as a better regulation agenda, the introduction of impact assessment for new laws, the introduction of a new electronic-based commercial register, introduction of single form schemes for payments at borders and one stop shops at all levels of administration. Although these measures are a clear step in the right direction, progress should be seen against the backdrop of continued overregulation, long delays in obtaining authorisations, time-consuming settlement of contractual and legal disputes and continued corruption. Besides implementing the better regulation agenda, further urgent structural measures are needed to reduce the number of authorisations and time for their delivery, introduce more transparency and recourse. These measures can assist the public administrations in delivering a better service to the citizen and businesses. Judicial procedures must equally be made more transparent. The introduction of single contact points and electronic-procedures and other obligations deriving from the implementation of the Services Directive must be seized as an opportunity to streamline procedures.
18. The NRP recognises the importance of R&D in the broader context of innovation, and lists a number of problems mainly relating to the limited involvement of the business sector in R&D activity. However, concrete measures are yet to be proposed to address the major problem of reforming the public research base, and Bulgaria has yet to set a target for R&D intensity. In order to ensure long-term productivity growth, it is vital to boost private R&D investment and reform public R&D to be both efficient and relevant to industrial needs. This should be achieved by increasing the share of competitive funding and focusing on few priorities. Better synergy between education and R&D policies is also needed.
19. The NRP and Implementation Report fully recognise the importance of ICT, in particular the development of e-government and broadband infrastructure to facilitate the move towards a knowledge-based society. The NRP sets out in general terms a range of initiatives, most of which will draw on Structural Funds investments, to improve transport, telecommunications, energy infrastructure and competitiveness but underestimates the administrative capacity constraints. Management structures for project implementation covering the whole project cycle, notably project feasibility assessment, project design, tendering and procurement strategies and project/works management must be further reinforced. Urgent measures must be taken to ensure the staffing, independence and proper functioning of regulatory authorities to increase competition in the network industries and in particular in the area of telecommunications, through the rapid and effective implementation of EU legislation.

20. Bulgaria would benefit from an integrated approach in the micro-economic domain. The effects of policies are unclear given the absence of such an approach. The proposed steps to cut red tape and consequently improve the business environment are insufficient to address the challenges.

Employment policies

21. Bulgaria is facing increased labour shortages as a result of fast growth, strong job creation, outward migration and insufficient skill levels in specific sectors. Nonetheless, employment rates remain low and structural unemployment relatively high so that there is, in principle, still a large source of untapped labour. Against this backdrop, activating the labour supply along with improving the adaptability of workers by improving access to and quality of education and training are rightly addressed as main priorities in the NRP.
22. Labour market policies currently focus on activating vulnerable groups and increasing literacy among low-skilled persons. Sustainable economic growth is at risk if further measures are not taken to put into place an integrated active labour market policy approach. So far, notwithstanding some initial measures, there has been limited progress to reform the design and scope of active labour market policies as employment programmes tend to create predominantly subsidised low-skilled jobs providing little opportunity to increase workers' employability through training. Further efforts are needed to assess, analyse and improve the effectiveness, efficiency and adequacy of active policies. More sustainable and integrated policies are necessary to encourage people to participate in the labour market and remain in employment through further opportunities for vocational training and through more far-reaching youth employment policies facilitating school-to-work transition, with special attention to Roma. Strengthening the capacity of labour market institutions to implement policies and adequately deliver employment services should also become a high priority area. The Implementation Report does not foresee further actions to address the need for strengthening the capacity of the Employment Agency and improve its effectiveness, including its role in unemployment prevention.
23. Bulgaria faces major challenges with respect to the financial efficiency and the quality of the education system. Further steps should be taken to reform education and training systems to ensure correspondence between skills supplied and labour market needs, including establishing a reliable labour market monitoring system. In order to tackle persistently high early school leaving, Bulgaria should take an integrated policy approach by focusing more on students at risk, either because of social or geographical background, in particular Roma. A comprehensive and coherent life-long learning strategy should be adopted and implemented to increase participation levels while encouraging employers to invest in training.
24. Recently adopted legislative amendments are first steps towards introducing a flexicurity approach in Bulgaria but an integrated approach must be further elaborated and involving social partners in all policy areas, particularly in life-long learning where their role has been weak. Making contractual arrangements more flexible and tackling the high level of undeclared work can further help increase labour supply. Some progress has been made in tackling undeclared work through compulsory registration of employment contracts and reduction of social insurance

contributions. However, more efforts are necessary to strengthen the administrative capacity of labour inspectorates and improve compliance.

25. Overall, Bulgaria has made some initial progress in the employment policy field. However, despite the current trend of falling unemployment, Bulgaria needs to take a more integrated and better-sequenced approach to increase activity and employment in the formal economy for all; ensure correspondence between skills and labour market needs; and raise the skills potential of the labour force.

PART III: CONCLUSIONS

26. In the light of Bulgaria's 2007 Implementation Report and the Commission's assessment of its National Reform Programme and based on the Integrated Guidelines for Growth and Jobs, the following conclusions are appropriate:
27. Overall, the National Reform Programme focuses on the right challenges, but in some areas lacks concrete and substantial measures in particular as regards strengthening administrative capacity. Furthermore the National Reform Programme lacks measures aimed at urgently and significantly reducing red tape to make the business environment more dynamic and competitive. Given the growing economic imbalances it is particularly important for Bulgaria to accelerate the implementation of its National Reform Programme in order to create the necessary conditions for sustainable growth and jobs in the medium to longer term.
28. The National Reform Programme's strengths include a clear problem analysis and right prioritisation and sequencing of reforms as well as strong political ownership. Important provisions for a tight monitoring of progress at the highest political level have been put in place, which should prove an effective tool for ensuring a rapid and effective implementation of the National Reform Programme. The National Reform Programme is furthermore underpinned by a tight fiscal policy which offers a solid basis for accelerating the needed structural reforms to ensure long-term growth.
29. The policy areas in the Bulgarian National Reform Programme where challenges need to be tackled with the highest priority and budgetary impacts of measures and details on the monitoring and evaluation procedures should be clearly spelled out are: administrative capacity; macro-economic imbalances; red tape; and the functioning of the labour market. Against this background, Bulgaria is recommended to:
 - urgently strengthen administrative capacity in particular focus on key government functions, including regulatory authorities, and the judiciary.
 - contain the growing current account deficit and inflationary pressures, in particular by a tight fiscal policy, improving the quality of public expenditure and promoting wage moderation in order to keep wage developments in line with productivity gains;
 - take rapid measures substantially to cut red tape and shorten procedural delays in order to improve the business environment (in particular for SMEs and facilitating start-ups), which will also help in the fight against corruption;

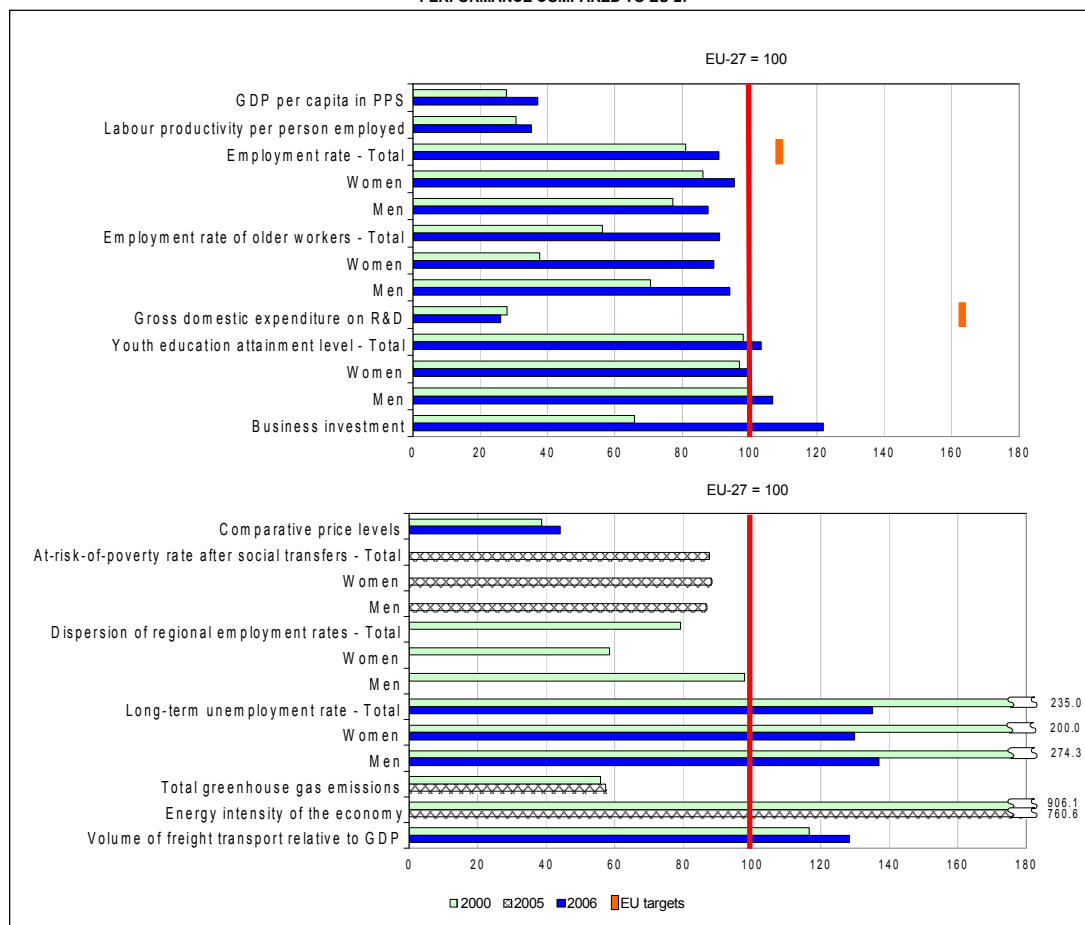
- increase the quality of labour supply and the employment rate by improving the efficiency and effectiveness of active labour market policies and further reform the education system to raise skills to levels that better match labour market needs and reduce early school leaving.
30. In addition, it will be important for Bulgaria over the period of the National Reform Programme to focus on: taking further measures to ensure the long-term sustainability of public finances, in particular with regard to potential risks in terms of adequacy and sustainability of pensions; creating all necessary pre-conditions for strong competition in network industries; elaborating an integrated policy for R&D and innovation notably aimed at reforming the public R&D system, shifting public support to R&D- based on an overall R&D intensity target for 2010- towards more competitive funding focused on key priorities; tackling undeclared work by strengthening institutional capacity to perform inspections and ensure legal enforcement; completing the lifelong learning strategy and increasing participation.

PART IV: STATISTICAL GRAPHS AND DATA

BULGARIA

	BG						EU27			
	2000	2003	2004	2005	2006	2010 National target	2000	2005	2006	2010 EU target
GDP per capita in PPS	27.9	32.6	33.6	35.2	37.1		100.0	100.0	100.0	
Labour productivity per person employed	30.6	33.4	33.5	34.1	35.3		100.0	100.0	100.0	
Employment rate						61.0 (2009)				70.0
Total	50.4	52.5	54.2	55.8	58.6		62.2	63.4p	64.4p	
Women	46.3	49.0	50.6	51.7	54.6		53.7	56.2p	57.2p	
Men	54.7	56.0	57.9	60.0	62.8		70.8	70.8p	71.6p	
Employment rate of older workers										
Total	20.8	30.0	32.5	34.7	39.6		36.9	42.3p	43.5p	
Women	10.3	21.0	24.2	25.5	31.1		27.4	33.5p	34.8p	
Men	33.2	40.5	42.2	45.5	49.5		47.1	51.5p	52.6p	
Gross domestic expenditure on R&D	0.52	0.50	0.50	0.49	0.48		1.86e	1.84e	1.84e	3.0
Youth education attainment level										
Total	75.2	76.3	76.1	76.5	80.5		76.6	77.4	77.8	
Women	77.0	77.3	77.5	77.1	81.1		79.3	80.1	80.7	
Men	73.4	75.4	74.9	75.9	80.0		73.8	74.7	74.8	
Comparative price levels	38.7	40.7	41.7	42.4	44.1		100.0	100.0	100.0	
Business investment	12.1	16.6	17.6	20.0	22.2		18.4	17.8	18.2	
At-risk-of-poverty rate after social transfers										
Total	14.0	14.0	15.0	14.0	:		:	16.0e	:	
Women	15.0	16.0	17.0	15.0	:		:	17.0e	:	
Men	13.0	12.0	13.0	13.0	:		:	15.0e	:	
Dispersion of regional employment rates										
Total	10.3	6.8	7.0	7.1	:		13.0	11.9	11.4	
Women	11.7	8.8	8.9	8.0	:		20.0	16.8	16.2	
Men	9.4	5.8	5.9	7.0	:		9.6	9.7	9.3	
Long-term unemployment rate										
Total	9.4	8.9	7.2	6.0	5.0		4.0	4.1p	3.7p	
Women	9.2	8.6	7.0	6.0	5.2		4.6	4.5p	4.0p	
Men	9.6	9.2	7.3	6.1	4.8		3.5	3.8p	3.5p	
Total greenhouse gas emissions	50.7	52.7	52.2	52.8	:		90.7	92.1	:	
Energy intensity of the economy	1931.1	1769.2	1595.3	1582.4	:		213.1	208.1	:	
Volume of freight transport relative to GDP	115.6	127.1	138.4	147.9	137.1		99.1e	105.4e	106.7e	

PERFORMANCE COMPARED TO EU-27



Czech Republic

1. The Czech Republic grew at an annual rate of 6.4% of GDP over 2005 and 2006. Growth in 2007 is expected to be almost 6%, and to remain close to its potential of 5% in 2008 and 2009. GDP per capita is currently 79% of the EU average. This strong economic growth, mainly driven by domestic demand, has positively affected the labour market with the employment rate projected to reach 68% in 2007. The unemployment rate decreased below 6% in 2007 and is projected to drop to 5% by 2009. However, although falling, the proportion of long-term unemployed remains high.
2. Further structural reform focused on labour market flexibility, increasing human capital, and active policy measures to tackle skill mismatches, are now important. High growth rates create a good environment for further fiscal consolidation and a reallocation of spending towards growth-enhancing activities. Whilst the level of government debt is relatively low, at about 30% of GDP, it is anticipated to rise steeply mainly due to the ageing population and the structure of the pension and healthcare systems, putting the long-term sustainability of public finances in the Czech Republic at high risk.

PART I: GENERAL ASSESSMENT

3. Overall, the Implementation Report shows some progress on implementing the National Reform Programme (NRP) over the 2005-2007 period, with a slight acceleration in 2007.
4. There has been some progress on the recommendations issued by the Council to the Czech Republic. Steps have been taken to improve the long-term sustainability of public finances by reforming the pension and healthcare systems. The recommendation on R&D has been partly addressed. Policy measures in the employment, and education and training areas represent important steps forward though continuing effort is now needed.
5. With regard to the other areas on which the Council concluded the Czech Republic should focus, progress has been mixed. Good progress has been achieved in developing a coherent approach towards improving the regulatory framework for enterprises. An active ageing strategy is being implemented, and regional disparities have slightly decreased, but more progress is needed. Although unemployment amongst disadvantaged groups decreased, the Czech Republic has to move forward significantly to support the better integration of disadvantaged groups into the labour market, reconciling work and family life, and in terms of reducing the high gender pay gap.
6. Last year's Commission Annual Progress Report concluded that the Czech Republic had made mixed progress on meeting the specific commitments agreed at the 2006 Spring European Council in the priority action areas of knowledge, entrepreneurship, employment and energy. Since then, there has been further mixed progress on most of the commitments with an end 2007 deadline.

7. Consultation and efforts to develop ownership of the NRP within government and with the social partners are quite good. The Office of the Vice-Prime Minister for European Affairs is responsible for the coordination, preparation and evaluation of the Implementation Report, supported by an inter-ministerial working group. Other stakeholders are consulted but more efforts are needed to support implementation at regional and local levels. The Implementation Report provides a clear overview and timetable. Links between the NRP implementation and the structural and cohesion funds are fairly strong. The earmarking of structural funding for Growth and Jobs objectives is being applied satisfactorily.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

8. The Czech Republic has made partial progress over the 2005-2007 period in addressing its macro-economic challenges. On fiscal consolidation, the budget deficit is likely to worsen to 3.4% of GDP in 2007, mainly due to increases in social spending (likely to cost over 1% of GDP) without compensating measures in other areas. A package of measures to improve fiscal stability in the medium term was introduced in September 2007. This Package includes expenditure cuts above the level of revenue reductions. On the revenue side, these include the introduction of a 15% flat tax rate on personal income from 2008, a gradual decrease in corporate income tax from 24% to 19% in 2010, an increase of the reduced VAT rate from 5% to 9%, and the introduction of new environmental taxes. The package shifts the tax burden from direct to indirect taxation. On the expenditure side, substantial cuts in mandatory spending aim at improving the flexibility of public expenditure toward growth enhancing public spending. Overall, the reform package and the 2008 budget approved by the government should reduce the deficit to 2.9% of GDP in 2008.
9. The Council recommended the Czech Republic to take steps to implement reforms of the pension and healthcare systems. A pension reform has been prepared, including an extension of the retirement age to 65 and the introduction of a fully-funded pillar. Healthcare reform is also under preparation, aiming to transform health insurance companies into joint-stock companies in order to increase their transparency and establish competition among healthcare institutions. The Stabilisation Package introduced co-payments for some medical services. These represent first valuable steps in the right direction.
10. The Czech Republic has partially succeeded in implementing measures to deliver on the macro-economic commitments expressed in its NRP. New measures approved in September 2007 should contribute to fiscal consolidation in the short and medium term, although further efforts will be needed for the long-term. The proposed pension reform should be given a concrete time frame for its implementation as soon as possible in order for the Czech Republic to prepare for the negative impact of population ageing on public finances and potential economic growth.

Micro-economic policies

11. Important steps have been taken over the 2005-2007 period towards improving the business environment. In 2007, most progress has been achieved on the regulatory

framework, while progress in other areas, for example e-government and access to venture capital, was more modest. The timely and effective implementation and application of EU legislation needs attention.

12. The Council recommended that the Czech Republic increase the level and efficiency of R&D expenditure. Public R&D expenditure is projected to increase in 2007, improving the chances of the Czech Republic reaching the target in the NRP. The major challenge now is to increase the effectiveness of spending. Alongside this, R&D expenditure financed by the private sector has increased from 0.66% of the GDP in 2004 to 0.88% in 2006. The private contribution now amounts to 57% of total R&D spending. In addition to expenditure increases, the Czech government has committed to better targeting and to a higher structural fund contribution to R&D. It will also invest more in innovation infrastructure that promotes cooperation between public and private research actors. More pronounced action is now needed to avert research personnel shortages.
13. The Council also referred to the need to focus on: improving the system of patenting and the protection of intellectual property rights, speeding up progress in the ICT area, meeting targets for reducing the administrative burden on enterprises, further developing access to finance for innovative companies, developing links between foreign-owned and domestic companies and introducing entrepreneurship education into the curricula.
14. The Czech Republic lags behind in terms of European patenting, although it performs well on national patenting. The effective enforcement of intellectual property rights remains a challenge. ICT up-take is improving, for which the structural funds have been an important investment source. However, the adoption of several legal acts in the field of e-government and electronic communication needs to be accelerated, and implemented. An insufficient level of interconnection between public authority databases is still a serious obstacle for effective e-government, and the relatively low ICT use by citizens must be addressed. The "Smart Administration Strategy" provides a coherent approach for improving the regulatory framework for enterprises and set a target of a 20% reduction in the administrative burden. This represents a good policy response, but continued reform is essential.
15. A lack of finance for innovation still hampers the development and commercialisation of new products and services, despite the increased use of EU funds. Further promotion of the venture capital market is therefore important. Good progress has been achieved in strengthening cooperation between foreign-owned and domestic companies, again notably through the support of structural funds programmes. The Czech government recognises the economic importance of SMEs. In 2006 it approved "the conception of support for small and medium-sized enterprises 2007-2013". However, it is neither clear how SMEs will directly benefit from this, nor which main areas of support fall under this concept. Better information on the key elements of SME support would be welcome. Although entrepreneurship education has been integrated into the "Framework Educational Programmes" the coverage of these programmes is limited. Action is also needed to simplify the recruitment of the first employee.
16. The Czech Republic has partially succeeded in implementing measures to deliver on the micro-economic commitments of the NRP. Significant progress has been made in

promoting better regulation and the Commission therefore considers that this point to watch is no longer merited. There has been some progress in addressing the recommendation on R&D and the points to watch in the area of intellectual property, ICT, financing for innovation and entrepreneurship education where an increased pace of reform is now needed. The Commission therefore considers that the recommendation and the points to watch in these areas remain valid.

Employment policies

17. Continued economic growth has helped increase employment in the Czech Republic. The employment rate is now approaching the 2008 targets, with the exception of older workers. Although decreasing, youth and long-term unemployment remain high.
18. The Council recommended the Czech Republic to further modernise employment protection, including legislation and tax and benefit systems; improve efficiency and equity in education and training, especially in their responsiveness to labour market needs; provide incentives to invest in training, particularly for older workers and the low-skilled; and increase the diversification of tertiary education supply.
19. A new Labour Code entered into force in January 2007 to facilitate flexible work organisation. However, it did not address employment protection of permanent contracts. The announced introduction of ceilings on social and health insurance contributions is a positive step for reducing non-wage labour costs. Stricter conditions for unemployment and social benefits have contributed to decreased benefit dependency, but this should be combined with more effective active labour market policies. The integration of employment and social administrations is under preparation, aiming to improve the coherence and efficiency of employment and social policies. Within the framework of the public finance reform, benefit reform has been approved which should further increase incentives to work. Extensive educational reform continues. A reform of curricula for primary and secondary education is ongoing, and the number of tertiary students and study programmes is increasing, particularly in technical and natural sciences. A comprehensive lifelong learning strategy was approved, and gives greater access to training and incentives for schools to provide training for adults. However, limited progress has been made to provide incentives for individuals and employers to invest in training. These policy measures are important first steps in the right direction that now need complementing.
20. The Council also referred to the need to focus on a better integration of disadvantaged groups into the labour market, reducing regional employment disparities, reconciling work and family life, tackling the gender pay gap and implementing an active ageing strategy. Although overall unemployment is shrinking, further efforts and resources are needed to help disadvantaged groups, in particular people with disabilities and the low-skilled. The situation of the Roma minority requires further attention. No additional measures have been taken to reduce regional disparities. To help address a high gender pay gap, the new flexible duration of maternity leave contains financial incentives to encourage women to return rapidly to the labour market. In order to better reconcile work and family life this measure needs to be complemented by an increase in childcare facilities. A rapid implementation of the active ageing strategy is now required.

21. The Czech Republic partly addresses flexicurity in an integrated way. Permanent contracts continue to be the norm. Active labour market policies lack funding and are not as effective as they could be, and adult participation in lifelong learning remains low. However, a range of measures enhancing labour market flexibility and modernizing the social security system have been implemented. In addition, a broad range of reform measures are being implemented to modernize all levels of education to bring them closer to employment needs.
22. In general, the Czech Republic has partially succeeded in implementing measures to deliver on the employment policy commitments expressed in its NRP. There has been mixed progress over 2005-2007 in addressing the challenges faced by the Czech Republic in terms of labour market flexibility, greater inclusion in the labour market of groups at the margins, and of improving education. The country specific recommendation and points to watch have been addressed to some extent. The Commission considers the measures taken so far a limited response to the challenges the Czech Republic faces in the fields concerned. It is now important to step up the pace of reform.

PART III: CONCLUSIONS

23. In the light of the 2007 Czech Republic Implementation Report and the Commission's assessment of progress made in implementing key structural reforms and based on the Integrated Guidelines for Growth and Jobs, the following conclusions are appropriate.
24. The Czech Republic has made some progress in implementing its National Reform Programme over the 2005-2007 period. The Czech Republic had made some progress on meeting the specific commitments agreed at the 2006 Spring European Council in the priority action areas.
25. The Implementation Report shows some policy response to the recommendations adopted by the Council. There has been some policy response on the additional areas requiring attention, as identified in the Council conclusions.
26. Among the strengths shown by the 2007 Czech Republic Implementation Report are the coherent strategy to improve the regulatory framework for enterprises, reforms to make work pay, of the curricula for primary and secondary education, to increase participation in tertiary education, and the adoption of the lifelong learning strategy.
27. The policy areas in the Czech Republic National Reform Programme where challenges need to be tackled with the highest priority are the long-term sustainability of public finances in the context of an ageing population, fulfilling the commitments for public R&D expenditure and further increasing its effectiveness, improving security and flexibility in the labour market, improving the efficiency and equity in education and training and increasing participation in lifelong learning. Against this background it is recommended that the Czech Republic:
 - with a view to improving the long-term sustainability of public finances, implements the announced reform programme of the pension system without delay, and implements reforms announced in the healthcare system;

- meets the targets for public R&D expenditure and increases its effectiveness, notably by promoting a better collaboration between business, universities and public R&D institutions, and by providing the necessary human resources for research and development;
- within an integrated flexicurity approach, further modernises employment protection, including legislation, improves the efficiency and equity of education and training, especially its responsiveness to labour market needs, provide incentives to invest in training particularly for older workers and the low-skilled, and increases the diversification of tertiary education supply.

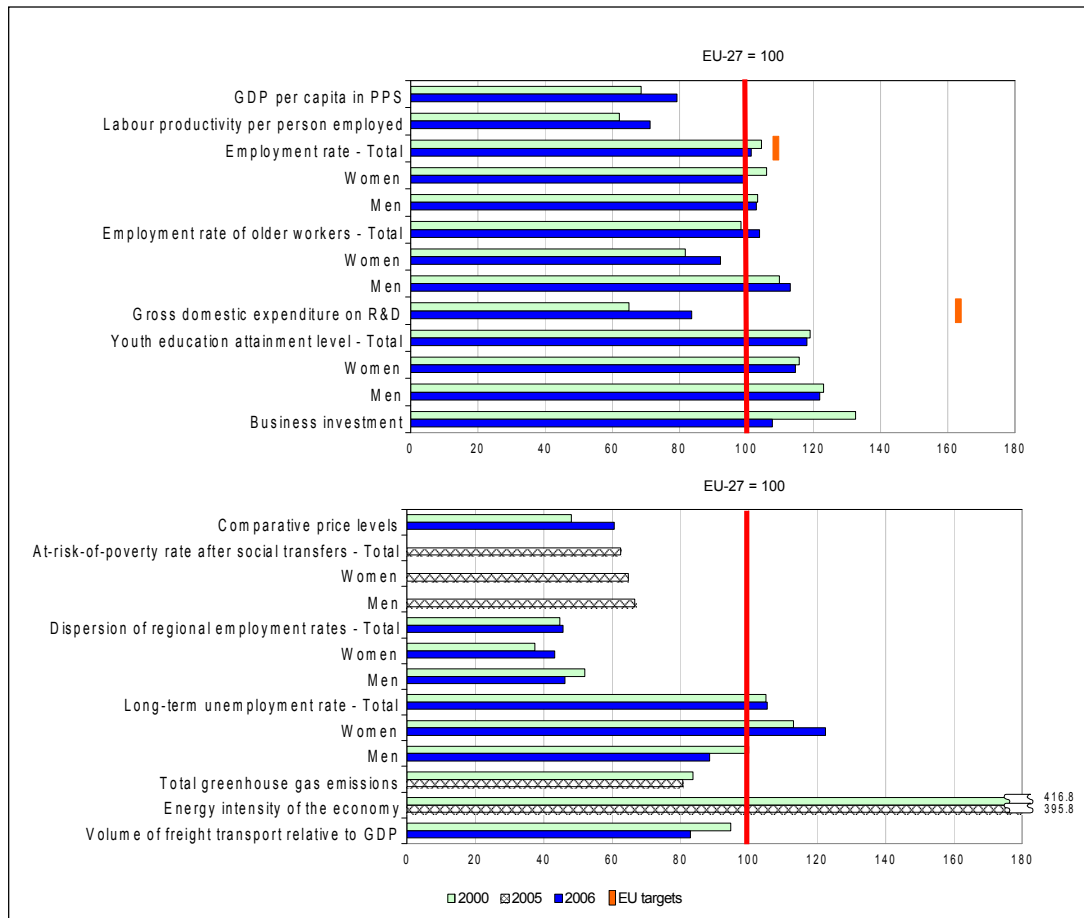
28. In addition, it will be important for the Czech Republic to focus over the period of the National Reform Programme on the following challenges: improving the protection of intellectual property rights; speeding up progress in the ICT area, including by implementing and monitoring a fully enabled legal environment for e-government; improving access to finance for innovative companies, in particular through further developing the venture capital market; increasing the coverage of entrepreneurship education; better integrating disadvantaged groups into the labour market; reducing regional disparities; reconciling work and family life; tackling the gender pay gap; and implementing the active ageing strategy.

PART IV: STATISTICAL GRAPHS AND DATA

CZECH REPUBLIC

	CZ						EU27			
	2000	2003	2004	2005	2006	2010 National target	2000	2005	2006	2010 EU target
GDP per capita in PPS	68.7	73.7	76.1	77.0	79.3		100.0	100.0	100.0	
Labour productivity per person employed	62.2	66.5	68.6	69.3	71.2		100.0	100.0	100.0	
Employment rate						66.4 (2008)				70.0
Total	65.0	64.7	64.2	64.8	65.3		62.2	63.4p	64.4p	
Women	56.9	56.3	56.0	56.3	56.8		53.7	56.2p	57.2p	
Men	73.2	73.1	72.3	73.3	73.7		70.8p	71.6p		
Employment rate of older workers						2.06				3.0
Total	36.3	42.3	42.7	44.5	45.2		36.9	42.3p	43.5p	
Women	22.4	28.4	29.4	30.9	32.1		27.4	33.5p	34.8p	
Men	51.7	57.5	57.2	59.3	59.5		47.1	51.5p	52.6p	
Gross domestic expenditure on R&D	1.21	1.25	1.25	1.41	1.54		1.86e	1.84e	1.84e	
Youth education attainment level						2.06				3.0
Total	91.2	92.1	91.4	91.2	91.8		76.6	77.4	77.8	
Women	91.7	91.5	91.8	91.1	92.4		79.3	80.1	80.7	
Men	90.7	92.8	91.0	91.3	91.1		73.8	74.7	74.8	
Comparative price levels	48.1	54.5	54.9	58.1	60.7		100.0	100.0	100.0	
Business investment	24.4	22.1	21.0	20.1	19.6		18.4	17.8	18.2	
At-risk-of-poverty rate after social transfers										
Total	:	:	:	10.0b	:		16.0e	:	:	
Women	:	:	:	11.0b	:		17.0e	:	:	
Men	:	:	:	10.0b	:		15.0e	:	:	
Dispersion of regional employment rates										
Total	5.8	5.8	5.6	5.5	5.2		13.0	11.9	11.4	
Women	7.5	7.4	6.6	6.7	7.0		20.0	16.8	16.2	
Men	5.0	4.9	5.1	4.8	4.3		9.6	9.7	9.3	
Long-term unemployment rate										
Total	4.2	3.8	4.2	4.2	3.9		4.0	4.1p	3.7p	
Women	5.2	5.0	5.3	5.3	4.9		4.6	4.5p	4.0p	
Men	3.5	2.9	3.4	3.4	3.1		3.5	3.8p	3.5p	
Total greenhouse gas emissions	75.9	75.2	75.0	74.2	:		90.7	92.1	:	
Energy intensity of the economy	888.4	891.2	874.4	823.4	:		213.1	208.1	:	
Volume of freight transport relative to GDP	93.9	98.7	92.5	83.0	88.5		99.1e	105.4e	106.7e	

PERFORMANCE COMPARED TO EU-27



Denmark

1. Denmark performs well with regard to both growth and jobs. In recent years GDP growth has been particularly strong (above 3% in 2005 and 2006), driven by private consumption and a booming housing market, and is now constrained by labour shortages. With employment increasing rapidly, unemployment reached 3.3% in mid-2007, the lowest level in 30 years, and the lowest in the EU. Denmark also has the highest employment rates in the EU at 77.4% in 2006, while levels for productivity and working time are relatively close to the EU-15 average.
2. Denmark has continued to consolidate its public finances to prepare for the ageing of the population and to this end welfare systems have been reformed. Structural unemployment has been reduced through labour market reforms within the flexicurity approach. Given the already high employment level, the potential for further enhancing labour supply lies especially in increasing hours worked, and augmenting participation rates among, in particular, older workers, immigrants and their descendants.

PART I: GENERAL ASSESSMENT

3. Overall, Denmark has made very good progress with implementing the 2005 National Reform Programme (NRP) over the 2005-2007 period. Compared to the large number of actions taken in the first half of 2006, the pace of progress appears to have decreased somewhat over the last year. Progress remains nevertheless good. In August 2007, Denmark presented the "Denmark 2015" plan outlining the medium-term objectives and requirements to ensure long-term fiscal sustainability. The plan also envisages proposals to increase labour supply, improve public sector efficiency and for public investments. Alongside the plan, there are proposals to improve the quality of public services and it has been agreed to lower the taxation on wage income gradually in 2008 and 2009.
4. No country-specific recommendations were issued for Denmark, but the Council concluded that special attention should be paid to: increasing labour supply over the medium term; following through proposed reforms in competition law; improving the functioning of electricity and gas markets; emission reduction policies and measures; and improving primary and secondary education and completion rates of upper-secondary and tertiary education. Within these areas there has been good progress in the past year, notably with regard to the reform of the competition law. The focus on increasing labour supply has been maintained, but a significant part of the measures announced to increase labour supply have yet to be implemented. Progress to improve energy interconnection has been limited. Denmark has taken several initiatives in the area of education but uncertainty remains as to whether they are sufficient. Measures identified to reduce green house gas emissions have been for the most part identified and will now need to be adopted and implemented.
5. Last year's Commission Annual Progress Report concluded that Denmark had responded well to the specific commitments agreed at the 2006 Spring European Council in the priority action areas of knowledge, entrepreneurship, employment and

energy. Since then, there has been good progress on the commitments with an end 2007 deadline.

6. Consultation and efforts to develop ownership of the NRP amongst all levels of government and with the social partners continue to be positive. The Lisbon Coordination Committee with representatives from various ministries and stakeholder organisations is consulted on the Danish contribution. The Implementation Report presents a wide range of initiatives over the 2005-2008 period and includes initiatives and contributions to the Lisbon process from social partners and interested parties. Regional and municipal reform has coincided with the start of the new structural and cohesion fund period, making it feasible to improve coherence between the implementation of the NRP and the programmes under the structural and cohesion funds. Structural funding is largely earmarked to achieve Growth and Jobs objectives.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

7. Denmark is coping well with its macro-economic challenge of preparing for the ageing of the population and is maintaining fiscal sustainability. Price and exchange rate stability, and high employment, are the cornerstones of its medium-term fiscal strategy. Key here is the "Denmark 2015" plan which aims at maintaining fiscal sustainability by maintaining fiscal surpluses while allowing public expenditure to grow in line with GDP rather than at a more restrained rate. The "tax freeze" is maintained implicitly constraining local government spending. To ensure sustainability, new initiatives are needed to increase employment whilst at least maintaining current working hours unchanged. These initiatives now need to be implemented to achieve the objectives.
8. In general, Denmark is delivering on the macro-economic commitments expressed in its NRP and progress over the 2005-2007 period has been very good.

Micro-economic policies

9. Denmark has made good progress over the 2005-2007 with the implementation of policies to address the micro-economic challenges of improving competition in certain sectors; enhancing public sector efficiency; developing a knowledge society; securing environmental sustainability and energy; and encouraging entrepreneurship.
10. Denmark continues to make good progress within a systematic and comprehensive system for identifying and addressing sectors with competition problems. In addition, new initiatives have been launched to increase the effectiveness of merger control, to fight against cartels, and to enforce public procurement rules.
11. Denmark continues to be one of the best performing countries in the development of the knowledge society. Good progress has been achieved in the areas of R&D and innovation in the period 2005-07, in line with announced plans. The budgetary framework for R&D, agreed in 2006, has been made more concrete so that the objective of increasing public R&D investment to 1% GDP in 2010 is realistic. A

number of initiatives have been launched to stimulate private R&D and innovation. Denmark is leading in broadband penetration and in the use of the digital signature. Policy continues to focus on the integration of ICT systems and on standardisation. Public sector efficiency is addressed in a package of proposals, some of which have been agreed, but most await adoption and implementation. Following transition-related problems after structural, municipal and regional reform, it will be important to reap efficiency gains in the near future.

12. Denmark is further improving its attractive business environment, in particular regarding fast-growing enterprises and the reduction of administrative burdens, for which a 25% reduction target has been set. The one-stop shop for start-ups is a fully web-based system, allowing immediate company registration online. The integration of VAT registration into the online system is planned for January 2008. Measures on entrepreneurship education are planned for all students in primary and secondary school. Progress has also been made in consulting SMEs on the legislative process and facilitating their access to public procurement. Administrative costs have been lowered by 9.7% over the 2001-2006 period.
13. The Council referred in the micro-economic domain to the need to focus on following through proposed reforms in competition law and ensuring that new competition powers are vigorously exercised by the relevant authorities; additional measures in energy interconnection supply, in order to improve the functioning of the electricity and gas markets; and identifying further emission reduction policies and measures.
14. Denmark has made good progress with regard to the improvement of the competition law to fight cartels. A new leniency programme has been introduced in the amendment to the Competition Act of July 2007 and the powers of the Danish Competition Authority have been strengthened. The effectiveness of this new regime has now to be proven. The Commission will continue to follow progress on the actual implementation of the new regime.
15. Denmark has previously taken action regarding the improvement of energy interconnection. The capacity of the electricity link between Denmark and Germany has been expanded by 15-20% and further expansion is being negotiated. An East-West Denmark link is under construction and will be fully operational in 2010. An expansion of the link between Denmark and Norway is envisaged. Although competition in the energy sector has increased as markets have gradually been liberalised, implementation of measures to increase electricity and gas interconnection capacity is still needed to improve market integration.
16. Denmark performs very well on environmental sustainability, especially with regard to indicators such as energy intensity, electricity produced from renewable sources, and environmental technologies. Several measures have been put forward in 2007 addressing climate change, transport, air pollution and waste management and a comprehensive Energy Strategy 2025 is awaiting adoption. The Danish plan to tackle green house gas emissions outlines measures Denmark has identified to meet its Kyoto target. However, this plan still contains a series of unspecified elements where foreseen emission reductions depend on measures still to be identified.

17. Overall, Denmark is implementing measures to deliver on most of the micro-economic commitments expressed in its NRP. There has been good progress in the field of competition. Measures to reduce green house gas emissions have been mostly identified, and measures to enhance energy inter-connectivity are progressing.

Employment policies

18. Denmark already fulfils the Lisbon employment rate target and performs very well on other employment indicators. The Welfare Agreement (2006) addressed the long-term challenge of an ageing population, by increasing the retirement age gradually from 2019. However, this did not address concerns in the short and medium term. In recent years labour supply has risen due to an increase in average working hours and in the activity rates of the young, older people and immigrants. Among the young the activity rate has increased from 68.1% in 2005 to 72.6% in 2007, while the overall activity rate increase from 79.8% to 80.3% over the same period. Total working hours have increased by 2.2% from 2005 to 2006. Over 2005-2007 Denmark has made progress in addressing the labour market challenge of increasing the labour supply. However, labour shortages remain a challenge both in the private and in the public sector.
19. The Council referred to the need to focus on measures aimed at increasing labour supply over the medium term, up until 2015, including further initiatives to improve incentives to work and additional steps to integrate older workers and immigrants into the labour market. The "Denmark 2015" plan and further future measures aim to raise labour supply by the equivalent of some 8,000 full-time employees. Denmark furthermore aims at strengthening employment by an additional 20,000 jobs by 2015, whilst at least maintaining the current level of average working hours. The Danish government has recently taken initiatives to improve incentives to work, better match the unemployed with vacancies, speed up education reform, improve the employment of older workers and immigrants, and encourage immigration. There remains further room for improving incentives for older workers to stay in work rather than resort to early retirement. Overall, the Commission considers the Danish response to be positive, but efforts must be sustained in this area as the labour market will remain tight.
20. The Council also referred to the need to reinforce existing well-targeted measures to improve primary and secondary education and increase the number of students finalising upper-secondary or tertiary education, if the measures prove insufficient to reach the ambitious targets set. Denmark has taken a number of initiatives, including strengthening teachers' education; tests and evaluations starting from second grade compulsory education; faster completion of education and training via a premium on starting tertiary education within two years of finalising upper secondary education, and a reinforcement of business-related youth educational programmes. Public expenditure on education is the highest in the EU at 7.9% of GDP in 2005. It is important to ensure the quality of these investments as reflected in their cost-effectiveness. Effective implementation of existing initiatives, their evaluation and, if required, consideration of additional measures, will be important to reach the ambitious education targets.
21. The close collaboration between the social partners and the government on the four components of flexicurity is the hallmark of the Danish labour market. Flexible

contractual arrangements giving a large degree of freedom to hire and fire are combined with a high level of unemployment benefits that secure income. Continuous efforts to enhance active labour market policies and an improved life-long-learning strategy allow the labour market to adapt to changing economic conditions. The Danish flexicurity model is continuously adapted by adjusting the incentives in order to make sure that people able to work become employed. The social partners are fully involved in all related policy areas

22. In general, Denmark has succeeded in implementing measures to deliver on the employment policy commitments expressed in its NRP. Although the areas requiring particular attention have been well addressed, further initiatives and implementation is required, and the Commission therefore considers these points to watch as remaining valid.

PART III: CONCLUSIONS

23. In the light of the 2007 Danish Implementation Report and the Commission's assessment of progress made in implementing key structural reforms and based on the Integrated Guidelines for Growth and Jobs, the following conclusions are appropriate.
24. Denmark has been making very good progress in implementing its National Reform Programme over the 2005-2007 period. Denmark has shown good progress in fulfilling the commitments agreed by the 2006 Spring European Council in the four priority action areas.
25. The Implementation Report shows a good policy response to the areas identified by the Council as requiring attention.
26. Among the strengths shown by the 2007 Danish Implementation Report is the comprehensive and integrated approach to reform planning and implementation, within a framework for ensuring long-term fiscal sustainability, combined with the active participation of stakeholders.
27. It will be important for Denmark over the period of the National Reform Programme to focus on the following challenges: continuing to implement measures on energy interconnection in order to improve the functioning of the electricity and gas markets; increasing labour supply and hours worked over the medium term, including further initiatives to work and additional steps to integrate older workers, immigrants and their descendants into the labour market; reinforcing, in a cost-effective manner, measures to improve primary and secondary education and the number of students finalising upper-secondary or tertiary education to reach the ambitious targets set.

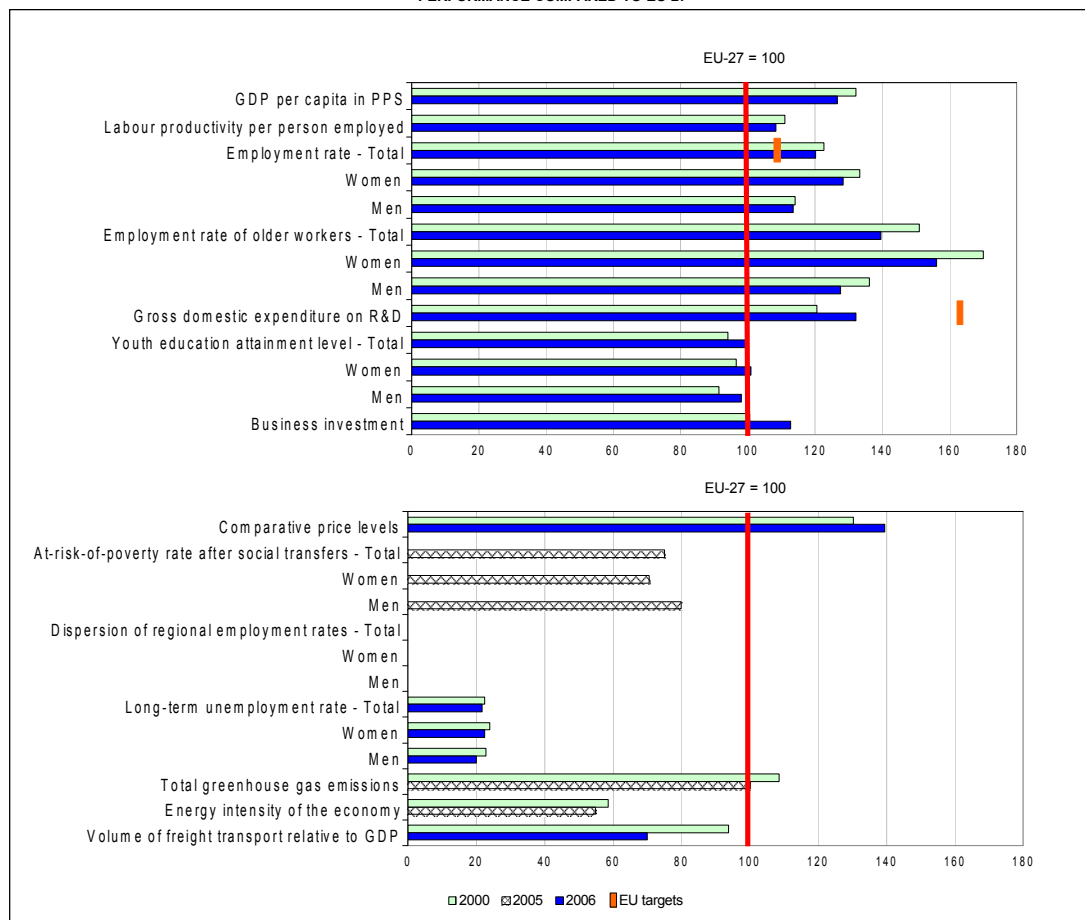
PART IV: STATISTICAL GRAPHS AND DATA

DENMARK

	DK						EU27			
	2000	2003	2004	2005	2006	2010 National target	2000	2005	2006	2010 EU target
GDP per capita in PPS	132.2	124.7	124.5	126.3	126.6		100.0	100.0	100.0	
Labour productivity per person employed	111.0	106.4	106.8	108.5	108.4		100.0	100.0	100.0	
Employment rate						:				70.0
Total	76.3	75.1	75.7	75.9	77.4		62.2	63.4p	64.4p	
Women	71.6	70.5	71.6	71.9	73.4		53.7	56.2p	57.2p	
Men	80.8	79.6	79.7	79.8	81.2		70.8	70.8p	71.6p	
Employment rate of older workers										
Total	55.7	60.2	60.3	59.5	60.7		36.9	42.3p	43.5p	
Women	46.6	52.9	53.3	53.5	54.3		27.4	33.5p	34.8p	
Men	64.1	67.3	67.3	65.6	67.1		47.1	51.5p	52.6p	
Gross domestic expenditure on R&D	2.24	2.58	2.50	2.45	2.43	3.0	1.86e	1.84e	1.84e	3.0
Youth education attainment level										
Total	72.0	76.2b	76.2	77.1	77.4		76.6	77.4	77.8	
Women	76.5	78.5b	78.1	80.5	81.5		79.3	80.1	80.7	
Men	67.5	73.8b	74.3	73.8	73.4		73.8	74.7	74.8	
Comparative price levels	130.3	141.1	139.6	140.1	139.4		100.0	100.0	100.0	
Business investment	18.5	17.7	17.6	18.7	20.5		18.4	17.8	18.2	
At-risk-of-poverty rate after social transfers*										
Total	-	12.0b	11.0	12.0	-		-	16.0e	-	
Women	-	12.0b	11.0	12.0	-		-	17.0e	-	
Men	-	11.0b	11.0	12.0	-		-	15.0e	-	
Dispersion of regional employment rates										
Total	-	-	-	-	-	-	13.0	11.9	11.4	
Women	-	-	-	-	-	-	20.0	16.8	16.2	
Men	-	-	-	-	-	-	9.6	9.7	9.3	
Long-term unemployment rate										
Total	0.9	1.1	1.2	1.1	0.8		4.0	4.1p	3.7p	
Women	1.1	1.0	1.3	1.2	0.9		4.6	4.5p	4.0p	
Men	0.8	1.2	1.1	1.1	0.7		3.5	3.8p	3.5p	
Total greenhouse gas emissions	98.4	107.0	98.4	92.2	-		90.7	92.1	-	
Energy intensity of the economy	125.0	126.1	121.1	114.1	-		213.1	208.1	-	
Volume of freight transport relative to GDP	93.0	87.9	87.5	84.3	74.6		99.1e	105.4e	106.7e	

* Alternative computation for Denmark using income definition including rent revenue and mortgage interest payments: 2003 10.0b, 2004 10.0 and 2005 10.1

PERFORMANCE COMPARED TO EU-27



Germany

1. GDP growth in Germany was sluggish during the first half of the decade, before peaking at 2.9% in 2006 and slightly decelerating in 2007 to an expected 2.5%. The potential rate of GDP growth stands at 1.7% for 2007. GDP per capita is projected to be 119% of the EU average in 2007. The employment rate was 67.5% in 2006, reflecting a steep rise in the employment rate of older workers from 45.4% in 2005 to 48.4% in 2006, which is above the EU average. The unemployment rate stood at 10.3% in 2006 and is forecast to fall to 8.1% in 2007.
2. Being highly export-oriented and with a technologically strong manufacturing sector, Germany has held up well in the face of intensifying international competition, benefiting from globalisation. Despite the recent upswing, Germany's growth potential is still held back by a relatively high level of structural unemployment and sluggish productivity growth. To re-invigorate growth and job-creation, Germany is confronted with the task of tackling these structural bottlenecks, while safeguarding the achieved consolidation of public finances.

PART I: GENERAL ASSESSMENT

3. Overall, the 2007 Implementation Report shows there has been good progress with the implementation of the National Reform Programme (NRP) over 2005-2007, but it nevertheless remains important to continue the reform process.
4. Germany has responded to the recommendations adopted by the Council. Progress has been good in consolidating public finances, mixed progress on tackling structural unemployment and limited regarding competition in services.
5. There has been some progress on the points to watch which the Council asked Germany to focus upon. Progress has been most substantial regarding childcare facilities, business start-ups and facilitating the hiring of the first employee. Germany has not moved forward sufficiently on improving public procurement procedures, improving the framework for competition in the rail sector, and on improving lifelong learning and enhancing adult vocational training.
6. Germany has made good overall progress on meeting the specific commitments agreed at the 2006 Spring European Council in the priority action areas of knowledge, entrepreneurship and energy, while there has been more limited progress regarding employment opportunities for priority categories. Germany specifies efforts it is taking to meet euro area recommendations in its Implementation Report. Measures taken include efforts to improve the quality of public finances and social security systems.
7. The NRP and the Implementation Reports have been subject to consultations with other federal ministries, the federal parliament, regional governments and social partners. However, the 2007 implementation report does not provide budgetary details on the reforms. Links between the NRP and programmes under the Structural Funds are strong with 81% of the funds in the competitiveness objective (most of

West Germany) and 71% of the funds in the convergence objective (East Germany and Lüneburg) allocated to Lisbon objectives.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

8. The 2005-2008 NRP identified the sustainability of public finances as a key challenge. Good progress has been made since 2005 in reforming the pension system, including by promoting supplementary pensions to ensure social adequacy. The statutory retirement age will rise in steps to 67 years from 2012 onwards. The move will further enhance the long-term sustainability of public finances. An outline for reform of the long-term care system has been adopted, which introduces a periodic adjustment of expenditure. This will require raising contribution rates. Elements of a funded scheme are not planned, contrary to the announcement in the NRP.
9. The Council recommended Germany to improve the long-term sustainability of public finances and implement the health care reform. Public finances have improved markedly, from a deficit at 3.4% of GDP in 2005 towards balance in 2007. This is the result of reform implementation and the economic recovery which raised tax revenues beyond the increase in the standard VAT rate. Budgetary policy used the cyclical conditions to approach its medium-term objective under the Stability and Growth Pact. This will bring debt, currently above 60% of GDP, on a downward trend. The quality of public finances has been improved by reducing non-wage labour costs in 2007 through cutting unemployment insurance contributions, financed partly by the VAT rate increase. The effect has in part been offset by increased contribution rates to health and pension systems. The company tax reform, coming into force in 2008, will reduce statutory corporate tax rates, partly funded by a broadening of the tax base.
10. The health care reforms that entered into force between 2005 and 2007 have at least shown temporary effects on containing expenditures, whilst evidence of the effects of the 2007 reform is not yet available. These reforms give public insurers the option to offer non-standard contracts with a limited choice of service providers to the compulsorily insured. This could provide incentives for a more efficient use of medical services. Competition between health service providers may intensify, as health insurers are now free to deviate from the collectively agreed fee structure for out-patient services. The main reform measure, the financial pool (Gesundheitsfonds) to replace the insurers' autonomy in setting contribution rates, becomes operational by 2009.
11. Progress in addressing the macro-economic challenge has been good over 2005-2007. It is now important to maintain the reform momentum and secure the achieved fiscal consolidation, including by revising budgetary institutions in the ongoing second stage of the reform of the federal system. It is also important to monitor whether the health care reform can deliver the expected benefits. Overall, progress with regard to the euro area recommendations on the medium-term budgetary objective and on the quality of public finances has been good.

Micro-economic policies

12. The key micro-economic challenges identified in the NRP were: the knowledge society; market functioning and competitiveness; the business environment; and ecological innovation. Policy implementation to develop the knowledge society has been good. Since 2005, Germany has launched initiatives to help improve innovative potential particularly through improved cooperation between science, research and business and with venture capital programmes. However, the number of graduates in engineering and natural sciences and the mobility of researchers need to increase further. While the contribution of the federal level towards the 3% R&D-target is significant, regional spending and private sector co-financing has not been specified. Progress in policy implementation to counter climate change and promote renewable energy has been good. A national allocation plan for emissions trading has been adopted, a new law to increase the use of bio fuels has become effective, and the energy efficiency of buildings has been addressed.
13. Germany has made some progress since 2005 to improve market functioning and competitiveness. A significant effort has been made to improve the business environment, especially by reducing the administrative burden, for which a 25% reduction target has been set. Overall, in 2005-2007, progress in implementing the policies that address Germany's micro-economic challenges, notably those concerning knowledge society and ecological innovation, has been good.
14. The Council recommended Germany to focus on improving the framework for competition in product and services markets. There has been no recent progress on relaxing restrictive rules on regulated trades and services. On wholesale bit stream access a measure was taken in September 2006 requiring the incumbent telecommunications company to provide non-discriminatory access and to produce a standard offer for competitors. However, implementation is progressing too slowly, whilst it is important not to exempt new telecommunication markets from ex ante regulation.
15. The Council also highlighted the need to focus on: public procurement procedures; the framework for competition in the rail sector, and in gas and electricity networks; and speeding up business start-ups and the hiring the first employee. Germany has made good progress with facilitating the hiring of the first employee. It has also stepped up its efforts to reduce start-up times and costs for businesses but will not provide one-stop-shops nationwide by the end of 2007. Competition in the rail, gas and electricity sectors improved somewhat, while implementing the planned unbundling measures would further strengthen competition in the rail sector. However, fundamental elements of the existing draft law have been called into question. With respect to gas and electricity networks, Germany has implemented the Community legislation. However, high market concentration, a lack of transparency and vertical foreclosure remain problematic. The legislative process to simplify the complex public procurement procedures has not progressed in 2007, although work on a draft law is ongoing. The Commission considers this a mixed response and it is now important to step up the pace of reform.
16. Germany has partially implemented measures to deliver on the micro-economic commitments expressed in its NRP. The response to the recommendation and the euro area recommendation on strengthening competition has been limited especially

in telecommunications, liberal professions and public procurement. The process to simplify public procurement procedures has not progressed in 2007 and requires particular attention. Some points to watch have been addressed well, notably on start-ups and procedures to hire the first employee.

Employment policies

17. The key labour market challenge identified in the NRP was the adaptation to the demographic challenge. Labour market improvements over 2005-2007, and in particular the employment situation of older workers, reflect economic conditions, wage moderation, and the effects of reforms implemented to promote better incentives to take up work and prolong working life. With regard to structural unemployment, progress has been mixed. Although decreasing, the long-term unemployment rate still stood at 5.5% in 2006 (above the EU average of 3.7%) and the gap between the unemployment rate of the low-skilled and the overall unemployment rate keeps increasing.
18. The Council recommended that Germany should tackle structural unemployment by integrating the low-skilled into the labour market through better access to qualifications, pursuing the proposed tax-benefit reform, and by providing more effective employment services for the long-term unemployed and by enhancing occupational integration of young people.
19. In 2006, 31% of the budget for active labour market policies for recipients of basic income support was spent on “employment opportunities” (*Arbeitsgelegenheiten*) as compared to only 15% on qualification and training. There has been no agreement on the announced comprehensive tax benefit reform. The effectiveness of the employment services for unemployed recipients of basic income support still poses difficulties. However, reform efforts have been stepped up to improve the employment situation of young people. The National Training Pact, aiming at increasing the number of apprenticeship places has been prolonged and ambitious targets defined. A temporary programme offering on-the-job training for young people who are difficult to place has been transformed into a regular instrument of active labour market policies. Amongst unemployed recipients of basic income support, the activation rate of young people stood at 32.4% in 2006 as compared to a general activation rate of 18.4%. The positive impact of these measures has been supported by the economic upswing. Germany has thus complied with part of the recommendation.
20. The Council also highlighted the need to focus on childcare and lifelong learning. In 2007 Germany set a new national childcare target to provide places for 30% of all under-three year olds by 2013 (compared to 14% in 2006). Parents will also have a legal right to claim a childcare place. To reach the new target, a financial plan for the local authorities in charge of implementation has been adopted. This response is appropriate. In the field of lifelong learning, the government has agreed on guidelines to create incentives for employees to finance their training. No concrete steps have been taken so far on incentives for employers. The Commission considers this to be a limited response.
21. Germany has not sufficiently addressed the flexicurity concept in an integrated manner. In spite of the variety of contracts available, the labour market remains

segmented between insiders and outsiders. Support through active labour market policies is characterised by a low share of spending on training and qualifications, while the focus of the German authorities is on the provision of employment opportunities. On lifelong learning, the share of employees participating in continuous vocational training is declining. The tax-benefit system results in an increasing number of persons combining permanent work in low-paid part-time jobs with basic income support. Generally, the social partners are involved in design and implementation of labour market policies.

22. Overall, Germany has partially implemented measures to deliver on the employment policy commitments expressed in its NRP and the euro area recommendation. Structural unemployment needs to be tackled, especially by improving the labour market integration of low-skilled people. Demographic change also warrants enhancing continuous vocational training for employees.

PART III: CONCLUSIONS

23. In the light of Germany's 2007 Implementation Report and the Commission's assessment of progress made in implementing key structural reforms and based on the Integrated Guidelines for Growth and Jobs, the following conclusions are appropriate.
24. Germany has made good progress in implementing its National Reform Programme over 2005-2007 and good progress in fulfilling the commitments agreed by the 2006 Spring European Council in the four priority action areas.
25. The Implementation Report shows that there has been some policy response to the recommendations adopted by the Council. There has been a good response in consolidating public finances, and a more limited response regarding competition in services and on tackling structural unemployment. There has been some response on the additional areas identified in the Council conclusions as requiring attention. The Implementation Report also specifically addresses the recommendations issued to the euro area countries.
26. Among the strengths shown by the 2007 German Implementation Report are: the consolidation of public finances; the strengthening of high-class research and innovation; the progress in tackling youth unemployment; and the determined approach to increasing childcare facilities.
27. The policy areas in the German National Reform Programme where challenges need to be tackled with the highest priority: are competition in services and structural unemployment. Against this background it is recommended that Germany:
 - improve the framework for competition in services, notably by continuing to relax restrictive rules in regulated trades and professions, improving public procurement procedures, without exempting new telecom markets from regulation and effectively regulating wholesale bitstream access;
 - tackle structural unemployment by maintaining the path of the reforms outlined in the National Reform Programme. Focus should be placed on integrating the low

skilled into the labour market through a flexicurity approach combining better access to qualifications with the implementation of the announced comprehensive tax and –benefit reform and more effective employment services for unemployed recipients of basic income support.

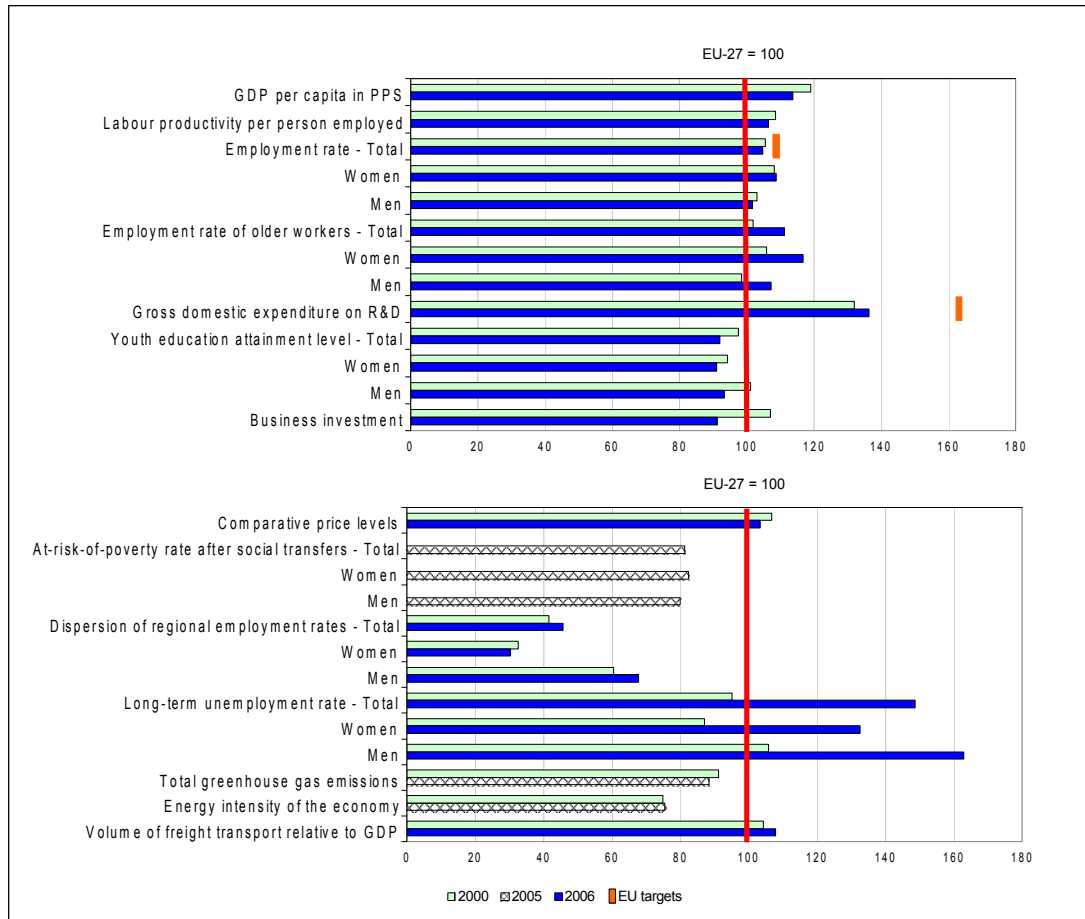
28. In addition, it will be important for Germany over the period of the National Reform Programme to focus on the following challenges: securing the long-term sustainability of public finances by firmly locking in the achieved fiscal consolidation, including in the ongoing revision of budgetary institutions in the federal system, and by carefully monitoring the impact of the health care reform to keep expenditure growth in check and strength efficiency in the health sector; improving the framework for competition in the rail sector, and in the gas and electricity networks, where competition remains insufficient due to high concentration; continue further with the establishment of one-stop-shops and the improvement of start-up times; and in the context of the planned measures to promote lifelong learning, enhance continuing vocational training.

PART IV: STATISTICAL GRAPHS AND DATA

GERMANY

	DE						EU27			
	2000	2003	2004	2005	2006	2010 National target	2000	2005	2006	2010 EU target
GDP per capita in PPS	119.0	117.1	116.1	114.6	113.6		100.0	100.0	100.0	
Labour productivity per person employed	108.6	108.5	107.5	106.7	106.4		100.0	100.0	100.0	
Employment rate						:				70.0
Total	65.6	65.0	65.0	66.0p	67.5p		62.2	63.4p	64.4p	
Women	58.1	58.9	59.2	60.6p	62.2p		53.7	56.2p	57.2p	
Men	72.9	70.9	70.8	71.3p	72.8p		70.8	70.8p	71.6p	
Employment rate of older workers										
Total	37.6	39.9	41.8	45.4p	48.4p		36.9	42.3p	43.5p	
Women	29.0	31.6	33.0	37.5p	40.6p		27.4	33.5p	34.8p	
Men	46.4	48.2	50.7	53.5p	56.4p		47.1	51.5p	52.6p	
Gross domestic expenditure on R&D	2.45	2.52	2.49	2.48	2.51	3.0	1.86e	1.84e	1.84e	3.0
Youth education attainment level										
Total	74.7	72.5	72.8	71.5b	71.6p		76.6	77.4	77.8	
Women	74.8	73.4	74.2	72.5b	73.5p		79.3	80.1	80.7	
Men	74.6	71.6	71.5	70.4b	69.8p		73.8	74.7	74.8	
Comparative price levels	106.6	106.1	104.7	103.8	103.3		100.0	100.0	100.0	
Business investment	19.7	16.3	16.1	16.0	16.6		18.4	17.8	18.2	
At-risk-of-poverty rate after social transfers										
Total	10.0	:	:	13.0b	:			16.0e	:	
Women	11.0	:	:	14.0b	:			17.0e	:	
Men	10.0	:	:	12.0b	:			15.0e	:	
Dispersion of regional employment rates										
Total	5.4	5.9	6.0	5.6	5.2		13.0	11.9	11.4	
Women	6.5	5.7	5.8	5.0	4.9		20.0	16.8	16.2	
Men	5.8	6.9	7.3	7.0	6.3		9.6	9.7	9.3	
Long-term unemployment rate										
Total	3.8	4.6	5.5	5.7p	5.5p		4.0	4.1p	3.7p	
Women	4.0	4.5	5.2	5.3p	5.3p		4.6	4.5p	4.0p	
Men	3.7	4.7	5.7	5.9p	5.7p		3.5	3.8p	3.5p	
Total greenhouse gas emissions	82.7	83.6	83.2	81.3	:		90.7	92.1	:	
Energy intensity of the economy	159.7	161.0	159.6	157.0	:		213.1	208.1	:	
Volume of freight transport relative to GDP	103.3	103.2	109.4	111.0	115.1		99.1e	105.4e	106.7e	

PERFORMANCE COMPARED TO EU-27



Estonia

1. Estonia's economy has shown strong growth in recent years, exceeding 10% in 2005-2006 and estimated at around 8% in 2007. Growth was driven by consumption and investment, and facilitated by large-scale financing from abroad, income tax cuts and rapid wage increases. Sustained strong economic growth has, however, led to growing imbalances, evidenced by rising inflation, a tightening labour market and widened external deficits. The employment rate rose to 68.1 % in 2006, while unemployment is estimated to fall below 5% in 2007. Given the increasing labour market tightening, real wage increases have significantly exceeded productivity growth, helping to increase inflation and erode competitiveness, particularly in the low skilled-segments of the economy. Recently, a welcome slowdown in domestic demand has set in.
2. Given the strong job creation and a swift reduction in unemployment, certain sectors now face labour shortages, constraining further rapid catch-up. Continued structural reforms could help ease resource constraints and stimulate sustainable productivity-led growth. Labour market policies, including the modernisation of labour law, would contribute to higher participation in the workforce and to containing wage increases. A stronger competition policy would also contribute to limiting inflationary pressures. Further efforts to improve the regulatory framework for businesses and increase investment in R&D and innovation are necessary for strengthening competitiveness.

PART I: GENERAL ASSESSMENT

3. Overall, the 2007 Estonian Implementation Report shows very good progress on implementing the National Reform Programme (NRP) over the 2005-2007 period. The pace of progress appears to have slightly decelerated over the last year.
4. With regard to the issues referred to by the Council, there has been some progress on competition policy, employment policy and educational policy. Progress has been most substantial on R&D and innovation policy. Estonia has not moved forward significantly on the modernisation of labour law and the implementation of a lifelong learning strategy.
5. Last year's Commission Annual Progress Report concluded that Estonia responded positively to the commitments made by the 2006 Spring European Council in the priority areas of knowledge, entrepreneurship, employment and energy. Since then, there has been good progress on most commitments with an end 2007 deadline.
6. Consultation and efforts to develop ownership of the NRP are quite good at the national level, although regionally this could be improved upon. Specific consultation in preparing the Implementation Report included a stakeholder seminar and web-based consultation. Estonia has an inter-ministerial working group which coordinates the Lisbon process and includes social partners and academic experts. There is a strong link between the NRP and the Structural Fund programmes, essential given that a significant proportion of the activities described in the NRP are

financed by the Structural Funds. The budgetary resources planned in the Implementation Report also include the Structural funds contribution.

7. In April 2007, the new government agreed a Coalition Programme for 2007-2011. In view of the end of the governance cycle 2005-2007, Estonia decided to update its reform programme only with measures that contribute to meeting the objectives outlined in the 2005 NRP.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

8. Ensuring macro-economic stability, fiscal sustainability and internal and external balance are the government's main macro-economic objectives. Raising the employment rate is seen as key to sustaining the economy's strong growth performance and to raising living standards.
9. The Implementation Report confirms a prudent fiscal policy as the key element of macro-economic stability in the framework of the currency board monetary regime pegging the kroon to the euro. Public finances have posted surpluses in recent years (3.6% of GDP in 2006). However, inflation performance has deteriorated, with a rate above 6% in 2007, and projected to rise further in 2008. Wages have recently been increasing at close to double the rate of labour productivity growth. The external deficit widened to 16% of GDP in 2006, although the 2007 deficit ratio is expected to be slightly lower. These developments should however be seen in the context of a rapid catching-up process with the EU as a whole, supported by massive financial inflows from abroad. With GDP growth rates above potential since 2005, the recent switch to targeting budget surpluses (instead of balanced budgets) was a welcome development, even though more ambitious fiscal targets would be desirable to help reduce core inflation and external imbalances in a medium-term perspective. With respect to the sustainability of public finances, continuing surpluses have allowed further reduction in the already low government debt, which stood at 4% of GDP by the end of 2006, and is expected to fall below 3% of GDP in 2007. Pension increases have recently been higher than those foreseen by legislation. A reform package adopted by parliament in November 2007 will provide for more generous pension indexation, and age and health-related expenditure is thus expected to rise.
10. The overall focus of macro-economic policies and measures proposed in the NRP on stability and long term sustainability are broadly appropriate. Nevertheless, certain elements of Estonia's fiscal policy indicate that the tax incentives (e.g. the lowering of the income tax rates) and budgetary strategy (an increase in expenditure, including in wages and pensions) may limit room for fiscal consolidation. In the near future fiscal policy may fall short of sufficiently countering inflationary pressures and of reducing external deficit in the economy, although these seem likely to be receding from the peaks of 2006-2007. Continued fiscal policy vigilance would also be justified to preserve flexibility in the case of a marked economic slowdown. Finally, efforts to facilitate labour market adjustment and ensure wage increases do not outstrip labour productivity growth are essential to limit inflation and to counter the erosion of external competitiveness.

11. In general, Estonia has partially succeeded in implementing measures to deliver on the macro-economic commitments expressed in its NRP. Macro-economic stability and containing inflation now needs to be improved through adequate structural reforms and a determined fiscal policy.

Micro-economic policies

12. Estonia identified R&D and innovation as a key challenge for sustaining strong economic growth and enhancing competitiveness. Good progress has been made over the 2005-2007 period to address this key challenge.
13. The Council highlighted the need to focus on clearer prioritisation and improved cooperation for the effective use of R&D and innovation expenditure; reinforcing efforts to ensure that R&D results are translated into innovative services or products; encouraging closer cooperation between universities and enterprises; and vigorously implementing the planned proactive competition policy. The new “Knowledge-based Estonia” strategy for 2007-2013 aims at providing a long-term, prioritized and systematic development of R&D and innovation activities including the use of the structural funds. Inter-ministerial cooperation has improved, and the Strategic R&D and Innovation Coordination Committee has recently been established. Continued investment has increased R&D intensity from 0.93% of GDP in 2005 to 1.14% of GDP in 2006. Measures have been taken to strengthen competence centres facilitating the cooperation between scientists and companies. Developing human resources, including an increase in the number of scientists and engineers, remains an important challenge. In order to minimize competition-related crimes and efficiently fine cartels, the launch of a new immunity and leniency programme in 2008 is under preparation. After having previously strengthened the cooperation between the competition authority and the sectoral regulators, the government adopted a regulation in September 2007 to merge the national competition authority with these sectoral regulators.
14. During the 2005-2007 period, Estonia has taken a number of significant initiatives to improve the business environment, including the regulatory environment. Better regulation tools have been further developed and an action plan aiming at the simplification of the legal environment has been approved. However, no target for reducing administrative burdens has been set. Estonia’s initiatives in the area of e-government contribute to further reducing administrative burdens on companies. Notaries now act as one-stop-shop for the establishment of new companies. The time required to start-up a company is less than a week and, via the internet, only a few hours. In order to improve access to finance for business, the Estonian Development Fund was established in December 2006. In terms of entrepreneurship education, the postponement of the new national curricula until 2009 delays the envisaged increase in attention paid to entrepreneurship in the educational system.
15. Some progress is being made on environmental issues. While the implementation of the Energy Conservation Programme aims at enhancing energy efficiency, the high energy intensity of the economy remains a challenge. The electricity market law has been amended to promote electricity production from renewable sources. In addition to the new public procurement act, general guidelines and tools have been developed to promote sustainable procurements.

16. In general, Estonia has made good progress in the micro-economic field. The points to watch in the area of competition and R&D and innovation have been partially addressed. While the prioritisation and inter-ministerial coordination of R&D and innovation policy have improved, efforts should continue to turn R&D results into innovation, to increase the number of scientists, to bridge the gap between universities and enterprises, and to further develop the new immunity and leniency programme.

Employment policies

17. The NRP identified employment as a key challenge, including increasing the employment rate, reducing structural unemployment, and improving skills through lifelong learning. Employment rates for all age groups have been increasing strongly over recent years. In 2006, employment growth was the highest in the EU, at 5.4%. The female employment rate has been increasing strongly and gender gaps in employment and unemployment rates are low and diminishing. However, a high gender pay gap is a concern for Estonia. The unemployment rate is falling, including for the most vulnerable groups. Many of the planned employment measures have been implemented. However, reducing structural unemployment and integrating inactive people and the long-term unemployed into the labour market remain important challenges for Estonia in order to increase the supply of skilled labour.
18. The Council referred in the employment area to the need to focus on the modernisation of labour laws as well as reinforcing active labour market policies and raising the skills level of the labour force through reforms in education and lifelong learning. No progress has been made regarding the modernisation of labour law announced in the NRP, limiting considerably the flexibility of the labour market and the adaptability of workers and enterprises to a changing economic environment. The Implementation Report also makes no reference to the progress in promoting flexible contractual arrangements. Several measures for increasing the quality of vocational and higher education have been taken. However, several important legislative acts, such as new curricula for basic and upper secondary schools, and new financing models for general education and for adult education have not yet been adopted. The adult participation rate in lifelong learning is low and the current system does not cover the most vulnerable groups. Several reforms in active labour market policies have been implemented. However, the share of unemployed participating in active labour market programmes continues to be very low. Therefore, more emphasis should be put on the efficiency of active labour market policy measures. The impact of the launched reform package is not clear because of a current lack of labour market monitoring and evaluation system. The Commission considers this a partial response to the challenges Estonia faces in the fields concerned.
19. Estonia does not address flexicurity in an integrated way. Nevertheless, policy development has focused on individual flexicurity-related measures. While some reforms have taken place in the social security system, in active labour market policies and lifelong learning, the measures for increasing labour market flexibility and promoting flexible forms of work still need to be developed. Social partners are partly involved in some of the flexicurity components but the involvement of social partners is generally weak and exists mainly at national level, not the sectoral or enterprise level.

20. In general, Estonia has partially succeeded in implementing measures to deliver on the employment policy commitments expressed in its NRP. The points to watch in the employment area have been addressed to some extent, although there has been no progress in modernising labour law. It is now important to step up the pace of reforms, in particular regarding increasing the flexibility of the labour market. It is also necessary to make further efforts in raising the skills level of the labour force through the implementation of lifelong learning measures and increasing the efficiency of active labour market measures.

PART III: CONCLUSIONS

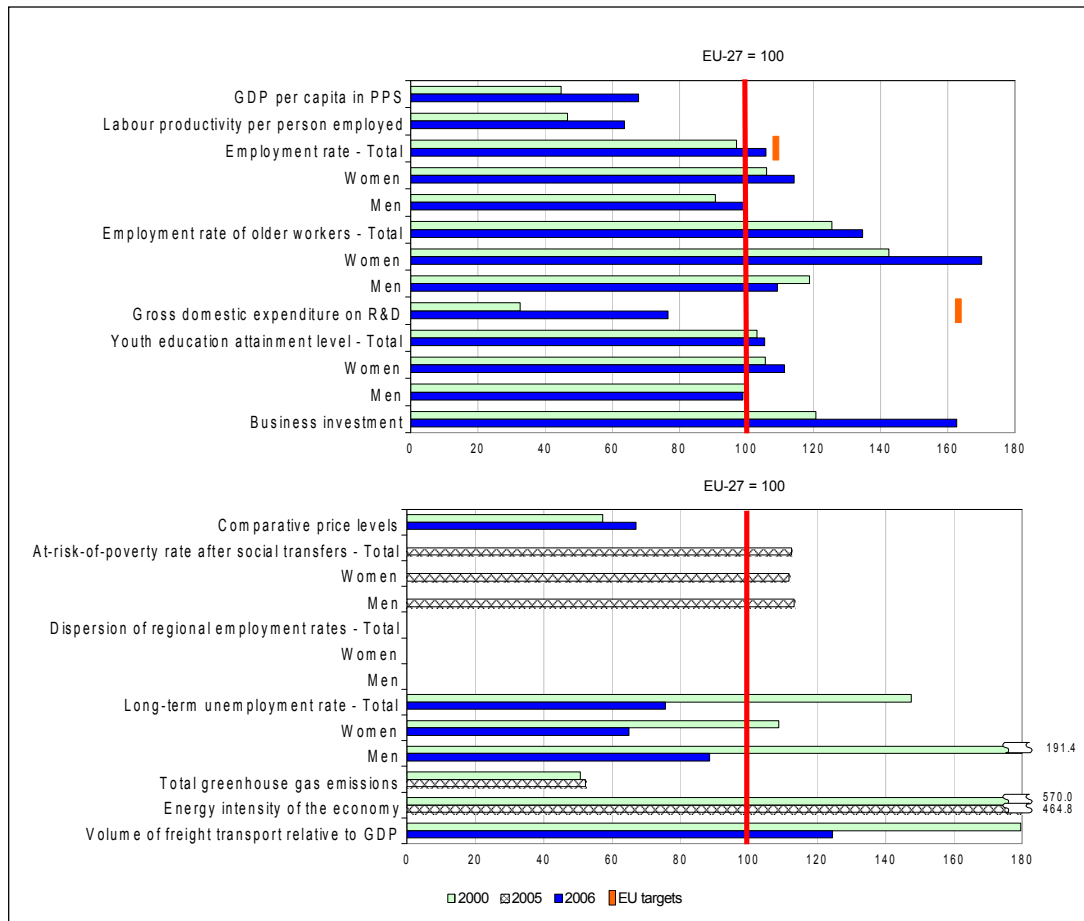
21. In the light of the 2007 Estonian Implementation Report and the Commission's assessment of progress made in implementing key structural reforms and based on the Integrated Guidelines for Growth and Jobs, the following conclusions are appropriate.
22. Estonia has been making very good progress in implementing its National Reform Programme over the 2005-2007 period. Estonia has shown good progress in fulfilling the commitments agreed by the 2006 Spring European Council in the four priority action areas.
23. The Implementation report shows some policy response to the areas identified by the Council as requiring attention. There has been some policy response on competition policy, active labour market policies and educational policy. The most substantial response has been on R&D and Innovation policy. Estonia has not moved significantly forward on the modernisation of labour law.
24. Among the strengths shown by the Estonian Implementation Report are: the establishment of an ambitious long-term and systematic new R&D and Innovation strategy; the measures to facilitate start-ups and financing of innovative SMEs; a strong increase in the employment rate and the measures for raising the quality of higher and vocational education.
25. The policy areas in the Estonian National Reform Programme where challenges need to be tackled with the highest priority are: the employment area where progress on the modernisation of labour law has been limited.
26. It will be important for Estonia over the period of the National Reform Programme to focus on the following challenges: improving macro-economic stability and containing inflation through adequate structural reforms and determined fiscal policy; reinforcing efforts to ensure that R&D results are translated into innovative services or products; encouraging closer cooperation between universities and enterprises; launching the new immunity and leniency programme and strengthening competition enforcement; reinforcing active labour market policies and increasing the supply of skilled labour by implementing a comprehensive lifelong learning strategy that responds to labour market needs; reducing labour market rigidities by urgent progress towards labour law modernisation and by promoting flexible forms of work.

PART IV: STATISTICAL GRAPHS AND DATA

ESTONIA

	EE						EU27			
	2000	2003	2004	2005	2006	2010 National target	2000	2005	2006	2010 EU target
GDP per capita in PPS	44.8	54.6	57.0	62.8	67.9		100.0	100.0	100.0	
Labour productivity per person employed	46.7	54.4	56.9	61.5	63.7		100.0	100.0	100.0	
Employment rate						70.0				70.0
Total	60.4	62.9	63.0	64.4	68.1		62.2	63.4p	64.4p	
Women	56.9	59.0	60.0	62.1	65.3		53.7	56.2p	57.2p	
Men	64.3	67.2	66.4	67.0	71.0		70.8	70.8p	71.6p	
Employment rate of older workers										
Total	46.3	52.3	52.4	56.1	58.5		36.9	42.3p	43.5p	
Women	39.0	47.3	49.4	53.7	59.2		27.4	33.5p	34.8p	
Men	55.9	58.9	56.4	59.3	57.5		47.1	51.5p	52.6p	
Gross domestic expenditure on R&D	0.61	0.77	0.86	0.93	1.41	1.9	1.86e	1.84e	1.84e	3.0
Youth education attainment level										
Total	79.0	81.5	80.3	82.6	82.0		76.6	77.4	77.8	
Women	83.7	85.1	87.5	87.6	89.8		79.3	80.1	80.7	
Men	74.2	77.9	73.2	77.6	74.1		73.8	74.7	74.8	
Comparative price levels	57.3	62.0	62.8	64.3	67.0		100.0	100.0	100.0	
Business investment	22.2	27.5	28.0	27.0	29.6		18.4	17.8	18.2	
At-risk-of-poverty rate after social transfers										
Total	18.0	18.0	20.0b	18.0	:			16.0e	:	
Women	19.0	20.0	21.0b	19.0	:			17.0e	:	
Men	17.0	17.0	19.0b	17.0	:			15.0e	:	
Dispersion of regional employment rates										
Total	-	-	-	-	-	-	13.0	11.9	11.4	
Women	-	-	-	-	-	-	20.0	16.8	16.2	
Men	-	-	-	-	-	-	9.6	9.7	9.3	
Long-term unemployment rate										
Total	5.9	4.6	5.0	4.2	2.8		4.0	4.1p	3.7p	
Women	5.0	4.4	4.4	4.2	2.6		4.6	4.5p	4.0p	
Men	6.7	4.8	5.6	4.2	3.1		3.5	3.8p	3.5p	
Total greenhouse gas emissions	45.9	50.1	49.2	48.0	:		90.7	92.1	:	
Energy intensity of the economy	1214.8	1179.1	1096.2	966.9	:		213.1	208.1	:	
Volume of freight transport relative to GDP	177.9	150.6	159.0	152.4	132.9		99.1e	105.4e	106.7e	

PERFORMANCE COMPARED TO EU-27



Ireland

1. Over the period 2005-2007, Ireland experienced a continued rapid increase in real GDP per capita, bringing its level in 2006 to 143% of the EU average. Employment levels have continued rising, and labour productivity growth, though it has slowed significantly, remained well above the EU average. Over 2005 and 2006 consumer prices grew faster than in the euro area (2.4% on average annually in Ireland as against 2.2%). This divergence is forecast to widen further in 2007 (2.8% on average annually in Ireland as against 2.0%) due mainly to higher services price inflation.
2. Looking ahead, the main domestic risk comes from the housing sector which having started a steep decline from its 2006 peak may fall further and faster than expected. The worsening external environment, coupled with a real exchange rate appreciation, constitutes a significant risk for exports. As the fiscal outlook is expected to deteriorate over the medium term, a careful prioritisation of public expenditure and the promotion of reforms that strengthen higher-productivity growth, through expanding physical and human capital and reducing inflationary pressures will increase the capacity of the Irish economy to adjust to lower though more balanced growth.

PART I: GENERAL ASSESSMENT

3. Overall, the 2007 Irish Implementation Report shows very good progress on implementing the National Reform Programme (NRP) over 2005-2007. The pace of progress has remained the same over the last year.
4. No country-specific recommendations were issued for Ireland. With regard to the other areas on which the Council concluded Ireland should focus in the macro-economic, micro-economic and employment domains, there has generally been good progress. Last year's Commission Annual Progress Report concluded that Ireland had made some progress in meeting the specific commitments agreed at the 2006 Spring European Council in the priority action areas of knowledge, entrepreneurship, employment and energy. Since then, there has been good progress on most of the commitments with an end 2007 deadline.
5. The Implementation Report does not specifically address the recommendations issued to the euro area countries, but there have been relevant developments. As Ireland's fiscal position has performed better than its medium-term objective under the Stability and Growth pact, the euro area recommendation on budgetary consolidation was not relevant for the period 2005-2007. However Ireland should strictly implement its 2007 Budget to limit the deterioration of the structural balance in 2007 and to ensure adequate room for manoeuvre against any reversal of the growth pattern.
6. Consultation and efforts to develop ownership of the NRP at the level of central and local government and with the social partners continue to be very substantial. The new generation of Irish Structural Fund programmes co-financed by the EU, with 85% of the total programme financing earmarked for Lisbon activities, effectively complement the new Irish National Development Plan in delivering the Lisbon

agenda in Ireland. The 2007-2013 strategy will focus on innovation, knowledge and entrepreneurship in the regions; competitiveness, gateways and hubs; upskilling the workforce and activation and participation of groups outside the workforce.

7. A new Irish government took office in June 2007. Ireland's 2007 Implementation Report confirms the main priorities within the NRP and aims to maintain the successful social partnership process. The Commission agrees with these priorities and welcomes the continuation of the process. A major challenge remaining is the unbalanced development between the Southern and Eastern region and the Border, Midland and Western region, especially in fields relevant for the future competitiveness of the country.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

8. Progress over the 2005-2007 period on the macro-economic challenges identified by Ireland, notably maintaining a stable macro-economic environment, sustainable public finances, and moderate inflation levels; prioritisation of public investment in economic and social infrastructure and other growth-enhancing expenditures, has been good. This reflects the achievement of fiscal surpluses over the period and the publication of the National Development Plan, which sets clear priorities for public investment in infrastructure. More limited progress has been made in taking concrete measures to ensure that the economy will be able to meet anticipated long-run fiscal pressures arising from population ageing.
9. The Council highlighted the need to focus on developments in the housing market and on pension reforms. In relation to the former, the Implementation Report and the recently published Pre-Budget Outlook (PBO) show that the national authorities are closely monitoring the prospects for the housing market and its implications for the broader economy. In particular the PBO (which provides an updated economic outlook for the medium term) states that *"lower output and employment in the construction sector highlight the need to find alternative sources of growth to drive the economy forward"*.
10. A green paper on pensions was published in mid-October by the Irish government, setting out the objectives of the pension system and a discussion of possible reforms. The green paper invites Social Partners and interested parties to provide their views on reform. The broad objectives of reform are: the improvement of pension coverage and access to pensions through modernisation of the pension system; ensuring the adequacy of benefits and; addressing further the financial sustainability of the pension system over the longer-term. The green paper starts from the observation that the existing system is not sustainable without adjustments to the overall policy mix and that to safeguard the pension system in the future, a combination of measures aimed at financing and reducing the size of the projected funding gap will be required. The consultation process is expected to last until summer 2008 and decisions about specific reform measures might not therefore be expected until the second half of 2008 at the earliest. The publication of the green paper is a welcome important step forward in the development of policy but falls short of identifying specific reform measures.

11. In general, Ireland has succeeded in implementing measures to deliver on the macro-economic commitments expressed in its NRP. In view of the risks of a greater than expected slowdown of activity in the housing sector, this point to watch remains relevant. In the pensions area, the national authorities should move rapidly after the consultation period to the identification and implementation of specific measures. This point to watch therefore also remains relevant.

Micro-economic policies

12. Over the past year Ireland has achieved good progress in implementing the micro economic policies set out in the NRP. Progress is also good over the full 2005-2007 period with regard to the implementation of policies to address the micro-economic challenges faced by Ireland, notably improving competitiveness, infrastructure, regulation and social inclusion, increasing R&D investment and efficiency, encouraging greater innovation and entrepreneurship and sustainable development.
13. The Council highlighted the need to focus on: further emission reduction measures and the setting of an intermediate target for R&D investment for 2010. The National Climate Change Strategy 2007–2012, published in April 2007, details the measures by which Ireland will meet its 2008-2012 commitment under the Kyoto Protocol, and how these measures will position Ireland for the post 2012 period. It is projected that, through existing policies, Kyoto mechanisms and carbon sinks, Irish emission levels will be slightly below the Kyoto target. With only 6.8% of electricity generated from renewable energy sources in 2005, and a modest growth in this rate, the 2010 target of 15% is still relatively far off. Investment in R&D on clean renewable energy is also low. However, the recently introduced feed-in tariff mechanism (an incentive structure that boosts the adoption of renewable energy) is expected to provide positive investment conditions and together with other policy initiatives is expected to give Ireland a good opportunity of meeting the 2010 target.
14. Ireland has made good progress towards the 2013 research investment target, but intermediate investment levels, notably for 2010, have yet to be established. Gross expenditure in R&D increased from 1.10% of GDP in 2002 to 1.32 % in 2006. Nearly 60% of overall R&D expenditure comes from the business sector. The Science, Technology and Innovation Strategy provides an adequate framework to build a world-class research base by concentrating on higher education, links between research institutions and business and increasing R&D efforts by indigenous companies. There is, however, concern about the regional balance in implementation. There are a number of noteworthy new initiatives this year including the introduction of an Innovation Vouchers system, a grant scheme for Centres for Science, Engineering and Technology and a new round of venture capital funding.
15. Under most of the SME priority areas, Ireland has performed well over the last year. The Implementation Report addresses all of the SME priorities with the exception of first employee recruitment. Nevertheless, in relative EU terms, Ireland performs well in this area. Start-up procedures are relatively fast, with most businesses generally being set up within a week, but further simplification is still possible. SME access to public procurement could also be improved, although initial steps have been taken with the May 2007 publication of a consultation document. Impact assessments are now routinely applied to ensure better regulation, alongside statute law reform, and efforts to reduce administrative burdens. Ireland has not yet set a specific target for

the reduction of administrative burdens. On ICT policy, Ireland progresses but still lags behind in some information society areas. The Knowledge Society Action Plan, expected to be in line with the EU i2010 initiative, will be crucial to stimulate further progress. Ireland has improved its performance with regard to the transposition of EU legislation. However, Ireland has an above average number of infringement procedures.

16. In general, Ireland has succeeded in implementing measures to deliver on the micro-economic commitments expressed in its NRP. There has been a good policy response to reducing emissions and the Commission considers this point to watch is no longer valid. It is now important to continue this approach and to take action. There has been good progress shown towards reaching Ireland's 2013 R&D targets but neither a target nor indicative expenditure forecasts have been given for 2010 and therefore the Commission considers this point to watch as still valid.

Employment policies

17. Ireland has sustained a strong labour market performance over the 2005-07 period, with employment rates having risen close to or above the EU employment targets, employment growth maintained, including significant inward migration, and unemployment rates which remain amongst the lowest in the EU. Progress over the 2005-2007 period with regard to the implementation of policies to address the key labour market challenges, notably the challenge of sustaining high employment and low unemployment and ensuring an adequate labour supply identified by Ireland in the 2005 NRP, is generally good while the challenge of ensuring a high skilled adaptable workforce, including a focus on lifelong learning, remains substantial.
18. The Council highlighted in the employment area to the need to focus on: accelerating progress in increasing labour market participation, including by establishing a comprehensive childcare infrastructure, further developing the policy framework for the labour market and social integration of migrants and placing a particular emphasis on support to older and low-skilled workers.
19. Ireland has initiated some small-scale pilot projects aimed at extending the preventive approach, which has been effective in addressing the needs of the registered unemployed, to other groups (against a background where employment rates amongst lone parents, people with disability and other inactive groups needs to increase) but there is no clear timetable for implementation. The National Childcare Investment Programme 2006-2010 continues to be rolled out while a Community Childcare Subvention Scheme to take effect from 2008 has been announced. This scheme should help to address issues of affordability of childcare for the lowest-income families but the cost of childcare generally remains comparatively high.
20. A Minister with specific responsibility for Integration Policy has been appointed and there are plans to launch a Task Force on Integration in 2008 but substantive measures in areas such as language training are yet to materialise.
21. The appointment of a Minister with responsibility for overseeing a coordinated approach to Life-Long Learning is a welcome development since this is an area where Ireland's performance lags behind many other EU member states. A National Skills Strategy to 2020, published in March 2007, sets out high-level objectives covering upskilling, second level education completion levels and progression to

third level education but the necessary detailed implementation plan for this Strategy has yet to be developed, and it remains to be seen whether the response will be sufficient to bring the level of participation in life-long learning, 7.5% in 2006, up to the EU target of 12.5%.

22. Overall, Ireland addresses flexicurity in an integrated way. Skills segmentation is a problem but is recognised by the government. The National Skills Strategy endeavours to address the significant upskilling and below EU average participation in life-long learning. Active labour market programmes are generally seen to be effective. The social partners are fully involved, with most developments in this area emerging from the consensus approach embodied in the latest Social Partnership Agreement, 'Towards 2016'.
23. In general, Ireland has partially succeeded in implementing measures to deliver on the employment policy commitments expressed in its NRP. Ireland addressed the points to watch in the employment area in some respects, but there is a need to establish clear timetables in key areas, including activation, integration and life-long learning in order to ensure that the pace of reforms is stepped up.

PART III: CONCLUSIONS

24. In the light of the 2007 Irish Implementation Report and the Commission's assessment of progress made in implementing key structural reforms and based on the Integrated Guidelines for Growth and Jobs, the following conclusions are appropriate.
25. Ireland has been making very good progress in implementing its National Reform Programme over the 2005-2007 period. Ireland has been showing good progress in fulfilling the commitments agreed by the 2006 Spring European Council in the four priority action areas.
26. The Implementation Report shows a good policy response to the areas identified by the Council as requiring attention. The Implementation Report does not however specifically address the recommendations issued to the euro area countries.
27. Among the strengths of the Irish National Reform Programme and its implementation is the comprehensive and coherent national strategy. The document also highlights the usefulness of the Lisbon process through its role in focussing on the prioritisation and implementation of specific actions, and emphasising its key role in addressing the challenges and opportunities associated with globalisation.
28. It will be important for Ireland over the period of the National Reform Programme to focus on the following challenges for the future: speeding up progress in formulating concrete measures to reform pension arrangements; an intermediate target for R&D investment should be set for 2010; accelerating progress in increasing labour market participation, including by establishing a comprehensive childcare infrastructure; further developing the policy framework for the labour market and social integration of migrants and placing a particular emphasis on support to older and low-skilled workers; and developments in the housing market, affecting short and medium-term growth, should be carefully monitored.

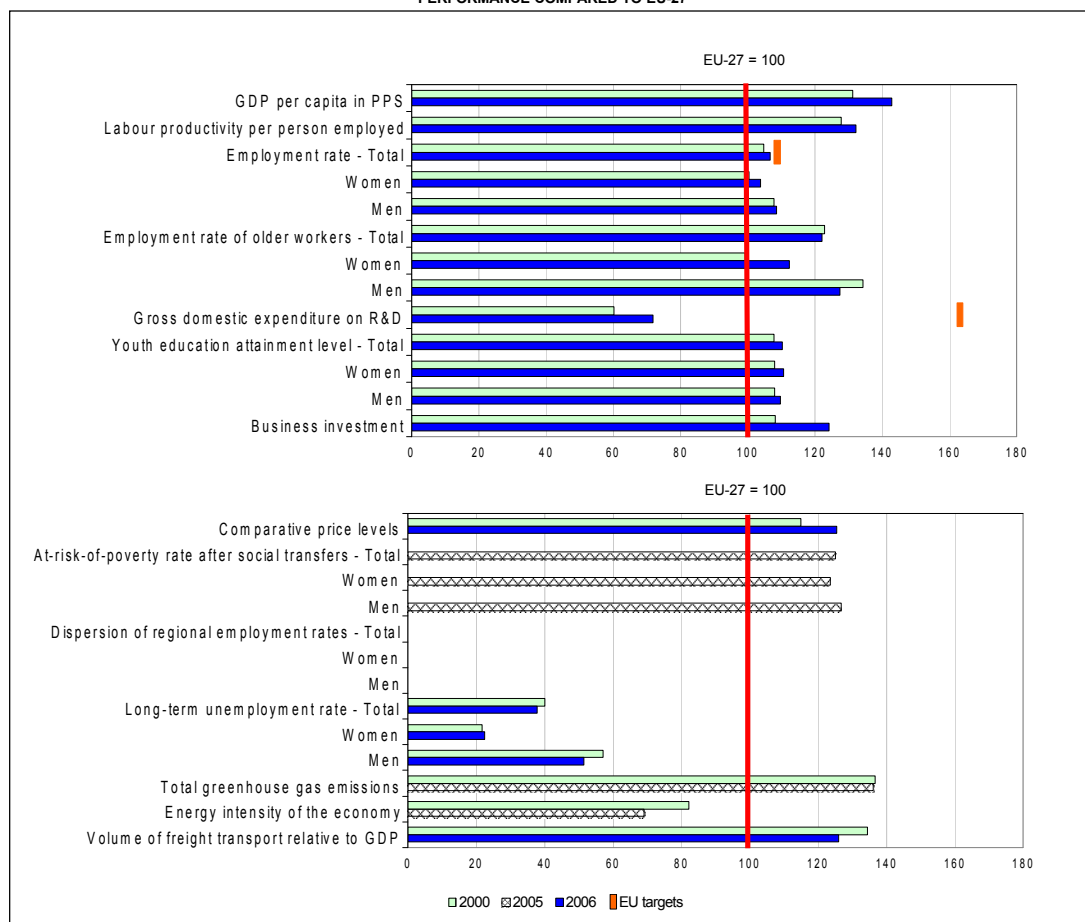
PART IV: STATISTICAL GRAPHS AND DATA

IRELAND

	IE						EU27			
	2000	2003	2004	2005	2006	2010 National target	2000	2005	2006	2010 EU target
GDP per capita in PPS	131.2	141.1	142.4	144.0	142.8		100.0	100.0	100.0	
Labour productivity per person employed	127.8	135.1	134.9	133.8	132.1		100.0	100.0	100.0	
Employment rate						70.0				70.0
Total	65.2	65.5	66.3	67.6	68.6		62.2	63.4p	64.4p	
Women	53.9	55.7	56.5	58.3	59.3		53.7	56.2p	57.2p	
Men	76.3	75.2	75.9	76.9	77.7		70.8	70.8p	71.6p	
Employment rate of older workers										
Total	45.3	49.0	49.5	51.6	53.1		36.9	42.3p	43.5p	
Women	27.2	33.1	33.7	37.3	39.1		27.4	33.5p	34.8p	
Men	63.2	64.6	65.0	65.7	67.0		47.1	51.5p	52.6p	
Gross domestic expenditure on R&D	1.12e	1.17	1.24	1.26	1.32p	*	1.86e	1.84e	1.84e	3.0
Youth education attainment level										
Total	82.6	85.1p	85.3p	85.8p	85.7		76.6	77.4	77.8	
Women	85.6	88.5p	88.4p	88.9p	89.3		79.3	80.1	80.7	
Men	79.7	81.6p	82.3p	82.6p	82.0		73.8	74.7	74.8	
Comparative price levels	114.9	126.4	125.6	124.9	125.4		100.0	100.0	100.0	
Business investment	19.9	18.5	20.0	22.6	22.6		18.4	17.8	18.2	
At-risk-of-poverty rate after social transfers										
Total	20.0	20.0b	21.0	20.0	:		:	16.0e	:	
Women	21.0	21.0b	23.0	21.0	:		:	17.0e	:	
Men	19.0	19.0b	19.0	19.0	:		:	15.0e	:	
Dispersion of regional employment rates										
Total	-	-	-	-	-		13.0	11.9	11.4	
Women	-	-	-	-	-		20.0	16.8	16.2	
Men	-	-	-	-	-		9.6	9.7	9.3	
Long-term unemployment rate										
Total	1.6	1.5	1.6	1.5	1.4		4.0	4.1p	3.7p	
Women	1.0	1.0	1.0	0.8	0.9		4.6	4.5p	4.0p	
Men	2.0	1.9	2.0	1.9	1.8		3.5	3.8p	3.5p	
Total greenhouse gas emissions	123.9	123.4	123.1	125.4	:		90.7	92.1	:	
Energy intensity of the economy	175.1	155.2	158.8	143.9	:		213.1	208.1	:	
Volume of freight transport relative to GDP	133.2	143.1	149.8	146.7	134.5		99.1e	105.4e	106.7e	

* National target: 2,5% (2013) of the Gross National Product (GNP)

PERFORMANCE COMPARED TO EU-27



Greece

1. Greece has experienced strong economic growth, averaging 4% in the years 2005-2007, with labour productivity growth clearly above the EU average. GDP per capita stands at 96.9% of the EU average. With job creation generally low, the employment rate (61% in 2006) remains far below the Lisbon target, particularly for women and older workers. Unemployment is decreasing (8.9% in 2006), but remains high, particularly for young people. The government deficit was reduced to 2½% of GDP in 2006 from 5.1% of GDP in 2005.
2. Greece faces high inflation pressures originating from a mixture of growth above potential and product market rigidities, while the worsening competitive position of the country creates high external imbalances. Despite labour shortages in specific sectors, unemployment remains high suggesting labour market rigidities and possible skill mismatches. Social security and pension reforms, a more efficient and transparent tax system, and the tackling of administrative malpractice could release resources which could be used to invest in human capital and active labour market policies. Efforts to transform undeclared work into formal employment would enhance the quality and sustainability of public finances and market efficiency.

PART I: GENERAL ASSESSMENT

3. Overall, the Greek 2007 Implementation Report has shown steady progress on implementing the 2005 National Reform Programme (NRP). The pace of progress in some fields appears to have accelerated slightly over the last year.
4. There has been some progress in responding to the four country-specific recommendations adopted by the Council. In the macro-economic domain, good progress has been made to consolidate public finances but more progress is needed to ensure its long-term fiscal sustainability. Progress in the micro-economic and employment areas has been partial. With regard to public administration reform, the initial steps taken are encouraging.
5. With regard to the other areas on which the Council concluded Greece should focus, as well as on the 2006 Spring European Council commitments, there has been some progress.
6. The Implementation Report does not specifically address the recommendations issued to the euro area countries, but there have been relevant developments. Greece has made good progress with budgetary consolidation, but less progress improving the quality of public finances. Additional action is necessary to strengthen competition in professional services, to promote labour mobility and improve flexibility and security in the labour market.
7. Consultation and efforts to develop ownership of the NRP by central and local governments and the social partners have been reinforced. The NRP and the 2007 Implementation Report appear to be the result of substantial dialogue between government bodies, and social partners. The Greek Parliament has also been involved. A Lisbon observatory has been set up and delivered a report in 2007. Links

between the governance of the implementation of the NRP and the programmes under the structural and cohesion funds are very strong. Earmarking of Structural Funding for Growth and Jobs objectives is being applied satisfactorily, with the Structural Funds being the driving force behind important reforms in employment and education, public administration reform, improvements to the business environment, competitiveness and regional development, and environmental protection.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

8. Over the 2005-2007 period, Greece has made good progress on its macro-economic challenge of fiscal consolidation. The newly elected Greek government emphasises fiscal balance and the long-term fiscal sustainability of public finances. However, more is needed to ensure the long-term fiscal sustainability of its public finances. Moreover, Greece's inflation rate and current account deficit are both amongst the highest in the euro area.
9. The Council recommended Greece to: ensure the continuation of fiscal consolidation and debt reduction and fix a timetable for the implementation of pension reform with a view to improving long-term fiscal sustainability. Fiscal consolidation began in 2004 and has made good progress - the excessive deficit procedure against Greece was abrogated in June 2007 and the government deficit has shrunk nearly 5 percentage points of GDP, to 2½% of GDP in 2006. However, use of temporary revenue measures and poor control over some items of public expenditure, particularly current primary expenditure, is a weakness. According to the Implementation Report, fiscal consolidation will continue and lead to a balanced budget by 2010. The 2008 draft budget projects that the general government deficit in 2008 will be 1.6% of GDP. Measures have been put in place to improve tax collection, intensify the fight against tax evasion and broaden the tax base. However, progress to ensure the long-term sustainability of public finances has been limited. Although Greece has declared it a high priority, the implementation of relevant reforms has been postponed. The Implementation Report stresses that the new government now has the opportunity to make good progress; public consultation and the Advisers Committee established to study the social security and pension system are expected to deliver first results and proposals before the end of 2007. The government has announced that reform of the pension system will begin by summer 2008.
10. In general, Greece has partially succeeded in implementing measures to deliver on the macro-economic commitments expressed in its NRP. There has been good fiscal consolidation, but Greece still has to ensure the long-term sustainability of public finances. There has therefore been some progress meeting the country-specific recommendation on fiscal consolidation, debt reduction and pension reform for long-term fiscal sustainability. Inflationary pressures and external imbalances are a cause for concern.

Micro-economic policies

11. The 2005-2007 NRP considered the following to be key micro-economic challenges: strengthening its business environment, developing a knowledge society, environmental and sustainable development, and public administration modernisation. Progress in addressing these challenges has been mixed.
12. Energy sector reform is progressing well. The EU legislative framework has been transposed into national law and infrastructure is improving. However, the electricity incumbent has a strong market position. Transposition of the regulatory framework for electronic communications has been completed and competition in fixed telephony reinforced. Competition and lower prices have led broadband penetration to take off, facilitated by the government's Digital Strategy initiatives. The Competition Authority has been reinforced and progress made with privatisations. However, implementation of the Services Directive is slow and regulations covering professional services remain amongst the most restrictive in the EU. There are some important delayed measures, including the national land use plan.
13. Some progress has been made to set up a regulatory framework for the environment and the sustainable use of resources; however, infrastructure and enforcement of integrated waste management, waste water and biodiversity protection is needed. Strong private interest is responding to a more favourable framework and developing renewable energy sources. Climate changing emissions were already above the Kyoto target in 2005 and are growing fast. Additional measures to meet Greece's Kyoto target are needed.
14. The Council recommended Greece to modernise its public administration by building up effective regulatory, control and enforcement capacities, and ensuring an effective use of Structural Funds. A specific Structural Funds Operational Programme is now in place to assist Greece in this task. Better regulation is being improved by the gradual introduction of impact assessment, codification and simplification of legislation, as well as actions to reduce administrative burdens, for which a 25% reduction target has been set for 2013. Development of e-Government is more advanced, supported by a comprehensive Digital Strategy.
15. The Council also highlighted the need to focus on R&D, the transposition of internal market legislation and progress towards the 2006 Spring European Council SME policy targets. Actions to foster R&D and innovation depend significantly on Structural Funds financing over 2007-2013. The emphasis on innovation poles is promising but, and in spite of some encouraging signs, the predominance of family-owned SMEs and the economy's service orientation does not facilitate a rapid increase of private R&D investment. The R&D expenditure target of 1.5% of GDP has been postponed from 2010 to 2015. A bill has been submitted to parliament to improve R&D governance, but it still has to be adopted. Implementation of internal market legislation has improved remarkably, but the transposition deficit remains high. Some reform of public procurement has been achieved, but many problems remain which hamper projects financed by the Structural Funds.
16. Greece has not fully addressed the Spring 2006 European Council priority area aimed at improving the business environment. Key measures (e.g. creation of the

General Commercial Registry) have not been completed and the average business start-up time is estimated at around one month. Simplification in setting up and licensing has taken place in some sectors and a new bankruptcy code and an update of company law have been adopted. Access to finance has been improved.

17. Greece has partially succeeded in implementing measures to deliver on the micro-economic commitments expressed in its NRP. The response to the country specific recommendation on modernising public administration is in a preparatory phase. Progress regarding the promoting R&D, improving the transposition of internal market legislation, and in reaching the SME policy targets set by the Spring 2006 European Council is limited, pointing to the need to accelerate reform implementation. Moreover, additional action is necessary to strengthen competition in professional services, to protect the environment and to curb greenhouse gas emissions.

Employment policies

18. Good macro-economic performance has helped the employment rate increase to 61% in 2006 from 59.4% in 2004. Nevertheless, employment is well below EU employment targets. Unemployment, while declining, disproportionately affects the young and women. Initiatives to strengthen active labour market policies, enhance skills and promote employment are reported, but progress is mixed.
19. The Council recommended Greece to reinforce active labour market measures, fight undeclared work and speed up education and lifelong learning reforms. Current active labour policies are more focused on specific target groups and responsive to labour market needs, but efforts are needed to improve quality and coverage and transform public employment services into high quality one-stop shops for employment promotion. A 'Special Solidarity Fund' has been established to address long-term unemployment amongst older workers, but more comprehensive action is needed, including to help retain older workers in the labour market. A series of measures are planned to fight undeclared work, including reinforced controls on labour and the creation of a national committee against tax evasion. However, the magnitude of the problem requires better coordination of actions. Low wage earners appear to be taxed at a rate below the European average, but the adjusted implicit tax rate on employed labour is above the average. Tax policy aims to become more employment friendly: a recently announced tax reform package should reduce the tax burden for middle income brackets. However, the social security component of non-wage labour costs remains high. Employment protection is higher than the EU average, particularly for temporary workers. The Implementation Report refers to the establishment of a committee to study employment legislation and make proposals to ensure it is more adaptable.
20. Greece has set itself the target of allocating 5% of GDP to education by 2008, but it is not clear that expenditure on education is increasing. Policy aims to introduce ICT in schools, modernise the syllabi, and fight early school leaving. The share of early school leavers is slightly higher than the EU average. There has been progress in terms of developing legislation for higher education. On lifelong learning, a target has been set for reaching 6% of adult participation by 2015 and a dedicated agency for the promotion of continuous vocational training in enterprises will be set up. In

the Commission's opinion, the policies developed are a satisfactory response but now need to be implemented.

21. The Council also highlighted the need to implement policies to encourage women's participation in employment, and put in place a coherent active ageing strategy. Greece has taken action to promote female employability and reconcile work and family life, including targeted training and counselling measures. Nevertheless, the situation for the young and for older women continues to be difficult, suggesting more support may be needed for these groups, supported by the fact that employment and unemployment gender gaps remain significant. Further efforts are also needed to develop policies designed to help retain older workers stay in the labour market.
22. The pursuit of 'flexicurity' represents a major challenge for Greece; it has just begun to be addressed in an integrated way. The government has engaged in a broader dialogue with social partners, who approach this subject with caution. Expenditure on active labour market policies is low and decreasing. In this context the Greek authorities have set an expenditure target of 0.5% of GDP for 2015 and attention is now given to better matching labour supply with demand. Part-time work remains limited, despite recent measures to promote it in local government. The adult participation rate in life-long learning is extremely low. To address this, initial steps have been taken to implement a law linking education and training to employment. Progress so far seems modest, however, so implementation should be accelerated. Reform of the social security and pension systems to address weaknesses is the subject of public debate.
23. In general, Greece has partially succeeded in implementing measures to deliver on the employment policy commitments expressed in its NRP and in addressing the country specific recommendations and points to watch.

PART III: CONCLUSIONS

24. In the light of the 2007 Greek Implementation Report and the Commission's assessment of progress made in implementing key structural reforms and based on the Integrated Guidelines for Growth and Jobs, the following conclusions are appropriate.
25. Greece has made steady progress in implementing its National Reform Programme over the period 2005-2007. Greece has shown some progress in fulfilling the commitments agreed by the 2006 Spring European Council in the four priority action areas.
26. The Implementation Report shows there has been some policy response to the recommendations adopted by the Council. There has been some response on the additional areas identified in the Council conclusions as requiring attention. The Implementation Report does not however specifically address the recommendations issued to the euro area countries.
27. Amongst the strengths shown by the 2007 Greek Implementation Report are: good progress made to consolidate public finances, promoting female employment, implementing internal market legislation, and improving the business environment.

There are promising signs of progress to fix a timetable to implement pension reforms designed to improve long-term fiscal sustainability.

28. Policy areas in the Greek National Reform Programme where challenges need to be tackled with the highest priority are: long-term fiscal sustainability, implementation of the public administration reform agenda, the consolidation of active labour market policies, tackling high youth unemployment, tackling undeclared work and acceleration of education and life-long learning reforms. Against this background it is recommended that Greece:

- pursue fiscal consolidation and debt reduction, and proceed rapidly with the implementation of the pension reform, with a view to improving long-term fiscal sustainability;
- implement the reform of its public administration, by building up effective regulatory, control and enforcement capacities, by modernising its human resources policy; and through effective use of the Structural Funds;
- within an integrated flexicurity approach, modernise employment protection including legislation, reduce the tax burden on labour, strengthen active labour market policies and transform undeclared work into formal employment;
- accelerate the implementation of reforms on education and lifelong learning, in order to improve quality and responsiveness to labour market needs, increase participation, and allow for a smooth transition into employment, particularly for the young.

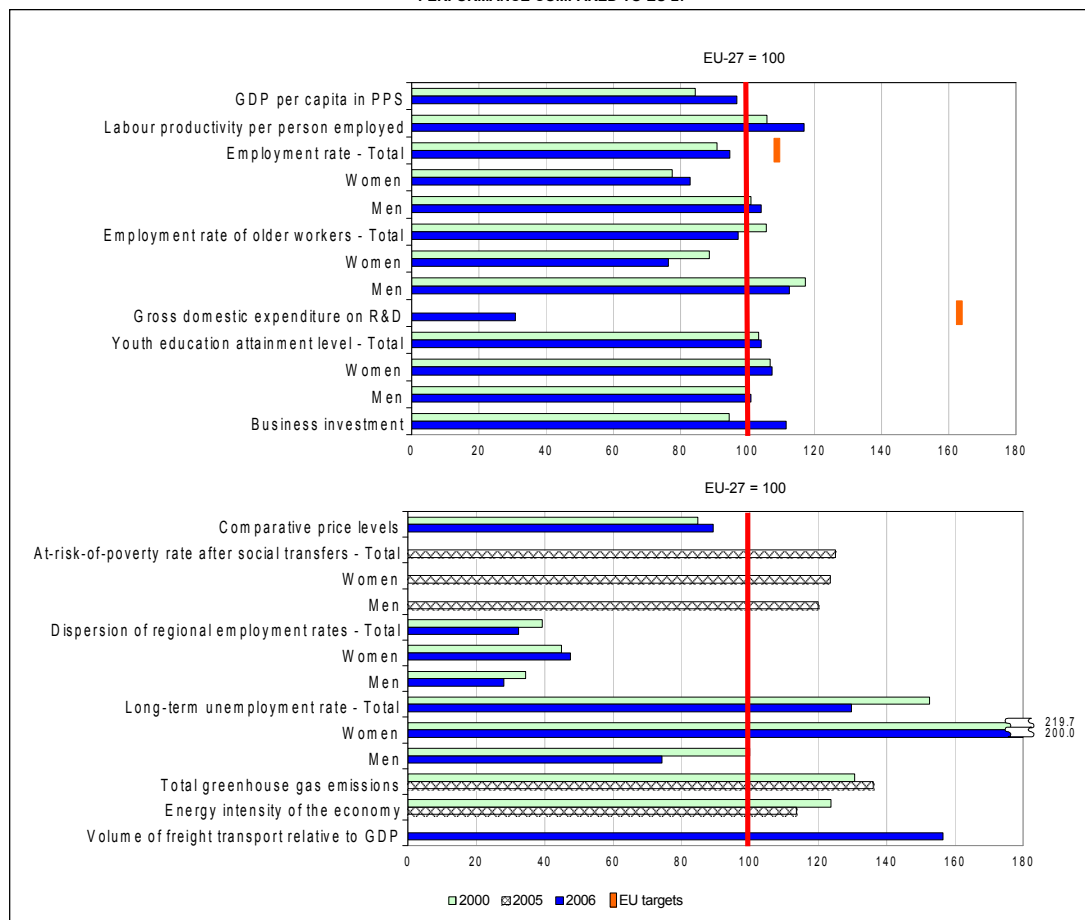
29. In addition, it will be important for Greece over the period of the National Reform Programme to focus on the following challenges: contain inflationary pressures and the current account deficit; accelerate efforts to set up a research and innovation strategy and increase investment in R&D; improve further the transposition of internal market legislation; speed up progress towards meeting the SME policy targets set by the 2006 Spring European Council; strengthen competition in the area of professional services; protect the environment by prioritising effective solid and water waste management and curb greenhouse gas emissions; encourage further female participation in employment; reduce early school leaving and put in place a coherent active ageing strategy.

PART IV: STATISTICAL GRAPHS AND DATA

GREECE

	GR						EU27			
	2000	2003	2004	2005	2006	2010 National target	2000	2005	2006	2010 EU target
GDP per capita in PPS	84.4	92.4	93.4	95.4	96.9f		100.0	100.0	100.0	
Labour productivity per person employed	105.8e	114.6e	112.8e	114.9e	116.9f		100.0	100.0	100.0	
Employment rate						64.1				70.0
Total	56.5	58.7	59.4	60.1	61.0		62.2	63.4p	64.4p	
Women	41.7	44.3	45.2	46.1	47.4		53.7	56.2p	57.2p	
Men	71.5	73.4	73.7	74.2	74.6		70.8	70.8p	71.6p	
Employment rate of older workers										
Total	39.0	41.3	39.4	41.6	42.3		36.9	42.3p	43.5p	
Women	24.3	25.5	24.0	25.8	26.6		27.4	33.5p	34.8p	
Men	55.2	58.7	56.4	58.8	59.2		47.1	51.5p	52.6p	
Gross domestic expenditure on R&D		0.58	0.55p	0.58	0.57	1.5	1.86e	1.84e	1.84e	3.0
Youth education attainment level										
Total	79.2	81.7	83.0	84.1	81.0p		76.6	77.4	77.8	
Women	84.6	86.8	86.8	88.5	86.6p		79.3	80.1	80.7	
Men	73.6	76.6	79.2	79.7	75.5p		73.8	74.7	74.8	
Comparative price levels	84.8	85.9	87.3	88.3	89.2		100.0	100.0	100.0	
Business investment	17.4	19.3	19.2	18.6	20.3f		18.4	17.8	18.2	
At-risk-of-poverty rate after social transfers										
Total	20.0	21.0b	20.0	20.0	:			16.0e	:	
Women	20.0	21.0b	21.0	21.0	:			17.0e	:	
Men	19.0	20.0b	19.0	18.0	:			15.0e	:	
Dispersion of regional employment rates										
Total	5.1	3.2	4.1	4.3	3.7		13.0	11.9	11.4	
Women	9.0	6.5	8.3	8.4	7.7		20.0	16.8	16.2	
Men	3.3	2.1	2.5	2.9	2.6		9.6	9.7	9.3	
Long-term unemployment rate										
Total	6.1	5.3	5.6	5.1	4.8		4.0	4.1p	3.7p	
Women	10.1	8.9	9.4	8.9	8.0		4.6	4.5p	4.0p	
Men	3.5	3.0	3.0	2.6	2.6		3.5	3.8p	3.5p	
Total greenhouse gas emissions	118.6	123.6	123.9	125.4	:		90.7	92.1	:	
Energy intensity of the economy	263.6	247.8	240.6	236.5	:		213.1	208.1	:	
Volume of freight transport relative to GDP		108.0e		120.8	167.1		99.1e	105.4e	106.7e	

PERFORMANCE COMPARED TO EU-27



Spain

1. The Spanish economy has been growing strongly at an average annual rate of 3.75% since the mid-1990s. Domestic demand has been strong, and employment growth highly dynamic, with Spain contributing almost half of the total job creation in the euro area since the mid-nineties. As a result, the unemployment rate has halved, to close to the EU average of around 8%. The employment rate has been rising steadily to 66%.
2. In parallel, a number of imbalances have emerged. The current account deficit reached 8.5% of GDP in 2006, reflecting, in part, insufficient export growth. Inflation remains high, due in part to structural factors related to the functioning of product and services markets. Inflation and low productivity growth continue to affect Spain's competitive position. In order to enhance productivity, the quantity and quality of physical, human, and knowledge capital will need to increase. Finally, strong job creation remains coupled with persistent labour market segmentation.

PART I: GENERAL ASSESSMENT

3. Overall, Spain has made good progress with implementing the 2005 National Reform Programme (NRP) over the 2005-2007 period.
4. Spain has responded to the country-specific recommendations adopted by the Council. There has been a limited response to increasing competition in the energy sector, although some progress has been made in addressing the security of supply. Progress in integrating training systems to provide a better response to labour market needs, and on modernising employment protection has been good but progress in reducing early school leaving is still insufficient.
5. With regard to the other areas on which Spain was asked to focus, there has been a some response in the macro-economic domain. The points to watch in the micro-economic and employment domains have been partially addressed. Better results are evident in raising skill levels and productivity. Despite measures put in place, progress towards the reduction of CO2 emissions may not be sufficient for Spain to meet the Kyoto target.
6. The Council concluded that Spain had adequately responded to the commitments agreed at the 2006 Spring European Council in the priority action areas of knowledge, entrepreneurship, employment and energy. Since then, there has been good progress on the commitments in the priority action areas of knowledge, entrepreneurship and employment but limited progress in the area of energy.
7. Spain addresses the euro area recommendations in its latest Implementation Report. Examples include measures reported to improve the efficiency of public expenditure and measures to enhance competition in the services sector.
8. Consultation of the NRP at the level of regional and local governments and the social partners has been reinforced but ownership of the NRP remains limited. The involvement of stakeholders continues to be limited outside the employment field,

where there has been some cooperation with social partners. More information on timetables and budgetary implications of reforms would be welcome. The links between the governance of the implementation of the NRP and the programmes under the structural and cohesion funds are strong but the earmarking of structural funding for Growth and Jobs objectives needs to be reinforced particularly in Competitiveness regions. Significant support is foreseen for R&D, active labour policies, and improvement of human capital.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

9. Spain has made good progress over the 2005-2007 period with regard to the implementation of policies to address the macro-economic key challenges of macro-economic and budgetary stability in order to support real GDP convergence and reach the EU-25 average by 2010. In spite of some signs of deceleration, the growth rate of the Spanish economy remains above that of the euro area. Nevertheless, given the rapid increase of Spain's population, full convergence with the EU-25 in terms of per capita GDP will require additional efforts.
10. No macro-economic recommendations were issued for Spain. However, the Council referred to the need to contain inflation in the medium-term, as well as implementing the foreseen housing market measures so as to gradually reduce house price pressures in the medium-term, and pension and healthcare reforms which also impact favourably on long term fiscal sustainability.
11. There has been some progress in these areas. Measures have been designed to tackle the structural factors behind excessive inflation, namely prioritising public spending on R&D, education and infrastructure, ensuring budgetary stability, and increasing competition in certain sectors. Recent fluctuations of the inflation differential can be largely explained by exogenous factors of rather a transitory nature such as the effect associated with oil prices, which have a stronger impact on the Spanish economy than in other euro area countries. With regard to the reduction of pressure on housing prices, Spain has adopted a new law on Urban Land and implemented the Housing Plan 2005-2008 as well as approved several measures aiming at developing the rental market from the demand side. However, the current deceleration of housing prices seems to be more related to a drop in demand than to the measures implemented by the government in the rental market. Reforms have taken place to the pension system. The volume of the Social Security Reserve Fund has again been increased. The reform of the system adopted in 2006, will be implemented in January 2008, and aims at a better alignment between contributions and benefits. This has had a limited effect thus far on long-term fiscal sustainability. There has been a limited response in the area of the health care reform consisting of a reduction of spending on medicines but health care spending continues to increase at a rate well above of that of nominal GDP.
12. In general, Spain has succeeded in implementing measures to deliver on the macro-economic commitments expressed in its NRP. There has been limited progress in addressing the points to watch issued to Spain, with some progress on addressing the structural factors affecting the inflation differential, but more limited progress in the

other area. The Commission therefore considers that these issues merit additional focus. In addition, the increasing current account deficit is a matter for concern. With regard to the euro area recommendations in the macro-economic domain Spain's progress has been good.

Micro-economic policies

13. Progress on the implementation of measures in response to the micro-challenges identified by the Spanish NRP has continued over the last year. Good progress has been recorded in the area of R&D, business environment, and infrastructure, with more limited progress in the areas of competition, better regulation, and the environment.
14. The Council recommended Spain takes further measures to increase competition in the energy sector, notably by improving cross-border interconnection capacity to ensure security of supply. The measures planned now need to be fully implemented. However, a fundamental competition problem in the electricity market remains as the elimination of tariffs (in real terms) is not being pursued with sufficient urgency. The tariff increase in 2007 has been too modest to reflect the real cost of electricity generation and distribution, and to absorb the deficit accumulated in the regulated system. There has been good progress in enhancing the security of supply via an agreement to reinforce interconnection capacity with Portugal, but problems persist regarding interconnection capacity with France.
15. The Council also referred to the need to focus on raising competition in professional services and retail markets; improving the regulatory framework; and implementing environmental measures, in particular to reduce CO₂ emissions.
16. With regard to environmental measures, the recent national climate change strategy defines the framework for policy action to comply with the Kyoto Protocol. The significant number of planned initiatives will help contribute towards reaching the Kyoto targets but it appears further measures will also be required. On the need to raise competition in retail markets, no new information has been reported. Spain should sustain its on-going efforts to implement the Services Directive. Progress to increase competition in professional services has been limited. On better regulation, Spain has set a target for a 25% reduction in the administrative burden by 2012 and an Action Plan to facilitate this is envisaged.
17. Efforts to increase both the level and efficiency of R&D and innovation spending continue to be a strong point of the Spanish reform agenda, and in particular the improved coordination between central and regional government. All regions have R&D intensity targets for 2010. The achievement of the overall R&D target of 2% of GDP depends on whether the significant public funding effort will stimulate business spending. There are doubts concerning the return in terms of innovation output. Spain's innovation system still needs substantial strengthening in areas like knowledge transfer between science and industry, fostering entrepreneurship, and on access to risk capital. Investment levels are increasing in the aim to develop an information society, but weak IT adoption rates persist, particularly among enterprises.

18. Spain is implementing policies to promote entrepreneurship education, to facilitate administrative processes for starting a business and to provide information on access to public procurement. Among Spain's regions the progress achieved on developing SME policies varies. Spain needs to address the high number of infringement cases and continue to decrease its transposition deficit.
19. Overall progress over the 2005-2007 period with regard to the implementation of policies to address the micro-economic challenges identified by Spain in the 2005 NRP is good. The country specific recommendations and points to watch in the micro-economic area have been only partially addressed and therefore remain valid. Progress with regard to the euro area recommendation on competition was limited.

Employment policies

20. There has been some progress over the 2005-2007 period with regard to the implementation of policies to address Spain's labour market challenges. Spain has already met its overall employment rate target of 66% three years early. Spain should now focus on attaining the EU employment rate target of 70% by 2010. While the female employment rate has risen, the employment gender gap remains one of the largest in the EU. The unemployment rate (8.5% in 2006) has fallen, and converged towards the EU27 average. The early school leaving rate has barely declined, and youth education attainment levels continue to be among the lowest in the EU.
21. The Council recommended Spain to modernise employment protection with a view to fostering flexibility and security in the labour market and counter segmentation. An agreement with the social partners in mid-2006 has helped bring down the number of fixed-term contracts by 2.6%. This is a welcome move which however will only have short-term effects. In the longer term, further measures may be needed, in particular to promote indefinite contracts and part time work.
22. The Council also recommended Spain to ensure the effective implementation of education reforms to reduce early school leaving and to integrate training systems. The new education law aims at fully integrating immigrant pupils, at reducing the rate of early school leaving, and improving some key competencies. However, the target set in the 2006 Implementation Report of almost halving the rate of early school leavers to 15% in 2010 is unlikely to be met. Legislation adopted in March 2007 to regulate the integration of occupational and vocational training systems should help raise quality and improve access to lifelong learning.
23. The Council highlighted the need for Spain to focus on: raising skill levels and productivity and integrating immigrants into the labour market; and increasing access to childcare. In spite of recent progress in productivity growth (0.8% in 2006) it remains well below the EU27 average. The number of workers participating in continuous training has increased from 10% in 2005 to 11.2% in 2006. To integrate immigrants into the labour market, Spain has a strategic plan for 2007-2010 that foresees a broad array of measures under four pillars. Measures have been announced to extend childcare services to all children aged 0-3 years which should help to bring Spain closer to meeting the EU target. However, the percentage of children under 3 years in childcare has risen only slightly (16.6%), and is well below the EU 33% target. Important regional disparities also persist in this field.

24. Spain partly addresses flexicurity in an integrated way. Some progress has been made to ensure training or job offers for all the unemployed, with activation rates increasing significantly. The social security system has been reformed by strengthening the link between contributions and benefits received, and extending the working life. Whereas there is good progress on active labour market policies and modern social security systems, implementation is still ongoing on lifelong learning legislation, and only moderate short-term effects are visible concerning contractual arrangements.
25. In general, Spain has partially succeeded in implementing measures to deliver on the employment policy commitments expressed in its NRP. Measures have been taken to address the country specific recommendations. The points to watch have been partially addressed. It is encouraging that labour market reforms have been approved in the framework of the social dialogue with a high degree of agreement of all social partners. Some progress was achieved with regard to the euro area recommendation in the employment domain.

PART III. CONCLUSIONS

26. In the light of Spain's 2007 Implementation Report and the Commission's assessment of progress made in implementing key structural reforms and based on the Integrated Guidelines for Growth and Jobs, the following conclusions are appropriate.
27. Spain has made good progress with implementing its National Reform Programme over the 2005-2007 period. Spain has shown good progress in fulfilling the commitments agreed by the 2006 Spring European Council in three of the four priority action areas.
28. The Implementation Report shows a good policy response to the recommendations adopted by the Council. With regard to the other areas on which Spain was asked to focus, there has been a limited response in the macro-economic domain. The points to watch in the micro-economic and employment domains have been partially addressed. The Implementation Report also specifically addresses the recommendations issued to the euro area countries.
29. Among the strengths shown by Spain's 2007 Implementation Report are: a faster than targeted reduction of government debt; good progress on implementation of the R&D and innovation plan; and satisfactory progress towards the employment rate objective, in particular for female employment.
30. The policy areas in the Spanish National Reform Programme where challenges now need to be tackled with the highest priority are improving competition in electricity markets and further improvements to education and training. Against this background it is recommended that Spain:
 - take further measures to increase competition in the energy sector, notably by eliminating the distorting price setting mechanisms and improving cross-border interconnection capacity to ensure security of supply;

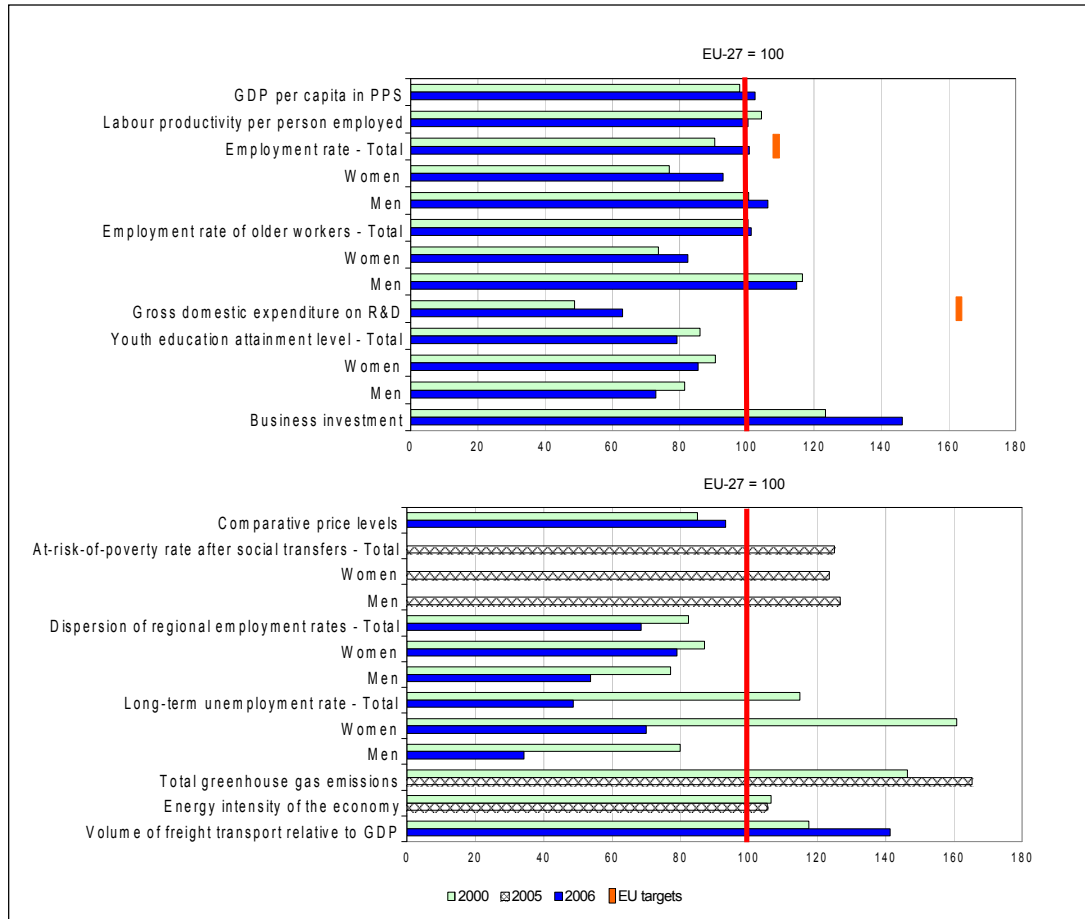
- ensure the effective implementation of education reforms, also at regional level, to reduce early school leaving.
31. In addition, it will be important for Spain over the period of the National Reform Programme to focus on the following challenges: contain the current account deficit and inflationary pressures and monitor developments in the housing market; raising competition in professional services and retail markets; improving the regulatory framework; implementing environmental measures, in particular to reduce CO2 emissions; further modernise employment protection, including legislation, in order to foster flexicurity in the labour market to counter segmentation and promote the attractiveness of part-time work; raising productivity by raising skill levels and innovation; integrating immigrants into the labour market; further increase of access to childcare; and implement pension and healthcare reforms so as to improve long term fiscal sustainability.

PART IV: STATISTICAL GRAPHS AND DATA

SPAIN

	ES						EU27			
	2000	2003	2004	2005	2006	2010 National target	2000	2005	2006	2010 EU target
GDP per capita in PPS	97.8	101.4	100.9	102.5	102.4		100.0	100.0	100.0	
Labour productivity per person employed	104.3	103.7	101.5	101.3	100.3		100.0	100.0	100.0	
Employment rate						66.0				70.0
Total	56.3	59.8	61.1	63.3b	64.8		62.2	63.4p	64.4p	
Women	41.3	46.3	48.3	51.2b	53.2		53.7	56.2p	57.2p	
Men	71.2	73.2	73.8	75.2b	76.1		70.8	70.8p	71.6p	
Employment rate of older workers										
Total	37.0	40.7	41.3	43.1b	44.1		36.9	42.3p	43.5p	
Women	20.2	23.3	24.6	27.4b	28.7		27.4	33.5p	34.8p	
Men	54.9	59.2	58.9	59.7b	60.4		47.1	51.5p	52.6p	
Gross domestic expenditure on R&D	0.91	1.05	1.06	1.12	1.16p	2.0	1.86e	1.84e	1.84e	3.0
Youth education attainment level										
Total	66.0	62.2	61.2	61.8	61.6		76.6	77.4	77.8	
Women	71.9	69.2	68.4	68.5	69.0		79.3	80.1	80.7	
Men	60.1	55.5	54.4	55.4	54.6		73.8	74.7	74.8	
Comparative price levels	85.0	88.3	90.9	92.0	93.2		100.0	100.0	100.0	
Business investment	22.7	23.6	24.7	25.8	26.6		18.4	17.8	18.2	
At-risk-of-poverty rate after social transfers										
Total	18.0	19.0	20.0b	20.0	:			16.0e	:	
Women	19.0	20.0	21.0b	21.0	:			17.0e	:	
Men	17.0	18.0	19.0b	19.0	:			15.0e	:	
Dispersion of regional employment rates										
Total	10.7	9.0	8.7	8.3	7.8		13.0	11.9	11.4	
Women	17.4	14.5	14.8	13.8	12.8		20.0	16.8	16.2	
Men	7.4	6.1	5.5	5.3	5.0		9.6	9.7	9.3	
Long-term unemployment rate										
Total	4.6	3.7	3.4	2.2b	1.8		4.0	4.1p	3.7p	
Women	7.4	5.7	5.0	3.4b	2.8		4.6	4.5p	4.0p	
Men	2.8	2.4	2.2	1.4b	1.2		3.5	3.8p	3.5p	
Total greenhouse gas emissions	132.8	141.5	146.9	152.3	:		90.7	92.1	:	
Energy intensity of the economy	227.0	219.7	222.2	219.2	:		213.1	208.1	:	
Volume of freight transport relative to GDP	116.4	135.2	149.1b	151.4	150.9		99.1e	105.4e	106.7e	

PERFORMANCE COMPARED TO EU-27



France

1. In 2006 GDP grew by 2.0%, lower than the 2.7% growth in the euro area. Growth is expected to be 1.9% in 2007. Growth continues to be supported by domestic demand, especially private consumption, and hampered by a negative contribution of net exports over the past five years. The employment rate (63% in 2006) remains low, particularly for the young (29.3%) and older workers (37.6). Unemployment (9.1% in 2006) has improved markedly over the year to a forecasted 8.6% but remains well above the euro area average.
2. Reforms under discussion address key challenges that France has to face in a context of an ageing population, high unemployment and a lack of competitiveness. These reforms aim at increasing potential growth and may, in the long term, improve the sustainability of public finances. However, the measures thus far adopted (including tax cuts in the summer 2007 "fiscal package") will slow down consolidation in public finances, and the envisaged structural reforms entail significant short term costs. Achieving a balanced budget has been delayed until 2012 in the case of GDP growth below 2.5%, despite France's commitment to reach this goal by 2010.

PART I: GENERAL ASSESSMENT

3. Overall, the French 2007 Implementation Report shows steady progress in implementing the National Reform Programme (NRP) over the 2005-2007 period, but more significantly some key policy orientations have been, or are in the process of being revised. Following presidential and legislative elections, France has stated its commitment to boost economic growth and job creation through structural reforms covering a wide range of areas including the labour market, pension system, social security financing, environmental sustainability, and competition in goods and services. The new French government presents a noticeably modified strategy to modernise micro-economic and labour market policies to increase growth and to reduce unemployment.
4. The response to the country-specific recommendations adopted by the Council has been limited. Progress on public finance has not been in line with the path set out in the latest Stability Programme update. Progress in opening up competition in the energy sector is faltering because of regulated tariff systems on the domestic market. The response to the need to enhance lifelong learning and modernise employment protection, has been addressed in policy announcements committing to a major reform on labour law and the vocational training system. These measures now require implementation.
5. With regard to the other areas on which France was asked to focus, an important reform has been undertaken with regard to stimulating and supporting entrepreneurship and young businesses. There has been some progress in strengthening competition in regulated trades and professions but further relaxing of restrictions is necessary. Although policies for better regulation have been enhanced, a wider use of impact assessments is needed. Measures to increase activation and

help the return to work need to be sustained in order to further increase labour supply.

6. There has been progress on some of the commitments agreed at the 2006 Spring European Council with an end 2007 deadline, in particular concerning investment in knowledge and innovation, unlocking the business potential of SMEs, and in the field of energy. The Implementation Report does not specifically address the recommendations issued to the euro area countries, but there have been relevant developments. France has improved its framework for public finances monitoring through the full implementation of the LOLF (*Loi Organique relative aux Lois de Finances*) with positive effects on the quality of public finances, while progress in terms of sustainability of public finance has been more limited. Progress in response to the euro area recommendations in the areas of competition in services and of improving flexibility and security on labour markets inter alia by promoting labour mobility is limited.
7. Consultation and efforts to develop ownership of reform at the level of local government and the social partners have been reinforced. The social partners have been invited to negotiate on sensitive labour market reforms, on which outcomes are awaited. Links between the governance and implementation of the NRP and the programmes under the structural funds are fairly strong. Earmarking of structural funding for Growth and Jobs objectives is satisfactory. However, the NRP and its Implementation Report do not provide a comprehensive overview of all announced reform measures.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

8. The structural public deficit improved from 3.5% of GDP in 2005 to 2.5% of GDP in 2007. Both the fiscal package adopted in August 2007, largely consisting of tax reductions, and the draft Finance Act for 2008, indicate that in 2007 and 2008 the reduction with regard to the public deficit and the debt-to-GDP ratio will stall compared to the path defined in the December 2006 update of the Stability Programme.
9. The Council recommended that France should ensure the sustainability of its public finances, notably through continued budgetary consolidation and debt reduction. France has taken a number of actions in this area. A tighter set of rules for state expenditure has been established (a decrease in volume by 1% in volume in 2008), to be followed by a stabilization in volume in 2008 (but applied to a broader category of expenditure). Furthermore, France has launched a general revision of public policies based on the implementation of the LOLF, which entails annual assessments of the efficiency of public policies, ministerial reform strategies, as well as audits for modernising the State. However, the state finance rule may not be fully achieved, and the expenditure rules in the other administration sub-sectors (local government and social security) are either, limited, nonbinding or not fully implemented. In addition, the 2007 Implementation Report, while underlining that the consolidation of public finances is necessary in order to create budgetary margins for growth-supporting expenditures, envisages broad structural reforms on pensions, healthcare

financing, global taxes, and administration organisation. Some of these reforms carry short-term budgetary costs and will have a positive impact only in the medium to long term.

10. France has partially succeeded in implementing measures to deliver on the macro-economic commitments expressed in its NRP. However, in 2007, the budgetary consolidation drive has slowed. The tax decreases and the measures in the draft budget imply that consolidation will not significantly progress in 2008. Achieving a balanced budget has been delayed until 2012 in the case of GDP growth below 2.5%, despite France's commitment to reach this goal by 2010.

Micro-economic policies

11. Over 2005-2007 France has made progress to address the micro-economic challenges outlined in its NRP.
12. The Council recommended that France improves the framework for competition in the gas, electricity and rail freight sectors. Despite some positive steps, the actual degree of liberalisation remains limited. Despite the full legal opening on 1st July 2007 of the domestic gas and electricity market, a regulated tariff system remains imposed by law. As a consequence real prices are below market prices, favouring incumbents, and limiting possibility for successful market entry. In the rail freight sector the market share of new operators increased from less than 1% in 2006 to between 3% and 5% in 2007, but more effective unbundling between infrastructure and operations should be vigorously pursued. Further measures to promote a greater liberalisation are not yet in place and the legal competences and administrative means of the regulator remain insufficient. Therefore the announcement of an independent railway regulator is an initial step.
13. The Council also underlined that it was important to improve regulation, to strengthen competition in the regulated trades and professions, and to encourage entrepreneurship. In the field of better regulation, France has set an administrative burden reduction target of 20% and is planning to finalize a mapping exercise in March 2008. Its codification activities are progressing well but progress on simplification remains quite slow. An explicit and comprehensive better regulation strategy is needed, in particular in view of greatly increasing the use of impact assessments and of developing more uniform consultation mechanisms.
14. Despite the relaxation of restrictions in some professions, the legal professions, especially notaries and pharmacies, remain heavily regulated, and the most serious restrictions (fixed prices and quantitative entry restrictions) are contained in state law. Some measures have recently been announced to promote competition in the retail sector. There has been a good policy response on entrepreneurship and SME policy. Many measures have been taken over the last 3 years, such as the simplification of procedures, the removal of some taxes, and financial schemes to support the creation and development of SMEs. Particularly relevant is the recent emphasis put on the encouragement of the growth of SMEs, the promotion of ICT use, the increase of financial means for small innovative companies, and measures supporting internationalisation. France has improved its performance with regard to the timely transposition of internal market legislation, but needs to reduce the high number of infringement proceedings. France should continue implementing

entrepreneurship promotion measures and to tackle more vigorously the issue of business transfer.

15. Over the past two years R&D and innovation strategies have undergone considerable reform with good progress being made. Public spending on research has increased in nominal terms since 2004. Fiscal incentives and conditions for developing public-private partnerships have been improved. Regions are also encouraged to establish their own innovation strategies. In view of the recent reforms, which give more autonomy to universities, and complement the reforms in the research domain, the role and functioning of public research organizations and better career opportunities for researchers in the private sector should be examined.
16. Industrial policy remains an important priority in the NRP with a focus on the activity of the 71 *Pôles de Compétitivité*. Measures in the ICT field have begun to yield concrete results.
17. In general, France has partially succeeded in implementing measures to deliver on micro-economic challenges and commitments expressed in the NRP. Greater efforts are needed to increase competition in the gas, electricity and rail freight sectors and thus this recommendation remains valid. France has introduced significant reforms in R&D and innovation, and has supported entrepreneurship and SMEs. Therefore this point to watch is no longer merited. However, further reforms are needed in the fields of better regulation and the regulated trades and professions.

Employment policies

18. Relatively low employment, high structural unemployment, rigid labour legislation, and labour market segmentation (with employment turnover concentrated on particular groups) have remained key challenges over the 2005-2007 period. Limited progress has been made in addressing these issues. Low skilled young people have been hit hardest by labour market segmentation, with high unemployment rates as a result. Older workers continue to retire early. Labour market policy has targeted those vulnerable in the labour market through a social cohesion programme (for example continued reductions in social security contributions on low paid work), with uneven policies to ease employment protection legislation and improve the access to and efficiency of lifelong learning. Reflecting the lag with which employment reacts to economic recovery, record unemployment has now started to come down but employment performance remains unsatisfactory. In this context, France recently announced a global labour market reform that embraces structural revision of labour law, public employment services, unemployment insurance and vocational training.
19. The Council recommended that France should modernise its employment protection and improve lifelong learning. Previously introduced reforms of labour contracts seem to have been superseded by the new government's announced global flexicurity reform which respond to the Council recommendations. In order to tackle labour market segmentation and modernise employment protection, the government has asked the social partners to consider a review of labour contracts. It has also proposed the merger of the job seekers placement and reimbursement services, in order to improve efficiency. Alongside existing measures aiming to make work pay such as the "Prime pour l'emploi" and the "Revenu de solidarité active", a revision of

the unemployment insurance system is anticipated. A shake-up of the vocational training system has been announced for 2008. This entails a review of the 2004 law on lifelong learning and the currently non-transferable individual right to training. It involves the social partners and the regions, who have gained responsibilities in the field of training, and is to remedy the fact that in spite of important investments and an individual right to training, 60% of French workers do not participate in vocational training.

20. The Council also highlighted the need for France to focus on further steps to increase labour supply. This remains relevant, given the low number of hours worked in the economy and the persistent low employment rate. France has reduced taxes on overtime work and exempted working students from income taxes. As part of the social security budget review, it is proposed to make company early retirement schemes more expensive and to phase out the exemption of job-seeking obligations for older unemployed workers. The Implementation Report acknowledges the need for sustained activation of people on benefits, and the government has established new pilot exercises.
21. Since the beginning of 2007, France has been moving towards an integrated flexicurity approach, with a number of initiatives. The weak points remain the differentiated and complex employment legislation which provides for a segmented labour market with insiders and outsiders and that expenditure on active labour market policies has been decreasing since 2000. A recent revision of the unemployment insurance system, with the aim of making work pay, has been announced. Efforts are being made to reform the lifelong learning system in order to improve the currently non-transferable individual right to training. Social partners are now increasingly being consulted on, for example, measures to address employment legislation and transitions on the labour market.
22. In general, France has not yet succeeded reducing labour market segmentation, or achieved a more efficient and inclusive system of lifelong learning. However, the Implementation Report does announce major labour market reforms and sets 2012 targets for full employment and social inclusion. By embracing a comprehensive flexicurity approach to labour market reform, France has advanced new policy orientations that respond well to the recommendations, with reform of contractual arrangements currently under negotiation by the social partners and dialogue on a renewed vocational training system scheduled for 2008. This constitutes a promising policy response.

PART III: CONCLUSIONS

23. In the light of France's 2007 Implementation Report and the Commission's assessment of progress made in implementation of key structural reforms and based on the Integrated Guidelines for Growth and Jobs, the following conclusions are appropriate:
24. France has made steady progress in implementing its National Reform Programme over the 2005-2007 period. France has shown some progress in fulfilling the commitment agreed by the 2006 Spring European Council in the four priority action areas.

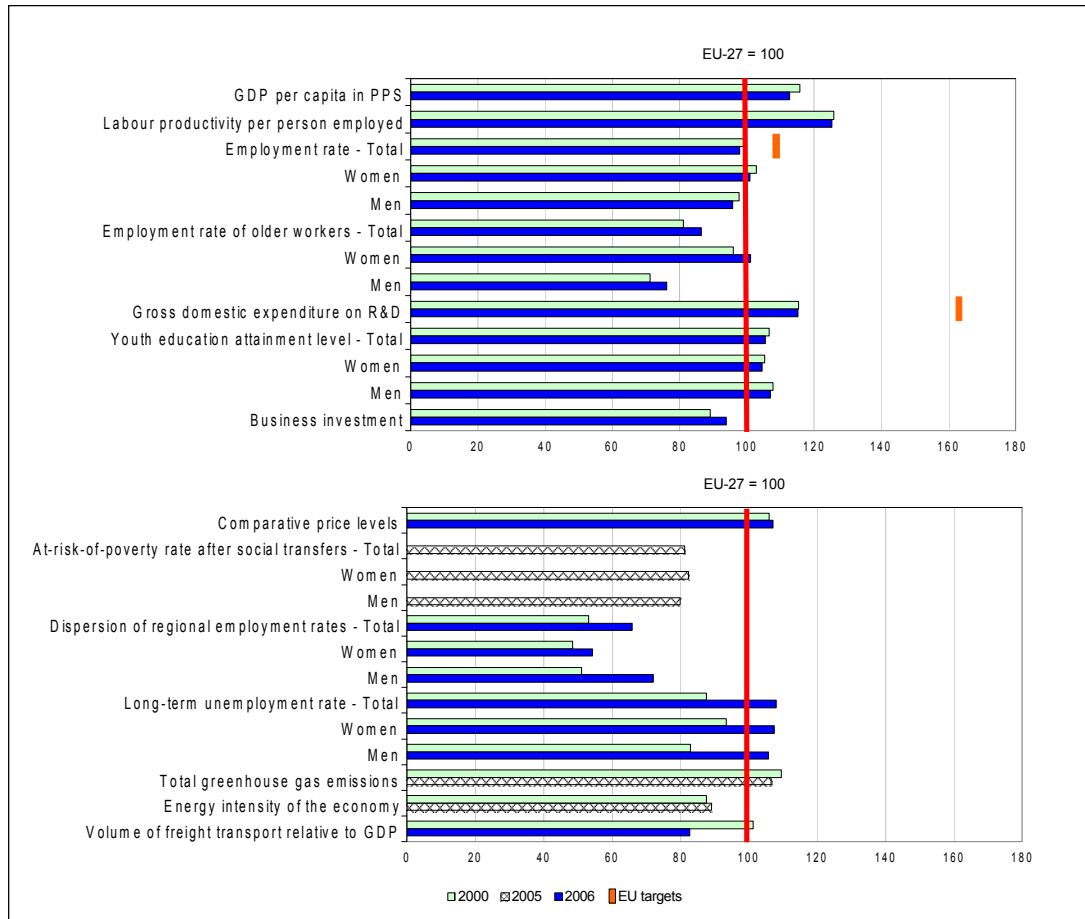
25. The Implementation Report shows a limited policy response to the recommendations issued to France by the Council. There has been some policy response on the other areas identified in the Council conclusions as requiring attention in particular an important reform has been undertaken with regard to stimulating and supporting entrepreneurship and young businesses. The Implementation Report does not however specifically address the recommendations issued to the euro area countries.
26. Among the strengths shown by French 2007 Implementation Report are: the reform of R&D and innovation strategies, the concrete results of measures in the area of ICT, and the announced, comprehensive set of measures to improve the functioning of the labour market, including through changes in legislation.
27. The Implementation Report presents a noticeably modified strategy in which employment is to become a factor of economic policy aiming at enhanced growth. The extent to which increased competition is integrated in this new policy framework is, as yet, less clear. It is important that France strengthens its budgetary efforts in order to simultaneously implement a concerted reform strategy and further consolidates public finances. Significant or sustained further measures are needed to achieve budgetary consolidation, to increase competition in network industries and to improve labour market performance. Against this background, it is recommended that France:
- ensures the sustainability of public finances, taking into account the ageing of the population, by considerably strengthening budgetary consolidation and debt reduction, and with a view to achieving a balanced budget in 2010. The negotiation on pension systems scheduled for 2008 will have to build on the gains made following the introduction of the 2003 reform;
 - improves the framework for competition in the gas, electricity and rail freight sectors;
 - within an integrated flexicurity approach, improves the efficiency of lifelong learning and modernises employment protection, in order notably to combat labour market segmentation among contract types, and make it easier to switch between fixed term contracts and permanent contracts.
28. In addition, it will be important for France over the period of the National Reform Programme to focus on the following challenges: further strengthening competition in regulated trades and professions, further enhancing better regulation policies by including impact assessments; continuing to increase labour supply and making work pay.

PART IV: STATISTICAL GRAPHS AND DATA

FRANCE

	FR						EU27			
	2000	2003	2004	2005	2006	2010 National target	2000	2005	2006	2010 EU target
GDP per capita in PPS	115.8	112.3	112.1	114.2	112.8		100.0	100.0	100.0	
Labour productivity per person employed	125.8	121.5	122.2	125.4	125.3		100.0	100.0	100.0	
Employment rate						:				70.0
Total	62.1	63.3	63.1	63.1	63.0p		62.2	63.4p	64.4p	
Women	55.2	57.2	57.4	57.6	57.7p		53.7	56.2p	57.2p	
Men	69.2	69.4	68.9	68.8	68.5p		70.8	70.8p	71.6p	
Employment rate of older workers										
Total	29.9	36.8	37.3	37.9	37.6p		36.9	42.3p	43.5p	
Women	26.3	32.9	33.8	35.2	35.2p		27.4	33.5p	34.8p	
Men	33.6	40.9	41.0	40.7	40.1p		47.1	51.5p	52.6p	
Gross domestic expenditure on R&D	2.15	2.17	2.15	2.13p	2.12p	3.0	1.86e	1.84e	1.84e	3.0
Youth education attainment level										
Total	81.6	81.8b	81.4	82.6	82.1p		76.6	77.4	77.8	
Women	83.5	83.3b	83.0	85.0	84.3p		79.3	80.1	80.7	
Men	79.6	80.4b	79.7	80.1	80.0p		73.8	74.7	74.8	
Comparative price levels	105.9	110.0	110.5	107.6	107.1		100.0	100.0	100.0	
Business investment	16.4	15.8	16.2	16.5	17.1		18.4	17.8	18.2	
At-risk-of-poverty rate after social transfers										
Total	16.0	12.0	13.0b	13.0	:			16.0e	:	
Women	16.0	13.0	14.0b	14.0	:			17.0e	:	
Men	15.0	12.0	13.0b	12.0	:			15.0e	:	
Dispersion of regional employment rates										
Total	6.9	7.2	7.1	7.3	7.5		13.0	11.9	11.4	
Women	9.7	8.9	8.7	9.4	8.8		20.0	16.8	16.2	
Men	4.9	6.2	5.9	5.8	6.7		9.6	9.7	9.3	
Long-term unemployment rate										
Total	3.5	3.7p	3.9p	4.0p	4.0p		4.0	4.1p	3.7p	
Women	4.3	4.1p	4.3p	4.5p	4.3p		4.6	4.5p	4.0p	
Men	2.9	3.4p	3.5p	3.5p	3.7p		3.5	3.8p	3.5p	
Total greenhouse gas emissions	99.3	98.6	98.6	98.1	:		90.7	92.1	:	
Energy intensity of the economy	186.6	188.5	187.0	185.5	:		213.1	208.1	:	
Volume of freight transport relative to GDP	100.4	92.9	93.2	87.9	88.3		99.1e	105.4e	106.7e	

PERFORMANCE COMPARED TO EU-27



Italy

1. After a period of protracted slow growth, the situation of the Italian economy improved in 2006. Real GDP grew by 1.9%, the highest rate since 2000, but still below the euro area average. Prospects for 2007 appear still favourable, even though the growth momentum is losing vigour. Employment continues to rise and the unemployment rate decreased to 5.7% in June 2007. Nevertheless, the employment rate, at 58.9% in the first half of 2007, remains well below the EU average and is much lower in the South. In fact, over the last three years, the regional divide has widened.
2. Medium-term prospects for the Italian economy remain challenging under the strain of structural weaknesses feeding into low productivity growth and high public indebtedness. Reversing this requires an economic policy strategy founded on micro-economic reforms to increase the efficiency and competitiveness of domestic production and on measures aimed at raising labour market participation and employment, including by enhancing human capital. Tackling regional disparities requires particular attention. Consolidation of public finances is a necessary precondition for this strategy, as it helps to create more favourable conditions for investment and to make room for enhanced expenditure on knowledge, human capital and infrastructure.

PART I: GENERAL ASSESSMENT

3. Overall, the Implementation Report shows good progress on implementing the revised National Reform Programme (NRP) over the 2005-2007 period. Italy has responded to the country-specific recommendations adopted by the Council. Some progress has been made with regard to the other areas on which the Council concluded Italy should focus (R&D performance, the sustainability of healthcare, the sustainable use of resources, infrastructure, and impact assessments).
4. Last year's Commission Annual Progress Report concluded that progress on meeting the specific commitments agreed at the 2006 Spring European Council in the priority action areas was mixed. This assessment remains valid this year. Progress is most visible in the area of unlocking the business potential. Italy specifies the efforts it is taking to meet the euro area recommendations. Although the response in the area of public finances is substantial, Italy could have done more given the favourable cyclical and budgetary developments. Some initial steps have been taken to develop an integrated flexicurity approach, and to encourage more decentralised wage bargaining.
5. Consultation and efforts to develop ownership of the NRP at the level of central and local governments and the social partners is substantial, although there is still room for improvement in co-ordinating with regions. Italy's 2007 Implementation Report confirms the main priorities within the NRP, and provides a clear overview of progress in implementing the strategy. It also correctly highlights the importance of improving the efficiency of the judicial system throughout the country, as having an across-the-board impact in terms of the competitiveness and economic context of the

country. Links between governance and monitoring of the NRP and the structural funds are strong. The earmarking of structural funding for Growth and Jobs objectives is being applied satisfactorily, with significant support to foster employability and human capital, to boost research and innovation, and fight climate change.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

6. Given the high level of public debt and the considerable pressure from an ageing population, ensuring the long-term sustainability of public finances remains a key challenge for Italy, as was highlighted in the 2005 NRP. In line with this, the Council recommended that Italy rigorously pursues fiscal consolidation in order to place the debt-to-GDP ratio on a declining path, and fully implements pension reforms with a view to improving the long-term sustainability of public finances.
7. The result of Italy's fiscal consolidation strategy over the 2006-2007 period is substantial. The general government deficit has been reduced below 3% of GDP, with the larger part of the structural correction occurring in 2006. Notwithstanding this positive result, Italy has not fully utilised the favourable cyclical and budgetary developments, missing the opportunity to further accelerate the reduction of the public debt ratio. The adjustment has been achieved through an increase in the tax burden, and thanks to measures to increase tax compliance. In the Commission's opinion, the draft 2008 Budget Law, due to be approved by Parliament by the end of 2007, implies that fiscal consolidation efforts will stall in 2008.
8. Italy is continuing its efforts to pension reform and to limit increases in age-related public expenditure in the long term. A protocol agreement with the trade unions, adopted by the government in July 2007 and confirmed by a draft law, is a further step in this direction. However, it relaxes the eligibility conditions for seniority pensions for a specific group of workers and leaves some crucial issues open (for instance the definition of the actuarial coefficients in line with increases in life expectancy). More importantly, implementation remains crucial in order to ensure long term financial sustainability.
9. The Council also referred to the need to improve the sustainability of healthcare provision, while preserving quality and accessibility. Stringent expenditure control mechanisms are to be implemented consistently as the Commission considers them a good response. However there remains a need to improve the efficiency and cost effectiveness of expenditure.
10. Italy has partially succeeded in implementing a strategy aimed at ensuring long-term fiscal sustainability, including in the area of healthcare. Given that more progress is still required, the Commission considers that the Council recommendation remains valid and stresses the importance of the euro area recommendation to make use of the favourable cyclical conditions to pursue a more ambitious budgetary consolidation. More attention should also be paid towards improving the quality of public finances by containing growth in expenditure and improving efficiency and cost-effectiveness.

Micro-economic policies

11. Italy made mixed progress over the 2005-2007 period with regard to the implementation of policies to address the micro-economic challenges identified in the 2005 NRP. Notably by extending competition, granting incentives for scientific research and technological innovation, and upgrading infrastructure and protecting the environment.
12. The Council recommended Italy to pursue the implementation of recently announced reforms aimed at increasing competition in product and service markets. Italy has taken important steps in this area and the implementation of the reforms adopted in June 2006 is progressing. A second package, introduced in January 2007 which includes a mix of competition and consumer protection measures in the areas of financial services, mobile telecommunication, retail and wholesale distributions. Significant decreases in prices have been recorded, including in the telecom and pharmaceutical sectors. Since July 2007, SMEs and households now have access to an open electricity market. A number of draft laws have been presented on energy, liberalisation of local public services, reform of competition authorities, measures for consumers and to facilitate commercial and productive activities, and on class action. These are still being discussed in parliament. These are welcome steps in the right direction, but more is needed given the scale of the competition challenge and the need to modernise Italy's industrial base. It is important that draft laws are both adopted and implemented in a timely manner, including those on energy and the liberalisation of local public services. Italy has recently significantly improved its transposition deficit of EU legislation. It is important to continue these efforts while also bringing down the number of infringement cases.
13. The Council highlighted the need to focus on: R&D, a sustainable use of resources, implementing plans to improve infrastructure, and strengthening and fully implementing the system of impact assessment for proposed regulation.
14. In the area of R&D, Italy has made some progress in implementing a number of measures. These include public-private partnerships measures at local level, a tax credit scheme to support innovation, and a streamlining of the existing support schemes. New measures are being introduced in the context of the "Industria 2015" initiative to accompany structural change of industry. An independent evaluation agency for university and research is being set up to improve the governance of the research and innovation system. However, overall research spending remains low and the Implementation Report does not indicate to what extent the measures foreseen will allow progress towards meeting the 2.5% of GDP target for R&D. Further efficiency-enhancing measures are required in the public sector, where productivity is comparably low internationally.
15. The Implementation Report sets out detailed information on priorities, budget appropriations and deadlines with regard to infrastructure projects. It is now important that Italy vigorously implements the plans. Further efforts are needed to expand broadband to rural areas.
16. In the area of the business environment, Italy has made important progress to strengthen one-stop shops and reduce the time and costs for starting an enterprise. A target has been set for cutting administrative costs by 25% by 2012. A streamlined

procedure for impact assessment is being introduced, but its scope is limited and its application across all new regulation is only expected in the medium term.

17. Italy's CO₂ emissions are significantly above 1990 levels, and policies and measures implemented have so far produced only limited effects on curbing emissions. In the wider environmental field the Implementation Report details measures to improve the sustainable use of resources, notably aimed at protecting water and soil (including remediation of contaminated sites), and improving waste management.
18. Italy has partially succeeded in implementing measures to deliver on the micro-economic commitments expressed in its NRP. The recommendation on competition and the points to watch have been addressed to some extent, but the Commission considers them to remain valid.

Employment policies

19. Italy's labour market performance in terms of employment growth and reduction in unemployment continues to improve. Female participation in the labour market has increased but important gender gaps in terms of activity, employment and unemployment remain. The employment rate of older workers, and women, remain significantly lower than the EU average, affecting the adequacy of future pensions. Some progress has been registered on early school leaving and youth educational attainment levels. Regional disparities remain significant and additional efforts are required to address underlying structural weaknesses.
20. The Council recommended Italy to reduce regional disparities in employment by tackling undeclared work, increasing childcare provision and ensuring the efficient operation of the employment services throughout the country. Italy has adopted a number of measures in response. It has increased action against illegal and undeclared work, such as intensification of inspections and tighter administrative sanctions. To better reconcile work and family life, Italy has committed to improving the quality and availability of childcare services. Although employment services have been reformed, differences in the quality and efficiency of services between the south and the north persist, in particular in the way these services are tailored to individual needs. Taxes on labour have been cut for those on permanent contracts, but the impact is not yet known. The "protocol agreement on welfare" envisages some measures to promote decentralised wage bargaining, but a more comprehensive approach is needed to allow a better alignment between wage and productivity developments. The policy measures undertaken so far should help reduce regional disparities, but implementation is slow and more incisive action is needed.
21. The Council also recommended Italy to develop a comprehensive lifelong learning strategy and improve the quality and labour market relevance of education. The Implementation Report does not set out a comprehensive strategy, but progress is however being made towards the preparation of a national qualifications framework. The consolidation of reforms of the education and training system and the improvement of quality of education by filling the gap in school performance across regions remains crucial.
22. Italy has taken initial steps to address the flexicurity concept. The "Protocol agreement" on welfare reform increases the level and duration of unemployment

benefits, limits the use of fixed term contracts, and strengthens employment services. These measures are yet to be implemented and in parallel Italy needs to implement measures to increase flexibility. A lifelong learning system needs to be put in place.

23. Italy has partially succeeded in implementing its NRP commitments in the employment domain. There has been some progress in addressing undeclared work, but further efforts are needed to tackle regional disparities, including the further reform of employment services, improving the quality and labour market relevance of education, and establishing a lifelong learning system. Therefore the Commission considers the recommendation dealing with these issues to remain valid. Italy should also pay particular attention to the development of an active ageing strategy.

PART III: CONCLUSIONS

24. In the light of the 2007 Italian Implementation Report and the Commission's assessment of progress made in implementing key structural reforms and based on the Integrated Guidelines for Growth and Jobs, the following conclusions are appropriate:
25. Italy has made good progress in implementing its National Reform Programme over the 2005-2007 period. There has been some response in fulfilling the commitments agreed by the 2006 Spring European Council in the four priority areas.
26. The Implementation Report shows some policy response to the recommendations adopted by the Council. Given the scale of the challenge, significant further reforms are needed. There has been some policy response on the additional areas identified in the Council conclusions as requiring attention. The Implementation Report also specifically addresses the recommendations issued to the euro area countries.
27. Amongst the strengths shown by the 2007 Italian Implementation Report are the initial steps to improve the business environment, measures to enhance competition in professional and financial services and retail distribution, recent improvements in its transposition deficit of EU legislation; and e-government actions to modernise the public sector.
28. The policy areas in the Italian National Reform Programme where challenges need to be tackled with the highest priority are: fiscal sustainability, where efforts need to be pursued and the pension reform process needs to be completed; enhanced competition in product and service markets and pursuing the full implementation of announced reforms; further fighting regional disparities in the employment; and improving education and lifelong learning. Against this background it is recommended that Italy:
 - rigorously pursues fiscal consolidation, in particular by curbing growth in current primary expenditure, and completes the pension reform process with a view to improving the long-term sustainability of public finances;
 - continues the progress made to enhance competition in product and services markets and vigorously pursues the implementation of announced reforms;

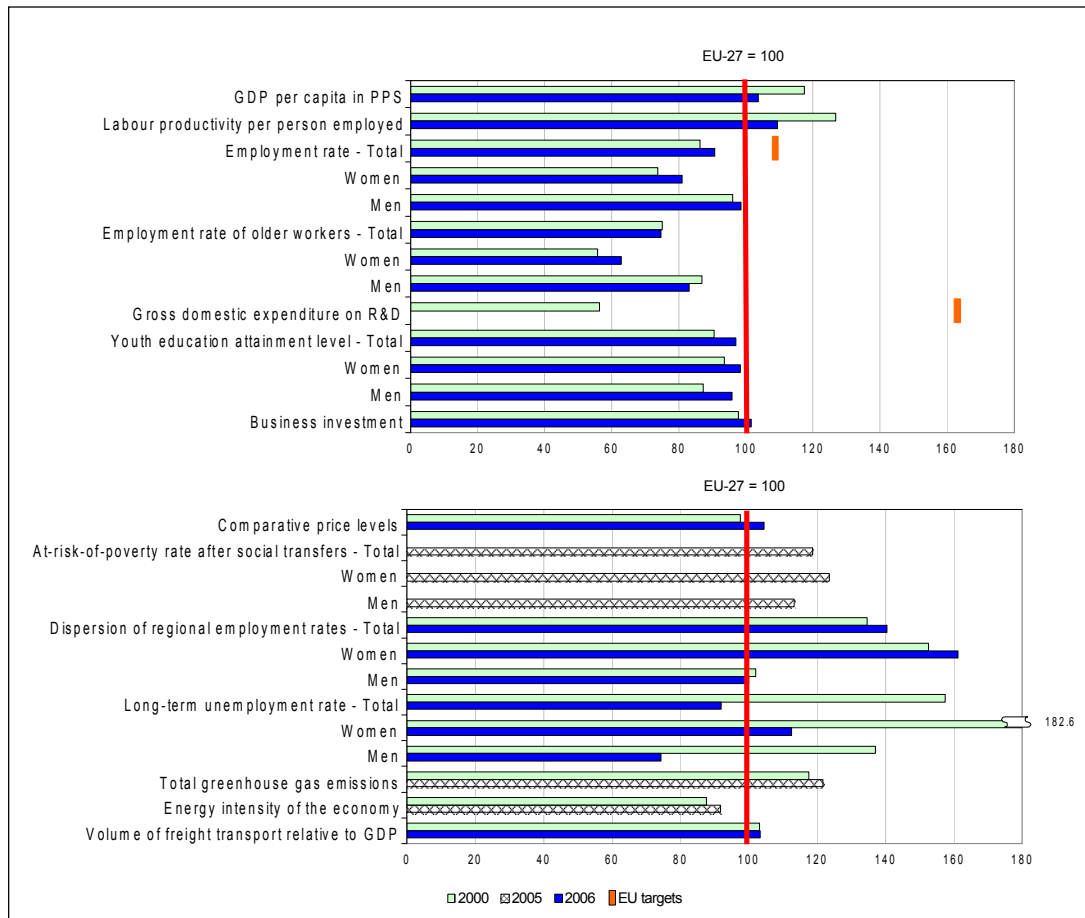
- improves the quality and labour market relevance of education, promotes lifelong learning, tackles undeclared work and ensures the efficient operation of employment services, within a flexicurity approach and with a view to reducing regional disparities.
29. In addition, it will be important for Italy to focus over the period of the National Reform Programme on the following challenges: increasing R&D investment and efficiency, where despite welcome policy developments, further efforts are needed to reach the 2010 target and to enhance the efficiency of public spending; increasing efforts to meet the CO2 emission reduction targets; improving the quality of regulation by strengthening and fully implementing the system of impact assessment, notably for SMEs; implementing plans to improve infrastructure; increasing childcare provision with a view to reconciling work and family life and fostering labour market participation of women; and putting in place a consistent active ageing strategy to increase employment of older workers, and with a view to improving pension adequacy.

PART IV: STATISTICAL GRAPHS AND DATA

ITALY

	IT						EU27			
	2000	2003	2004	2005	2006	2010 National target	2000	2005	2006	2010 EU target
GDP per capita in PPS	117.4	111.2	107.6	105.4	103.7		100.0	100.0	100.0	
Labour productivity per person employed	126.7	115.4	112.6	111.4	109.5		100.0	100.0	100.0	
Employment rate						:				70.0
Total	53.7	56.1	57.6b	57.6	58.4		62.2	63.4p	64.4p	
Women	39.6	42.7	45.2b	45.3	46.3		53.7	56.2p	57.2p	
Men	68.0	69.6	70.1b	69.9	70.5		70.8	70.8p	71.6p	
Employment rate of older workers										
Total	27.7	30.3	30.5b	31.4	32.5		36.9	42.3p	43.5p	
Women	15.3	18.5	19.6b	20.8	21.9		27.4	33.5p	34.8p	
Men	40.9	42.8	42.2b	42.7	43.7		47.1	51.5p	52.6p	
Gross domestic expenditure on R&D	1.05	1.11	1.10	1.10	:	2.5	1.86e	1.84e	1.84e	3.0
Youth education attainment level										
Total	69.4	71.0	73.4	73.6	75.5		76.6	77.4	77.8	
Women	74.2	75.1	78.6	78.1	79.4		79.3	80.1	80.7	
Men	64.5	66.8	68.2	69.2	71.7		73.8	74.7	74.8	
Comparative price levels	97.5	103.6	105.2	104.4	104.4		100.0	100.0	100.0	
Business investment	18.0	17.9	18.1	18.2	18.5		18.4	17.8	18.2	
At-risk-of-poverty rate after social transfers										
Total	18.0	:	19.0b	19.0	:			16.0e	:	
Women	19.0	:	20.0b	21.0	:			17.0e	:	
Men	18.0	:	18.0b	17.0	:			15.0e	:	
Dispersion of regional employment rates										
Total	17.5	17.0	15.6	16.0	16.0		13.0	11.9	11.4	
Women	30.5	29.7	25.7	26.6	26.1		20.0	16.8	16.2	
Men	9.8	9.1	8.7	8.9	9.3		9.6	9.7	9.3	
Long-term unemployment rate										
Total	6.3	4.9	4.0b	3.9	3.4		4.0	4.1p	3.7p	
Women	8.4	6.6	5.5b	5.2	4.5		4.6	4.5p	4.0p	
Men	4.8	3.8	2.9b	2.9	2.6		3.5	3.8p	3.5p	
Total greenhouse gas emissions	106.6	110.8	111.7	112.1	:		90.7	92.1	:	
Energy intensity of the economy	186.9	189.2	188.8	190.7	:		213.1	208.1	:	
Volume of freight transport relative to GDP	102.2	93.7	104.3	111.6	110.2e		99.1e	105.4e	106.7e	

PERFORMANCE COMPARED TO EU-27



Cyprus

1. Over the last decade, Cyprus sustained robust economic growth with an average GDP increase of about 3.75% per year, more than the EU27 average. It is estimated that in 2007, Cyprus's GDP per capita will be 93% of the EU average. In 2007 the total employment rate is estimated to have reached 70%, equalling the EU target, and the unemployment rate to have inched further down to 4.3%.
2. Cyprus is converging both in nominal and real terms with the EU. As a result, the Council decided last July in favour of Cyprus' adoption of the euro on 1 January 2008. Cyprus is a small open economy enjoying buoyant economic growth, high employment and stable prices. It also faces a long-term fiscal challenge resulting from an ageing population. Cyprus is mainly a services oriented economy. In 2006 services accounted for 77.6% of GDP and 71.0% of employment. Human capital is therefore the main economic resource. In recent years, there has been a substantial increase of foreign workers, who are mainly employed in unskilled or low-skilled occupations, accounting for 17.7% of total employment.

PART I: GENERAL ASSESSMENT

3. Overall, Cyprus has made good progress with the implementation of its National Reform Programme (NRP) over the 2005-2007 period. The NRP provided a clear and comprehensive overview of numerous specific measures and linked them well to final objectives.
4. Cyprus made some progress in addressing the Council recommendations. With a view to ensuring long-term fiscal sustainability there has been satisfactory initial progress in reforming the health care system. Progress on pension reform has been limited. A lifelong learning strategy and a reform plan of the vocational education, and training systems have been developed, but are not yet implemented.
5. With regard to the additional areas on which the Council concluded that Cyprus should focus on, there has been progress in planning alternatives to private venture capital funds. Some progress has been achieved in stimulating competition.
6. Last years' Annual Progress Report concluded that Cyprus had made good progress in meeting the specific commitments agreed at the 2006 Spring European Council in the priority areas of knowledge, entrepreneurship, employment and energy. Since then progress has remained good for instance on administration of business start ups.
7. Efforts to develop ownership of the Growth and Jobs Strategy have been strengthened. All stakeholders are involved in the consultation and implementation process. In order to increase public awareness, the government organised a number of seminars, public events, and other activities that were extensively covered in the media. The considerable efforts made by the Cypriot authorities to strengthen the relevant administrative bodies are very welcome, given that the absorption of EU Funds remains a concern, especially in the light of the considerably larger allocations for the 2007-2013 programming period.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

8. The macro-economic focus in the NRP is on fiscal consolidation and debt reduction, improvement of fiscal management, including restructuring of government expenditure and enhancing transparency. The NRP also addresses long-term sustainability of public finances, in particular through reforms in the health care and pension systems. Labour flexibility and wage moderation measures have also been launched. Fiscal consolidation has progressed well.
9. In 2006, the general government deficit fell to 1.2% of GDP from 2.4% of GDP the previous year. While wage and recruitment policy in the public sector remained restrictive, current expenditure increased, notably for social transfers. The gross government debt-to-GDP ratio continued to fall, to 65.25% of GDP from 69.25% in 2005. A further improvement is expected in 2007 when the medium-term objective is estimated to have been comfortably achieved, mainly due to better than expected revenues and despite the continuation of extra budgetary expenditure.
10. The Council recommended that Cyprus take steps to implement reforms of the pension and health care systems. On health care reform, progress was made on the implementation of the National Health Insurance System. In particular, thematic teams work with a specific time table and monitoring system, to prepare the different aspects of the system. The vetting of the law process is progressing. However, the transformation of hospitals into autonomous units does not seem to have progressed, despite government efforts. Discussions between the government and social partners on reforming the pension system have begun. The aim is to reach an agreement shortly, and adopt the reform in early 2008. However, the precise adjustments and timetable are yet to be agreed, meaning the budgetary impact is uncertain.
11. Overall, the progress made on the macro-economic reform measures outlined in the NRP is good. However, the need for action to secure the long term sustainability of public finances while ensuring adequacy in view of the population ageing remains crucial. In this respect, the recommendation remains valid while the continuation of a prudent fiscal policy and further debt reduction should be sustained.

Micro-economic policies

12. Key micro-economic challenges addressed by the NRP in 2005-2007 include promoting R&D, innovation and ICT, strengthening competition, improving the business environment, enhancing environmental sustainability, and upgrading basic infrastructure.
13. There has been some progress on R&D and innovation, and Cyprus still aims to reach 1.0% of GDP by 2010 though this would require an average annual growth rate of 23.5%. In view of the small size of most firms in Cyprus, additional measures are needed to overcome obstacles and boost the collaboration on innovation between the private sector and knowledge institutions. Fiscal measures are being studied, and new innovation networks and incubators start to engage business more in R&D. On ICT, significant progress has taken place in particular in terms of the availability of eGovernment services and digital literacy. Broadband penetration is catching up, but

take-up is still low and requires attention. Furthermore, there are delays in the implementation of a National Information Society Strategy. Additional efforts will be needed to speed up ICT uptake.

14. In the area of competition, a series of measures to strengthen the enforcement capacity of the Competition Authority and to improve competition conditions in the markets for energy, postal and telecom markets have produced first results, but it is important to maintain the pace of implementation of these measures. Cyprus is simplifying its business environment through various initiatives, but has not made much progress to date on measuring and reducing administrative burdens, or on developing a better regulation strategy. No target for a reduction in the administrative burden has been set. The 2007 National Action Plan foresees various steps to be taken in these areas, but impact assessment is only to be addressed during a second phase. It is important to ensure that equal attention is paid to improve both existing and new legislation and that these ambitious plans are carried out. Cyprus also needs to enhance its efforts to ensure timely implementation of the Services Directive. On environmental sustainability Cyprus has taken effective steps in the context of the Cyprus Strategic Plan for Reducing Green House Gas Emissions, in order to increase energy efficiency, to achieve savings in the areas of building and transport. Cyprus has set targets for the increase of renewable energy use. Cyprus plans to boost the use of public transport from the current 2% to 10 % in 2015, but implementation is still at an early stage.
15. The Council referred to the need to focus on measures to encourage venture capital investments and to improve competition in the regulated trades and professions. Cyprus has plans to develop a public venture capital fund and a loan guarantee mechanism in collaboration with the Cyprus Development Bank, which draws on the new Risk Sharing Financing Facility. This is a satisfactory policy response. On competition in professional services, Cyprus has confirmed the existence of serious regulatory restrictions on competition in the professions which are having a detrimental effect on price competition. A reform of business structure regulations and legislation is planned for lawyers, engineers and architects. The policy response has improved since 2006 but is confined to relaxing business structure restrictions. The Commission considers this a limited response to the challenges, and it is important to step up the pace of reform by doing away with much of the restrictive regulation especially on pricing.
16. Overall progress in 2005-2007 with regard to the implementation of policies to address the micro-economic challenges identified by Cyprus in the NRP is good. The micro-economic points to watch have been well covered in the area of venture capital, but less so on competition in professional services.

Employment policies

17. Over the 2005-2007 period, Cyprus has made good progress in implementing the policies set out in its NRP. Active labour market policies have helped increase employment and enabled Cyprus to close in on ambitious national employment targets. The Public employment services have been strengthened. Further initiatives are envisaged in 2008 (with European Social Fund support) to promote flexible but secure forms of employment for older workers, women, young persons, people with a disability, and migrants. The relatively high youth unemployment as compared to

total unemployment points to the need to facilitate the transition from school to work.

18. The aim to increase the labour supply is held back by the persistence of important gender imbalances across occupations and in qualifications. A national action plan on gender equality was adopted in 2007 and a preliminary draft report has put forward a number of suggested policy measures to address a gender pay gap that is substantially higher than the EU average. The Cypriot authorities have put in place an appropriate legal framework to encourage part-time work. An economic migration strategy has been established and immigration legislation amended. The main thrust of the new strategy is to discourage the inflow of unskilled non-EU nationals and attract highly skilled EU workers.
19. The Council recommended that Cyprus should enhance life long learning, and increase employment and training opportunities for young people by accelerating the reforms of the vocational, education, training and apprenticeship system. Participation of adults in lifelong learning increased in 2006 but is still short of the EU target for 2010. This increase is mainly due to the higher participation of young adults and highly skilled people. Participation rates in training of older people, the low skilled and the unemployed have stagnated. Cyprus has developed a strategic plan on educational reform, for consultation with relevant stakeholders. External evaluations of technical and vocational education programmes are now in progress, with a view to improving the curricula, and to increase their attractiveness especially to female students. An action plan for the new apprenticeship system has been finalised, and its full introduction by 2010 is foreseen. The development of a vocational qualifications certification system is advancing and a training providers' certification system is expected to become operational in 2010. A national lifelong learning strategy was approved by the Council of Ministers in November 2007. In the Commission's opinion an acceleration of these welcome policy reforms is now needed.
20. Cyprus is initiating a process to address flexicurity in an integrated way by setting up an interdepartmental committee on flexicurity within the Ministry of Labour and Social Insurance. The social partners are involved. A number of schemes are being implemented in the policy areas of contractual arrangements and active labour market policies, while the implementation of lifelong learning measures needs to be accelerated.
21. In general, Cyprus has partially succeeded in implementing measures to deliver on the employment policy commitments expressed in its NRP. The recommendation in the employment area has been addressed to a limited extent, due mainly to the delayed implementation of a comprehensive lifelong learning policy framework to further developing human capital. In addition, Cyprus needs to pay particular attention to tackling gender imbalances and reducing the high pay gap.

PART III: CONCLUSIONS

22. In the light of the 2007 Implementation Report for Cyprus and the Commission's assessment of progress made in implementing key structural reforms and based on

the Integrated Guidelines for Growth and Jobs, the following conclusions are appropriate.

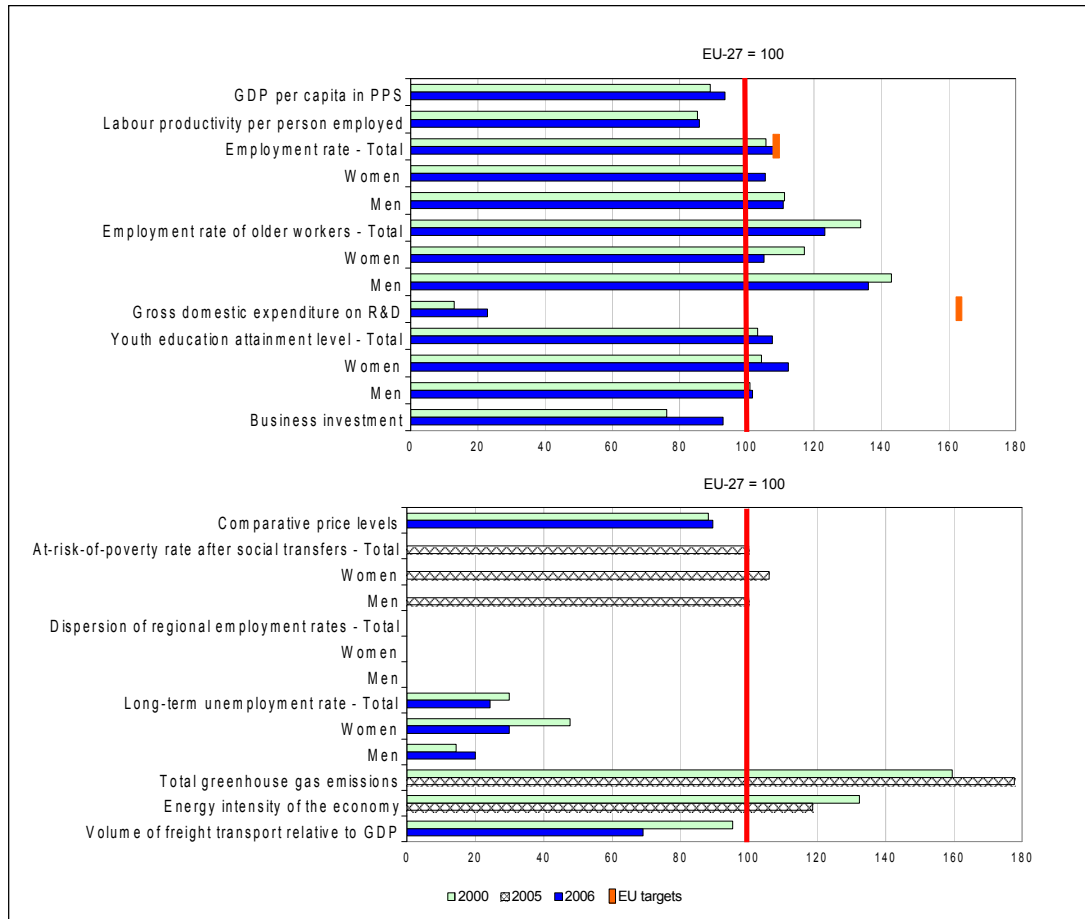
23. Cyprus has made good progress in the implementation of its National Reform Programme over the 2005-2007 period. Cyprus had made good progress in fulfilling the specific commitments agreed at the 2006 Spring European Council in the priority areas.
24. The Implementation Report shows a good policy response to the recommendations adopted by the Council. With a view to the long term sustainability of public finances there has been a satisfactory initial response in reforming the health care system but a limited response on pension reform, enhancing lifelong learning and reforming the vocational education and training system. There has been some policy response on the additional areas identified in the Council conclusions as requiring attention.
25. Amongst the strengths of the Implementation Report is progress in the field of fiscal consolidation, in both deficit and debt reduction; a new policy to develop a comprehensive research and innovation system; and the maintenance of a good overall employment performance supported by a broad range of active labour market measures.
26. The policy areas in the Cypriot National Reform Programme where weaknesses need to be tackled with the highest priority are: addressing ageing-related expenditure; implementing a lifelong learning strategy and increasing training and labour market opportunities for young people. Against this background, it is recommended that Cyprus:
 - take steps to implement reforms of the pension and health care systems and sets a timetable for their implementation with a view to improving fiscal sustainability;
 - enhance life long learning, and increase employment and training opportunities for young people by implementing the reforms of the vocational, education, training and apprenticeship system.
27. In addition, it will be important for Cyprus over the period of the National Reform Programme to focus on measures to: improve competition in the area of professional services; further stimulate private sector R&D; and address the very high gender pay gap.

PART IV: STATISTICAL GRAPHS AND DATA

CYPRUS

	CY						EU27			
	2000	2003	2004	2005	2006	2010 National target	2000	2005	2006	2010 EU target
GDP per capita in PPS	89.1	89.3	91.5	93.8	93.4		100.0	100.0	100.0	
Labour productivity per person employed	85.4	82.4	83.6	85.1	85.8		100.0	100.0	100.0	
Employment rate						71.0				70.0
Total	65.7	69.2	68.9	68.5	69.6		62.2	63.4p	64.4p	
Women	53.5	60.4	58.7	58.4	60.3		53.7	56.2p	57.2p	
Men	78.7	78.8	79.8	79.2	79.4		70.8	70.8p	71.6p	
Employment rate of older workers										
Total	49.4	50.4	49.9	50.6	53.6		36.9	42.3p	43.5p	
Women	32.1	32.7	30.0	31.5	36.6		27.4	33.5p	34.8p	
Men	67.3	68.9	70.8	70.8	71.6		47.1	51.5p	52.6p	
Gross domestic expenditure on R&D	0.24	0.35	0.37	0.40	0.42	1.0	1.86e	1.84e	1.84e	3.0
Youth education attainment level										
Total	79.0	79.5	77.6	80.4	83.7p		76.6	77.4	77.8	
Women	82.8	87.0	83.8	89.1	90.7p		79.3	80.1	80.7	
Men	74.4	71.3	70.7	71.1	76.1p		73.8	74.7	74.8	
Comparative price levels	88.1	90.9	90.6	89.1	89.5		100.0	100.0	100.0	
Business investment	14.0	14.2	14.7	16.4	16.9		18.4	17.8	18.2	
At-risk-of-poverty rate after social transfers										
Total	-	15.0	-	16.0b	-		-	16.0e	-	
Women	-	17.0	-	18.0b	-		-	17.0e	-	
Men	-	14.0	-	15.0b	-		-	15.0e	-	
Dispersion of regional employment rates										
Total	-	-	-	-	-	-	13.0	11.9	11.4	
Women	-	-	-	-	-	-	20.0	16.8	16.2	
Men	-	-	-	-	-	-	9.6	9.7	9.3	
Long-term unemployment rate										
Total	1.2	1.0	1.2	1.2	0.9		4.0	4.1p	3.7p	
Women	2.2	1.3	1.6	1.7	1.2		4.6	4.5p	4.0p	
Men	0.5	0.7	0.9	0.8	0.7		3.5	3.8p	3.5p	
Total greenhouse gas emissions	144.7	158.4	163.4	163.7	-		90.7	92.1	-	
Energy intensity of the economy	282.3	287.9	254.3	246.9	-		213.1	208.1	-	
Volume of freight transport relative to GDP	94.4e	99.6	76.4	91.5	73.8		99.1e	105.4e	106.7e	

PERFORMANCE COMPARED TO EU-27



Latvia

1. In the three years to 2006 Latvia's real GDP increased on average by 10.4% annually. Growth in 2007 is expected to be similar. After a slight deficit in 2006 the budget is expected to record a modest surplus in 2007 with higher surplus in prospect for 2008-2010. However, growth has primarily been driven by a credit boom in private consumption and residential investment. As the supply-side of the economy was unable to respond adequately, the external imbalance has reached very high levels. Employment is increasing rapidly (from 63.3% in 2005 to 66.3% in 2006), and unemployment shrinking (from 8.9% in 2005 to 6.8% in 2006). Labour shortages, aggravated by significant emigration, have contributed to the emergence of a wage-price spiral, with increasingly rapid wage growth outstripping productivity; inflation has risen to very high levels. From mid-2007 some limited slowdown of domestic consumption and the housing market has begun to set in, but this has been insufficient to remove the downside risks to medium-term prospects.
2. The main economic policy challenge is thus to secure macro-economic stability in the face of persistent inflationary pressures and a very large external deficit, and to transform the economy away from its dependence on low-technology, labour-intensive goods. Economic policy is confronted with the task of simultaneously stepping up fiscal consolidation in order to contain demand pressures, addressing tight labour market conditions, and fundamentally improving productivity growth.

PART I: GENERAL ASSESSMENT

3. Overall, Latvia has made some progress with the implementation of its National Reform Programme (NRP), both in the period 2005-2007 as a whole and over the last year. Reforms in general are progressing, but their pace could be stepped up.
4. There has been some progress in responding to the three country-specific recommendations adopted by the Council. On maintaining economic and budgetary sustainability, the government's anti-inflation plan adopted in March 2007 has begun to yield some results in cooling excessive demand, although much more is required to form an adequate response to this challenge. Latvia has made some progress with the implementation of research and innovation policy reforms and in efforts to increase labour supply. However, persistent labour market bottlenecks give reasons for concern and stronger efforts are needed to implement a lifelong learning strategy and improve education and training.
5. With regard to the other areas on which the Council concluded Latvia should focus, a single contact point has been established for the administrative formalities involved in hiring the first employee and sufficient progress made in promoting education in entrepreneurship. Some progress has been made as regards active labour market policies and access to childcare.
6. The Commission's 2006 Annual Progress Report concluded that Latvia had made modest progress on meeting the specific commitments agreed at the 2006 Spring European Council in the priority action areas of knowledge, entrepreneurship, employment and energy. Since then, there has been some progress on those

commitments with an end-2007 deadline. In the area of knowledge and innovation, Latvia has made some progress but leveraging more private investment into R&D remains a challenge. Progress has also been achieved on issues related to SMEs and entrepreneurship. A one-stop shop for starting up a company within one week has been established.

7. Consultation and efforts to develop ownership of the NRP at the level of central and local governments and social partners have continued over the past year. Discussions have been held with parliament and social partners on relevant topics and improvements in the social dialogue are foreseen. A clear internal governance structure ensures inter-ministerial coordination, but a monitoring of progress remains limited. Links between the governance of the implementation of the NRP and programmes under the Structural and Cohesion Funds are strong. The earmarking of structural funding for Growth and Jobs objectives is being applied satisfactorily. Particular attention to administrative capacity is paid in the National Strategic Reference Framework.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

8. Latvia's recent economic growth has been extremely high and medium-term prospects remain positive. However, booming domestic demand, labour market shortages and rapid credit growth has resulted in serious overheating pressures and threats to macroeconomic stability. Progress over 2005-2007 with regard to the implementation of policies to address the macro-economic challenges faced by Latvia has thus been limited.
9. The Council recommended Latvia to maintain economic and budgetary sustainability by pursuing a more restrictive fiscal policy. The government adopted wide ranging counter-inflationary proposals in March 2007. More ambitious fiscal targets have been set, medium-term budget planning has improved and taxation changes have helped to lessen pressures in the real estate market. However, while there are some recent signs that domestic demand is gradually slowing and the real estate market is stabilizing, the external deficit widened further in 2007 and inflation increased. This was driven primarily by overheating pressures but also factors such as energy and food costs. Wage growth in 2007 reached critical rates and urgently needs to be reduced. The breaking of the wage-price spiral, essential to curb inflation and avoid the ongoing deterioration of external competitiveness, will require strong commitment from the government and society at large. Increased competition in services, distribution and construction sectors could also help.
10. After a slight deficit in 2006 the budget is expected to record a modest surplus in 2007 with higher surpluses in prospect for 2008-2010. While this represents some progress compared with targets set earlier in 2007, the background of booming demand and risks to stability indicates that the current stance of fiscal policy remains far short of that required. A more prudent fiscal policy is needed to dampen demand pressures and to reduce the external deficit. The revenue structure could also be examined to redirect demand away from real estate, while public expenditure should aim for a strengthening of the supply side to contribute to external sustainability. To

help in this regard, the government aims to produce proposals focused on improving export competitiveness, productivity and labour supply. The authorities will need to show determination to steer the economy towards higher-productivity and more technology-intensive sectors.

11. Latvia has partially succeeded in implementing measures to fulfil the macro-economic commitments expressed in its NRP and in addressing the recommendation, which therefore remains valid.

Micro-economic policies

12. Latvia has made mixed progress with the implementation of policies to address its micro-economic challenges. There has been recent progress in the field of knowledge and innovation, whilst gradual improvements in the regulatory environment have taken place over 2005-2007. Financing in support of electricity generation from renewable energy sources has been considerably increased in 2007. The Competition Authority has raised the frequency of market surveillance in individual sectors. Creditable efforts have been made in transposing internal market legislation and in measures for administrative simplification. However, a more systematic approach to better regulation and practical implementation of the associated tools is encouraged, and a target for reducing administrative burdens should be set. Strong efforts are needed to improve the supply of online public services and their use by enterprises. The effective implementation of the "Information and Communication Technology for Quality Education" 2007-2013 should be considered a priority.
13. The Council recommended Latvia to make faster progress in the implementation of the research and innovation policy reforms in order to meet effectively the ambitious targets set out in its NRP. There have been some positive developments in this area, mainly due to the substantial increase of public investment. The link between research and education has been strengthened and the first steps have also been taken towards better linking these with industry. However, the number of private R&D actors remains small, largely due to the lack of incentives for private investment. The new market-oriented research programme is a welcome step, but a more focused approach in line with identified economic growth areas is needed. Latvia has allocated substantial amounts of Structural Fund financing for this area and successful implementation will require close monitoring to avoid crowding out private investment. R&D and innovation policies should serve the purpose of establishing favourable conditions for investment by the private sector including: appropriate infrastructure, effective protection of intellectual property rights, sufficient human resources and additional incentives for business investment. The Council's recommendation thus remains valid.
14. The Council also asked Latvia to focus on faster progress on establishing a single contact point for the administrative formalities involved in hiring the first employee and on promoting entrepreneurship education. Latvia has taken steps to establish a single contact point. An employer has to register every employee with the State Revenue Service until the fifth day of the month following a person's recruitment. The State Revenue Service passes this information on to the State Social Insurance Agency. Latvia has also made good progress in promoting education in entrepreneurship. In addition to other measures, there is now a mandatory subject on

business basics in the curriculum of all secondary schools. The Commission considers this a good policy response.

15. In general, Latvia has partially succeeded in implementing measures to fulfil the micro-economic reform commitments set in the NRP. Despite some progress, the country-specific recommendation remains valid. There has been a good policy response to the two points to watch, and the Commission is of the opinion that these are no longer merited.

Employment policies

16. Labour market performance over the 2005-2007 period has continued to improve with good progress towards meeting national employment targets for 2010. The increase in labour supply is primarily in response to strong growth of demand, although there has also been a positive contribution of active labour market policies. However, levels of adult participation in lifelong learning have decreased, and numbers of pupils leaving school early have increased. Latvia has focused on implementing measures such as establishing a labour market forecasting system, supporting business start-ups and self-employment. Measures in place to strengthen labour market institutions and social partnership go in the right direction.
17. The Council recommended Latvia to intensify efforts to increase labour supply and productivity. Labour shortages remain a major challenge, although recent legislation on support to jobseekers will help to reach new target groups. Preventive measures such as training for the employed and self-employed and promotion of regional mobility are envisaged. Latvia has finally moved towards formulating its approach to the economic migration challenge by putting forward a policy paper on the issue. Criteria for managing short-term migration from third countries are still to be established and clear plans to introduce integration measures are lacking. Measures providing a better working environment and access to education, training and health care are important as they could help to counteract emigration. The adoption of a lifelong learning strategy needs to be followed by a plan for implementation. Plans are in place to invest in improving vocational and higher education and to boost human resources in education and science. However the responsiveness of education and training systems to labour market needs is still low.
18. The Council also asked Latvia to focus on pursuing active labour market policies and improving access to childcare. Given the decrease in European Social Fund support and the need to reach new target groups, careful monitoring is needed to ensure adequate funding and coverage. Latvia has made some progress by committing funds to enhance access to childcare. Due to efforts at local level, some improvements in the situation are already taking place. However, progress is currently too slow to make an impact and plans need to be more speedily implemented.
19. In recent years the concept of flexicurity has emerged in the Latvian policy debate, but is not yet treated in an integrated way. Social partners are involved. Envisaged measures relate to all the components and also tackle undeclared work. The focus now must be on their implementation, especially as regards facilitating regional and vocational mobility and putting in place incentives for employers and workers to participate in lifelong learning.

20. Latvia has made some progress in implementing measures to fulfil its employment policy commitments. The Commission welcomes the announced measures but the focus now must be on their effective delivery. An effective system for managing economic migration needs to be put in place and plans for implementing lifelong learning should be finalised. The country specific recommendation and the points to watch in the employment area have only been partially addressed and therefore remain valid.

PART III: CONCLUSIONS

21. In the light of Latvia's 2007 Implementation Report and the Commission's assessment of progress made in implementing key structural reforms and based on the Integrated Guidelines for Growth and Jobs, the following conclusions are appropriate.
22. Latvia has made some progress in implementing its National Reform Programme over the 2005-2007 period and some progress in fulfilling the commitments agreed by the 2006 Spring European Council in the four priority action areas.
23. The Implementation Report shows that there has been some progress in responding to the recommendations adopted by the Council. There has been a mixed response to the additional areas identified by the 2007 Spring European Council as requiring attention.
24. Among the strengths shown by the Implementation Report are: the first positive steps in the field of knowledge and innovation; the progress achieved on certain SME and entrepreneurship issues; the strengthened role of the Competition Authority in market surveillance; and further measures to promote energy efficiency and the use of renewable energy resources. Latvia has also implemented a set of measures that have successfully supported labour market performance.
25. The policy areas in the Latvian National Reform Programme where weaknesses need to be tackled with the highest priority are: more concrete measures to secure macroeconomic stability in the face of overheating pressures; further development of the R&D strategy to improve prioritisation and increase private sector involvement; and stronger measures to increase labour supply and strengthen the skills of the labour force. Against this background, it is recommended that Latvia:
- pursue a more restrictive fiscal policy, with a careful prioritisation of expenditures and wage developments that are in line with productivity, in order to contribute to correcting overheating pressures and reducing the risk of macroeconomic instability;
 - make faster progress in the implementation of the research and innovation policy reforms, in order to meet the ambitious targets set. This concerns especially policies to stimulate partnerships between research and education institutions and businesses;
 - within an integrated flexicurity approach, intensifies efforts to increase labour supply and productivity by improving regional mobility and, enhancing the

responsiveness of education and training systems to labour market needs, by putting in place a lifelong learning system and pursuing active labour market policies.

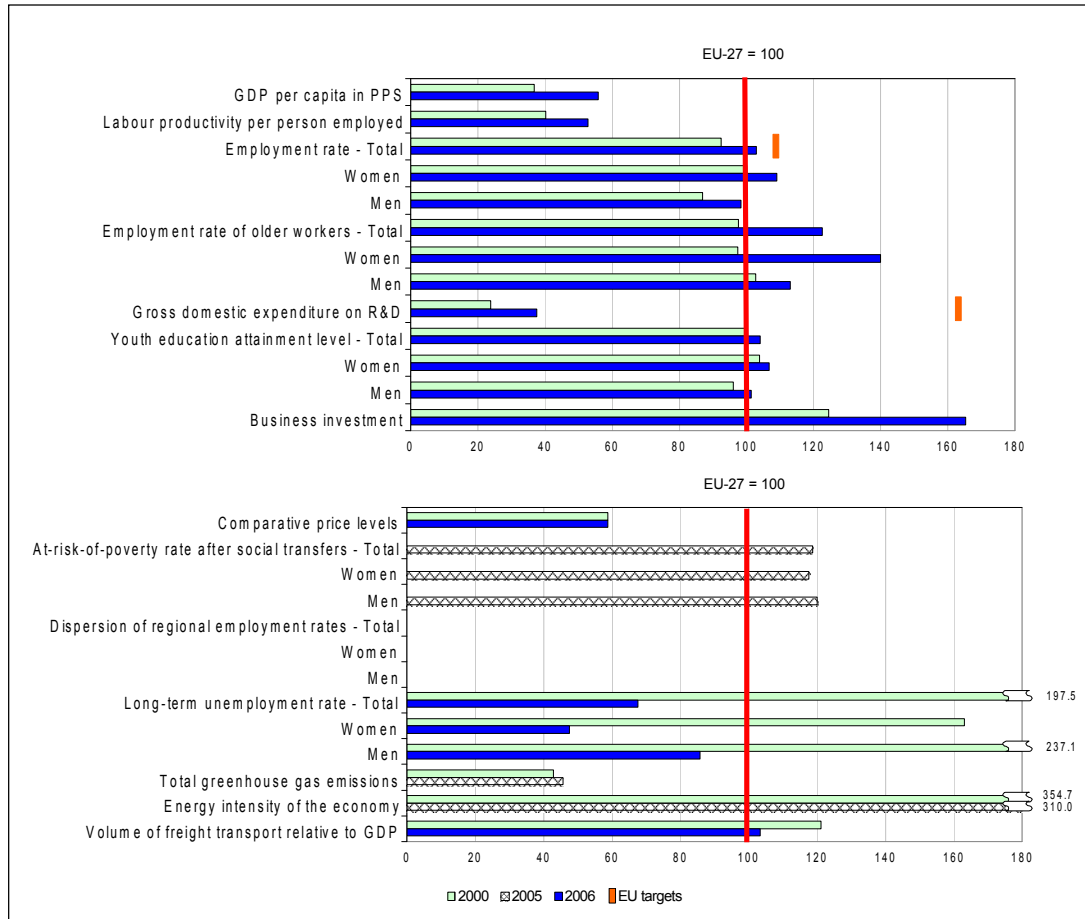
26. In addition, it will be important for Latvia over the period of the National Reform Programme to focus on: improving further the regulatory environment, notably by means of an explicit better regulation policy; and improving access to childcare.

PART IV: STATISTICAL GRAPHS AND DATA

LATVIA

	LV						EU27			
	2000	2003	2004	2005	2006	2010 National target	2000	2005	2006	2010 EU target
GDP per capita in PPS	36.9	43.5	45.5	50.2	55.8		100.0	100.0	100.0	
Labour productivity per person employed	40.3	44.2	45.5	49.4	52.9		100.0	100.0	100.0	
Employment rate						67.0				70.0
Total	57.5	61.8	62.3	63.3	66.3		62.2	63.4p	64.4p	
Women	53.8	57.9	58.5	59.3	62.4		53.7	56.2p	57.2p	
Men	61.5	66.1	66.4	67.6	70.4		70.8	70.8p	71.6p	
Employment rate of older workers										
Total	36.0	44.1	47.9	49.5	53.3		36.9	42.3p	43.5p	
Women	26.7	38.8	41.9	45.3	48.7		27.4	33.5p	34.8p	
Men	48.4	51.3	55.8	55.2	59.5		47.1	51.5p	52.6p	
Gross domestic expenditure on R&D	0.44	0.38	0.42	0.56	0.69	1.5	1.86e	1.84e	1.84e	3.0
Youth education attainment level										
Total	76.5	75.4	79.5	79.9	81.0		76.6	77.4	77.8	
Women	82.4	80.9	85.1	85.2	86.2		79.3	80.1	80.7	
Men	70.9	70.1	74.2	74.7	75.9		73.8	74.7	74.8	
Comparative price levels	58.8	54.4	55.5	56.3	58.8		100.0	100.0	100.0	
Business investment	22.9	22.0	24.4	27.2	30.1		18.4	17.8	18.2	
At-risk-of-poverty rate after social transfers										
Total	16.0	:	:	19.0b	:			16.0e	:	
Women	16.0	:	:	20.0b	:			17.0e	:	
Men	17.0	:	:	18.0b	:			15.0e	:	
Dispersion of regional employment rates										
Total	-	-	-	-	-	-	13.0	11.9	11.4	
Women	-	-	-	-	-	-	20.0	16.8	16.2	
Men	-	-	-	-	-	-	9.6	9.7	9.3	
Long-term unemployment rate										
Total	7.9	4.4	4.6	4.1	2.5		4.0	4.1p	3.7p	
Women	7.5	4.4	4.3	3.7	1.9		4.6	4.5p	4.0p	
Men	8.3	4.3	4.8	4.4	3.0		3.5	3.8p	3.5p	
Total greenhouse gas emissions	38.8	41.7	41.4	42.0	:		90.7	92.1	:	
Energy intensity of the economy	756.0	725.1	692.3	644.8	:		213.1	208.1	:	
Volume of freight transport relative to GDP	120.0	133.1	128.6	126.0	110.2		99.1e	105.4e	106.7e	

PERFORMANCE COMPARED TO EU-27



Lithuania

1. Lithuania's economic growth has continued to be very strong. In 2004-2006 real GDP increased on average by 7.6%, and it is forecast to be higher at 8½% in 2007. GDP per capita is an estimated 61% of the EU average in 2007. The employment rate has been rising (63.6% in 2006) and unemployment falling (5.6% in 2006, and estimated at 4.2% in 2007). Growth has mostly been driven by private consumption and construction. Rapid credit expansion, income tax cuts and wage increases in excess of productivity growth have boosted household demand, including for housing. The supply side is struggling to match demand, and labour market constraints have become evident. Excess demand has resulted in mounting imbalances: the current account deficit is forecast to be 13.9% of GDP and inflation around 5½% in 2007.
2. The main economic policy challenge for Lithuania is to preserve macroeconomic stability: containing inflationary pressures, the large external deficit and the credit growth. Strengthening the supply side of the economy would help stabilising imbalances while maintaining robust growth. Tightened labour markets, demonstrated by skills gaps, wage pressure, and increased labour shortages should be addressed by containing wage increases, mobilising labour reserves, increasing flexibility, and improving education and training.

PART I: GENERAL ASSESSMENT

3. Overall, Lithuania has made good progress in implementing its 2005 National Reform Programme (NRP) over the 2005-2007 period. The pace of progress appears to have slowed down over the last year.
4. There has been some progress in responding to the recommendation issued by the Council on strengthening research and innovation. There has been a limited response to the recommendation on increasing the supply of skilled labour, but Lithuania is committed to implementing relevant measures in the near future.
5. With regard to other areas on which the Council concluded Lithuania should focus, there has been a very good response on environmental protection, a good response on facilitating business start-ups, and a limited response in the other areas.
6. Last year's Commission Annual Progress Report concluded that Lithuania had made moderate progress on meeting the specific commitments agreed at the 2006 Spring European Council in the priority action areas. Since then, progress has been good in unlocking business potential but limited in other areas.
7. Lithuania has continued efforts to increase the visibility of the NRP and the Lisbon strategy, supported by the creation of a Lisbon internet portal. An inter-ministerial commission ensures coordination of the NRP within the government. A special framework has been set up for stakeholder consultation on the NRP, which can be considered as good practice. The Implementation Report covers all relevant areas highlighted as challenges, but would have benefited from more of a focus on the country specific recommendations and points to watch. Links between the NRP and

the structural and cohesion funds are strong, with substantial support earmarked for R&D, innovation and information society as well as for the improvement of transport networks.

8. Lithuania's 2007 Implementation Report confirms the main priorities within the NRP as: sustaining rapid economic growth, a stable macroeconomic environment and seeking full-fledged membership in the EMU; promoting the competitiveness of Lithuanian enterprises; promoting employment and investment in human capital.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

9. Progress over 2005-2007 with regard to the implementation of policies to address the macro-economic challenges faced by Lithuania, is limited and stronger efforts to achieve macro-economic stability are needed.
10. In the face of mounting macro-economic imbalances, the Medium-term Price Stability Strategy and the Law on Fiscal Discipline were adopted in 2007. The latter aims at strengthening the multi-annual expenditure framework and providing a firm commitment to fiscal restraint, however, the law does not as such introduce a binding medium-term budgetary framework. Nevertheless, a more active role should be played by the government to contain overheating. Although strong growth has boosted tax revenue, the government still runs a small budget deficit and fiscal policy does not take advantage of the good economic climate and remains expansionary. Moreover, the target to reduce the deficit from 0.9% of GDP in 2007 to a balanced budget in 2009 could be difficult to achieve in the light of planned tax reforms, including reductions in personal income tax, and the abolition of the temporary social tax on corporate profits, and expenditure increases due to the ongoing pension reform. Fiscal policy should play a stronger role in mitigating the risks from strong demand by stepping up fiscal consolidation in general and by scaling back tax incentives, particularly those for real estate.
11. In spring 2007, the Council invited Lithuania to focus on containing inflationary pressures. Inflation was 3.8% in 2006 and is expected to rise to 5.5% in 2007. It seems unlikely to decline quickly without more effective policy action. A wage-price spiral risks adding further to overheating. Further price increases stem from food, the harmonisation of indirect taxes, and increases in regulated prices such as heating, gas and electricity. The 2007 Medium-term Price Stability Strategy would benefit from being more concrete. Stronger commitment by the government and social partners is needed to ensure that wage growth is better aligned with productivity gains.
12. Lithuania was also invited to focus on increasing foreign direct investment (FDI). Despite some increase, Lithuania's progress in creating a more attractive environment for foreign investment has been limited. The investment promotion programme, which the Lithuanian authorities intend to implement in 2008, contains a wide range of measures to attract FDI. In the Commission's opinion, it is vital to ensure that this programme is coherent and rapidly implemented.

13. Lithuania has partially succeeded in implementing measures to deliver on the macro-economic commitments expressed in its NRP. Improving macro-economic stability and containing inflation remain major challenges. A more determined fiscal policy aimed at containing inflationary pressures and to signal the need for more realistic growth expectations is warranted.

Micro-economic policies

14. Lithuania has made some progress over 2005-2007 in implementing policies to address its micro-economic challenges. The policy response to e-government policy is adequate and now needs to be sustained and set alongside a comprehensive strategy. More emphasis needs to be placed on the implementation of all the foreseen ICT measures. There has been limited progress in finalising the Better Regulation Programme, as implementation of the policy measures to improve the regulatory framework, and in particular measures to reduce the administrative burden, is still pending. Measures related to legislative simplification seem to have been discarded and no specific target for reducing administrative burdens has been set. When designing new legislation, Lithuania needs to increase the use of impact assessments and consultation tools.
15. The Council recommended Lithuania to strengthen its R&D system to reach its ambitious target for overall investment in R&D. Despite the considerable increase in public R&D expenditure over recent years, the R&D share of GDP has remained virtually stagnant due to a rapid GDP growth, and private R&D intensity has remained at a very low level (0.2% of GDP). Major efforts are thus needed to progress towards the target of 2% of GDP by 2010, particularly in order to achieve the 1% target from private sources.
16. In 2007 political parties signed an agreement on the principles of research and higher education reform. The reform should develop R&D capacity of the public sector, improve conditions for business R&D, and facilitate knowledge transfer between public and private R&D, thus help to raise the efficiency of public R&D investment. Lithuania should now urgently move to implementation by creating the two agencies to administer funds competitively, and develop stronger cooperation between science and business in the Integrated Research, Study and Innovation Centres. It should adopt the law enhancing conditions for creating spin-offs from research institutions and monitoring programmes to prevent brain drain, and make PhD studies and researchers careers more attractive. Due account should also be taken of traditional and low-tech sectors which are important in the Lithuanian economy, but where growth potential is hampered by low levels of innovation. Innovation support services should therefore ensure that these sectors are appropriately targeted.
17. The Council invited Lithuania to focus on environmental protection and facilitating business start-ups. Lithuania is implementing a series of measures to address issues of climate change, green public procurement, sustainable energy use and drinking water resources. This represents a very good policy response. On business start-ups, Lithuania has now established a one-stop-shop, shortened the time needed to start-up a company to 6 days, lowered the cost of starting a private limited company, and established one contact point for the recruitment of the first employee. This represents a good response.

18. Lithuania has partially responded to the recommendation on implementing measures to deliver on its research and innovation commitments. Further implementation of the outlined R&D reform is needed. Good progress was made on environmental protection and business start-ups and these points to watch are no longer merited. However, more focus is needed on efforts to finalise and implement the Better Regulation Programme.

Employment policies

19. Lithuania has made some progress in 2005-2007 regarding policies to address its labour market challenges. Important policy measures include the approval of the laws on Employment Support and Vocational Training. However, preparations to increase the statutory retirement age and the introduction of compulsory pre-school education are still pending. Health care reform needs more impetus to improve access to services and to ensure its financial sustainability.
20. The Council recommended Lithuania to increase the supply of skilled labour. Lithuania has conducted a study on the reasons for labour force emigration and launched information campaigns on working and living conditions in Lithuania. There has been no progress in promoting internal labour mobility but the government is committed to prepare and implement relevant measures in 2007-2008. Participation in lifelong learning remains very low (4.9% in LT, 9.6% in the EU). A number of European Social Fund co-financed projects are on-going and a study on the training needs for older workers has been launched. The Lifelong Learning Strategy is to be revised by the end of 2007. These policy measures and pace of their implementation represent a limited response, and it is important to speed up the implementation of the plans. Furthermore, substantial efforts are needed to ensure that the skills and qualifications provided by the education and training systems are of sufficient quality and relevance for the labour market.
21. The Council also invited Lithuania to focus on improving youth employability, expanding entrepreneurship education, increasing the availability of childcare, and strengthening occupational health and safety. The Law on Vocational Training adopted in 2007 sets the basis for the national qualification system and apprenticeships. This is a limited policy response and it is important to reform higher education and promote flexible working arrangements for young people. The adoption and implementation of the National Youth Entrepreneurship Programme should be speeded up to promote entrepreneurship.
22. On childcare, Lithuania has established a number of pre-school education groups and drafted a Compulsory Pre-school Education Programme, which still needs to be approved and implemented. The Commission considers this a limited response. To improve occupational health and safety, the 2007 Law on Health and Safety at Work was extended with provisions governing the prevention of accidents at work and occupational disease, and by specifying that the liability for the creation of a safe and healthy work environment lies with employers. This is a welcome step but tackling the issue requires an integrated policy response based on a thorough analysis of the situation and covering the increase of the availability and capacity of occupational physicians.

23. There is no integrated flexicurity approach in Lithuania, although a number of flexicurity-related measures have been taken. The involvement of social partners is increasing. Active labour market policy has been improved and work is ongoing to prepare the basis for flexible contractual arrangements. More effort is needed to raise the participation in lifelong learning.
24. Lithuania has partially succeeded in implementing measures to deliver on the NRP employment policy commitments. The recommendation and points to watch have been addressed to a limited extent and therefore remain valid.

PART III: CONCLUSIONS

25. In the light of the 2007 Lithuania's Implementation Report and the Commission's assessment of progress made in implementing key structural reforms and based on the Integrated Guidelines for Growth and Jobs, the following conclusions are appropriate.
26. Lithuania has made good progress in implementing its National Reform Programme over 2005-2007. Lithuania has also been showing some progress in fulfilling the commitments agreed by the 2006 Spring European Council in the four priority action areas.
27. The Implementation Report shows a limited policy response to the recommendations adopted by the Council. There has been some policy response on the additional areas identified by the Council as requiring attention.
28. Among the strengths shown by the 2007 Lithuania's Implementation Report are: approval of priority areas for R&D development and adoption of the Vocational Training Law.
29. The policy areas in the Lithuanian National Reform Programme where challenges need to be tackled with the highest priority are implementing measures: increasing and improving the efficiency of investment in R&D and support for innovation; to increase internal mobility of labour, promote adult participation in lifelong learning, especially among older workers, and reform the education and training systems to ensure quality and labour market relevance. Against this background it is recommended that Lithuania:
 - accelerates the implementation of the structural reform of its R&D and innovation system so as to raise the efficiency of public spending and create conditions favourable to increased private investments in this area, including for innovation in traditional and low-tech sectors;
 - intensifies efforts to increase the supply of skilled labour, with a special focus on the participation of older workers by: improving the regional mobility, reforming the education and training systems to ensure their quality and relevance to the labour market needs and implementing the revised lifelong learning strategy.
30. In addition, it will be important for Lithuania to focus over the period of the National Reform Programme on the following challenges: improving macro-economic

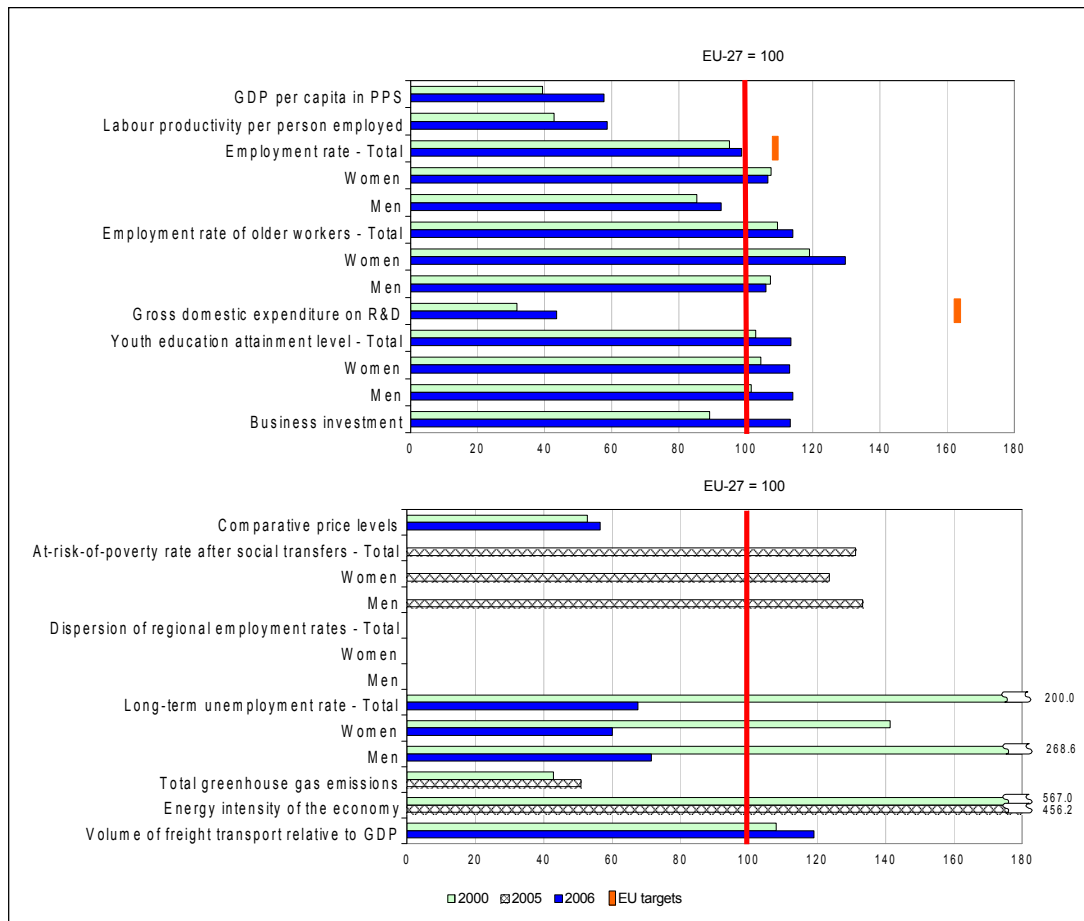
stability and containing inflation; increasing foreign direct investment; improving the efficiency of regulatory environment with particular focus on legislative simplification; improving youth employability; expanding entrepreneurship education; increasing the availability of childcare; and strengthening occupational health and safety.

PART IV: STATISTICAL GRAPHS AND DATA

LITHUANIA

	LT						EU27			
	2000	2003	2004	2005	2006	2010 National target	2000	2005	2006	2010 EU target
GDP per capita in PPS	39.4	49.2	51.1	53.8	57.7		100.0	100.0	100.0	
Labour productivity per person employed	42.9	51.8	53.7	55.2	58.6		100.0	100.0	100.0	
Employment rate						68.8				70.0
Total	59.1	61.1	61.2	62.6	63.6		62.2	63.4p	64.4p	
Women	57.7	58.4	57.8	59.4	61.0		53.7	56.2p	57.2p	
Men	60.5	64.0	64.7	66.1	66.3		70.8	70.8p	71.6p	
Employment rate of older workers										
Total	40.4	44.7	47.1	49.2	49.6		36.9	42.3p	43.5p	
Women	32.6	36.7	39.3	41.7	45.1		27.4	33.5p	34.8p	
Men	50.6	55.3	57.6	59.1	55.7		47.1	51.5p	52.6p	
Gross domestic expenditure on R&D	0.59	0.67	0.76	0.76	0.80	2.0	1.86e	1.84e	1.84e	3.0
Youth education attainment level										
Total	78.9	84.2	85.0	87.8	88.2		76.6	77.4	77.8	
Women	82.9	87.9	88.5	91.8	91.2		79.3	80.1	80.7	
Men	75.0	80.6	81.5	83.9	85.3		73.8	74.7	74.8	
Comparative price levels	52.7	52.3	53.1	54.6	56.4		100.0	100.0	100.0	
Business investment	16.4	18.2	18.9	19.4	20.6		18.4	17.8	18.2	
At-risk-of-poverty rate after social transfers										
Total	17.0			21.0b				16.0e		
Women	17.0			21.0b				17.0e		
Men	17.0			20.0b				15.0e		
Dispersion of regional employment rates										
Total	-	-	-	-	-	-	13.0	11.9	11.4	
Women	-	-	-	-	-	-	20.0	16.8	16.2	
Men	-	-	-	-	-	-	9.6	9.7	9.3	
Long-term unemployment rate										
Total	8.0	6.0	5.8	4.3	2.5		4.0	4.1p	3.7p	
Women	6.5	6.0	6.2	4.5	2.4		4.6	4.5p	4.0p	
Men	9.4	6.0	5.5	4.2	2.5		3.5	3.8p	3.5p	
Total greenhouse gas emissions	38.9	41.7	43.8	46.9			90.7	92.1		
Energy intensity of the economy	1208.4	1194.8	1086.2	949.1			213.1	208.1		
Volume of freight transport relative to GDP	107.1	116.9	113.7	124.9	127.0e		99.1e	105.4e	106.7e	

PERFORMANCE COMPARED TO EU-27



Luxembourg

1. Since the end of the 2001-2003 slowdown, Luxembourg has experienced another period of growth well above the EU average. Real GDP growth reached 6.1% in 2006 but decelerated to about 5% in 2007. While in 2006 it was mostly driven by foreign trade, in 2007 the contribution of domestic demand became more important. Although likely to remain above the EU average, GDP growth should continue to slow down to about 4.5% in 2008 and 2009.
2. Despite high growth and low unemployment, Luxembourg needs to continue to prepare for future challenges. The longer-term growth potential could be affected by the deterioration of competitiveness induced by a relatively rapid increase of wage costs. The employment rate of the resident population remains below the EU average, and it is particularly low among older workers. Youth unemployment also remains a problem. Micro-economic challenges persist in the areas of start-up procedures, the transposition of EU legislation, and certain competition issues.

PART I: GENERAL ASSESSMENT

3. Overall, the Implementation Report shows very good progress in implementing the National Reform Programme (NRP) over the 2005-2007 period. The pace of progress appears to have accelerated slightly over the last year.
4. No country specific recommendations were addressed to Luxembourg. With regard to the areas on which the Council concluded that Luxembourg should focus, there has generally been some progress, the notable exceptions being the employment of older workers and further reform of early retirement systems, as well as some measures for improving the economic environment.
5. Last year's Commission Annual Progress Report concluded that Luxembourg had made very good progress in meeting the specific commitments agreed at the 2006 Spring European Council, but that additional measures were necessary for facilitating the recruitment of the first employee and speeding up the establishment of new businesses. Since then, there has been some progress on most of the commitments with an end 2007 deadline. Luxembourg describes efforts it is taking to address the euro area recommendations in its latest Implementation Report.
6. Consultation and efforts to develop ownership of the NRP within government and the social partners continue to be very substantial. Social partners were involved in drafting the 2007 Implementation Report. The regular publication of the "Observatoire de la Compétitivité" helps increase the visibility of the Lisbon Process. Links between the governance and implementation of the NRP and the programmes under the structural funds are fairly strong. The earmarking of structural funding for Lisbon priorities is being applied satisfactorily with 82% of ERDF and 100% of ESF budgets devoted to achieving these objectives. The ESF input focuses on increased labour supply by ensuring adequate skills for people at work and better integration of disadvantaged groups. The ERDF contribution emphasises support for innovation, R&D and entrepreneurship.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

7. The main macro-economic challenges identified for Luxembourg in the coming years were the deterioration in public finance as well as the risks of accelerating inflation and worsening competitiveness. It now appears that the deterioration in government finances, though substantial, was more limited than at first suggested. Revised data indicates that the deficit already peaked in 2004 at 1.2% of GDP and fell to only 0.1% of GDP in 2005 (rather than the 2.3% of GDP that was suggested by initial estimates. In 2006, government finance recorded a surplus of 0.7% of GDP, which is likely to have widened to about 1.25% in 2007. Wage increases seem to have been strong in 2006 and 2007 (around 4.5%) despite the partial de-indexation agreed in April 2006.
8. Further reforms are needed to ensure the long-term viability of the pension system. Luxembourg faces an aging population, and the employment growth observed since the early 1980s will inevitably be matched in the future by a comparable increase in the number of pensioners. Despite this, little has been done to reform the pensions system and no significant progress was recorded in 2007.
9. There has been good progress over the 2005-2007 period with regard to the short-term macro-economic challenges facing Luxembourg, although this improvement is probably for a part due to favourable incidental factors. There has been little progress in ensuring the long-term sustainability of the pension system.

Micro-economic policies

10. Implementation of micro-economic policies over 2005-2007 focussed on integrating the economy into the European and international context, creating an attractive economic environment, and complying with the principles of sustainable development. Good progress has been made on the integration of the economy, especially in the field of rail and electronic infrastructure. To foster an attractive economic environment, an extensive simplification policy focuses on business needs and includes ex ante checks for administrative burdens. However, a target for reducing the administrative burden should be set and some informal consultations embedded in formal policy.
11. Luxembourg promotes ICT take up, addresses digital security issues and enhances the supply of e-Government services. The public research budget has significantly increased and is to double from 2005 to 2009. Whilst reaching the 3% expenditure target is important, the focus on efficient governance is appropriate to increase absorption capacity. Public-private collaboration needs to be strengthened, especially to increase relatively low levels of research investment by SMEs. Luxembourg has undertaken a number of measures in a wide range of areas to promote sustainable development, and is committed to a Kyoto target of a 28% reduction in greenhouse gases. However, reporting on progress towards the Kyoto goals should be improved, and meeting the target will require implementing additional measures.
12. The Council concluded that in order to render the economic environment more attractive Luxembourg should focus on: greater support for competitive markets, for

the transposition of EU directives and for SMEs. A recent legislative proposal aims at merging and reinforcing the competition authorities and widening their mandate. Despite this the authorities remain clearly understaffed, and widening their mandate. Despite the high importance of the professional services' sector in Luxembourg the level of competition remains low in an international context. Luxembourg should therefore take clear steps to increase competition in this sector.

13. The transposition deficit of EU legislation remains high, though the situation has improved significantly since 2005. Luxembourg should consolidate the procedures introduced in 2006 and set a deadline for achieving the 1% target agreed by the Council. Key directives awaiting transposition include those on public procurement, the enforcement of intellectual property rights, and the Financial Services Transparency Directive.
14. Entrepreneurship education needs to become more routine in secondary schools. Luxembourg already set up one-stop shops for businesses. However, further improvements should be made in order to remove lengthy and often expensive procedures for setting up an enterprise and recruiting the first employee.
15. In general, Luxembourg has succeeded in implementing measures to deliver on the micro-economic commitments expressed in its NRP, although a number of challenges remain. The point to watch in the area of fostering an attractive economic environment has been addressed to some extent. More efforts are needed to facilitate start-up procedures, including the recruitment of the first employee, to speed up the transposition of EU directives, and to strengthen market competition, in particular in the professional services sector. The Commission considers this a mixed policy response to the challenges Luxembourg faces for improving the economic environment.

Employment policies

16. Recent structural reforms launched by the government and the social partners focus on measures for retaining people in employment, flexible contractual arrangements, activation policies for young people and reducing numbers leaving school early. The employment of women has improved since 2003, facilitated by an expansion of childcare facilities. However, more initiatives are needed to increase the employment rate of older workers and to tackle unemployment amongst the young.
17. The Council referred to the need to focus on: raising the employment rate of older workers and further reform early-retirement systems: to reduce school drop-out rates and remove artificial barriers between different types of education; and to closely monitor the impact of recent measures on youth unemployment. There has been little policy response to support active ageing, and no progress in changing culture towards longer working lives, improving incentives to remain in work and discouraging early retirement. However, the recent law on vocational training may have a positive impact on the employment rate of older workers. Increasing the employment rate of older workers is also closely linked to the modernisation of social protection systems and their financial sustainability.
18. A broad set of measures to improve education and training and lifelong learning have been approved in order to fight worsening trends in early school leaving and the

completion of upper secondary education, with recent legislation including new measures to assist early school leavers to re-enter education and vocational training. A further law reorganizes vocational training and helps to support young people in the transition from school to work. Steps have been taken to improve the recognition and validation of qualifications and competences, and enrich training opportunities. However, as implementation is still in its initial phase, it remains to be seen whether these reforms will be sufficient.

19. Luxembourg is taking appropriate measures to improve activation and professional guidance, especially for young people. The introduction of a personal mentor will help re-integrate the young unemployed into the labour market and improve their employability. However, as implementation has only just begun, it remains important to closely monitor the impact of the new measures.
20. Overall, Luxembourg has a balanced approach towards flexicurity and is taking steps towards addressing it in an integrated way. Recently social partners have reached a consensus on the introduction of a single status for private sector employees, which should increase labour market flexibility. Recent reforms of active labour market policies concentrate on the rapid insertion of young people, and a new law aims to anticipate restructuring and support career transition. Life long learning considerably improved in 2007 and a right to individualized training will take effect on 1st January 2008. However, there is no visible progress on the continued adaptation of the social security system.
21. In general, Luxembourg has succeeded in implementing measures to deliver on the employment policy commitments expressed in its NRP. The points to watch in the employment area have been addressed, with the notable exception of active ageing. Although progress is evident, implementation is now the key and therefore the Commission considers these points to watch as remaining valid.

PART III: CONCLUSIONS

22. In the light of the Luxembourg 2007 Implementation Report and the Commission's assessment of progress made in implementing key structural reforms and based on the Integrated Guidelines for Growth and Jobs, the following conclusions are appropriate.
23. Luxembourg has made very good progress in implementing its National Reform Programme over the 2005-2007 period. Luxembourg has shown some progress in fulfilling the commitments agreed by the 2006 Spring European Council in the four priority action areas.
24. The Implementation Report shows a mixed policy response to the areas identified by the Council as requiring attention. The Implementation Report also specifically addresses the recommendations issued to the euro area countries.
25. Among the strengths shown by the Luxembourg's 2007 Implementation Report are: investments to integrate the economy into the international context, efforts to develop an extensive simplification policy focussed on business needs, the

development of childcare infrastructures, reform of professional training, and the introduction of new forms of employment.

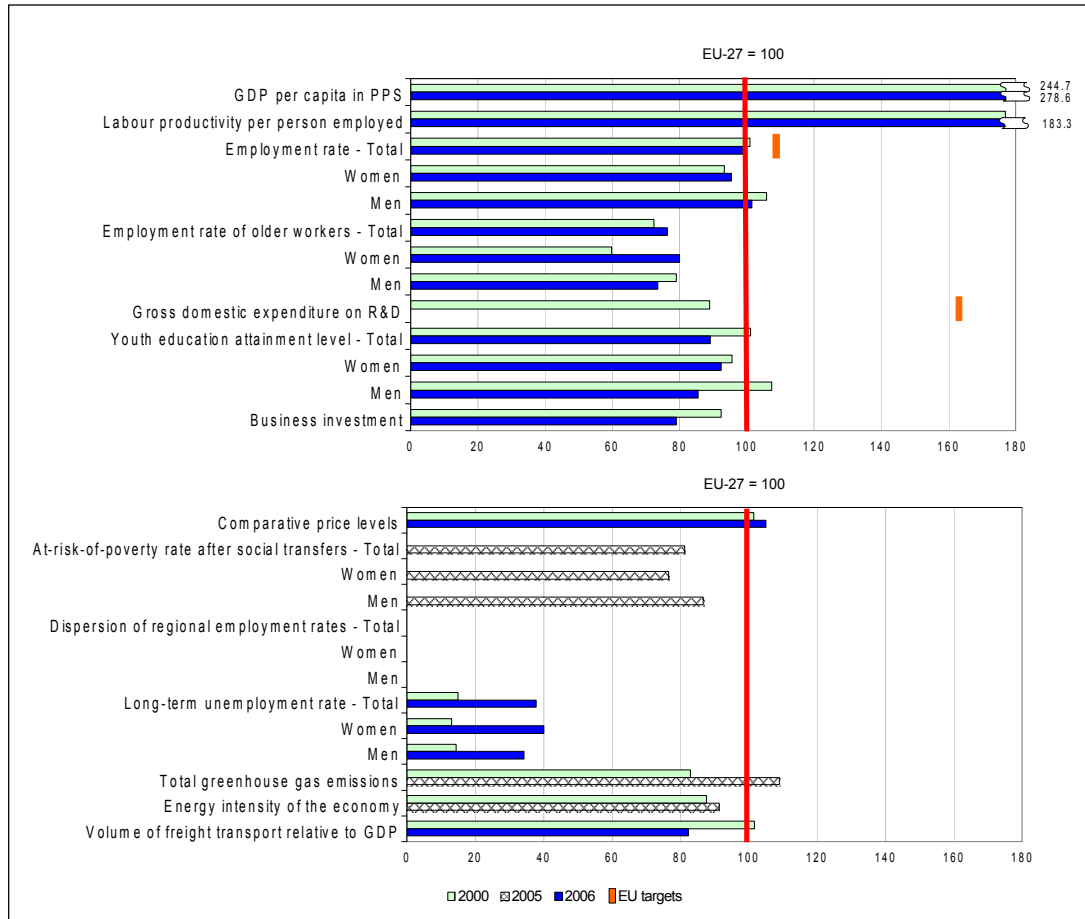
26. It will be important for Luxembourg over the period of the National Reform Programme to focus on the following challenges: accelerate the implementation of measures aimed at increasing the employment rate of older workers, in particular through reform to discourage early retirement; take further measures to reduce the number of early school leavers, and to remove the artificial barriers between different types of education; closely monitoring the impact of recently adopted measures to reduce unemployment amongst the young; and in order to deliver a more attractive economic environment, greater support is needed to deliver competitive markets, improve the transposition of EU legislation, and support SMEs.

PART IV: STATISTICAL GRAPHS AND DATA

LUXEMBOURG

	LU						EU27			
	2000	2003	2004	2005	2006	2010 National target	2000	2005	2006	2010 EU target
GDP per capita in PPS	244.7	247.7	252.7	263.0	278.6		100.0	100.0	100.0	
Labour productivity per person employed	176.9	166.4	168.9	174.4	183.3		100.0	100.0	100.0	
Employment rate						:				70.0
Total	62.7	62.2	62.5	63.6	63.6		62.2	63.4p	64.4p	
Women	50.1	50.9	51.9	53.7	54.6		53.7	56.2p	57.2p	
Men	75.0	73.3	72.8	73.3	72.6		70.8	70.8p	71.6p	
Employment rate of older workers										
Total	26.7	30.3	30.4	31.7	33.2		36.9	42.3p	43.5p	
Women	16.4	20.6	22.2	24.9	27.8		27.4	33.5p	34.8p	
Men	37.2	39.7	38.3	38.3	38.7		47.1	51.5p	52.6p	
Gross domestic expenditure on R&D	1.65	1.66	1.63	1.57p	:	3.0	1.86e	1.84e	1.84e	3.0
Youth education attainment level										
Total	77.5	72.7b	72.5	71.1	69.3		76.6	77.4	77.8	
Women	75.8	75.6b	73.4	75.8	74.5		79.3	80.1	80.7	
Men	79.2	69.7b	71.6	66.6	64.0		73.8	74.7	74.8	
Comparative price levels	101.5	103.2	105.1	104.6	105.1		100.0	100.0	100.0	
Business investment	17.0	17.0	16.5	15.5	14.4		18.4	17.8	18.2	
At-risk-of-poverty rate after social transfers										
Total	12.0	11.0b	12.0	13.0	:			16.0e	:	
Women	12.0	12.0b	12.0	13.0	:			17.0e	:	
Men	12.0	11.0b	12.0	13.0	:			15.0e	:	
Dispersion of regional employment rates										
Total	-	-	-	-	-		13.0	11.9	11.4	
Women	-	-	-	-	-		20.0	16.8	16.2	
Men	-	-	-	-	-		9.6	9.7	9.3	
Long-term unemployment rate										
Total	0.6	0.9	1.1	1.2	1.4		4.0	4.1p	3.7p	
Women	0.6	0.9	1.4	1.2	1.6		4.6	4.5p	4.0p	
Men	0.5	0.9	0.8	1.2	1.2		3.5	3.8p	3.5p	
Total greenhouse gas emissions	75.2	88.6	100.8	100.4	:		90.7	92.1	:	
Energy intensity of the economy	186.6	181.8	193.5	189.9	:		213.1	208.1	:	
Volume of freight transport relative to GDP	100.8	111.8	107.2	92.4	87.9e		99.1e	105.4e	106.7e	

PERFORMANCE COMPARED TO EU-27



Hungary

1. Economic growth started to slow down in 2006. GDP is projected to expand by 2% in 2007, down from 3.9% in 2006. The growth profile reflects to a large extent the correction of the unsustainable path of fiscal policy over the last few years. Employment and participation rates are still far below average EU levels, despite slightly improving to 57.3% and 62% respectively in 2006. After rising to 9.2% of GDP in 2006, the budget deficit is expected to fall below 6.5% of GDP in 2007, and the increase in the debt-to-GDP ratio is projected to slow down.
2. The overriding priority for Hungary is to continue its fiscal consolidation programme underpinned by sound structural reforms, and a comprehensive reform of fiscal governance. Progress in fiscal consolidation will underpin an expected return to a robust growth path. At the same time, long-term sustainability of public finances, which is at high risk, should be ensured. Institutional and regulatory measures to improve the functioning of labour markets, and the micro-economic environment should also be implemented, but without jeopardising fiscal consolidation.

PART I: GENERAL ASSESSMENT

3. Overall, the 2007 Hungarian Implementation Report shows limited progress on implementing the revised National Reform Programme (NRP) over 2005-2007. Hungary is making strong efforts and the pace of progress has accelerated over the last year.
4. There has been some progress on responding to the four country-specific recommendations addressed to Hungary by the Council. The fiscal consolidation programme is likely to result in a better-than-targeted budgetary outturn in 2007. However, the deficit is still high and the medium-term public finance situation remains fragile. Further incentives to work and to remain in the labour market have been introduced and good progress has been made towards the establishment of the integrated employment and social services system. As Hungary's priority is on fiscal consolidation, progress has been limited in relation to education, training and active labour market policies.
5. With regard to the other areas on which the Council concluded that Hungary should focus, progress has been most substantial on developing a coherent strategy for R&D, innovation and ICT and transforming undeclared work into formal employment.
6. Last year's Annual Progress Report concluded that Hungary had made limited progress on meeting the specific commitments agreed at the 2006 Spring European Council in the priority action areas of knowledge, entrepreneurship, employment and energy. There has again been limited progress on most of the commitments with an end-2007 deadline.
7. Government and ownership of the NRP seems somewhat strengthened. The report was discussed by Parliament and stakeholders before submission. Although clear timetables were presented for the reform steps, systematic information on the

budgetary impacts of the adopted and planned measures is missing. The operational programmes co-financed by the structural and cohesion funds play a key role in the implementation of the NRP and their common governance is ensured. However, the earmarking of structural funding for Growth and Jobs objectives could be stronger.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

8. The NRP identified reducing the fiscal deficit and improving the sustainability of public finances as key macro-economic challenges. Progress in this respect over 2005-2007 is mixed. After years of loose fiscal policy which had induced serious macroeconomic imbalances, the re-elected government started a major fiscal consolidation and reform programme in the second half of 2006. The first results are starting to bear fruit but further progress is needed. Wage developments and the evolution of non-wage labour costs should also be continuously monitored as there is a need to improve wage responsiveness to economic changes.
9. The Council recommended Hungary to address the government deficit and public debt ratio; and to improve long-term fiscal sustainability and economic efficiency. Wide-ranging tax increases and expenditure control measures, including budgetary freezes until the end of 2008 limited the deficit in 2006 to 9.2% of GDP, still very high but almost 1% of GDP less than targeted. Hungary is likely to outperform its 2007 target of 6.8% of GDP by about half a percentage point. However, this reduction could have been around one percentage point if no additional spending measures had been taken. The debt-to-GDP ratio is expected to stabilise at around 66% in 2007-2008. An important blueprint for the comprehensive reform of public finances was adopted in 2007, introducing fiscal rules and institutional changes. The implementation of these proposals is however, dependant on related constitutional amendments being passed. A reinforcement of the budgetary framework has just begun, essential, given that the budget deficit, although declining, remains the highest in the EU.
10. Following the adoption of laws in 2006 to reform the public administration, health care, pension and education systems, the Government has implemented measures in these areas in 2007. Significant spending cuts in price subsidies were achieved, in particular for pharmaceuticals and gas. Moreover, the public administration and hospital systems have been further streamlined, although follow-up steps, such as the improvement of outpatient care, are still missing. Thanks to a series of financial incentives, the provision of joint services at local government level has also been substantially strengthened. On pension reform, in addition to the revision of disability pension schemes in 2007, several other steps have been adopted which will impact on the long-term pension costs. These include a lower starting level for new pensions, actuarially fair pension calculation and stricter eligibility regulation in early retirement. The expert group set up by government will further review the reform of the key parameters (indexation, retirement age). Overall, the sustainability of Hungarian public finances remains at high risk, given the expected rise in long-term age-related expenditures. Further actions are needed in all areas, also in view of ensuring social adequacy.

11. Hungary has partially succeeded in implementing measures to deliver on the macro-economic commitments expressed in its NRP. Following the lack of fiscal discipline in the past, the recent policy responses have been fairly strong. However, the public finance situation remains fragile. Hungary needs to maintain the momentum with fiscal adjustment and structural reforms and therefore the recommendations remain valid.

Micro-economic policies

12. The revised NRP of 2006 identified R&D and innovation, business environment, competition, infrastructure development, and energy policy and environment as key micro-economic challenges. In its conclusions, the Council also referred to reducing and redirecting state aids; develop a more coherent strategy for R&D, innovation and ICT; and further reduction of the administrative burden on enterprises.
13. Concerns remain about the absence of concrete measures to reduce state aid and redirect funds towards horizontal objectives, and in particular whether the phasing-out of aid will suffice. On R&D and innovation, the recently adopted strategy is welcome but further progress is needed. Following previous reforms, the adoption of the science, technology and innovation strategy, which seeks to co-ordinate public and private R&D and innovation, and to stimulate the creation and utilisation of knowledge, represents a significant step. However, reaching 1.4% of GDP (changed from 1.8%) for total R&D expenditures by 2010 depends on the availability of resources and the efficient implementation of a recently adopted action plan. Concerns remain about how to integrate the Academy of Science in the research and innovation system and how to improve the links between research and business. In addition to simplifying the legal framework for e-business, ICT initiatives focus on infrastructure development and increasing ICT use. This heads in the right direction, but implementation should be accelerated. Faster progress can now be expected as EU structural funds will increasingly be used. Obstacles continue to hinder entrepreneurial activities and the targets set in the 2006 Spring European Council conclusions were only partially achieved.
14. Better regulation policies focus on simplification and on reducing the administrative burden, but no specific target has been set for the later. Preparatory work for improving impact assessments is being carried out but implementation remains inadequate. There has however been a significant shortening of the setting-up time for businesses, and, as of 2008, the electronic registration of a company should require less than one hour. Newly adopted measures to improve access to finance for enterprises should benefit SMEs. However, only limited progress can be seen in promoting education in entrepreneurship and the establishment of a single contact point for recruiting the first employee.
15. The opening of the rail freight market has been delayed and the development of the Coherent Transport Development Strategy needs to be accelerated given the composition of infrastructure spending and the dispute over the feasibility of rail infrastructure financing via access charges. Hungary should continue its efforts to ensure timely and full implementation of the Services Directive.
16. Regarding environment and energy, new legislation to promote green electricity is a welcome step. Hungary has also announced a National Climate Change Strategy, but

concrete measures have still to be devised. The liberalisation of network industries is on course. However, since the ownership of electricity transmission networks reverted to the previous owner in 2006, there is some concern about the effective separation of infrastructure and operations.

17. Overall, despite encouraging signs in some areas, the progress over 2005-2007 is mixed with regard to policies addressing the challenges set out in the NRP. Hungary needs to maintain the pace and scope of microeconomic reforms if it is to achieve the growth and job creation necessary to underpin rapid economic improvements. The points to watch in the micro-economic area therefore remain valid.

Employment policies

18. In 2006, the revised NRP set the priorities of: strengthening the role of active labour market policies; targeted support for the employment of disadvantaged people; promoting lifelong learning; and improving the quality, effectiveness and efficiency of education.
19. The Council recommended a focus on: improving active labour market policies and incentives to work, integrating the employment and social services system, and reforming education and training, to improve skills and the responsiveness to labour market needs.
20. Active labour market policies increasingly aim at enhancing job-search activity and improving employability, with measures targeted on the most disadvantaged groups. The scope and effectiveness of these policies needs to be improved. A number of incentives to work and to remain on the labour market have been introduced, including recent measures reforming the social benefit system. Further reforms to reduce early retirement and revise the system of disability benefits are also welcome. Given the very low rate of return to employment of women after childbirth, further measures are required to reconcile work and family life, including the extension of childcare provision and reforming lengthy parental leaves. The integration of employment and social services is in progress and the public employment service has coordinated rehabilitation services since 2007.
21. The integration of schools, and restrictions on them in the selection of students, together with the introduction of new national curricula focusing on key competencies, are among recent measures to reduce school segregation and to provide pupils with skills which better respond to labour market needs. Higher education quotas in natural sciences, IT and technology were also increased to ensure the provision of a sufficient number of graduates in these fields. Despite these welcome steps, the existence of a clear strategy to achieve systemic changes to improve the quality, openness and efficiency of education and training is not evident.
22. The Council also highlighted the need to focus on improving the labour market situation of the disadvantaged; tackling undeclared work; reducing regional disparities in employment; and implementing the lifelong learning strategy. Although a number of measures were launched to improve the labour market situation of disadvantaged groups, the result of these measures remains to be seen. In certain areas progress is limited. Besides helping career-starters, older workers and women, further efforts are required to improve the employment chances of the low skilled,

people with disabilities, and the Roma. Strong coherent measures, focused on incentives and sanctions have led to visible progress in reducing undeclared work. However, given the gravity of the problem, it is important to continue this approach. There has been no visible progress in reducing persistent regional disparities in employment. A coherent policy approach to tackle this challenge, including the low mobility of the labour force is still missing. The implementation of the lifelong learning strategy, although it has started, remains a considerable challenge, requiring stronger coordination and monitoring.

23. Hungary has started to address flexicurity in an integrated way. Strengthening active labour market policies, the modernisation of social security systems and combating undeclared work have been given particular attention. Increasing participation in lifelong learning is a challenge. The government, with the involvement of the social partners, aims at a comprehensive revision of the Labour Code to reflect the diversity of employment forms and ensure adaptability.
24. Despite clear improvements in certain areas, there has been partial progress over 2005-2007 with regard to the implementation of policies to address the labour market challenges. The policy response to the recommendations and points to watch has also been partial. It is important to deepen and step up the pace of reforms, in particular in education and training.

PART III: CONCLUSIONS

25. In the light of the 2007 Hungarian Implementation Report and the Commission's assessment of progress made in implementing key structural reforms and based on the Integrated Guidelines for Growth and Jobs, the following conclusions are appropriate.
26. Hungary has made limited progress in implementing its National Reform Programme over 2005-2007. Hungary has shown limited progress in fulfilling the commitments agreed by the 2006 Spring European Council in the four priority action areas.
27. The Implementation Report shows a mixed policy response to the recommendations adopted at the Council. There has been some policy response on the additional areas identified in the Council conclusions as requiring more attention.
28. Among the strengths shown by the 2007 Implementation Report are: strong improvements on fiscal consolidation, the adoption of various structural reform steps, the shortening of the setting-up time for businesses and the efforts to reduce administrative costs, the introduction of further incentives to work and to remain on the labour market and the transformation of undeclared work into formal employment.
29. The policy areas in the Hungarian National Reform Programme where challenges need to be tackled with the highest priority are: correcting the excessive deficit as planned, further improving the sustainability of public finances, improving the labour market situation of disadvantaged groups, reducing persistent regional disparities in employment and reforming the education and training systems. Against this background, it is recommended that Hungary:

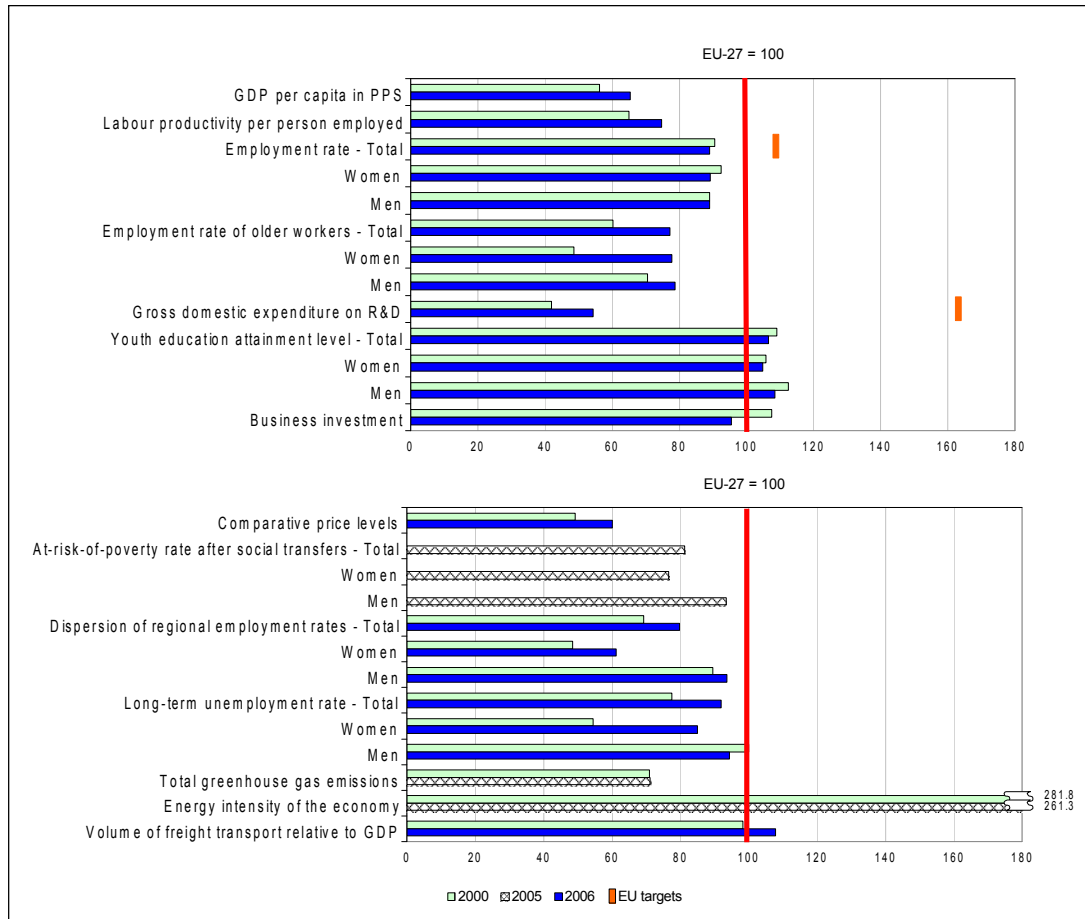
- continues to implement the necessary measures to ensure a durable reduction of the government deficit and of the public debt ratio, with increased reliance on the expenditure side, including through the establishment of more thorough and comprehensive expenditure rules;
 - continues to reform the public administration, health care, pension and education systems with a view to ensuring long-term fiscal sustainability and improving economic efficiency. This should include steps to further limit early retirement, reduce the number of new recipients of disability pensions and further restructure health care;
 - reinforces active labour market policies to improve the labour market situation of disadvantaged groups; and reduces persistent regional disparities in employment;
 - ensures access to high quality education and training for all, upgrade skill levels, and increases responsiveness of education and training systems to labour market needs.
30. In addition, it will be important for Hungary over the period of the National Reform Programme to focus on the following challenges for the future: further reforming the public research system, increasing the effectiveness of public R&D expenditure and improving linkages between public and private R&D; reducing and redirecting state aids; improving the regulatory environment through further reducing administrative burden and legislative simplification; introducing further incentives to work and to remain in the labour market; ensuring better reconciliation of work and private life; completing the establishment of the integrated employment and social services system; transforming undeclared work into formal employment; and implementing the lifelong learning strategy.

PART IV: STATISTICAL GRAPHS AND DATA

HUNGARY

	HU						EU27			
	2000	2003	2004	2005	2006	2010 National target	2000	2005	2006	2010 EU target
GDP per capita in PPS	56.3	63.6	63.9	64.8	65.3		100.0	100.0	100.0	
Labour productivity per person employed	65.0	71.7	72.7	73.9	74.8		100.0	100.0	100.0	
Employment rate						58.7				70.0
Total	56.3	57.0	56.8	56.9	57.3		62.2	63.4p	64.4p	
Women	49.7	50.9	50.7	51.0	51.1		53.7	56.2p	57.2p	
Men	63.1	63.5	63.1	63.1	63.8		70.8	70.8p	71.6p	
Employment rate of older workers										
Total	22.2	28.9	31.1	33.0	33.6		36.9	42.3p	43.5p	
Women	13.3	21.8	25.0	26.7	27.1		27.4	33.5p	34.8p	
Men	33.2	37.8	38.4	40.6	41.4		47.1	51.5p	52.6p	
Gross domestic expenditure on R&D	0.78	0.93	0.88	0.94	1.00	1.8	1.86e	1.84e	1.84e	3.0
Youth education attainment level										
Total	83.5	84.7b	83.5	83.4	82.9		76.6	77.4	77.8	
Women	84.0	86.1b	84.9	84.9	84.7		79.3	80.1	80.7	
Men	83.0	83.4b	82.0	81.9	81.2		73.8	74.7	74.8	
Comparative price levels	49.2	58.2	61.6	63.2	60.0		100.0	100.0	100.0	
Business investment	19.8	18.6	18.9	18.8	17.4		18.4	17.8	18.2	
At-risk-of-poverty rate after social transfers										
Total	11.0	12.0	:	13.0b	:			16.0e	:	
Women	12.0	12.0	:	13.0b	:			17.0e	:	
Men	11.0	12.0	:	14.0b	:			15.0e	:	
Dispersion of regional employment rates										
Total	9.0	8.5	9.4	9.9	9.1		13.0	11.9	11.4	
Women	9.7	9.2	10.6	10.8	9.9		20.0	16.8	16.2	
Men	8.6	8.1	8.6	9.4	8.7		9.6	9.7	9.3	
Long-term unemployment rate										
Total	3.1	2.4	2.7	3.2	3.4		4.0	4.1p	3.7p	
Women	2.5	2.3	2.6	3.2	3.4		4.6	4.5p	4.0p	
Men	3.5	2.5	2.8	3.3	3.3		3.5	3.8p	3.5p	
Total greenhouse gas emissions	64.3	66.8	64.7	65.5	:		90.7	92.1	:	
Energy intensity of the economy	600.5	566.6	533.6	543.6	:		213.1	208.1	:	
Volume of freight transport relative to GDP	97.5	85.1	91.5	102.1	115.1		99.1e	105.4e	106.7e	

PERFORMANCE COMPARED TO EU-27



Malta

1. Following a slowdown in the early 2000's, Malta's economic growth has recovered since 2004, with GDP growth reaching 3.2% in 2006. The turnaround was mainly driven by domestic demand. In relation to the EU-27 average, labour productivity has been declining in recent years but stabilised in 2006. GDP per capita amounted to 75.5% of the EU-27 average in 2006. Malta's employment rate (54.8% in 2006) remains well below the Lisbon target, particularly for women and older workers. The general government deficit has been reduced to 2.5% of GDP in 2006 from 3.1% in 2005 and Malta's general government debt declined from 72.7% of GDP in 2004 to 64.7% in 2006.
2. The structural weaknesses of Malta's economy necessitate a continuing reform policy to bolster competitiveness and exploit long-term growth potential. The continued implementation of structural expenditure reforms would contribute to sounder public finances in the medium-term and help release more public funds for growth-enhancing spending such as R&D and innovation. The continuation of efforts to reform health care as well as to pursue the further review of the benefit system could improve the long-term sustainability of public finances, and simultaneously facilitate moves into regular employment. Growth and employment are expected to benefit from the implementation of recent initiatives as well as from reducing and redirecting state aid towards horizontal objectives and strengthening competition.

PART I: GENERAL ASSESSMENT

3. The Maltese 2005-2008 National Reform Programme (NRP) identified the sustainability of public finances, competitiveness, the environment, employment and education and training as key challenges. In addition, the Commission focussed on competition, the quality of the regulatory system, and making work more attractive.
4. Overall, the Implementation Report shows good progress on implementing the NRP over 2005-2007 in many key areas. Malta has followed a steady reform policy over the period. The most prominent result of this policy is the Council decision in favour of Malta's adoption of the euro on 1st January 2008.
5. However, Malta has shown only limited progress in addressing the recommendations adopted by the Council to reinforce the competition authority and to attract more people into the labour market.
6. The Council also concluded that Malta should focus on health care reform, speeding up progress on improving and simplifying the regulatory environment, measuring R&D expenditure more accurately, introducing systematic impact assessment, connecting Malta to Europe's energy network, raising educational attainment and increasing the employment rate of older workers. The response in these areas has also been limited.
7. Last year's Commission Annual Progress Report concluded that Malta was partly responding to the commitments agreed at the 2006 Spring European Council in the priority action areas of knowledge, entrepreneurship, employment and energy. Since

then Malta has made some further progress, on better regulation, ICT and innovation. However, more concrete steps are needed to meet all commitments in the area of improving competition.

8. The governance of the NRP has been very good, involving all relevant ministries and an extensive consultation with stakeholders. The links between the NRP and the Structural Funds' programmes are good: 45% of the total NSRF budget is earmarked for implementing the Lisbon strategy (up from 20% in the previous programming period). This limited share of funds devoted to improving competitiveness, in comparison to other Member States, stems from plans for strong investment in environmental infrastructures to ensure the environmental sustainability of tourism. Cohesion Policy funding will amount to 2.4% of GDP in the 2007-2013 period.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

9. Malta made good progress over 2005-2007 in addressing the macro-economic challenge of restoring the fiscal balance. The fiscal consolidation process, initiated in 2004, has shown good progress. Although some part of this progress has been because of one-off measures, budgetary adjustment has been achieved mostly through expenditure restraint. The general government deficit declined to 2.5% of GDP in 2006, and the debt-to-GDP ratio followed a downward trend. As a result, the Council decided to abrogate the Excessive Deficit Procedure, paving the way for Malta's adoption of the euro on 1st January 2008. The Implementation Report underlines the Maltese government's continued commitment towards further fiscal consolidation through public expenditure restraint.
10. There has been some progress in the area of long-term sustainability of public finances. The main provisions of the new pension system, which came in force in January 2007, include a progressive increase in the retirement age, a longer reference period used for the calculation of pensions and a change in the indexation of pensions.
11. During 2005-2007 some progress was achieved in re-directing public expenditure towards growth-enhancing spending. In particular, increased attention has been devoted to upgrading Malta's human capital. However, the reallocation of additional public funds towards innovation, research, and development was less ambitious. Such a restructuring could support the achievement of the objective to attract high-technology investment and bolster Malta's competitiveness and growth potential.
12. The Council referred to the need to implement and reinforce delayed measures in healthcare reform. The financial sustainability of the healthcare system depends on reversing past spending trends. New legislation, announced in the NRP, that would separate the regulation and delivery of the healthcare system, has not been fully implemented. The Maltese authorities have put in place the required administrative steps for implementation. Moreover, the authorities regard the full implementation of these measures essential to improve the public healthcare system's financial management and control systems and ensure value for money and the efficient use of resources.

13. In general, Malta is making good progress in improving public finances and some progress in re-directing public expenditure towards growth-enhancing spending. Malta is making limited progress in addressing the financial sustainability of the healthcare system and therefore the Commission considers that the point to watch in this area remains valid.

Micro-economic policies

14. Competitiveness and the environment were identified as key micro-economic challenges in the Maltese NRP. These challenges include the business environment and better regulation, R&D, innovation and ICT, tourism, infrastructure and competition. Malta has, overall, made good progress over 2005-2007 through better regulation initiatives, a broad-based approach to strengthen R&D, ICT, and some steps towards liberalisation.
15. The Council recommended that Malta should strengthen competition, notably by reinforcing the Competition Authority, liberalising professional services and reducing and redirecting state aids. The Maltese authorities are developing measures to strengthen the enforcement capabilities of the competition authority and to amend the Competition Act but these measures are yet to be implemented. Consultation and dialogue with regard to professional services is still ongoing but has not yet resulted in reform measures. Malta needs to enhance its efforts to ensure a timely implementation of the Services Directive. The level of state aids (2.25% of GDP in 2006) and the share of sectoral aid (93%) in Malta are still the highest in the EU. Malta needs to progress in this area given that there has also been an increase of infringement cases. Malta should improve the quality of the transposition of internal market legislation.
16. The Council also asked Malta to focus on impact assessment and simplification. Malta shows strong political support for the better regulation agenda and is making progress in improving the regulatory environment. All of the public sector is now involved in the Simplification Action Plan and Malta has appointed a better regulation co-ordinator in every ministry. Malta could do more to enhance the regulatory framework by continuing ongoing simplification, making a systematic use of impact assessments, and ensuring a transparent better regulation strategy. Regarding the reduction of the administrative burden, Malta has planned several measures for 2008 and 2009. However, no specific target has yet been set. Malta also reports on the introduction of one stop shops for business start-ups but it appears that they are not yet fully operational.
17. The Council highlighted the need of measuring R&D expenditure more accurately. The Implementation Report reaffirms Malta's commitment to an R&D intensity target of 0.75% for 2010. The level of public investment in R&D has increased to 0.20% of GDP in 2006. Steps have also been taken to increase the number of researchers, through funds for postgraduate studies, by facilitating access to Malta for researchers from other countries, and by promoting the attractiveness of science to students. Selected government entities will implement Research and Innovation programmes and spend at least 0.25% of their budgets for 2008 on this. Links between industry and academia are being encouraged. However, the report does not inform on developments in private sector R&D, a sector which accounts for almost 65% of the R&D expenditure.

18. The Council also asked Malta to look into the issue of connecting Malta to Europe's energy network. As a response, Malta is currently seeking advice on the feasibility of this. This would improve the functioning of the energy market, and reduce the current complete dependency on imported oil. Additional steps could include an increased emphasis on energy efficiency and on renewable energy.
19. Malta considers ICT as crucial for the modernisation of its economy and has made significant progress in the past three years. Policy attention mainly focuses on e-Government, e-Inclusion and ICT take-up and enhancing employment in the sector by promoting ICT skills and competencies. There have been strong advances in the online availability of public services but more attention needs to focus on ICT usage, both of e-services and of broadband. The recent National ICT Strategy for 2008-2010 is expected to stimulate further progress in the area, alongside the SmartCity project. Malta reports increases in tourism due, in part from a growing importance of cruise ships and low cost airlines, and on strategic initiatives to develop this sector further. It highlights that ensuring environmental sustainability is a precondition for a successful tourism strategy which remains a challenge for the future.
20. Overall, Malta has made good progress in implementing measures to tackle its micro-economic key challenges. However, more could be done to stimulate competition, including further reducing state aid and redirecting it towards horizontal objectives. Therefore, the Commission considers the country-specific recommendation in this area to remain valid. Given the limited progress with regard to the points to watch on the regulatory environment, simplification, impact assessment, one stop shops for business start-ups, and on the diversification of energy sources, the Commission considers them to remain valid.

Employment policies

21. The Council recommended Malta to increase efforts to attract more people into the labour market and addressed also the low employment rate of older workers, educational attainment and reducing early school leaving. There has been some progress in 2005-2007 with regard to employment and education performance. The overall employment rate increased slightly, reaching 54.8% in 2006, alongside a female employment rate of 34.9%, which is still the lowest in the EU. Malta's target of a 40% female employment rate by 2010 seems some way off. The employment among older workers remains a problem (30% in 2006 and decreasing), and is especially problematic for older women (only 11.2%). Malta has the lowest secondary school attainment levels and the highest numbers of early school leavers in the EU.
22. Malta is implementing fiscal measures to attract more people, in particular women, into the labour market. These measures include a revision of income tax bands, tax credits for women returning to work, fiscal support for part-time workers, and recognition of people working in family business. Other initiatives aim at an increased use of childcare services and the provision of training. To increase the effectiveness it seems that the implementation of some measures could be extended. In addition, more could be done to improve the match between labour supply and demand and the Implementation Report does not set out any changes to the benefit system. Efforts to tackle undeclared work and to reduce social benefit fraud have

begun to show some positive results. However, their impact on the labour market is not yet clear.

23. Efforts are also in place to improve the education system, in particular by improving infrastructure and the quality of teaching, the implementation of compulsory education system, and the extension of post-secondary and tertiary education courses. Offers of post-secondary and tertiary education courses have increased, with particular attention given to scientific and IT subjects. The government strategy to reduce the numbers of students leaving school early does not appear to target specific groups at risk. It appears that continued reform of education and training systems is necessary to raise the qualification level of the population, to reduce early school leaving, and to increase the number of students staying on in further and higher education.
24. The recent pension reform is an important initiative aiming at an increase of the average retirement age. There are no foreseen measures to increase employment opportunities for older workers to complement the increase in the retirement age. Isolated redeployment schemes that assist the long term unemployed and people over 40 to re-enter the labour market are present but these are not part of a comprehensive approach to active ageing.
25. Malta is not yet addressing flexicurity in an integrated way, although it is implementing some policies under its different components. Some progress has been achieved on fostering part-time work, and on active labour market policies. The government is taking different initiatives to improve lifelong learning but a coherent strategy has not been implemented. This is important to avoid increasing differences in the skills level of the labour force and to prevent unemployment among unskilled young people.
26. Malta has made some progress in implementing measures to deliver on its employment and education challenges. While access to education and training improved, and the social protection system has been modernised, progress was limited on the revision of the benefit system and on employment for older workers. Efforts to tackle undeclared work are promising, but measures to make work pay, especially for women, are limited. Therefore, the Commission considers that the country-specific recommendation remains valid. The Commission also confirms the importance for Malta to focus on raising educational attainment and reducing early school leaving as well as increasing the employment rate of older workers.

PART III: CONCLUSIONS

27. In the light of the 2007 Maltese Implementation Report and the Commission's assessment of progress made in implementing key structural reforms and based on the Integrated Guidelines for Growth and Jobs, the following conclusions are appropriate.
28. Malta has made good progress in the implementation of its National Reform Programme over the 2005-2007 period. Malta has shown good progress in fulfilling the commitments agreed by the 2006 Spring European Council in the four priority action areas.

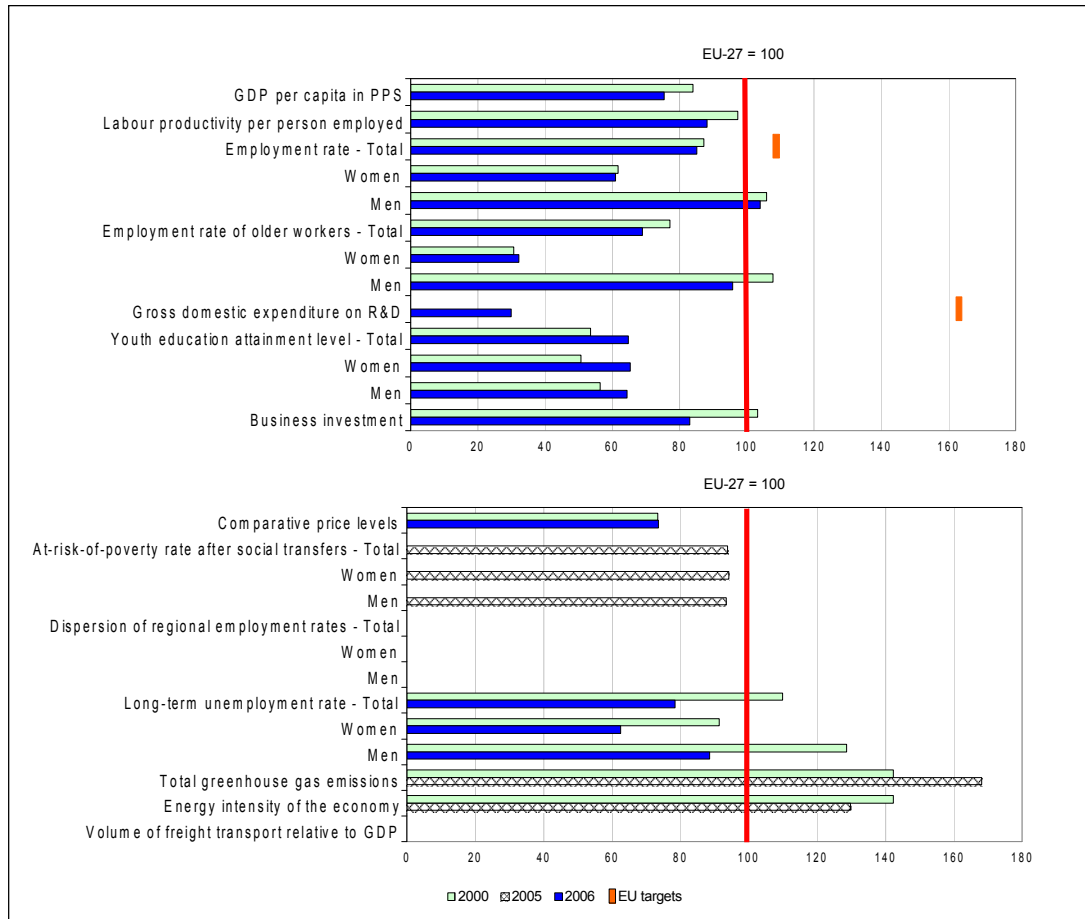
29. The Implementation Report shows a limited policy response to recommendations adopted by the Council. There has also been a limited policy response to the additional areas identified by the Council as requiring attention.
30. Among the strengths of the Maltese National Reform Programme and its implementation are its governance and the progress achieved in fiscal consolidation as well as progress in strengthening the business environment, liberalising certain markets (e.g. ports), reforming education and increasing ICT use.
31. The policy areas in the National Reform Programme where weaknesses need to be tackled with the highest priority are competition policy and persistent labour market problems. Against this background, it is recommended that Malta:
- strengthens competition, notably by reducing state aids and redirecting them towards horizontal objectives as well as by reinforcing the competition authority and by further steps in opening up professional services;
 - steps up efforts to attract more people into the labour market, particularly women and older workers; maintain efforts to tackle undeclared work and take further action on the benefit system to make declared work more attractive.
32. In addition, it will be important for Malta over the period of the National Reform Programme to focus on: continue implementing and reinforcing measures on health care reform; further improving the regulatory environment by continuing simplifying legislation, by introducing systematic impact assessments and effective one stop shops for business start-ups; diversifying its energy sources, including enhancing energy efficiency and renewable energy and connecting Malta to Europe's energy networks; continuing efforts to raise educational attainment and reduce early school leaving.

PART IV: STATISTICAL GRAPHS AND DATA

MALTA

	MT						EU27			
	2000	2003	2004	2005	2006	2010 National target	2000	2005	2006	2010 EU target
GDP per capita in PPS	84.0	78.7	75.9	75.9	75.5		100.0	100.0	100.0	
Labour productivity per person employed	97.3	90.2	88.4	87.9	88.2		100.0	100.0	100.0	
Employment rate						57.0				70.0
Total	54.2	54.2	54.0	53.9	54.8		62.2	63.4p	64.4p	
Women	33.1	33.6	32.7	33.7	34.9		53.7	56.2p	57.2p	
Men	75.0	74.5	75.1	73.8	74.5		70.8	70.8p	71.6p	
Employment rate of older workers										
Total	28.5	32.5	31.5	30.8	30.0		36.9	42.3p	43.5p	
Women	8.4	13.0	11.5	12.4	11.2		27.4	33.5p	34.8p	
Men	50.8	53.8	53.4	50.8	50.4		47.1	51.5p	52.6p	
Gross domestic expenditure on R&D		0.26	0.54	0.54	0.55p	0.75	1.86e	1.84e	1.84e	3.0
Youth education attainment level										
Total	40.9	45.1b	51.0	53.7	50.4		76.6	77.4	77.8	
Women	40.2	48.8b	52.4	57.0	52.8		79.3	80.1	80.7	
Men	41.6	41.3b	49.8	50.5	48.1		73.8	74.7	74.8	
Comparative price levels	73.3	72.0	72.8	72.8	73.5		100.0	100.0	100.0	
Business investment	19.0	14.9	15.4	14.6	15.1		18.4	17.8	18.2	
At-risk-of-poverty rate after social transfers										
Total	15.0			15.0b				16.0e		
Women	15.0			16.0b				17.0e		
Men	15.0			14.0b				15.0e		
Dispersion of regional employment rates										
Total	-	-	-	-	-	-	13.0	11.9	11.4	
Women	-	-	-	-	-	-	20.0	16.8	16.2	
Men	-	-	-	-	-	-	9.6	9.7	9.3	
Long-term unemployment rate										
Total	4.4	3.2	3.4	3.4	2.9		4.0	4.1p	3.7p	
Women	4.2	2.4	3.0	3.2	2.5		4.6	4.5p	4.0p	
Men	4.5	3.4	3.7	3.4	3.1		3.5	3.8p	3.5p	
Total greenhouse gas emissions	129.0	140.0	145.9	154.8			90.7	92.1		
Energy intensity of the economy	303.2	284.2	261.0	269.9			213.1	208.1		
Volume of freight transport relative to GDP							99.1e	105.4e	106.7e	

PERFORMANCE COMPARED TO EU-27



The Netherlands

1. After a slow start of the economic recovery in both 2004 and 2005, economic growth gathered pace in 2006. GDP growth was 3% in 2006 supported by both exports and domestic sources. In line with the early stage of the economic upturn, private investment growth was strong, growing by 7% in real terms. GDP per capita stands at 125% of the EU average in 2006. Buoyant economic growth has led to high labour demand, which has been met by a reduction of unemployment to a rate of slightly above 3% in 2007, and an increase in the overall employment rate. Nevertheless, the average number of hours worked per person is relatively low in comparison to other Member States, partly because of the relatively high share of part-time employment.
2. Implementation of the 2008 budget will restore a positive budgetary position. However, further measures are needed to increase long-term fiscal sustainability, including by raising labour market participation and the number of hours worked. The largest potential of labour supply lies with women, disadvantaged groups and older workers. Growth can also be further enhanced by promoting innovation and the knowledge intensity of the economy.

PART I: GENERAL ASSESSMENT

3. The 2007 Implementation Report, presented by the new Dutch government, shows significant progress in implementing the 2005 National Reform Programme (NRP) over the 2005-2007 period. The pace of progress appears to have slowed down over the last year. In the report renewed ambitions in the area of sustainability and energy are announced. There has been some progress in responding to the country specific recommendation adopted in 2007 in the area of labour supply.
4. The Council concluded that special attention should be given to raising the overall number of hours worked in the economy and raising private R&D expenditure. Progress on these issues has been limited, although many policy measures are being implemented. Last year's Commission Annual Progress Report concluded that the Netherlands had not fully met commitments agreed at the 2006 Spring European Council in the priority action area of unlocking of business potential. Since then, there has been good progress on most of the commitments in the priority action areas with an end 2007 deadline. The Netherlands specifies efforts it is taking to meet euro area recommendations in its latest Implementation Report. It foresees a significant improvement of the headline government deficit and it has strengthened active labour market policies.
5. Consultation and efforts to develop ownership of the NRP at the level of central and local governments and the social partners continue to be substantial. The Implementation Report provides the budgetary information for planned and implemented reform policies. Links between the governance of the implementation of the NRP and the programmes under the Structural Funds are fairly strong. The earmarking of structural funding for Growth and Jobs objectives is being applied satisfactorily with almost the entire ESF-budget and 63% of the ERDF-budget devoted to these goals.

6. The 2007 Implementation Report confirms the main priorities within the NRP as: 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. The Implementation Report also underlines the importance of a sustainable living environment. The Commission agrees with these priorities.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

7. The Implementation Report reiterates the challenges in the macro-economic domain: promoting a stable macro-economic environment and well-functioning markets as well as attaining a sustainable budgetary position. In 2007, corporate taxes were lowered and legislation for the monitoring of proper conduct of pension funds has been implemented.
8. The Netherlands has committed itself to a structural budget surplus of 1% of GDP in 2011, which will help improve the sustainability of public finances. From a surplus of 1% of GDP in 2006, the structural balance worsened markedly in 2007, to a small deficit of 0.2% of GDP. For 2008 a surplus of 0.5% of GDP is projected. The long-term fiscal position benefits somewhat from planned measures to further increase labour participation, such as tax incentives and measures that aim to simplify the combination of work and care. However, more should be done to ensure sustainable public finances in the long term. The Implementation Report indicates that in recent years, wages have been in line with macro-economic conditions. However, given the labour market shortages in some sectors and the fact that no agreements with social partners are currently foreseen, stronger than expected wage increases in the coming years may affect competitiveness. Further increases in household indebtedness may have an effect on medium-term growth prospects.
9. In conclusion, the Netherlands is progressing in implementing measures to deliver on the macro-economic commitments expressed in its NRP. However, strong growth and a tightening labour market are expected to exert upward pressure on wages. In response to the euro area recommendation, progress is more limited in the area of fiscal consolidation.

Micro-economic policies

10. Improving labour productivity growth by boosting innovation and R&D remains one of the key challenges for the Dutch economy. The Commission welcomes the policy objective of the new government to strengthen the innovative capacity in order to better address societal challenges. The Council referred to the need to focus on: measures to increase private sector R&D expenditure and further action to create a single administration point for the recruitment of the first employee.
11. To improve its R&D and innovation performance, the Netherlands is implementing new measures that in particular promote excellence in higher education and research, facilitate innovative start-ups, and stimulate innovation in SMEs and key sectors. Other measures include the identification and development of innovative clusters

(“hot spots”), increasing the number of highly educated people, and to attract foreign knowledge workers. The public contribution to the 3% R&D target remains significant. To promote private R&D expenditure, the Netherlands is strengthening a number of existing policy measures (such as the innovation vouchers scheme and the WSBO fiscal incentives scheme), launching a comprehensive SME strategy, setting up new innovation programmes driven by societal demand (such as water management, sustainable energy, eco-efficient innovations, and health care), and committing to increased accessibility and transparency of policy measures. Generally, the Netherlands is advancing well with the implementation of these measures although there is limited progress on increasing the involvement of the public research base and the level of foreign R&D investment is still relatively low. This needs to be addressed. Given that private R&D has remained stagnant over recent years and that the 3% R&D target for 2010 is very challenging, it will be essential to continue coordination at the highest political level of the R&D and innovation policies which are implemented by many different bodies.

12. The Netherlands has achieved good progress in implementing measures to improve the business environment and to strengthen competition, e.g. by unbundling energy companies. The new government has set ambitious targets with a package of accompanying measures within the “Clean and Green” working programme to counter climate change and to promote renewable energy. Good progress has been made in facilitating the recruitment of the first employee. The number of procedures has decreased considerably, and in most cases the tax authorities are the single point of contact. The Netherlands has made some progress towards the establishment of one-stop-shops for setting up a new business but nation-wide implementation has been delayed, although efforts are announced for the next two years. Lastly, good progress has been made in promoting entrepreneurship education. Although entrepreneurship education is not part of the standard curriculum, a promising programme has begun with implementation on a voluntary basis at all levels of education. Increasingly, the road network in the Netherlands suffers from heavy congestion. To avoid a further worsening of road congestion in the near future, the timely implementation of a comprehensive strategy, including road pricing, appears necessary.
13. As one of the frontrunners in the area of better regulation, the Netherlands aims to build upon the reduction of 20% in administrative costs imposed on business already achieved with an additional net 25% reduced aimed at by 2011. This will be accompanied by a series of monitoring tools to verify if the reduction is noticeable to companies. Although the focus on administrative burden is very positive, the 2007 Implementation Report would have benefited from more specific details on simplification and consultation. The Consumer Authority charged with informing consumers about their rights and obligations started its work in 2007.
14. In general, the Netherlands has made good progress in implementing measures to deliver on the micro-economic commitments expressed in its NRP. The points to watch in the area of business climate and entrepreneurship education have been addressed and good progress has been achieved. These points to watch are therefore not maintained. Progress in the area of private R&D expenditure remains moderate and therefore the Commission considers that the point to watch on this issue remains relevant. In response to the euro area recommendations, good progress has been

made to strengthen competition and to promote the full integration of financial markets.

Employment policies

15. Implementation of labour market policies in the 2005-2007 period focused on reforming benefit schemes, discouraging early retirement, improving childcare provisions and lowering its costs and increasing funding to tackle early school leaving. These policies together with existing labour market institutions have contributed to higher overall employment rates and very low unemployment rates. Progress has been more limited with regard to increasing the number of hours worked by part-time workers and increasing employment rates for disadvantaged groups. Thus, progress over the 2005-2007 period with regard to the implementation of policies to improve labour supply identified by the Dutch 2005 NRP, is mixed.
16. The Council concluded that the Netherlands must take further measures to improve labour supply, notably of older workers, women and disadvantaged groups. In addition, the Netherlands was also asked to focus on raising overall hours worked in the economy. In its response, the Netherlands has set a new overall employment target of 80% for 2016 (in 2006 73%) and announced new policies orientations. These include an action plan to reduce unemployment of older workers and a new tax on pensions - to be progressively introduced from 2011- in case of retirement before the statutory retirement age of 65. In addition, extra funding for improving quality childcare has been announced. New tax incentives directed at women, representing approximately 75% of unused labour potential in the Netherlands, aim at increasing their participation and number of hours worked. Although in the short term the impact of individualising the general tax credit (to be introduced in 2009) will be modest given the long transition period (15 years), it is a step in the right direction. Widening its narrow scope and significantly reducing the marginal tax on second incomes would, however, contribute to removing barriers for increasing the number of hours worked.
17. The Project “Everyone Participates” aims at, amongst others, providing guidance for 200 thousand people at the lower end of the labour market to work by 2011, in particular to foster the long-term (re)-integration of disadvantaged groups which remains a challenge. Lowering the age limit for reassessing disability benefit recipients may have reduced labour supply. Measures to tackle language learning and school drop-out rates have been planned to increase the employment rate of young immigrants. This will be complemented by a strategy for tackling discrimination and a new Integration Plan. The need for an integrated approach to the challenges has been emphasized with the appointment of a Minister for Youth and Family. The national target for reducing early school leaving to 8% has been postponed to 2012.
18. The Implementation Report refers to flexicurity and supports an integrated approach. While until recently the focus has been on reforms increasing back-to-work incentives within the social security system, emphasis is now on improving lifelong learning systems. Active labour market policies are developed and implementation need to further focus on disadvantaged groups. To maintain the current strong performance in terms of employment rates and unemployment of the Dutch labour market, continued efforts to further strengthen flexicurity policies are necessary, for

example by decisions on employment protection legislation. A Committee will be installed to look at all policy options to further increase labour participation.

19. In general, the Netherlands progressed in implementing measures to deliver on the employment policy commitments expressed in its NRP. Many employment measures are announced in the Implementation Report. Because the measures, although positive, remain modest for tackling the challenges ahead and implementation is still in its early stages, the Commission considers the recommendation on labour supply to remain relevant.

PART III: CONCLUSIONS

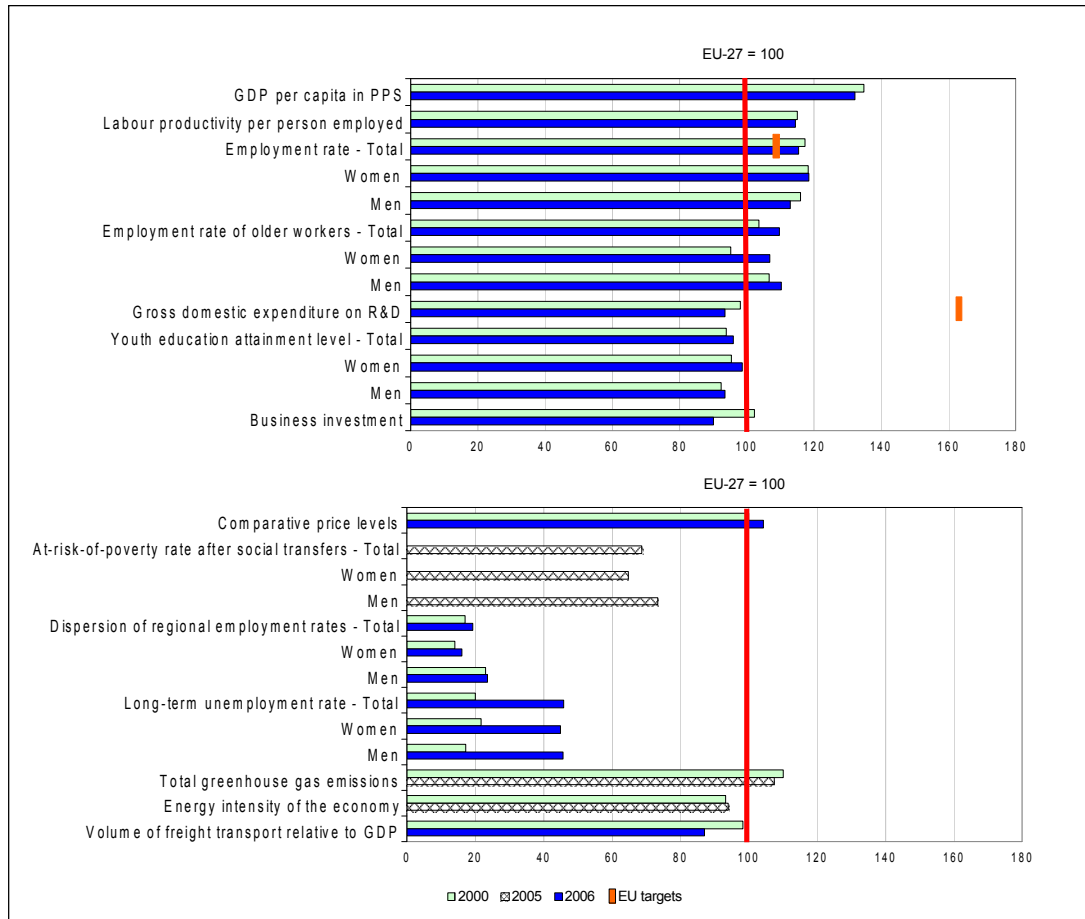
20. In the light of the 2007 Dutch Implementation Report and the Commission's assessment of progress made in implementing key structural reforms and based on the Integrated Guidelines for Growth and Jobs, the following conclusions are appropriate:
21. The Netherlands has made significant progress in implementing its National Reform Programme over the 2005-2007 period. The Netherlands has shown a good response to fulfilling the commitments agreed by the 2006 Spring European Council in the four priority action areas.
22. The Implementation Report shows some policy response to the recommendation adopted by the Council. There has been a limited policy response on the additional areas identified in the Council conclusions as requiring attention. The Implementation Report also specifically addresses the recommendations issued to the euro area countries.
23. Among the strengths of the National Reform Programme and its implementation are: the efforts to reduce administrative burden and to improve the business climate; the ambitious plans in the area of energy and climate change; and incentives to improve childcare provision.
24. The policy area in the Dutch National Reform Programme where challenges need to be tackled with the highest priority is in improving labour supply. Against this background it is recommended that the Netherlands:
 - take further measures to improve labour supply of women, older workers and disadvantaged groups with a view to raising overall hours worked in the economy.
25. In addition, it will be important for the Netherlands over the period of the National Reform Programme to focus on the following challenges: stepping up efforts aimed at increasing private sector R&D expenditure by avoiding fragmented policy governance structures and putting in place a coherent strategy for R&D and innovation which addresses the interaction between private R&D and public research as well as foreign R&D investment.

PART IV: STATISTICAL GRAPHS AND DATA

NETHERLANDS

	NL						EU27			
	2000	2003	2004	2005	2006	2010 National target	2000	2005	2006	2010 EU target
GDP per capita in PPS	134.8	129.9	130.3	131.9	132.1		100.0	100.0	100.0	
Labour productivity per person employed	115.0	110.7	112.7	114.7	114.4		100.0	100.0	100.0	
Employment rate						:				70.0
Total	72.9	73.6	73.1	73.2	74.3		62.2	63.4p	64.4p	
Women	63.5	66.0	65.8	66.4	67.7		53.7	56.2p	57.2p	
Men	82.1	81.1	80.2	79.9	80.9		70.8	70.8p	71.6p	
Employment rate of older workers										
Total	38.2	44.3	45.2	46.1	47.7		36.9	42.3p	43.5p	
Women	26.1	31.8	33.4	35.2	37.2		27.4	33.5p	34.8p	
Men	50.2	56.7	56.9	56.9	58.0		47.1	51.5p	52.6p	
Gross domestic expenditure on R&D	1.82	1.76	1.78p	1.73p	1.72p	3.0	1.86e	1.84e	1.84e	3.0
Youth education attainment level										
Total	71.9	75.0	75.0	75.6	74.7		76.6	77.4	77.8	
Women	75.7	78.0	78.9	79.9	79.6		79.3	80.1	80.7	
Men	68.2	72.0	71.2	71.4	69.9		73.8	74.7	74.8	
Comparative price levels	100.0	107.8	106.0	104.6	104.2		100.0	100.0	100.0	
Business investment	18.8	15.9	15.6	15.7	16.4		18.4	17.8	18.2	
At-risk-of-poverty rate after social transfers										
Total	11.0p	12.0p	:	11.0b	:			16.0e	:	
Women	11.0p	12.0p	:	11.0b	:			17.0e	:	
Men	10.0p	12.0p	:	11.0b	:			15.0e	:	
Dispersion of regional employment rates										
Total	2.2	2.3	2.3	2.0	2.2		13.0	11.9	11.4	
Women	2.8	3.2	2.8	2.6	2.6		20.0	16.8	16.2	
Men	2.2	2.0	2.1	2.1	2.2		9.6	9.7	9.3	
Long-term unemployment rate										
Total	0.8	1.0	1.6	1.9	1.7		4.0	4.1p	3.7p	
Women	1.0	1.1	1.6	1.9	1.8		4.6	4.5p	4.0p	
Men	0.6	1.0	1.5	1.9	1.6		3.5	3.8p	3.5p	
Total greenhouse gas emissions	99.9	101.1	101.8	98.9	:		90.7	92.1	:	
Energy intensity of the economy	198.5	202.2	202.0	195.6	:		213.1	208.1	:	
Volume of freight transport relative to GDP	97.4	93.7	102.4	101.0	92.9e		99.1e	105.4e	106.7e	

PERFORMANCE COMPARED TO EU-27



Austria

1. Austrian GDP is expected to grow at 3.3% in 2007, exceeding the growth in the euro area by about 0.5 percentage point, as was the case during 2005-2006. The main contributions to growth came from net exports and gross fixed capital investment; private consumption was more moderate. The unemployment rate has declined since 2005 and is expected to stabilize just above 4% in 2007. At 70.2% in 2006, the overall employment rate is relatively high, but the employment rate for older workers (35.5%) still remains well below the EU average (43.5%), even though it increased considerably over the past year.
2. Austria's strong economic performance has been bolstered by its generally consistent and mutually reinforcing mix of policies. There are a small number of shortcomings whose removal could further strengthen its growth potential. In particular, more could be done to better use labour resources, notably older workers, and to improve the integration of vulnerable young people. Sustainable growth will also depend on stronger fiscal consolidation.

PART I: GENERAL ASSESSMENT

3. Overall, Austria has made significant progress in implementing its 2005 National Reform Programme (NRP) over the 2005-2007 period. However, the Council country-specific recommendation concerning older workers and vulnerable youth has only been addressed to some extent. With regard to other areas on which the Council concluded Austria should focus, namely competition in services and emission reduction, there has been some progress. Austria has not moved adequately towards achieving a balanced budget in 2008. Progress in strengthening the entrepreneurial culture and tackling gender segregation in the labour market is limited.
4. Last year's Commission Annual Progress Report concluded that, overall, Austria had given an adequate response to the specific commitments agreed at the 2006 Spring European Council in the priority action areas of knowledge, entrepreneurship, employment and energy. Austria is close to fulfilling the commitments with an end 2007 deadline.
5. The Implementation Report specifically addresses the recommendations issued to the euro area countries. Austria has delivered well regarding the flexicurity recommendation. Some steps have been taken to improve the quality of public finances and competition, whereas progress in budgetary consolidation is less substantial.
6. Consultation and efforts to develop ownership of the NRP continue to be substantial. Responsibility for national co-ordination is at ministerial level. A wide range of stakeholders are consulted, including parliament, the social partners, regions, municipalities and economic research institutes. Progress is monitored by an Austrian research institute. Links between the governance of the implementation of the NRP and the programmes under the structural and cohesion funds are strong, with an earmarking of above 90% of structural funding for Growth and Jobs objectives, among the highest in the EU.

7. Following the formation of a new government at the beginning of the year, Austria's 2007 Implementation Report places a new emphasis on the social system while confirming the main priorities within the 2005 NRP. Financial resources have been increased for R&D and innovation, infrastructure and education. A new focus on 'decent work' complements the aim of full employment. The Commission broadly agrees with these priorities.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

8. Thanks to the recent reform of the pension system, the risk to the long-term sustainability of Austria's public finances is considered relatively low. However, in order to further improve the situation, the authorities committed themselves in the 2005 NRP to some expenditure cuts. These were to come mainly from general expenditure restraint, and the continued reform of the public administration and health care, but they did not materialize to the expected degree. Progress over the 2005-2007 period, in terms of enhancing the sustainability of public finances has therefore been limited.
9. The Council highlighted the need to focus on achieving a balanced budget in 2008. The budget deficit is projected to decline from 1.4% of GDP in 2006 to 0.8% of GDP in 2007. However, in the March 2007 update of the Stability Programme, achieving a balanced budget was postponed until 2009/2010. In its Opinion on the update, the Council invited Austria, after achieving a lower-than-targeted deficit in 2006, to further exploit good economic conditions, strengthen adjustment in 2008, and continue fiscal consolidation thereafter. In its response, Austria has spelt out in the updated NRP a series of measures (public administration and health care reform) contributing to the consolidation of public finances. More detailed information on the budgetary impact of these measures would be welcome. The long-awaited introduction of the medium-term budgetary framework, initially planned for 1 January 2007, was finally adopted by Parliament in December 2007. It is expected to significantly enhance the predictability of the budgetary process from 2009 on
10. In the opinion of the Commission Austria has made limited progress in responding to the point to watch on achieving a balanced budget in 2008, and on the two macro-economic euro area recommendations. Steps have been taken towards improving the quality of public finances by increasing R&D and education spending, and reforming administration, but full use has not been made of the favourable cyclical conditions to approach its medium-term objective.

Micro-economic policies

11. Austria has taken further steps to strengthen innovation capacity and improve the framework conditions for business. R&D expenditure continues to increase, and is expected to reach 2.5% of GDP in 2007, well above the EU average. Besides support for technology development, increased funding aims to develop human resources. However, Austria faces a challenge to meet the demand for science and engineering graduates. Austria remains highly ranked on many indicators of innovation, with the notable exception of venture capital availability. It has introduced a number of

schemes targeting SMEs, including the promotion of collaboration with research organisations, and measures to improve protection and exploitation of intellectual property rights. Innovation policy also focuses on the demand side, with the release in July 2007 of a guideline on public procurement to encourage innovation.

12. In terms of improving the business environment, numerous schemes are now in place, with a strong focus on SMEs. Austria remains committed to reducing the administrative costs incurred by enterprises by 25% by 2010. There are now one-stop-shops for setting up a new company, although these are not yet available country-wide.
13. Infrastructure plays a key role in securing Austria's attractiveness as a business location. The implementation of the information society i2010 initiative has made excellent progress since 2006 and Austria is the first Member State to have achieved full online availability of e-government services. The targets for broadband availability have been met in most regions. Additional resources are being allocated to transport infrastructure, and important projects brought forward to relieve bottlenecks. Priority is being given to improving road and rail connections to the new Member States.
14. The Council referred to the need for Austria to focus on increasing competition in services, strengthening the entrepreneurial culture, and identifying further emission reduction policies and measures. Austria has taken steps to increase shop opening times, and is exploring further measures to increase competition in the electricity and gas markets. In the area of professional services, some reforms have been implemented: entry regulation for architects has been relaxed and recommended fees for accountants, auditors, tax advisors and architects have been removed. However, a number of significant restrictions still remain, in particular in the notary and pharmacy professions, and in legal services.
15. Surveys indicate that the overall entrepreneurial mindset of young people in Austria is low. Entrepreneurship education forms part of the curriculum in some schools, but not all, and this is often at the technical level. The promotion of entrepreneurial skills has been the focus of a number of targeted initiatives. This goes some way towards addressing the challenges Austria faces in this field but a more comprehensive and substantial initiative, particularly targeting entrepreneurial attitudes, remains to be developed.
16. Austria has introduced a number of policy measures directly aimed at reducing CO₂ emissions. These include the 2007 revision of the 2002 climate strategy, the creation of a climate and energy fund, the continued implementation of a green electricity act, a climate protection initiative (Klima:aktiv), and the national energy efficiency action plan. In addition, measures such as improving railway infrastructure, and increasing lorry tolls and fuel tax should lead to reduced emissions. Austria continues to be well placed in terms of both the use and export of environmental technologies, and these have contributed to economic growth and job creation. However, thorough implementation of all existing and announced measures is needed because most recent projections indicate that Austria will not meet the Kyoto target with existing policies, including Kyoto mechanisms and carbon sinks.

17. In general, Austria has succeeded in implementing measures to deliver on the micro-economic commitments in its NRP, notably R&D and innovation, infrastructure and the business environment. In the Commission's opinion, there has been a limited response to the points to watch, and euro area recommendation, and they therefore remain valid.

Employment policies

18. Due to good economic developments and the successful overall implementation of employment policies, positive results in labour market performance were achieved over the 2005-2007 period. Active labour market policy was strengthened and the public employment service (AMS) made substantial efforts to integrate groups at the margins of the labour market, although the effectiveness of some measures could be further enhanced. Rising youth unemployment has been tackled effectively through a range of important measures. A newly designed programme to prevent a skilled labour shortage includes more training courses for skilled workers. The recently extended Universities of Applied Sciences have helped increasing the relatively low rate of graduates from tertiary education.
19. The Council recommended Austria to improve incentives for older workers to continue working and enhance the conditions for the education of the vulnerable youth. Active ageing has been supported by a number of measures including awareness raising campaigns, vocational skills development and company-based training, supported by the European Social Fund. However, more emphasis should be placed on encouraging enterprises to adapt working conditions to the needs of older workers, including schemes aimed at preventing health problems. As a result of pension reforms and several tax benefit measures, the actual retirement age has substantially increased. However, the recent reduction of discount rates for early retirement applicable during a long transition period gives the wrong signal. Furthermore, the take-up of early retirement on disability grounds has been increasing. The support of young people with a migrant background through German language acquisition, and the planned introduction of a compulsory year of kindergarten for migrant children are positive steps, but a more comprehensive strategy, including reform of the education system in order to remove early selection, is needed.
20. The Council also referred to the need to focus on tackling the gender segregation of the labour market, including by improving the availability of childcare. Austria has now reformed the childcare benefit scheme, which favours a faster reintegration into the labour market. Childcare facilities have not been significantly expanded thus far, but some additional funding will be made available as of January 2008. A sufficiently ambitious national target has not been set. The new minimum wage will benefit women in particular but it will not be sufficient to substantially reduce the gender pay gap. Austria's policy response in this area has thus been limited.
21. Austria's approach to flexicurity combines considerable flexibility in contractual arrangements with appropriate social benefits, accompanied by active labour market measures and strong reliance on social partnership. A number of measures to enhance flexibility but also increase security have recently been implemented. These include the introduction of more flexible working times, stricter eligibility rules for unemployment benefits, enhanced training leave, improved social protection for

atypically and self-employed people, and an obligation for temporary work agencies to pay contributions for further training of their employees. Moreover, a modernized legal definition of an employee is currently in preparation. More efforts are needed to improve the skills and employability of older workers and the least qualified section of the workforce.

22. Austria has generally succeeded in implementing measures to deliver on the employment policy commitments in its NRP and on the euro area recommendation on flexicurity. The country specific recommendation and point to watch in the employment area have been addressed to some extent and therefore remain valid.

PART III: CONCLUSIONS

23. In the light of the 2007 Austrian Implementation Report and the Commission's assessment of progress made in implementing key structural reforms and based on the Integrated Guidelines for Growth and Jobs, the following conclusions are appropriate:
24. Austria has made significant progress in implementing its National Reform Programme over the 2005-2007 period. Austria has shown good progress in fulfilling the commitments agreed by the 2006 Spring European Council in the four priority action areas.
25. The Implementation Report shows a limited policy response to the employment recommendation adopted by the Council. There has been some response on the additional areas identified in the Council conclusions as requiring attention. The Implementation Report also specifically addresses the recommendations issued to the euro area countries.
26. Among the strengths shown by the 2007 Austrian Implementation Report are: good practices to boost innovation, such as the innovation voucher; increased budgets for R&D in line with the 3% target; the creation of a climate and energy fund; the successful implementation and further development of its flexicurity model.
27. The policy areas in the Austrian National Reform Programme where challenges need to be tackled with the highest priority are: increasing labour supply of older workers and improving the skills and employability of disadvantaged young people. Against this background it is recommended that Austria:
 - further improve incentives for older workers to continue working by implementing a comprehensive strategy including enhanced job-related training, adaptation of working conditions and tightening the conditions for early retirement; and improve education outcomes for vulnerable youth.
28. In addition, it will be important for Austria to focus over the period of the National Reform Programme on the following challenges: strengthening the fiscal adjustment in order to achieve a balanced budget before 2010; increasing competition in services, in particular in professional services; strengthening entrepreneurship education; identifying further emission reduction policies and measures; tackling the

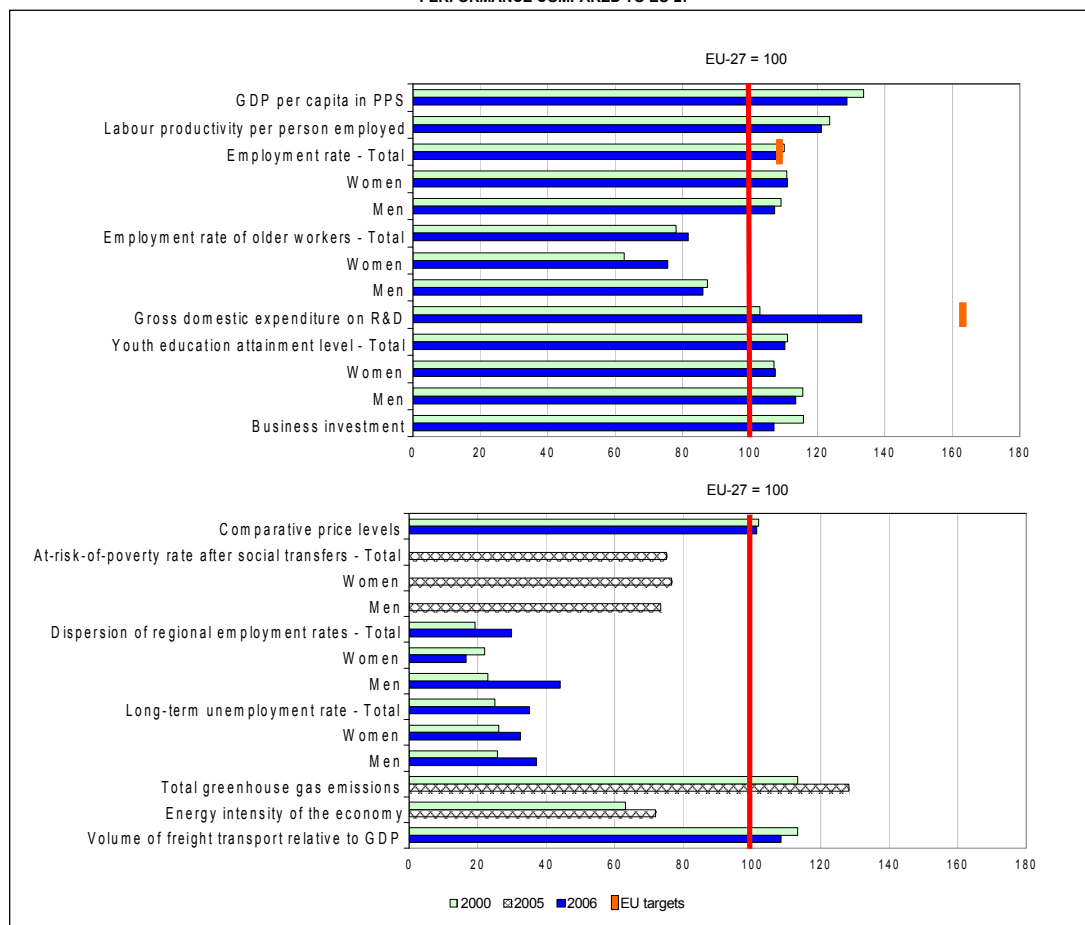
gender segregation of the labour market, including by further improving the availability of childcare.

PART IV: STATISTICAL GRAPHS AND DATA

AUSTRIA

	AT						EU27			
	2000	2003	2004	2005	2006	2010 National target	2000	2005	2006	2010 EU target
GDP per capita in PPS	133.7	129.0	128.8	128.6	128.7		100.0	100.0	100.0	
Labour productivity per person employed	123.7	120.0	120.2	119.9	121.1		100.0	100.0	100.0	
Employment rate						:				70.0
Total	68.5	68.9	67.8b	68.6	70.2		62.2	63.4p	64.4p	
Women	59.6	61.6	60.7b	62.0	63.5		53.7	56.2p	57.2p	
Men	77.3	76.4	74.9b	75.4	76.9		70.8	70.8p	71.6p	
Employment rate of older workers										
Total	28.8	30.3	28.8b	31.8	35.5		36.9	42.3p	43.5p	
Women	17.2	20.8	19.3b	22.9	26.3		27.4	33.5p	34.8p	
Men	41.2	40.4	38.9b	41.3	45.3		47.1	51.5p	52.6p	
Gross domestic expenditure on R&D	1.91e	2.23	2.22	2.41	2.45	3.0	1.86e	1.84e	1.84e	3.0
Youth education attainment level										
Total	85.1	84.2	85.8	85.9	85.8		76.6	77.4	77.8	
Women	84.9	83.4	86.5	87.3	86.7		79.3	80.1	80.7	
Men	85.3	85.1	85.1	84.6	84.9		73.8	74.7	74.8	
Comparative price levels	101.9	103.3	103.1	101.9	101.3		100.0	100.0	100.0	
Business investment	21.3	20.1	19.6	19.2	19.5		18.4	17.8	18.2	
At-risk-of-poverty rate after social transfers										
Total	12.0	13.0b	13.0	12.0	:		:	16.0e	:	
Women	14.0	14.0b	14.0	13.0	:		:	17.0e	:	
Men	9.0	12.0b	11.0	11.0	:		:	15.0e	:	
Dispersion of regional employment rates										
Total	2.5	3.0	3.5	4.1	3.4		13.0	11.9	11.4	
Women	4.4	3.8	3.2	3.4	2.7		20.0	16.8	16.2	
Men	2.2	3.6	3.9	4.9	4.1		9.6	9.7	9.3	
Long-term unemployment rate										
Total	1.0	1.1	1.3b	1.3	1.3		4.0	4.1p	3.7p	
Women	1.2	1.1	1.4b	1.4	1.3		4.6	4.5p	4.0p	
Men	0.9	1.1	1.3b	1.2	1.3		3.5	3.8p	3.5p	
Total greenhouse gas emissions	102.7	117.7	115.5	118.1	:		90.7	92.1	:	
Energy intensity of the economy	134.4	149.0	147.1	149.3	:		213.1	208.1	:	
Volume of freight transport relative to GDP	112.3	118.2	117.5b	112.2	115.8		99.1e	105.4e	106.7e	

PERFORMANCE COMPARED TO EU-27



Poland

1. Over the 2005-2007 period, the Polish economy expanded at an annual rate of 5.4%. In 2007, GDP per capita is expected to reach 55% of the EU average. Growth has been driven primarily by domestic demand, in particular by investment and private consumption. The government deficit has been reduced from 4.3% of GDP in 2005 to 3.8% of GDP in 2006, and is expected to reach 2.7% of GDP in 2007. Labour market conditions have improved markedly, with the unemployment rate projected to be less than 10% in 2007 compared with 17.7% in 2005. Nevertheless, serious labour market problems persist, including the lowest employment rate in the EU (estimated at 54% in 2007), and a falling activity rate (62.3%).
2. Poland's growth and jobs performance is constrained by a number of interconnected structural problems, including the low level of labour utilisation, slow progress in economic restructuring, underinvestment, and imbalances in public finances. Removing disincentives to work and shifting the expenditure from the social benefits system towards growth enhancing measures could contribute to a stronger performance of the labour market, and improve the sustainability of public finances.

PART I: GENERAL ASSESSMENT

3. Overall, the 2007 Polish Implementation Report shows limited progress in implementing the National Reform Programme (NRP) over 2005-2007. The pace of progress appears to have accelerated slightly over the last year and the new Polish government should ensure continued implementation.
4. There has been some progress in response to the four country-specific recommendations adopted by the Council. Progress has been insufficient on fiscal consolidation and control over expenditure, improving the competition in network industries, boosting R&D, increasing employment of older workers and increasing participation in lifelong learning. Although further steps are required, initial progress has been made on decreasing the tax burden on labour, reforming employment services and reinforcing active labour market policy.
5. With regard to the other areas on which the Council concluded Poland should focus, there has been some progress on reducing and redirecting state aids, ensuring an effective framework for competition in the financial sector and improving environmental protection. There has been good progress on linking the cohesion policy instruments with the NRP measures and setting a more realistic target for investment in R&D. Insufficient progress has been made in upgrading transport infrastructure, continuing the process of the liberalisation of energy markets and speeding-up the business registration process.
6. Last year's Commission Annual Progress Report concluded that Poland had made limited progress on meeting the specific commitments agreed at the 2006 Spring European Council in the priority action areas of knowledge, entrepreneurship, employment and energy. Since then, there has been limited progress on most of the commitments with an end 2007 deadline.

7. Consultation and efforts to develop ownership of the NRP at the level of central and local governments and with Parliament, and the social partners have been reinforced. In order to increase public awareness, the government organised a number of seminars and public events. Links between the governance of the NRP and the cohesion policy programmes are strong. The earmarking of the structural funding for the Growth and Jobs objectives amounts to 64% of the available funds.
8. The Commission, recognising the formation of a new government, would stress the importance of tackling the structural weaknesses outlined in the country specific recommendations and points to watch the Council issued to Poland.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

9. The NRP identified the consolidation and better management of public finances as the key challenge in the macro-economic area. Poland has planned a range of measures to address this challenge, but their implementation has been abandoned due to the parliamentary election. The improvement in the fiscal balance is mainly the result of strong growth yielding windfall tax revenues, data revisions, lower-than-planned expenditure and also budgetary discipline.
10. The Council recommended that Poland should pursue actions to continue fiscal consolidation and supplement the nominal state budget deficit "anchor" (a deficit ceiling) with further mechanisms to enhance control over expenditure. While fiscal consolidation has proceeded, Poland has not taken any steps to introduce an expenditure rule. Furthermore, a range of planned actions, such as uniform operational principles in the pension and retirement benefit systems for defining benefit levels, a new public finance act, the introduction of "bridge pensions" (temporary pensions for people working in difficult conditions), the creation of a network of hospitals, and defining a "basket" of guaranteed healthcare services have not been implemented.
11. In general, Poland has not implemented measures to deliver on the macro-economic commitments expressed in its NRP, despite the government's broad approach towards making public finance more sustainable. In the opinion of the Commission, the announced policy measures to address challenges facing Poland were promising and necessary, but since none of them has been fully implemented, the recommendation remains valid.

Micro-economic policies

12. The NRP identified four micro-economic challenges: developing entrepreneurship; increased innovation by companies; upgrading and developing infrastructure; and ensuring a competitive environment in networks sectors. Developing entrepreneurship has been well addressed, but further efforts on business registration and on overcoming delays in the implementation of the better regulation programme are still necessary and there is no specific target for reducing administrative burdens.

13. The Council recommended Poland to improve the framework for competition in network industries, pursue the reform of the public research sector to boost R&D and innovation and improve the framework for private sector R&D to maximise the benefits from foreign direct investment. The Council also asked Poland to set a firm and realistic R&D target for 2010 and to continue the liberalisation of energy markets.
14. Poland has opened the electricity and gas markets to all customers and implemented the relevant directives. Further actions are devoted to restructuring or increasing security of supply. However, Poland is facing a large numbers of infringement procedures related to EU legislation in the electricity, gas and telecommunications sectors.
15. The reform of public sector R&D, with its focus on a limited number of large projects and on the best performing institutions, is welcome. However, progress is mainly limited to adoption of legislation. A new, more realistic R&D target of 0.92% of the GDP by 2010 has been adopted. To increase Poland's innovation potential, a number of measures are foreseen in the document "Increasing innovation over the 2007-2013", but its implementation is awaited. Targeted tax breaks will help address a lack of business innovation, together with pilot projects on clusters and technology start-ups. Reform of public procurement rules could stimulate innovative products and services. Alongside this, a comprehensive strategy for attracting foreign direct investment in medium and high-tech industries is needed. In the quest to generate innovation, some progress is visible, but the key now is to implement and continuously evaluate these measures.
16. The Council highlighted a number of areas in the micro-economic domain on which Poland needs to focus. An environment protection policy strategy for 2007-2010 has been adopted and a number of actions developed to address the issue. This approach needs to be maintained in order to meet the accession commitments and apply the environmental *acquis* (e.g. NATURA 2000). The upgrading of infrastructure has focused on planning and institutional issues, with the rapid implementation now a priority. A new transport strategy for 2007-2020, has been approved, but the investment plans within this strategy now need implementing. The effective use of structural funds to support these plans is particularly important, alongside the use of public private partnerships, and a continued simplification of the investment procedures.
17. State aids are being monitored better and more are devoted towards horizontal goals, and this trend needs to continue. Transposition of financial sector legislation has improved, although some important pieces of legislation are still missing. New regulatory institutions have been established. Their independence needs to be assured. The transposition deficit of internal market legislation has doubled over recent times and contains a high number of related infringements, now demanding urgent action. A prompt and well co-ordinated implementation of ICT plans will help the establishment of a one-stop shop for business registration and other delayed e-government projects. The link between the NRP and the use of structural funds has been strengthened and it is now important to continue this trend during implementation.

18. In general, Poland has partially succeeded in implementing measures to deliver on the micro-economic commitments expressed in its NRP. The policy measures to address the country specific recommendations may not prove sufficient and therefore in the opinion of the Commission they remain valid. The Commission considers that there has been some response to the points to watch for Poland but they remain valid and it is now important to step up the pace of reform.

Employment policies

19. The NRP identified two employment challenges: creating and sustaining jobs and reducing unemployment; and improving the adaptability of workers and enterprises. Labour market performance has continued to improve, with good progress towards meeting national employment targets for 2010, and a rapid fall in the unemployment rate. However, given the increase in the poverty rate (from 17% in 2003 to 21% in 2005), now the highest in the EU, Poland faces the challenge of placing more emphasis on early prevention programmes and on building an inclusive labour market for people at risk of poverty and social exclusion.
20. The Council recommended that Poland should introduce a range of reforms in order to improve the functioning of the labour market. New legislative acts have been enacted to improve the operation of public employment services, and legislative amendments have been introduced to offer every unemployed person a job-counselling within 7 or 30 days (depending on the unemployment benefit rights). Alongside this, new programmes have been launched to support the integration of disadvantaged groups. Poland has cut the non-wage labour costs by lowering the disability pension premium paid by the employer (from 13% to 6%) and the employee (from 6.5% to 4.5%). This should have a positive effect on the attractiveness of employment of low-skilled workers.
21. Poland has the lowest employment rate for older workers and one of the lowest average exit ages from the labour force in the EU. Tackling this requires a comprehensive active ageing strategy, with strong incentives to work longer, better access to training, and incentives for employers to recruit. This needs to be backed-up by a revision of the early retirement and disability benefits system to make-work pay and shift resources from passive to active labour market policies. Increasing the extremely low level of childcare provision would help to increase one of the lowest female employment rates in the EU. The implementation of a lifelong learning strategy has again been delayed, and there are still problems with the quality of training programmes and their relevance to labour market needs.
22. Poland partly addresses flexicurity in an integrated way. The Labour Code has been amended to encourage flexible forms of work organisation. Expenditure on active labour market policy has increased, but needs to be complemented by better-targeted programmes that prevent long-term unemployment. Participation in lifelong learning is one of the lowest in the EU, and too little is invested in the vocational training of workers. The reform of the social security system, offering various forms of early withdrawal from the labour market, has not been brought forward. Social partners are partly involved in some of the flexicurity components.
23. In general, Poland has partially succeeded in implementing measures to deliver on the employment policy commitments expressed in its NRP. The country specific

recommendation has been addressed to some extent with measures going in the right direction, but that may not prove sufficient considering challenges Poland is facing. The Commission therefore considers that this recommendation remains valid.

PART III: CONCLUSIONS

24. In the light of the 2007 Poland's Implementation Report and the Commission's assessment of progress made in implementing key structural reforms and based on the Integrated Guidelines for Growth and Jobs, the following conclusions are appropriate.
25. Poland has made limited progress in implementing its National Reform Programme over the 2005-2007 period and has shown limited progress in fulfilling the commitments agreed by the 2006 Spring European Council in the four priority action areas.
26. The Implementation Report shows a mixed policy response to the recommendations adopted by the Council. There has been some policy response on the additional areas identified in the Council conclusions as requiring attention.
27. Among the strengths shown by the 2007 Poland's Implementation report are: the attention paid to developing entrepreneurship; initial steps to bring down the tax burden on labour; the priority and funding allocated to active labour market measures; and the strong linkage of the National Reform Programme priorities with EU funding.
28. The policy areas in the Polish National Reform Programme where challenges need to be tackled with the highest priority are: a stronger commitment to address the sustainability of the public finances; vigorous actions to improve regulation and to promote opening of markets in network industries; rapid implementation of the R&D reforms; further measures to address the low employment rate of older workers; better focusing of active labour market policy on the most vulnerable groups; and putting in place the lifelong learning strategy. Against this background Poland is recommended to:
 - strengthen the fiscal consolidation and supplement the nominal state budget deficit "anchor" (deficit ceiling) with further mechanisms to enhance control over expenditure;
 - improve the framework for competition in network industries, including through a review of the role of regulators, and vigorously continue the process of the liberalisation of energy markets;
 - pursue the reform of the public research sector with a view to R&D and innovation being boosted, and implementing the framework for private sector R&D, thereby maximising the benefits from foreign direct investment;
 - with a view to developing an integrated flexicurity approach, increase the level and efficiency of active labour market policy, notably for older persons and groups vulnerable to poverty, review benefit systems to improve the incentive to

work, put in place the lifelong learning strategy, and modernise education and training systems in view of labour market needs.

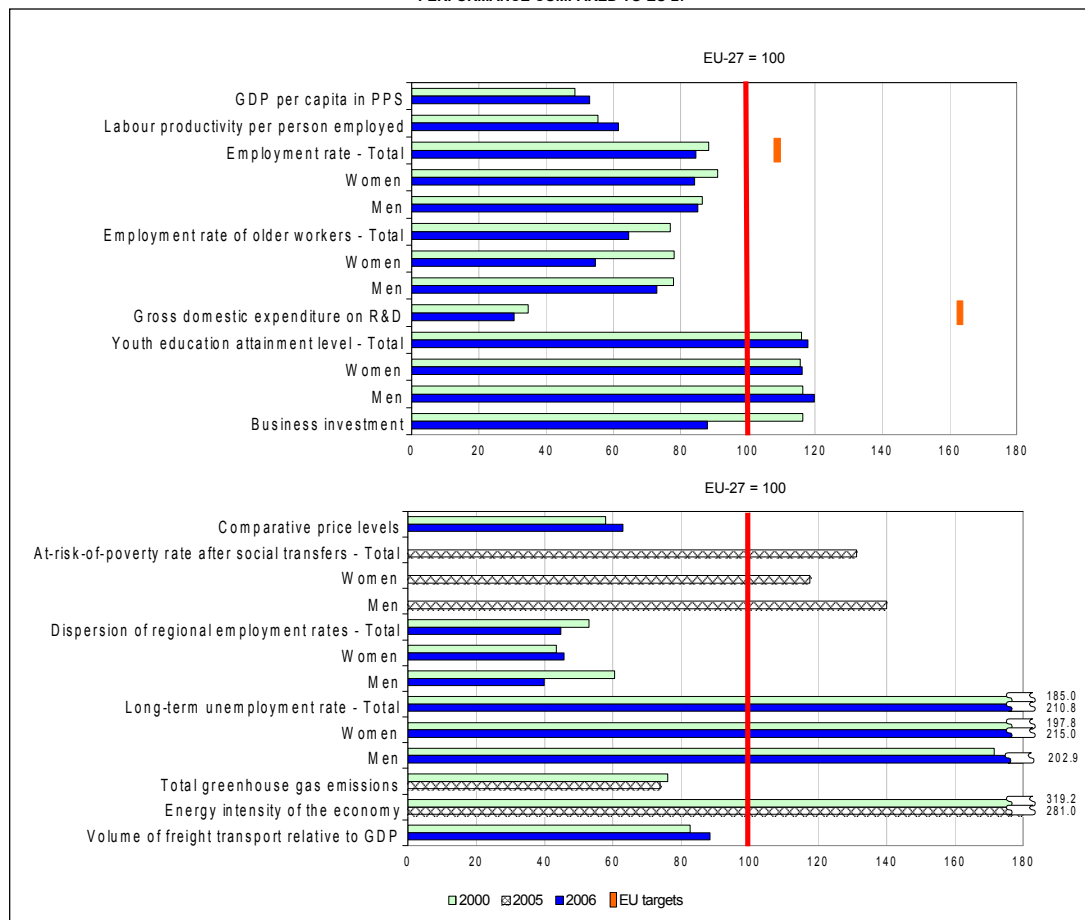
29. In addition, it will be important for Poland over the period of the National Reform Programme to focus on the following challenges: upgrading transport infrastructure; speeding-up the business registration process; ensuring timely implementation of the e-government programmes; improve the transposition of internal market legislation; and increasing the provision of childcare facilities.

PART IV: STATISTICAL GRAPHS AND DATA

POLAND

	PL						EU27			
	2000	2003	2004	2005	2006	2010 National target	2000	2005	2006	2010 EU target
GDP per capita in PPS	48.5	49.1	50.8	51.0	52.9		100.0	100.0	100.0	
Labour productivity per person employed	55.5e	59.9e	61.4e	60.4e	61.5e		100.0	100.0	100.0	
Employment rate						:				70.0
Total	55.0	51.2	51.7	52.8	54.5		62.2	63.4p	64.4p	
Women	48.9	46.0	46.2	46.8	48.2		53.7	56.2p	57.2p	
Men	61.2	56.5	57.2	58.9	60.9		70.8	70.8p	71.6p	
Employment rate of older workers										
Total	28.4	26.9	26.2	27.2	28.1		36.9	42.3p	43.5p	
Women	21.4	19.8	19.4	19.7	19.0		27.4	33.5p	34.8p	
Men	36.7	35.2	34.1	35.9	38.4		47.1	51.5p	52.6p	
Gross domestic expenditure on R&D	0.64	0.54	0.56	0.57	0.56	1.65 (2008)	1.86e	1.84e	1.84e	3.0
Youth education attainment level										
Total	88.8	90.3	90.9	91.1	91.7		76.6	77.4	77.8	
Women	91.7	92.8	93.1	93.3	93.8		79.3	80.1	80.7	
Men	85.8	87.9	88.7	88.9	89.6		73.8	74.7	74.8	
Comparative price levels	57.9	54.4	53.2	61.7	62.9		100.0	100.0	100.0	
Business investment	21.4	14.9	14.7	14.8	16.0		18.4	17.8	18.2	
At-risk-of-poverty rate after social transfers										
Total	16.0	:	:	21.0b	:			16.0e	:	
Women	16.0	:	:	20.0b	:			17.0e	:	
Men	16.0	:	:	21.0b	:			15.0e	:	
Dispersion of regional employment rates										
Total	6.9	7.2	6.4	5.6	5.1		13.0	11.9	11.4	
Women	8.7	8.7	7.6	7.0	7.4		20.0	16.8	16.2	
Men	5.8	6.4	6.0	5.1	3.7		9.6	9.7	9.3	
Long-term unemployment rate										
Total	7.4	11.0	10.3	10.2	7.8		4.0	4.1p	3.7p	
Women	9.1	11.7	11.0	11.4	8.6		4.6	4.5p	4.0p	
Men	6.0	10.3	9.6	9.3	7.1		3.5	3.8p	3.5p	
Total greenhouse gas emissions	69.0	68.4	67.6	68.0	:		90.7	92.1	:	
Energy intensity of the economy	680.2	623.1	596.4	584.7	:		213.1	208.1	:	
Volume of freight transport relative to GDP	81.8	81.7	88.4b	89.0	94.2		99.1e	105.4e	106.7e	

PERFORMANCE COMPARED TO EU-27



Portugal

1. In 2007, the Portuguese economy GDP grew at an estimated rate of 1.8% compared with 1.3% in 2006. In the face of slow economic growth, the unemployment rate has been rising from 4% in 2001 to 8% in 2007. The employment rate has remained close to 68%, above the EU average. Portugal still has a current account deficit of close to 9% of GDP, reflecting insufficient external competitiveness. Nevertheless, exports showed strong growth (8.9% in 2006 and 6.7% in 2007). Developments on public finances are more positive, with a falling general government deficit, which is estimated at 3% of GDP in 2007 compared with 6.1% of GDP in 2005. It is expected to decline further in 2008.
2. Whereas the recent economic growth has been led by the external sector, which is sound in view of the large external imbalances, the competitive position of the economy remains fragile. Domestic demand has remained weak. However, given the prospects of sounder public finances and ongoing structural reforms, economic performance should recover gradually, albeit at a moderate pace. Furthermore, economic growth has been hampered by weaknesses of a more structural nature. Productivity is low, due mainly to low levels of human capital as a result of deficiencies in the educational and training system. It would benefit from stronger competition in some markets.

PART I: GENERAL ASSESSMENT

3. Overall, the 2007 Portuguese Implementation Report shows good progress with the implementation of the National Reform Programme (NRP) over the 2005-2007 period. The pace of progress has remained the same over the last year.
4. There has been good progress responding to the country specific recommendations adopted by the Council. Further steps have been taken towards a sustainable reduction of the government deficit, to reform public administration and pension systems, and to restructure the public sector. Progress has been less evident on redirecting public spending towards growth enhancing activities. There has been some progress in reforming educational and vocational training systems and in modernising employment legislation and countering labour market segmentation.
5. There has been some progress with regard to the other areas upon which the Council concluded that Portugal should focus. Measures have been taken to foster competition in energy and financial services markets, although problems remain. The measures to reduce green house gas emissions are not likely to be sufficient for Portugal to meet its Kyoto target. Portugal has not progressed in transposing EU legislation into national law. Some of the factors undermining social cohesion were addressed, but levels of persistent poverty and disparities in income distribution remain the highest in EU.
6. Last year's Commission Annual Progress Report concluded that Portugal had made generally good progress regarding the commitments agreed at the 2006 Spring European Council in the priority action areas of knowledge, entrepreneurship, employment and energy. Since then, there has been good progress on the

commitments in most of the priority action areas. Portugal describes efforts it is taking to address the euro area recommendations in its latest Implementation Report. However, it is unlikely to reach its medium-term objective by 2009.

7. Political ownership over the Lisbon strategy and the NRP is very strong. The Lisbon coordinator reports directly to the Prime Minister, is in charge of the Technological Plan, and is actively involved in the coordination of Structural Funds. The implementation of the NRP is closely monitored through an active network involving all relevant government departments. The Implementation Report is discussed in parliament, and with social partners and other stakeholders prior to adoption. With over 200 public events at national and regional level, much has been done to raise public awareness of the Lisbon Strategy. The links between the implementation of the NRP and the programmes under the structural funds have been reinforced with the approval of the new National Strategy Reference Framework for 2007-2013. The earmarking of structural funding for the Growth and Jobs objectives is satisfactory (82% of the Portuguese structural funds 2007-2013).

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

8. The NRP considered Portugal's commitment to fiscal consolidation as a key macro-economic driver. A target to reduce the general government deficit to below 3% of GDP has been set for 2008. After a second consecutive year of impressive progress the deficit has been reduced from 6.1% of GDP in 2005, to 3.9% in 2006, and an estimate 3% in 2007. This is the result of both revenue increase and expenditure restraint. On the basis of current policies, the continuation of this downward path over the near future seems plausible. The upward trend in the government debt ratio in terms of GDP seems to have halted. Overall, good progress has been achieved in correcting fiscal imbalances in the period covered by the NRP.
9. The reform of public administration, one key instrument for controlling government spending and raising its efficiency, has been progressing well. Reforms cover the restructuring of central administration services and the streamlining of administrative procedures and internal procedures. The implementation of these reforms has been facilitated by a wider use of ICT. In 2007, the approval of new legislation and further implementation of these measures continued at a sustained pace. Many important implementation steps lie ahead, but progress has so far been good.
10. Portugal has generally made good progress in correcting public finance imbalances in a sustained way, for example, on rationalising the education and health services networks. This has been supported by public sector wage and employment restraint. The tightening of eligibility requirements for unemployment benefits is keeping expenditure growth under control and new rules for the indexation of social payments should help in keeping expenditure growth under control. Public finances have also benefited from buoyant tax revenue growth.
11. Major pension reforms were adopted in 2007 to tackle the long-term costs of an ageing population. These build on four main measures: the inclusion of a "sustainability factor"; automatically adjusting outlays for new pensioners to the

evolution of life expectancy; a new indexation rule for pensions as a function of growth and consumer price inflation; additional penalties for early retirement and a relative bonus for work beyond retirement age; and a different rule for pension calculation accounting for contributions over the entire career. Additional steps were taken to bring the rules for government employees in line with those in the private sector. This should significantly contribute towards improving the sustainability of spending on pensions.

12. Portugal has made good progress in addressing the macro-economic challenges set out in its NRP. Most progress has been made in correcting fiscal imbalances and on public administration reform, with less progress on redirecting public spending towards growth enhancing activities. The current account deficit remains high. The Commission therefore considers the recommendation as remaining valid and adds a new point to watch on external imbalances.

Micro-economic policies

13. In the micro-economic domain the Council referred to the need for Portugal to focus on: ensuring that the promising Technological Plan is fully implemented, consolidating the linkages between research and industry, and strengthening the involvement of the private sector; as well as ensuring effective competition in energy and financial services markets; reducing emissions; and reducing the deficit in transposing EU legislation into national law.
14. Portugal has strengthened its science, technology and innovation measures on the basis of the “Technological Plan” but the implicit national R&D target of 1.8% of GDP by 2010 will be a challenge to achieve. Signs of improvement are visible: the public budget for science and technology for 2008 has reached 1% of GDP and monthly figures for the technological balance of payments showed systematic surpluses. A number of measures have been taken to strengthen inputs into knowledge production, especially human resources in public and private sectors, increased networking and internationalisation. The continued implementation of the Technological Plan, alongside further initiatives to stimulate the linkages between research, higher education and industry, and to foster private R&D, is now essential to ensure enough absorption capacity.
15. Problems remain in competition in energy and financial services markets. Access to the electricity market remains difficult for new entrants, partly due to regulated tariffs, with the liberalised (non-regulated tariff) electricity supply representing a very modest share of the market. Some promising steps have been either announced or implemented, but progress will take time. In the financial services market, despite some earlier positive developments in the credit cards market, more steps are needed to address concerns raised by the Commission's sector inquiry. The transposition rate of the Financial Services Action Plan directives has improved but is not yet complete. Portugal has recently improved its transposition deficit of EU legislation, however it is still much above the interim target and still has a high number of infringement cases. It has yet to implement some of the directives in the fields of public procurement and intellectual property rights, and prepare for the implementation of the services directive on time.

16. Portugal set new policy goals on renewable energy sources in 2007. Several measures have been taken to achieve the 2010 target of 45% of electricity produced from renewable sources and some important initiatives have been taken to improve energy efficiency. The most recent projections indicate that Portugal will reach the Kyoto targets coupling existing policies, Kyoto mechanisms, carbon sinks and additional measures.
17. Portugal shows considerable progress in terms of improving the business environment. The SIMPLEX programme has improved e-Government and helped generate administrative simplification across a wide spectrum of business activities. Portugal has a good record in e-Government and is amongst the front-runners in the provision of public services to enterprises and citizens, but lags behind in several aspects of ICT take-up. In particular, more is needed to stimulate take-up among households and enterprises, even though broadband penetration in households doubled from December 2005 to December 2007, 98% of large enterprises and 90% of medium enterprises have broadband connections. A range of initiatives to facilitate access to capital for SMEs have been implemented. Plans to teach entrepreneurship education in secondary schools have yet to be implemented. Despite some progress, the implementation of policies to ensure better regulation is limited in areas like impact assessment and stakeholder consultation, there is no specific target for reducing administrative burdens, and a comprehensive approach is still required.
18. Portugal has been implementing measures to address the micro-economic challenges set out in its NRP. There has been a response to strengthening and implementing measures in science, technology and innovation, and in developing the business environment. Despite some progress in the areas of competition in energy and financial markets, and in addressing energy-related environmental challenges, problems remain. The transposition of EU legislation remains a problem. Therefore the Commission considers the points to watch as remaining valid.

Employment policies

19. The NRP identified five keys priorities in the employment area: enhancing education and qualifications, job creation, managing restructuring, promoting flexibility and security, and modernising social security. All of planned measures have now been implemented, complemented by new measures. Overall there has been some progress in implementation of policies.
20. The Council recommended Portugal to implement measures to strongly improve the education attainment levels of the young, and develop a vocational training system that is relevant to labour market needs and based on a "National Qualifications Framework". Reforms at all levels of the education system are strengthening educational and vocational training and improving relevance to labour market needs. In particular, the "Novas Oportunidades" initiative is a significant response aimed at reducing school drop-outs and increasing qualifications. A 7% reduction in the number of drop-outs from secondary education is recorded. However, Portugal still has a high number of early school leavers (36.3% in 2006) and low youth education attainment (49.6%), both demanding further action. The policy response to these challenges needs to generate improvements in the overall quality and efficiency of

the education and training system, in order to ensure better educational achievements and an enhanced employability of the population.

21. The Council also recommended Portugal to modernise employment protection, including legislation to foster flexibility and security to reduce the high levels of labour market segmentation. Portugal has taken action to pursue the modernisation of employment protection with an independent working group set up to evaluate the existing legal framework. Its final report will be published by late 2007, and a revision of the Labour Code is expected in 2008. Further steps are needed to deliver an effective reduction of labour market segmentation.
22. The Council also referred to the need to focus on factors undermining social cohesion. Priority has been given to upgrading qualification levels and enlarging social infrastructures for childcare and elderly. Vulnerable groups, especially the disabled and immigrants, are targeted for specific policy measures. It is important to strengthen the links with the National Action Plan for Inclusion, as well as with macro and micro economic policies.
23. Portugal partially follows an integrated approach on flexicurity. A number of measures have been taken to stimulate life long learning, especially through the "Novas Oportunidades" and a proposal to reform active labour market policies was presented in June 2007. Measures were also adopted to promote the modernisation of social protection and unemployment benefit systems. Further efforts are needed in particular concerning employment protection legislation. Social partners are involved and have been consulted on the major reforms taking place.
24. Portugal has succeeded in implementing measures to deliver on the employment policy commitments expressed in its NRP. There has been a good policy response to the recommendations and point to watch in the employment area. However, important challenges remain, including a sustained improvement in educational achievements and an integrated approach on flexicurity, with special focus on reducing labour market segmentation. The Commission therefore considers the recommendation and points to watch in this area remaining valid.

PART III: CONCLUSIONS

25. In the light of the 2007 Portuguese Implementation Report and the Commission's assessment of progress made in implementing key structural reforms and based on the Integrated Guidelines for Growth and Jobs, the following conclusions are appropriate.
26. Portugal has made good progress in implementing its National Reform Programme over the 2005-2007 period. Portugal has shown good progress in fulfilling the commitments agreed by the 2006 Spring European Council in the four priority action areas.
27. The Implementation Report shows a good policy response to the recommendations issued by the Council. There has also been some policy response on the additional areas identified by the Council conclusions as requiring attention. The

Implementation Report also specifically addresses the recommendations issued to the euro area countries.

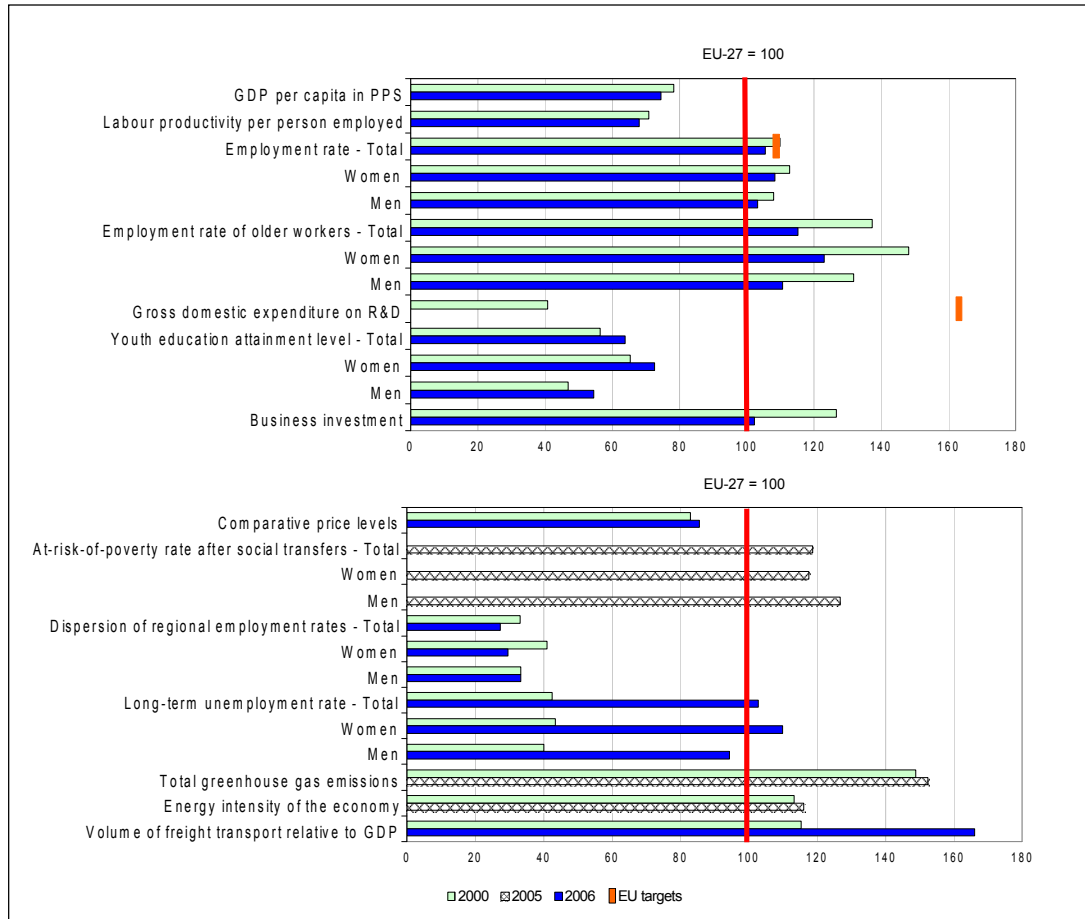
28. Some of the strengths shown by the 2007 Portuguese Implementation Report are: the progress achieved in correcting fiscal imbalances and promoting sustainable reforms of the public administration, on pension and health-care reform, progress on unlocking business potential and the implementation of the Technological Plan.
29. The policy areas in Portugal's National Reform Programme where challenges need to be tackled with the highest priority are: consolidating public finances, whilst improving its quality and sustainability, and gearing public spending towards raising Portugal's growth potential; improving the efficiency of the educational system notably by improving attainment levels and reducing early school leaving; modernising employment protection to curb the segmentation of the labour market. Against this background it is recommended that Portugal:
 - in the context of the on-going correction of fiscal imbalances and public administration reform, redirect public spending towards uses more supportive to potential economic growth, while maintaining firm expenditure control overall;
 - further implement measures to strongly improve the efficiency of the educational system notably by improving attainment levels of the young, fighting early school leaving and developing a vocational training system that is relevant to the labour market needs and based on the National Qualifications Framework;
 - continue efforts to modernise employment protection, including legislation to reduce the high levels of labour market segmentation, within the flexicurity approach.
30. In addition, it will be important for Portugal over the period of the National Reform Programme to focus on the following challenges for the future: narrowing its current account deficit in a sustained way; pursuing the implementation of the Technological Plan, consolidating the linkages between research, higher education and industry, and involving the private sector further; ensuring effective competition, notably in energy and financial services markets; further implement a better regulation programme and in particular strengthen the impact assessment system; reducing the deficit in transposing EU legislation into national law; devising and implementing the measures needed to reduce green house gas emissions; and continuing to address factors undermining social cohesion.

PART IV: STATISTICAL GRAPHS AND DATA

PORTUGAL

	PT						EU27			
	2000	2003	2004	2005	2006	2010 National target	2000	2005	2006	2010 EU target
GDP per capita in PPS	78.3	77.0b	75.2	75.4	74.4f		100.0	100.0	100.0	
Labour productivity per person employed	70.8	69.8f	67.3f	68.1f	67.9f		100.0	100.0	100.0	
Employment rate						70.0				70.0
Total	68.4	68.1	67.8	67.5	67.9		62.2	63.4p	64.4p	
Women	60.5	61.4	61.7	61.7	62.0		53.7	56.2p	57.2p	
Men	76.5	75.0	74.2	73.4	73.9		70.8	70.8p	71.6p	
Employment rate of older workers										
Total	50.7	51.6	50.3	50.5	50.1		36.9	42.3p	43.5p	
Women	40.6	42.4	42.5	43.7	42.8		27.4	33.5p	34.8p	
Men	62.1	62.1	59.1	58.1	58.2		47.1	51.5p	52.6p	
Gross domestic expenditure on R&D	0.76e	0.74	0.77	0.81	:	1.8	1.86e	1.84e	1.84e	3.0
Youth education attainment level										
Total	43.2	47.9	49.6	49.0	49.6		76.6	77.4	77.8	
Women	51.8	55.5	58.7	57.5	58.6		79.3	80.1	80.7	
Men	34.6	40.4	40.8	40.8	40.8		73.8	74.7	74.8	
Comparative price levels	83.0	86.0	86.7	85.0	85.5		100.0	100.0	100.0	
Business investment	23.3	19.8	19.5	18.7	18.6		18.4	17.8	18.2	
At-risk-of-poverty rate after social transfers										
Total	21.0	19.0p	20.0b	19.0	:			16.0e	:	
Women	22.0	:	22.0b	20.0	:			17.0e	:	
Men	19.0	:	19.0b	19.0	:			15.0e	:	
Dispersion of regional employment rates										
Total	4.3	3.9	3.5	3.3	3.1		13.0	11.9	11.4	
Women	8.2	6.3	5.9	5.6	4.8		20.0	16.8	16.2	
Men	3.2	3.2	3.2	3.1	3.1		9.6	9.7	9.3	
Long-term unemployment rate										
Total	1.7	2.2	2.9	3.7	3.8		4.0	4.1p	3.7p	
Women	2.0	2.7	3.4	4.2	4.4		4.6	4.5p	4.0p	
Men	1.4	1.8	2.6	3.2	3.3		3.5	3.8p	3.5p	
Total greenhouse gas emissions	135.0	136.1	138.9	140.4	:		90.7	92.1	:	
Energy intensity of the economy	241.5	234.7	238.0	241.4	:		213.1	208.1	:	
Volume of freight transport relative to GDP	114.2	113.7	163.7b	171.2	177.1e		99.1e	105.4e	106.7e	

PERFORMANCE COMPARED TO EU-27



Romania

1. Romania has experienced strong economic growth averaging 6.4% annually from 2003 to 2006, and it is expected to be 6% in 2007 and 5.9% in 2008. Growth has been driven largely by foreign investment and fast growing domestic demand, creating a widening current account deficit (13.3% of GDP in the last 12 months to August 2007) and rising inflation. GDP per capita is low, about 38% of the EU-average in 2006. Unemployment was 7.3% in 2006 and is expected to decrease to 7.1% in 2007. The employment rate (58.8%) is far below both the Lisbon target of 70% and the current EU average. Romanian youth unemployment is over 20%, amongst the EU's highest.
2. Romania joined the European Union on 1st January 2007. Its strongly performing economy is showing clear signs of overheating with a very high and growing external account deficit, growing labour shortages in spite of a significant share of untapped labour, strong wage growth and rapid increases in household borrowing; these have, in turn, fuelled inflationary pressures. The challenge for Romania is to tackle these macro-economic vulnerabilities urgently whilst speeding up structural reforms to strengthen its competitiveness and, with its low-cost advantages gradually eroding, move the economy towards more innovative and higher value activities.

PART I: GENERAL ASSESSMENT

3. The Romanian National Reform Programme (NRP), submitted at the end of July 2007, identifies 6 key challenges which need to be tackled to lay the foundations for the successful implementation of further reforms: improving the quality and management of government expenditure in the context of prudent macroeconomic policies; improving the functioning of markets; further improving the business environment; increasing employment and activity rates on the labour market; sustainable management of resources; and an overarching challenge of improving administrative capacity. The Commission fully agrees with this analysis of the main priorities and Romania's proposed approach to sequence its reforms.
4. The NRP's ultimate aim - to catch up with the rest of the EU by growing robustly and increasing its employment rate - appears realistic; however, a high degree of political focus, continuity and determination will be required to implement the reforms necessary. Success will require the different political actors - the national parliament and stakeholders – to rally behind an ambitious structural reform agenda for which the NRP is a good basis. The NRP should be further developed so that it presents a truly strategic vision; one that explains sufficiently how the reforms in various areas are integrated and what possible synergies they have; and that includes sufficient detail about time-tables, budgetary implications and monitoring and evaluation procedures to assess the feasibility of the proposed policy responses.
5. In spite of some progress achieved so far, Romania's economic and social development is still hampered by weak public administration. Reinforcement of administrative capacity is particularly urgent in budget planning and execution, enforcement of competition rules, supervisory and regulatory authorities (particularly

in network industries and financial markets), modernising public employment services and ensuring a coherent judiciary system. The NRP recognises that administrative capacity must be strengthened both at national and local level, but proposes few concrete actions. Corruption still affects the business environment and access to and quality of public services, so this is also an issue that needs significant improvement. Progress on these aspects is monitored through the Commission's co-operation and verification mechanism.

6. The NRP foresees several measures to meet the 2006 Spring European Council conclusions in the priority action areas of knowledge, entrepreneurship, employment and energy. However, greater effort is needed to ensure adequate simplification of the business environment. There is little information provided on making it easier to recruit the first employee or measures for the young unemployed.
7. Efforts to build political ownership during the NRP's formulation have been substantial; a national Lisbon coordinator has been appointed and the Prime Minister's Office has been closely involved. Consultation of stakeholders, particularly parliament, the social partners and local authorities, needs to be strengthened. Monitoring needs more effort, particularly by improving inter-ministerial coordination.
8. Romania is eligible for €19.67 billion of funding from the Structural and Cohesion Funds in the period 2007-2013. Links between NRP priorities and structural and cohesion fund programmes are strong. Of the total programme allocation, 56% is earmarked for Lisbon objectives. While some steps have been taken to strengthen administrative capacity, more efforts are needed, particularly at local level, to ensure their effective use and absorption.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

9. Romanian fiscal policy is not yet sufficiently predictable; frequent budgetary amendments during the year result in expenditure increases and shifts of some investment expenditures to current spending. The NRP identifies improvements to the quality and management of government expenditure as the key macro-economic priority so as to ensure productive investments in a prudent macro-economic framework and enhance the credibility of its fiscal policy. The Commission fully agrees with this focus.
10. According to the NRP, budgetary policy will be oriented towards maintaining macroeconomic stability and disinflation. Introduction of a medium-term expenditure framework and (partial) programme-based budgeting is an important step in the right direction; to produce its full impact, it should be generalised across all departments. Efforts should be stepped up to effectively implement such instruments and ensure they bear fruit. This would help the restructuring of, expenditure to improve the quality of public finances, where more progress is needed.
11. The NRP foresees the budget deficit improving to 2% of GDP in 2009-2010. If achieved, that would tighten the rather loose pro-cyclical fiscal policy conducted

since 2006, helping contain the widening current account deficit that poses an increasing risk to macro-economic stability. However, the NRP does not make sufficiently clear how the budget deficit will be sustainably reduced, particularly given pressures arising from demographic developments. For instance, pension and health care reforms underway are described, but their long-term impact on the sustainability of public finances is not examined. Still, pension reform has helped increase the statutory retirement age; however, further steps will be needed in this area.

12. Tightening labour market and skills shortages, in no small part due to large outward migration, have contributed to private sector wages increasing much faster than productivity growth. At the same time, the public sector wage bill has risen by some 30% on average over 2006-2007. This fuels inflation and means higher public expenditure, which threaten to erode Romania's competitiveness rapidly. This makes it all the more urgent to implement ambitious structural reforms in the micro-economic and employment areas to tap into new more durable sources of growth and promote more innovation.
13. Overall, the NRP broadly addresses Romania's key macro-economic challenges. But while the NRP shows good intentions, the credibility and effectiveness of the approach largely depends on the authorities' ability to improve budget planning and execution as well as restructure the composition of public spending towards growth potential enhancing investments. Further measures will also be needed to ensure the long-term sustainability of public finances; these include increasing the number of people in work contributing to social security, gradually raising the retirement age and further reforming health care and pension systems.

Micro-economic policies

14. Romania's NRP identifies increasing economic competitiveness, improving the business environment and the sustainable use of renewable resources as its key micro-economic challenges. The Commission subscribes to these priorities.
15. The NRP sets out in general terms a range of initiatives, most of which will draw on structural funds investments, to improve transport, telecommunications and energy infrastructure; however, the anticipated results sometimes seem overstated. In any event, different departments and levels of government will need to coordinate closely to achieve maximum benefits. Opening up network markets and the services sector, as presented in the NRP, will increase competition. However, the detail provided is insufficient to assess its likely impact, particularly in electricity and telecommunications where the staffing and independence of the regulator remains a concern. Total state aid (as a percentage of GDP) is much higher than the EU average, and Romania should continue to reduce and reorient its state-aid towards horizontal objectives, such as innovation.
16. Onerous regulation, long delays in obtaining authorisations and legal insecurity are serious obstacles to growth and innovation, particularly for SMEs. Whilst the NRP proposes some positive measures to improve the business environment, such as e-government applications and the introduction of impact assessments on some new measures, as well as some simplification of legislation, it shies away from tackling deeper problems. Given Romania's starting position, the NRP could have been much

more ambitious, particularly with regard to reducing administrative burdens and cutting red tape. Romania should enhance its efforts to ensure a timely implementation of the Services Directive and use this opportunity to streamline its authorisation and licensing systems.

17. Key factors constraining Romania's innovation capacity include a very fragmented research activity (with many institutions producing low-quality outputs), weak links between business and research institutions, and a low R&D content in foreign direct investment. The NRP foresees a significant increase of public spending in R&D from 0.19% of GDP in 2005 and 0.5% in 2007 to 1% by 2010; budgetary plans reflect this increase up to 2008. The NRP sets an overall R&D target of 3% of GDP by 2015. In order to achieve this objective and avoid absorption problems, Romania should do more to increase the number of researchers, strengthen management capacity and set up intermediary funding bodies.
18. Implementation of a new National Research, Development and Innovation Strategy for 2007-2013 is underway. This foresees a broad range of measures to stimulate excellence and co-operation, technology transfer and investments in human resources and provides for a wide use of competition-based funding. The latter, fully implemented, could accelerate the much-needed consolidation of Romanian research institutions. However, the overall policy response could benefit from a clearer identification of strengths, and more targeted use of public funding, including structural funds, to leverage greater private sector R&D investments. To facilitate the move towards a knowledge-based society, inefficiencies in Romania's education system need to be tackled. The NRP fully recognises the importance of spreading the use of ICT, but says little how this could be done.
19. Sustainable resource use is high on Romania's reform agenda. Some measures are foreseen to increase energy efficiency by 2.5 to 3% annually during the period of the NRP. More should be done; the high energy-intensity of the economy (six times above the EU average) and fast rising energy costs are increasingly undermining competitiveness and social cohesion. For example, more structural funds could be devoted to energy-efficiency. The NRP emphasises the importance of the environment in its own right, but also to tourism, whose importance for the economy is growing.
20. The effects of Romania's micro-economic policies are unclear given the absence of details on concrete measures, time-tables and budgetary impacts. The proposed steps to improve the regulatory environment and cut red tape are insufficient to address the challenges

Employment policies

21. The Romanian economy is facing increased labour shortages, due to fast growth and large outward migration. Nonetheless, employment rates remain low and under-employment high so that there is, in principle, still a large source of untapped labour. Against this backdrop, the Romanian NRP focuses on attracting and retaining more people in employment, by addressing the high level of non-wage labour costs, making contractual arrangements more flexible, developing vocational education and training and increasing the capacity of public employment services. The Commission subscribes to this.

22. Agricultural activities represent nearly one third of total employment, but contribute less than 10% of GDP. Policies are needed to modernise agricultural production and help (re-)integrate subsistence farmers into other sectors of economic activity. More resolute steps are needed to reduce the very large number of inactive people, especially the long-term unemployed, youth and vulnerable groups. Some measures are proposed to integrate Roma into employment and education, but it remains a major challenge.
23. The NRP recognises that education and labour market needs are relatively weakly linked. Early school leaving is a serious problem; policy should focus more on the students most likely to leave school early due to their social or geographical background. The NRP refers to draft legislation for both pre-university and university education and to ongoing efforts to increase education quality, but it is not clear when measures will be taken, nor whether they will be sufficient to tackle the problems.
24. The NRP sets an ambitious target for increasing adult participation in training which, at 1.5%, is the EU's lowest. This should be achieved by implementing a national qualification framework and increasing investment in continuing vocational training, including with European Social Fund support. Social partners should be more closely involved in the design and implementation of training, so that efforts target sectors where skill deficits are most pressing.
25. Efforts to increase participation in lifelong learning are not combined with measures to modernise social security systems and employment legislation or reinforce active labour market policies within an integrated flexicurity approach. Further action is envisaged to improve contractual arrangements, but more resolute steps are needed to strengthen the link between contributions and benefits and enforcement capacity, if the significant share of undeclared work is to be addressed properly. The effectiveness and geographical scope of public employment services needs further improvement, particularly at regional and local levels. Romania has proposed measures in all four policy areas, but a wide discussion on flexicurity between policy makers and social partners is still needed.
26. Overall, some initial steps have been taken on specific aspects of employment policy, but there is as yet no coherent overall approach or sustained integration of education and employment policies. Stronger action is required to improve the employment prospects of vulnerable groups, especially Roma, youth and older workers, by upgrading the skills of the current and future workforce, by strengthening incentives to work and by tackling undeclared work. Extending active life and reducing early retirement should contribute to both the adequacy and long-term sustainability of the pension system and increase the labour supply.

PART III: CONCLUSIONS

27. In the light of Romania's 2007 Implementation Report and the Commission's assessment of the National Reform Programme and based on the Integrated Guidelines for Growth and Jobs, the following conclusions are appropriate:

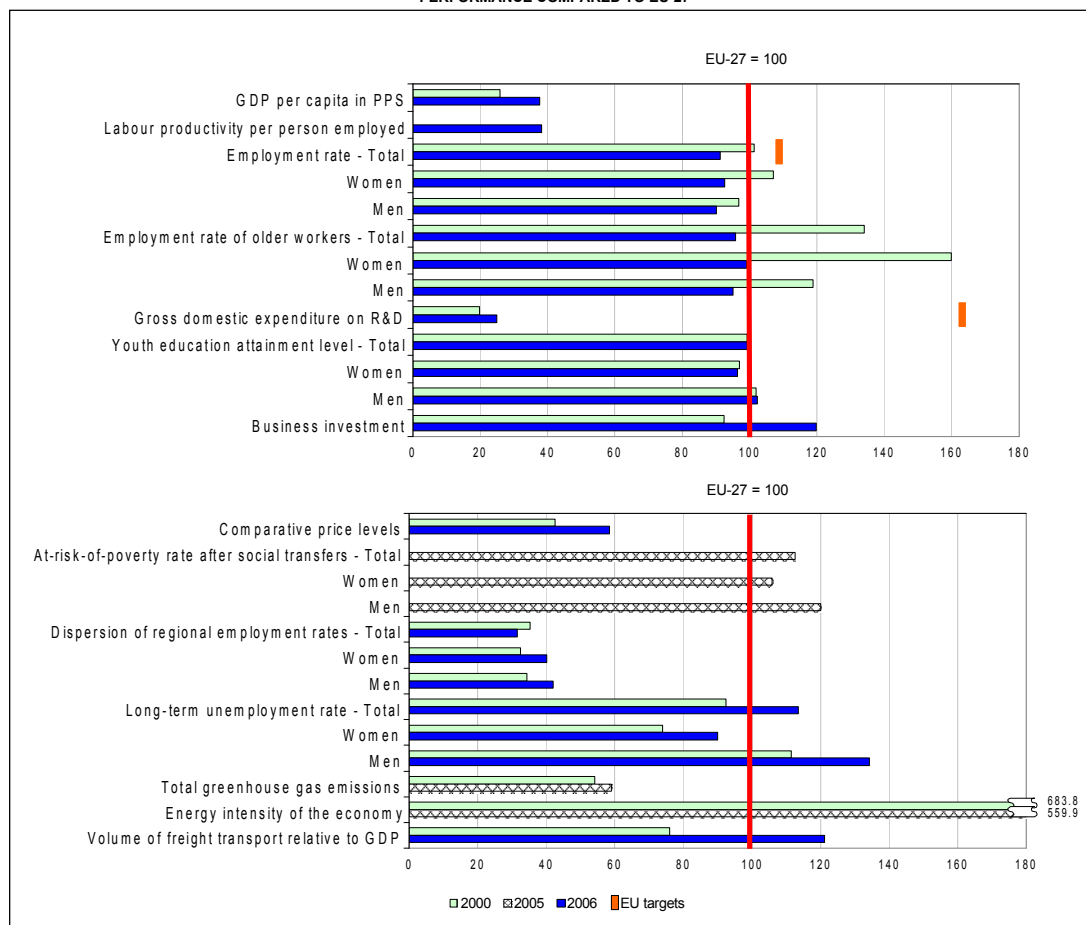
28. Overall, the National Reform Programme focuses on the right challenges. However, in some critical areas, such as strengthening administrative capacity and improving the business environment, the programme lacks ambition. In other areas, information about the content of measures, their timelines and budgetary support is sometimes lacking which makes it difficult to assess whether measures will bring solutions to the problems and challenges identified.
29. The programme's strengths include initiatives aimed at implementing a medium-term expenditure framework, reducing non-wage labour costs and reforming research structures.
30. The policy areas in the Romanian National Reform Programme where weaknesses need to be tackled with the highest priority are: strengthening administrative capacity, addressing overheating and improving budget planning and the quality of expenditure; cutting red tape and activating labour supply and raising skill levels. Against this background, it is recommended that Romania:
- urgently strengthen administrative capacity at both central and local levels of government by building up effective regulatory, control and enforcement capacity;
 - avoid pro-cyclical fiscal policy to contain the growing current account deficit and inflationary pressures, keep wage developments in line with productivity growth and improve budget planning and execution as well as the quality of public finances by reviewing the composition of public spending and by reducing and redirecting state aid to horizontal objectives;
 - take rapid measures to reduce substantially administrative procedures and delays to obtain authorisations as part of a coherent better regulation policy in order to improve the business environment, which will also help in the fight against corruption;
 - implement an integrated approach to increasing employment, activity rates and productivity levels, especially by accelerating reforms of the education system to respond better to labour market needs, by reducing early school leaving, by significantly increasing adult participation in education and training; and by transforming subsistence/semi-subsistence farming into sustainable employment.
31. In addition it will be important for Romania over the period of the National Reform Programme to focus on: taking further measures to ensure the long-term sustainability of public finances, in particular with regard to potential risks in terms of adequacy and sustainability of pensions; reinforcing measures to tackle fragmentation of the research base whilst ensuring that planned increases in public research funding yield effective returns by vigorously implementing the national R&D and innovation strategy and by regularly monitoring its results; pursuing a more integrated approach to infrastructure development and roll-out of ICT; intensifying efforts to tackle undeclared work; improving the effectiveness and geographical scope of public employment services, particularly to assist vulnerable groups.

PART IV: STATISTICAL GRAPHS AND DATA

ROMANIA

	RO						EU27			
	2000	2003	2004	2005	2006	2010 National target	2000	2005	2006	2010 EU target
GDP per capita in PPS	26.0	31.5	33.6	34.4	37.6f		100.0	100.0	100.0	
Labour productivity per person employed	:	32.1	34.7	35.6f	38.3f		100.0	100.0	100.0	
Employment rate						63.0				70.0
Total	63.0	57.6	57.7	57.6	58.8		62.2	63.4p	64.4p	
Women	57.5	51.5	52.1	51.5	53.0		53.7	56.2p	57.2p	
Men	68.6	63.8	63.4	63.7	64.6		70.8	70.8p	71.6p	
Employment rate of older workers										
Total	49.5	38.1	36.9	39.4	41.7		36.9	42.3p	43.5p	
Women	43.8	33.3	31.4	33.1	34.5		27.4	33.5p	34.8p	
Men	56.0	43.5	43.1	46.7	50.0		47.1	51.5p	52.6p	
Gross domestic expenditure on R&D	0.37	0.39	0.39	0.41	0.46	1.8	1.86e	1.84e	1.84e	3.0
Youth education attainment level										
Total	76.1	75.0	75.3	76.0	77.2		76.6	77.4	77.8	
Women	77.0	75.7	76.1	76.8	77.8		79.3	80.1	80.7	
Men	75.2	74.3	74.6	75.2	76.6		73.8	74.7	74.8	
Comparative price levels	42.5	43.4	44.3	55.5	58.5		100.0	100.0	100.0	
Business investment	17.0	18.2	18.9	19.3	21.8		18.4	17.8	18.2	
At-risk-of-poverty rate after social transfers										
Total	17.0	17.0	18.0	18.0	:		:	16.0e	:	
Women	18.0	18.0	18.0	18.0	:		:	17.0e	:	
Men	17.0	17.0	18.0	18.0	:		:	15.0e	:	
Dispersion of regional employment rates										
Total	4.6	3.5	4.9	4.5	3.6		13.0	11.9	11.4	
Women	6.5	6.1	7.7	8.2	6.5		20.0	16.8	16.2	
Men	3.3	2.6	3.1	2.8	3.9		9.6	9.7	9.3	
Long-term unemployment rate										
Total	3.7	4.3	4.8	4.0	4.2		4.0	4.1p	3.7p	
Women	3.4	4.1	3.8	3.4	3.6		4.6	4.5p	4.0p	
Men	3.9	4.6	5.5	4.6	4.7		3.5	3.8p	3.5p	
Total greenhouse gas emissions	49.1	55.8	56.7	54.4	:		90.7	92.1	:	
Energy intensity of the economy	1457.2	1353.7	1226.9	1164.9	:		213.1	208.1	:	
Volume of freight transport relative to GDP	75.3	95.6	104.3b	131.1	129.3		99.1e	105.4e	106.7e	

PERFORMANCE COMPARED TO EU-27



Slovenia

1. The Slovenian economy has shown strong growth performance over the entire last decade, most notably during the 2005-2007 period when GDP increased at an average annual rate of above 5%. In 2006, GDP growth reached a high at 5.7%, while GDP per capita in purchasing power standard reached 89% of the EU-27 average, with domestic demand as the main growth driver. Inflation was at 2.5% in 2006, but has increased markedly in 2007, with the average rate forecast to reach the highest rate in the euro area at 3.5%. Unemployment stood at 6% in 2006 and it is continuing to decline. However, structural challenges in the labour market persist and a gender gap in employment is increasing.
2. On 1 January 2007, Slovenia was the first new Member State to join the euro area, thus achieving one of the key objectives of its economic policy. Euro area membership reinforces the need for fiscal consolidation and for removing structural rigidities in the labour and product markets. Improvements in these areas will help Slovenia absorb country-specific shocks and strengthen the adjustment capacity of its economy. In this context, the challenges to the long-term fiscal sustainability related to population ageing remain highly relevant. Containing national inflationary pressures in the euro area is also essential to ensure competitiveness and sustained growth.

PART I: GENERAL ASSESSMENT

3. Overall, the 2007 Slovenian Implementation Report shows good progress in implementing the National Reform Programme (NRP) over the 2005-2007 period.
4. Slovenia has addressed the two country specific recommendations adopted by the Council to some extent. However, efforts need to be substantially increased with regard to the reform of the pension system and promotion of active ageing, as well as enhancement of employment services.
5. With regard to the other issues in the micro-economic and employment domains, on which the Council concluded Slovenia should focus on, some progress has been recorded. However, reforms need to be strengthened, especially in some of the micro areas.
6. Last year's Annual Progress Report concluded that Slovenia had made rather limited progress on meeting the commitments agreed at the 2006 Spring European Council in the priority action areas of knowledge, entrepreneurship, employment and energy. Since then, there has been some progress in some areas, such as shortening start-up times for businesses.
7. The Implementation Report does not specifically address the recommendations issued to the euro area countries. Nevertheless, relevant developments include an ongoing comprehensive tax reform which has improved the quality of public finances, although challenges remain to be tackled. Slovenia has not taken sufficient advantage of the favourable cyclical conditions to make more rapid progress towards the medium-term objective, in line with the Stability and Growth Pact. The structural

budget deficit is projected to remain unchanged in 2007, despite the good economic times. Moreover, there continues to be a lack of competition, especially in the utilities sector. The financial system remains small and inefficient, with a limited degree of openness. Steps have been taken in the labour market to introduce the flexicurity system, but more needs to be done.

8. Consultation and efforts to develop ownership of the NRP at the central and regional level have been enhanced and the involvement of social partners is substantial. The responsibility for national co-ordination is at ministerial level. There is a high level of parliamentary involvement. There is also a strong public debate on the reforms in the media. However, the monitoring process needs some improvement. Slovenia took a progressive approach towards the programming of its cohesion policy spending for the 2007-2013 period. Its National Strategic Reference Framework indicatively allocates more than 60% of the structural and cohesion funds for Lisbon objectives.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

9. In the 2005-2007 period, there has been good progress on some of the commitments made in the NRP. Slovenia has successfully adopted the euro, thus achieving one of the primary goals set out in the NRP. A major tax reform has reduced the fiscal burden on labour and capital, while improving the quality of public revenues. Slovenia is on track to achieve the envisaged reduction in the expenditure-to-GDP ratio, due to lower expenditure on social transfers and interest payments, as well as lower cost of government operations. However, progress in other areas has been less satisfactory. The rigidity of the budget remains a concern, especially since the high share of non-discretionary spending commitments leaves little scope for shifting expenditure towards growth enhancing activities. The recent Collective Agreement for Public Sector wages poses some risks to both fiscal consolidation and price stability. Membership in the euro area indeed points to the continued need for Slovenia to place considerable emphasis on price stability as an important contribution to a growth friendly environment.
10. The Council recommended that Slovenia should continue reforming its pension system and promote active ageing, in order to increase the employment rate of older workers and improve long-term sustainability. The employment rate of older workers at 32.6% (2006) is still low compared to the euro area average, but shows an increasing trend due to various support measures, including incentives for private sector employers and the gradual increase of the retirement age stipulated by the 1999 pension reform. However, the government backtracked on the sustainability-oriented pension indexation element of the reform in 2005. No new measures have been introduced in 2007 in response to the recommendation, even though the expected increase in the age-related expenditure threatens the long-term sustainability of public finances. An active ageing strategy is still under preparation.
11. In general, Slovenia has partially succeeded in implementing measures to deliver on the macro-economic commitments expressed in its NRP. However, progress is limited regarding the country specific recommendation.

Micro-economic policies

12. Slovenia has made some progress over the 2005-2007 period in tackling the micro-economic challenges identified in its NRP. It has been successful in exploiting the positive business climate in Europe: exports grew by 25% between August 2006 and August 2007. However, it has been less successful in attracting foreign direct investment. While there are delays in the privatisation process, particularly in the banking and insurance sectors, the privatisation of the second largest bank is currently underway. The issue of competition has often been raised in public debate, following the unexpectedly high price increases in the food retail sector, retail banking, tourism (restaurant services) and utilities (communal services). Regulation of the network industries has brought about good results, particularly in the telecommunication sector, which saw many new entrants and decreasing prices. Liberalisation of the energy sector has started on time in mid-2007. Better regulation remains high on the political agenda. Good progress has been made in cutting the administrative burden, and a 25% target has been set for some priority fields. However, Slovenia has not yet established a comprehensive framework for impact assessment.
13. The Council referred to the need to focus on: setting realistic targets for R&D investment; improving competition, notably in professional services, and strengthening the Competition Protection Office; promoting environmental technologies and energy efficiency; and shortening business start-up times and reducing the related costs. Slovenia has set an ambitious goal of reaching 3% of GDP in R&D investment by 2010. Nevertheless, public sector investment has been lagging behind the growing investment by the private sector. Thus, the aggregate R&D investment has remained stable at approximately 1.5% of GDP for the last five years, highlighting the lack of appropriate R&D strategy with a clear allocation of tasks amongst the responsible institutions. The Implementation Report indicates that some deregulation is underway in the professional services: notaries, pharmacists and architects are under review. However, the responsibility for action lies solely with a single ministry without any coordination with the relevant actors (e.g. professional bodies etc.). The effectiveness of the Competition Protection Office has been improved with the adoption of a new law that gives it powers to impose fines. The Implementation Report recognises that the implementation of measures on energy efficiency, renewable energy sources, cleaner fuels and curbing of CO₂ emissions have been insufficient. Without additional measures Slovenia is unlikely to meet its Kyoto targets. As regards business environment, a one-stop-shop electronic registration system has significantly reduced the costs and time needed for self-employed persons to start business activities. In early 2008, the system will be extended to enable setting up a private limited company in four days. This has been accompanied by a business-friendly tax reform, a tax break for R&D activities, venture capital investments by local firms, and improved access to finance for early-stage SMEs. Further measures need to be taken on entrepreneurship education, the “Think Small First” principle and the one-stop shop for recruiting the first employee.
14. In general, Slovenia has partially succeeded in implementing measures to deliver on the micro-economic commitments expressed in its NRP. The point to watch on business environment has been addressed satisfactorily. However, the points to watch on appropriate R&D investment strategy and energy efficiency, in particular

with regard to CO₂ emissions, have been addressed only in a limited manner. The Commission welcomes the improvements to the effectiveness of the Competition Protection Office, but considers the progress on deregulating professional services as limited.

Employment policies

15. In 2005-2007, Slovenia has launched most of the major employment reforms set out in the NRP. Activation policies helping people into employment have been enhanced and conditions for receiving social benefits have been tightened. A consensus on revised contractual arrangements has recently been reached with the social partners to improve labour market flexibility. Nevertheless, the reforms in relation to flexicurity fell short of what was announced in 2005. New legislation and funding are intended to complement the reforms in the education system and to improve its link with the economy. Although the employment rate of older workers has somewhat increased, the Pensions and Disability Act has not been amended to promote active ageing, which remains a fundamental challenge. Progress with the implementation of policies that address the labour market challenges identified in the 2005 NRP is, therefore, mixed.
16. The Council recommended that Slovenia should enhance its employment services to support the move towards more flexible contractual arrangements and increased conditionality of benefits, giving high priority to early stages of unemployment. Cooperation between public and private labour market institutions is being enhanced, helping to improve the efficiency of the job-brokering service. However, in spite of modernisation and additional training, the employment service of Slovenia still faces capacity constraints, making it difficult to deliver an effective, personalised service. Therefore, improvements to the effectiveness of the service should continue, especially in relation to persons with low employment prospects.
17. The Council also referred to the need to strengthen the link between the education system and the labour market, to reduce segmentation and better integrate young people into the labour market. The NRP set an ambitious goal that by 2008 every young person with a university or higher level of education should find employment within six months after their studies. The Implementation Report is not explicit on whether this target is met. Nonetheless, the overall goal is being pursued through active labour market policy measures and a promotion campaign on education areas that offer better employment opportunities. A new law on scholarships has been adopted and additional funding provided, in order to increase the number of scholarship recipients and to ensure a better link with the labour market needs. The reforms of vocational and higher education are continuing. The Commission considers this an appropriate response to the challenges Slovenia faces. Further efforts should pursue the same line of action, whilst increasing the supply of higher education programmes should not compromise their quality.
18. Slovenia has demonstrated its intention to develop a flexicurity system, but further efforts are necessary to achieve an appropriate combination of labour market flexibility and employment security. The social security system is relatively effective and efforts have been made to strengthen the implementation of active labour market policies. Lifelong learning has improved remarkably. The respective amendments to the Labour Relations Act were negotiated with the social partners who are fully

involved in the reform process. However, the amendments do not go far enough in terms of increased flexibility for those in permanent employment, rather increasing flexibility for the outsiders. In addition, there has been no progress in integrating "student work" into the mainstream labour market. Therefore, there is a risk that segmentation will persist, mainly affecting young people. The new tripartite Social Agreement 2007-2009 is an important basis for further measures.

19. In general, Slovenia has partially succeeded in implementing measures to deliver on the employment policy commitments expressed in its NRP. The country specific recommendation and points to watch have been addressed to some extent.

PART III: CONCLUSIONS

20. In the light of the 2007 Slovenian Implementation Report and the Commission's assessment of progress made in implementing key structural reforms and based on the Integrated Guidelines for Growth and Jobs, the following conclusions are appropriate.
21. Slovenia has made good progress in implementing its National Reform Programme over the 2005-2007 period. Slovenia has also been showing some progress in fulfilling the commitments agreed by the 2006 Spring European Council.
22. The Implementation Report shows some policy response to the recommendations issued by the Council. There has also been some policy response on the additional areas identified in the Council conclusions as requiring attention. The Implementation Report does not however specifically address the recommendations issued to the euro area countries.
23. Among the strengths shown by the 2007 Implementation Report are: the involvement of social partners in drafting all major labour market reforms; efforts to strengthen the link between education and scholarship systems and the economy; the shortening of business start-up times and the reduction of administrative burden. Slovenia's entry into the euro area is the central achievement in the macro field.
24. The policy areas in the National Reform Programme where challenges need to be tackled with the highest priority are: further pension reform and effective implementation of the active ageing strategy; and a more flexible labour market combined with a more effective personalised approach in the implementation of active labour market policies. Against this background it is recommended that Slovenia:
 - take further steps to strengthen the reform of the pension system and promote active ageing, with a view to increasing the employment rate of older workers and improving long-term sustainability;
 - within an integrated flexicurity approach, promotes more flexible contractual arrangements and improves the effectiveness of employment services, particularly in relation to persons with low employment prospects, in order to counter labour market segmentation mainly affecting young people.

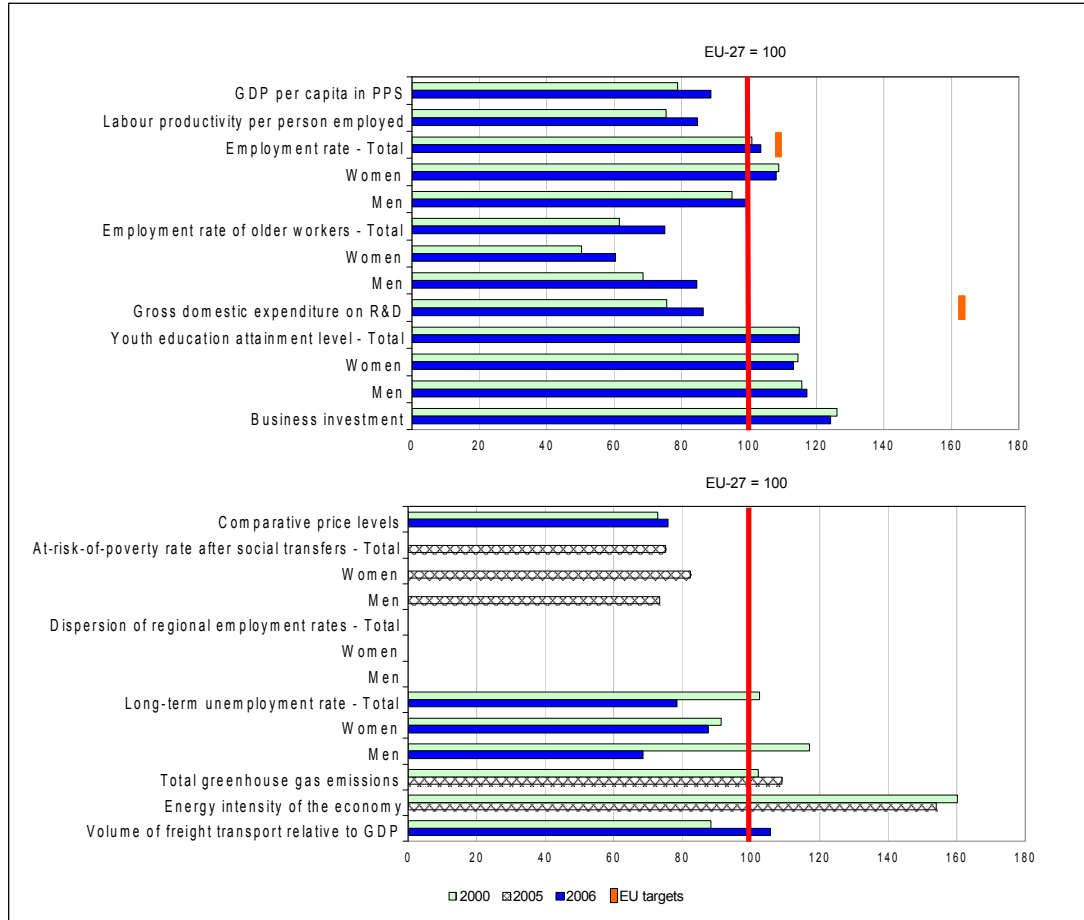
25. In addition, it will be important for Slovenia to focus over the period of the National Reform Programme on the following challenges: develop an effective research and innovation strategy and ensure its effective implementation; also with a view to containing inflation, improve competition in the services sector, with particular emphasis on retail, financial services, utilities and professional services; improve implementation of energy efficiency measures, particularly with regard to CO₂ emissions and unfulfilled Kyoto targets; implement the ambitious plans to strengthen the link between the education system and the labour market.

PART IV: STATISTICAL GRAPHS AND DATA

SLOVENIA

	SI						EU27			
	2000	2003	2004	2005	2006	2010 National target	2000	2005	2006	2010 EU target
GDP per capita in PPS	78.9	82.5	85.0	86.6	88.8		100.0	100.0	100.0	
Labour productivity per person employed	75.5	77.9	80.3	82.3	84.7		100.0	100.0	100.0	
Employment rate						67.0 (2008)	62.2	63.4p	64.4p	70.0
Total	62.8	62.6	65.3	66.0	66.6					
Women	58.4	57.6	60.5	61.3	61.8		53.7	56.2p	57.2p	
Men	67.2	67.4	70.0	70.4	71.1		70.8	70.8p	71.6p	
Employment rate of older workers							36.9	42.3p	43.5p	
Total	22.7	23.5	29.0	30.7	32.6					
Women	13.8	14.6	17.8	18.5	21.0		27.4	33.5p	34.8p	
Men	32.3	33.2	40.9	43.1	44.5		47.1	51.5p	52.6p	
Gross domestic expenditure on R&D	1.41	1.29	1.42	1.46	1.59	3.0	1.86e	1.84e	1.84e	3.0
Youth education attainment level							76.6	77.4	77.8	
Total	88.0	90.8	90.5	90.5	89.4					
Women	90.8	94.0	94.1	93.2	91.4		79.3	80.1	80.7	
Men	85.4	87.7	87.1	88.0	87.7		73.8	74.7	74.8	
Comparative price levels	72.9	76.2	75.4	75.6	75.8		100.0	100.0	100.0	
Business investment	23.2	20.8	22.0	22.2	22.6		18.4	17.8	18.2	
At-risk-of-poverty rate after social transfers								16.0e		
Total	11.0	10.0		12.0b						
Women	12.0	11.0		14.0b				17.0e		
Men	11.0	9.0		11.0b				15.0e		
Dispersion of regional employment rates							13.0	11.9	11.4	
Total	-	-	-	-	-					
Women	-	-	-	-	-		20.0	16.8	16.2	
Men	-	-	-	-	-		9.6	9.7	9.3	
Long-term unemployment rate							4.0	4.1p	3.7p	
Total	4.1	3.5	3.2	3.1	2.9					
Women	4.2	3.6	3.4	3.3	3.5		4.6	4.5p	4.0p	
Men	4.1	3.4	3.1	2.9	2.4		3.5	3.8p	3.5p	
Total greenhouse gas emissions	92.6	96.8	98.4	100.4			90.7	92.1		
Energy intensity of the economy	341.7	341.1	324.7	320.5			213.1	208.1		
Volume of freight transport relative to GDP	87.6e	86.5	97.5	110.0	112.8		99.1e	105.4e	106.7e	

PERFORMANCE COMPARED TO EU-27



Slovakia

1. Real GDP growth, driven by both domestic and external demand is expected to remain high at 8.7% in 2007, up from 8.5% in 2006. Employment increased to 59.4% in 2006 compared with 57.4% a year earlier, with increases across all groups and ages, but particularly for older workers (which has increased from 30.3% in 2005 to 33.1% in 2006). However, this is still below the EU average. Unemployment has also fallen rapidly from 16.3% in 2005 to 13.4% in 2006. It is projected to fall further to 11.2% in 2007. However this remains considerably above the EU average. Thanks mainly to lower increases in regulated prices in the energy sector at the beginning of 2007 and the impact of exchange rate appreciation, inflation is expected to decrease from 4.3% in 2006 to below 2% in 2007. The government deficit is foreseen to fall below 3% of GDP in 2007 and to around 2.3% in 2008.
2. Large-scale reforms of social, labour market and health care policies implemented in recent years have helped accelerate GDP and employment growth. However, large regional differences persist and the unemployment rate remains one of the highest in the EU. Despite one of the highest productivity growth rates in the EU, Slovakia continues to lag behind the EU average GDP per capita, due mainly to lower labour productivity and low labour resource utilisation.

PART I: GENERAL ASSESSMENT

3. The 2005-2008 National Reform Programme (NRP) was revised slightly in 2006 by the new government, but the key challenges remain: information society; R&D and innovation; business environment; education and employment. Overall, the 2007 Slovak Implementation Report shows some progress on implementing the NRP over the period 2005-2007. The pace of progress appears to have remained the same as last year.
4. Slovakia has made some progress in responding to the country specific recommendations adopted by the Council. Expenditure on R&D and education has not increased sufficiently and, notwithstanding the adoption of some strategy documents, the R&D sector still lacks a coherent reform connecting research institutions and business. A life long learning strategy has been adopted, but more is needed to improve participation by adults and marginalised groups in education and training. Revision of labour market policies has not yet addressed the very high long term unemployment, including the soaring share of low skilled people.
5. The Council also concluded that Slovakia should focus on a range of further issues. There has been some progress on developing a legislative framework to address the gender pay gap, although further efforts are needed to improve its enforcement. However, Slovakia has not moved forward significantly on ICT take-up, broadband infrastructure, improving the better regulation system and developing an active ageing strategy.
6. Last year's Commission Annual Progress Report concluded that Slovakia made mixed progress meeting the commitments made at the 2006 Spring European Council in the priority actions areas of knowledge, entrepreneurship, employment

and energy. In the past year, there has been limited progress on a few of the commitments with a 2007 deadline. Entrepreneurship education and the Think Small First principle have not yet been addressed. Further efforts are also needed to implement one stop shops and support the young unemployed.

7. The NRP and subsequent Implementation Reports have been prepared under the auspices of the Government Office and the Ministry of Finance, in cooperation with other stakeholders. An intensified reporting mechanism and a set of indicators were put in place in 2007 to improve monitoring and overall policy co-ordination. New mechanisms are applied to national and structural fund allocations to support Lisbon objectives. Links between the governance of NRP implementation and the programmes under the structural and cohesion funds are fairly strong. The earmarking of structural funding for Growth and Jobs objectives is being applied satisfactorily.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

8. To achieve long-term sustainability of public finances by 2010, Slovakia committed itself to reduce the headline general government deficit to below 3% of GDP in 2007 and the structural deficit to below 1% of GDP by 2010.
9. The government adopted an expansionary fiscal stance in 2006 which, together with non-discretionary deficit-increasing factors (an increase in pension reform costs from 0.8% of GDP in 2005 to 1.2% in 2006), increased the general government deficit from 2.8% of GDP in 2005 to 3.7% in 2006. Nevertheless, the policy measures implemented by the government are foreseen to decrease the deficit below 3% of GDP in 2007 and to around 2.3% in 2008. As a result some progress has been made over the period 2005-2007 to meet fiscal targets set in the 2005 NRP.
10. The Council recommended that Slovakia should reallocate expenditure towards R&D and education. The Slovak authorities clarified their 2010 target for R&D investments between public (0.8% of GDP) and private expenditure (1%). Planned increases in resources devoted to education in the 2007 and the 2008 budgets have lagged behind expected nominal GDP growth. The share of public expenditure as a percent of GDP assigned to universities and the Slovak Academy of Sciences is also projected to decline in 2007 and 2008. Hence, in the Commission's opinion, there has been limited policy response in this area.
11. In general, Slovakia has partially succeeded in implementing measures to deliver on the macro-economic commitments expressed in its NRP. The country-specific recommendation in the macro-economic area has been addressed only to a limited extent and therefore remains valid.

Micro-economic policies

12. Over the period 2005-2007, progress with the implementation of key challenges identified by Slovakia in its 2005 NRP, notably on the business environment, R&D

and innovation, and information society has been mixed. There has been limited progress over the past year.

13. The Council recommended that Slovakia should complete the preparation of a coherent national R&D and innovation strategy, with strong interconnections between research institutions and businesses. During 2007, the Slovak government has adopted a number of strategy documents for R&D and innovation for the period 2007-2013. However, they do not tackle the need for reform of the public research system. A coherent R&D and innovation strategy with adequate human resources and finance for its operational structures should be implemented.
14. The Council also referred to the need for continued efforts on ICT policies, especially on broadband infrastructures and improvements in the Better Regulation system. Despite some advances in e-Government and digital literacy, Slovakia's development of an Information society still lags behind. The roadmap for public administration electronic services has faltered and the electronic signature is yet to be adopted. Additional targeted measures are needed to further ICT take-up and broadband deployment.
15. Limited progress characterises better regulation efforts to improve the business environment. Consolidation of various impact assessment methodologies is foreseen, but no implementing structures have been designed yet. The Action Plan for Reducing Administrative Burdens sets a 25% reduction target for administrative burdens, but does not provide general principles for good regulation and effective coordination. Furthermore, while efforts have been made to implement one-stop-shops for setting up a new business for sole traders, many steps remain to be taken to extend the system to registered companies. The current reform of the education and training system should be used to introduce entrepreneurship education into the curricula for secondary and higher education. Slovakia remains very successful at transposing EU internal market legislation into national law.
16. Despite identifying the energy industry as a new priority in its revised NRP, Slovakia still needs to develop competition in the power supply market. The main hindrance remains the dominance of the incumbent companies with negative price effects for consumers. Slovakia has temporarily decided to mitigate these effects using comprehensive price regulation. However, together with the decreasing independence of the Regulatory Office for Network Industries, this policy mix might prevent the development of competition in these sectors.
17. Slovakia has introduced a number of climate protection, energy efficiency, and adopted a "Strategy for greater use of renewable energy sources in Slovakia". Its energy intensity has declined consistently since 2001, but remains about four times above the EU-27 average. Strengthening the Ministry of Economy's horizontal role in monitoring energy efficiency and implementing the Energy Efficiency Concept, along with its Energy Efficiency Action Plan, would further improve efficiency and help achieve the target set for electricity production from renewable sources by 2010.
18. Slovakia has partially succeeded in implementing measures to deliver on the micro-economic commitments in its NRP. The country specific recommendation on Slovakia's R&D strategy has been address to some extent by the adoption of a number of strategy documents, but these now need to be implemented. The point to

watch of ICT policies has been addressed to some extent, however there has been only a limited response to the need to improve the better regulation system.

Employment policies

19. Economic growth and extensive labour market reform triggered employment growth in 2005-2007. Despite this several concerns emerged, including high rates of long-term unemployment (10.2% compared with the EU average of 3.7%) that coincide with a shortage of skilled workers, a low employability of certain social groups, and a decrease in youth employment.
20. The Council recommended that Slovakia develop a comprehensive approach to tackling long-term unemployment, notably by developing targeted active labour market policies for the most vulnerable groups. Several steps have been taken to address this problem including revised active labour market policy measures that better target disadvantaged jobseekers, the preparation of a new legislative framework for employment policy, and a plan to introduce in-work benefits. However, long-term unemployment, which includes a very high proportion of the low skilled and the Roma minority, remains extremely high, and thus a stronger policy response is merited.
21. The Council also recommended that Slovakia adopt a lifelong learning strategy and complete reform of its education and training system. The lifelong learning strategy was adopted in 2007. Its implementation is now the key challenge given the skills mismatch that persists and that adult participation in lifelong learning remains critically low. However, the adoption of the Educational Act for primary and secondary education has been postponed. In higher education, the core legislative framework has been revised, but raising the quality of higher education and reinforcing links between education, research and business remain key challenges. The inclusion of marginalised Roma communities into education and training, despite some successful initiatives, also continues to be a high priority.
22. The Council also referred to the need to address the gender pay gap and develop an active ageing strategy to increase employment of older workers. Despite a reinforced legal definition of equal remuneration and a ban on gender discrimination, the gender pay gap still remains very high (22%). In addition, the gender gap in both employment and unemployment has significantly increased over recent years. The recently adopted strategy for reconciling work with family life has not sufficiently increased female employability, or access to flexible work organisations. Employment of older people has increased, mainly due to the progressively rising retirement age and incentives to remain in employment. These measures should be complemented by an active approach creating favourable labour market conditions for this age group which would include labour legislation, active labour market policies, increase training provision, and health care. The Commission considers this a limited policy response to these challenges and further action is necessary to improve the employment situation of women and older workers.
23. Slovakia has not built an integrated model of flexicurity, but a number of flexicurity-related measures have been introduced. The last revision of the Labour Code introduced new forms of work organisation, while tightening the contractual arrangements with increased employees' protection. Implementing the new lifelong

learning strategy should increase the very low participation rate in education and training. In spite of active labour market policies for disadvantaged jobseekers, their employability remains low and they are unable to fill the emerging shortage of skilled workers. The social partners' involvement in policy-making has slightly improved, notably consultation of trade unions.

24. In general, Slovakia has partially succeeded in implementing measures to deliver on the employment policy commitments expressed in its NRP. The country specific recommendations and points to watch have been addressed to some extent, but further initiatives and implementation of adopted strategies is now required. The Commission therefore considers the recommendation and the points to watch remaining valid.

PART III: CONCLUSIONS

25. In the light of the 2007 Slovak Implementation Report and the Commission's assessment of progress made in implementing key structural reforms and based on the Integrated Guidelines for Growth and Jobs, the following conclusions are appropriate.
26. Slovakia has made some progress in implementing its National Reform Programme over the period 2005-2007. There has been a limited response in fulfilling the commitments agreed by the 2006 Spring European Council in the four priority areas.
27. The Implementation Report shows a mixed policy response to the recommendations adopted by the Council. Further reforms are necessary to increase R&D and education expenditure, implement strategies in the micro-economic area, to tackle long-term unemployment and to complete education and training reform. There has been a mixed response on the additional areas identified in the Council conclusions as requiring attention.
28. Among the strengths shown by the 2007 Slovak Implementation Report are: the foreseen reduction of the public finance deficit to below 3% of GDP in 2007; the adoption of a number of strategy documents in the area of R&D and innovation, energy efficiency and renewable energy; the partial implementation of a one-stop-shop for start-up companies; the revision of employment legislation; the adoption of the lifelong learning strategy; and efforts to revise active labour market policies to better comply with labour market developments.
29. The policy areas in the Slovak National Reform Programme where challenges need to be tackled with highest priority are: increasing expenditure to education, R&D and innovation, improving the regulatory environment, tackling long-term unemployment, completing the reform of the education and training system and raising its quality in line with labour market needs. Against this background, it is recommended that Slovakia:
 - reallocate resources to education, R&D and innovation, and duly implement a coherent R&D and innovation strategy with a particular focus on the institutional reform of the public research sector and substantial improvement of business-research cooperation;

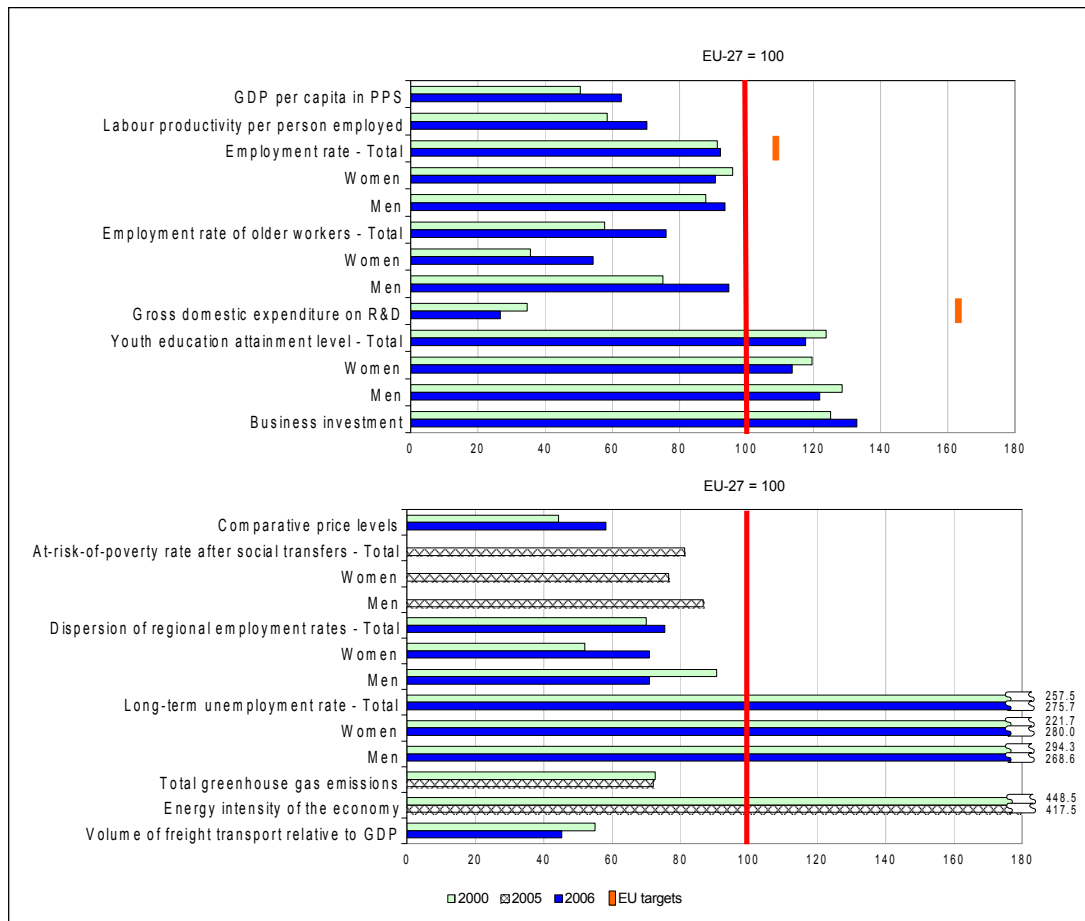
- improve the regulatory environment, notably by implementing a comprehensive better regulation strategy covering both impact assessment and simplification of existing legislation;
 - within an integrated flexicurity approach, ensures implementation of the lifelong learning strategy addressing the needs of the labour market, completes the reforms of primary, secondary and tertiary education to improve qualification and skill levels, and enhance access to employment, notably for the long-term unemployed and vulnerable groups.
30. In addition, it will be important for Slovakia over the period of the National Reform Programme to focus on: further developing ICT policies, especially for broadband infrastructure; full implementation of one-stop shops for start-up companies; introducing entrepreneurship education; increasing competition in power supply; addressing the gender gap in pay and employment; developing an active ageing strategy; and creating job opportunities for young people.

PART IV: STATISTICAL GRAPHS AND DATA

SLOVAKIA

	SK						EU27			
	2000	2003	2004	2005	2006	2010 National target	2000	2005	2006	2010 EU target
GDP per capita in PPS	50.5	55.2	56.7	59.8	62.7		100.0	100.0	100.0	
Labour productivity per person employed	58.5	62.7	64.7	67.8	70.4		100.0	100.0	100.0	
Employment rate						:				70.0
Total	56.8	57.7	57.0	57.7	59.4		62.2	63.4p	64.4p	
Women	51.5	52.2	50.9	50.9	51.9		53.7	56.2p	57.2p	
Men	62.2	63.3	63.2	64.6	67.0		70.8	70.8p	71.6p	
Employment rate of older workers										
Total	21.3	24.6	26.8	30.3	33.1		36.9	42.3p	43.5p	
Women	9.8	11.2	12.6	15.6	18.9		27.4	33.5p	34.8p	
Men	35.4	41.0	43.8	47.8	49.8		47.1	51.5p	52.6p	
Gross domestic expenditure on R&D	0.65	0.58	0.51	0.51	0.49	0.8	1.86e	1.84e	1.84e	3.0
Youth education attainment level										
Total	94.8	94.1	91.7	91.8	91.5		76.6	77.4	77.8	
Women	94.8	94.5	92.0	92.6	91.7		79.3	80.1	80.7	
Men	94.8	93.7	91.3	91.0	91.2		73.8	74.7	74.8	
Comparative price levels	44.4	50.7	54.9	55.8	58.2		100.0	100.0	100.0	
Business investment	23.0	22.4	21.7	24.7	24.2		18.4	17.8	18.2	
At-risk-of-poverty rate after social transfers										
Total	:	:	:	13.0b	:			16.0e	:	
Women	:	:	:	13.0b	:			17.0e	:	
Men	:	:	:	13.0b	:			15.0e	:	
Dispersion of regional employment rates										
Total	9.1	7.6	9.0	9.8	8.6		13.0	11.9	11.4	
Women	10.4	9.0	10.5	11.7	11.5		20.0	16.8	16.2	
Men	8.7	6.7	8.1	8.5	6.6		9.6	9.7	9.3	
Long-term unemployment rate										
Total	10.3	11.4	11.8	11.7	10.2		4.0	4.1p	3.7p	
Women	10.2	11.7	12.4	12.3	11.2		4.6	4.5p	4.0p	
Men	10.3	11.3	11.3	11.2	9.4		3.5	3.8p	3.5p	
Total greenhouse gas emissions	65.8	68.0	67.5	66.4	:		90.7	92.1	:	
Energy intensity of the economy	955.9	929.6	910.2	868.6	:		213.1	208.1	:	
Volume of freight transport relative to GDP	54.6	48.8	48.6	52.0e	48.3		99.1e	105.4e	106.7e	

PERFORMANCE COMPARED TO EU-27



Finland

1. Over recent years, the Finnish economy has enjoyed an extended upswing. GDP growth peaked at 5% in 2006, and will decelerate only moderately in 2007. Growth has remained broad-based, with a strong contribution from foreign demand. Employment has grown at an annual rate of 2% over 2006-2007. Unemployment declined rapidly to 7.7% in 2006 and should decline by a further percentage point in 2007. Nevertheless, the unemployment rate is still at only the euro area average.
2. Notwithstanding the relatively high unemployment rate, there are increasing labour shortages in many sectors, which points to structural labour market weaknesses. Stepping up the government's current labour market response and maintaining on-going improvements to the business environment could improve the situation. Moreover, such improvements could counterbalance the effects on the sustainability of public finances of a declining working age population.

PART I: GENERAL ASSESSMENT

3. The 2007 Implementation Report shows that Finland is in general making very good progress on implementing its National Reform Programme (NRP) over the 2005-2007 period. Progress is steady in most areas.
4. The Council concluded that Finland should focus on implementing reforms to improve competition and productivity in some service sectors, simplify recruitment procedures for businesses, encourage local wage bargaining systems, and address labour market bottlenecks to tackle high structural unemployment, especially unemployment of low skilled workers, including young people. Finland has good progress on simplifying recruitment procedures and local wage bargaining. Some progress has been achieved in the area of competition and service sector productivity. Only limited progress has been made to tackle continuing bottlenecks in the labour market and persistently high structural unemployment.
5. In last year's Annual Progress Report, the Commission concluded that Finland had generally responded well to the commitments agreed at the 2006 Spring European Council in the priority areas of knowledge, entrepreneurship, employment and energy. Since then, this good progress has been maintained.
6. The Implementation Report specifically addresses the recommendations issued to the euro area countries, although further progress is necessary with regard to competition and the balance between flexibility and security on labour markets.
7. A new government took office in spring 2007. The 2007 Implementation Report confirms the main priorities within the NRP and builds on exploiting policy complementarities. The Finnish government also announced several new policy measures. Consultation between government officials and a wide range of stakeholders and representatives of NGOs is extensive. An integrated approach is further strengthened by the concentration of some important policy areas within the planned new Ministry of Labour and Industry. The new generation of Finnish Structural Fund programmes shows strong commitment to the Lisbon agenda, with some 88% of total programme financing earmarked for activities supporting the

competitiveness of regions and the creation of growth and jobs, well above the 75% minimum requirement set by the Commission. The Finnish Structural Fund strategy for 2007-2013 is largely consistent with the priorities identified in the NRP.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

8. The overarching policy goal identified in the NRP is to ensure the sustainability of public finances in the face of demographic change. Despite Finland's very strong overall macro-economic performance, this will be a main key challenge in the medium and long term. Key priorities to tackle it are the control of public expenditure, ensuring the capacity to fund welfare services and improving public sector productivity.
9. The new government has revised the system of central government spending ceilings; the main principles of medium term expenditure planning remain intact, but various adjustments to the spending ceilings system imply some increased flexibility. Central government spending limits will remain a crucial tool for containing government expenditure.
10. Reforms to boost public sector productivity and the quality of its service provision are progressing well - horizontal central government functions (administrative affairs, human resources, IT, etc.) are being consolidated. Central government intends to reinforce its productivity programme with new measures to be decided in connection with its spring 2008 spending limits decision. Reform efforts targeting local governments continue; the Act on Restructuring Municipalities and Services entered into force in early 2007. While the bulk of the anticipated positive effects will only be visible in the medium to long term, some progress in municipal mergers and improved service provision structures is already visible.
11. The phasing in of pension reform is advancing according to initial plans and targets. The principal aim is to defer retirement by around 3 years in the long run, and clear progress has been made, helped by pension reform incentives and the economy's cyclical upswing. Legislative changes to the investment and management of employment pension funds entered into force at the beginning of 2007; these allow such funds to increase their investments in stocks, which should increase investment returns.
12. Finland has in general made very good progress over the 2005-2007 period in implementing the specific macro-economic measures outlined in its NRP. The measures should help secure the long-term sustainability of public finances and address long-term challenges due to population ageing. Finland has used the present cyclical upswing in the economy to further strengthen its public finances, in line with the first euro-area recommendation.

Micro-economic policies

13. Finland's national innovation system is a role model for a technology-driven economic reform programme. Finland spends 3.5% of GDP on R&D investment. However, given R&D investment is stagnating, it will be challenging to increase this

figure to the 4% objective in 2011 (2010 in last year's Implementation Report). Public R&D dropped slightly below 1% of GDP in 2007 (partly due to the increase in GDP). New knowledge needs to find its way into practical applications more often. Some sectoral reform programmes have been implemented, including reform of the public research sector, modernisation of the university sector, establishment of strategic centres of excellence in science, technology and innovation, as well as the creation of clusters of centres of expertise. In 2007, the new government launched the preparation of a new National Innovation Strategy and the setting up of a new Ministry for coordinating innovation policy. This should result in a pioneering model for a broad based innovation policy, beyond the traditional science and technology domain, which will engage all organisations to promote innovation in a co-ordinated, mutually reinforcing way.

14. The increasing number of businesses is encouraging, and the business environment is favourable for start-ups. However, the limited growth of existing SMEs is a concern. The government intends to increase the availability of venture capital in cooperation with pension institutions. While the administrative burden is already low, further improvements could be achieved by committing to a specific target, as agreed at the Council. In order to further limit bureaucracy related to entrepreneurship, the government is encouraged to swiftly adopt and implement its national action plan for better regulation and the new impact assessment guidelines. Finland is among the leading information society countries in Europe. Over the past three years, it has met its main objectives in terms of ICT infrastructure (e.g. on the use of broadband). The public administration productivity programme foresees the provision of 100 million euros to overhaul the core IT system so as to improve the quality of services and make better use of ICT through central and local governments.
15. Finland is projected not to meet its Kyoto emissions target unless additional policies and measures are implemented. These policies are under preparation, but Finland is encouraged to give special consideration to climate change to ensure that these policies are implemented as soon as possible. The Finnish economy is highly energy-intensive, and climate, environmental and energy policies may affect competitiveness. A timely announcement of policies is therefore necessary to give the economy time to adjust to the new commitments, though it should be noted that the required measures may create new market opportunities.
16. The Council referred to the need to focus on implementing reforms to improve competition and productivity in services. While productivity is higher in many services than previously thought, and competition has become fiercer, service sector prices still exceed the EU average by about 30%, and productivity differences across different services are substantial. While sector-specific regulations impeding competition are largely dismantled, some regulations remain in certain services, for example covering pharmacies and shop opening hours. Competition enforcement has been strengthened throughout the period. However, the effective implementation of competition policies is sometimes hindered by the length of court proceedings. New legislation which came into force in June 2007 should promote competitive tendering in public procurement. The access of SMEs to public tenders is an important issue in Finland, as the share of SMEs in government procurement is one of the lowest in the EU (around 31% of the number of contracts and only 8% of the value). Finland has been performing well in terms of less and better state aid (excluding aid to

agriculture which remains high). After an initial increase Finland has managed to reduce its transposition deficit and is approaching the 1% target.

17. The Council also referred to the need for Finland to focus on simplifying recruitment procedures for businesses, including through specific measures regarding the recruitment of the first employee. Several improvements have been made, including progress towards a virtual one-stop-shop for hiring employees. As part of the new government programme a similar procedure should be introduced to create new companies. In addition, the government is considering subsidising businesses the hiring of the first employee, which could support firm growth. The Commission therefore considers that Finland has responded appropriately to this issue.
18. Finland has made good progress with the implementation of measures responding to its micro-economic key challenges and has sufficiently addressed the point to watch covering recruitment procedures. However, while competition and productivity in services is improving, welfare gains in terms of lower price levels are still largely unexploited, and continued action remains necessary. A sustainable growth strategy will require some bold policy interventions, putting to the test the economy's capacity to adjust. Timely actions would limit these adjustment costs.

Employment policies

19. Finland achieved the 70% employment rate target in 2007, and female employment has increased to 67.3%, one of the highest in the EU. The growth in female participation is partly explained by increased part-time work. Further improvements can be made if gender pay gaps are addressed; the unadjusted pay gap between men and women is about 20%. The pension reform aiming at extending working life has increased the employment rate of older people. The unemployment rate remains relatively high with persisting structural unemployment, while recruitment problems are growing. Progress over the 2005-2007 period with regard to the functioning of the labour market is mixed and still requires a strong policy response.
20. The Council referred to the need to encourage local wage bargaining systems and address bottlenecks in the labour market, with a particular view to increasing the low participation of youth and tackling high structural unemployment. There has been an increase in local level wage bargaining and the Commission therefore considers that Finland has made an appropriate response to the challenge of setting the right framework for wage bargaining to reflect regional productivity differences and labour market challenges. It is important to continue this approach.
21. Labour supply shortages are a major risk to future economic growth. Some economic sectors already have acute recruitment problems; one third of employers have difficulties finding staff with appropriate skills. So far, there has been limited progress in solving structural unemployment, although the reform of employment services has improved the activation of long term unemployed. The immigration policy introduced in 2006 has not yet boosted international mobility, but the authorities indicate that the issue is being addressed at the political level with the nomination of a minister for migration. Further measures to promote work-based immigration are expected. Early school drop out is being tackled. Efficient measures are still needed to attract people outside the labour market into employment.

22. Finland addresses flexicurity in an integrated way, with measures being implemented across the four components of flexicurity. The social partners are fully involved in policy level programmes. A high level tripartite working group was established in 2007 to reconsider flexibility and security in the Finnish labour market. Lifelong learning has been promoted through workplace development programmes. The comprehensive social security reform initiated in 2007 is welcomed in order to thoroughly review the incentives to work. Legislative reform is being introduced on fixed term employment and attention should be paid to the particularly high number of fixed-term contracts for women. A system has been in force for a year helping employees facing redundancy to find new jobs.
23. In general, Finland has shown good progress meeting most of the NRP's employment policy commitments and has sufficiently addressed the point to watch regarding local wage bargaining. Persistent labour market bottlenecks, however, are an ongoing concern. In light of the growing inefficiency in matching job vacancies to the unemployed, the Commission considers that Finland has made only a limited response to the challenges it faces in addressing its labour market bottlenecks. It is important to increase the pace of reform in order to improve the balance of labour supply and demand.

PART III: CONCLUSIONS

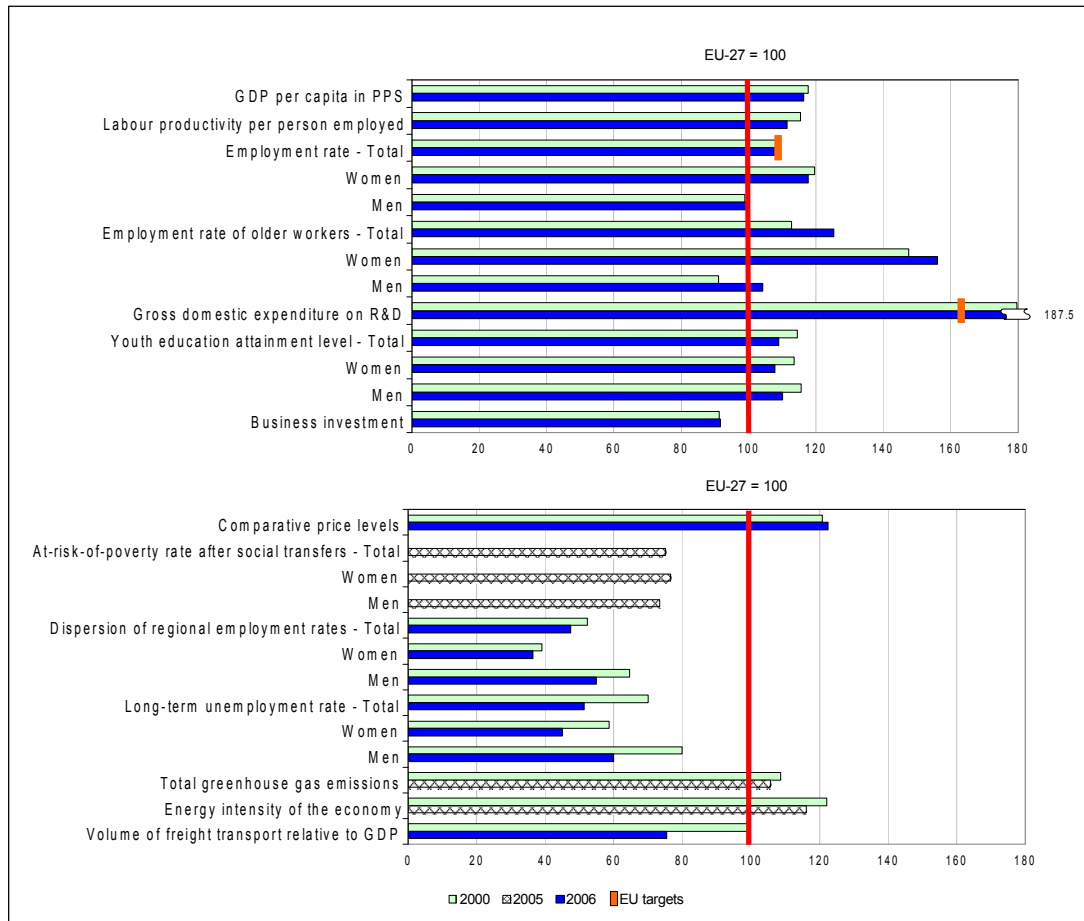
24. In light of the 2007 Implementation Report for Finland and the Commission's assessment of progress made in implementing key structural reforms and based on the Integrated Guidelines for Growth and Jobs, the following conclusions are appropriate:
25. Finland has made very good progress in implementing its National Reform Programme over the 2005-2007 period. Good progress has been shown in fulfilling the commitments agreed by the 2006 Spring European Council in the four priority action areas.
26. The Implementation Report shows some policy response on the additional areas identified by the Council as requiring attention. The Implementation Report also specifically addresses the recommendations issued to the euro area countries.
27. Among the strengths of the 2007 Implementation Report are the ongoing reforms to further improve the functioning of the national innovation system and the observed increase in the employment rate of older workers.
28. It will be important for Finland over the period of the National Reform Programme to focus on the following challenges: continue reforms to improve competition and productivity in services, and create the necessary leverage to reduce high price levels; implement announced measures to reach its Kyoto target; continue reforms to address bottlenecks in the labour market, with a particular view to tackling high structural unemployment, especially unemployment of low skilled workers, including young people, and taking into account the contribution economic migration can make.

PART IV: STATISTICAL GRAPHS AND DATA

FINLAND

	FI						EU27			
	2000	2003	2004	2005	2006	2010 National target	2000	2005	2006	2010 EU target
GDP per capita in PPS	117.8	113.5	115.9	114.5	116.3		100.0	100.0	100.0	
Labour productivity per person employed	115.4	109.3	111.8	109.8	111.5		100.0	100.0	100.0	
Employment rate						75.0 (2011)				70.0
Total	67.2	67.7	67.6	68.4	69.3		62.2	63.4p	64.4p	
Women	64.2	65.7	65.6	66.5	67.3		53.7	56.2p	57.2p	
Men	70.1	69.7	69.7	70.3	71.4		70.8	70.8p	71.6p	
Employment rate of older workers										
Total	41.6	49.6	50.9	52.7	54.5		36.9	42.3p	43.5p	
Women	40.4	48.3	50.4	52.7	54.3		27.4	33.5p	34.8p	
Men	42.9	51.0	51.4	52.8	54.8		47.1	51.5p	52.6p	
Gross domestic expenditure on R&D	3.34	3.43	3.45	3.48	3.45	4.0	1.86e	1.84e	1.84e	3.0
Youth education attainment level										
Total	87.7	85.3	84.5	83.4	84.7		76.6	77.4	77.8	
Women	90.0	87.6	87.0	85.7	87.0		79.3	80.1	80.7	
Men	85.4	83.0	81.9	81.0	82.3		73.8	74.7	74.8	
Comparative price levels	120.9	126.6	123.8	123.5	122.5		100.0	100.0	100.0	
Business investment	16.8	15.2	15.3	16.3	16.7		18.4	17.8	18.2	
At-risk-of-poverty rate after social transfers										
Total	11.0	11.0	11.0b	12.0	:		:	16.0e	:	
Women	13.0	12.0	11.0b	13.0	:		:	17.0e	:	
Men	9.0	11.0	10.0b	11.0	:		:	15.0e	:	
Dispersion of regional employment rates										
Total	6.8	6.1	5.5	5.5	5.4		13.0	11.9	11.4	
Women	7.8	6.7	6.2	6.1	5.9		20.0	16.8	16.2	
Men	6.2	5.7	5.2	5.1	5.1		9.6	9.7	9.3	
Long-term unemployment rate										
Total	2.8	2.3	2.1	2.2	1.9		4.0	4.1p	3.7p	
Women	2.7	2.0	2.0	1.9	1.8		4.6	4.5p	4.0p	
Men	2.8	2.6	2.3	2.4	2.1		3.5	3.8p	3.5p	
Total greenhouse gas emissions	98.5	119.9	114.1	97.4	:		90.7	92.1	:	
Energy intensity of the economy	260.1	280.1	268.9	241.5	:		213.1	208.1	:	
Volume of freight transport relative to GDP	98.7	90.5	90.3	86.0	80.4e		99.1e	105.4e	106.7e	

PERFORMANCE COMPARED TO EU-27



Sweden

1. Over the period 2005-2007, the Swedish economy has been experiencing strong and broad-based economic growth, averaging 3½% a year. External demand has been an important driving force, but owing to the recent deceleration of global economic activity, export growth has entered a weaker phase. Domestic demand remains buoyant, supported by robust consumption growth and booming investment. Employment rates are high, and there have recently been strong increases for all age groups, especially young people, while unemployment has fallen to below 6%.
2. The strong domestic economy is partly a result of various policy measures taken by the government, including lower taxes on labour and other labour market measures that have contributed to strong employment growth, a marked reduction of unemployment and rising household disposable income. This has provided an impulse to private consumption growth, part of which is still to materialise.

PART I: GENERAL ASSESSMENT

3. Overall, the Swedish 2007 Implementation Report has shown very good progress in implementing the updated National Reform Programme (NRP) over the 2005-2007 period. The pace of progress appears to have accelerated significantly over the last year.
4. No country specific recommendations were addressed to Sweden, but it was concluded that special attention should be paid to increasing competition, improving the impact assessment system, taking a more coherent approach to better regulation, and strengthening the strategy to increase labour supply and hours worked. There has been a good response with regard to better regulation and on impact assessment, and on measures aimed at increasing labour supply and hours worked. However, Sweden has not moved forward sufficiently on increasing competition.
5. Last year's Annual Progress Report concluded that Sweden had made good progress on meeting the specific commitments agreed at the 2006 Spring European Council in the priority action areas of knowledge, entrepreneurship, employment and energy. Since then, there has been very good progress on most of the commitments with an end 2007 deadline.
6. Consultation and efforts to develop ownership of the NRP continue to be substantial. The political visibility of the Strategy for Growth and Jobs has increased, following the assignment of responsibility at ministerial level. The Implementation Report presents a thorough coverage of all the guidelines and addresses the challenges highlighted in last year's assessment. Consultation with the social partners, civil society and young people has been thorough. Efforts to include local authorities have been further stepped up, with the creation of a national forum, for political dialogue between national and regional level, to consider regional development issues and implementation of the Lisbon Strategy. Links between the implementation of the NRP and the programmes under the Structural Funds are fairly strong. The earmarking of structural funding for Growth and Jobs objectives is being applied satisfactorily (ERDF 79.5% and for ESF 96% of funds). The ESF priorities focus on

increased labour supply by ensuring adequate skills for people at work and better integration of disadvantaged groups. The ERDF emphasises support for R&D, innovation, entrepreneurship and risk capital.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

7. Sweden is coping well with the key macro-economic challenges of maintaining sound public finances and safeguarding fiscal sustainability. The general government budget has recorded successive surpluses well above 2% of GDP a year, contributing to a further consolidation of public finances. In 2007, the government has further enhanced the rules-based budgetary framework supporting the overall strategy, notably by clarifying and improving the credibility of the objectives on which it is based. The implementation of a range of labour market reforms as well as improvements in tax and benefit systems have contributed to increasing employment growth and to lower unemployment. Increased employment and high resource utilisation has, however, contributed to higher wage agreements. Wage growth is set to exceed the rate implied by recent productivity trends over the next few years. The inflation rate has remained low, though it is gradually rising.
8. Progress over 2005-2007 with regard to the implementation of macro-economic policies identified by Sweden in the NRP, notably the challenge of sound fiscal policies and safeguarding fiscal sustainability, and of increased labour supply, employment and number of hours worked, is good.

Micro-economic policies

9. Sweden confirms the micro-economic challenges notably as regards creating a better environment for entrepreneurship and SMEs, strengthening the linkage between academic R&D and industry, and encouraging the sustainable use of resources.
10. R&D expenditure as a share of GDP was 3.82% in 2006. More public funds have been allocated to R&D since 2005 and additional resources for research and postgraduate education are planned over 2007-2009. There is scope for stronger emphasis on the role of SMEs in the R&D and innovation system, notably by focusing on research-driven and innovative firms, and by encouraging links with larger firms and universities. Efforts to promote cooperation between public and private actors should continue. Fiscal efforts have been made to promote entrepreneurship in the service sector, especially in the welfare sector, but private undertakings still face having to compete on unequal terms with public authorities. Appropriate improvements have been introduced to simplify the regulatory and fiscal framework for small entrepreneurs. However, SMEs' participation in public procurement is still hindered by the extensive use of large framework contracts.
11. Sweden is likely to comfortably achieve its Kyoto target for a reduction of carbon emissions and the move towards a sustainable economy has been a high priority for Sweden over the last three years. The government plans to spend SEK 1 billion to combat climate change over 2008-2010. In 2007 the government presented a

programme to further develop environmental technology capacity with significant financing for 2007 and 2008.

12. The Council referred to the need for Sweden to rapidly implement planned improvements to the impact assessment system and to take a more coherent approach to better regulation. In June 2007, the Swedish government presented a first phase of a solid and encompassing action plan for regulatory simplification, including general guidelines and significant number of measures aimed at alleviating the administrative burdens. The widespread introduction of e-government throughout the public administration, since 2005, may help achieve the ambitious administrative burden reduction target of 25% by 2010. The government is committed to adopting an ordinance on impact assessments and to dedicating additional human resources to better regulation, notably by creating a regulatory council in charge of ensuring the quality of impact assessment.
13. The Council also underlined that Sweden should take further regulatory measures to increase competition, notably in services. Several initiatives set out in the Implementation Report head in the right direction. In the public procurement area, the merger of the Public Procurement Board with the Competition Authority is a positive step, but the transposition of the EU legislation should be completed without further delay, and the recommendations of the Competition Authority in this area implemented. Planned measures regarding competition between public and private undertakings should be adopted. It remains to be seen whether the foreseen revision of the Competition Act will sufficiently improve competition law enforcement, notably by strengthening the Competition Authority's powers and mechanisms to deter competition infringements.
14. In general, progress over the 2005-2007 period with regard to the implementation of policies to address the micro-economic challenges faced by Sweden is good. The Commission considers there has been a good response to the challenges Sweden faces in ensuring better regulation. It is now important to continue this approach in 2008 and 2009. The point to watch in the competition area has been partially addressed and it is important to step up the pace of reform.

Employment policies

15. The government continues to place emphasis on increasing labour supply and employment, and on reducing the number of people outside the labour force. Employment rates are high across all groups, with the overall rate standing at 73.1%. Unemployment has recently fallen to below 6%. Labour supply has started to grow after the decreases over the last few years, with signs of enhanced integration of groups previously outside the labour market. Young people account for half of the recent expansion in employment, but despite this youth unemployment remains high, at over 18%. In addition employment rate gaps between foreign-born and native people are still a concern at more than 14 percentage points, and there are still 551 000 people on disability pension (about 9% of the working age population). Recent reforms focus on increasing incentives to work, reforming active labour market policy and the education system. Progress over 2005-2007 with regard to addressing the challenge faced by Sweden to increase labour supply is good.

16. The Council referred to the need to strengthen the strategy to increase labour supply and hours worked, including through the implementation of proposals to increase incentives to work, as well as stronger measures to increase the employment rate of immigrants and young people, and to reintegrate people on sickness-related schemes.
17. Sweden has introduced a number of measures that address work incentives, in particular subsidised jobs in the private sector (lower social contributions), an in-work tax credit and stricter controls of the social security systems. The reform packages for young people and immigrants focus on incentives to work and other targeted measures. For young people intensified counselling is followed by further training or work experience, more resources are given to the public employment services for job matching, and the cost of social contributions for employers have been halved when employing young people. This should all help the integration process. The planned reforms of the education system (improved quality, up-dating of teachers' skills, modernising upper secondary schools, and a new apprenticeship programme) should help reduce early school drop-outs.
18. To better integrate immigrants in the labour market, subsidised jobs combined with language courses are now being implemented. Alongside this, the validation of qualifications from outside Sweden, and supplementary university courses for people with a foreign training in law, teaching, and public administration are being introduced. Municipalities now receive financial compensation if they provide jobs for refugees. The recent reform to reintegrate people on sickness-related schemes includes measures for rehabilitation, restrictions of the sickness insurance system and large reductions of the social contributions. For disabled persons, about 3000 new jobs will be created through wage subsidies and sheltered work. There are a number of new measures planned for 2008, for example a reinforced in-work tax credit.
19. Overall, Sweden has a balanced approach towards flexicurity and addresses it in an integrated way. The government has facilitated the use of fixed-term contracts which should work as a stepping stone into the labour market. Recent reforms of the unemployment and sickness insurance systems imply restrictions, but they still provide adequate income security. Active labour market policy has been reformed focusing on improved matching and reforming the National Labour Administration. Measures devoted to lifelong learning concentrate on the initial education system and less on adult education. The social partners are fully involved in most of the flexicurity components.
20. In general, Sweden has succeeded in implementing measures to deliver on the employment policy commitments expressed in its NRP. The points to watch in the employment area have been well addressed and it is now important to focus on implementation and impact evaluation. Important challenges remain, in particular with regard to the high youth unemployment, the high employment gap between immigrants and native Swedes, and the high number of people on disability pension.

PART III: CONCLUSIONS

21. In the light of Sweden's 2007 Implementation Report and the Commission's assessment of progress made in implementing key structural reforms and based on

the Integrated Guidelines for Growth and Jobs, the following conclusions are appropriate.

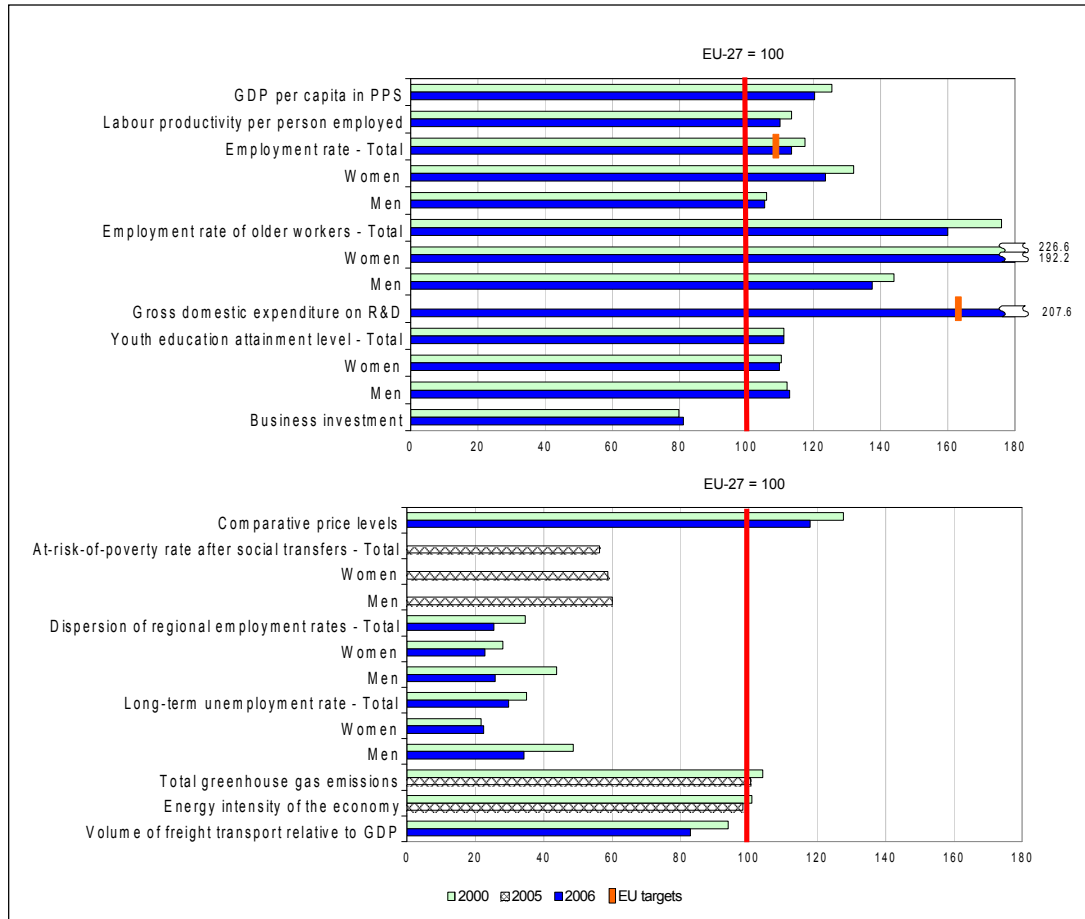
22. Sweden has made very good progress in implementing its National Reform Programme over the 2005-2007 period. Sweden has also shown very good progress in fulfilling the commitments agreed by the 2006 Spring European Council in the four priority action areas.
23. The Implementation Report shows a good policy response to the areas identified by the Council as requiring attention.
24. Among the strengths shown by the 2007 Sweden's Implementation Report are: the action plan for regulatory simplification and the commitment to improve the impact assessment system; the progress with increasing labour supply and reducing unemployment; the sustainable use of energy; and the progress made on increasing public investment in R&D.
25. It will be important for Sweden to take further regulatory measures to increase competition, notably in services; and to focus on the implementation and impact evaluation of recent reforms to increase work incentives, to tackle youth unemployment, to raise the employment rate of immigrants and to reintegrate people on sickness-related schemes.

PART IV: STATISTICAL GRAPHS AND DATA

SWEDEN

	SE						EU27			
	2000	2003	2004	2005	2006	2010 National target	2000	2005	2006	2010 EU target
GDP per capita in PPS	125.4	120.5	120.4	119.1	120.3		100.0	100.0	100.0	
Labour productivity per person employed	113.5	108.3	109.6	109.0	110.1		100.0	100.0	100.0	
Employment rate						:				70.0
Total	73.0	72.9	72.1	72.5b	73.1		62.2	63.4p	64.4p	
Women	70.9	71.5	70.5	70.4b	70.7		53.7	56.2p	57.2p	
Men	75.1	74.2	73.6	74.4b	75.5		70.8	70.8p	71.6p	
Employment rate of older workers										
Total	64.9	68.6	69.1	69.4b	69.6		36.9	42.3p	43.5p	
Women	62.1	66.3	67.0	66.7b	66.9		27.4	33.5p	34.8p	
Men	67.8	70.8	71.2	72.0b	72.3		47.1	51.5p	52.6p	
Gross domestic expenditure on R&D	:	3.95	3.71	3.89	3.82	4.0	1.86e	1.84e	1.84e	3.0
Youth education attainment level										
Total	85.2	85.8	86.0	87.5	86.5		76.6	77.4	77.8	
Women	87.6	87.2	87.2	88.7	88.6		79.3	80.1	80.7	
Men	82.8	84.3	84.8	86.4	84.5		73.8	74.7	74.8	
Comparative price levels	127.6	123.5	121.8	118.5	117.9		100.0	100.0	100.0	
Business investment	14.7	12.9	13.2	14.2	14.8		18.4	17.8	18.2	
At-risk-of-poverty rate after social transfers										
Total	:	:	11.0b	9.0	:			16.0e	:	
Women	:	:	12.0b	10.0	:			17.0e	:	
Men	:	:	10.0b	9.0	:			15.0e	:	
Dispersion of regional employment rates										
Total	4.5	4.3	4.4	3.0	2.9		13.0	11.9	11.4	
Women	5.6	4.8	4.3	3.5	3.7		20.0	16.8	16.2	
Men	4.2	4.1	4.8	2.8	2.4		9.6	9.7	9.3	
Long-term unemployment rate										
Total	1.4	1.0	1.2	1.4b	1.1		4.0	4.1p	3.7p	
Women	1.0	0.8	1.0	1.2b	0.9		4.6	4.5p	4.0p	
Men	1.7	1.2	1.4	1.5b	1.2		3.5	3.8p	3.5p	
Total greenhouse gas emissions	94.5	97.9	96.4	92.6	:		90.7	92.1	:	
Energy intensity of the economy	215.0	217.1	214.7	204.3	:		213.1	208.1	:	
Volume of freight transport relative to GDP	93.2	90.6	88.6	89.7	88.4e		99.1e	105.4e	106.7e	

PERFORMANCE COMPARED TO EU-27



United Kingdom

1. Real GDP growth in the UK is expected to reach 3.1% in 2007. Robust output growth the last two years has been driven by domestic demand, accompanied by a sizeable external imbalance. The general government deficit narrowed to 2.6% of GDP in financial year 2006/2007 from 3.2% of GDP in the previous year. The employment rate (71.5% in 2006) is above the EU target. Labour supply has been growing, partly owing to immigration and increased participation from female and older workers. The unemployment rate has remained stable at around 5.3% in 2007.
2. Labour, capital and product markets are very flexible but, despite steady growth and good employment performance and some narrowing of the productivity gap with other Member States, the UK still faces a productivity challenge. While the UK has focussed on the development of policies to improve skills, R&D intensity, better regulation and the competition regime, further improvements are still needed to support future productivity growth. The planned reform of the pensions system should result in both improving the adequacy of retirement income and increasing incentives for participation in the labour market.

PART I: GENERAL ASSESSMENT

3. Overall, the UK's 2007 Implementation Report shows significant progress in implementing the National Reform Programme (NRP) over the 2005-2007 period. The pace of progress appears to have accelerated slightly over the last year.
4. There has been good progress in response to the country specific recommendation that the UK should increase basic and intermediate skills in order to raise productivity and further improve employment prospects for the most disadvantaged. However, it will be some time before the new skills package is fully implemented.
5. With regard to the other areas for the UK to concentrate upon: there has been good progress on the implementation of the pension reform; and on improved access to childcare. In R&D and innovation policy some progress has been made. Concerning increasing the supply of housing, some measures have been taken, but it is too early to judge whether these will be effective.
6. Last year's Annual Progress Report concluded that the UK had made good progress on meeting the specific commitments agreed at the 2006 Spring European Council in the priority action areas of knowledge, entrepreneurship, employment and energy. Since then, there has been further good progress on all of the commitments.
7. Consultation and efforts to develop ownership of the NRP at the level of central and local governments and amongst the social partners continue to be good. The devolved administrations in Scotland, Wales and Northern Ireland were involved in preparing the Implementation Report concerning their own policy responsibilities. There has also been consultation on many individual policy elements. Specific consultation in preparing the Implementation Report has included a stakeholder seminar and web-based consultation.

8. Governance links between the implementation of the NRP and the programmes under the structural and cohesion funds are strong. The earmarking of structural funding for Growth and Jobs objectives is being applied satisfactorily. The overall objectives for future Structural Funds Programmes are strengthening the drivers of regional productivity and employment, responding to the increasing pace of economic change and the expanding reach of global markets, and improving the sustainability of communities and the environment.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

9. The UK's NRP identified macro-economic stability and long-term fiscal sustainability as the government's overall macro-economic priorities. Over the programme period inflation has been contained; some pronounced increases in early 2007 have subsequently been reversed. The 2007 Comprehensive Spending Review has set departmental spending allocations for the three financial years beginning in April 2008, with total public spending increasing by 2.1% per year on average in real terms. Although the government deficit is foreseen to remain close to the reference value of 3% of GDP in the financial years 2007/2008 and 2008/2009, the Implementation Report does not highlight the need for ensuring fiscal consolidation. It focuses mainly on the quality of public finances, pension reform and housing supply. Progress over the 2005-2007 period with regard to the implementation of policies to address the macro-economic challenges faced by the UK is thus mixed.
10. The Council referred to the importance for the UK of ensuring that the current proposals on pension reform were effectively implemented. The government's plans, partly already enacted by Parliament, involve increasing the value and coverage of the state-pension by linking pension payments to average earnings from 2012 (subject to affordability), and increasing the state pension age in line with average life expectancy. Moreover private pension saving will be encouraged through the introduction of automatic enrolment of employees into a work placed pensions, mandatory employer contributions, and a new scheme of personal accounts. The impact will only be fully evident in the long term.
11. The Council also referred to the importance for the UK of progressively increasing housing supply to reduce house price pressures in the medium-term. The government released a Housing Green Paper in July 2007 setting a target of building 240,000 new additional homes per year in England by 2016 (2 million new homes in total) – about 30% higher than would be generated by recent construction rates – and a 50% increase in social housing supply by 2010/2011. The 2007 Pre-Budget Report and the Comprehensive Spending Review announced an increase in spending on housing in the period 2007/2008 to 2010/2011. Whilst some measures have already been implemented, further measures have been announced, such as the government's plan for a new Housing and Planning Delivery Grant to reward those councils who are achieving a high level of housing supply. These policies are steps in the right direction, but most of the reforms are still in the early stages of implementation so the actual impacts will clearly take much longer to judge.

12. In general, the UK has partially succeeded in implementing measures to achieve the macro-economic objectives expressed in its NRP. The Commission considers the measures taken to reform the pension system to be a very good response, addressing the adequacy of retirement income, while limiting the risks to the sustainability of public finances. However, the fiscal position needs improving and further consolidation in the medium term is required.

Micro-economic policies

13. The UK NRP identified promoting R&D and innovation and building an enterprising and flexible business sector as key micro-economic challenges. Progress has been made on R&D and innovation, notably by ensuring the sustainability of the public research base, promoting technology transfer, stimulating private R&D investment through a strengthening of the R&D tax credit, and the setting up of the Technology Strategy Board, at arm's length from government. The UK continues to provide a business-friendly regulatory environment and competition regime. Progress has also been made in moving towards creating one-stop-shops for business start-ups and support services, as well as in improving SMEs' access to public procurement contracts. Strengths in entrepreneurship training and in improving regulation for small businesses have been reinforced, and the UK is committed to reduce administrative burdens by 25%. On energy policy, the UK is already advanced in energy market opening. The White Paper on energy policy published in May 2007 set out a strategy for tackling climate change and ensuring energy security. Consultations are currently taking place on aspects of this policy.
14. The Council referred to the need to focus on: implementing its science and innovation strategy, in the context of which an intermediate R&D target for 2010 should be set and measures should be taken to further strengthen investment incentives and to increase private sector engagement. The government aims to implement the recommendations of the recent Sainsbury review. This will result in a more active engagement in stimulating R&D and innovation activity, including a leadership role and increased funding for the Technology Strategy Board, explicit knowledge transfer targets for the Research Councils, and increased efficiency and coordination of public R&D spending. However, the foreseen increases in government spending on R&D (including substantial Structural Fund financing) and forecasts for private spending are insufficient to advance towards the UK's 2014 R&D intensity target. Therefore raising private R&D investment and innovation further continues to be an important challenge for the UK in an increasing knowledge based economy. The UK should capitalise upon the strength of its services sector by developing further policies for stimulating R&D and innovation and improving skills in this sector, including assessing the challenges and existing policy framework as part of the overall monitoring arrangements for the science and innovation framework.
15. The Commission considers there has been some response to the challenge the UK faces in the micro-economic field. It is now important to implement the recommendations from the recent Sainsbury review of science and innovation policy, ensuring a greater focus on increasing R&D and innovation, especially in services.

Employment policies

16. The NRP identified two major employment-related challenges: raising the skill levels in the workforce and increasing employment opportunities, by removing barriers for people from groups characterised by low employment rates. Progress has been made on both fronts. Over the period 2005-2007, employment has increased, although the employment rate has changed little since the population has also grown. Inactivity rates have generally fallen. Employment gaps for women, lone parents, older workers and ethnic minorities have narrowed but have widened for those without qualifications. Progress over the period 2005-2007, with regard to the implementation of policies to address the labour market challenges in the NRP is good.
17. The Council recommended the UK to increase basic and intermediate skills in order to raise productivity and further improve employment prospects for the most disadvantaged. In July 2007, the government presented plans to implement the Leitch Report's recommendations on skills in England, with the devolved administrations also having welcomed the report. This was accompanied by a green paper setting out the next steps in welfare reform. The reforms on skills are designed to make training more demand-led. To stimulate demand the government has launched a "Skills Pledge" by which employers make a public commitment to provide training opportunities for their workers with low level qualifications while the programme to subsidise this training is expanded. There will be institutional changes that give employers a greater role: including the creation of a Commission for Employment and Skills. One task for this new Commission will be to advise the government on the strategy needed to increase employment and skills rates, as well as assessing progress.

Some new measures are already being implemented; others are to be implemented over the next three years or so. The steps taken so far show a substantial new impetus to reach the targets set. The success depends upon a greater commitment by employers to training and their acceptance of the new qualifications framework being developed. The moves to give a greater role for the private sector in the delivery of services for the unemployed will have to ensure a balance between giving incentives for greater innovation and ensuring that the complex needs of the more disadvantaged are met.
18. The Council also referred to the need to further improve access to childcare. The measures in the Childcare Act 2006 introduce a duty on local government to ensure that sufficient childcare is available especially for parents on low incomes or with disabled children came into force in April 2007. Progress in implementing England's ten year childcare strategy is on course, including the creation of children centres, out-of-school childcare places, a free weekly entitlement to 15 hours of pre-school provision for 3 and 4 year olds by 2010, and rights for parents to time off work, and statistics are beginning to show the impact of the measures taken. However, there is some way to go to reach the government's targets, and some concerns remain over affordability and the choice available to parents.
19. The UK addresses the aspects of flexicurity in a broadly integrated way. Active labour market programmes could do more for sustainable employment by giving more attention to promoting retention and progression, and a better integration of

employment and skills services would enhance learning opportunities and career progression. The social partners are not directly involved in the preparation of reforms but are routinely consulted.

20. In general, the UK has made good progress in implementing measures to deliver on the employment policy commitments in its NRP and in addressing the country specific recommendation and the point to watch. On skills and on improving the employment prospects of people from disadvantaged groups, the government has set out a comprehensive and well-balanced strategy, and has begun to implement measures that signal the new impetus given to policy in this area. However, it will be some time before the whole package is implemented and measurable results are available.

PART III: CONCLUSIONS

21. In the light of the UK's 2007 Implementation Report and the Commission's assessment of progress made in implementing key structural reforms and based on the Integrated Guidelines for Growth and Jobs, the following conclusions are appropriate:
22. The UK has made significant progress in implementing its National Reform Programme over 2005-2007. The UK has shown good progress in fulfilling the commitments agreed by the 2006 Spring European Council in the four priority action areas.
23. The Implementation Report shows a good policy response to the recommendation issued by the Council. There has also been a good policy response on the additional areas identified in the Council conclusions as requiring attention.
24. Among the strengths shown by the 2007 UK Implementation Report are: the plans to provide an integrated approach to employment and skills, moves towards the creation of a business-friendly regulatory environment, and the forward-looking plans on energy policy.
25. The policy areas in the UK National Reform Programme where challenges need to be tackled with the highest priority are improving skills levels to increase productivity and reduce disadvantage in the labour market. Against this background it is recommended that the UK:
 - implement recent plans to substantially improve skill-levels and establish an integrated approach to employment and skills in order to improve productivity and increase opportunities for the disadvantaged.
26. In addition, it will be important for the UK to focus on the following challenges for the future: progressively increase housing supply in order to meet medium term demand pressures; ensure progress towards the UK's R&D intensity target through full implementation of the recent review of R&D and innovation policy, particularly taking fuller account of the specific needs of the services sector.

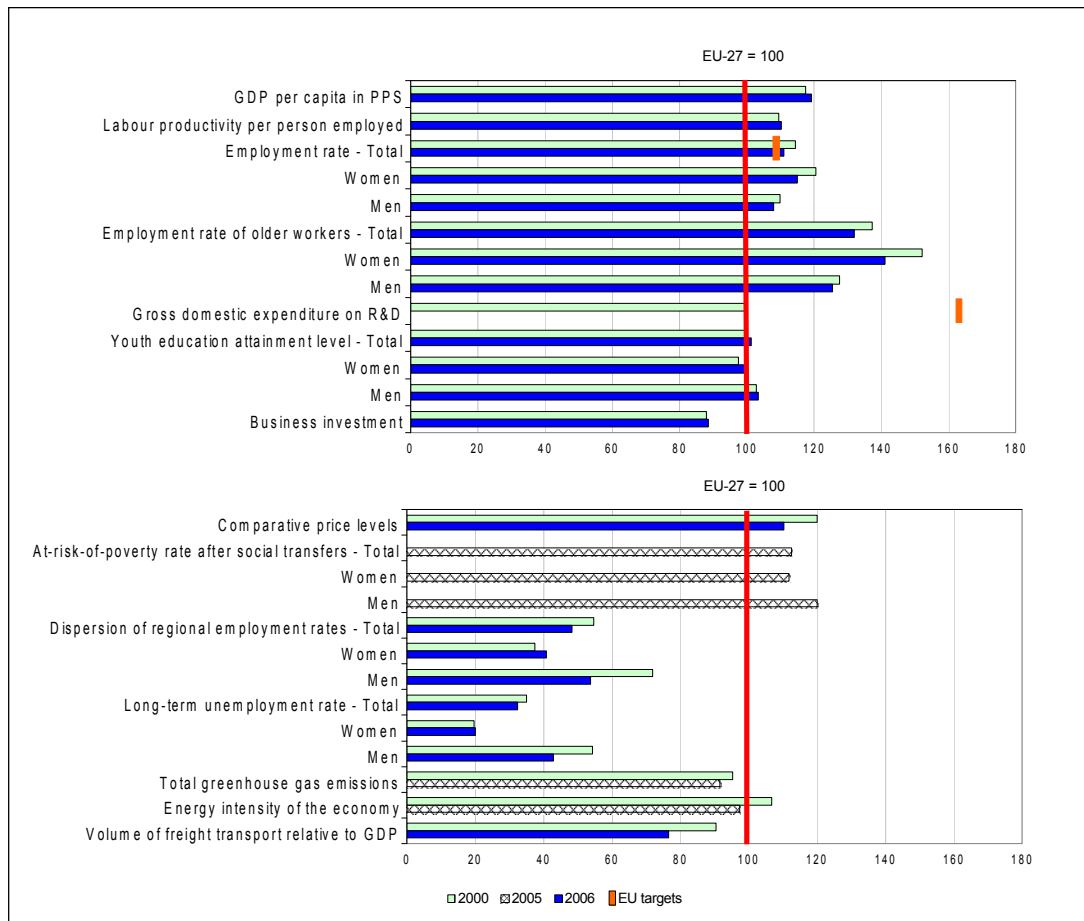
PART IV: STATISTICAL GRAPHS AND DATA

UNITED KINGDOM

	UK						EU27			
	2000	2003	2004	2005	2006	2010 National target	2000	2005	2006	2010 EU target
GDP per capita in PPS	117.4	120.0	121.8	119.6	119.1		100.0	100.0	100.0	
Labour productivity per person employed	109.4	110.3	111.7	109.8	110.3		100.0	100.0	100.0	
Employment rate						*				70.0
Total	71.2	71.5	71.6	71.7	71.5		62.2	63.4p	64.4p	
Women	64.7	65.3	65.6	65.9	65.8		53.7	56.2p	57.2p	
Men	77.8	77.7	77.8	77.6	77.3		70.8	70.8p	71.6p	
Employment rate of older workers										
Total	50.7	55.4	56.2	56.9	57.4		36.9	42.3p	43.5p	
Women	41.7	46.3	47.0	48.1	49.1		27.4	33.5p	34.8p	
Men	60.1	64.8	65.7	66.0	66.0		47.1	51.5p	52.6p	
Gross domestic expenditure on R&D	1.85	1.78	1.72	1.76		2.5 (2014)	1.86e	1.84e	1.84e	3.0
Youth education attainment level										
Total	76.6	78.7	77.0	78.2	78.8		76.6	77.4	77.8	
Women	77.3	78.9	78.0	78.9	80.3		79.3	80.1	80.7	
Men	75.9	78.4	76.0	77.4	77.3		73.8	74.7	74.8	
Comparative price levels	120.0	107.8	107.9	109.2	110.2		100.0	100.0	100.0	
Business investment	16.2	15.1	15.3	16.5	16.1		18.4	17.8	18.2	
At-risk-of-poverty rate after social transfers										
Total	19b	18.0		18.0b				16.0e		
Women	21b	19.0		19.0b				17.0e		
Men	16b	17.0		18.0b				15.0e		
Dispersion of regional employment rates										
Total	7.1	6.1	5.9	5.7	5.5		13.0	11.9	11.4	
Women	7.5	6.7	6.5	6.4	6.6		20.0	16.8	16.2	
Men	6.9	5.8	5.7	5.6	5.0		9.6	9.7	9.3	
Long-term unemployment rate										
Total	1.4	1.1	1.0	1.0	1.2		4.0	4.1p	3.7p	
Women	0.9	0.7	0.6	0.7	0.8		4.6	4.5p	4.0p	
Men	1.9	1.4	1.2	1.3	1.5		3.5	3.8p	3.5p	
Total greenhouse gas emissions	86.4	85.0	84.7	84.3			90.7	92.1		
Energy intensity of the economy	227.3	212.1	206.0	202.6			213.1	208.1		
Volume of freight transport relative to GDP	89.7	84.5	83.9e	82.1e	81.6e		99.1e	105.4e	106.7e	

* National target: 80% following the national definition

PERFORMANCE COMPARED TO EU-27



Euro Area Member States

1. The economic performance of the euro area has improved since the Lisbon Strategy was renewed in 2005. GDP growth rebounded to 2.8% in 2006 and is forecast to decelerate slightly to 2.6% in 2007. The estimated potential growth rate of GDP has increased by some ¼ percentage points since 2005 to some 2¼ % in 2007. Employment increased by 4.3 million between 2005 and 2007, whilst the rate of unemployment declined from 8.9% in 2005 to 7.3% in 2007. The recent output growth has had a particularly strong positive effect on employment and part of the acceleration of labour productivity growth might be more than just cyclical in nature. Interdependence of the euro area economies is large with annual intra-area trade at 20% of euro area GDP.
2. The fiscal and monetary developments in the euro area have contributed to stability while supporting the economic recovery. With deficits and debt levels going down to more sustainable levels, overall fiscal performance has made significant steps to confront the ageing challenge. The implementation of structural reforms has improved fundamentals and increased the resilience of the economy. Inflation in the euro area Member States has been contained despite increasing energy prices and food prices. Such favourable outcome could be attained at interest rates that are low in a historical perspective, which should be conducive to continued capital formation.
3. The number of euro area Member States is growing. While in 2007 Slovenia adopted membership of the Economic and Monetary Union (EMU), 2008 will see Malta and Cyprus join. This brings the total euro area membership to a level of about 320 million people and fifteen Member States.

PART I: GENERAL ASSESSMENT

4. The euro area Member States have engaged in substantive structural reforms to tackle their economic, social and environmental challenges, although some have responded more robustly to some challenges than others. To stimulate Member States, the Council adopted country specific recommendations in the macro-economic, micro-economic and employment domain.
5. Stability oriented macro-economic policies foster favourable growth conditions and, especially relevant in the current juncture, are key to reduce uncertainty. Although important for all EU Member States, structural reforms are especially relevant for the economies in the euro area. Primarily aimed at creating more growth and jobs, structural reforms also enhance integration and the adaptability of euro area economies and synchronise its business cycles. Against the background of changing global economic conditions, well-functioning labour, product and service markets and more investment in skills are particularly important because they facilitate the reallocation of resources. Better integrated economies and the single currency stimulate competition, intra-EU trade in the internal market, promote innovation, and give consumers better value for money. Moreover, regional differences in demand can more easily be met through increased supply from elsewhere in the euro area, thus avoiding price pressures. In the absence of the exchange-rate instrument for

individual Member States, flexible labour markets and healthy government budgets are key to preventing strong downward (recession) and upward (overheating) fluctuations in growth. More synchronised business cycles will make it possible to have a monetary policy better geared to the needs of the EMU as a whole and Member States individually.

6. By tackling the euro area's common challenges in a coordinated manner, the benefits will be more substantial given the important spillovers across Member States. The Council therefore recommended that the euro area Member States aim at more ambitious budgetary consolidation, improving the quality of public finances, improving competition, especially in (financial) services and better balancing flexibility and security in labour markets. Evidently, there are differences across Member States in the degree of relevance of these recommendations. The Commission (in its October 2007 communication to the Informal European Council and the Council, highlighted the importance of effective policy co-ordination, especially in the context of the Eurogroup, and where appropriate in international fora.
7. In addressing the call for more effective policy coordination in the euro area, a positive development has been that the Eurogroup stepped up its analysis and monitoring of structural reforms. Over the last year, it held discussions on all the issues highlighted by the euro area recommendations, enabling Ministers to be better informed about the strategies, choices and challenges outstanding in the individual Member States and for the euro area as a whole, and to foster consensus on the importance of policies that improve adjustment in the euro area. A further notable development is that ten participating Member States (AT, BE, DE, ES, FI, IT, LU, NL, PT, SI) included details on their response to the euro area recommendations in their Implementation Reports. Although both developments are steps in the right direction, there is more scope for effective policy co-ordination.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

8. Macro-economic stability and sound fiscal policies enhance growth, create leeway to withstand adverse cyclical conditions, and help maintain price stability and low interest rates. The budget deficit in the euro area has come down from 2.5 % of GDP in 2005 to a forecast 0.8 % in 2007. Gross debt has declined from over 70% of GDP in 2005 to an expected 66.5 % in 2007. This has supported the monetary policy objective of maintaining price stability and, together with the implemented pension reforms, contributed to the sustainability of public finances, thereby helping tackle the budgetary consequences of ageing populations. Wage growth has remained contained in the period 2005-2007, despite tightening labour markets and a considerable fall in unemployment. Due to sound domestic fundamentals, the euro area economy was in a relatively good position to weather the continued rise in oil and commodity prices, and the turmoil in the financial markets that began during the summer of 2007. However, looking forward, the effect of the changed international economic climate, notably concerning financial markets, is likely to take its toll. The impact is likely to be differentiated, as shown by a correction already underway in Member States which experienced a housing boom in the recent past.

9. In their response to the recommendation to pursue ambitious budgetary consolidation, the euro area Member States committed, in April 2007, to implement their 2007 budgets as planned, avoiding expenditure overruns, and using unexpected extra revenue for deficit and debt reduction. They also committed to carefully designing fiscal policy plans for 2008 so as to accelerate adjustment towards the medium-term objective for Member States which had not reached it and for those which have reached it to avoid feeding macro-economic imbalances overall. Against this background, recent information suggests that budget balances would improve by 0.7 percentage points of GDP in the euro area in 2007. Structural balances in the euro area (i.e. government budgets adjusted for cyclical factors and one-off and temporary measures) are expected to improve by almost $\frac{1}{2}$ a percentage point of GDP in 2007, a results of improved underlying balances in ten euro area Member States. Although a significant improvement of the headline government deficit is foreseen for some Member States (AT, EL, NL, PT), overall fiscal consolidation for the euro area is forecast to stall in 2008 and 2009. Most euro area Member States which have not yet achieved their medium term objective (AT, EL, FR, IT, PT, SI), are unlikely to reach it by 2009.
10. The recommendation to improve the quality of public finances refers to the role of public expenditures, revenues, and the institutional framework, in boosting potential growth and in helping adjustment to changing economic circumstances. A shift of public expenditure from consumption to productive investment (such as R&D, education, and skills) could contribute to this goal. These issues are of particular importance in the euro area because both the share of public expenditure to GDP, and levels of labour taxation are relatively high. In the context of a high share of expenditure on social protection in many euro area Member States, the observed differences in the effectiveness of social spending, suggests a considerable scope for efficiency gains. In their Implementation Reports, some Member States (e.g. DE, ES, FI) reported on measures aimed at improving the composition and size of public expenditure, including the flexibility to free up resources. Important revenue side measures announced by Member States (AT, DE, FI, SI) concern the reduction of, distortions arising from the tax system, and of compliance and administrative costs. The improvement of institutional elements has been on the agenda in some Member States (DE, ES, FR). There is a consensus that the methodology for analysing and measuring the quality of public finances needs to be developed further. To this end, more effort is required in the provision of detailed data on the composition of public spending and revenues.
11. In general, the euro area has succeeded in fostering stability and creating conditions more conducive to growth. The recommendations in the macro-economic area have been addressed to some extent. Achieving the goal of sustainable public finances relies on continuing budgetary consolidation where medium term objectives are not met yet. Moreover, the quality of public finances can be further improved, along with policy co-ordination, through an enhanced exchange of best practice.

Micro-economic policies

12. A well functioning internal market is important to ensure competition, productivity growth and lower prices. It also improves the capability of euro area economies to adjust to changes in the external environment, and increased competitive pressures from third Member States. It appears that the continued efforts to improve the

functioning of the internal market and the introduction of the euro have both boosted trade, foreign direct investment, and cross-border mergers within the euro area. Euro area Member States would benefit from further product and service market reform that remove obstacles to cross-border trade in services and knowledge diffusion, tackle the low expenditures of R&D, and the lack of business dynamism and competition in network industries. Further financial integration and stronger competition in the financial retail service would also be helpful in this respect.

13. The Council recommended euro area Member States to enact measures that lead to more competition, especially in services, and to step up the integration of financial markets and competition in retail financial services. A full and timely implementation of the Service Directive by December 2009 is essential for the well functioning of the internal market. Uneven progress in this area restricts the full economic potential of the services sector from being exploited. Costly, given that this sector accounts for 70% of euro area GDP. Progress at national level to implement further actions to enhance competition in services is visible in a limited number of euro area Member States. In network services only a limited number of significant measures have been carried out in the rail (NL), telecom (EL, SI, FI) and energy (NL) sectors. Measures have been taken (ES, IT) or are expected (FR) in the retail sector. Last year's Annual Progress Report assessed that competition in professional services was insufficient in nine euro area Member States. Despite measures taken in some of these Member States (BE, ES, FI, IT, NL), the situation has not significantly improved.
14. Progress on financial integration has been notable at the EU level. The European parliament has adopted the proposal for the Payment Services Directive, with the Commission proposing two further directives. Implementation of the Financial Services Action Plan at the Member State level is close to completion, but several Member States have yet to transpose both the Transparency Directive and the Markets in Financial Instruments Directive. Legislative measures have mainly focussed on the integration of wholesale markets, with the European retail banking markets remaining significantly more fragmented. While the existing financial surveillance mechanisms have been effective in addressing the financial turmoil in the summer of 2007, there is a need to further develop financial stability arrangements, including common principles for cross-border financial crisis management.
15. In general, the euro area Member States have partially succeeded in implementing measures to improve competition in services. Euro area Member States have also taken measures to accelerate financial integration. The Commission considers that these policy measures are going in the right direction, but fall short of leading to integrated and competitive service markets with a visibly higher degree of price flexibility and stronger productivity growth. The recommendation in the micro-economic area has been addressed at least in part, although the benefits from policy co-ordination have not yet been exploited.

Employment policies

16. There are indications that the employment growth recorded over the last years is resulting from structural reforms undertaken in the past, especially from reforms that targeted increasing labour supply and making work pay. However, the evidence of

wage rigidities and persistently high unemployment among some social groups suggest that labour market structures are not yet sufficiently flexible and adaptable, in particular since the mobility of labour across borders, regions and occupations is low in the euro area.

17. Euro area Member States have addressed the recommendation to improve flexibility and security in labour markets. As a result, wage bargaining systems in some Member States are gradually moving in the direction of more wage and working time flexibility and differentiation, while achieving aggregate price stability and competitiveness through enhanced bargaining coordination. For example, signs of more decentralised wage bargaining have emerged in some Member States (AT, ES, FI, IT), more differentiated agreements were observed in other Member States (PT, SI), and in IE an anti-inflation group has been established. Some Member States (e.g. AT, FI, IE, NL) have progressed towards an integrated flexicurity approach, with others taking steps towards this (FR, IT, SI). There has been reform across the four flexicurity components. On contractual arrangements, progress is seen in AT and LU; there is an increasing adoption of lifelong learning strategies, but effective implementation remains limited, active labour market policies have been strengthened (e.g. AT, BE) and social security systems improved (e.g. BE, DE). Labour mobility has been the focus of EU initiatives (the Recommendation on "European Qualifications Framework" and the European Job Mobility Action Plan). However, with some exceptions (e.g. AT, BE, FI, IT), there has been limited progress on cross-border mobility.
18. In general, the euro area Member States have partially succeeded in implementing measures to review the wage setting mechanisms and to improve the financial incentives for labour market participation. In the Commission's opinion, these are useful steps in the right direction. It is necessary to spread the results achieved in some Member States and areas to others. The concept of flexicurity has not yet been used to design a comprehensive policy strategy. Overall, the euro area Member States have partly complied with the recommendation, but further areas need reform, and Member States that have not yet taken measures should do so. Stronger policy co-ordination, in particular through common learning from successful previous reforms, could stimulate much needed further reform.

PART III: CONCLUSIONS

19. In the light of the 2007 Implementation Reports of the euro area Member States, and the Commission's assessment of progress made in implementing key structural reforms and based on the Integrated Guidelines for Growth and Jobs, the following conclusions are appropriate:
20. Based on their Implementation Reports, the euro area Member States have been making some progress in implementing policy measures that improve the functioning of the euro area.
21. Significant further reforms are necessary to fulfil the micro-economic and employment recommendations. The progress recorded in 2007 concerning the macro-economic area needs to be sustained.

22. Among the strengths shown by the 2007 Implementation Reports of the euro area Member States are: budgetary adjustment in 2007, the implementation of legislation to foster financial market integration, and wage bargaining systems more conducive to wage flexibility in some Member States.
23. The policy areas in the euro area where challenges now need to be tackled with the highest priority are: the sustainability of public finances and their contribution to growth; competition in product and service markets, especially in services, financial integration and competition in financial retail services, in order to facilitate adjustment and more flexible prices; adequate wage developments at the aggregate, sector, regional and occupational level; flexicurity in labour markets; and more labour mobility in order to foster labour market adjustment.
24. Against this background it is recommended that the euro area Member States together with their country specific recommendations:
- pursue budgetary consolidation towards their medium-term objectives in line with the Stability and Growth Pact, hence striving to achieve an annual structural adjustment of at least 0.5% of GDP as a benchmark;
 - improve the quality of public finances by reviewing public expenditures and taxation, with the intention to enhance productivity and innovation, thereby contributing to economic growth and fiscal sustainability;
 - effectively implement measures that improve competition, especially in services, and step up measures that promote the full integration of financial markets and the competition in retail financial services, whilst strengthening stability and supervisory arrangements;
 - improve flexibility and security on labour markets inter alia by implementing "flexicurity" strategies, better aligning wage and productivity developments, and enacting measures to promote labour mobility across borders and between occupations.
25. For the future it will also be important for euro area to further strengthen governance to maximise policy synergies, which are stronger in a monetary union, and enhance political ownership of reforms. The Eurogroup's April 2007 Berlin orientations on public finances are a welcome step in this regard and a similar approach should be extended to other fields. A strengthening of the euro's representation in international financial institutions and fora would be in line with its potential as a pole of stability and growth in the global economy.

PART IV: STATISTICAL GRAPHS AND DATA

EURO AREA

	EURO AREA						2010 National target	EU27			2010 EU target
	2000	2003	2004	2005	2006	2000		2005	2006		
GDP per capita in PPS	113.9	111.9	110.9	110.9	110.1		100.0	100.0	100.0		
Labour productivity per person employed	114.6	111.5	110.6	110.8	110.3		100.0	100.0	100.0		
Employment rate						:				70.0	
Total	61.5	62.6	63.0	63.7p	64.6p		62.2	63.4p	64.4p		
Women	51.4	53.6	54.5	55.6p	56.7p		53.7	56.2p	57.2p		
Men	71.6	71.5	71.5	71.8p	72.6p		70.8	70.8p	71.6p		
Employment rate of older workers											
Total	34.3	37.8	38.6	40.4p	41.7p		36.9	42.3p	43.5p		
Women	24.3	27.9	29.0	31.5p	32.9p		27.4	33.5p	34.8p		
Men	44.8	48.1	48.5	49.7p	50.8p		47.1	51.5p	52.6p		
Gross domestic expenditure on R&D	1.85e	:	:	:	:	:	1.86e	1.84e	1.84e	3.0	
Youth education attainment level											
Total	73.1	73.1	73.5	73.6	73.8		76.6	77.4	77.8		
Women	76.5	76.3	77.2	77.2	77.6		79.3	80.1	80.7		
Men	69.6	69.8	69.9	70.1	70.1		73.8	74.7	74.8		
Comparative price levels	100.5	103.5	103.7	102.7	102.6		100.0	100.0	100.0		
Business investment	18.9	17.6	17.8	18.1	18.6		18.4	17.8	18.2		
At-risk-of-poverty rate after social transfers											
Total	:	:	:	15.0e	:		:	16.0e	:		
Women	:	:	:	17.0e	:		:	17.0e	:		
Men	:	:	:	14.0e	:		:	15.0e	:		
Dispersion of regional employment rates											
Total	:	:	:	:	:		13.0	11.9	11.4		
Women	:	:	:	:	:		20.0	16.8	16.2		
Men	:	:	:	:	:		9.6	9.7	9.3		
Long-term unemployment rate											
Total	4.0	3.9	4.1	4.0p	3.8p		4.0	4.1p	3.7p		
Women	4.9	4.5	4.7	4.5p	4.3p		4.6	4.5p	4.0p		
Men	3.2	3.4	3.6	3.5p	3.4p		3.5	3.8p	3.5p		
Total greenhouse gas emissions	99.0	101.7	102.1	101.4	:		90.7	92.1	:		
Energy intensity of the economy	184.2	186.7	185.7	183.4	:		213.1	208.1	:		
Volume of freight transport relative to GDP	104.2e	102.8e	109.3be	109.7e	110.5e		99.1e	105.4e	106.7e		

PERFORMANCE COMPARED TO EU-27

