



ECONOMIC POLICY COMMITTEE

Brussels, 3 February 2004
EPC/ECFIN/39/04 final

ANNUAL REPORT ON STRUCTURAL REFORMS 2004

“Reinforcing implementation”

CONTENTS

KEY MESSAGES	3
PART I: REFORM PRIORITIES	5
PART II: COUNTRY NOTES	16
BELGIUM (BE)	17
CZECH REPUBLIC (CZ)	18
DENMARK (DK)	19
GERMANY (DE)	20
ESTONIA (EE)	21
GREECE (GR)	22
SPAIN (ES)	23
FRANCE (FR)	24
IRELAND (IE)	25
ITALY (IT)	26
CYPRUS (CY)	27
LATVIA (LV)	28
LITHUANIA (LT)	29
LUXEMBOURG (LU)	30
HUNGARY (HU)	31
MALTA (MT)	32
NETHERLANDS (NL)	33
AUSTRIA (AT)	34
POLAND (PL)	35
PORTUGAL (PT)	36
SLOVENIA (SI)	37
SLOVAKIA (SK)	38
FINLAND (FI)	39
SWEDEN (SE)	40
UNITED KINGDOM (UK)	41
ANNEX ON STRUCTURAL INDICATORS	42
HEADLINE INDICATORS AND SUMMARY PROGRESS BY COUNTRIES	

KEY MESSAGES

The Economic Policy Committee (EPC) has conducted its annual extensive peer review of Member States' and, for the first time, acceding countries' progress in the field of structural reforms. **The EPC concludes that, despite important progress made, much stronger efforts are needed if the EU as a whole is to meet the Lisbon goals. The Spring European Council is an ideal occasion to address this.**

The accession of the ten new Member States represents a historic opportunity. Existing Members can learn from the impressive scope and pace of reforms undergone by these economies, but learning is a two-way process. The challenges of the acceding countries do not differ fundamentally from those of the present Member States, although with a different emphasis in different countries. The acceding countries need to build on their success to increase their speed of catching-up with the existing Member States.

The reform priorities are as follows:

1. Strongly promote **growth-oriented economic strategies** by stimulating both productivity and employment rates within a framework of sound fiscal and macro-economic policies. Accelerated implementation of structural reforms in labour and product markets, and an effective transition to the knowledge-based economy are key to making the EU economies more competitive and dynamic.
2. Tackling structural problems in **labour markets** and fostering labour supply are essential to success, as the EPC identified a year ago. Progress in this area is insufficient to meet the agreed Lisbon objectives, in particular for older workers. The EPC stresses that action is needed, with the appropriate contribution of social partners in conformity with national preferences, along the lines suggested by the European Employment Taskforce chaired by Mr. Wim Kok:
 - increase flexibility *inter alia* by promoting wage bargaining systems to allow wages to reflect better productivity differentials;
 - rebalance the concept of job security to emphasise improving people's capability to gain employment and progress in work;
 - take action on benefit reforms (level, durations and/or eligibility and availability criteria) in addition to tax reforms already implemented, so as to make work pay. Measures need to focus on increasing labour force participation/employment as well as improving fiscal sustainability.Without further reforms of this kind, the unemployed and socially excluded will ultimately pay the price.
3. Further reduction of remaining barriers in the Internal Market, in particular in services and in network industries, is essential in order to promote effective and strenuous **competition**. The transposition record has worsened; improving the record *and* effective application of Internal Directives require priority action. Properly resourced and independent competition authorities are necessary in this respect. State aid needs to be reduced and reoriented towards horizontal objectives. Trade liberalisation enhances competition and is a natural counterpart to reducing barriers to economic activity within Europe, as an extension of the Internal Market.

4. Reduction of **excessive regulation** is a priority issue in order to enhance productivity, to encourage not stifle job creation, and to promote a business friendly climate. Simplification of existing regulation, improvements in the quality of new regulation and the development of market-oriented alternatives, at the Community and at national level, are all necessary in this respect. Efforts to make better use of information technologies are also needed.
5. Despite progress, more efforts are needed in the development of the **knowledge-based economy**. R&D, in particular in the private sector (public spending is on par with the US), is not yet sufficient. . Investment in R&D is only one part of the innovation process. Critical to success is the ability of business to transform research initiatives into commercially viable processes and products. Effectiveness of R&D spending could be increased by paying attention to the governance of research institutions also with a view to improving linkages with business. In addition, more efficient education and training systems are required with a view to meeting the demands of the labour market, notably increasing the number of science and technology graduates. Openness to foreign direct investment is an important way of increasing the innovation potential of countries.
6. Stimulate a healthy **entrepreneurial climate** and create an environment in which SMEs can flourish. This requires a framework, which facilitates the smooth entry and exit of enterprises. An adequate supply of early-stage financing for SMEs is essential. The education systems need to pay more attention to promoting an entrepreneurial culture. Avoiding excessive regulation is particularly important for business start-ups.
7. Ensure **long-term fiscal sustainability**, which is still far from guaranteed in many countries. Various initiatives have been reported in the field of pension systems, but strong resistance has sometimes led to a watering-down of plans. Countries cannot afford, given the worsening demographic prospect, to postpone further reforms in line with the three-pronged strategy – increasing employment rates, reducing public debt and reforming pension systems. Further scope for improvement is to be found in tightening up early retirement schemes. Systems of health care and care for the elderly, which also pose a big risk, have remained largely untouched so far.
8. Deepen and further integrate **financial markets** and stimulate the continued restructuring and consolidation of the financial sector alongside the full implementation of the Financial Services Action Plan. Effective pan-European competition will ensure that much needed enterprise finance is provided.
9. Enhance **public sector quality and efficiency**. Continued efforts are required in the field of e-government, the use of ICT, quality of services, outsourcing of services, and dismantling of barriers to open public procurement. Particular attention should be paid to developing a more user-oriented provision of public services, as is happening in some countries.

PART I
REFORM PRIORITIES

REFORM PRIORITIES

In January 2004, the Economic Policy Committee (EPC) has conducted its annual peer review on structural reforms of both the existing EU Member States and the acceding countries. Member States' progress in addressing the challenges identified in the 2003 Broad Economic Policy Guidelines has been assessed. The EPC also took into account the Commission's 2004 Implementation Report of the Broad Economic Policy Guidelines. Member States broadly agreed with the assessment made by the Commission in the Implementation Report. As the acceding countries were integrated for the first time into this multilateral surveillance, key structural policy challenges for them were identified, and their progress on structural reform assessed. In line with the streamlining of co-ordination processes as decided by the Ecofin Council¹, the challenges for all Member States will be updated once every three years; the next full update is expected in 2006.

The EPC identified 9 reform priorities, which broadly apply to existing and new Member States. Immediate implementation of these priorities is considered indispensable for meeting the strategic Lisbon target.

1. Strongly promote **growth-oriented economic strategies** by stimulating both productivity and employment rates within a framework of sound fiscal and macro-economic policies. Accelerated implementation of structural reforms in labour and product markets, and an effective transition to the knowledge-based economy are key to making the EU economies more competitive and dynamic.

Growth in the EU15 over the last three years has averaged 1.2%², significantly below the 3% envisaged in Lisbon. Simultaneously, fiscal positions have deteriorated from a surplus of 1% of GDP in 2000³ to a deficit of 2.7% in 2003, a deterioration of 2.5 percentage points, excluding UMTS proceeds. While part of the deterioration is due to the slow growth, nevertheless, the cyclically adjusted balance has also deteriorated from a deficit of 1.2% of GDP in 2000 to a deficit of 2.2% of GDP in 2003.

Employment growth has averaged 0.5 per cent, a little faster than in the US but from a much lower base. But productivity growth, averaging 0.7%, has been significantly lower than in the second half of the 1990s. Moreover, productivity developments have been inferior to the US (see figure 1a). That said, the gap is lower if measured in per hours worked terms (0.4 percentage points) rather than per person employed (0.9 percentage points).

In 2004 growth is expected to increase to 2%, while the fiscal positions is set to improve only marginally. This cyclical pick up in growth should be used to speed up the pace of structural reform, aiming at both increasing labour productivity and employment. US experience (see figure 1b) shows there is no necessary trade-off between these two objectives. Targeted structural reforms in labour and product markets, and an effective

¹ Streamlining of the policy co-ordination processes (14492/02), 26 November 2002

² European Commission Autumn 2003 Economic Forecast, European Economy no 5/2003. Growth in the acceding countries has averaged 2.6% the last three years.

³ Including UMTS, which for the EU15 as a whole in 2000 amounts to 1.2% of GDP.

transition to the knowledge-based economy to meet the demands of the labour market will increase growth, employment and welfare. Efficient resource allocation, for instance within the framework of the European Growth Initiative and the EU Structural Funds, should also contribute to raising potential growth rates and further boost the real convergence within the EU.

Figure 1a. Decomposition of growth in the EU-15 and the US 1995-2003

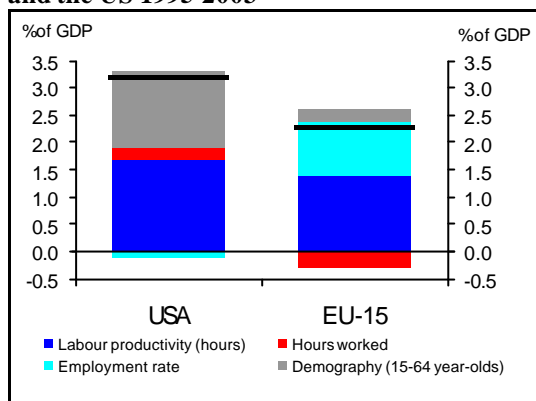
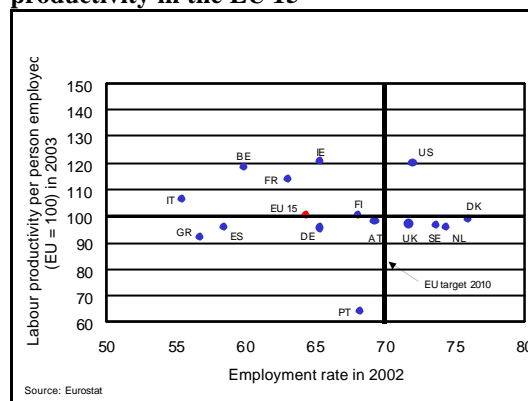


Figure 1b. Employment rates and labour productivity in the EU-15



Source: *The EU Economy 2003 Review (European Commission) and EU Structural Indicators, Eurostat*⁴

2. Tackling structural problems in **labour markets** and fostering labour supply are essential to success, as the EPC identified a year ago. Progress in this area is insufficient to meet the agreed Lisbon objectives, in particular for older workers. The EPC stresses that action is needed, with the appropriate contribution of social partners in conformity with national preferences, along the lines suggested by the European Employment Taskforce chaired by Mr. Wim Kok:

- increase flexibility inter alia by promoting wage bargaining systems to allow wages to reflect better productivity differentials;
- rebalancing the concept of job security to emphasise improving people's capability to gain employment and to progress in work;
- take action on benefit reforms (level, durations and/or eligibility and availability criteria) in addition to tax reforms already implemented, so as to make work pay. Measures need to focus on increasing labour supply/employment as well as improving fiscal sustainability.

Without further reforms of this kind, the unemployed and socially excluded will ultimately pay the price.

In February 2003, the EPC concluded on labour market functioning that *"Reforms need to promote active job searching and diminish obstacles to job creation, which arise among other reasons from the level, duration and/or eligibility criteria of benefits, overly restrictive employment protection legislation and inflexible wage bargaining systems that do not allow wages to evolve according to productivity and skills differentials."*⁵

⁴ Luxembourg is left out of figure 1b, because of lacking relationship between labour productivity and employment rates due to a considerable number of non-residents working in the country.

⁵ EPC Annual Report on Structural Reforms 2003 (ECFIN/EPC/083/03-EN), 28 February 2003

Although most Member States (BE, DK, DE, ES, FR, IT, LU, NL, AT, PT, FI, SE and UK) have reported some reforms in these areas in 2003, the EU wide employment targets, which were set by the Lisbon and Stockholm European Councils (see table 1), still look beyond reach. In addition, many countries, especially but not only the new Members, suffer from severe structural rigidities on the labour market that are reflected in high regional employment and unemployment disparities, and in high long-term unemployment rates, in particular among youth and older age groups. The EPC therefore recommends:

- Close monitoring of existing reforms to ensure they are having the beneficial effects intended;
- Adoption of further measures, as in many cases seems necessary.

This is an area where decisive leadership is essential to overcome short-term resistance and undue protection of vested interests.

Table 1 – Employment rates and targets in the EU-15

	2000	2002	2005 (target)	2010 (target)
Total (aged 15-64)	63.4	64.3	67	70
Women (aged 15-64)	54.1	55.6	57	60
Older workers (aged 55-64)	37.8	40.1	-	50

Source: EU structural indicators, Eurostat

In this respect the EPC emphasises three reform priorities that have also been identified by the European Employment Taskforce chaired by Mr Kok. These priorities, which have been discussed by the Ecofin Council on 20 January 2004, are:

- Increasing flexibility of labour markets in order to unlock the dynamics of employment creation by firms. Of particular importance in this respect is a further adjustment of wage bargaining systems, which is particularly relevant in EL, ES, IT, PT and FI. In spite of a clear recommendation in the BEPGs 2003-2005 to “ensure that wage bargaining systems allow to reflect productivity” for the second consecutive year no substantial evidence has been recorded of this during the EPC country reviews. Another element includes the increased ability of employees to choose from a wider variety of labour contracts.
- Reconsidering the concept of job security so that it encompasses building and preserving people's ability to remain and progress in work (employability), e.g. through promoting life long learning, and is not unduly focused on employment protection and preserving a job for life. In several Member States employment protection legislation (EPL) encompasses complicated administrative procedures and unduly long minimum notice periods (notably in GR, ES, FR and IT). Overly restrictive EPL proves bad for productivity growth, leads to higher long-term unemployment, and adversely affects marginal groups in the labour market, in particular young people, women and older age groups, while benefiting core ‘insider’ groups, such as prime-age men.

- Take action on benefit reforms (level, durations and/or eligibility and availability for work criteria). Although most Member states have in recent years engaged in tax reforms to make work pay, benefit systems have remained largely untouched. Focus should be directed towards measures that increase both labour supply/employment rates and improve fiscal sustainability, bearing in mind that increasing employment rates, with particular emphasis on older workers, is a key instrument in ensuring fiscal sustainability.

3. Further reduction of remaining barriers in the Internal Market, in particular in services and in network industries, is essential in order to promote effective and strenuous **competition**. The transposition record has worsened; improving the record *and* effective application of Internal Directives require priority action. Properly resourced and independent competition authorities are necessary in this respect. State aid needs to be reduced and reoriented towards horizontal objectives. Trade liberalisation enhances competition and is a natural counterpart to reducing barriers to economic activity within Europe, as an extension of the Internal Market.

Completion of the Internal Market is a *sine qua non* for the European Union to become the most competitive and dynamic knowledge-based economy in the world. Progress over the past two decades has clearly contributed to growth. According to the Austrian Cardiff Report: “Stronger product market competition has been instrumental in boosting growth [...]. In particular, preparation for membership of the European Union and privatisation of public enterprises were helpful in promoting competition.” The introduction of the euro has worked to the same benefit by promoting market transparency.

During the EPC country reviews, remaining obstacles in the Internal Market have been detected in the services sector where productivity growth is low, innovation is limited and many barriers to their free circulation persist. Barriers are often of a legal nature or arise from the behaviour of administrations. Accordingly, the European Commission’s recent proposal for a Directive to cut red tape in the services sector signifies a welcome step forward⁶.

Another key area is the network industries, in particular energy. Although many Member States have already opened their markets to competition or are preparing to liberalise markets in line with EU Directives, effective competition remains a problem. In many (new) Member States (BE, CZ, EE, GR, IE, FR, CY, LV, LT, MT, PT and SK) the market share of the largest generator in the electricity market still exceeds 60 percent⁷, which in some cases (e.g. LT) is due to the lack of interconnection capacity with EU networks.

A serious impediment to the functioning of the Internal Market is the too low and falling transposition rate of Directives, as also underlined by the European Commission in its 2004 report to the Spring European Council. In November 2003, the transposition rate has fallen to 97.3% (from 98.2% in May 2002). BE and FR show a transposition

⁶ Proposal for a Directive on services in the Internal Market (COM (2004) 2 final), 13 January 2004

⁷ EU structural indicators database (europa.eu.int/comm/eurostat/)

rate of only 96.5% each. From the 40 Directives that have been adopted under the Lisbon Strategy and that should have been transposed before end 2003, this rate fell to an astonishing 58.3%. In addition to increasing the transposition rate, Member States should also improve the effective application of the Directives, e.g. by ensuring effective and adequately staffed competition authorities, and reduce infringements.

The European Commission's latest state aid scoreboard indicates that the overall level of state aid in the EU15 continues to fall from €102 billion in 1997 to €86 billion in 2001, though with a slight increase in 2001 in comparison to 2000. In relative terms, state aid amounted to 1 percent of GDP in 2001⁸. These aggregate figures, however, mask important differences between countries ranging from 0.7% in ES and UK to 1.6% in FI. In the ten new Member States, 1.2 percent of GDP has been spent on state aid (2000, excluding agriculture and fisheries), with HU among the biggest spenders (1.7%) and SK at the lower end of the scale (0.4%)⁹. The overall trend towards more horizontal state aid (for R&D, environment and SMEs) has continued.

The EPC considers that external openness has an important role to play in helping to achieve the Lisbon goals of increased growth, productivity and employment. In economic terms, reduced barriers to economic activity across the EU's external borders, through trade liberalisation in one form or another, are a natural counterpart to efforts to reduce barriers to economic activity within Europe. In this respect, greater external openness can be viewed as an extension of the Internal Market programme and could work as a powerful catalyst for achieving the Lisbon goals.

4. Reduction of **excessive regulation** is a priority issue in order to enhance productivity, to encourage not stifle job creation, and to promote a business friendly climate. Simplification of existing regulation, improvements in the quality of new regulation and the development of market-oriented alternatives, at the Community and at national level, are all necessary in this respect. Efforts to make better use of information technologies are also needed.

Many countries (BE, CZ, DE, DK, ES, FR, IE IT, LU, NL, AT, PT, FI and UK) raised reduction of excessive regulation as an important step in order to enhance public sector efficiency and to promote a business friendly climate. Although a well-designed regulatory framework is required for improving efficiency by correcting market failures and/or establishing a level-playing field, there is growing evidence that European economies are suffering from over-regulation or bad regulation, including in environmental and social areas. Empirical research shows "a positive relationship between product market deregulation facilitating entry, productivity, investment and growth."¹⁰

In the light of this, the Declaration by the current and forthcoming Presidencies that they intend to give priority to tackling this issue is timely and welcome.

⁸ State aid scoreboard – autumn 2003 update (COM(2003) 636 final), 29 October 2003 - spring 2003 update (COM(2003) 225 final), 30 April 2003

⁹ State aid scoreboard – autumn 2002 update, special edition on the candidate countries (COM(2002) 638 final), 27 November 2002

¹⁰ The impact of regulation – Issues paper for the Economic Policy Committee of 14 January 2004

The administrative burden partly originates in Brussels. It is therefore welcome that the European Commission has launched an action plan to simplify and improve the regulatory environment by defining measures for the Commission, the Parliament, the Council and the Member States¹¹. A core element is to conduct regulatory impact assessments. The task will be to carry these out with sufficient rigour and determination; that this is happening needs to be monitored closely.

National approaches and results vary among Member States. Typical best-practice elements include (i) a clear definition and quantification of the problem, using indicators, (ii) set targets at the lowest possible level of government, (iii) a systematic impact analysis of new and existing regulations, and (iv) central monitoring with strong political backing. In addition, the increased use of ICT and the further development of eGovernment have proved helpful in simplifying the regulatory environment. Finally the use of market-oriented instruments and strengthening of competition, instead of regulation, could produce more economically efficient results. This is particularly relevant in the field of environmental protection. Whereas most Member States are already applying such alternatives in this area, the use of market-oriented instruments is less widespread in the acceding countries.

5. Despite progress, more efforts are needed in the development of the **knowledge-based economy**. R&D, in particular in the private sector (public spending is on par with the US), is not yet sufficient. Investment in R&D is only one part of the innovation process. Critical to success is the ability of business to transform research initiatives into commercially viable processes and products. Effectiveness of R&D spending could be increased by paying attention to the governance of research institutions also with a view to improving linkages with business. In addition, more efficient education and training systems are required with a view to meeting the demands of the labour market, notably increasing the number of science and technology graduates. Openness to foreign direct investment is an important way of increasing the innovation potential of countries.

Fostering the knowledge-based economy is crucial to raising both productivity and employment. It is particularly important that innovation by SMEs should be fostered. The EU lags behind the United States in overall knowledge spending, including on R&D and tertiary education (see figure 2a and b). However, decomposing the figures shows that it is especially in private spending that the US advantage lies, while public spending in Europe is on par with the US. Nevertheless, even for the latter, scope for improvement exists in promoting the efficiency of spending.

More and better co-operation between the private sector and public research institutions should lead to better innovation diffusion. Measures to improve links are being or have been carried out in several countries (DK, EE, GR, IE, CY, LT, NL, AT, PL, PT, SI, FI and SE). In addition to setting up the right economic incentives for this to happen the governance of public research and education institutions merits attention, inter alia by

¹¹ Action plan "Simplifying and improving the regulatory environment" (COM(2002) 278 final), 5 June 2002

involving business directly in management. Such reforms have already been undertaken in e.g. FI and DK, and are under way in other countries. An Innovation Council, inspired by a similar body in FI, bringing together the Prime Minister, academia and business managers, has been set-up in NL. Finally, several countries have reduced costs for business R&D via tax rebates or subsidies, e.g. ES, IE, IT, LV, MT, AT, PL, PT, SK, and UK. The effects of such instruments need to be monitored closely.

The European economy patently suffers from a lack of high skilled workers, especially in the area of science and technology. The skills deficits that all countries suffer from, especially but not only in the acceding countries, have to be addressed better by educational institutions and training systems. Changes to primary and/or secondary education systems have been carried out in several countries (DE, IT, PT and SK) and changes to tertiary education systems have been envisaged in others (CZ, ES, LV, NL, SI and SK). Some countries have undertaken changes in all three areas (DK, PT). Again, the incentive structure – for both individuals and institutions - is important. Such incentives should also address the fact that – in several countries – students on average take too long time completing their studies and the drop-out rate is high. IT and PT haven taken measures to lower their drop-out rates, which are among the highest in the EU. On-the-job-training and life-long learning need in particular to focus on improving adaptability of low skilled workers. Schemes are undergoing changes in DE, GR, ES, PT, UK, and several acceding countries.

Figure 2b. Expenditure on primary, secondary and tertiary education, 2000

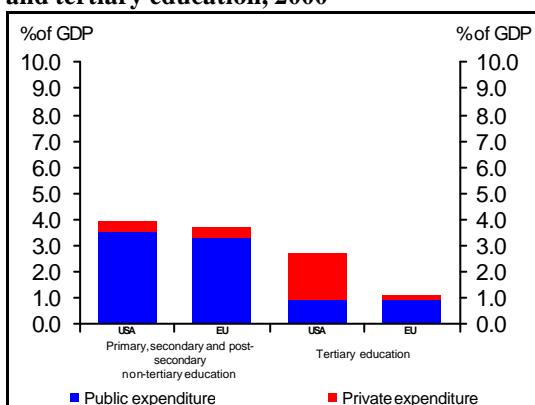
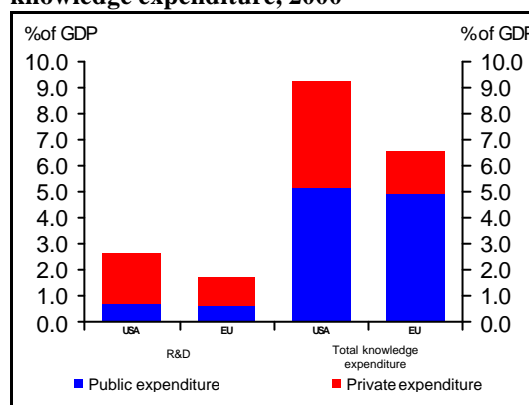


Figure 2b. Expenditure on R&D and total knowledge expenditure, 2000



Source: OECD Education at a Glance, November 2003 and OECD Science, technology and industry Scoreboard, November 2003.

In all countries, including the acceding countries, the knowledge-based economy could be powerfully fostered by stimulating imports of high-end technology. Openness to such imports is very important. So, too, is creating and maintaining the conditions to attract high-value foreign direct investments, as demonstrated, for example by EE. Amongst other matters, this means dealing with excessive administrative and regulatory burdens and ensuring competitive labour costs. Also crucially important is increasing the numbers of people with a tertiary education that meet the demands of potential investors as well as the labour market in general. Considerable scope exists in virtually all countries to improve focusing and use of resources within the educational system.

6. Stimulate a healthy **entrepreneurial climate** and create an environment in which SMEs can flourish. This requires a framework, which facilitates the smooth entry and exit of enterprises. An adequate supply of early-stage financing for SMEs is essential. The education systems need to pay more attention to promoting an entrepreneurial culture. Avoiding excessive regulation is particularly important for business start-ups.

Issues need to be addressed in all stages of the business life cycle: start-up, growth and transfer/liquidation.

Many countries (e.g. DK, DE, GR, ES, HU, IT, AT, PT, PL and SI) are reporting the establishment of one-stop-shops that should help to reduce costs and time of setting up new businesses. The essential task, however, is to ensure effective design and implementation, so that these potential benefits materialise in practice. This needs to be monitored carefully. In developing the knowledge-based economy the role of SMEs might be strengthened by fostering technology parks.

The availability of venture capital and in particular seed capital has diminished in recent years. This makes it all the more important for the EU and the Member States to facilitate better supply. This means, for example removing obstacles for institutional investors to invest in venture capital and closing the information gap between financiers and entrepreneurs seeking investment, building on the results of the Risk Capital Action Plan (RCAP).

Several countries (e.g. IT, NL, PT and PL) have recently, or are in the process of, modernising their bankruptcy legislation. These reviews generally aim at making a clearer distinction between compulsory winding up (aimed at liquidation) and the moratorium (aimed at recovery). These reforms should also address the stigma on failure, which still prevails in many countries and interferes with a dynamic entrepreneurial culture. In some new Member States outdated bankruptcy laws in conjunction with inadequate legal enforcement seriously hamper the effective market exit or restructuring of troubled companies (e.g. EE and CZ). In view of the ageing population, increased attention should also be paid to the obstacles that are linked to the transfer of (family) businesses.

The number of start-ups is closely correlated with the status of entrepreneurship and its cultural perception. In many countries, a wage-earner culture is dominant. Increased attention on entrepreneurship in the curricula of schools and universities may help to counter this.

Reduction of excessive regulation, as addressed in reform priority 4, is of particular importance for SMEs. Measures have been taken in a number of countries. It is generally accepted that the administrative burden weighs more heavily on SMEs than on larger businesses. A systematic assessment of the regulatory impact on SMEs is therefore needed.

7. Ensure **long-term fiscal sustainability**, which is still far from guaranteed in many countries. Various initiatives have been reported in the field of pension systems, but strong resistance has sometimes led to a watering-down of plans. Countries cannot afford, given the worsening demographic prospect, to postpone further reforms in line with the three-pronged strategy – increasing employment rates, reducing public debt and reforming pension systems. Further scope for improvement is to be found in tightening up early retirement schemes. Systems of health care and care for the elderly, which also pose a big risk, have remained largely untouched so far.

During 2003, FR and AT have reformed their pension systems and DE has initiated measures concerning the pension system. While the end-results proved to be less ambitious than in the outset, changes in these countries should improve sustainability, although to a lesser extent in DE. Some progress was noted on bringing public debt down (in particular BE, GR and ES), although it remains above 60 per cent of GDP in six Member States (DE, FR, AT and, whilst declining, above 100 per cent of GDP in BE, GR and IT). Long-term fiscal sustainability thus continues to be at risk in a number of countries, in particular in BE, DE, GR, ES, FR, IT and PT.

Several countries (BE, DK, DE, FR, NL, AT, SK and FI) have reduced tax rates on earned income in order to raise participation and employment rates. In most cases, there has so far been an adverse effect on the fiscal position. Making further progress in most cases depends upon being prepared to reform benefits systems, as well as the politically easier tax side of the policy scissors. In most countries, and especially in BE, DE, GR, ES, FR, IT, LU, HU, MT, NL, AT, PL, SI and SK, a pressing need is to increase employment rates among older workers. Perverse incentives in benefit systems to retire early will therefore need to be dealt with.

In addressing fiscal sustainability, most focus until now has been on pension and early retirement systems. However, health care systems and care for the elderly pose an increasing risk to fiscal sustainability. It is becoming increasingly urgent to ensure that cost pressures stemming from these are contained to levels, which are fiscally affordable. In many cases, this will mean substantial reforms need to be undertaken.

8. Deepen and further integrate **financial markets** and stimulate the continued restructuring and consolidation of the financial sector alongside the full implementation of the Financial Services Action Plan. Effective pan-European competition will ensure that much needed enterprise finance is provided.

Competitive financial markets are indispensable to achieving the Lisbon objectives. While most countries have financial markets that function tolerably well, markets are still segmented. As a result, in several countries high banking concentration ratios exist, while in others, market segmentation preserves a relatively large number of small (savings) banks. In most accession countries, the development of a mature insurance sector requires attention.

In order to promote pan-European competition the completion of the Financial Services Action Plan (FSAP) is needed to further the consolidation and restructuring of the

financial sector. Since it was launched in 1999, 36 out of 42 measures have now been completed. The remaining measures now need to be implemented.

Several Member States reported developments in the field of corporate governance. These include revisions of company law and the development of a code of conduct for corporate governance. In some cases (ES, NL, UK) government has created a legal basis for this code and the enforcement of compliance with the code. In the wake of recent corporate governance problems inside and outside the European Union, increased attention for this issue is required.

9. Enhance **public sector quality and efficiency**. Continued efforts are required in the field of e-government, the use of ICT, quality of services, outsourcing of services, and dismantling of barriers to open public procurement. Particular attention should be paid to developing a more user-oriented provision of public services, as is happening in some countries.

With better management, the use of ICT and other technologies, there is room for the public sector to combine improved services with greater cost-effectiveness. The advent of e-government makes it easier for citizens to interact quickly and cost effectively with public authorities. Examples are online one-stop-shops for businesses and reporting and information gathering Internet portals for individuals. Further, harnessing ICT into the core business of public authorities, offers ample opportunities for efficiency and productivity gains, no less than in the rest of the economy.

Building on existing successes, efficiency could also be increased by further opening up the public sector to competition via outsourcing of services. In some cases, insistence on Compulsory Competitive Tendering, when costs exceed a certain value, could carry dividends. However, experience indicates that successful outsourcing needs a well-thought through approach, and development of contract management capability so that the cost and service benefits available in principle are achieved in practice..

Further scope for improvement of quality could be found in taking better account of the user's needs in the provision of certain public services, such as the provision of health care or care of the elderly. Notable examples of this have been found in DK, NL and FI. As a result public sector efficiency could be stimulated, in particular when the following questions can be answered affirmatively. Are there specific bottlenecks in the existing realisation of public interests? Is there a vocal and critical public that wants freedom of choice? Is it possible to develop a market? Can sufficient transparency be created in the market?

Potential for enhancing efficiency of Community schemes also exists. Efficient administration of EU Structural Funds and efficient resource allocation will not only reduce costs of administration but also, by increasing the quality of spending, foster growth.

PART II
COUNTRY NOTES

BELGIUM (BE)

Challenges identified in the 2003-2005 Broad Economic Policy Guidelines

Belgium was requested to:

- Ensure the continuation of the budgetary adjustment in the forthcoming years, in particular in view of ensuring the long-term sustainability of public finances in the face of population ageing.
- Increase the low participation and employment rates, especially for older workers and women, and improve incentives to work.
- Enhance competition in certain services sectors and continue to increase the efficiency of the public administration and to improve the business environment.

Developments over the last year

- The new Belgium Cabinet has confirmed its willingness to reduce further non-wage labour costs; the employers' social security contributions have been and will be further reduced in 2004. Measures have been undertaken in order to make work pay, notably the Personal Income Tax reform.
- Specific measures to raise the participation rate of older workers have been carried out. For instance, the 2004 Budget proposes to reduce social security contributions for workers over 58. In addition, measures have been taken with regard to the pension system to increase the employment rate among older workers and to strengthen sustainability.
- In the telecommunications and postal services sector, the regulator has become independent. Increased independence of regulation in the energy sector has been granted; the reserved area in postal services was reduced.
- In the field of research and development, Belgium currently invests 2.17 % of GDP, which is higher than the average for the Union.

Areas where further progress is still required

In order to keep track with the Lisbon Strategy Belgium should:

- Pursue and strengthen initiatives targeted at increasing the employment rate. Take steps to reduce further non-wage labour costs and facilitate more wage differentiation. Continue efforts to reduce unemployment disparities between regions and to enhance workers' mobility. Intensify reform of early retirement schemes.
- Carry out the initiated reforms in the area of electricity generation, in order to reduce the high degree of concentration and thus to spur competition. Likewise, increase competition in the railway and gas sectors.
- Continue modernisation of its administration. Re-ignite reforms of the civil service which had come to a halt.
- Increase resources devoted to R&D and pay attention to the risk of a digital divide in the knowledge-based economy.

CZECH REPUBLIC (CZ)

Background and recent developments

- Despite the fact that both the participation and employment rates have been falling, they are still higher than the EU average. Nevertheless, a rather persistent level of unemployment with a high structural component is a cause for concern.
- The high employment rate contributes positively to the growth potential. However, the growth potential is rather low especially due to the sluggish improvements in productivity.
- The privatisation process, which has now been largely completed (with several significant exceptions), has created the conditions for a restructuring of enterprises.
- Competition in product markets has been promoted by the establishment of a legislative framework for competition and by state aid policy, which is broadly in line with the EU acquis. The telecommunication market was fully liberalised by January 2001.
- Thanks to a rapid transformation since the early 1990s the financial sector is now more developed than in most other acceding countries, but remains under-developed relative to most of the existing Member States.
- The implementation of the first stage of public finance consolidation should help contain increasing budget deficits. However, further efforts are necessary to bring public finances on a sustainable path.

Challenges

In order to keep track of the Lisbon strategy, the Czech Republic should:

- Create conditions for accelerated productivity growth, in particular by enhancing the responsiveness of the education systems to labour market needs; by encouraging R&D and innovation, and by increasing the number of university graduates.
- Promote entrepreneurship and a higher share of SMEs in overall production by improving the business climate. Attention should be paid particularly to removing the high administrative burdens, simplifying the procedure to set up a business, improving the work of the Commercial Register, drafting new bankruptcy legislation, enforcing the legal framework and increasing the access to external financing.
- Safeguard the long-term sustainability of public finances. This requires acceleration of the public finance reforms. In particular, reforms of the pension and health care systems should be a priority.
- Address the structural problems in the labour market, especially to reduce the regional disparities in unemployment, the long-term unemployed and youth unemployment.

DENMARK (DK)

Challenges identified in the 2003-2005 Broad Economic Policy Guidelines

Denmark was requested to:

- Ensure an adequate labour supply in view of the ageing of the population.
- Enhance competition in certain sectors and improve the efficiency of the public sector.

Developments over the last year

- Denmark has strengthened competition in the energy sector by fully liberalising the electricity market as of January 2003. The liberalisation of the electricity market was complemented by the restructuring of subsidies to decentralised combined heat and power plants and by setting up a publicly owned independent energy transmission company.
- Introduction of measures to increase labour supply and to lower unemployment. The 2002 *‘More people into employment’* initiative is delivering first positive results and the adopted 2004 tax reform should increase labour supply. However, additional measures will be necessary in order to achieve the stated objective of further increasing the already high level of labour supply. Measures were introduced to tackle early retirement: older workers postponing retirement will receive increased retirement benefits.
- Substantial efforts have been made to improve the efficiency of the public sector. For example, the action plan for a more corporate minded public sector, launched in 2003, focused efforts on increasing market orientation, and on alleviating the administrative burden. Furthermore, the government has extended the free choice of hospitals. It also launched a knowledge strategy to increase the efficiency of the education system.
- Measures have been taken to strengthen competition in the soft drink and beer markets.

Areas where future progress is still required

In order to keep track with the Lisbon Strategy Denmark should:

- Particularly focus on benefit and other allowances reforms to increase labour supply in a way that improves both employment and public finances.
- Fully implement the action plan on public sector reform and evaluate the reforms undertaken to increase public sector efficiency.
- Intensify competition in sectors with higher than average EU-price levels, especially in the construction and book markets, and implement the measures in the pipeline to increase competition in the network industries, including the deregulation of the gas market.

GERMANY (DE)

Challenges identified in the 2003-2005 Broad Economic Policy Guidelines

Germany was requested to:

- Promote job creation and adaptability and mobilise the unutilised employment potential.
- Increase productivity through improvements in the business environment and the efficiency of the education system.
- Secure the long-term viability of pension and health-care systems.

Developments over the last year

- In 2003 the pace of reforms has quickened.
- Important steps have been taken to increase the flexibility of the labour market. The first two of the four “Laws for modern services in the labour market” (Hartz I to IV) came into effect, while the remaining “Hartz” proposals along with the bulk of Agenda 2010 were agreed in December 2003. However, at this stage it is too early to judge the success of these measures.
- Due to the amendment of the Craft Code (valid as from January 2004) the start-up of a business and hand-over in the craft industry will become much easier.
- A number of measures have been taken to increase productivity and improve the business environment. The partial advancement of the third stage of the tax reform will contribute to a lowering of the tax burden in 2004.
- A number of measures have been taken to improve the sustainability of public finances, e.g. the introduction of a “sustainability factor” into the pension formula from 2005 to lower future increases in pensions. A compromise on the health care system has passed the Bundesrat and will be effective as from 1 January 2004. The health care reform aims at providing more transparency, modernising the structures and also reducing social security contributions. An evaluation and appraisal of reforms has been put in place as part of the ongoing architecture.

Areas where future progress is still required

In order to keep track with the Lisbon Strategy Germany should:

- Implement all four Hartz laws, and labour market reform efforts should be continued. Employment protection legislation needs to be loosened further. Lowering social security contributions remains a challenge. Further promote wage flexibility.
- Increase care facilities in order to stimulate labour market participation of women and encourage the reduction of gender pay gaps, particularly in the private sector.
- Further measures to reduce bureaucracy and facilitate entry into the handicraft trades are necessary.
- Move ahead with the education reform by providing all-day schooling in primary and secondary schools and by increasing the efficiency of tertiary education.
- Building on the measures that have been taken, continue efforts to secure the long-term sustainability of the pension system and of the health care system. On health care reforms, more focus on economic incentives is needed. Make further efforts to contain upward pressure on health insurance contribution rates in the long term.

ESTONIA (EE)

Background and recent developments

- Estonia is a dynamic and open economy, which has undergone considerable transformation and has been attracting significant FDI.
- The legislative framework in the area of competition policy is basically in line with the EU acquis. Liberalisation of network industries is proceeding, although at differential rates (the gas market is one of the most open ones among the accession countries, but the level of market opening in the electricity sector at present represents only 10% and is subject to significant import restrictions).
- In the field of information technology, Estonia is one of the most advanced acceding countries. In order to maintain this position, various programmes have been implemented. In particular the Government is promoting activities conducive to a transition to a knowledge-based society.
- The average level of education in the labour force is relatively high (the percentage of persons with tertiary education in the labour force is higher than the EU average). However, mismatches in terms of the preparedness of workers to meet the demands of the labour market persist.
- After the far-reaching restructuring process of the Estonian economy, SMEs now play a more important role in business. Various measures aiming at supporting business start-ups have been implemented, e.g. to improve their access to finance.

Challenges

In order to keep track of the Lisbon strategy, Estonia should:

- Strengthen measures in the labour market, and continue active labour market policies, to address the deep-seated structural and long-term unemployment problem as well as the existing regional disparities.
- Further encourage R&D, especially the development side; take measures to improve co-operation between business and the academic sector.
- Promote a shift in FDI towards areas bringing in R&D and innovation activities. Currently, most of the FDI has been attracted by the low labour costs and low taxes.
- Speed up the liberalisation process in the electricity sector. Monitor the role and the status of the energy regulator. Strengthen the Competition Board, so as to enable it to enforce the competition rules effectively.

GREECE (GR)

Challenges identified in the 2003-2005 Broad Economic Policy Guidelines

Greece was requested to:

- Ensure the long-term sustainability of public finances in the face of population ageing, in particular in view of the high government debt ratio.
- Increase the low level of productivity, which is associated with problems in the functioning of the labour and product markets, low investment in human capital, and the late development of the knowledge-based society.
- Reduce the high rate of structural unemployment, and increase employment rates, particularly for women.

Developments over the last year

- Labour productivity has been on an increasing trend in the last years, although it remains the second lowest in the EU-15 and external competitiveness has declined. A series of measures aiming at increasing incentives to work for specific categories of the working age population, as well as measures for improving the skills of the unemployed, are being implemented.
- Efforts have been made to simplify the business environment. Measures to reduce bureaucratic and legal obstacles to set up a new company have been implemented. With regard to taxation, the Government has recently published a bill intended to simplify the tax audit procedures and amend certain provisions for calculating taxable profits.
- A number of initiatives have been launched in 2003 to improve the availability of skilled human capital and to promote R&D and innovation and ICT diffusion.

Areas where future progress is still required

In order to keep track with the Lisbon strategy, Greece needs to:

- Take further measures to ensure the long-term sustainability of public finances, in view of the high government debt ratio, and of population ageing.
- Take urgent measures to ensuring a marked acceleration of productivity growth continues in the future. Pursue its efforts to enhance competition, particularly in the energy sector, so as to allow the freer entry of new firms.
- Relax the very strict employment protection legislation.
- Evaluate the outcomes of the measures that were already taken and strengthen efforts in areas where insufficient progress has been achieved.

SPAIN (ES)

Challenges identified in the 2003-2005 Broad Economic Policy Guidelines

Spain was requested to:

- Raise the low employment rates, especially among women, and reduce wide regional labour market disparities.
- Increase the low level of productivity, including by strengthening the knowledge-based economy in terms of educational attainment and skill levels, investment in IT, R&D and innovation performance.
- Ensure the long-run sustainability of public finances in the face of population ageing.

Developments over the last year

- Spain has continued to maintain a positive growth differential over most Member States and has experienced one of the highest employment growth rates in the EU.
- Spain has taken a range of measures to increase female employment and participation rates, inter alia through tax incentives and the improvement of childcare support measures. There have been reforms of social benefits and employment protection legislation and of the income tax system.
- A number of actions has been taken to improve the efficiency of the housing market.
- Several initiatives have been launched to increase productivity and strengthen the knowledge-based economy, through promoting investment in human capital (e.g. in life long learning and continuous training), promotion of ICT and the introduction of a new national plan for spending on R&D.
- Spain has also introduced measures to liberalise the electricity market and improved the business environment, by adopting the New Limited Company Act in April 2003, and increasing the number of “one-stop-shops” for business support services.

Areas where future progress is still required

In order to keep track with the Lisbon Strategy Spain should:

- Take further measures to reduce the still high unemployment rate. In addition, Spain should continue to encourage increased labour market participation amongst women, which remains below the European average. Encourage a reform of wage setting in order to better reflect productivity. Employment protection legislation remains an issue, and geographical mobility could be deterred by rigidities in the housing market. These issues should also be addressed.
- To increase the low level of productivity, spending on education should be increased, and measures to increase educational attainment be taken. The implementation of the ICT and the R&D development plans should be closely monitored to ensure that their goals are realised. Continue to take measures to further enforce effective competition in certain sectors, such as retail distribution.
- Take further steps toward implementing a major reform of the public pension system to ensure the sustainability of public finances, complementing the policy of public debt reduction, the pension reserve fund and second and third pillar initiatives.

FRANCE (FR)

Challenges identified in the 2003-2005 Broad Economic Policy Guidelines

France was requested to:

- Increase labour market participation and reduce structural unemployment.
- Ensure the long-term sustainability of public finances in the face of population ageing.
- Ensure competition in the network industries and accelerate the adoption of Internal-Market measures, in order to create a level playing field.

Developments over the last year

- France has adopted in the summer of 2003 a significant reform of the pension system, which increases significantly financial incentives to remain in work until and after the legal retirement age, and constitutes a step towards the objective of safeguarding the sustainability of public finances.
- In recent years a number of measures has been taken to encourage labour market participation and tighten up eligibility conditions as a result of which participation rates have been raising. However, further progress is needed to reduce structural unemployment.
- Measures have been taken to reduce and simplify business regulations, e.g. by lowering the time and cost of setting up a business.
- France made efforts to raise the unsatisfactory transposition rate of internal market directives (from 96.2% in 2002 to 96.5% in November 2003), but no progress has been made in reducing the number of infringement proceedings.

Areas where future progress is still required

In order to keep track with the Lisbon Strategy, France should:

- Implement quickly a comprehensive reform of the health care system and sickness insurance, with the aim of curbing growth in health expenditures to a sustainable level, and to eliminate the deficit of the social security system.
- Pursue efforts to increase competition in energy markets, in both the gas and electricity sectors.
- Take further measures to increase participation rates, and to reduce structural unemployment, in particular of older and low-skilled workers.
- Pursue and strengthen the initiatives targeted at increasing the transposition of internal market directives as well as all the directives on environmental protection and reduce the number of infringement procedures.
- To ensure the-long term sustainability of public finances, closely monitor the effects of the 2003 pension reform, and to stand ready to effect further reform if they prove insufficient.

IRELAND (IE)

Challenges identified in the 2003-2005 Broad Economic Policy Guidelines

Ireland was requested to:

- Achieve a smooth transition from double-digit economic growth in the late 1990s to lower, sustainable growth in the years ahead by ensuring stable macroeconomic conditions and by strengthening the supply-side of the economy.

Developments over the last year

- Government has begun a major, ongoing, programme of reform of the health system to ensure accountability and clarity of roles and responsibilities. The reform involves rationalisation of health service agencies, the establishment of a national health service executive, clear allocation of budgetary responsibility and the introduction of modern planning and reporting processes.
- Efforts have been pursued to increase competition in network industries, mainly in the telecommunications and public transport sectors. In the gas and electricity markets, new competition rules have been introduced.
- Various measures are planned to improve capital spending, under the National Development Plan 2000 – 2006 and to increase the level of R&D; e.g. allocation of increased funding to R&D through the National Development Plan, creation of new research centres, development of partnerships between Irish universities and business.

Areas where future progress is still required

In order to keep track with the Lisbon Strategy, Ireland should:

- Pursue efforts to foster competition in sectors such as professional services, retail distribution and insurance.
- Continue to monitor wage competitiveness and foster prudent wage-setting in this year's wage negotiations.
- Implement its plans to ensure an increase in the total level of R&D spending, including by business, and increase the effectiveness of such spending.

ITALY (IT)

Challenges identified in the 2003-2005 Broad Economic Policy Guidelines

Italy was requested to:

- Ensure the long-term sustainability of public finances in the face of population ageing.
- Raise the low employment rate, especially among women and older workers, and reduce the wide North-South economic disparities.
- Strengthen the knowledge-based economy in terms of educational attainment and skill levels, investment in IT, R&D and innovation performance.
- Continue to improve the business environment and to enhance competition in the energy and services sectors.

Developments over the last year

- Besides wage moderation and fiscal incentives, the positive performance of the Italian labour market is believed to reflect the impact of the successive stages of reform since the mid 1990s, chiefly by introducing new more flexible labour contracts. However, the issue of segmentation of the labour market across types of contract and firms remains to be addressed.
- The medium-term economic and financial plan (DPEF) for the period 2004-2007 released in July 2003 outlines the key points of the strategy for the South, notably to accelerate public infrastructure programmes, inter alia by resorting to public-private-partnerships, and to strengthen local public administration.
- Italy has launched several initiatives to strengthen the knowledge-based economy, e.g. through reforms in the school system, promotion of ICT and with the implementation of a set of measures aimed at stimulating spending on R&D.
- As regards the energy sector, the gas market for final consumers has been fully liberalised but in many instances there is still only one firm in the market. In electricity, recent developments are mixed.

Areas where further progress is still required

In order to keep track with the Lisbon Strategy, Italy should:

- Reduce public debt from current high level and accelerate the reform of the pension system.
- Strengthen its efforts to bridge the regional development gap by increasing productivity and labour force participation in the South and by encouraging greater wage differentiation.
- Continue to encourage increased labour market participation, especially among women and older people.
- Continue to take measures to increase competition in certain sectors, such as professional services and the energy sector.

CYPRUS (CY)

Background and recent developments

- Cyprus has performed strongly in recent years. However, performance on R&D and innovation, particularly by the private sector, is the lowest in the EU-25. Measures under the new Strategic Development Plan 2004-2006 focus on upgrading the basic infrastructure, increasing competitiveness and the development of human capital.
- The labour market is flexible and well functioning. The unemployment rate is low. Both the female and male employment rates are above EU-average.
- Financial markets are well developed. Reforms of regulatory authorities are in the process of implementation.
- Competition in product markets has been promoted by establishing the necessary anti-trust and state aid institutional structures. New public procurement laws in line with Community directives were introduced in 2003. Administrative procedures for businesses were simplified and streamlined. Restrictions on FDI were abolished in 2003. Competition challenges persist in the transport and telecommunications sectors.
- In view of the relatively high debt level of 63.3% of GDP, a comprehensive fiscal reform is under implementation, with the aim of improving both the revenue and expenditure side and reinforcing tax compliance.

Challenges

In order to keep track with the Lisbon strategy, Cyprus needs to:

- Building on the measures already taken, engineer diversification of the economy.
- Raise expenditure on R&D and innovation, upgrade the research infrastructure, and encourage private investment in R&D and closer co-operation between private businesses and research institutions.
- Implement the ongoing fiscal reform, to contain government expenditure, and secure long-term sustainability of public finances.
- Prepare for the possible economic consequences of reunification.

LATVIA (LV)

Background and recent developments

- The wage negotiation process is decentralised with wage setting mostly at enterprise level. Productivity has grown faster than nominal unit labour costs but a recent slowdown raises concerns about Latvia's competitiveness in the long run. However, Latvia's decentralised wage bargaining process is a potential asset.
- Since independence, competition has been boosted by the privatisation of most state-owned companies, a process that should be completed by the end of next year.
- Reform of the educational system was initiated as early as 1994 and has raised educational attainment. The current phase of reforms aims at promoting a knowledge-based society with lifelong learning.
- Several projects have been initiated to develop information technologies in Latvia.
- Good progress has been made in recent years on the development of the Latvian financial market: the banking sector is relatively well-developed with relatively low concentration and a large number of foreign competitors.

Challenges

In order to keep track of the Lisbon strategy, Latvia should:

- Improve productivity as a key issue, in particular by further increasing the efficiency of education, by encouraging R&D and innovation, and by encouraging an entrepreneurial culture.
- Address the structural problems in the labour market, especially the regional disparities in unemployment, long-term unemployment and youth unemployment.
- Develop effective competition in network industries.

LITHUANIA (LT)

Background and recent developments

- The situation in the labour markets has improved in the last year, reflecting positive developments in employment and unemployment rates. However, the unemployment rate remains high and major structural weaknesses persist with regard to long-term and youth unemployment and regional disparities.
- Public spending on education is among the highest in the acceding countries and above the EU average. The gross enrolment rate to tertiary education is above 70% and the number of tertiary graduates is also above the EU average. However, skill mismatches persist and R&D and innovation performance remains low.
- In July 2003, the Government adopted an Innovation in Business Programme, with the aim of supporting innovation activities and developing higher-value added activities. The implementation of the Action Plan of the Strategic Guidelines for SME development to promote entrepreneurship is ongoing.
- The FDI inflow has accelerated in the last years (3.8% of GDP in 2001, 5.3% in 2002, and 4.2% in the first half of 2003). However, as a result of low FDI inflow before 2000, the stock of FDI is still low compared with other acceding countries.
- Due to the introduction of a voluntary privately funded pension system, and envisaged measures to prolong the retirement age, public pension expenditure as a share of GDP is expected to be relatively stable.

Challenges

In order to keep track with the Lisbon Strategy, Lithuania should:

- Address the structural problems in the labour market, to tackle the high unemployment rate and the persisting structural imbalances.
- Improve productivity, in particular by improving the efficiency of the education and training systems in terms of preparedness to meet the demands of the labour market, and by promoting R&D and innovation as a priority. Further strengthening of the innovation system could be achieved by maintaining and improving a business environment that facilitates the knowledge transfer through FDI.
- Develop effective competition especially in network industries.

LUXEMBOURG (LU)

Challenges identified in the 2003-2005 Broad Economic Policy Guidelines

Luxembourg was requested to:

- Increase the low national participation and employment rates, especially for older workers.
- Improve the business environment and encourage entrepreneurship in order to achieve a more balanced economic structure.

Developments over the last year

- In the public sector, a new measure allows officials to continue working beyond the age they are eligible for retirement.
- Some progress has been made to reduce the inflow in disability pension schemes by tightening eligibility.
- The introduction of more flexible working schedules for workers in the public sector.
- A single legislative framework for public procurement has been enacted.
- Legal initiatives have been taken in 2002 and 2003 to streamline business start up procedures.
- A joint venture between the Public Company for Credit and Investment and private banks has been created to help SMEs to access venture capital.

Areas where further progress is still required

In order to keep track with the Lisbon Strategy Luxembourg should:

- Analyse closely the factors underlying decreasing productivity over the last few years.
- Take further measures to reduce incentives for early retirement.
- Increase competition in the service sector.
- Continue efforts to reduce the administrative burden for SMEs.
- Fully implement the reform of the legislation on competition and decrease its transposition deficit of Internal Market directives.

HUNGARY (HU)

Background and recent developments

- Considerable reforms have been effected in the product markets, which have attracted foreign investment in a number of sectors. Liberalisation in network industries has started, although the incumbent still has a strong position in telecommunications. Gas and electricity market reforms are currently ongoing, opening up the markets for large consumers.
- To foster the knowledge-based economy, the Government has adopted an Information Society Strategy, and Internet access is increasing quickly. However, Internet access remains below the EU-15 average.
- An ambitious road construction programme has been launched and the motorway network increased over recent years.
- A new insurance market regulation was enacted in 2003. Capital markets and financial services regulations are in line with the *acquis*.

Challenges

In order to keep track of the Lisbon Strategy, Hungary should:

- Give priority to overcoming the serious regional imbalances in the labour market and to raising the low employment rate. Urgently take efforts to increase labour mobility, in particular by enhancing commuting possibilities, appropriate housing policy and reducing sectoral disparities. Encourage wage moderation to address price competitiveness challenges and ensure continued FDI inflows.
- Strengthen labour productivity by increasing the efficiency of the education system better to prepare workers to meet the demands of a knowledge-based economy, and by encouraging R&D and innovation.
- Address the challenge of improving the infrastructure (road/rail network). Speed up liberalisation of the network industries for the benefit of consumers. Ensure full transparency and effectiveness of competition arrangements, and the independence of the network regulators.
- Continue measures to ensure the long-term sustainability of public finances.

MALTA (MT)

Background and recent developments

- Several well-designed measures to promote education, ICT and R&D have been taken, including - amongst others - financial assistance targeted at business R&D, co-operation between research institutions and business, improved supply of training, life long learning schemes, with an emphasis on technical and science studies.
- Measures to increase competition have been pursued in the recent years and liberalisation in the network industries has proceeded, especially in the telecommunications sector in 2003 and there has been a gradual opening of the postal services market. The Competition Act has been strengthened, expanding in the field of vertical restraints and concentrations. State aid legislation as well as the public procurement has been reviewed.
- A number of initiatives have been launched to create more favourable conditions for enterprises. The National Industrial Policy targets this, while the Business Promotion Act is aimed at increasing investment and productivity. SMEs are a particular priority.
- Measures in the field of parental leave, childcare schemes, part-time work arrangements, and gender equality initiatives have been launched to raise the extremely low female participation rate.

Challenges

In order to keep track with the Lisbon strategy, Malta should:

- Increase the employment rate, and in particular female and older workers employment. This should include streamlining the tax-benefit systems within the context of the Government's fiscal consolidation process.
- Design programmes to reduce the high rate of early school leavers, and to encourage higher education, in particular in science and technical areas.
- Implement reforms to enhance competition taking into account the specific characteristics of the small domestic economy. Pursue the privatisation process. Focus on measures conducive to entrepreneurship, e.g. providing assistance to start-ups, encouraging innovation and supporting R&D.
- Take measures to safeguard the long-term sustainability of public finances. Reform of the pension and health systems should be addressed.

NETHERLANDS (NL)

Challenges identified in the 2003-2005 Broad Economic Policy Guidelines

Netherlands was requested to:

- Pursue budgetary adjustment in the coming years in the face of weaker potential growth, and the budgetary costs of ageing.
- Draw currently inactive people into the labour market.
- Tackle the relatively slow productivity growth, stemming, inter alia, from the low level of competition in some sectors, and insufficient business investment, particularly in R&D.

Developments over the last year

- The Netherlands has initiated measures in the area of reforms of the benefit systems, to promote labour force participation. Special attention has been given to increasing the participation rate of older workers.
- A recently established Innovation Council should promote a joint approach of government, business and knowledge infrastructure in order to strengthen the innovation climate and increase business R&D expenditure, which currently ranks below the EU average.
- Responsibilities in the field of welfare benefits have been decentralised to municipalities. This should have positive effects both in terms of costs and efficiency.
- The Netherlands experienced high wages and price increases in recent years. In this respect, co-operation with the social partners has resulted in a moderate wage agreement, which should improve the external competitiveness of the economy.

Areas where further progress is still required

In order to keep track with the Lisbon Strategy, the Netherlands should:

- Accelerate reforms of social security and pensions; quickly implement target-oriented reforms to disability benefits and take measures to discourage early retirement.
- Pursue the strengthening of the Competition Authority powers. This should help deal with the competition problems that persist in some sectors, such as construction and professional services.
- Implement measures to increase innovation capacity, e.g. to raise the number of new science and technology graduates, and to strengthen the links between business and university research.
- Take steps to demonstrate the benefits of network liberalisation to consumers, since the public perception is apparently negative, which may delay further reforms. Reinforcement of the regulatory regimes in the network industries would be a good example.

AUSTRIA (AT)

Challenges identified in the 2003-2005 Broad Economic Policy Guidelines

Austria was requested to:

- Ensure the sustainability of public finances in the face of population ageing.
- Continue to improve the weak technology base, and encourage business R&D and innovation.
- Strengthen the development of effective competition in some sectors.

Developments over the last year

- Austria has adopted a comprehensive reform of the public pension system, which can be considered a major political success. Despite the long transition periods, this reform should contribute to increase the effective retirement age and is expected to reduce the cost of the pension system. However, in view of ageing populations there is still some way to go to ensure the long-term sustainability of public finances. Also a health care reform will be necessary.
- A far-reaching tax reform is planned for the years 2004 – 2005 (partly in force since January 2004). The reform is going to be realised in two steps and should lead to a significant tax reduction. The acts, which are necessary for launching the first step of the reform, have already been passed by the Parliament. However, the tax ratio will remain relatively high.
- Shop opening hours have been partially liberalised by a new act, which entered into force in August 2003. Intensified effort in the transposition of the Internal Market directives has resulted in some reduction of the implementation deficit.
- Austria has taken new measures to promote business R&D and to reduce the administrative burden, especially on SMEs. However, these reforms should be coupled with systematic monitoring and assessment of whether they are having the intended effect.

Areas where future progress is still required

In order to keep track with the Lisbon Strategy Austria should:

- Remove legal restrictions that continue to impair effective competition, especially in the services sector. Take measures to remove restrictions in highly concentrated sectors, e.g. in electricity.
- Promote further progress in the transition to a knowledge-based economy, notably to increase spending on R&D and innovation.
- Ensure that the pension reform will have the desired effects on the long-term sustainability of public finances.
- Increase the resources of the Federal Competition Authority to ensure effective enforcement of competition rules.

POLAND (PL)

Background and recent developments

- Real wage growth remained moderate in 2003. Unit labour costs decreased by 0.6% in 2002 and follow the same downward trend in 2003. However, wage flexibility remains less than desirable and needs to be enhanced.
- The Government has initiated a number of reforms to improve the business environment: a new enterprise register is being set up; in February 2003, a new insolvency law was adopted, and a programme has been launched to facilitate the access to finance by SMEs. Substantial progress has been made in developing the SME sector.
- The workforce is well educated in terms of the number of persons who have completed upper secondary education, and the recent figures on tertiary education reflect a large increase in the number of university students. However, the efficiency of the educational and training system is to be enhanced better to adapt qualifications to the requirements of the labour market and to reduce the skills mismatch.

Challenges

In order to keep track with the Lisbon Strategy, Poland should:

- Pursue further efforts to raise productivity, in particular by developing infrastructure, encouraging R&D and innovation, and improving the business environment for small enterprises to grow. Speed up the restructuring of the economy, and accelerate privatisation in particular in the steel, coal and energy sectors. More efforts need to be made to rationalise the agriculture sector.
- Pursue urgently measures to address the deep-seated structural problems in the labour market to reduce the rate of unemployment, in particular amongst youth and in rural areas.
- Strengthen competition in the telecommunications sector, and initiate a liberalisation process in the gas sector and railways.
- To counter the relatively high increase in the old age dependency ratio, and in view of its rapidly rising debt level, Poland needs to take steps to increase its labour force participation rate to help long-term sustainability of public finances.

PORTUGAL (PT)

Challenges identified in the 2003-2005 Broad Economic Policy Guidelines

Portugal was requested to:

- Increase overall competitiveness, which is at risk from the low efficiency of the education system, low R&D spending, a low degree of competition in certain sectors, and high nominal wage growth.
- Ensure the long-term sustainability of public finances in the face of population ageing.

Developments over the last year

- The low labour productivity remains the key structural challenge in Portugal.
- Approval of new labour code to enhance the responsiveness of wage settlements to productivity and skill differentials across economic sectors. This code notably includes mechanisms to overcome collective bargaining deadlocks.
- An increase of private spending on R&D has been recorded. Nevertheless, the R&D ratio of Portugal is still well below the EU-average. Two new policy instruments were launched aiming at fostering the relationship between firms and R&D institutions and supporting the establishment of new technology-based firms.
- Portugal designed a public administration reform seeking to increase the productivity of the public sector and the overall competitiveness of the economy. Implementation is planned for 2004 and the following years. Improved the business environment, in particular by reducing the time necessary to set up a business. However, further progress is necessary.
- In 2003, the Competition Authority was established and a new Competition Law approved. However, competition in certain sectors is still low, particularly in the network industries. Preparations for the Iberian Electricity Market were started in 2003 and should be completed in 2005. Full liberalisation of the electricity market for household consumers is envisaged for July 2004.
- Reforms were introduced in order to reduce the generosity of the public employee pension scheme as compared with the general pension scheme, notably (i) new pensions are calculated based on the last net wage (instead of the last gross wage), and (ii) early retirement before 60 years is heavily penalised.

Areas where further progress is still required

In order to keep track with the Lisbon Strategy, Portugal should:

- Intensify measures to narrow the productivity gap compared to the EU average. Particular attention should be devoted to implement the public administration reform, measures to increase the level of R&D and innovation, and to improve the efficiency of the education system and promote life-long learning.
- Increase competition in specific sectors, notably in the network industries. Implement the Iberian Electricity market for consumers, and give further attention to liberalisation and competition issues in the energy market.
- Ensure the long-term sustainability of public finances, i.a. by putting future pension expenditure on a sustainable footing.

SLOVENIA (SI)

Background and recent developments

- The unemployment rate ranks amongst the lowest of all the acceding countries. The employment rate equals to the EU average. However, structural problems persist, notably among older low-skilled workers.
- A new wage policy adopted in April 2003 could cap pressures to push up wages by limiting backward looking indexation.
- R&D expenditures are relatively high for the acceding countries, but still remain below the EU average. The business sector represents 55% of investment in R&D, which is close to the EU average.
- Efforts have been made to simplify the business environment, e.g. lowering the time and cost necessary for setting up a new business. However, administrative burdens affecting businesses remain high and difficulties in buying land for industrial use persist.

Challenges

In order to keep track with the Lisbon Strategy, Slovenia should:

- Continue to ensure productivity growth. Scope for improvements exists in a broad range of areas, in particular by encouraging entrepreneurship and by further promoting R&D and innovation.
- Intensify measures to increase employment rates for older workers, and the low retirement age, and closely monitor the impact of the measures against the envisaged objectives.
- Promote the development of effective competition in product markets, and notably in network industries.
- Further promote the inflow of FDI. Take steps to free up the supply of land, so that this is not an obstacle.

SLOVAKIA (SK)

Background and recent developments

- The social insurance reform and the far-reaching income tax reform in 2004, which introduces a flat tax rate of 19% for both individual and corporate income, will strengthen job creation as well as the willingness to work and to leave the informal sector. However, combined health and social contribution rates remain very high (corresponding to more than 46% of gross salary).
- Work incentives have been distorted by generous welfare benefits but are being strengthened. On the demand side, increased flexibility for work relationships and job creation has been introduced into the labour code from July 2003, although the wage setting mechanism is still not flexible enough.
- Important measures have already been taken to facilitate market entry and the access to credit, in particular for small and medium-sized enterprises.
- The Government has recognised an urgent need for a wide-ranging education reform and has been implementing a number of measures in this respect.
- Although more will need to be done, the Government has introduced a number of measures that are aimed at remedying some of the problems for the business environment, such as a simplification of the procedure to start up a new business, the preparation of a new bankruptcy law and strengthening of the legal framework.
- The Government has made significant progress with the reform of the pension system and will, for example, gradually increase the retirement age to 62. However, this is still relatively low.

Challenges

In order to keep track of the Lisbon strategy, Slovakia should:

- Take measures to improve labour market participation, reduce structural unemployment and the level of regional disparity in employment. It should address the structural problems in the labour market, especially to reduce youth unemployment and unemployment of low-skilled workers, increase flexibility in wage setting and remove barriers to regional mobility.
- Improve productivity, in particular by reforming the education system, including raising the number of university graduates, and training systems and by encouraging R&D and innovation.
- Further improve the business environment, especially with respect to the clarity and enforcement of the legal framework, and support entrepreneurship in order to promote the development of higher value-added sectors.
- Although impressive progress has been achieved with regard to public finances, continued efforts in this regard will be required and the government should strictly comply with its envisaged fiscal consolidation targets.

FINLAND (FI)

Challenges identified in the 2003-2005 Broad Economic Policy Guidelines

Finland was requested to:

- Reduce the high level of structural unemployment and increase the employment rate of older workers.
- Enhance competition in certain sectors and improve the efficiency of the public sector.

Developments over the last year

- Finland has prepared a plan to cut the taxes on labour by 0.8% of GDP between 2003-07, which is targeted especially at small and medium income earners. The tax wedge should narrow to 50% for low-income earners by 2004.
- A new employment programme has been introduced, which aims at reduction of the high level of structural unemployment and should boost labour supply. Job seekers should be covered by active labour market measures more intensively. The programme includes also a reform of the public employment services. As the programme has been launched only recently, the effects are not yet visible.
- Measures have been taken to increase the employment rate of older age groups.
- A Productivity Action Programme seeks to increase the productivity of the public sector. Work on reforming the Public Procurement Act is still ongoing.
- A reform of the Act on Competition Restrictions has started, which should improve the national monitoring of competition restrictions. However, no measures were taken in the retail and other service sectors.

Areas where future progress is still required

In order to keep track with the Lisbon Strategy Finland should:

- Reduce the high level of structural unemployment, and increase the employment rate of older workers. Finland should take measures on the benefit side of its tax and benefit systems, step up efforts to ensure that wage bargaining systems allow wages to reflect better productivity differences, and take measures to increase labour mobility. Monitor closely the planned employment reforms to achieve a decrease of the NAIRU.
- Enhance competition in those sectors where it is still weak (e.g. construction sector, food sector, various services sectors) and thereby lower the high price level.
- Implement the public sector reform plans.

SWEDEN (SE)

Challenges identified in the 2003-2005 Broad Economic Policy Guidelines

Sweden was requested to:

- Ensure an adequate labour supply in view of the ageing of the population.
- Enhance competition in certain sectors and improve the efficiency of the public sector.

Developments over the last year

- After having made significant progress towards the Lisbon goals over the past years, the pace of reforms in 2003 has slowed down somewhat.
- Sweden has carried out various reforms to improve work incentives in order to avoid labour supply constraints. The reforms focused in particular on older workers, on immigrants and on the younger workers. Further measures have been undertaken on the tax side (e.g. some easing of labour taxation) as well as on the benefit side (e.g. cut in the sickness insurance).
- Further steps to reduce the number of people drawing on disability benefits are foreseen in 2004. It is, however, too soon to evaluate the impact of these measures.
- New laws are intended to increase the effectiveness of the competition policy. A new law on price information should come into effect in October 2004, which in principle covers all consumer products. Price transparency for the consumers should consequently increase leading to increased competition.

Areas where further progress is still required

In order to keep track with the Lisbon Strategy Sweden should:

- Focus on measures, which – in respect of the already high R&D and innovation level – improve the productivity levels. Promote means/mechanisms in order to take full advantage of the advanced stage of the transition to the knowledge-based society, e.g. improved co-operation between business and research.
- Noting the decreasing employment rate of 2003, further reduce the financial burden of labour for the low-paid and monitor progress on reducing the number of sick days.
- Enhance competition in those sectors where it is still weak (e.g. construction sector, food sector, various services sectors) and thereby lower the high price level.
- Further increase efficiency in the public sector, and intensify the already initiated reforms related with the reduction of administrative burden on enterprises.

UNITED KINGDOM (UK)

Challenges identified in the 2003-2005 Broad Economic Policy Guidelines

The United Kingdom was requested to:

- Improve the relatively low level of productivity.
- Address the high numbers of working-age people claiming sickness and disability benefits and sustain labour supply in the longer term.
- Improve the quality and efficiency of public services.

Developments over the last year

- The United Kingdom has carried out several reforms to increase its productivity level, which currently is far below the EU average, and to spur productivity growth. The UK targets its measures, in particular, at the following key areas: strengthening competition, promoting enterprise, improving the skills base, encouraging investment, supporting science and innovation. The reforms focused in particular on boosting training and basic skills, on opening up certain protected sectors, on tax initiatives in the field of R&D, on strengthening apprenticeship, and on increasing the powers of the competition authorities.
- Various reforms were taken to reduce the burden of regulation on business and on public services. Measures to promote a more entrepreneurial economy have been taken, e.g. initiatives in the education system and initiatives in less prosperous areas. Measures to upgrade the UK public services are currently under way. Several steps were taken in order to guarantee the efficiency of public spending.
- Measures have been launched aiming to counter the high number of working-age people claiming sickness and disability benefits. The UK is furthermore also encouraging age positive employment practices and is envisaging various measures to handle the challenges of an ageing population.

Areas where further progress is still required

In order to keep track with the Lisbon Strategy the United Kingdom should:

- Further pursue reforms to increase the rather low level of productivity. A number of measures have been already taken to tackle this issue but they need perseverance and where necessary intensification.
- Increase the percentage of GDP spent on R&D, both private and public expenditures. Pursue the initiatives to strengthen apprenticeship, to encourage adult learning and to raise the skill level in general.
- Devote continued specific attention to the high (and still rising) number of people claiming sickness and/or disability benefits. Monitor, evaluate and act upon the outcomes of the initiated pilot programmes.
- Despite the progress already achieved, competition in the retail sector still appears to be somewhat insufficient. Further reduction of the administrative burden on businesses in connection with local planning consents is necessary. Attention also should be paid to the price developments in the housing sector. Continued attention should be paid to public sector efficiency.

ANNEX
STRUCTURAL INDICATORS

Annex on structural indicators: Individual headline indicators and summary progress by countries

This annex illustrates the progress, which has been made by the EU and the Member States towards the key Lisbon objectives according to the headline list of structural indicators adopted in the General Affairs Council Conclusions (15875/03) on 8 December 2003. The data source is Eurostat.

Structural indicators should not be used mechanically:

- The relation between the numerical values of an indicator and the achievement of Lisbon policy goals is often not straightforward requires further interpretation, e.g. to take account of the institutional context, the general level of development and the cyclical position of the economy.
- Furthermore, attention should be given both to the levels of the indicators and to the rate of change.
- Moreover, by definition, indicators relate only to the past and often are available only with a lag. They cannot therefore pick up current initiatives, which will have effect only with time.

Nevertheless, bearing these qualifications in mind, the indicators are an invaluable starting point - a tool - for the assessment of Member States' structural position and policies.

To show the extent to which the various European economies are converging or diverging, for each of the headline indicators, this annex compares the EU average with the simple averages of the highest and lowest quintile of Member States. As far as possible, this comparison has been made on an EU-25 basis. However, where the data coverage of the ten new Member States is unavailable, a comparison on an EU15 only basis has been made.

Furthermore, as a benchmark for assessing the progress made by the EU relative to that of other leading industrialised economies, the EU's performance for each of these headline indicators has been measured against that of the US and Japan.

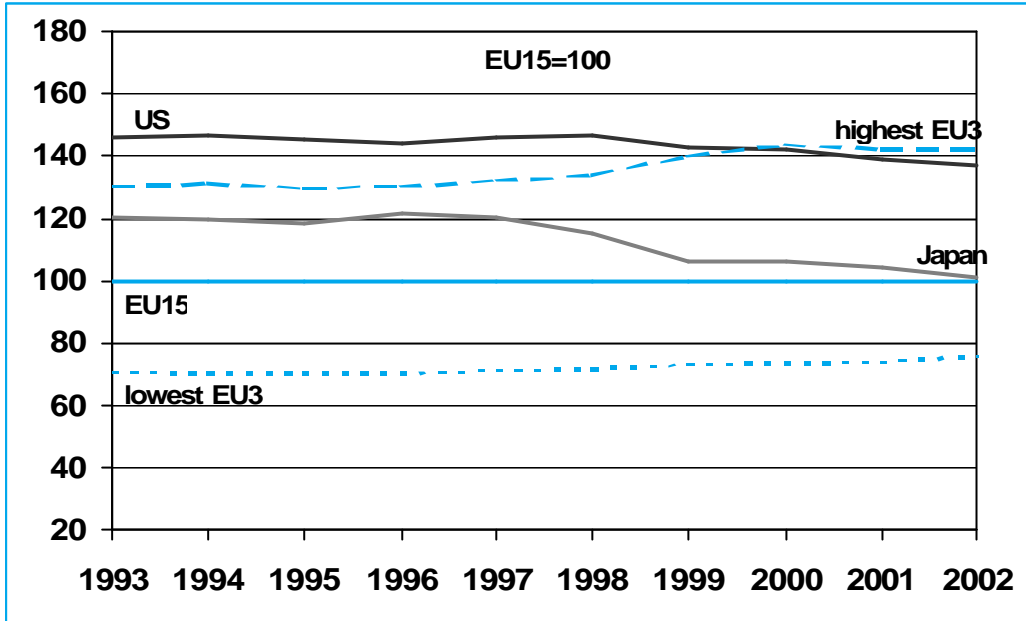
The annex is divided into two sections. The first section presents a series of charts corresponding to the headline set of fourteen structural indicators. In accordance with the conclusions of the General Affairs Council (15785/03), the charts relating to employment are broken down by gender. For this reason, a total of eighteen charts are shown.

The second section presents a set of summary tables showing the relative performance of the Member States on each of the fourteen headline indicators. The first table identifies, on the basis of levels, those countries in the highest and lowest performing quintiles. The second table compares the progress made by the Member States on each of the headline indicators over the period 1999 – 2002¹².

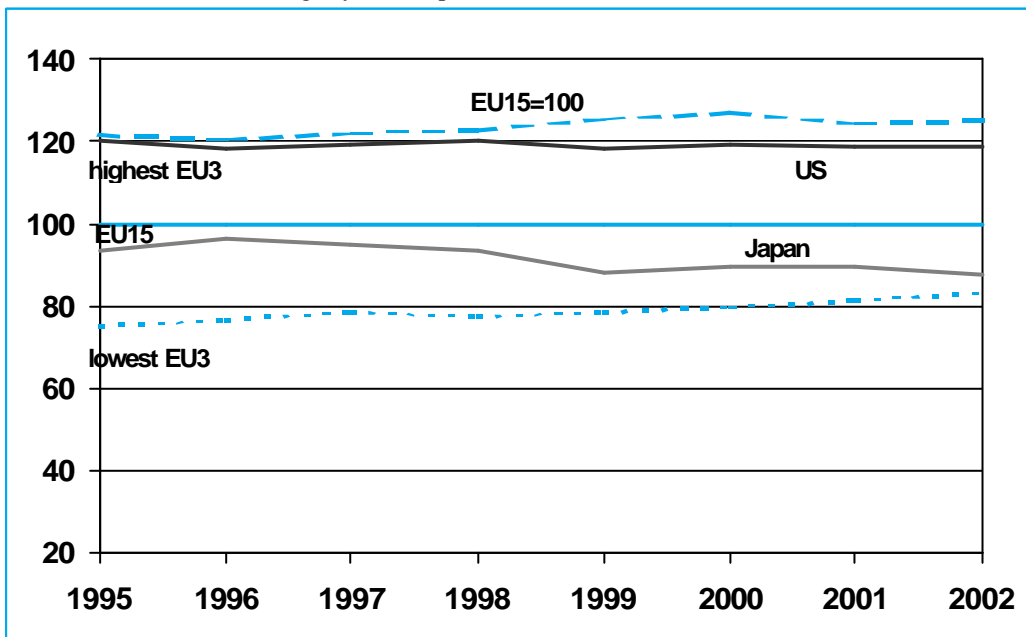
¹² The conclusions of the General Affairs Council (15875/03) on 8 December 2003 stated that, both levels and changes in recent years should whenever appropriate, be presented for indicators."

SECTION 1. INDIVIDUAL HEADLINE INDICATORS

Despite recording a comparatively lower rate of GDP growth in 2002, EU **GDP per capita**¹³ continued to converge on US levels. However, weaker growth in GDP meant that the gap with Japan all but disappeared.



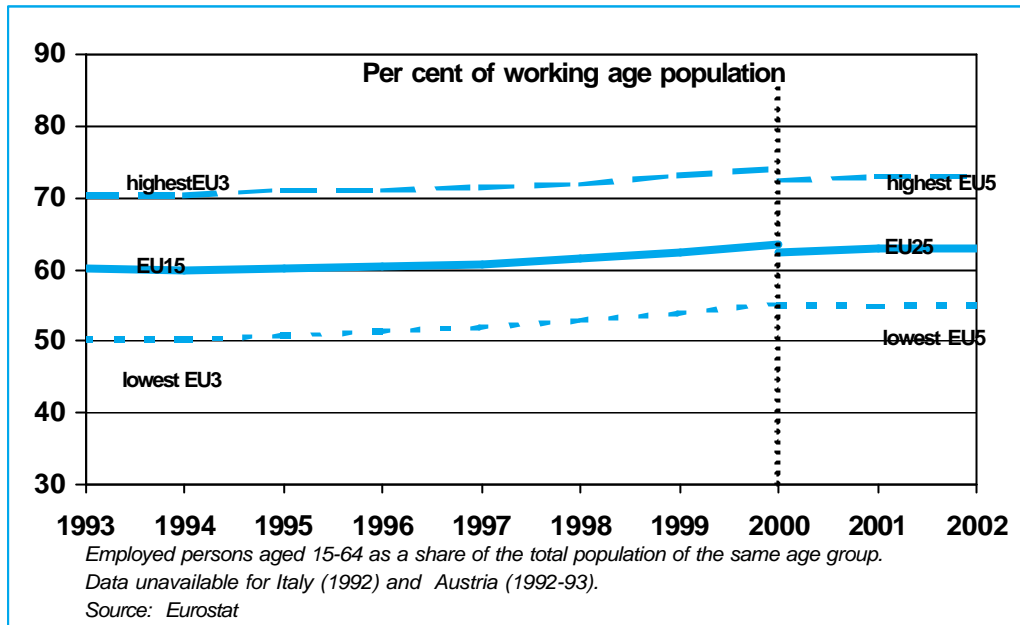
The gap between the US and EU15 in terms of **labour productivity**¹⁴ (per person) remained unchanged in 2002, while it widened slightly with Japan.



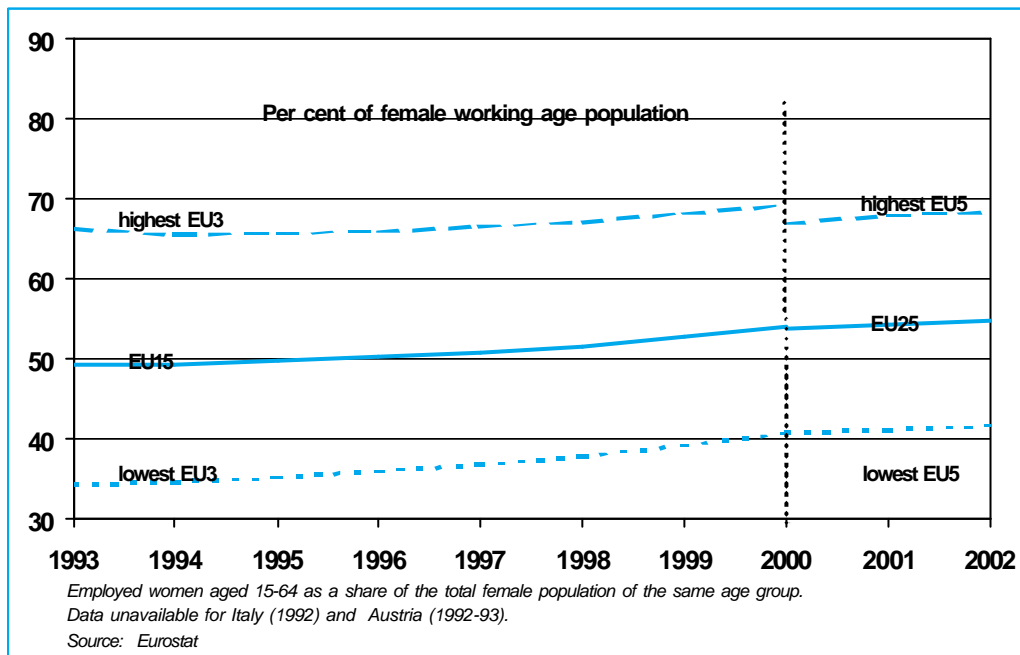
¹³ GDP per capita in Purching Power Standards (PPS) (EU15=100). Contains forecasts for 2002 and for Japan in 2001.

¹⁴ Growth rate of GDP at constant prices (1995=100).

Relative to previous years, the **employment rate**¹⁵ of the EU25 and the top and bottom quintile set of countries rose only very slightly in 2002.



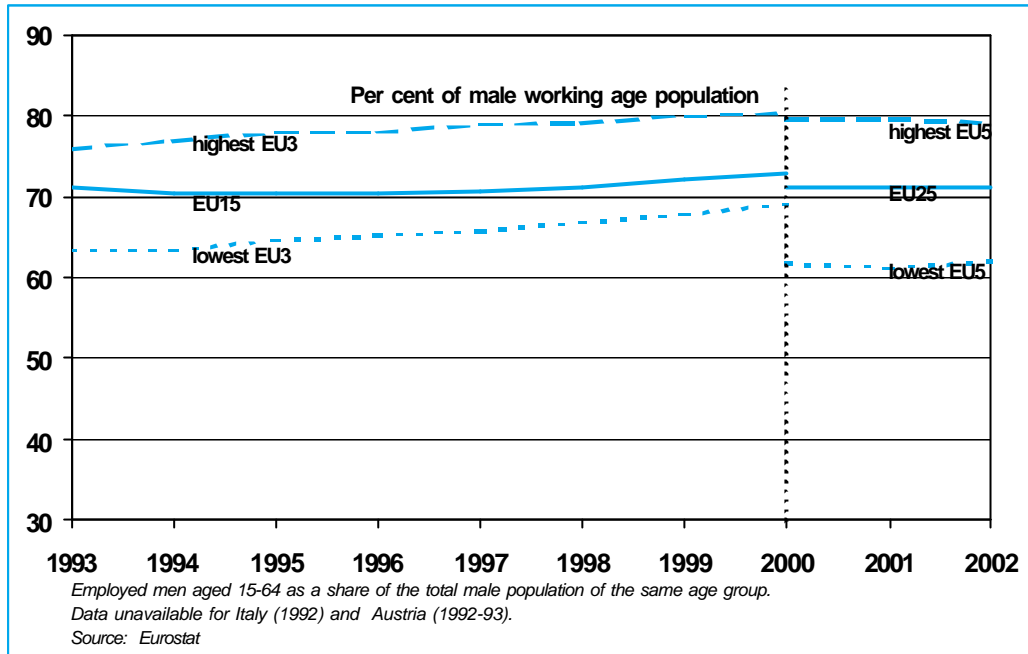
The rate of **female employment**¹⁶ rose ...



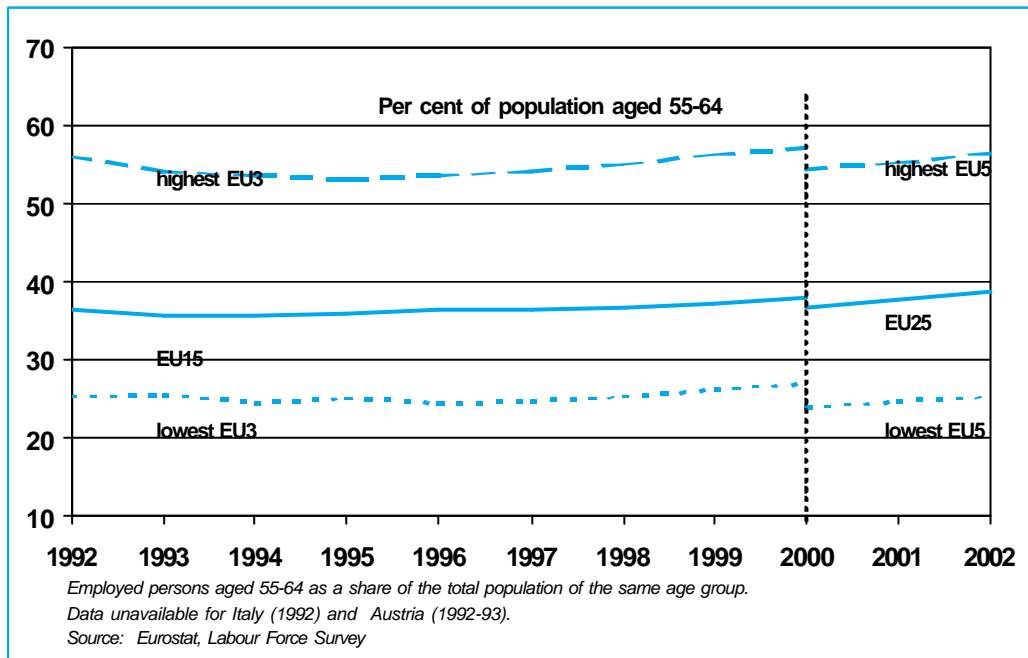
¹⁵ Data for 2002 are provisional as is that for Portugal, UK and EU (1999-2001).

¹⁶ Employed persons aged 15-64 as a share of the total population of the same age group. Data unavailable for Austria (1993).

... but was largely offset by falls in **male employment**¹⁷



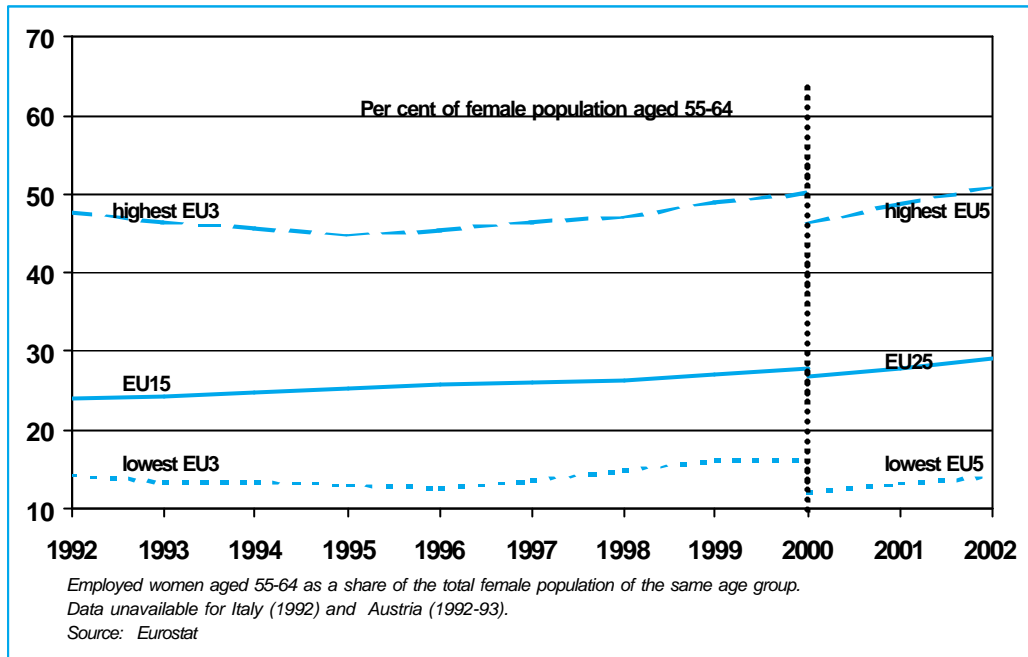
The **employment rate of older workers**¹⁸ for the EU25 continued to rise steadily in 2002 ...



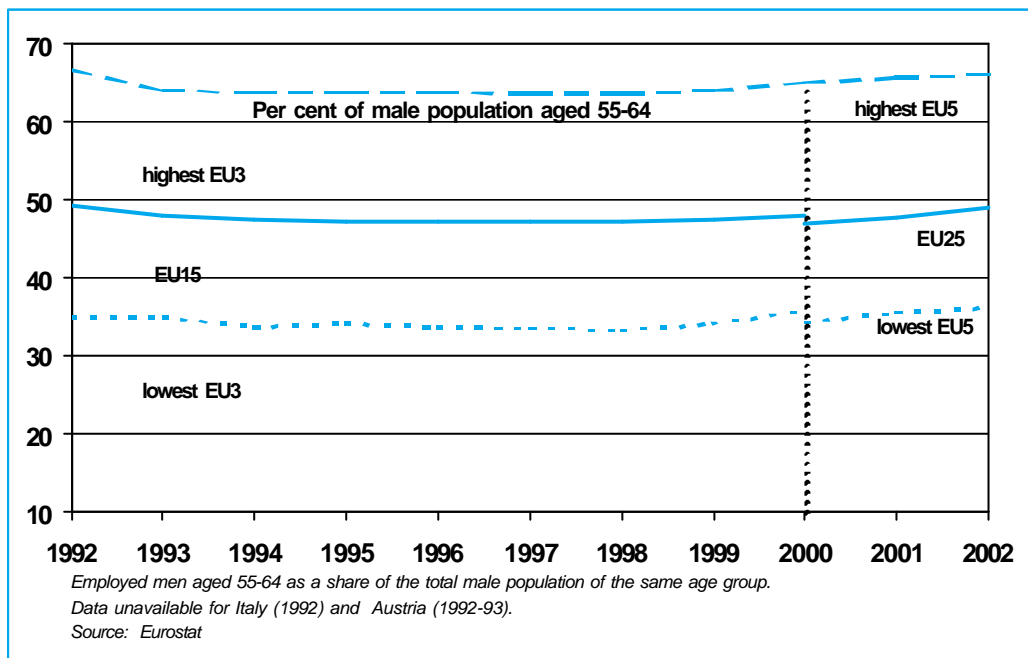
¹⁷ Employed persons aged 15-64 as a share of the total population of the same age group. Data unavailable for Austria (1993)

¹⁸ Employed persons aged 55-64 as a share of the total population of the same age group. Data unavailable for Austria (1993)

... among female **older workers**¹⁹ ...



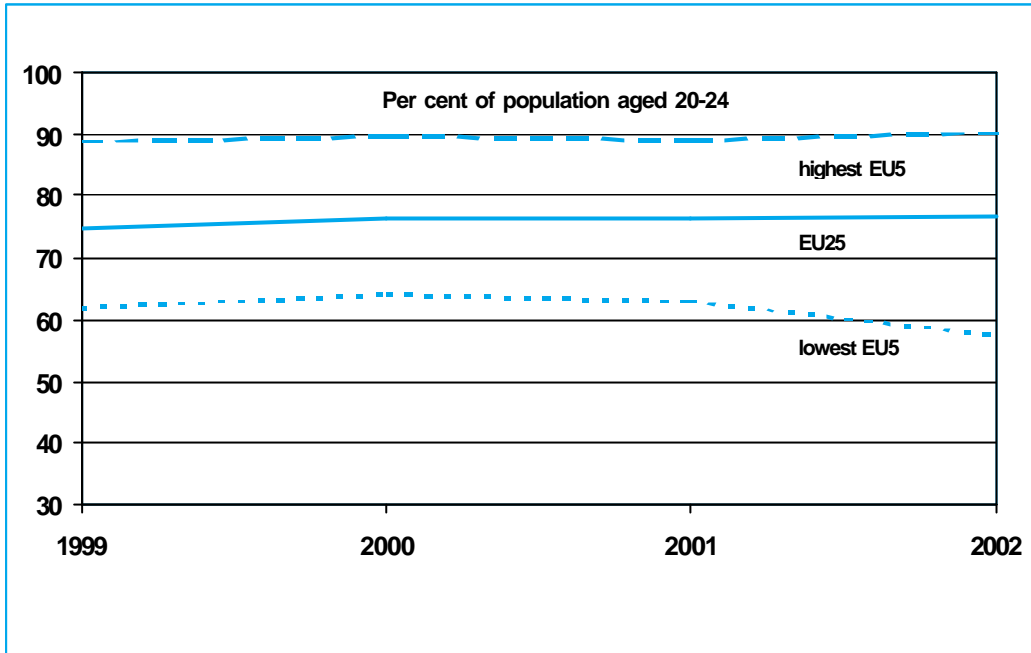
... and male **older workers**²⁰ .



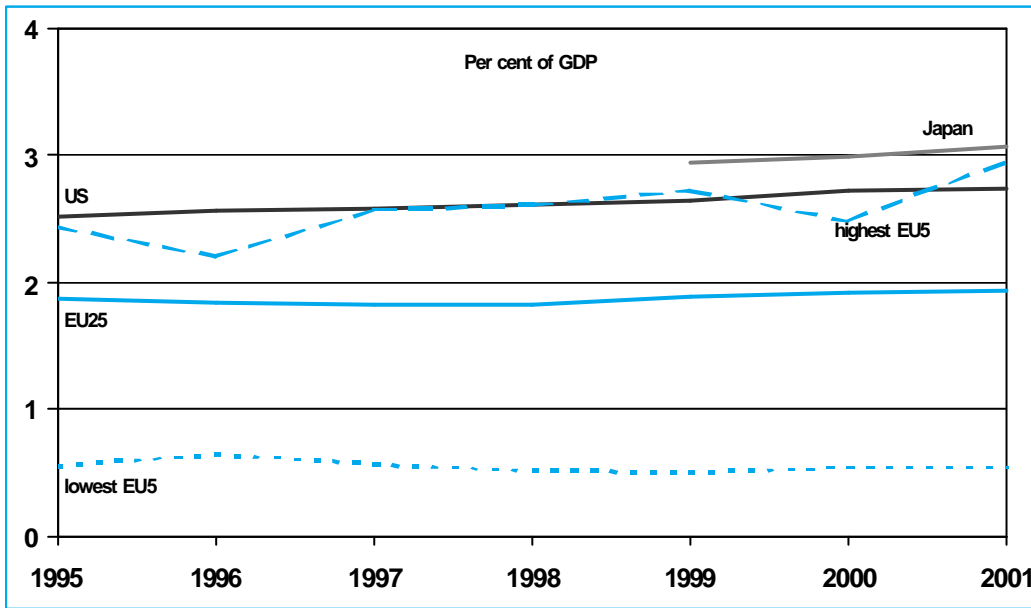
¹⁹ Employed persons aged 55-64 as a share of the total population of same age group. Data unavailable for Austria (1993).

²⁰ Employed persons aged 55-64 as a share of the total population of same age group. Data unavailable for Austria (1993).

Youth educational attainment²¹ stayed largely static, with a fall in the lowest quintile contrasting with a slight rise among the highest performers.



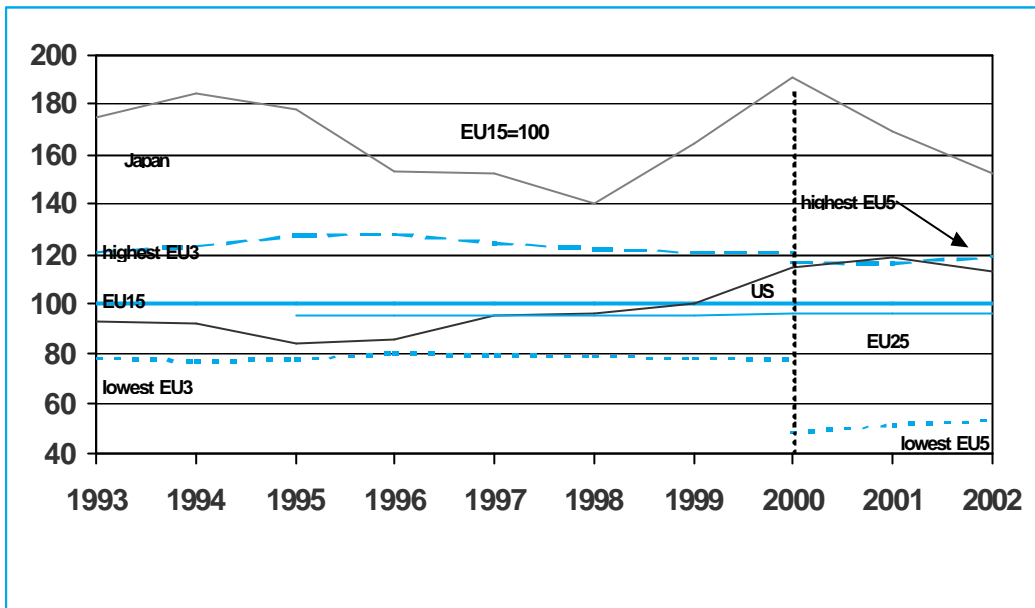
The level of R&D expenditure²² amongst the highest EU5 countries rose markedly in 2001 but the gap between the EU25 and the US and Japan remained unchanged.



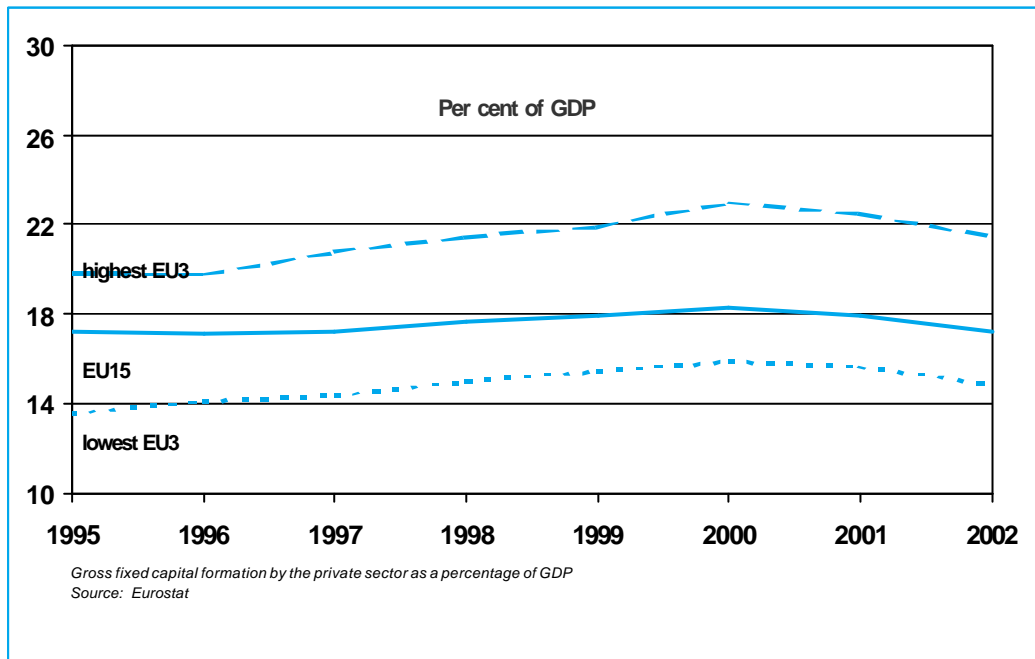
²¹ Youth Educational Attainment (20-24) – Percentage of population aged 20-24 having completed at least upper secondary education. Estimates for UK (1999-2001) and EU25 (2000-2002). Data unavailable for Malta (1999-2001).

²² Total expenditure on R&D (GERD) as a percentage of GDP. EU25 figures are estimates. Data unavailable for Greece and Portugal (1996,1998,2000), Cyprus and Estonia (1995-1997), Luxembourg (1995-1999), Sweden (1996,2000) and Malta (1995-2000).

Relative to the EU15, both the highest and the lowest quintiles of **relative prices**²³ rose slightly. Japanese, US and EU15 price levels converged somewhat.



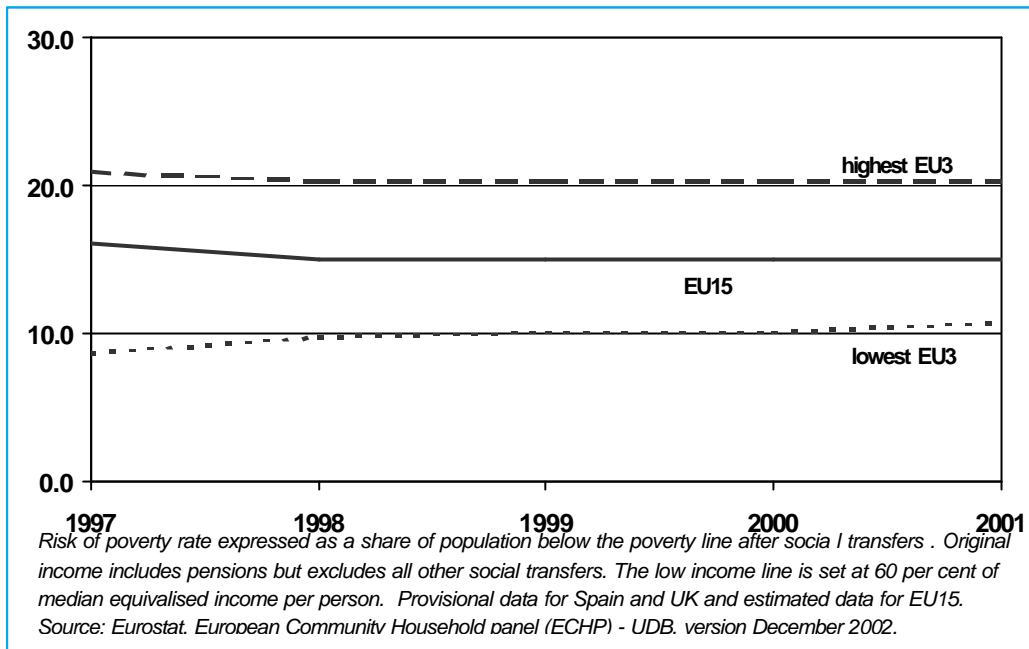
The level of **business investment**²⁴ in the EU15 fell in 2002 as it did in the highest and lowest EU3 countries.



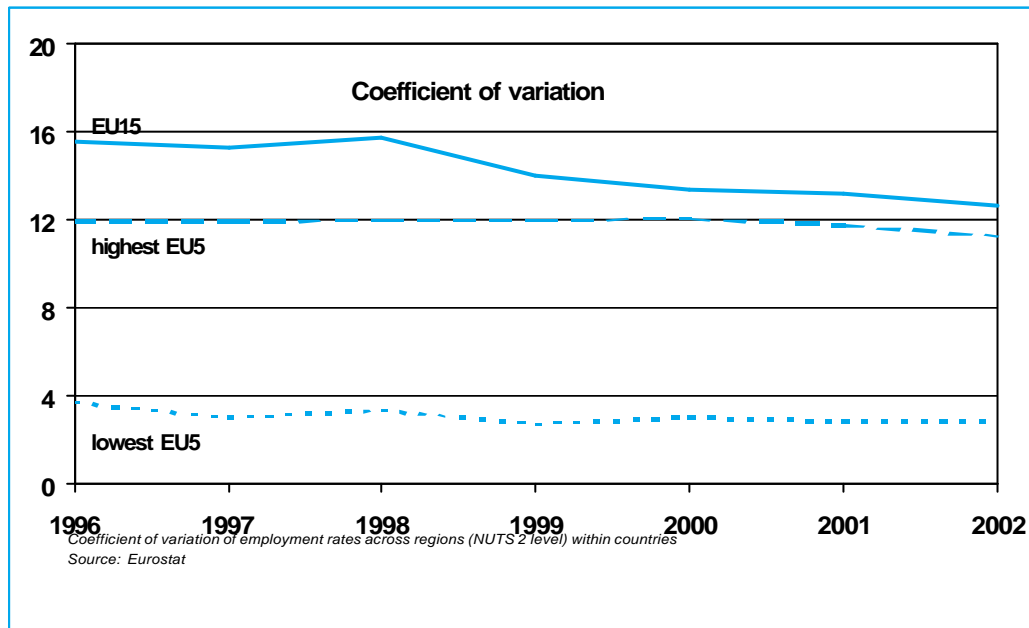
²³ Relative price levels of private final consumption, including indirect taxes. Provisional estimates for 2002. US and Japan figures are estimates.

²⁴ Gross fixed capital formation by the private sector as a percentage of GDP.

The share of the EU15 population at **risk of poverty**²⁵ after transfers remained unchanged in 2001, however the lowest EU3 countries did record a slight rise.



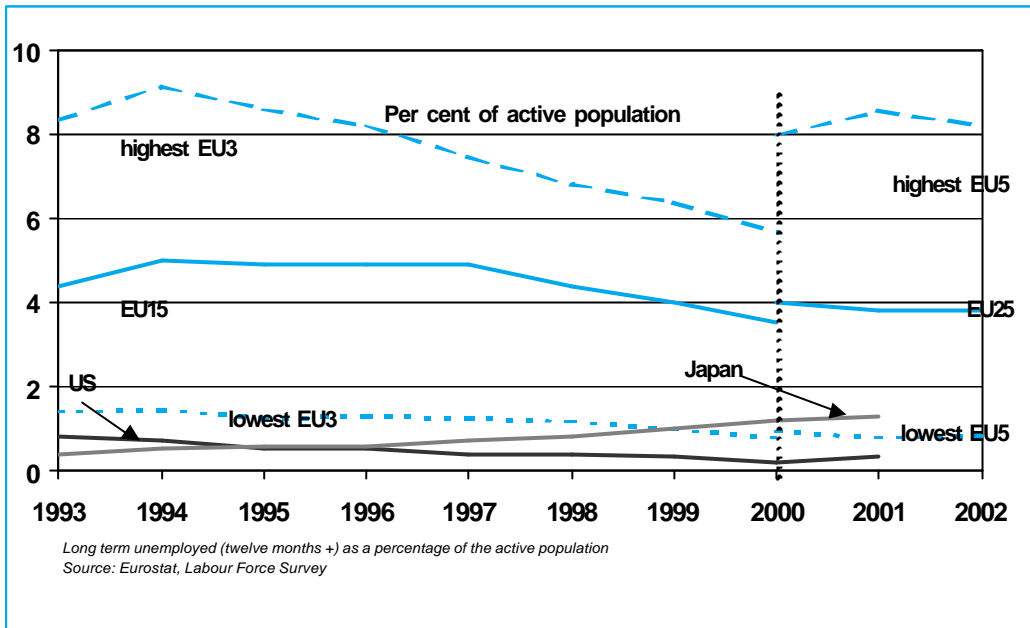
The **dispersion of regional employment**²⁶ rates across the EU15 fell in 2002 due to further convergence amongst the highest EU3 countries.



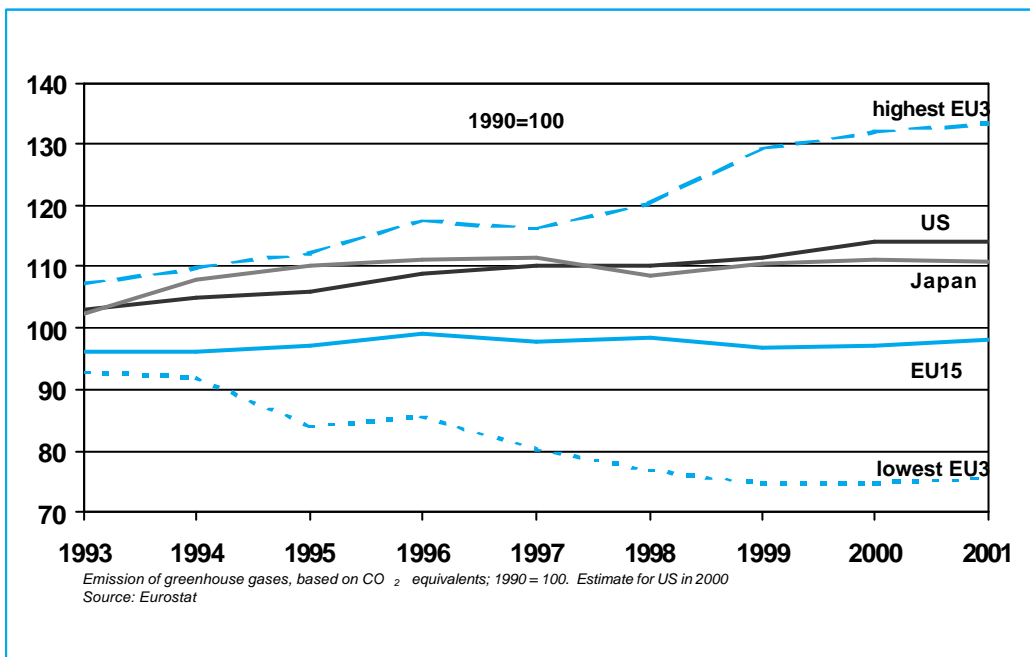
²⁵ Risk of poverty expressed as a share of the population below the poverty line before social transfers. Original income includes pensions but excludes all other social transfers. The low income line is set at 60 per cent of median equalised income per person. Data unavailable for Finland (1995) and Sweden (1995, 1996) EU15 figures are estimates.

²⁶ Coefficient of variation employment rates across regions (NUTS 2 level) within countries. Data unavailable for Denmark, Ireland and Luxembourg for 2002.

The level of **long-term unemployment**²⁷ for the EU25 remained unchanged in 2002. Meanwhile, in 2001, both the US and Japan recorded a slight rise in their respective levels of long-term unemployment.



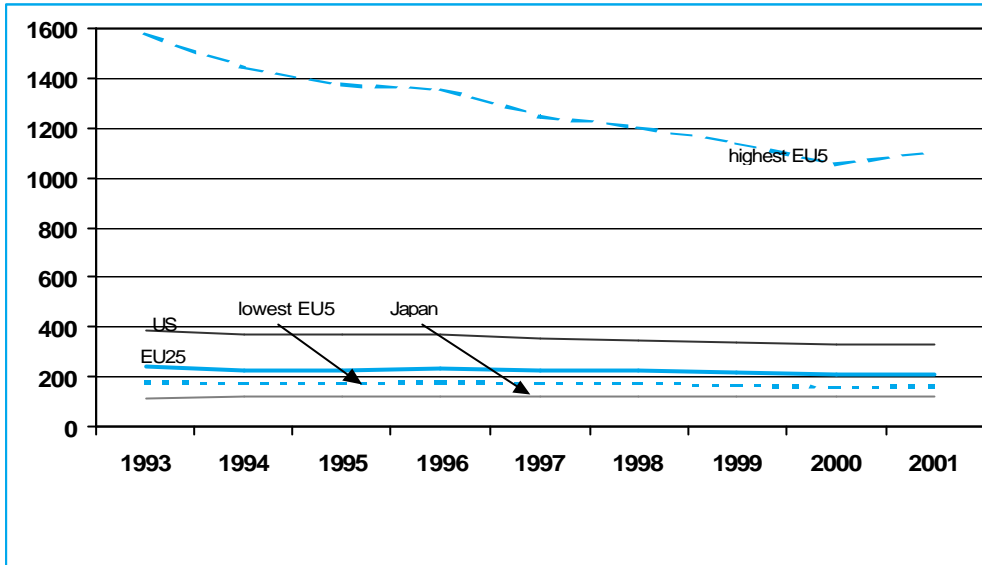
Greenhouse gas emissions²⁸ in the EU25, increased slightly in 2001, compared with those in the US and Japan which recorded a slight fall.



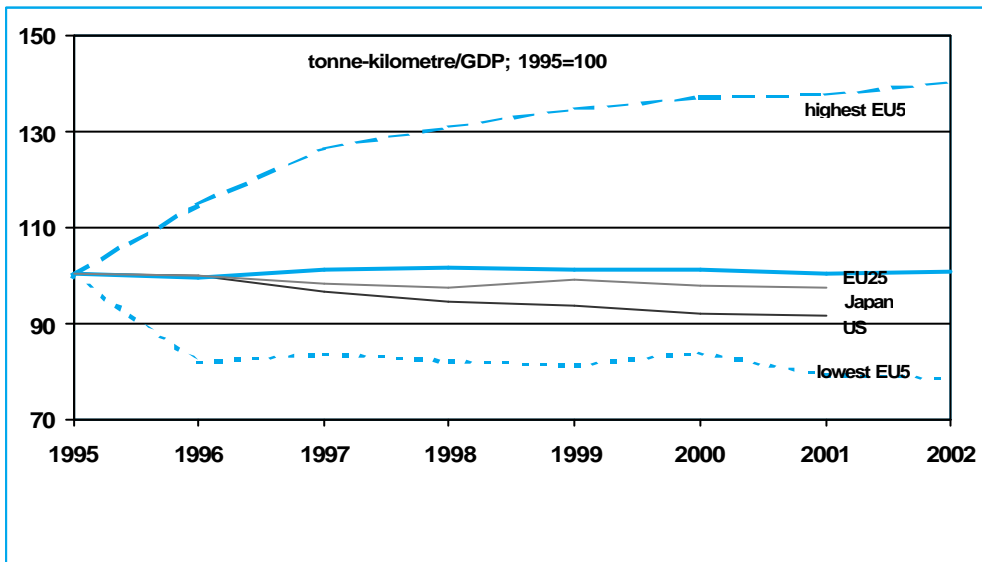
²⁷ Long-term unemployment (twelve months +) as a percentage of the active population. Data unavailable for Cyprus for 2002.

²⁸ Emission greenhouse gas emissions, based on CO₂ equivalents 1990=100.

Energy intensity²⁹ in the EU25, US and Japan remained virtually unchanged in 2001, with a notable rise in the highest EU5.



The volume of transport³⁰ in the EU25, US and Japan also remained virtually unchanged in 2001



²⁹ Expressed as the gross inland consumption of energy divided by GDP. It is measured in kgoe (kilogram of oil equivalent)/1000 euro. The base year for GDP at constant prices is 1995. 2001 figures for the EU25, Denmark, Spain, Netherlands are provisional. For Latvia, 2000 is provisional.

³⁰ Ratio between tonnes-kilometre (all modes), and GDP (in constant 1995 EUR). The unit used is tonne-kilometre (tkm), which represents the movement of one tonne over a distance of one kilometre. The data contains many estimates. Data unavailable for Malta (1995-2002).

SECTION 2: SUMMARY PROGRESS BY COUNTRIES

Summary table of progress made on headline indicators: - levels (2001/2002)

Indicator	No of Reporting Countries	BE	DK	DE	GR	ES	FR	IE	IT	LU	NL	AT	PT	FIN	SE	UK	CY	CZ	EE	HU	LT	LV	MT	PL	SI	SK
1 GDP per capita in PPS	25		+					+		+	+	+							-		-	-		-		-
2 Labour productivity	25	+					+	+	+	+								-	-		-	-		-		
3a Employment	25		+		-				-		+	+			+	+				-			-	-		
3b Employment (female)	25		+		-	-			-		+			+	+	+							-	-		
3c Employment (male)	25		+								+		+		+	+				-	-	-		-		-
4a Employment older workers	25	-	+										+		+	+			+	-				-	-	-
4b Employment older workers (female)	25	-	+						-					+	+	+			+				-		-	-
4c Employment older workers (male)	25	-	+					+		-					+	+	+			-				-	-	
5 Youth educational attainment	25					-			-	-			-		+			+					-	+	+	+
6 Total R&D expenditure	22		+	+	-				NR	NR				+	+		-					-	NR			-
7 Relative price levels	25		-					-						-	-	-		+		+	+	+				+
8 Business investment	22					+							+		-	-	-		NR	NR		+	-		NR	+
9 Risk of poverty (after transfers)	20				-			-					-		+		NR	+		+		NR	NR		NR	NR
10 Dispersion of regional employment	16		NR			-		NR	-	NR	+	+	+				NR		NR	-	NR	NR	NR		NR	
11 Long-term unemployment	25		+						-	+	+	+					+				-	-		-		-
12 Greenhouse gas emissions	25					-		-		+			-				-		+		+	+	-	+		
13 Energy intensity	25		+	+				+	+			+						-	-		-	-				-
14 Volume of transport	24		+		-	-		-					-		+	+			-				NR	+		+

Notes:

“+” - Member State is in the highest performing quintile of reporting countries

“-” - Member State is in the lowest performing quintile of reporting countries

“NR” - Member State did not report a figure

Indicator 7: Relative price level convergence - Here, a “-” identifies the quintile of Member States with the highest price levels relative to the EU15, while a “+” identifies the quintile of Member States with the lowest price levels relative to the EU15.

Summary table of progress made on headline indicators: percentage change over the three year period (1999 – 2002)

Indicator	BE	DK	DE	GR	ES	FR	IE	IT	LU	NL	AT	PT	FIN	SE	UK	CY	CZ	EE	HU	LT	LV	MT	PL	SI	SK
1 GDP per capita in PPS	-	-	-				+	-		-								+		+	+		+		
2 Labour productivity					-	-	-		-							NA				NA	NA	+	+	+	+
3a Employment		-			+	+		+	+	+						NA	-			-		NA	-		-
3b Employment (female)					+		+	+		+	+					NA	-	-		-		NA	-		-
3c Employment (male)			-		+	+		+		+	-					NA				-		NA	-	+	-
4a Employment older workers				-		+				+	-	-	+			NA			+	-	+	NA	-		-
4b Employment older workers (female)				-						+		-	+			NA		+	+		+	NA	-	-	-
4c Employment older workers (male)					+	+				+	-	-	+			NA		-	+	-		NA	-		
5 Youth educational attainment	+	+	-						-				-					-		+	-	NA	+	+	
6 Total R&D expenditure	+	+		NA			-	NA	NA	-		NA	+	+					+			NA	-		-
7 Relative price levels	+	-	+	+		+	-							+				-		-			-		-
8 Business investment				+	+		-	+								-		NA	NA		+	-	-	NA	
9 Risk of poverty (after transfers)							-			-			-		+	NA	NA		NA		NA	NA	NA	NA	NA
10 Dispersion of regional employment		NA	-	+	+	+	NA		NA							NA		NA	-	NA	NA	NA	-	NA	
11 Long-term unemployment	+				+	+		+	-							NA	-			-	+	NA	-		-
12 Greenhouse gas emissions		+			-		-					-		+	+	-		+				-			+
13 Energy intensity					-		+				-	-						+		+	-	+	+		-
14 Volume of transport	-	+		+	-	+	-		-										+	-		NA	+		

Notes:

“ + “ - Member State is in the highest performing quintile of reporting countries

“ - “ - Member State is in the lowest performing quintile of reporting countries

“ NA ” - Not possible to calculate

Indicator 1: Changes in GDP per capita correspond to the real GDP growth rate (1999 – 2002)

Indicator 2: Changes in labour productivity correspond to the difference between the real GDP growth rate and the employment growth rate (1999-2002)

Indicators 3, 4, 5, 8, 10, 11, 14: Changes in percentage points (1999 – 2002)

Indicators 6, 9, 12: Changes in percentage points (1998 – 2001).

Indicator 7: Changes in relative price levels measured in percentage points (1999-2002). Here, a “ + “ identifies the quintile of Member States which have reported the largest decrease / smallest increase in price levels relative to the EU15, while a “ - “ identifies the quintile of Member States which have reported the largest increase / smallest decrease in price levels relative to the EU15

Indicator 13: Changes in energy intensity calculated as the percentage change over the period (1998 – 2001)

Headline Indicator - Levels**Reference year**

1.	GDP per capita in PPS	(2002)
2.	Labour productivity	(2002)
3a	Employment	(2002)
3b	Employment (female)	(2002)
3c	Employment (male)	(2002)
4a	Employment older workers	(2002)
4b	Employment older workers (female)	(2002)
4c	Employment older workers (male)	(2002)
5.	Youth educational attainment	(2002)
6.	Total R&D expenditure	(2001)
7.	Relative price levels	(2002)
8.	Business investment	(2002)
9.	Risk of poverty (after transfers)	(2001)
10.	Dispersion of regional employment	(2002)
11.	Long-term unemployment	(2002)
12.	Greenhouse gas emissions	(2001)
13.	Energy intensity	(2001)
14.	Volume of transport	(2002)