



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 12.12.2006
COM(2006) 816 final
PART III

Recommendation for a

COUNCIL RECOMMENDATION

on the 2007 up-date of the broad guidelines for the economic policies of the Member States and the Community and on the implementation of Member States' employment policies

(presented by the Commission)

EXPLANATORY MEMORANDUM

In 2005, the Lisbon Strategy was streamlined and renewed and the focus placed firmly on growth and employment. New governance structures were established, with a clear division of responsibilities between the Community and the national levels. As part of this, all 25 Member States drew up three-year National Reform Programmes setting out their response to the particular challenges facing them.

In its 2006 Annual Progress Report¹, the Commission assessed the National Reform Programmes, pointed out their strengths and weaknesses and asked Member States to make improvements where necessary. The 2006 Spring European Council welcomed this assessment and urged Member States to implement their National Reform Programmes with vigour. It also identified four priority areas: investing more in knowledge and education; unlocking business potential, especially of SMEs; increasing employment opportunities for priority categories; and an integrated energy policy for Europe. In each one of these areas, it agreed a number of specific actions which it urged Member States to implement by the end of 2007.

In October 2006, Member States presented their first reports on the implementation of their National Reform Programmes. Based on these implementation reports, the Commission has prepared the 2007 Annual Progress Report². It contains detailed assessment of the progress made and takes into account the work carried out by the Council on selected themes. The full text of the assessments done per Member State and for the euro zone can be found in Part II of the Annual Progress Report.

As explained in the Report, the Commission is of the opinion that Member States have made a promising start with the implementation of their National Reform Programmes. The challenge now is to maintain the momentum and to press ahead with implementation within an improved economic context.

In the light of its assessment of the implementation of National Reform Programmes and following the requests made by the Council to rely more on Treaty-based instruments in the implementation of the renewed strategy, the Commission has decided to propose guidance to Member States in the form of country specific recommendations under Articles 99(2) and 128(4) of the Treaty. In order to pursue the Lisbon strategy for growth and jobs in a coherent and integrated manner, the Commission recommends now to adopt the country-specific recommendations concerning economic policies and employment policies in a single instrument, which also reflects the integrated structure of the National Reform Programmes and their Implementation Reports. It believes that using this instrument will help to cement the partnership between the Commission, the other EU institutions and the Member States which forms the basis for the renewed Strategy.

The proposed recommendations relate in particular to those issues which the Commission highlighted as deserving particular attention by Member States in its 2006 Annual Progress Report. In addition, the Commission has flagged up some key issues where progress during 2007 should be closely monitored. The Commission will pay particular attention to progress made on these issues when it returns to the question of country-specific recommendations

¹ COM(2006) 30.

² COM(2006) 816, Part I.

next year. This will also be the case for efforts in the four priority action areas which the European Council agreed should be delivered by the end of 2007.

Recommendation for a

COUNCIL RECOMMENDATION

on the 2007 up-date of the broad guidelines for the economic policies of the Member States and the Community and on the implementation of Member States' employment policies

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 99(2) and Article 128(4) thereof,

Having regard to the recommendation from the Commission,

Having regard to the conclusions of the European Council on 23 and 24 March 2007,

Having regard to the opinion of the Employment Committee,

Whereas:

- (1) The Spring 2005 European Council renewed the Lisbon Strategy by refocusing on growth and employment in Europe.
- (2) The Council adopted in July 2005 a recommendation on the broad guidelines for the economic policies of the Member States and the Community (2005 to 2008)³ and a decision on Guidelines for the employment policies of the Member States⁴, which together form the "Integrated guidelines for jobs and growth".
- (3) The Member States were invited to take the integrated guidelines for jobs and growth into account in their national reform programmes regarding economic and employment policies.
- (4) All Member States submitted their national reform programmes (NRPs) by October 2005, which the Commission assessed and reported on in its contribution to the 2006 Spring European Council.
- (5) The 2006 Spring European Council took note of these documents and identified four priority areas (R&D and innovation, business environment, employment opportunities and an integrated energy policy) within which it agreed a limited number of specific actions which it urged Member States to complete before the end of 2007.

³ OJ L 205, 6.8.2005, p. 28.

⁴ OJ L 205, 6.8.2005, p. 21.

- (6) In accordance with the conclusions of the 2006 Spring European Council, the Member States have presented their annual reports on the implementation of the national reform programmes.
- (7) These annual implementation reports have been analysed by the Commission, which has presented its findings in the 2007 Annual Progress Report⁵.
- (8) On the basis of this analysis, a number of recommendations should be issued. In order to pursue the Lisbon strategy for growth and jobs in a coherent and integrated manner, the country-specific recommendations concerning economic policies and employment policies should now be adopted in a single instrument. This approach reflects the integrated structure of the National Reform Programmes and the Implementation Reports, as well as the necessary consistency between the employment guidelines and the Article 99(2) broad economic policy guidelines, as underlined in Article 128(2), last sentence.
- (9) To fully implement the Lisbon strategy for growth and jobs, this recommendation should also contain specific recommendations to the Member States belonging to the euro area.
- (10) The European Parliament has adopted a resolution regarding this Recommendation,

HEREBY RECOMMENDS that Member States should take action along the lines set out in the Annex and report on their follow up in their next annual progress reports on the implementation of their national reform programmes in the framework of the renewed Lisbon strategy for growth and jobs.

Done at Brussels,

*For the Council
The President*

⁵ COM(2006) 816, Part II.

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BELGIUM

1. In the light of the analysis presented in the Commission's 2007 Annual Progress Report - Part II - and based on the Integrated Guidelines for Jobs and Growth, the following conclusions are appropriate:
2. Belgium is making good progress in the implementation and reinforcement of its 2005-2008 National Reform Programme. While there is a certain risk for the sustainability of public finances in the context of an ageing population, overall the policy framework is appropriate. Despite moderate progress on R&D, Belgium is implementing the measures announced in the micro-economic field and reinforcing existing reforms to increase investment. The picture in the employment field is more mixed and steps are needed to achieve the EU-wide employment rate goals, in particular for older people. Belgium has launched a series of measures to respond to the commitments made by the 2006 Spring European Council.
3. Among the strengths of the Belgian National Reform Programme and its implementation are: the continued downward trend of the debt ratio; the stabilisation of the declining trend in R&D intensity; the development of clusters and competitiveness poles; the improved record on the transposition of internal market directives; further measures in the field of better regulation and administrative simplification; the policy to promote business start-ups; the measures to improve the alternate learning system; and the formal recognition of acquired skills and the quality of the technical education system are welcome.
4. The policy areas in the Belgian National Reform Programme where weaknesses need to be tackled with the highest priority are: reducing the tax burden on labour and reducing regional disparities in unemployment. Against this background Belgium is recommended to:
 - undertake further efforts to reduce the tax-burden on labour towards the average of its neighbouring countries, while continuing fiscal improvement;
 - take further measures aimed at reducing regional disparities in unemployment through active labour market policies, reintegration and education policies.
5. In addition, it will be important for Belgium over the period of the National Reform Programme to focus on: ensuring the long term sustainability of public finances; identifying further emission reduction policies and measures; improving competition in gas and electricity markets, including through independent and effective regulators and through additional measures concerning transmission and distribution operators; and increasing the employment rate for older workers and vulnerable groups, in particular by tightening the eligibility criteria for early retirement schemes and by enhancing active labour market policies.

CZECH REPUBLIC

1. In the light of the analysis presented in the Commission's 2007 Annual Progress Report - Part II - and based on the Integrated Guidelines for Jobs and Growth, the following conclusions are appropriate:
2. The Czech Republic is making limited progress in the implementation of its National Reform Programme: progress in several areas is not clearly spelled out, some reforms have been postponed, while others have not been set in motion. Yet the strong economic growth should facilitate reforms. There are certain risks in the macro-economic area, particularly for medium-term budgetary consolidation and the long-term sustainability of public finances in the context of an ageing population. Although the Czech Republic is generally moving ahead relatively well in the micro-economic field, progress on R&D is moderate. In the employment area more efforts are required to respond to the key challenge of improving labour market flexibility. Progress on meeting the commitments made at the 2006 Spring European Council has also been mixed.
3. Among the strengths of the implementation of the National Reform Programme are positive measures to increase the control and transparency of public finances; to improve regulation and the business environment; to reform curricula for primary education and to stimulate participation in tertiary education.
4. The policy areas in the Czech National Reform Programme where weaknesses need to be tackled with the highest priority are: the sustainability of public finances, since the 2007 budget anticipates a breach of the expenditure ceilings and an increased deficit; increasing the amount and effectiveness of public R&D expenditure; improving security and flexibility in the labour market; improving education and training and increasing participation in lifelong learning. Against this background the Czech Republic is recommended to:
 - with a view to improving the long-term sustainability of public finances, take steps to implement reforms of the pension and healthcare systems, in particular on the basis of the 2005 all-party pensions report, and fix a timetable for their implementation;
 - strengthen efforts to improve collaboration between business and public R&D institutions, while keeping up the pace of increasing public R&D investment;
 - modernise employment protection, including legislation and tax and benefit systems, improve education and training systems, and provide incentives to invest in training, particularly for older workers and the low-skilled.
5. In addition, it will be important for the Czech Republic over the period of the National Reform Programme to focus on: improving the system for patenting and the protection of intellectual property rights; speeding up progress in the ICT area, including by implementing and monitoring the development of a fully enabling legal environment for e-Government; meet targets for reducing the administrative burden on enterprises; further developing access to finance for innovative companies; developing links between foreign-owned and domestic companies; introducing entrepreneurship education into the curricula; better integrating disadvantaged groups into the labour market; reducing regional employment disparities; reconciling work and family life; tackling the gender pay gap and implementing the active ageing strategy.

DENMARK

1. In the light of the analysis presented in the Commission's 2007 Annual Progress Report - Part II - and based on the Integrated Guidelines for Jobs and Growth, the following conclusions are appropriate:
2. Denmark is making very good progress in the implementation of its National Reform Programme and the 2006 Spring European Council conclusions. Denmark has with the June 2006 Welfare Agreement further strengthened its reform strategy in terms both of macro-economic and employment policy and has made very good progress in reaching a national consensus on reforms. Denmark has also made progress on micro-economic policies, including in the area of competition.
3. Among the strengths of the Danish National Reform Programme and its implementation are: the comprehensive, integrated nature of the reform strategy, which is a benchmark for other Member States; the combination of a medium and long-term approach, reinforced by consistently taking into account stakeholder input; the "flexicurity" based approach to the labour market; the overall macro-economic strategy aimed at long-term fiscal sustainability, including expenditure restraint, fiscal surpluses and a rapid reduction of government debt; and the sound measures aimed at increasing labour supply in the long term, in particular the agreement to defer early retirement.
4. It will be important for Denmark over the period of the National Reform Programme 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; 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; identifying further emission reduction policies and measures; reinforcing existing well-targeted measures to improve primary and secondary education and increase the number of students finalising upper-secondary or tertiary education, as these may not be sufficient to reach the ambitious targets set.

GERMANY

1. In the light of the analysis presented in the Commission's 2007 Annual Progress Report - Part II - and based on the Integrated Guidelines for Jobs and Growth, the following conclusions are appropriate:
2. Germany is making good progress overall in the implementation of its National Reform Programme, and especially on the macro- and micro-economic key challenges and priority actions. It is moving forward more slowly in the field of employment. Germany is also responding reasonably well to the commitments made at the 2006 Spring European Council.
3. Strengths of the reforms in 2006 include the progress in the area of consolidation and sustainability of public finances, as well as the implementation of various better regulation measures, such as the web-based information tool "*Startothek*" for business start-ups and the establishment of an independent council at federal level for impact assessment (*Normenkontrollrat*). Other strengths are evident in the field of knowledge society (R&D and innovation), as well as in the higher visibility given to measures for the integration of older unemployed people.
4. The policy areas in the German National Reform Programme where weaknesses need to be tackled with the highest priority are: improving the long-term sustainability of public finances; improving competition, notably in professional services and new broadband markets; and tackling structural unemployment. Against this background, it is recommended that Germany:
 - improve long-term sustainability of public finances by continuing fiscal consolidation, leading to debt reduction, and by implementing the health care reform with a view to keeping expenditure growth in check and strengthening efficiency in the health sector;
 - improve competition in product and services markets, notably by continuing to relax restrictive rules governing many liberal professions and effectively regulating wholesale bitstream access;
 - tackle structural unemployment including 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 and young unemployed.
5. In addition, it will be important for Germany over the period of the National Reform Programme to focus on: ensuring that health care reform makes the health system more efficient; improving public procurement procedures; removing barriers to competition in the rail sector and in gas and electricity networks, where unbundling has been ineffective; speeding up business start-ups and facilitating hiring the first employee; building on existing measures to improve lifelong learning, including by developing adults' vocational training into a fourth pillar of the educational system; increasing the provision of childcare facilities.

ESTONIA

1. In the light of the analysis presented in the Commission's 2007 Annual Progress Report - Part II - and based on the Integrated Guidelines for Jobs and Growth, the following conclusions are appropriate:
2. Estonia is making very good progress with the implementation of measures responding to the country's key challenges of R&D and innovation and employment and to the four priority actions formulated by the 2006 Spring European Council. It also makes impressive efforts to ensure coherence between the National Reform Programme and cohesion policy and the Implementation Report can be considered a model in this regard.
3. Among the strengths of the Estonian National Reform Programme and its implementation are: the upgrading of several policy targets, which shows an appropriately ambitious approach; the establishment of the new Strategy Office to strengthen implementation, which is a good example for others; the successful macro-economic policies proposed in the National Reform Programme on fiscal sustainability and on creating favourable conditions for employment growth; the considerable effort made to increase both public and private R&D expenditure and to improve the framework conditions for business R&D; measures to facilitate start-ups and financing of innovative SMEs; and progress on a broad range of environmental issues, notably ecological tax reform.
4. It will be important for Estonia over the period of the National Reform Programme to focus on: clearer prioritisation and improved inter-ministerial 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; vigorously implementing the planned proactive competition policy; improving labour market flexibility through further progress in the renewal of labour laws; reinforcing active labour market policies and raising the skills level of the labour force further by reinforcing the reforms in education and lifelong learning.

GREECE

1. In the light of the analysis presented in the Commission's 2007 Annual Progress Report - Part II - and based on the Integrated Guidelines for Jobs and Growth, the following conclusions are appropriate:
2. Greece is making limited progress in the implementation of its National Reform Programme. Greece is moving ahead relatively strongly in the macro-economic area, whereas progress with micro-economic and employment reforms is still insufficient. There is a limited policy response to commitments made by the 2006 Spring European Council. Regarding governance, better coordination and stronger ownership among administrative levels is needed.
3. Among the strengths of the Greek National Reform Programme and its implementation is the good progress made on the consolidation of public finances. There are promising signs of progress on: improving public resource allocation; improving the business environment; R&D and innovation; ICT; and education and training.
4. The policy areas in the Greek National Reform Programme where weaknesses need to be tackled with the highest priority are: improving the long-term sustainability of public finances by reforming the pension system; modernisation of the public administration; stronger measures to increase employment rates, tackle unemployment and undeclared work, modernise employment protection and promote labour mobility; and enhancing the quality and labour market relevance of education and training. Against this background, it is recommended that Greece:
 - 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;
 - modernise its public administration by building up effective regulatory, control and enforcement capacities, including through upgrading skills, in order to ensure effective use of Structural Funds;
 - modernise employment protection including legislation, reduce the tax wedge on labour, and strengthen active labour policies to foster flexibility and security in the labour market and transform undeclared work into formal employment;
 - increase investment in compulsory and higher education, implement the reform of lifelong learning and improve quality and responsiveness to labour market needs, reduce early school leaving, and increase adult participation.
5. In addition, it will be important for Greece over the period of the National Reform Programme to focus on: accelerating efforts to set up a research and innovation strategy and to increase investment in R&D; improving the transposition of internal market directives; ensuring that Structural Funds are used effectively to help underpin Greece's reform policies, including on environmental protection; speeding up progress towards meeting the SME policy targets set by the 2006 Spring European Council; implementing policies to encourage women's participation in employment; and putting in place a consistent active ageing strategy.

SPAIN

1. In the light of the analysis presented in the Commission's 2007 Annual Progress Report - Part II - and based on the Integrated Guidelines for Jobs and Growth, the following conclusions are appropriate:
2. Spain is making good progress in the implementation of its National Reform Programme and the commitments agreed at the 2006 Spring European Council. Further implementation of new laws and measures across the seven key policy areas are now essential in order to increase employment and productivity and progress towards full GDP per capita convergence with EU-25.
3. Important strong points in the implementation and reinforcement of the Spanish National Reform Programme include: a quicker than targeted reduction of government debt; good progress on implementation of the R&D and innovation plan; the inclusion of entrepreneurship in national curricula at all education levels; and satisfactory progress towards the quantified objectives, in particular for female employment.
4. The policy areas in the Spanish National Reform Programme where weaknesses need to be tackled with the highest priority are: improving competition in electricity markets and reducing segmentation in the labour market; 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 improving cross-border interconnection capacity to ensure security of supply;
 - modernise employment protection, including legislation in order to foster flexibility and security in the labour market; to counter segmentation; and to increase the attractiveness of part-time work;
 - ensure the effective implementation of education reforms, also at regional level, to reduce early school leaving, and to integrate training systems to provide a better response to labour market needs.
5. In addition, it will be important for Spain, over the period of the National Reform Programme, to focus on: the need to contain inflation in the medium-term; raising competition in professional services and retail markets; improving the regulatory framework; implementing environmental measures, in particular to reduce CO₂ emissions; raising skill levels and productivity and integrating immigrants into the labour market; and increasing access to childcare. Significant developments in the housing market may have an effect on medium-term growth prospects.

FRANCE

1. In the light of the analysis presented in the Commission's 2007 Annual Progress Report - Part II - and based on the Integrated Guidelines for Jobs and Growth, the following conclusions are appropriate:
2. France is making some good progress on the implementation of its National Reform Programme and the actions agreed by the 2006 Spring European Council. Against the background of a buoyant economy, France is continuing with its budgetary consolidation drive while at the same time seeking to increase its growth potential, notably through fresh commitments towards research and innovation. Its performance in relation to employment is by and large mixed.
3. Among the strong points of the reforms undertaken, the establishment of competitiveness poles and of new structures for research and innovation appears particularly promising, as does the target for total expenditure on R&D of 3% of GDP by 2010. The recent reform of the public finance regulatory framework ought to contribute decisively to better public spending management. The decline in unemployment, for the first time since 2001, is a positive development and the recent measures to help young job-seekers seem to be a step in the right direction.
4. The policy areas in the French National Reform Programme where weaknesses need to be tackled with the highest priority are: sustaining the improvements in the public finance situation by ensuring that central government commitments are respected and monitoring developments in local funding and social security spending; improving shortcomings in competition in some network industries and some transport sectors; and implementation of an overall strategy to ensure a more fluid labour market and continued employment of older workers, notably by improving access to lifelong learning. Against this background it is recommended that France:
 - ensure the sustainability of its public finances through further budgetary consolidation and debt reduction. The meeting on pension systems scheduled for 2008 will have to hang on to the gains made following the introduction of the 2003 reform;
 - take steps to improve competition in the gas, electricity and rail freight sectors;
 - modernise employment protection and enhance lifelong learning to foster flexibility and security in the employment market and combat segmentation among contract types by making it easier to switch between temporary contracts and permanent contracts.
5. In addition, it will be important for France over the period of the National Reform Programme to focus on: reducing the high level of debt, which threatens the sustainability of the public finances when the ageing of the population is factored in, which in the absence of increased budgetary consolidation may necessitate further reforms; strengthening competition in the regulated professions; and enhancing the policies of improving regulation and encouraging entrepreneurship, notably as regards support for the young businesses and promotion of the entrepreneurial spirit in society.

IRELAND

1. In the light of the analysis presented in the Commission's 2007 Annual Progress Report - Part II - and based on the Integrated Guidelines for Jobs and Growth, the following conclusions are appropriate:
2. Ireland is making very good progress in the implementation of its National Reform Programme and of the commitments made by the 2006 Spring European Council. Furthermore, governance of the Growth and Jobs Strategy has gained political visibility, notably due to the recently concluded social partnership agreement, "Towards 2016".
3. Among the strengths of the Irish National Reform Programme and its implementation are: the recently adopted Science, Technology and Innovation Strategy 2007-2013 and the substantial increase of public investment in R&D; recognition of the need to prioritise public investment in infrastructure and other growth-promoting expenditure; measures to address early school leaving and enhance skills, such as the welcome commitment to develop by 2007 a long-term national skills strategy.
4. It will be important for Ireland over the period of the National Reform Programme to focus on: speeding up progress in formulating concrete measures to reform pension arrangements; further emission reduction measures; accelerating progress in increasing labour market participation, including by establishing a comprehensive childcare infrastructure, further developing a cohesive policy towards inward migration and placing a particular emphasis on support to older and low-skilled workers. An intermediate target for R&D investment should be set for 2010 and developments in the housing market, which may affect medium-term growth prospects, should be carefully monitored.

ITALY

1. In the light of the analysis presented in the Commission's 2007 Annual Progress Report - Part II - and based on the Integrated Guidelines for Jobs and Growth, the following conclusions are appropriate:
2. Compared to last year's National Reform Programme, the Italian Implementation report presents a clearer strategy, covering all policy areas and the synergies between them and is thus more ambitious. Progress is most extensive in the micro-economic field. Strategies and measures proposed in the macro area are generally appropriate but implementation is crucial. Employment policy needs to be reinforced in certain key areas. Progress has been mixed on meeting the commitments agreed at the 2006 Spring European Council.
3. Among the strengths shown by the Italian Implementation Report are: measures to enhance competition in professional and other services; initiatives to expand the use of ICT; and measures to step up the co-ordination of action to improve the business environment.
4. The policy areas in the Italian National Reform Programme where weaknesses need to be tackled with the highest priority are: fiscal sustainability, where commitment needs to be translated into effective action; competition in product and services markets, where the vigorous implementation of proposed reforms should be an initial basis for progress; increasing formal employment; and improving education and lifelong learning. Against this background it is recommended that Italy:
 - rigorously pursue fiscal consolidation so as to put the debt-to-GDP ratio on a declining path and fully implement the pension reforms with a view to improving the long-term sustainability of public finances;
 - pursue the implementation of recently announced reforms aiming at increasing competition in products and service markets;
 - reduce regional disparities in employment by tackling undeclared work, increasing childcare provision and ensuring the efficient operation of the employment services throughout the country;
 - develop a comprehensive lifelong learning strategy and improve quality and labour market relevance of education.
5. In addition, it will be important for Italy over the period of the National Reform Programme to focus on: R&D, where despite welcome policy developments in specific areas, the overall strategy is still incomplete; effective measures to improve the sustainability of healthcare provision, while preserving quality and accessibility; sustainable use of resources, where implementation and subsequent further reinforcement of measures are essential; implementing plans to improve infrastructure; and establishing a comprehensive system of impact assessment for proposed regulation.

CYPRUS

1. In the light of the analysis presented in the Commission's 2007 Annual Progress Report - Part II - and based on the Integrated Guidelines for Jobs and Growth, the following conclusions are appropriate:
2. Cyprus is making good progress in the implementation of its National Reform Programme, and of the four areas for priority action formulated by the 2006 Spring European Council. Overall, the implementation of the majority of measures seems to be proceeding as planned.
3. The strengths of the National Reform Programme and its implementation in 2006 include: progress in the field of fiscal consolidation; 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.
4. The policy areas in the Cypriot National Reform Programme where weaknesses need to be tackled with the highest priority are: addressing ageing-related expenditure, where measures are not progressing; and increasing 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 long-term sustainability;
 - 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.
5. In addition, it will be important for Cyprus over the period of the National Reform Programme to focus on: measures to encourage venture capital investments and to improve competition in the area of professional services.

LATVIA

1. In the light of the analysis presented in the Commission's 2007 Annual Progress Report - Part II - and based on the Integrated Guidelines for Jobs and Growth, the following conclusions are appropriate:
2. Latvia is making progress in the implementation of its National Reform Programme, in particular in the micro-economic and employment areas. However, policy responses to address the macro-economic key challenge and the 2006 Spring European Council conclusions are less comprehensive. Regarding the governance of the Growth and Jobs Strategy, the process has gained political visibility since the adoption of the National Reform Programme and stakeholder involvement has improved.
3. Among the strengths of the Latvian National Reform Programme and its implementation are several measures taken to facilitate the start-up and financing of innovative SMEs, including the establishment of new guarantee and venture capital funds and developments in promoting a one-stop-shop to establish companies. Latvia has also implemented a set of measures that have successfully supported labour market performance.
4. 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 macro-economic stability and prevent the overheating of the economy; 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:
 - maintain economic and budgetary sustainability by pursuing a more restrictive fiscal policy, so as to contribute to the prevention of overheating and a careful prioritisation of expenditure;
 - 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 National Reform Programme. This concerns especially policies to stimulate partnerships between research and education institutions and businesses;
 - intensify efforts to increase labour supply and productivity by improving regional mobility, enhancing the responsiveness of education and training systems to labour market needs and putting in place a lifelong learning system.
5. In addition, it will be important for Latvia over the period of the National Reform Programme to focus on: faster progress on establishing a single contact point for the administrative formalities involved in hiring the first employee; promoting entrepreneurship education; pursuing active labour market policies; and improving access to childcare.

LITHUANIA

1. In the light of the analysis presented in the Commission's 2007 Annual Progress Report - Part II - and based on the Integrated Guidelines for Jobs and Growth, the following conclusions are appropriate:
2. Lithuania is making good progress in the implementation of the National Reform Programme, in most of the main policy areas across the macro, micro and employment sectors. However, with many important measures at the conceptual stage, there remains much to do in terms of implementation. Progress has been moderate on fulfilling the commitments agreed at the 2006 Spring European Council.
3. Among the strengths of the Lithuanian National Reform Programme and its implementation are: the pension, health and tax reforms; measures to upgrade road and rail infrastructure; the establishment of a national energy strategy; the reinforcement of active labour market policy, notably the new job rotation measures; and steps to modernise initial education and training.
4. The policy areas in the Lithuanian National Reform Programme where weaknesses need to be tackled with the highest priority are: reinforcing measures aimed at increasing investment in R&D, which do not so far appear sufficient to reach the ambitious target set; placing a stronger emphasis on measures to promote labour mobility; and taking additional steps to increase participation in lifelong learning, especially by older workers. Against this background, it is recommended that Lithuania:
 - continue its efforts to strengthen its R&D system and to reach its ambitious target for overall investment in R&D, notably by raising public expenditure on this area;
 - intensify efforts to increase the supply of skilled labour by improving regional mobility of labour and by promoting lifelong learning, with a special focus on the participation of older workers.
5. In addition, it will be important for Lithuania over the period of the National Reform Programme to focus on: achieving macro-economic stability and containing inflation; increasing foreign direct investment; facilitating business start-ups; environmental protection; improving youth employability; expanding entrepreneurship education; increasing the availability of childcare; and strengthening occupational health and safety.

LUXEMBOURG

1. In the light of the analysis presented in the Commission's 2007 Annual Progress Report - Part II - and based on the Integrated Guidelines for Jobs and Growth, the following conclusions are appropriate:
2. Luxembourg is making very good progress on implementation of its National Reform Programme and of the actions agreed by the 2006 Spring European Council, but there is still room for improvement regarding the weaknesses identified in 2005. The macro-economic measures adopted hold out the prospect of fiscal consolidation and lower inflation. A promising set of measures are now being implemented at the micro-economic level. Greater efforts are required, however, to implement a system to monitor and assess annual progress, and a number of measures need to be introduced, for instance to assist business start-ups and SMEs. Despite encouraging reforms on the employment front, no new initiative has been announced to raise the level of employment among older workers, and major reforms to improve the education system have yet to materialise.
3. Among the strengths of the drafting, implementation and reinforcement of the National Reform Programme is the agreement between the government and the social partners on a system designed to curb the inflationary trends observed since 2002 by temporarily suspending the indexation of wages and benefits. The same tripartite agreement organises a system of assistance for businesses that promotes ways of keeping workers in employment where there is a danger of redundancy. Luxembourg can also pride itself on the major expansion in childcare facilities. The priority accorded to R&D is also to be applauded. Last but not least, a comprehensive set of measures have been taken to guarantee sustainable development, and the energy strategy is a step in the right direction.
4. It will also be important for Luxembourg over the period of the National Reform Programme to focus on: a strategy for further increasing the employment rate among older workers; a detailed strategy aimed in particular at further reforming the current early-retirement systems; further efforts are also needed to reduce drop-out rates, especially in secondary education, and to remove the artificial barriers between different types of education; the impact on youth unemployment of the measures recently adopted for young people needs to be monitored very closely; and in order to render the economic environment more attractive, greater support is needed for competitive markets, for the transposition of EU directives and for SMEs.

HUNGARY

1. In the light of the analysis presented in the Commission's 2007 Annual Progress Report - Part II - and based on the Integrated Guidelines for Jobs and Growth, the following conclusions are appropriate:
2. Hungary has made limited progress in the implementation of its National Reform Programme. However, it should be noted that in October 2006 Hungary submitted a revised National Reform Programme. After major budgetary slippages, the government has had to significantly review its fiscal adjustment path. Some reforms have been implemented in both the employment and micro-economic policy areas. But much more remains to be done in those fields as well as in improving macro-economic stability. Limited progress has been made towards meeting the commitments made at the 2006 Spring European Council.
3. Among the strengths of the National Reform Programme and its implementation are: recently adopted corrective measures, including both revenue increases and expenditure cuts, aiming to reduce the deficit; the reform of the unemployment benefit system; initial steps towards the integration of the employment and social services systems; and the lifting of restrictions to market entry in certain areas, in particular the retail pharmaceutical sector.
4. The policy areas in the Hungarian National Reform Programme where weaknesses need to be tackled with the highest priority are: implementing the planned budgetary consolidation strategy and laying the foundations for the long-term sustainability of public finances, currently at high-risk; reinforcing active labour market policies; increasing incentives to work; improving the quality of education and training and making it more responsive to labour market needs. Against this background, it is recommended that Hungary:
 - continue to implement the necessary measures to ensure a credible reduction of the government deficit and of gross debt ratios, with increased reliance on the expenditure side, including through the establishment of more thorough and comprehensive expenditure rules;
 - reform the public administration, health care, pension and education systems with a view to ensuring long-term fiscal sustainability and improve 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;
 - reinforce active labour market policies, introduce further incentives to work and to remain on the labour market and complete the establishment of an integrated employment and social services system;
 - increase access to and responsiveness of education and training systems to labour market needs, including through the provision of a sufficient number of technology and science graduates.
5. In addition, it will be important for Hungary over the period of the National Reform Programme to focus on: reform of the public research system; reducing and redirecting state aids; developing a more coherent strategy for R&D, innovation and

ICT; further reductions of the administrative burden on enterprises; improving the labour market situation of the disadvantaged; transforming undeclared work into formal employment; reducing persistent regional disparities in employment; and developing a lifelong learning strategy.

MALTA

1. In the light of the analysis presented in the Commission's 2007 Annual Progress Report - Part II - and based on the Integrated Guidelines for Jobs and Growth, the following conclusions are appropriate:
2. Malta is making good progress in the implementation of its National Reform Programme. It also addresses most of the commitments made by the 2006 Spring European Council. Implementation is advancing strongly in the area of fiscal sustainability, considered by the authorities to be a crucial element for achieving more growth and jobs and adopting the euro. The implementation efforts in the micro-economic and employment area are more moderate.
3. Among the strengths of the Maltese National Reform Programme and its implementation are: the ongoing development of essential R&D and innovation strategies; a new scheme to foster entrepreneurial skills; and a promising set of comprehensive initiatives in the field of training.
4. The policy areas in the National Reform Programme where weaknesses need to be tackled with the highest priority are: improving competition in several sectors, including professional services; reduction and redirection of state aids; and boosting investment in R&D; and improve labour supply. Against this background, it is recommended that Malta:
 - take further measures, including reinforcing the competition authority, to strengthen competition, notably in professional services; reduce state aids and redirect them towards horizontal objectives, especially R&D;
 - step up efforts to attract more people into the labour market, particularly women, intensify efforts to tackle undeclared work and implement changes to the tax and benefit system to make working more attractive.
5. In addition, it will be important for Malta over the period of the National Reform Programme to focus on: implementing and reinforcing delayed measures on health care reform; introducing systematic impact assessment and speeding up progress towards simplification of regulations; measuring R&D expenditure more accurately; connecting Malta to Europe's energy networks; building on results achieved in raising educational attainment and reducing early school leaving; and increasing the employment rate of older workers, in which using early retirement schemes to downsize the public sector should be avoided.

THE NETHERLANDS

1. In the light of the analysis presented in the Commission's 2007 Annual Progress Report - Part II - and based on the Integrated Guidelines for Jobs and Growth, the following conclusions are appropriate:
2. The Netherlands are making good progress with the implementation of its National Reform Programme. While there are certain risks in the macro area, notably with regard to potential wage inflation, household indebtedness, and the tightening of the labour market, overall the policy framework is appropriate. Despite only moderate progress on R&D, the Netherlands are generally moving ahead significantly in the micro-economic field. Notwithstanding high headline employment rates for most groups, the picture in the employment field is more mixed. The Netherlands are reinforcing its National Reform Programme to respond to the commitments made by the 2006 Spring European Council but further steps will be needed.
3. Among the strengths of the Dutch National Reform Programme and its implementation are: the measures to boost competition; the application of the Standard Cost Model for measuring administrative burdens and the scheme for innovation vouchers, both of which being widely taken up by other Member States; measures on reforming pensions, health insurance and disability schemes; and reforms aimed at raising educational attainment, expanding lifelong learning and creating better links between education and the labour market.
4. The policy area in the Dutch National Reform Programme where weaknesses 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, notably of older workers, women and disadvantaged groups.
5. In addition, it will be important for the Netherlands over the period of the National Reform Programme to focus on: measures to increase private sector R&D expenditure; further action to fully meet the commitments agreed by the 2006 Spring European Council. In addition, if existing measures do not over time succeed in significantly raising overall hours worked in the economy, further incentives will need to be considered.

AUSTRIA

1. In the light of the analysis presented in the Commission's 2007 Annual Progress Report - Part II - and based on the Integrated Guidelines for Jobs and Growth, the following conclusions are appropriate:
2. Austria is making good progress in the implementation of its National Reform Programme, especially in the micro-economic area, where a substantial range of measures has been implemented across the board except on competition in services. Macro-economic stability is strong, though additional impetus will be necessary to continue addressing risks to the long-term sustainability of public finances. Progress has also been generally good on employment policy, although more needs to be done in some areas. Austria's response to the conclusions of the 2006 Spring European Council is adequate overall.
3. Among the most promising areas of reform undertaken by Austria and which could inspire others are its good record in using renewable energy sources. Another area is Austria's efforts to reduce SMEs' administrative costs.
4. The policy areas in the Austrian National Reform Programme where weaknesses need to be tackled with the highest priority are increasing labour supply from older workers and improving the skills of disadvantaged young people. Against this background Austria is recommended to:
 - improve incentives for older workers to continue working, notably by implementing a comprehensive lifelong learning strategy with a particular focus on job-related training and reforming tax benefits systems; and enhance the skills and qualifications of vulnerable youth.
5. In addition, it will be important for Austria over the period of the National Reform Programme to focus on: achieving the target of a balanced budget in 2008; increasing competition in services; strengthening the entrepreneurial culture; identifying further emission reduction policies and measures; and tackling the gender segregation of the labour market, including by improving the availability of childcare.

POLAND

1. In the light of the analysis presented in the Commission's 2007 Annual Progress Report - Part II - and based on the Integrated Guidelines for Jobs and Growth, the following conclusions are appropriate:
2. Poland is making limited progress in the implementation of its National Reform Programme. There are signs that Poland is beginning to move ahead strongly in the micro-economic area, even though implementation of many measures is still in the early stages. Implementation of the macro-economic and employment reforms is so far insufficient. There is a limited policy response to the commitments made by the 2006 Spring European Council.
3. Among the most promising reforms being undertaken by Poland are simplifications to the tax system, the introduction of systematic impact assessments for legislation and steps to increase SME's access to finance.
4. The policy areas in the Polish National Reform Programme where weaknesses need to be tackled with the highest priority are: fiscal consolidation; improving competition in network industries and financial sectors; increasing the quantity and quality of R&D; making active labour market policies more extensive and more effective; and improving human capital and incentives to work. Against this background Poland is recommended to:
 - pursue its action to step up fiscal consolidation and supplement the nominal state budget deficit "anchor" (deficit ceiling) with an expenditure rule, in order to contain overall expenditure growth;
 - improve competition in network industries and in the financial sectors, including through a review of the role of regulators;
 - in order to boost R&D and innovation, pursue the reform of the public research sector and introduce policies to better attract and maximise the benefits of medium and high-tech foreign direct investment;
 - complete the reform of public employment services in order to increase the level and efficiency of active labour market policy to cover a larger share of unemployed, especially older persons and youth;
 - lower the tax burden on labour and review benefit systems in order to improve work incentives, while developing policies to increase adult participation in lifelong learning and to modernise education and training systems in view of labour market needs.
5. In addition, it will be important for Poland over the period of the National Reform Programme to focus on: upgrading transport infrastructure; improving environmental protection; further reducing and redirecting state aids; the full liberalization of energy markets; speeding-up the business registration process; and ensuring that cohesion policy instruments underpin the structural measures highlighted in the Implementation Report with a view to contributing to boosting growth, competitiveness, employment and social cohesion. A firm and realistic target for overall investment in R&D by 2010 should be set.

PORTUGAL

1. In the light of the analysis presented in the Commission's 2007 Annual Progress Report - Part II - and based on the Integrated Guidelines for Jobs and Growth, the following conclusions are appropriate:
2. Portugal is making good progress on implementing the measures in the National Reform Programme, especially in the macro and micro-economic areas. On employment related policies, there has also been progress, especially on reforming education and training, but the important area of the adaptability of the labour market and flexicurity is not yet being fully addressed. Progress towards meeting the commitments made at the 2006 Spring European is generally good. Considerable further efforts across all policy areas will be necessary to fully achieve the objectives of the programme, given their welcome ambition and Portugal's point of departure.
3. Important strong points of the reform process in Portugal include the extensive reforms launched to the public administration, the measures to facilitate business start-ups within an hour, the adjustment of old-age pension schemes and comprehensive consolidation measures in health care. Efforts to reinforce R&D have been strengthened and dovetailed into a coherent strategy through the ambitious Technological Plan. Extensive reforms are also being implemented in the education sector in particular with measures to increase literacy levels of the young and rationalise the national school network.
4. The policy areas in the Portuguese National Reform Programme where weaknesses need to be tackled with the highest priority are: improving educational attainment and lifelong learning; improving the adaptability of the labour market and addressing segmentation. These issues must be addressed in the context of further progress with the administrative reform and keeping rising spending on social transfers under control. Against this background Portugal is recommended to:
 - in the context of the on-going correction of fiscal imbalances and public administration reform, redirect public spending towards uses more supportive to potential growth, while maintaining firm control over public expenditure overall;
 - 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";
 - modernise employment protection, including legislation to foster flexibility and security to reduce the high levels of labour market segmentation.
5. In addition, it will be important for Portugal over the period of the National Reform Programme to focus on: ensuring that the promising Technological Plan is fully implemented, the linkages between research and industry consolidated and the involvement of the private sector strengthened; ensuring effective competition in energy and financial services markets; reducing emissions; reducing the deficit in transposing EU legislation into national law; and addressing the factors undermining social cohesion.

SLOVENIA

1. In the light of the analysis presented in the Commission's 2007 Annual Progress Report - Part II - and based on the Integrated Guidelines for Jobs and Growth, the following conclusions are appropriate:
2. Slovenia is making good progress in the implementation of its National Reform Programme. Slovenia is taking appropriate measures in some key areas such as entrepreneurship and better regulation. It has launched most of the major reforms of employment policies, benefiting from relatively favourable macroeconomic growth conditions. Progress with public expenditure reform is less evident. The same is true in the microeconomic field of progress in enhancing the innovation and competition framework. With respect to the labour market, progress on the implementation of the active ageing strategy and on the removal of barriers to youth employment has not so far been rapid enough. Progress in implementing the commitments made at the 2006 Spring European Council is rather limited.
3. The strengths of the National Reform Programme and its implementation include: the fiscal reform efforts; the various measures to promote entrepreneurship; the ongoing restructuring of state funds into portfolio investors; the decreasing share of state aid in GDP; and the progress towards the full liberalisation of energy markets and the creation of a second player in the market.
4. The policy areas in the Slovenian National Reform Programme where weaknesses need to be tackled with the highest priority are: improving long term fiscal sustainability and increasing the employment rate of older workers; and strengthening the activation and prevention aspects of employment policy, currently slow in responding to the fast changing conditions on the labour market. 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.
 - enhance employment services to support the move towards more flexible contractual arrangements and increased conditionality of benefits, giving high priority to offering services at an earlier stage of unemployment.
5. In addition, it will be important for Slovenia over the period of the National Reform Programme to focus on: setting concrete and realistic targets for investment in R&D; improving the effectiveness of the new Office for Growth and of the Slovenian Technology Agency; strengthening the legal framework for protecting intellectual property rights; improving competition, notably in professional services, and enhancing the effectiveness of the Competition Protection Office; better promotion of environmental technologies and energy efficiency; shortening start-up times for businesses and reducing related costs; integrating young people in the labour market; strengthening the link between the education system and the labour market; and reducing the segmentation of the labour market.

SLOVAKIA

1. In the light of the analysis presented in the Commission's 2007 Annual Progress Report - Part II - and based on the Integrated Guidelines for Jobs and Growth, the following conclusions are appropriate:
2. Slovakia is making progress in the implementation of its National Reform Programme. However, important challenges and the need for further measures remain, particularly in the microeconomic and employment fields. Progress has been mixed in meeting the commitments made at the 2006 Spring European Council.
3. Among the strengths of the National Reform Programme and its implementation are: policies to improve the business environment and create an information society are now beginning to pay off; employment growth has been strengthened by new tax incentives, mobility measures and some improvement in the service offered to certain disadvantaged groups; and progress in the reform of tertiary education alongside new measures to support ICT use and the integration of disadvantaged children into education system.
4. The policy areas in the Slovak National Reform Programme where weaknesses need to be tackled with the highest priority are: within the context of fiscal consolidation, redirecting more resources to R&D, innovation and education and developing clear strategies and priorities in these areas; reinforcing action on improving skills and lifelong learning; and additional efforts to reduce long-term unemployment, especially among vulnerable groups including the Roma minority. Against this background, it is recommended that Slovakia:
 - reallocate expenditure towards R&D and education and complete the development of a coherent national R&D and innovation strategy, with strong interconnections between research institutions and business;
 - adopt a lifelong learning strategy that addresses the needs of the labour market and improves qualification levels and skills, and complement the reform of tertiary education with reform of primary and secondary education;
 - develop a comprehensive approach to tackling long-term unemployment, notably by developing targeted active labour market policies for the most vulnerable groups.
5. In addition, it will be important for Slovakia over the period of the National Reform Programme to focus on: continued efforts on ICT policies, especially on broadband infrastructure; improvements in the better regulation system; addressing the gender pay gap; and developing an active ageing strategy to increase employment of older workers.

FINLAND

1. In the light of the analysis presented in the Commission's 2007 Annual Progress Report - Part II - and based on the Integrated Guidelines for Jobs and Growth, the following conclusions are appropriate:
2. Finland is making very good progress in the implementation of its National Reform Programme. Finland is also generally responding well to the commitments made by the 2006 Spring European Council. Progress has been made in particular on the business environment for SMEs.
3. Among the many strengths of the Finnish National Reform Programme and its implementation are: further action to postpone retirement, complementing the already extensive action to strengthen sustainability of public finances and to prepare Finland for the effects of an ageing population; a range of important measures to further improve Finland's excellent knowledge base.
4. It will be important for Finland over the period of the National Reform Programme to focus on: implementing reforms to improve competition and productivity in services; simplifying recruitment procedures for businesses, including through specific measures regarding the recruitment of the first employee; encouraging local wage bargaining systems; and addressing bottlenecks in the labour market, with a particular view to increasing the low participation of youth and tackling high structural unemployment.

SWEDEN

1. In the light of the analysis presented in the Commission's 2007 Annual Progress Report - Part II - and based on the Integrated Guidelines for Jobs and Growth, the following conclusions are appropriate:
2. Sweden is making very good progress in the implementation of its National Reform Programme. It addresses most of the commitments made by the 2006 Spring European Council. The stability oriented macro-economic framework is appropriate and performs well. A strong effort is being made to strengthen incentives to work. Additional measures are needed to enhance competition in services.
3. Among the strengths of the Swedish National Reform Programme and its implementation are: the progress made on increasing public investment in R&D and in bringing forward measures to encourage innovation; the vigorous approach to encouraging entrepreneurship; Sweden's performance on encouraging the sustainable use of energy, which is among the best in the EU; progress in increasing labour supply; measures to make it simpler and more profitable to run a business by phasing out taxes and reducing administrative burdens; and proposals to enhance incentives to work, notably changes in labour taxation and benefit systems.
4. It will be important for Sweden over the period of the National Reform Programme to focus on: taking further regulatory measures to increase competition, notably in services; implementing rapidly planned improvements to the impact assessment system; taking a more coherent approach to better regulation, strengthening its 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.

UNITED KINGDOM

1. In the light of the analysis presented in the Commission's 2007 Annual Progress Report - Part II - and based on the Integrated Guidelines for Jobs and Growth, the following conclusions are appropriate:
2. The UK is making good progress in the implementation of its National Reform Programme and of the commitments made by the 2006 Spring European Council. Solid progress has been made in all policy areas, particularly in micro-economic and employment policy. In macro-economic policy, plans for fiscal consolidation and pension reform have been drawn up and still need to be implemented. The UK has made greater efforts to involve stakeholders.
3. The particularly strong points in the UK reform implementation are in encouraging entrepreneurship, promoting better regulation, and undertaking welfare reforms. Many other successful reforms have already taken place, such as energy market opening, increasing investment in transport infrastructure, and in introducing charging policies, for example the London road transport congestion charge. The UK has also undertaken innovative reforms to improve the quality of public expenditure that are still in the course of implementation.
4. The policy areas in the UK National Reform Programme where weaknesses need to be tackled with the highest priority are: improving skill levels compared with other economies; and taking further measures to tackle disadvantage and exclusion in the labour market. Against this background, it is recommended that the UK:
 - increase basic and intermediate skills, in order to raise productivity, and further improve employment prospects for the most disadvantaged.
5. In addition, it will be important for the UK over the period of the National Reform Programme to focus on: ensuring that the current proposals on pension reform are effectively implemented; progressively increasing housing supply to reduce house price pressures in the medium-term, without which there could be an effect on future growth prospects; 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; and improving access to childcare.

EURO AREA MEMBER STATES

1. In light of the analysis presented above and based on the Integrated Guidelines for Growth and Jobs, it is concluded that:
2. The Implementation Reports of the Member States of the euro area show that progress is being made overall, reflecting substantive action in many countries. With the euro area growing in line with its potential and a number of reforms under way, some indicators are starting to turn more positive in this direction. But the closer economic and financial interdependence generated by having a single currency makes it necessary for its Member States to be more ambitious and for the euro area as a whole to go beyond what is specifically required at the level of Member States. Effective policy coordination at euro area level would help to promote policy action in Member States so to ensure fiscal discipline and structural reforms. This is necessary to increase the growth potential of the economy, enhance the capacity for absorption of asymmetric shocks and thereby preserve price stability while promoting economic dynamism in the euro area.
3. Among the strengths of the implementation of the National Reform Programmes of euro area Member States is that promising reforms are being undertaken or are planned to increase labour utilisation, boost R&D, human capital, innovation and to create a more attractive business environment, notably via policies to further better regulation. It remains however to be seen whether the concrete measures are sufficiently systemic and ambitious to achieve the stated objectives.
4. Building upon the policy conclusions identified for each individual euro area Member State based on their National Reform Programmes, action for the euro area as a whole is needed most urgently in policy areas that would improve the functioning of EMU, where weaknesses are evident. On the budgetary side, while progress is being made to reduce deficits, some countries need to accelerate the pace of budgetary consolidation and continue reforming pension and health care systems also to significantly address the budgetary impact of ageing populations. To ensure a more dynamic internal adjustment in EMU, markets could be made to function better, namely to ensure better factor mobility, a rapid adaptation of prices and wages, and to foster innovation and productivity growth, so to avoid excessive or protracted divergences in relative competitiveness in EMU. Financial markets have a key role in smoothing internal adjustment. The Internal Market Review to be presented in 2007 will propose essential actions that Member States, especially euro area countries, must take. In the meantime, however, it is evident that more competition in service markets would contribute to smoothen adjustment in EMU: hence the importance of the rapid and effective implementation of both the Services Directive and the Financial Services Action Plan. A review of the functioning of wage setting and measures to enhance labour mobility in euro area countries is also warranted. Against this background, the euro-area Member States are recommended to:
 - make use of the favourable cyclical situation to aim at more ambitious budgetary consolidation towards the medium-term objective of close to balance or in surplus, hence striving to achieve an annual structural adjustment of at least 0.5% of GDP as a benchmark;

- enact measures that lead to more competition, especially in services, and step up measures that promote the full integration of financial markets and the competition in financial retail services.
 - improve flexibility and security on labour markets inter alia by better aligning wage and productivity developments, balancing employment protection and security in the market and enacting measures to promote labour mobility across borders and occupations.
5. In view of the spillovers and synergies arising from national policies and local developments within the monetary union, euro area Member States should aim at deepening policy co-ordination and strengthening governance, especially in the context of the Eurogroup, but also in international fora. This would significantly contribute to more effectively address policy challenges within the euro area and in the global economy.