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Delegations will find attached Commission document COM(2011)11 Annexe 1.

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ANNEXE 1

ANNUAL GROWTH SURVEY

ANNEX 1

PROGRESS REPORT ON EUROPE 2020

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PROGRESS REPORT ON EUROPE 2020

The presentation of this Annual Growth Survey, which marks the start of the first "European Semester", comes at a turning point for the European Union. Two years on, Europe is slowly emerging from recession. Recovery is gaining strength and pace, although uncertainties remain on sovereign markets and the financial sector is still being repaired and reformed.

As the outlook begins to improve, the time for resolute policy action comes. Bringing Europe out of the crisis has never meant just an orderly return to business as usual. The crisis has exposed fundamental weaknesses of the European economy and revealed growing internal imbalances. Recovery based on sustainable and job creating growth will only be possible if the underlying structural weaknesses are addressed and Europe can use the crisis to trigger a profound transformation of its economic structure.

Yet, while Europe contained and absorbed the impact of the crisis relatively better than other parts of the world, the pace of its recovery from the global turmoil risks being slower. The crisis has further aggravated the labour productivity gap with the US. Price and cost-competitiveness remain problematic. Emerging economies are returning to growth at a faster pace than the EU although some of them also face major economic challenges.

Europe 2020 is the agenda that the EU and its Member States have decided to *"help Europe recover from the crisis and come out stronger, both internally and at the international level"*[1]. Pulling Europe out the crisis requires a coordinated, comprehensive programme of reforms, covering fiscal consolidation, return to sound macro-economic conditions and front loading growth-enhancing measures.

The EU and its Member States have the collective responsibility of undertaking the necessary – but difficult– structural, forward looking reforms at the same time as they put the fiscal situation in order and restore healthy macro-economic conditions.

Europe needs to step up coordination of reform and economic policies to ensure that macro-economic adjustment, fiscal consolidation and policy reforms go together. While fiscal consolidation is an essential pre-requisite for growth, it is not sufficient to drive growth. In the absence of pro-active policies, potential growth is likely to remain weak in the coming decade. Growth will depend crucially on the environment for industry and business, in particular SMEs. Without growth, fiscal consolidation will be an even bigger challenge.

The June 2010 European Council introduced the concept of a "European Semester", bringing together macro-economic policy developments and structural reforms under Europe 2020. The "European Semester" is a time-window in the first half of each year in which Member States reporting under the Stability and Growth Pact and reporting under the Europe 2020

[1] European Council conclusions, 17 June 2010.

Strategy are aligned and policy guidance and recommendations are given to Member States before national budgets are finalised. This will strengthen the ex ante dimension of economic policy coordination and surveillance in the EU, making it possible to combine the benefits of a common agenda at EU level and of tailor-made action at national level. In this way, the EU can draw timely lessons from national developments and Member States can incorporate the European perspective and guidance into their national policies for the following year.

In this new policy coordination cycle, each year the Commission will present, in the Annual Growth Survey, its assessment of the main economic challenges facing the EU and recommend priority action to address them. Based on this input, the Spring European Council will give guidance on the main challenges ahead. Taking this guidance into account, Member States will then prepare their medium term budgetary strategies in their Stability or Convergence Programmes and will set out in their National Reform Programmes the measures needed to move towards the Europe 2020 targets and to address obstacles to growth. Both documents will be submitted simultaneously by mid-April. In the closing stage of the "Semester", based on recommendations from the Commission, the Council will issue country-specific policy guidance before the summer. Member States will thus be able to factor in these contributions when preparing their budgets for the following year.

In this first "European Semester", the Annual Growth Survey focuses on key messages on actions that should be addressed as a matter of priority by Member States. The analysis underpinning the messages is set out in three accompanying reports.

1. FRONTLOADING GROWTH-ENHANCING INITIATIVES

Action at Member States level is critical in avoiding a "lost decade scenario"…

The survey of the macro-economic and labour market situation across the EU shows that Member States need to act in 2011 and 2012 to avoid a slide into sluggish and job-poor growth (the "lost-decade scenario)". The most urgent task is to break the vicious circle of unsustainable debt, disruption on financial markets and low economic growth at work in some Member States. The first priority is to set budgetary policies back on track while protecting growth-enhancing policies, and to heal the financial sector swiftly to find the path to recovery. The second priority is a rapid reduction in unemployment and putting in place effective labour market reforms for more and better jobs. Tackling these priorities will only be effective if they are backed up by a major effort to kick-start growth at the same time.

Successful reforms will consist in improving the functioning of the labour and product markets, stimulating innovation and improving the framework conditions to do business in Europe. This will attract greater private-sector investment, which in turn will help enhance the quality of public finances. On the labour market side, reform efforts should focus on tackling low labour market participation by certain groups and the poor functioning of the labour market. Such policies would also have a positive impact on budgetary consolidation, by generating higher tax revenues and lower public spending on social transfers, and would help reduce the risk of future macroeconomic imbalances. Structural reforms can generate significant gains even in the short term. Output and employment gains alike are driven by improving framework conditions, product market and labour market reforms.

Flagship initiatives and EU levers must be mobilised to support national efforts

EU-level actions will also contribute to raising growth in ways that are smart, sustain able and inclusive. The Commission has mapped out an ambitious agenda, to be delivered by means of seven flagship initiatives as well as parallel action on horizontal policies supporting the strategy.

The Commission has presented the seven flagship initiatives set out in the Europe 2020 Strategy[2]. Each of the Flagships addresses specific issues and contains measures dedicated to specific policy areas. Their real significance lies in that fact that they are closely intertwined and mutually supportive. Thus, some key measures, such as the need for a new system of intellectual property rights, are relevant to different flagship initiatives - in this example the Innovation Union, Industrial Policy and the Digital Agenda.

Delivery of the Europe 2020 strategy also relies on the effective mobilisation and refocusing of all the EU instruments and tools to support reforms. To that end, the Strategy calls for action to enhance the single market, the EU budget and the tools for external economic action and to gear them to delivering the Europe 2020 objectives:

– In line with that commitment, the Commission has launched a debate on a future Single Market Act, to re-vitalise the single market and tap into new sources of growth[3] ;

– The Communication on the "EU budget review", sets out general orientations and possible options for how the EU budget can provide support for the Europe 2020 objectives, better reflecting the Strategy's priorities in the EU spending policies[4];

– Finally, the Communication on "Trade, Growth and World Affairs: Trade Policy as a core component of the EU's 2020 Strategy", sets out how trade and investment policy can be a key driver for growth[5].

Priorities for growth at EU level

The Europe 2020 Strategy presents a wide range of integrated policy reforms to be implemented in the coming years. To match the scale and urgency of the challenge to accelerate economic recovery and job creation, in 2011 and 2012, EU efforts will need to concentrate on the adoption of those measures that can most directly support Member States reform actions, do not require large public investments and have the greatest impact on growth and job creation. Therefore, the Commission will focus on a number of priority EU level measures to boost growth. These measures, selected from policies in the flagship initiatives, should have clear economic benefits in the short/medium run and lend themselves to relatively fast adoption. For example, priority should be given to taking the Single Market

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2 Digital Agenda for Europe (COM(2010) 245 final/2, 19.5.2010), Youth on the Move (COM(2010) 477, 15.9.2010), Innovation Union (COM(2010) 456, 6.10.2010), An industrial policy for the globalisation era (COM(2010) 614, 27.10.2010) An agenda for new skills and jobs. A European Contribution towards full employment (COM(2010) 682, 23.11.2010), A European Platform against Poverty and Social Exclusion: A European Framework for Social and Territorial Cohesion (COM(2010) 758, 15.12.2010). The "Resource efficient Europe" Flagships will be presented by the end of January 2011

3 "Towards a Single Market Act" - COM(2010) 608, 27.10.2010.

4 "The EU Budget Review" - COM(2010) 700, 19.10.2010.

5 "Trade, Growth and World Affairs: Trade Policy as a Core Component of the EU's 2020 Strategy - COM(2010) 612, 9.11.2010.

to a new stage by tapping the full potential of the services sector, attracting private capital to finance fast-growing innovative companies, modernising standard setting and intellectual property regimes, and creating cost-effective access to energy. The Commission will also propose measures in the field of VAT, common consolidated corporate tax base and energy taxation to improve tax environment of businesses, fight against double taxation and deliver on the EU climate and energy agenda.

The importance of services sectors themselves, and as input providers to other sectors, makes a stronger internal market in services an important driver of growth and job creation for EU economies. The full implementation of the Services Directive will increase competition, modernise the regulatory framework and advance significant structural reforms. Further action should be taken to deepen the internal market for services.

Measures promoting more open and more efficient public procurement can substantially reduce costs for the public sector and foster competition in the relevant markets. The efficient use of the resulting savings may have sizable macroeconomic benefits. Better access to public procurement markets in third countries may also produce additional gains in Europe.

Better infrastructure in sustainable energy, transport and information technology (in particular broadband technology) can help promote growth and jobs, in line with the long-term decarbonisation objectives. In this perspective, recourse to innovative financing including EU project bonds can contribute to the adjustment capacity of the economy.

At the microeconomic level, greater competition in both transport and energy sectors could lead to an increase in economic efficiency as a result of the entry of new suppliers and lower prices, and a more rational use of labour and capital via innovation. At macroeconomic level, these measures might lead to an increase in economic activity since the gains in the transport and energy sectors can spread to the rest of the economy because of the importance of these inputs in the production costs of other activities.

Industry and manufacture are a major source of private sector innovation and technological development and provide the majority of EU exports. Their recovery is essential for economic growth. At the same time, a well functioning single market for environmental goods and services offer major opportunities for growth, innovation and jobs.

When it comes to standard setting, being the first-mover globally is of the essence. Therefore, the Commission will propose measures to speed up and modernise standard setting in Europe, including for ICT. In the fast-evolving and interconnected field of ICT, this is indeed a particular challenge. The Commission will also develop EU-wide specific standards to help emerge a market for innovative, resource efficient and low carbon products and technologies.

To facilitate cross-border transactions in the Single Market, the Commission will in addition present, in 2011, a user-friendly legal instrument on European Contract Law that businesses and consumers can choose for their transactions in the Single Market and a regulation that will simplify the cross-border recovery of debt, including by means of bank attachments. This should help overcome the present situation in which only 37% of cross-border debt can be recovered in the EU.

In order to unlock the current situation where content available online can't always be accessed lawfully cross-border within the Union, the Commission will put forward a

European framework for intellectual property that will boost e-commerce and the digital industries in particular.

Concerning access to finance, especially for SMEs and innovative start-ups, a package of measures such as the venture capital passport aiming to remove cross-border barriers, including tax obstacles arising from diverging national regulations can contribute to reducing financing costs for start-ups by means of lower risk premia and thus foster innovation. The Commission will also address the question of attracting long-term foreign investors to the EU.

2. FIRST STEPS TOWARDS THE EUROPE 2020 TARGETS

The June 2010 European Council, which adopted the Europe 2020 Strategy and its five EU-headline objectives, called on Member States to act now "*to implement these policy priorities at their level. They should, in close dialogue with the Commission, rapidly finalise their national targets, taking account of their relative starting positions and national circumstances, and according to their national decision-making procedures. They should also identify the main bottlenecks to growth and indicate, in their National Reform Programmes, how they intend to tackle them*".

In the autumn of 2010, Member States, in close co-operation with the Commission, worked on setting national targets and on developing strategies for their implementation. They were invited to present by mid November, in a draft version, their National Reform Programme ("NRPs"), indicating their envisaged national targets and the necessary reforms to reach these targets and remove long-standing barriers to growth. The fact that each Member State sets its own level of ambitions as regards the overall Europe 2020 targets is an important element of this strategy, ensuring that national targets are "politically owned", i.e. subject to an internal political debate.

Except for two Member States, all other Member States have set themselves national targets. In some cases, they presented only provisional targets or qualitative objectives. Furthermore, given the preliminary nature of the reflection, some targets are drafted as ranges or as "minimum targets" based on current policies.

Although no final conclusions can be drawn from the preliminary figures provided in the draft NRPs, some trends of general relevance can be identified. There is a risk of a relatively low level of ambition in setting national targets and of an excessive focus on the short term, with insufficient attention to designing reform trajectories covering the whole period up to 2020. The purpose of the targets is not just numerical – it is to generate momentum with each Member State committing to stretch itself to make measurable progress in key areas which are summarised by the five headline targets. In most cases, the aggregation of the provisional national targets shows that the EU still has some way to travel to meet the EU headline targets agreed by the European Council. It is understandable that for some Member States it may be difficult to take ambitious commitments in a period of economic uncertainties. However, in the logic of long-term National Reform Programmes, what is important is to set a trajectory which takes into account the current circumstances, but aims to achieve the right result at the end of the period. Recognising both that this is the first year of a new approach and the particular challenges for many Member States of raising their level of ambition at a time of fiscal consolidation, the Commission proposes to make a mid-term review in 2014. This will enable the EU to analyse the reasons whether the desired level of progress can be achieved and to take additional measures if needed.

The following section provides a preliminary overview of the draft national targets as they stand today, presented in a table in annex. By April 2011, all Member States are expected to commit to precise national targets, covering all five EU-headline targets. As from next year, the "Annual Growth Survey" will monitor progress towards the headline targets more closely, reporting on the finalised national targets.

2.1. Employment

The EU headline target is a 75% employment rate for women and men aged 20 to 64 by 2020, to be achieved through greater participation of young people, older workers and low skilled workers as well as the better integration of legal migrants. Low labour market participation is one of Europe's longstanding key structural weaknesses. Before the crisis, Europe's employment rates were several percentage points lower than those of the US and Japan. The crisis has dramatically worsened unemployment, while demographic changes threaten to further shrink the available workforce. Increasing labour market participation would have a significant impact on Europe's future growth.

The analysis of the draft NRPs shows that Member States have taken ownership of this target and have to a large extent set out to tackle labour market bottlenecks. Most Member States have chosen a point target, but several countries have proposed a target range, namely Austria, Belgium, Cyprus, Italy and Slovakia. The Netherlands and the United Kingdom have not yet set an official national target. The targets proposed range from 62.9% (Malta) to 80% (Sweden).

If all Member States could achieve their stated national target for 2020 or achieve the lower value of their target range, the average EU employment rate among those Member States that have set a national target would be 72.4%. If all Member States could achieve the upper value of their target range, this EU average employment rate would be 72.8%. In other words, based on present national employment rate targets, the EU as a whole would fall short of the 75% target by 2.2-2.6 percentage points.

2.2. Research & Development

Both in level of resources invested, in particular private sector resources, and effectiveness of spending Europe, lags significantly behind the US and other advanced economies. Such a gap negatively affects growth perspectives, in particular for the sectors holding the largest growth potential. The Europe 2020 target requires that conditions for R&D investment are improved, with the view to raising the combined private and public investment level to at least 3% of GDP.

The compilation of all provisional national targets indicates an aggregated level of 2.7 or 2.8% of GDP, which is below the expected target of 3% GDP invested in R&D, but which represents a significant effort, particularly in the current budgetary context. Some Member States have taken steps to increase significantly their public investment in research, innovation and education, recognising that these investments will fuel future growth. Some Member States indicated high but nonetheless realistic targets, despite the difficulty of committing to the private component of their R&D target.

Another closely related aspect of the EU's performance in innovation is the share of fast-growing, innovative companies in the economy[6]. Member States need to start gearing their reforms to removing obstacles to the growth of innovative companies, including by improving framework conditions and access to finance.

2.3. Climate action and energy policy

Achieving sustainable growth means transforming Europe into a competitive, resource efficient, low carbon economy and society. Such a vision underpins the threefold target set out in Europe 2020: reducing greenhouse gas emissions by at least 20% compared to 1990 levels or by 30% if the conditions are right; increasing the share of renewable energy sources in the EU final energy consumption to 20%; and increasing by 20% energy efficiency.

National targets already exist regarding renewable energy sources and the reduction of greenhouse gas emissions.

Regarding energy efficiency, the analysis of the draft NRPs shows that, at this stage, Member States have taken limited ownership of this target. Some Member States did not provide indications on this target while others used different methodologies to express their national targets. Due to these differences and to incomplete information, clarification of the objectives to be reached by each Member State is urgently needed.

However, preliminary assessment shows that cumulative efforts would fall significantly short (reaching less than 10%) of the EU overall target of reducing energy consumption by 20% by 2020. This is worrying because energy efficiency is the most cost effective way to reduce emissions, improve energy security and competitiveness and to make energy consumption more affordable as well as create employment. Similarly, in the field of climate mitigation, the existing and planned measures are not yet sufficient to reach the 2020 headline targets.

2.4. Education and training

Promoting innovation and growth also requires an appropriate supply of skilled and trained workforce. A highly skilled population is also essential to stem the challenges of demographic change and social inclusion in Europe. Investing in quality education, training and lifelong learning is therefore a key dimension for a smart, sustainable and inclusive growth.

Europe 2020 sets a twin headline target in respect of education, namely that by 2020 less than 10% of the population aged 18-24 should have left school early; and that at least 40% of the EU's young adults (30-34 years) should have completed tertiary or equivalent education. The analysis of the draft NRPs reveals that on average greater attention is paid to the analysis of current challenges and possible answers than to defining concrete reform plans and measures. In most draft NRPs it is unclear whether measures described are launched in response or at least adjusted to the priorities of Europe 2020.

All draft NRPs have set national targets for the reduction of early school leaving and for increasing the number of tertiary graduates, with the exception of United Kingdom (which sets no targets) and the Netherlands (which sets a target for early school leaving but not for tertiary attainment).

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[6] The Commission is developing such an indicator in response to the request of the European Council - COM(2010) 546, 6.10.2010, p. 29.

For early school leaving, while some Member States have set highly ambitious targets, the overall effort seems likely to result in Europe falling short of the 10% target for 2020. With the targets submitted in the draft NRPs and not including countries that have not yet defined targets (UK for both targets, NL for higher education), a rate of 10.5% early school leavers would be achieved by 2020 thus missing the common European target of 10%. In absolute figures this would mean that in 2020 roughly an additional 200 000 young Europeans would have dropped out from education and training.

Similarly, the currently submitted national targets for tertiary attainment will not be sufficient to reach the overall 2020 target. With a total tertiary attainment rate of 37.3% by 2020 the common European target of 40% will be missed. In absolute figures this would mean that in 2020 there would be roughly 800 000 fewer tertiary graduates aged 30-34 than if the 40% rate was achieved.

2.5. Social inclusion/fight against poverty

There can be no sustainable growth unless its benefits accrue to all segments of the society. Yet, inequality has been growing across Europe in the past decade, with more and more people experiencing poverty and social exclusion. The economic crisis has dramatically increased the number of people falling or risking to fall below the poverty level. Reversing this trend and ensuring that growth and social cohesion go together is a key objective of the Europe 2020 Strategy. The EU headline target aims at reducing the number of Europeans living below the poverty line by 25%, thus lifting at least 20 million people out of poverty. The target is defined on the basis of three indicators[7] which reflect the multiple facets of poverty and exclusion across Europe. It extends the original concept of relative income poverty to cover the non monetary dimension of poverty and situations of exclusion from the labour market. It also reflects the diversity of situations and priorities across Member States.

Preliminary analysis shows that relative poverty remains a main challenge in most EU countries. Improving overall living standards can significantly help reducing poverty and exclusion in countries with lower GDP per capita and high material deprivation rates. Fighting labour market exclusion is a priority for all countries, including for those with developed welfare systems that protect people relatively well from income poverty, but provide weak incentives and/or little support for the labour market participation of those furthest away from the labour market.

In their draft NRPs, a majority of countries have set targets, although they do not meet yet the level of ambition agreed by the European Council. Most Member States have used the three agreed indicators to define the EU target, thereby acknowledging that broad strategies are needed to tackle poverty in all its dimensions. However, the level of ambition should be raised to reflect the interaction between the targets, in particular the link between labour participation and poverty. Several countries have still not set their target. It is urgent that these countries rapidly finalise the process.

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[7] The at-risk-of poverty rate, severe material deprivation and people living in households with very low work intensity.

3. National Reform Programmes

3.1. Draft National Reform Programmes

The Europe 2020 targets are a core element of the National Reform Programmes, which should represent a much broader and comprehensive reform agenda. Member States were invited to transmit their draft NRPs by 12 November 2010 and to include the following four building blocks:

– A medium term macro-economic scenario: All draft NRPs contain a macro-economic scenario and dedicate particular attention to macro-structural obstacles to growth, in particular in the fiscal area.

– The national targets translating the Europe 2020 headline targets: most draft NRPs included them (see above).

– An identification of the main obstacles to growth and jobs. The draft NRPs most of the time confirmed the obstacles to growth identified by the EPC in June 2010 and by EMCO in October 2010. In some cases, few additional challenges were included.

– Main measures to "frontload" growth-enhancing initiatives. Almost all drafts were silent on the frontloading of structural reforms to boost sustainable growth in the medium-to-long term.

The draft NRPs vary in terms of detail and degree of preparation, some being more complete and further advanced than others. As a general feature, the pressures on potential growth and employment are not fully acknowledged in the draft NRPs. Macro-economic scenarios presented by Member States tend to be overly optimistic compared to the Commission's assessment. At the same time, employment scenarios are too pessimistic as they are influenced by negative short term factors. A preliminary review of the draft NRPs shows the following main issues:

– A large majority of Member States face significant fiscal challenges in reducing structural deficits, lowering often high debt ratios and containing the costs of ageing population. In many countries, strengthening the quality of public finances and the institutional framework via better fiscal control would help sustainability.

– Most Member States highlighted the need to ensure a stable and well functioning financial sector, capable of providing financial intermediation without State support. The challenges in this area include household-over indebtedness, ensuring efficient regulatory supervision and a well functioning banking sector.

– Addressing competitiveness and current-account imbalances is relevant for all Member States, but particularly for the smooth functioning of EMU. Within the euro area, this is reflected actions to reduce intra euro area imbalances, e.g. strengthening of domestic demand conditions, relative wage and price adjustments, greater wage flexibility, and the reallocation of resources from the non-tradable to the tradable sector.

– All Member States also have identified the need to improve labour market participation and/or conditions for employment, and to tackle poor functioning of labour markets and labour market segmentation, insufficient occupational and geographical mobility, insufficient incentives to work and the exclusion of different age groups.

– Most Member States also acknowledged challenges relating to productivity improvements and facilitating the transition towards higher value added production and exports; these relate to higher capital investment, ensuring an efficient regulatory business environment, administrative efficiency as well promoting higher degrees of competition.

– Finally, Member States recognise a need to promote innovation capacity and to strengthen investment in human capital with a view to raising growth potential and to reduce mis-matches on the labour market.

However, at this stage, the policies presented in the draft NRPs fall short of providing a clear response to the important macro-economic challenges and growth bottlenecks. The policy actions often refer to channels through which the challenges could be addressed rather than to concrete measures. While more detail was provided regarding fiscal consolidation measures, little attention was given to structural reforms that could boost growth in the medium and long run. Many draft NRPs provide an overview of planned measures that would allow Member States to reach their national targets. The list of measures however often included already implemented measures or measures that are already quite advanced. Planned policy action was often presented in rather vague terms, with little details on the precise nature of the measures, the implementation timeline, the expected impact, the risk of partial or unsuccessful implementation, the budgetary cost and the use of EU Structural Funds. An exception to this trend was the programmes presented by Member States receiving financial assistance, which presented more detailed measures.

3.2. Co-operating towards final National Reform Programmes

The time between the submission of the draft and final NRPs will be used for an exchange between the Commission and the Member States and for peer review within the Council. In November 2010, the EMCO peer reviewed the employment elements of the draft NRPs and in December, the EPC looked at the macro-economic elements in a horizontal review.

After the adoption of this Annual Growth Survey, which provides overall guidance to the Member States for finalising their NRPs, the Commission will again contact Member States bilaterally to discuss the finalisation of their NRPs in the light of this guidance and their particular circumstances.

In parallel national consultations should be finalised in order to secure strong ownership of the NRPs. These consultations should involve political actors (national parliaments, regional and local authorities) as well as social partners and other stakeholders in the preparations. In only a limited number of cases have the draft NRPs already been the subject of consultations at different levels. While some Member States indicated that they would engage in consultations before finalising their NRPs, most have not provided information on the consultation process.

The insufficient attention to structural reforms that could boost growth in the medium and long run is worrying. In the absence of such growth-enhancing policies, consolidation strategies could turn out to be self-defeating.

The objective is that the final NRPs reflect a reform programme targeted and politically owned by the Member States, and by different actors within the Member States, while at the same time following certain common criteria necessary to allow for synergies and better monitoring. In particular, it is expected that the final NRPs should provide:

– potential and effective medium-term output growth estimates covering (at least) a four-year horizon. The macro-economic scenarios presented under the 2011 programmes should therefore cover the period up to 2014;

– ambitious and realistic targets covering all five EU-headline targets, accompanied by trajectories until 2020 to reach the targets, and a mid-term review in 2014;

– more detail on long-term measures, going beyond those already in preparation, including a coherent plan for reforming research and innovation systems, based on an analysis of the individual Member State's strengths and weaknesses[8]

– budgetary implications of reforms – including where appropriate clearer indications of national progress in and plans to use the Structural Funds to support growth friendly investment;

– measures to remove the bottlenecks to growth, including details on the time-line, expected effects and budgetary consequences. These will address growth drivers or framework conditions to growth and can include e.g. measures to support the internal market, the business environment, growth and internationalisation of SMEs, structural reforms in services markets (e.g. the Services Directive) the uptake of a digital society and economy, better consumer conditions etc. The benefits, notably in terms of productivity, from a wider uptake of information and communication technologies are well-known and therefore deserve in many cases targeted policy measures;

– information on the involvement and contributions of the different stakeholders. Communication efforts to bring reform programmes closer to stakeholders and citizens, as well as mechanisms set up in the Member States to monitor the implementation of reforms, should also be mentioned in this context.

4. CONCLUSIONS

For this first Annual Growth Survey, monitoring and assessing progress poses a special challenge, given that the Europe 2020 Strategy was put in place very recently. In the months following adoption of the Strategy and its endorsement by the European Council in June 2010, action at EU level naturally focused on laying down the framework and in launching the seven flagship initiatives. Member States, in turn, have begun to take the first steps to set in motion their own reform programmes. Taking into account the novel nature of the first cycle of implementation of Europe 2020, Member States presented draft National Reform Programmes, foreshadowing the final documents to be submitted by April 2011.

The thematic review shows that while there is a general awareness of the urgency of fiscal consolidation and of the need to restore order in the financial and banking sector, much less investment has been made in defining the reforms needed to address imbalances and re-start growth and job creation. This is also the case as regards the preliminary national targets that show the EU is likely to fall short of the agreed headline targets at EU level. Nonetheless, the preliminary data shows that the gaps are not so large that they cannot be closed by determined action in the coming years. What matters most in the early years is to generate momentum

8 As an aid to carrying out this analysis, Member States are encouraged to use the "self assessment toold" provided as part of the Innovation Union Flagship Initiative, COM(2010) 546 (final)

towards targets that stretch each Member State, no matter what its starting point. Priority should be given in the next months to progress on structural reforms by taking action at national level and by frontloading growth enhancing measures within the flagship initiatives, in line with the key messages of this Annual Growth Survey.

Managing the return to fiscal discipline and macro-economic stability, while delivering structural reforms, will be main themes for the "European Semester". Based on the conclusions of the March European Council, the Commission will assess the NRPs and the Stability and/or Convergence Programmes by June 2011 and will make integrated country specific recommendations to Member States, based on the Europe 2020 integrated guidelines and provide guidance on budgetary policy under the Stability and Growth Pact[9]. The recommendations and the Council Opinions on the Stability and Convergence Programmes will be adopted by the Council in July 2011. It will then be for the EU to act and for Member States to turn these recommendations and opinions in concrete decisions when setting their national budgets for 2012 in the second half of the year.

[9] Council recommendation of 13 July 2010 on broad guidelines for the economic policies of the Member States and of the Union (2010/410/EU) and Council Decision of 21 October 2010 on guidelines for the employment policies of the Member States (2010/707/EU), which together form the Europe 2020 Integrated Guidelines.

Annex:
Provisional Europe 2020 Targets[10]

Member States' draft targets	Employment rate (in %)	R&D in % of GDP	Emissions reduction targets (compared to 2005 levels)[11]	Renewable energy	Energy efficiency – reduction of energy consumption in Mtoe[12]	Early school leaving in %	Tertiary education in %	Reduction of poverty in number of persons[13]
AT	77-78%	3.76%	-16%	34%	7.2	9.5%	38% (including ISCED 4a, which currently is at about 12%)	235.000
BE	71-74%	2.6-3.0%	-15%	13%	No target in NRP	9.5-10%	46-48%	330.000-380.000
BG	76%	1.5%	20%	16%	3.2	11%	36%	260.000 (500.000)
CY	75-77%	0.5%	-5%	13%	0.46	10%	46%	18.000
CZ	75%	2.70	9%	13%	No target in NRP	5.5%	32%	30.000
DE	75%	3%	-14%	18%	37.7	Less than 10%	42% (including ISCED4 which currently is at 11.4)	330.000 (660.000)
DK	78.5%	3%	-20%	30%	No target in NRP	Less than 10%	40%	22.000
EE	76%	3%	11%	25%	0.49 (end-use only)	9.5%	40%	49.500
EL	70%	2%	-4%	18%	5.4	10%	32%	450.000
ES	74%	3%	-10%	20%	25.2	15%	44%	No target in NRP
FI	78%	4%	-16%	38%	4.21	8%	42%	150.000

10 The final national targets will be set out in the National Reform Programmes in April 2011.

11 The national emissions reduction targets defined in Decision 2009/406/EC (or "Effort Sharing Decision") concerns the emissions not covered by the Emissions Trading System. The emissions covered by the Emissions Trading System will be reduced by 21% compared to 2005 levels. The corresponding overall emission reduction will be -20% compared to 1990 levels.

12 It should be noted that the national projections also vary as to the base year(s) against which savings are estimated.

13 Estimated contribution to EU target.

FR	75%	3%	-14%	23%	43	9.5%	50%	1.600.000 by 2015
HU	75%	1.8%	10%	13%	No target in NRP	10%	30.3%	450.000-500.000
IE	No target in NRP	No target in NRP	-20%	16%	2.75	8%	60%	186.000
IT	67-69%	1.53%	-13%	17%	27.9	15-16%	26-27%	2.200.000
LT	72.8%	1.9%	17%	23%	0.74 (end-use only)	9%	40%	170.000
LU	73%	2.6%	5%	11%	0.19 (end-use only)	Less than 10%	40%	3.000
LV	73%	1.5%	-16%	40%	0.67	13.4%	34-36%	121.000
MT	62.9%	0.67%	14%	10%	0.24	29%	33%	6.560
NL	No target in NRP	No target in NRP	1%	14%	No target in NRP	Reduce the number of ESL to 25 000 (= down to 9%)	No target in NRP	No target in NRP
PL	71%	1.7%	19%	15%	13.6	4.5%	45%	1.500.000-2.000.000
PT	75%	2.7-3.3%	-17%	31%	No target in NRP	10%	40%	200.000
RO	70%	2%	4%	24%	10	11.3%	26.7%	580.000
SE	80%	4%	13%	49%	No target in NRP	10%	40-45%	No target in NRP
SI	75%	3%	17%	25%	No target in NRP	5.1%	40%	40.000
SK	71-73%	0.9-1.1%	5%	14%	1.08 (end-use only)	6%	30%	170.000
UK	No target in NRP	No target in NRP	-16%	15%	No target in NRP	No target in NRP	No target in NRP	Existing child poverty target
Estimated EU	**72.4-72.8%**	**2.7-2.8%**	**-20% (compared to 1990 levels)**	**20%**	**less than 10%**	**10.5%**	**37.3%**	
EU headline target	**75%**	**3%**	**-20% (compared to 1990 levels)**	**20%**	**20% increase in energy efficiency**	**10%**	**40%**	**20.000.000**