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Volume I

Implementation of the Lisbon Strategy Structural Reforms in the context of the European  
Economic Recovery Plan - Annual country assessments:

Recommendation for a

**COUNCIL RECOMMENDATION**

**on the 2009 up-date of the broad guidelines for the economic policies of the Member  
States and the Community and on the implementation of Member States' employment  
policies**

Implementation of the Lisbon Strategy Structural Reforms in the context of the European Economic Recovery Plan - Annual country assessments:

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**COUNCIL RECOMMENDATION**

**on the 2009 up-date of the broad guidelines for the economic policies of the Member States and the Community and on the implementation of Member States' employment policies**

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to the recommendation from the Commission,

Having regard to the conclusions of the European Council on [...],

Having regard to the opinion of the Employment Committee,

Whereas:

- (1) The Council adopted in July 2005 a recommendation on the broad guidelines for the economic policies of the Member States and the Community (2005 to 2008)<sup>1</sup> and a decision on Guidelines for the employment policies of the Member States<sup>2</sup>, which together form the "Integrated guidelines for growth and jobs". Member States were invited to take the integrated guidelines for growth and jobs into account in their national reform programmes (NRPs).
- (2) The 2006, 2007 and 2008 Spring European Council identified four priority areas (R&D and innovation, business environment, employment opportunities and an integrated energy/infrastructure policy) which are the pillars of the renewed Lisbon Strategy. Within these areas the European Council agreed a limited number of specific actions which it urged Member States to complete by set deadlines.
- (3) The Member States present each year reports on the implementation of the national reform programmes (implementation reports).
- (4) On the basis of the Commission's analysis, a number of country-specific recommendations were issued to the Member States in 2007 and in 2008<sup>3</sup>.
- (5) In order to pursue the Lisbon strategy for growth and jobs in a coherent, integrated manner, these recommendations are adopted in a single instrument. This approach reflects the integrated structure of the NRPs and Implementation Reports, as well as the necessary consistency between the employment guidelines and the Article 99(2) broad economic policy guidelines, as underlined in Article 128(2).

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<sup>1</sup> OJ L 205, 6.8.2005, p. 28.

<sup>2</sup> OJ L 205, 6.8.2005, p. 21.

<sup>3</sup> OJ L 139, 29.5.2008, p. 57 (2008/399/EC).

- (6) The 2008 Spring European Council launched the second cycle of the renewed Lisbon Strategy, which will be completed in 2010. The Council adopted in May 2008 a recommendation on the broad economic policy guidelines for the Member States and the Community (2008 to 2010)<sup>4</sup> and in July 2008 a decision on guidelines for the employment policies of the Member States<sup>5</sup>, which together form the "Integrated guidelines for growth and jobs".
- (7) Following this, Member States have confirmed, updated or drawn up new NRPs, which they have submitted to the Commission by October 2008 together with an implementation report. In order to reinforce co-ordination of reforms and enhance the multilateral surveillance process in Council, the 2008 Spring European Council asked Member States to set out their policy responses to the country-specific recommendations, accompanied by time-tables ('action plans').
- (8) In the context of the current economic downturn, the Commission has proposed a European Economy Recovery Plan (hereafter 'the Recovery Plan'<sup>6</sup>), which the European Council in December 2008 agreed. This plan provides for a co-ordinated budgetary stimulus, within the Stability and Growth Pact, to boost demand and restore confidence, taking account of Member States starting positions and efforts already undertaken in response to the economic problems. The Recovery Plan foresees that the budgetary stimulus be accompanied by an acceleration of structural reforms, grounded in the Lisbon Strategy, to stimulate the economy whilst boosting the Union's long-term growth potential, notably by promoting the transition towards a low-carbon, knowledge-intensive economy.
- (9) The Recovery Plan agreed by the European Council called on Member States to submit updated stability or convergence programmes, which the Commission has assessed, taking due account of the need to ensure the reversibility of the fiscal deterioration, improving budgetary policy-making, and ensuring long-term sustainability of public finances.
- (10) The country specific recommendations should be updated, taking account of the principles of the Recovery Plan and progress made with their implementation since they were adopted. These reforms should be implemented swiftly. The Commission will provide assistance as part of the Lisbon partnership, monitor and regularly report on progress.
- (11) To fully implement the Lisbon strategy for growth and jobs, this recommendation should also contain specific recommendations to the Member States belonging to the euro area.
- (12) The European Parliament has adopted a resolution regarding this Recommendation,

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<sup>4</sup> OJ L 137, 27.5.2008, p. 13.

<sup>5</sup> OJ L 198, 26.7.2008, p. 47.

<sup>6</sup> COM(2008) 800.

HEREBY RECOMMENDS that Member States should take action along the lines set out in the Annex.

Done at Brussels,

*For the Council  
The President*

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## BELGIUM

1. GDP growth slowed noticeably to 1.3% in 2008. This was due to weakening external demand and subdued domestic demand largely related to high inflation and the impact of the financial crisis. The economic situation is expected further to weaken considerably in 2009. Inflation in 2008 is estimated to have been around 4.5%, almost double the rate observed in 2007, driven largely by higher domestic energy prices. Falling global energy prices should bring inflation down in 2009. A public finance deficit of around 0.9% of GDP is expected for 2008. Gross debt is expected to stand at around 88% of GDP in 2008. The current account surplus shrunk in 2008 and is expected to shrink further in 2009.
2. Employment growth was positive in 2008 and the unemployment rate declined to 6.9%. However the outlook for 2009 is much less positive, with unemployment rising. The sectors most affected by the crisis are the automotive and steel industries as well as the financial sector.
3. In response to the financial crisis, and as part of a co-ordinated EU approach, Belgium has adopted financial sector support measures to stabilise the banking sector, which should also help improve access to finance and thus support the wider economy, and underpin macro-economic stability. In addition, in response to the economic downturn, Belgium recently announced measures, including financial support for SMEs.
4. The Commission will assess measures taken by Belgium to respond to the economic downturn in line with the principles set out in the European Economic Recovery Plan as adopted by the European Council. As regards public finances, the Commission will assess the compatibility of the updated Stability Programme with the Stability and Growth Pact. Moreover, the measures recommended in paragraph 7 should be implemented swiftly, in particular to encourage the transition towards a low carbon economy and enhance long-term growth potential.
5. Belgium has continued the implementation of its National Reform Programme. Measures were announced to further reduce tax on labour through an increase in the amount of tax-exempt income for low and average-income workers, although further steps may still be needed. Additional efforts are needed to improve labour market performance, especially for older workers and disadvantaged groups, ensure the long-term sustainability of public finances, increase competition in gas and electricity markets, and improve R&D performance.
6. Belgium is an export-oriented economy, making it particularly important to preserve competitiveness. In this context a development of unit labour costs in line with the most important trading partners is crucial. However, cost competitiveness deteriorated in 2008. Improved competition in the gas and electricity markets would be beneficial. Sustained investment in R&D and skills are important to accelerate productivity growth and promote competitiveness. Low labour market participation, increasing age-related expenditure, and a high public debt, put the long-term sustainability of the public finances at risk, underlining the need to increase primary surpluses and implement policies supporting growth and employment. An integrated approach towards the implementation of structural reforms could accelerate the delivery of results in Belgium. The implementation of the energy and climate change package, agreed by the European Council, will require close attention.



7. In light of the Commission's assessment of progress made, the Council recommends Belgium to pursue the implementation of structural reforms. In particular, it is recommended that Belgium:

- further reduces the tax burden on labour, especially by reducing the tax wedge on low wage workers, while in the medium-term improving expenditure restraint to support fiscal consolidation;
- improves competition in gas and electricity markets by adopting a more pro-competitive regulatory framework, with fully independent and effective regulators, and continues efforts concerning transmission and distribution operators;
- within an integrated flexicurity approach, accelerates the implementation of coordinated policy measures that improve labour market efficiency, reviews unemployment benefits to facilitate a rapid return of the unemployed to the labour market, enhances labour market participation (especially for older workers and people with a migrant background), reduces regional disparities and increases participation in lifelong learning across all regions.

## BULGARIA

1. Driven by strong domestic demand, GDP growth in Bulgaria accelerated to 7% for the first nine months of 2008, bringing GDP per capita to around 40% of the EU average. Growth is expected to moderate considerably in 2009 as tighter lending conditions discourage domestic investment and private consumption. Inflation hit a record high of 12% in 2008, boosted by domestic demand and strong wage increases which far exceeded productivity growth, and is likely to remain above the EU average. The budgetary position remains strong, with a budget surplus of above 3% of GDP in 2008, owing both to a favourable composition of growth and improved tax collection. However, strong domestic demand has worsened the already significant macro-economic imbalances. The current account deficit stands at a high level of almost 25% of GDP and is unlikely to improve substantially given global prospects and Bulgaria's weakening competitiveness.
2. Employment grew by over 3% in 2008, but this rate of growth will slow in the next two years. Unemployment declined to 6% in 2008, but is expected to increase somewhat in 2009. The recent deterioration of the business climate and reduced demand in several sectors, in particular manufacturing, construction, and retail, are likely to considerably reduce employment in these and in accompanying economic sectors.
3. To respond to the macro-economic imbalances, Bulgaria recently announced measures, including improving competition in energy and retail.
4. The Commission will assess measures taken by Bulgaria to respond to the economic downturn in line with the principles set out in the European Economic Recovery Plan as adopted by the European Council. As regards public finances, the Commission will assess the compatibility of the updated Convergence Programme with the Stability and Growth Pact. In this context, Bulgaria should maintain a tight fiscal stance and urgently address its macro-economic imbalances. Moreover, the measures recommended in paragraph 7 should be implemented swiftly, in particular to encourage the transition towards a low carbon economy and enhance long-term growth potential.
5. Bulgaria has continued the implementation of its National Reform Programme, although progress has been slow. Recently, measures have been speeded up as a result of deliberate government decisions. Bulgaria continued implementing its prudent fiscal policy although the efficiency of public expenditure can still be improved. Encouraging measures have also been taken to enhance the organisation and quality of education, but further modernisation is necessary to improve governance and outcomes. More efforts are needed to improve radically the efficiency and effectiveness of public administration; the delay of the announced functional review, which the World Bank was ready to undertake, slows down the implementation of reforms. There also remains major scope for progress to cut red tape, to invest much more in skills and to reform the public R&D system.
6. Against the backdrop of the global financial and economic crisis, it is ever more urgent for Bulgaria to tackle its macro-economic vulnerabilities (high inflation and a large current account deficit) by maintaining its tight fiscal policy and by speeding up structural reforms to strengthen its competitiveness. The pace of implementation will have to be stepped up for Bulgaria to transform its economy from one based essentially on cost advantages into a more productive and knowledge-intense

economy. In the current economic and monetary context, these reforms are also essential to maintain the competitiveness of the Bulgarian economy. The effective implementation of the required reforms critically depends on Bulgaria's ability to improve urgently the efficiency and effectiveness of its public administration. The implementation of the energy and climate change package, agreed by the European Council, will require close attention.

7. In light of the Commission's assessment of progress made, the Council recommends Bulgaria to pursue the implementation of structural reforms. In particular, it is recommended that Bulgaria:

- urgently further strengthens the efficiency and the effectiveness of the public administration, in particular by focusing on key government functions, including the competition, supervisory and regulatory authorities, and the judiciary, and continues taking all measures necessary to ensure effective financial controls and sound management of structural funds;
- maintains a tight fiscal policy, improves the quality and efficiency of public expenditure, keeps wage developments in line with productivity gains, and enhances effective competition;
- rapidly adopts and implements new measures to substantially cut red tape at central and local level and shortens procedural delays in order to improve the business environment, which will also help in the fight against corruption;
- as part of an integrated flexicurity approach, focuses on increasing the quality of labour supply and the employment rate by improving the efficiency, effectiveness and targeting of active labour market policies and by further modernising and adapting the way education is governed to raise skills to levels that better match labour market needs, and reducing early school leaving.

## CZECH REPUBLIC

1. GDP growth is expected to have moderated to about 4.2% in 2008, with a further slowdown expected over 2009. Inflation peaked in mid-2008 at 6.3%, and is now set to fall due to the diminishing effect of earlier tax rises and lower energy prices. The budget deficit has been reduced over several years, to 1.2% of GDP in 2008. The current account deficit was about 1% of GDP in 2008 and there is a significant trade surplus.
2. The employment rate has increased annually by over 1 percentage point since 2005, reaching 66.6% in 2008. The unemployment rate dropped to 4.3% in the 3rd quarter of 2008, reaching a 12-year low. Current forecasts indicate a moderate decline in employment growth and an increase in unemployment. In view of falling export demand, unemployment is expected to particularly affect workers in the automotive industry and other export oriented industries.
3. The Commission will assess measures taken by the Czech Republic to respond to the economic downturn in line with the principles set out in the European Economic Recovery Plan as adopted by the European Council. As regards public finances, the Commission will assess the compatibility of the updated Convergence Programme with the Stability and Growth Pact. Moreover, the measures recommended in paragraph 6 should be implemented swiftly, in particular to encourage the transition towards a low carbon economy and enhance long-term growth potential.
4. The Czech Republic has continued the implementation of the National Reform Programme. A number of reforms have been taken to improve the long-term sustainability of public finances, increase investment in R&D, reform the education system, ensure active ageing, and to develop a flexicurity-based approach to labour market reform. Additional efforts are needed to improve access to finance, to further increase R&D investment, to strengthen the enforcement of intellectual property rights and to integrate disadvantaged groups into the labour market.
5. The Czech Republic has one of the most rapidly ageing populations in the EU which will have a significant impact on the pension and health care systems. The main structural challenges therefore include ensuring the long-term sustainability of public finances, and encouraging a transition to a knowledge-based economy. Tackling these structural challenges will improve growth potential, create jobs, and make the economy more resilient to external shocks. All this requires further reforms in the areas of R&D, innovation, education and training, a more integrated flexicurity approach to labour market reform, and further improvement of the conditions for entrepreneurial activity. The implementation of the energy and climate change package, agreed by the European Council, will require close attention.

6. In light of the Commission's assessment of progress made, the Council recommends the Czech Republic to pursue the implementation of structural reforms. In particular, it is recommended that the Czech Republic:
- improves the long-term sustainability of public finances, and continues to reform the pension and health care system;
  - strengthens efforts to improve collaboration among business, universities and public R&D institutions, promotes an increased supply of human resources for R&D, and increases the amount and effectiveness of public R&D investment in order to meet the R&D expenditure targets;
  - within an integrated flexicurity approach, further modernises employment protection, improves the efficiency and equity of education and training, especially its responsiveness to labour market needs, and provides incentives to invest in training particularly for older workers and the low-skilled.

## DENMARK

1. GDP growth has slowed down markedly in 2008. The downward correction of house prices has dampened domestic demand, weakening private consumption and construction activity. Tighter financing conditions are likely to drive house prices down more rapidly, aggravating the impact of the global slowdown on the economy. Inflation, underpinned by higher energy and food prices, averaged 3.5% in 2008, but has started to slow. The government budget surplus could exceed 3% of GDP in 2008. Denmark should have a small current account surplus in 2008 and 2009.
2. Employment has grown in the course of 2008, but is expected to fall over 2009. Similarly, the unemployment rate of around 3.5% in 2008 is expected to increase in 2009. While this should alleviate the pressure on the labour market in the shorter term, it will still be important to address remaining labour shortages and further facilitate labour market transition. The medium term employment challenge remains to increase the overall size and skill match of the labour force and in the shorter term a tax reform should sustain efforts in this respect.
3. In response to the financial crisis and as part of a co-ordinated EU approach, Denmark has adopted financial sector support measures to stabilise the banking sector, which should also help improve access to finance and thus support the wider economy, and underpin macro-economic stability. In addition, in response to the economic downturn, Denmark recently announced measures, including investment in green transport and financial support for households.
4. The Commission will assess measures taken by Denmark to respond to the economic downturn in line with the principles set out in the European Economic Recovery Plan as adopted by the European Council. As regards public finances, the Commission will assess the compatibility of the updated Convergence Programme with the Stability and Growth Pact.
5. Denmark has continued the implementation of its National Reform Programme. Further progress has been made within the framework of previously launched reform plans, particularly with regard to stimulating labour supply. Further tax and labour market reform plans are being developed in the light of the ageing of the population.

6. Denmark's growth potential depends crucially on a better use and enhanced quality of its labour resources, improving labour productivity, and on increasing returns from investment in human capital, research and innovation. Demographic ageing has started to affect labour supply, accentuating the need for reforms stimulating participation and hours worked. A further challenge consists of enhancing competition to lower the relatively high consumer price level in Denmark. The implementation of the energy and climate change package, agreed by the European Council, will require close attention.

## GERMANY

1. GDP growth in Germany decelerated to 1.3% in 2008 from 2.5% in 2007, as the global downturn triggered a sharp decrease in export growth. In addition, tighter financing conditions and a worsened economic outlook are likely to reduce investment. Economic activity is therefore set to slow considerably in 2009. On the back of commodity price rises in the first half of 2008, inflation peaked at 3.2%, and is expected to diminish in 2009. The government budget was close to balance in 2008, and is expected to move to a deficit of almost 3% in 2009. Considerable gains in price competitiveness in recent years have contributed to a current account surplus of over 7% of GDP in 2008.
2. In 2008, employment grew by 1.3%, but the economic slowdown is expected to hit the labour market with unemployment rising in 2009. The automotive and construction sectors are at particular risk. Due to the on-going contraction of the workforce and as a consequence of demographic change, companies might try to keep their skilled personnel and dismissals could therefore mostly affect low-skilled and interim workers.
3. In response to the financial crisis and as part of a co-ordinated EU approach, Germany has adopted financial sector support measures to stabilise the banking sector, which should also help improve access to finance and thus support the wider economy, and underpin macro-economic stability. In addition, in response to the economic downturn, Germany recently announced measures, including support for households and SMEs, and investment in schools and infrastructure.
4. The Commission will assess measures taken by Germany to respond to the economic downturn in line with the principles set out in the European Economic Recovery Plan as adopted by the European Council. As regards public finances, the Commission will assess the compatibility of the updated Stability Programme with the Stability and Growth Pact. Moreover, the measures recommended in paragraph 7 should be implemented swiftly, in particular to encourage the transition towards a low carbon economy and enhance long-term growth potential.
5. Germany has continued the implementation of its National Reform Programme. A number of positive measures have been taken to help deliver a knowledge society, to promote eco-innovation and reform the labour market. Progress with regard to the medium-term budgetary objective and the quality of public finances has been good. Additional measures are needed to promote competition in services, to improve the business environment and reduce structural unemployment.
6. Improving productivity growth and addressing high unemployment among the low-skilled, especially in the East should help sustain the strong German economic performance in the future. In this respect the improvements in R&D and innovation are helpful. However, an improved functioning of services markets, in particular professional services, energy sector and rail services, and improvements in the business environment would further increase the growth potential of the German economy. The implementation of the energy and climate change package, agreed by the European Council, will require close attention.
7. In light of the Commission's assessment of progress made, the Council recommends Germany to pursue the implementation of structural reforms. In particular, it is recommended that Germany:



- improves the framework for competition in services by improving public procurement procedures, further relaxing restrictive rules in regulated trades and services, and ensuring the effective separation of rail infrastructure and transport services;
- proceeds with planned measures that enhance the efficiency and effectiveness of job placement services and promote the integration of the low skilled and long-term unemployed into the labour market through a flexicurity approach which combines better access to qualifications with improved incentives to work.

## ESTONIA

1. After GDP growth of 6.3% in 2007, the economy contracted in 2008. A further contraction is expected in 2009. This development is driven by a fall in private consumption and investment in a context of high inflation and tighter lending conditions. Inflation is receding along with lower wage increases and lower international commodity prices. Public finances have markedly deteriorated, and despite significant expenditure cuts, there was a budget deficit in 2008 after a surplus of 2.7% of GDP in 2007. The current account deficit decreased markedly to 10% of GDP in 2008, and is projected to narrow further.
2. The slowdown in economic activity is affecting the labour market with rapidly growing unemployment. Current forecasts suggest an increase in the unemployment rate in 2009 from around 5% in 2008. The construction, housing and retail sectors are those most likely to be affected. A significant slowdown in wage increases and possible wage reductions in the private sector are expected. Labour market conditions are particularly difficult for older workers and young people.
3. In response to the economic downturn, Estonia recently announced measures, including investment in infrastructure and skills.
4. The Commission will assess measures taken by Estonia to respond to the economic downturn in line with the principles set out in the European Economic Recovery Plan as adopted by the European Council. As regards public finances, the Commission will assess the compatibility of the updated Convergence Programme with the Stability and Growth Pact. In this context, Estonia should pursue fiscal consolidation. Moreover, the measures recommended in paragraph 7 should be implemented swiftly, in particular to encourage the transition towards a low carbon economy and enhance long-term growth potential.
5. Estonia has continued the implementation of its National Reform Programme. A number of measures have been taken to improve R&D and innovation performance, to strengthen competition and to encourage lifelong learning. The policy response was more mixed with respect to fiscal policy and in terms of structural reforms aimed at facilitating labour market adjustment (in particular active labour market policies) that would help contain inflation and wage inflation. Given the crucial role of the Structural Funds to finance the measures in the National Reform Programme, it is important to strengthen administrative capacity to implement the programmes.
6. Export performance is a crucial component of the country's overall economic performance. Structural reforms are urgently needed to support the required re-allocation of resources towards exporting sectors. Continued investment in R&D, innovation and education is needed to offset the loss of cost-competitiveness in labour intensive sectors and ensure medium to long-term growth. The deteriorating labour market will require a stronger focus on active labour market policies and lifelong learning in order to respond to evolving labour market needs. A further important aspect of restoring competitiveness is to ensure that wage developments are more closely aligned with productivity developments. Labour market rigidities need to be further reduced. In order to improve macro-economic stability, a determined fiscal policy, an effective competition policy and improved energy efficiency are necessary. The implementation of the energy and climate change package, agreed by the European Council, will require close attention

7. In light of the Commission's assessment of progress made, the Council recommends Estonia to pursue the implementation of structural reforms. In particular, it is recommended that Estonia:

- speeds up the implementation of the new labour law package and increases the efficiency of public employment services, in particular by well targeted active labour market policies aimed at facilitating labour market transition.

## IRELAND

1. Due to the deterioration in the housing market, amplified by the financial crisis, GDP is estimated to have contracted by 2% in 2008 (compared to growth of 6% in 2007). In addition, Ireland is particularly exposed to the lower growth prospects in its main trading partners and real GDP is expected to contract further in 2009. Inflation, which peaked at close to 4% in mid-2008, is now easing. The public finances have deteriorated because of a significantly reduced tax intake linked to the property market correction and the wider recession. The budget deficit was 6% of GDP in 2008, reversing recent modest surpluses, and this deficit risks widening considerably further subsequently. External balances have weakened in recent years due to losses in cost competitiveness and a current account deficit (of around 6% of GDP) is projected for 2008 and somewhat smaller for 2009.
2. Current labour market estimates suggest employment declined in 2008, and will further decline in 2009. The unemployment rate increased to 6% in 2008 and is expected to increase further in 2009. The number of people claiming unemployment benefits rose by over 50% in 2008. Workers from the construction sector, particularly young males, are most affected by rising unemployment.
3. In response to the financial crisis and as part of a co-ordinated EU approach, Ireland has adopted financial sector support measures to stabilise the banking sector, which should also help improve access to finance and thus support the wider economy, and underpin macro-economic stability. In addition, in response to the economic downturn, Ireland recently adopted measures, including support for the housing sector and income support for the most vulnerable.
4. The Commission will assess measures taken by Ireland to respond to the economic downturn in line with the principles set out in the European Economic Recovery Plan as adopted by the European Council. As regards public finances, the Commission will assess the compatibility of the updated Stability Programme with the Stability and Growth Pact. Moreover, the measures recommended in paragraph 7 should be implemented swiftly, in particular to encourage the transition towards a low carbon economy and enhance long-term growth potential.
5. Ireland has continued the implementation of its National Reform Programme. Measures have been taken to increase the availability of childcare places and to improve skills. Additional efforts are needed to reform pensions. Developments in the housing market have had a more adverse effect on public finances and GDP growth than expected.
6. The main challenges Ireland currently faces arise from the aftermath of the housing boom and the financial crisis. However, the Irish economy has also become more vulnerable as its competitive position has been gradually eroded. There is now an urgent need to rebalance growth and to rebuild competitiveness. In the medium term further pension reform is needed to ensure sustainability. As the budgetary situation has also deteriorated significantly, restoring fiscal sustainability should be a priority. Together with a careful prioritisation of public expenditures and the promotion of reforms that strengthen higher-productivity growth through expanding and improving physical and human capital, this will increase the capacity of the Irish economy to adjust and gradually return to medium-term sustainable growth. In this context, strengthened competition in the retail sector is needed. The implementation

of the energy and climate change package, agreed by the European Council, will require close attention.

7. In light of the Commission's assessment of progress made, the Council recommends Ireland to pursue the implementation of structural reforms. In particular, it is recommended that Ireland:

- gradually restores fiscal sustainability;
- fosters a swift adjustment to sustainable medium-term growth by productivity-enhancing measures.

## GREECE

1. GDP growth slowed somewhat in 2008 to just below 3%, mainly due to weakening external demand. It is expected to slow further in 2009, dragged down by the contraction of the housing sector and less buoyant investment. Inflation, pushed up by energy and food prices, went above 4% in 2008, but is expected to ease in 2009. The budget deficit reached 3.4% of GDP in 2008 due to revenue shortfalls and, to a lesser extent, expenditure overruns. Gross debt is expected to stand at around 94% of GDP in 2008. The current account will record a deficit of 13.4% of GDP in 2008. This is expected to decrease in 2009.
2. Employment increased in 2008, although employment growth was at a slower pace than the previous year. This growth is expected to turn negative in 2009. Unemployment is forecast to increase to 9% in 2009. The financial crisis is expected to hit SMEs in particular, through a tightening of credit conditions. Its effects are already felt in the construction and the maritime transport sector.
3. In response to the financial crisis and as part of a co-ordinated EU approach, Greece has adopted financial sector support measures to stabilise the banking sector, which should also help improve access to finance and thus support the wider economy, and underpin macro-economic stability. In addition, in response to the economic downturn, Greece recently announced measures, including support for SMEs.
4. The Commission will assess measures taken by Greece to respond to the economic downturn in line with the principles set out in the European Economic Recovery Plan as adopted by the European Council. As regards public finances, the Commission will assess the compatibility of the updated Stability Programmes with the Stability and Growth Pact. Moreover, the measures recommended in paragraph 7 should be implemented swiftly, in particular to encourage the transition towards a low carbon economy and enhance long-term growth potential.
5. Greece has continued the implementation of its National Reform Programme. A number of measures have been taken to reform the pension system. The fiscal slippages in 2007 underlined the need to continue fiscal consolidation that started in 2004. Greece has placed a welcome policy focus on reforming its public administration with success now depending on effective implementation. More policy effort, in particular with regard to active labour market policies and measures to tackle undeclared work, are needed in order for Greece to address its labour market challenges. Implementation of reforms in the field of education and training should be accelerated.
6. The adverse international environment makes it imperative to intensify efforts to address the macro-economic imbalances and structural weaknesses of the Greek economy. In order to enhance competitiveness and growth potential, continued structural reform is fundamental. Greece must notably focus on the implementation of policies to invest in human capital, R&D and innovation, to improve the business environment, including through establishing one-stop-shops, to increase the efficiency of the public administration, and to work towards a sustainable macro-economic environment. A further important aspect of restoring competitiveness is to ensure that wage developments are more closely aligned with productivity developments. The implementation of the energy and climate change package, agreed by the European Council, will require close attention.

7. In light of the Commission's assessment of progress made, the Council recommends Greece to pursue the implementation of structural reforms. In particular, it is recommended that Greece:

- pursues fiscal consolidation in the medium-term and improves the efficiency of primary expenditure, speeds up ongoing reforms in tax administration and the budgetary process, reduces the debt-to-GDP ratio, and proceeds rapidly with the implementation of the pension reform;
- takes measures to increase competition in professional services, implements reforms to increase investment in R&D; and uses the Structural Funds more effectively to accelerate growth oriented investment projects;
- implements reform of the public administration by building up effective regulatory, control, and enforcement capacities, with an emphasis on simplifying the regulatory environment for business, and reducing red tape;
- within an integrated 'flexicurity' approach, modernises employment protection legislation, reduces non-wage costs to the low-paid, strengthens active labour market policies, and transforms undeclared work into formal employment; and accelerates the implementation of reforms on education and training, increases participation in lifelong learning and facilitates transition to work, particularly for the young.

## SPAIN

1. Spain's real GDP has slowed significantly to 1.2% in 2008. A further deceleration is likely in 2009. This development is driven by the ongoing contraction of residential construction, and has been aggravated by the global financial crisis and the tightening of credit conditions, resulting in a sharp decline in domestic demand. Inflation accelerated to 4% in 2008, but is expected to moderate significantly. In 2008 the government budget recorded a deficit of 3.4% of GDP, representing a deterioration of over 5 percentage points compared to 2007. The current account deficit reached almost 9.5% of GDP in 2008.
2. Employment fell in 2008 and will continue to do so in 2009, even though participation, especially of women, remained strong. This has pushed the unemployment rate above 11% in 2008, with a further significant increase to over 16% expected in 2009. Immigrants, the young, and the low skilled are the most affected, and the residential construction and automobile sectors face particular risks.
3. In response to the financial crisis and as part of a co-ordinated EU approach, Spain has adopted financial sector support measures to stabilise the banking sector, which should also help improve access to finance and thus support the wider economy, and underpin macro-economic stability. In addition, in response to the economic downturn, Spain recently announced measures, including investment in public works, facilitating finance for SMEs, and support for the unemployed.
4. The Commission will assess measures taken by Spain to respond to the economic downturn in line with the principles set out in the European Economic Recovery Plan as adopted by the European Council. As regards public finances, the Commission will assess the compatibility of the updated Stability Programme with the Stability and Growth Pact. Moreover, the measures recommended in paragraph 7 should be implemented swiftly, in particular to encourage the transition towards a low carbon economy and enhance long-term growth potential.
5. Spain has continued to implement its National Reform Programme. Progress has been achieved under the better regulation agenda and in terms of improving access to childcare, in addressing the challenge of improving the functioning of the energy sector, in particular in terms of interconnection with neighbouring countries. Additional measures are needed to reform education.
6. The key challenge in the medium term is to continue with structural reforms to sustain potential growth, correct the large current account deficit and facilitate the restructuring of the housing sector. Key in this respect is the challenge of improving competitiveness by enhancing innovation, reinforcing competition, especially in services, improving the regulation of the rental market, and increasing the quality of human capital through lifelong learning and further education reform. A further important aspect of improving competitiveness is to ensure that wage developments are more closely aligned with productivity developments, in the context of social dialogue. Restructuring public expenditure towards productivity enhancing items, such as R&D and innovation, would help sustain employment and economic activity. Increased competition in the services sector would help hold down inflation and increase the cost-competitiveness of exports. The implementation of the energy and climate change package, agreed by the European Council, will require close attention.



7. In light of the Commission's assessment of progress made, the Council recommends Spain to pursue the implementation of structural reforms. In particular, it is recommended that Spain:

- promotes a swift transition into employment, further encouraging mobility, upgrading skills and countering segmentation in the labour market;
- ensures the effective implementation of education reforms, also at regional level, with the main objectives of reducing early school leaving and increasing the graduation rate in upper secondary education;
- improves competitiveness by increasing competition in services and in electricity, by continuing efforts to eliminate below-cost electricity retail and network tariffs, and continues to enhance the efficiency of R&D.

## FRANCE

1. GDP growth in France slowed noticeably to 0.7% in 2008, mainly due to weak domestic demand. Capital and residential investment growth are stalling due to the worsening economic outlook and tightening credit conditions. The weak growth performance is expected to continue in 2009. Inflation increased in 2008 to a rate of 3.2%, but will slow in 2009. The public deficit was 3.2% of GDP in 2008. The global slowdown is hitting exports contributing to an expected widening of the current account deficit to about 3.8% of GDP in 2008, which is expected to persist.
2. Employment growth was almost stagnant in 2008 and is expected to become negative in 2009. Unemployment stayed at around 8% in 2008 but should increase in 2009. The current economic slowdown has started to significantly affect the labour market with the industrial sector, in particular the car industry and construction suffering job losses.
3. In response to the financial crisis and as part of a co-ordinated EU approach, France has adopted financial sector support measures to stabilise the banking sector, which should also help improve access to finance and thus support the wider economy, and underpin macro-economic stability. In addition, in response to the economic downturn France recently announced measures, including investment in infrastructure, energy efficiency and production, and supporting SMEs and the construction sector.
4. The Commission will assess measures taken by France to respond to the economic downturn in line with the principles set out in the European Economic Recovery Plan as adopted by the European Council. As regards public finances, the Commission will assess the compatibility of the updated Stability Programme with the Stability and Growth Pact. Moreover, the measures recommended in paragraph 7 should be implemented swiftly, in particular to encourage the transition towards a low carbon economy and enhance long-term growth potential.
5. France has continued the implementation of its National Reform Programme. As part of a comprehensive reform programme, several measures have been taken, notably in the areas of support for SMEs, ICT use, R&D performance, environmental policies, on labour market reform, and in improving social dialogue. Additional efforts are needed to improve budgetary consolidation in the medium term, competition in the energy and rail freight sectors, and in regulated professions, to further modernise labour law, and increase opportunities in vocational training.
6. France's key challenges in the medium term will be to continue modernising the labour market to improve its functioning and tackle labour market segmentation, and to continue improving the overall competition framework in the services sector including the retail sector. These need to be addressed whilst strictly sticking to the expenditure target announced by the government of a zero volume growth for the State. The implementation of the energy and climate change package, agreed by the European Council, will require close attention.
7. In light of the Commission's assessment of progress made, the Council recommends France to pursue the implementation of structural reforms. In particular, it is recommended that France:
  - strengthens the pace of budgetary consolidation and debt reduction in the medium term by adhering to its expenditure targets and notably respects zero volume

growth for State expenditure. This should go hand in hand with a further improvement of the pension system, in order to ensure long-term sustainability of public finances;

- further improves the overall competition framework, with particular emphasis on: the network industries (gas, electricity and rail freight); relaxing restrictive regulations in regulated trades and professions, in particular in services and in the retail sector; and strengthening the powers of the competition authority and of the rail regulator;
- within an integrated flexicurity approach, further modernises employment protection in order to reduce labour market segmentation among contract types and support entry and transitions in the labour market, notably of the young; and improves lifelong learning opportunities so they are better aligned with labour market needs.

## ITALY

1. In 2008 the Italian economy contracted by an estimated 0.6%. High inflation, negative wealth effects, and heightened uncertainty have held back private consumption, while falling demand and tighter financing conditions have led to lower investment. Deteriorating cost competitiveness and weaker global demand also hit exports. GDP is expected to contract further by 2% in 2009. Inflation peaked in the third quarter of 2008, and is forecast to ease. After falling to 1.6% of GDP in 2007, the budget deficit is again on the rise. Gross debt is expected to have climbed above 105% of GDP in 2008 and rise further in 2009 and 2010. The current account deficit is expected to be over 2% of GDP in 2008, but to remain contained in 2009 and 2010.
2. While employment growth is estimated to have remained slightly positive in 2008, it is expected to turn negative in 2009. With labour force growth outpacing employment growth, the unemployment rate increased in 2008 for the first time in ten years and this negative trend is expected to continue in 2009. The low skilled and workers on atypical contracts are amongst the groups most likely to be hit by the crisis.
3. In response to the financial crisis and as part of a co-ordinated EU approach, Italy has adopted financial sector support measures to stabilise the banking sector, which should also help improve access to finance and thus support the wider economy, and underpin macro-economic stability. In addition, in response to the economic downturn, Italy recently adopted measures, aimed at sustaining private consumption, in particular supporting low income households.
4. The Commission will assess measures taken by Italy to respond to the economic downturn in line with the principles set out in the European Economic Recovery Plan as adopted by the European Council. As regards public finances, the Commission will assess the compatibility of the updated Stability Programme with the Stability and Growth Pact. Moreover, the measures recommended in paragraph 7 should be implemented swiftly, in particular to encourage the transition towards a low carbon economy and enhance long-term growth potential.
5. Italy has continued the implementation of its National Reform Programme. Progress is most visible in the area of fiscal adjustment. Some measures have been introduced to improve the business environment. Initial steps were taken towards a flexicurity-based approach, and it remains to be seen what the impact of new measures in the area of education and research will be. Additional efforts are needed in order to further enhance competition.
6. Italy's economy has been held back for several years by weak productivity growth and a level of public debt persistently above GDP. This debt weighs heavily on fiscal sustainability. Key policies necessary to address the productivity challenge involve far-reaching structural reforms, including strengthening the competition framework, further enhancing the business environment by cutting red tape at all government levels, improving the functioning of the labour market, and promoting R&D. Greater attention should be paid to human capital formation, and unused labour potential should be better exploited, particularly in the South. A further important aspect of restoring competitiveness is to ensure that wage developments are aligned with productivity developments, via a further decentralisation of the wage fixing mechanism. In order to build upon budgetary reforms undertaken in July 2008, it is

important in the medium term to keep public finances on a permanent, sustainable path to create more favourable conditions for investment, and make room for enhanced expenditure on human capital and infrastructure. The implementation of the energy and climate change package, agreed by the European Council, will require close attention.

7. In light of the Commission's assessment of progress made, the Council recommends Italy to pursue the implementation of structural reforms. In particular, it is recommended that Italy:

- pursues fiscal consolidation in the medium term with a view to improving the sustainability of public finances, in particular by curbing growth in current primary expenditure while enhancing spending efficiency, and ensures that the forthcoming fiscal federalism framework is fully consistent with this objective.
- rapidly introduces and enforces comprehensive reforms to: strengthen the framework for competition in product and services markets, particularly in retailing and fuel distribution, professional and financial services, gas, air transport and local public services; and cuts red-tape at all levels of Government, reforming the organisation of the public administration and improves its productivity;
- addresses the productivity challenge, improves the efficiency and outcomes of the education system, *inter alia* by closely monitoring quality standards, while paying attention to equity issues;
- within a flexicurity approach and with a view to reducing regional disparities, reallocates social expenditure so as to put in place a uniform unemployment benefit system, ensures the efficient operation of employment services and promotes lifelong learning, and furthers tackle undeclared work.

## CYPRUS

1. Real GDP growth slowed only moderately to 3.6% in 2008, as domestic demand, and especially private consumption, continued to grow robustly. Growth is projected to decelerate significantly in 2009, mostly because of the impact that lower economic activity in Cyprus' main trading partners will have on tourism and foreign demand for housing. A rising household debt burden and an uncertain environment should also dampen private consumption. The inflation rate of 4.4% in 2008 was double its rate in 2007, mainly due to higher imported oil and food prices. This is expected to move down in 2009. The government budget is expected to have been 1% of GDP in surplus in 2008. Relatively high wage increases have negatively affected the competitiveness of the Cypriot economy which, together with lower external demand, lower tourism revenues and considerably higher commodity prices, has widened the current account deficit to over 13% of GDP in 2008 and is expected to narrow to 12% in 2009.
2. Current labour market estimates show that employment growth was around 2% in 2008 with unemployment falling marginally to 3.9%. Employment growth is forecasted to slow down over 2009, leading to a rise in unemployment. Current developments in the labour market indicate that the tourism and construction sectors along with the largely low-skilled foreign workforce employed in these sectors are likely to be the most hit by the impact of the crisis.
3. In response to the economic downturn, Cyprus recently announced measures, including support for low income households.
4. The Commission will assess measures taken by Cyprus to respond to the economic downturn in line with the principles set out in the European Economic Recovery Plan as adopted by the European Council. As regards public finances, the Commission will assess the compatibility of the updated Stability Programme with the Stability and Growth Pact. Moreover, the measures recommended in paragraph 7 should be implemented swiftly, in particular to encourage the transition towards a low carbon economy and enhance long-term growth potential.
5. Cyprus has continued the implementation of its National Reform Programme. Micro-economic policies aimed at developing the information society and creating the conditions for sustainable growth are, together with social inclusion policies, largely responsible for Cyprus strong performance in 2008. Measures have been taken to help ensure long-term fiscal sustainability, especially in the area of pensions. To complement this further measures are needed to reform the healthcare system. Additional measures are needed if Cyprus is to improve R&D performance. Cyprus has adopted a Lifelong Learning Strategy, and now needs to implement it, including through further actions to reform secondary technical and vocational education and the apprenticeship system. In the micro-economic domain some new measures have helped tackle insufficient competition in professional services.
6. The Cypriot economy has a high degree of trade specialisation, which coupled with the country's openness, increases its exposure to external shocks. The ongoing transition towards a more diversified and innovation-driven economy is important to increase resilience to competition from lower-cost economies. Efforts are needed to increase the productivity of labour through investments in knowledge, skills, the business environment, and innovation. The immediate policy challenge in 2009 will be to improve the country's competitiveness. Given the relatively high external

imbalances, it would be important to align wages with productivity. The implementation of the energy and climate change package, agreed by the European Council, will require close attention.

7. In light of the Commission's assessment of progress made, the Council recommends Cyprus to pursue the implementation of structural reforms. In particular, it is recommended that Cyprus:

- continues with the efforts to expand lifelong learning opportunities, especially for the low skilled, unemployed and disadvantaged groups, by implementing actions within the approved Lifelong Learning National Strategy including the reforms of the vocational, education, training and the New Modern Apprenticeship Scheme.

## LATVIA

1. Latvia's GDP growth deteriorated sharply in 2008, from over 10% in 2007 to an expected contraction of around 2%. The weak economic situation and the financial crisis have tightened credit availability, depressing private consumption and the housing market. Investment has been particularly affected and is expected to have contracted by around 9% in 2008. GDP is likely to continue to contract significantly for some time. Inflation accelerated to 15.3% in 2008, but will come down in 2009. The deep recession will have a negative effect on the government balance, which is expected to have reached a deficit of around 3.5% of GDP in 2008. Falling domestic demand has contributed to an unwinding of large external imbalances. Imports shrunk significantly in 2008, helping to narrow the current account deficit to around 15% of GDP.
2. Employment will fall considerably in 2009. Unemployment is now increasing and is expected to increase substantially from around 6.5% in 2008. Thus far job losses have mostly affected low-skilled workers from the construction and retail sectors but other groups are also being increasingly affected. A range of disadvantaged groups and the young are likely to suffer, reversing the improvements in employment amongst these groups over the recent past.
3. In response to the financial crisis, and in association with international financial assistance agreed in December 2008, Latvia has adopted financial sector support measures to stabilise the banking sector, which should also help improve access to finance and thus support the wider economy, underpinning macro-financial stability. It emerged during the course of 2008 that Latvia would experience a pronounced and prolonged downturn. Pressures accumulated on Latvian capital and financial markets and in its banking system, leading to the authorities' acceptance of the urgent need for international financial assistance. In this context, on 12 December 2008 the Parliament adopted an Economic Stabilisation Programme, which should help maintain domestic and international confidence in the financial system, contribute directly and indirectly to arresting and reversing the worsened cost competitiveness and inflationary pressures by reductions in public sector wage costs as a centrepiece of a much tighter fiscal stance, and strengthen the economy's growth potential by a range of structural reforms.
4. The Commission will assess measures taken by Latvia to respond to the economic downturn in line with the principles set out in the European Economic Recovery Plan as adopted by the European Council. As regards public finances, the Commission will assess the compatibility of the updated Convergence Programme with the Stability and Growth Pact. In this context, Latvia should respect the public finance targets set out in its Economic Stabilisation Programme, urgently address its macro-economic imbalances, and fully implement its balance of payments memorandum. Moreover, the measures recommended in paragraph 7 should be implemented swiftly, in particular to encourage the transition towards a low carbon economy and enhance long-term growth potential.
5. Latvia has continued the implementation of its National Reform Programme. The government tightened planned expenditures and proposed measures to limit public sector wage growth. Measures have been taken to improve R&D performance. Notable actions have been taken to increase labour supply in the medium term, but more is needed to develop a lifelong learning strategy. The regulatory environment



has further improved. Some progress has also been made in improving access to childcare.

6. The immediate economic policy challenge for Latvia is to secure macro-financial stability as there is a risk of a pronounced and prolonged downturn. In the medium-term, productivity enhancing investment in R&D, innovation and education has to facilitate a shift from domestic-demand-driven sectors towards tradeables. Structural reforms are urgently needed to further labour market flexibility and support transition, primarily through more efficient activation and training. Public wage policy should give the right signal for wage moderation in the private sector, helping to contain inflation, and to maintain the cost-competitiveness of exports. A timely and determined implementation of the Structural Fund programmes will have a positive effect on strengthening the supply potential of the economy, support employment and safeguard access to finance for businesses. It is essential to maintain administrative capacity to implement the programmes. The implementation of the energy and climate change package, agreed by the European Council, will require close attention.
7. In light of the Commission's assessment of progress made, the Council recommends Latvia to pursue the implementation of structural reforms. In particular, it is recommended that Latvia:
  - pursues a restrictive fiscal policy, within which expenditures are carefully prioritised and both tax and expenditure measures are focused on strengthening the supply potential of the economy; this should be facilitated by adopting a strong, medium-term fiscal framework with tight expenditure ceilings;
  - in order to reduce inflation and improve competitiveness, promotes wage moderation in the public and private sector;
  - within an integrated flexicurity approach, intensifies efforts to increase labour supply and productivity by: reinforcing activation measures; and by enhancing the responsiveness of education and training systems to labour market needs, including the implementation of a coherent lifelong learning strategy;
  - integrates more closely R&D and innovation policies, especially through partnerships amongst key private and public actors, and through additional incentives for investment by the private sector.

## LITHUANIA

1. GDP is expected to have grown by 3.4% in 2008, much less than in 2007 (8.9%). With the correction of the housing market, investment contracted. Tighter credit constraints, eroding real income, and falling confidence among business and consumers is set to depress domestic demand for 2009. Inflation has peaked at 11% in 2008, fed by high commodity prices and domestic wage pressures, but has fallen subsequently. Due to the deterioration of the economic situation and additional spending, the government deficit is rapidly increasing. It is expected to have been close to 3% of GDP in 2008 and to increase beyond this level in 2009 if no additional saving measures are adopted. Significant wage increases have undermined external competitiveness, which together with weak external demand should depress export growth in 2009. Nevertheless, subdued domestic demand will probably weaken import growth, leading to a lowering of the current account deficit from 12.6% of GDP in 2008.
2. Current labour market figures suggest that in 2008 employment growth turned negative and unemployment is expected to increase to over 5%. Large-scale employee dismissals are already on the increase, affecting in particular the lower skilled, low qualified young people, rural residents, and older workers. Regional differences in unemployment may become more pronounced.
3. On 9 December 2008 the newly elected government adopted an anti crisis government programme that announced a number of fiscal measures to address the country's macro-economic imbalances and to reduce the general government deficit from 2009 onwards.
4. The Commission will assess measures taken by Lithuania to respond to the economic downturn in line with the principles set out in the European Economic Recovery Plan as adopted by the European Council. As regards public finances, the Commission will assess the compatibility of the updated Convergence Programme with the Stability and Growth Pact. In this context, Lithuania should respect public finance targets as set out in its anti-crisis programme. Moreover, the measures recommended in paragraph 7 should be implemented swiftly, in particular to encourage the transition towards a low carbon economy and enhance long-term growth potential.
5. Lithuania has continued the implementation of its National Reform Programme. A number of measures have been implemented to improve youth employability and provide entrepreneurship training. More efforts are needed to address the key policy areas improving macro-financial stability and reducing inflation. In addition further support will be needed to encourage foreign direct investment, improve R&D and innovation performance, the regulatory environment, increase childcare and improve health and safety.
6. The high economic growth and emigration have tightened the labour market and fuelled increases in labour costs, thus eroding Lithuania's competitiveness. The current economic slowdown will however lead to rising unemployment and active labour market policy therefore becomes of vital importance. However, the most urgent challenge remains reducing the sizeable macro-economic imbalances. In order to contain inflation and halt the deterioration in competitiveness, wage developments need to be more closely aligned to productivity and the business environment and administrative capacity should be strengthened. Moreover, productivity growth needs strengthening by improving skills and raising innovation performance, including

through the attraction of foreign direct investment. The implementation of the energy and climate change package, agreed by the European Council, will require close attention.

7. In light of the Commission's assessment of progress made, the Council recommends Lithuania to pursue the implementation of structural reforms. In particular, it is recommended that Lithuania:

- strengthens macro-economic stability by pursuing a restrictive fiscal policy within which expenditures are carefully prioritised;
- preserves external competitiveness by keeping wage developments in line with productivity gains;
- ensures the implementation of the structural reform of the R&D and innovation system remains a priority matched by sufficient financial commitment, with a greater focus on human resources for R&D and wider engagement of companies in innovation;
- intensifies efforts to reform the education and training systems to ensure their quality and relevance to the labour market needs and promote lifelong learning, especially for older workers.

## LUXEMBOURG

1. GDP growth slowed in 2008 to about 1%, much less than the pace of 2007 (5.2%), as the slowdown in the international economy began to impact. This deceleration is set to continue in 2009. Driving this development are low external demand and private investment. Inflation accelerated to over 4% in 2008 on the back of rising energy and food prices, but is expected to ease in 2009. The economic slowdown is likely to have reduced the budget surplus to 3.0% of GDP in 2008. Luxembourg should post a current account surplus of over 8% of GDP for 2008, which is likely to decrease somewhat in 2009.
2. Employment continued to grow in 2008 and the unemployment rate remained at 4.1%. The situation in 2009 is expected to be less positive, with employment growth slowing and unemployment increasing. Luxembourg will face challenges induced by the current crisis that are likely to affect the financial, transportation and steel sectors as well as enterprises related to the automotive industry.
3. In response to the financial crisis and as part of a co-ordinated EU approach, Luxembourg has adopted financial sector support measures to stabilise the banking sector, which should also help improve access to finance and thus support the wider economy, and underpin macro-economic stability. In addition, in response to the economic downturn, Luxembourg recently announced measures, including reduced taxation on business and support for lower income households.
4. The Commission will assess measures taken by Luxembourg to respond to the economic downturn in line with the principles set out in the European Economic Recovery Plan as adopted by the European Council. As regards public finances, the Commission will assess the compatibility of the updated Stability Programme with the Stability and Growth Pact.
5. Luxembourg has continued the implementation of its National Reform Programme. Luxembourg has made some progress to increase the employment rate of older workers, reduce the number of early school leavers and remove artificial barriers in the education system, and to make the economic environment more attractive. Further measures are needed to address these underlying challenges.
6. With the financial sector accounting for more than one quarter of GDP, the current financial crisis could deeply affect the country. In addition, the comparatively rapid increase in unit-labour costs is likely to negatively affect competitiveness. This deterioration is likely to continue in the coming years because productivity is projected to decrease in 2008 and 2009. In a longer perspective, the pension system needs reform in order to insure its long-term sustainability. The employment rate of the resident population remains below the European average with that of older workers being particularly low. Luxembourg also needs to further enhance the attractiveness of the business environment. The implementation of the energy and climate change package, agreed by the European Council, will require close attention.

## HUNGARY

1. After falling sharply to 1.1% in 2007 (mainly due to the fiscal adjustment programme that began in mid-2006), GDP growth slowed to 0.9 % in 2008 despite significant agricultural production. Looking forward, a sharp economic downturn is expected in view of the rapidly worsening external environment. The financial crisis has had particularly strong adverse effects on Hungarian financial and foreign exchange markets, leading to a temporary freezing of the government bond market, a sharp fall in the stock market, and strong currency depreciation. Inflation was above 6% in 2008, but the trend has been downwards since mid-2007 and it should continue to fall. Notwithstanding the slowdown, the budget deficit is expected to have been reduced to 3.3% of GDP in 2008 with further adjustments planned by the authorities. The current account deficit increased somewhat to about 7% of GDP in 2008.
2. Employment contracted in 2008 by around 1% and this trend will continue in 2009. The unemployment rate should continue to rise from the rate of around 7.7% in 2008. Depending on the intensity of the economic slowdown, unemployment may not be restricted to the low-skilled and disadvantaged groups.
3. In the context of a Community balance of payments loan to support Hungary's response to the financial market turbulences, the authorities signed a memorandum of understanding on 19 November 2008 setting out economic policy conditions attached to its disbursement, in particular regarding fiscal consolidation and fiscal governance reform.
4. The Commission will assess measures taken by Hungary to respond to the economic downturn in line with the principles set out in the European Economic Recovery Plan as adopted by the European Council. As regards public finances, the Commission will assess the compatibility of the updated Convergence Programme with the Stability and Growth Pact. In this context, Hungary should fully implement its balance of payments memorandum. Moreover, the measures recommended in paragraph 7 should be implemented swiftly, in particular to encourage the transition towards a low carbon economy and enhance long-term growth potential.
5. Hungary has continued implementing its National Reform Programme. Fiscal policy is likely to again result in a level of consolidation in 2008 that is better than targeted. Additional efforts are needed on structural and labour market reforms. The Structural Funds play a key role in the implementation of the NRP and their execution is largely on track. Following the financial market turmoil the Hungarian authorities adopted a series of measures to restore market confidence, including accelerated deficit reduction, enhanced fiscal governance and strengthened financial sector regulation and supervision.
6. The policy challenge for Hungary is to mitigate the negative impact of the financial crisis whilst maintaining fiscal stability and fostering the credibility of the economic policy. To this end, a further deterioration of external competitiveness should be prevented by ensuring wage increases are in line with productivity. In the medium term efforts to improve macro-economic and fiscal stability are paramount. This requires increasing the effectiveness of the public and health care sector and improving the functioning of the labour market. Despite some progress, further efficiency savings can be made in the public sector. The overall employment rate in Hungary (57.3%) was the third lowest in the EU in 2007, with the participation of

young and older people and other disadvantaged groups being particularly low. The responsiveness of the educational and training system to labour market needs must be further developed to effectively reduce the problem of skills-mismatch. The implementation of the energy and climate change package, agreed by the European Council, will require close attention.

7. In light of the Commission's assessment of progress made, the Council recommends Hungary to pursue the implementation of structural reforms. In particular, it is recommended that Hungary:

- building on the significant progress achieved in fiscal consolidation, implements the necessary measures to ensure a durable reduction of the government deficit and of the public debt ratio, with increased reliance on the expenditure side;
- continues to reform the public administration, health care, pension and education systems with a view to ensuring long-term fiscal sustainability and improving economic efficiency. This should include steps to further raise the effective retirement age, to rigorously implement the adopted reform of the disability pensions system and to further restructure health care;
- further strengthens and better targets active labour market policies to improve the labour market situation, especially of disadvantaged groups and geographical areas;
- continues upgrading skill levels, also by increasing adult participation in lifelong learning; further improves the responsiveness of education and training systems to labour market needs and ensures access to high quality education and training for all.

## MALTA

1. GDP is expected to have grown by 2.1% in 2008, down from 3.9% in 2007. GDP growth is expected to weaken in 2009. Inflation accelerated to 4.7% in mid-2008, driven by higher international food and oil prices, and possibly reinforced by weak domestic competition and a high dependency on energy imports. The fiscal position deteriorated in 2008, with the budget deficit rising to 3.5% of GDP. Weaker global demand has led to a widening of the current account deficit.
2. Employment growth decelerated in 2008 and this is set to continue in 2009 as the pace of economic activity slows. Female employment increased slightly in 2007, but at 36.9% remains the lowest in the EU. The employment rate among older workers actually fell (to 28.3%) in 2007. Unemployment is likely to rise from 6.5% in 2008, mainly affecting low skilled workers from the manufacturing and tourism sectors, although other sectors (financial services and ICT) are now increasingly at risk.
3. Malta recently announced measures, including advanced investment in infrastructure, the environment and tourism, and reduced taxation on households, to respond to the economic downturn.
4. The Commission will assess measures taken by Malta to respond to the economic downturn in line with the principles set out in the European Economic Recovery Plan as adopted by the European Council. As regards public finances, the Commission will assess the compatibility of the updated Stability Programme with the Stability and Growth Pact. Moreover, the measures recommended in paragraph 7 should be implemented swiftly, in particular to encourage the transition towards a low carbon economy and enhance long-term growth potential.
5. Malta has continued the implementation of its National Reform Programme. Progress has been made in addressing competition and reforming the labour market. Positive initiatives in 2008 include the first steps towards the privatisation of the shipyards, the establishment of an integrated flexicurity pathway and the setting of a target for the reduction of administrative burden. Additional measures are needed to improve the health care system, the business environment, and the functioning of the energy market. Progress has slowed in terms of pursuing budgetary consolidation in 2008.
6. Malta depends heavily on imported energy, natural resources, production inputs, and consumer goods. The backbone of Malta's economic development is its human resources, where major improvements, in particular in reducing early school leaving, are needed. The small size of the economy makes competition issues particularly relevant and demands improvements in the business environment, as well as a diversification of energy sources. An efficient use of public finance requires further reform of the healthcare system. Although Malta has been diversifying its economic base, further progress is still required to tackle the current heavy reliance on tourism and manufacturing of electronics. Ensuring competitiveness demands further structural reforms that will enhance productivity and wage growth which is aligned to productivity increases. The implementation of the energy and climate change package, agreed by the European Council, will require close attention.

7. In light of the Commission's assessment of progress made, the Council recommends Malta to pursue the implementation of structural reforms. In particular, it is recommended that Malta:
- strengthens competition with a view to containing inflation and maintaining competitiveness, notably by reducing state aids and redirecting them towards horizontal objectives as well as by reinforcing the competition authority;
  - steps up efforts to attract more people, particularly women and older workers, into the labour market by, inter-alia, facilitating childcare; intensifying efforts to tackle undeclared work and encouraging participation in the labour market, including by tightening access conditions to the benefit system.



## THE NETHERLANDS

1. Real GDP growth in the Netherlands has slowed to 1.9% in 2008 from 3.5% in 2007. Growth is set to fall in 2009 as a result of the global downturn, shrinking investment and a substantial slowdown in private consumption. Boosted by the earlier rise in food and energy prices, inflation has risen to 2.2% in 2008. The budget surplus has increased in 2008 to 1.1% of GDP. Despite the global downturn, the Netherlands is expected to have a current account surplus of over 8% of GDP in 2008, which is likely to narrow to 6.5% of GDP in 2009.
2. Employment growth, at slightly below 2%, continue in 2008, but is expected to turn negative in 2009. As a result, unemployment has fallen in 2008, but is expected to increase in 2009. Employers have thus far been reluctant to resort to dismissals as they fear not being able to find qualified personnel once the economy recovers. The industrial sector and the financial sector are likely to be hit the hardest.
3. In response to the financial crisis and as part of a co-ordinated EU approach, the Netherlands has adopted financial sector support measures to stabilise the banking sector, which should also help improve access to finance and thus support the wider economy, and underpin macro-economic stability. In addition, in response to the economic downturn, the Netherlands recently announced measures, including lowering corporate taxation for SMEs and reduced social security contributions for workers.
4. The Commission will assess measures taken by the Netherlands to respond to the economic downturn in line with the principles set out in the European Economic Recovery Plan as adopted by the European Council. As regards public finances, the Commission will assess the compatibility of the updated Stability Programme with the Stability and Growth Pact. Moreover, the measures recommended in paragraph 7 should be implemented swiftly, in particular to encourage the transition towards a low carbon economy and enhance long-term growth potential.
5. The Netherlands has continued the implementation of its National Reform Programme. Measures have been taken to increase labour supply but more is needed to increase the overall hours worked. There has been some progress made in improving the governance structures and putting in place a coherent strategy for R&D and innovation, as well as streamlining the innovation policy mix.
6. Increasing the overall number of hours worked and improved R&D and innovation performance will help sustain the strong economic performance in the future. The challenge is to translate the long term R&D strategy into a set of coherent and effective policy measures to stimulate in particular private R&D expenditure. In view of the ageing population and the resulting reduction in labour supply, the sustainability of public finances will need to be ensured. The implementation of the energy and climate change package, agreed by the European Council, will require close attention.
7. In light of the Commission's assessment of progress made, the Council recommends the Netherlands to pursue the implementation of structural reforms. In particular, it is recommended that the Netherlands:
  - develops further measures, including fostering labour market transitions within an integrated flexicurity approach, to improve the participation of women, older workers and disadvantaged groups with a view to raising overall hours worked.

## AUSTRIA

1. GDP growth slowed in 2008, down from 3.1% in 2007 to 1.7%. Growth is expected to contract by over 1% on the back of declining exports and a slump in investment. Headline inflation reached almost 4% in mid-2008, but is now easing. Austria recorded a small budget deficit of 0.6% of GDP in 2008 that is set to widen markedly in 2009. With an expected current account surplus of over 3% of GDP in 2008 that are forecast to stay near that level over 2009 and 2010, external balances are healthy.
2. Employment grew at a rate of 1.6% in 2008, but is expected to shrink in 2009, and unemployment is expected to increase. Those groups of the labour market with a traditionally limited employment outlook, notably older workers and low-qualified school leavers, are likely to suffer the most. Apprenticeship places and jobs for temporary workers in the industrial sector have been reduced first. Currently, the most affected part of the economy is the automotive sector.
3. In response to the financial crisis and as part of a co-ordinated EU approach, Austria has adopted financial sector support measures to stabilise the banking sector, which should also help improve access to finance and thus support the wider economy and underpin macro-economic stability. In addition, in response to the economic downturn, Austria recently announced measures, including lower taxation and additional financial support for households, and advanced investment in infrastructure, energy efficiency and R&D.
4. The Commission will assess measures taken by Austria to respond to the economic downturn in line with the principles set out in the European Economic Recovery Plan as adopted by the European Council. As regards public finances, the Commission will assess the compatibility of the updated Stability Programme with the Stability and Growth Pact. Moreover, the measures recommended in paragraph 7 should be implemented swiftly, in particular to encourage the transition towards a low carbon economy and enhance long-term growth potential.
5. Austria has continued the implementation of its National Reform Programme. Some efforts have been taken to increase the employment rate of older workers, the education outcomes of disadvantaged youth, tackling gender segregation within the labour market, and strengthening entrepreneurship education. Additional measures are needed to strengthen fiscal consolidation in the medium term and to increase competition.
6. Austria's key medium-term challenge is to transform into a more knowledge intensive economy. Despite increased spending on R&D and innovation, this shift has yet to materialise, suggesting that greater attention should also be paid to human capital formation. Sustained wage moderation has bolstered Austria's global competitive position, and has been conducive to job creation for a growing labour force. A challenge for Austria is to ensure a better use of labour resources, notably of older workers, and to improve the integration, education and job training of disadvantaged groups. Ensuring the sustainability of the social welfare system depends on lasting fiscal consolidation, which needs to be reconciled with reinforced public spending in areas that are crucial for medium-term growth. The implementation of the energy and climate change package, agreed by the European Council, will require close attention.

7. In light of the Commission's assessment of progress made, the Council recommends Austria to pursue the implementation of structural reforms. In particular, it is recommended that Austria:

- further improves incentives for older workers to continue working by implementing a comprehensive strategy including enhanced job-related training, adaptation of working conditions, and tightening the conditions for early retirement; and improves education outcomes for disadvantaged youth.

## POLAND

1. Poland's GDP growth slowed to 5% in 2008, after growing by 6.7% in 2007. This vigorous growth has been mainly driven by private consumption and buoyant investment. GDP growth will slow further in 2009 on the back of lower export and investment dynamics. Inflation peaked at around 4¼% in 2008, but should slow in 2009. The budget deficit is expected to have widened slightly to 2.5% of GDP in 2008 and this is projected to further deteriorate by about 1 percentage point in 2009. The current account deficit, of 5.6% of GDP in 2008, is likely to remain at that level in 2009.
2. Employment grew by 3% in 2008 and unemployment further decreased to 7.4%. However, employment growth will slow significantly over 2009, with unemployment expected to increase to well over 8%. Current developments in the labour market show that export-oriented sectors, manufacturing, construction and transport are hit the worst by the slowdown in economic activity. More pressure will be put on increasing labour activity and improving labour mobility across sectors and industries, helping also to restore cost-competitiveness of the economy after the period of fast employment and wage growth.
3. Poland recently announced measures, including support to SMEs and low-income households, to respond to the economic downturn.
4. The Commission will assess measures taken by Poland to respond to the economic downturn in line with the principles set out in the European Economic Recovery Plan as adopted by the European Council. As regards public finances, the Commission will assess the compatibility of the updated Convergence Programme with the Stability and Growth Pact. Moreover, the measures recommended in paragraph 7 should be implemented swiftly, in particular to encourage the transition towards a low carbon economy and enhance long-term growth potential.
5. Poland has continued the implementation of the National Reform Programme. A number of measures have been taken to improve competition in network industries, reinforce active labour market policies, improve the legal environment for entrepreneurs, and link education and training with the labour market. Further efforts are needed to enhance control over expenditure, boost R&D performance, review benefit systems and increase participation in lifelong learning.
6. Poland's economic performance is held back by a number of interconnected structural problems, a low level of labour productivity and low utilisation of the workforce. Combining efforts to complete the reform of the social security systems with an increase in the number of older workers could simultaneously strengthen the labour supply and improve the long-term sustainability of public finance. Growth and employment would benefit from stepping up actions to improve the business environment, developing infrastructure and improving the quality of human capital. The implementation of the energy and climate change package, agreed by the European Council, will require close attention.

7. In light of the Commission's assessment of progress made, the Council recommends Poland to pursue the implementation of structural reforms. In particular, it is recommended that Poland:

- sustains budgetary discipline in the medium term and introduces further mechanisms to enhance control over expenditure, in particular by reforming the Farmers' Social Security System;
- pursues the reform of the public research sector to boost R&D and innovation, and encourage private sector R&D;
- accelerates investment in energy and transport infrastructure by streamlining the procedures for, and efficiently using the Structural Funds;
- develops an integrated flexicurity approach, by implementing an active ageing strategy, stepping up actions to improve active labour market policy, notably for disadvantaged groups, reviewing benefit systems to improve incentives to work, and putting in place the lifelong learning strategy.

## PORTUGAL

1. Portugal's GDP growth dropped to 0.2% in 2008, from almost 2% in 2007. This slowdown was driven by sluggish investment and a weaker export performance. In 2009, domestic demand is expected to weaken further, resulting in growth slowing further. Inflation accelerated to 2.7% in 2008, but it remained below the euro area average and is on a decelerating path due to the recent downward trend in world prices and sluggish demand. Continuing the contracting path of recent years, Portugal's budget deficit was just over 2% of GDP in 2008. The current account deficit has widened to 11.8% of GDP in 2008 due to slower exports growth, and high commodity prices. The current account deficit is likely to improve in 2009.
2. Employment in Portugal increased slightly in 2007, with the employment rate stabilised at around 68%. Unemployment peaked at 8.1% in 2007, but has declined moderately in 2008. Weak foreign demand is starting to affect employment in the large export-oriented sector. As the economy goes through further transition structural unemployment will continue to increase, particularly affecting the low skilled and disadvantaged groups.
3. In response to the financial crisis and as part of a co-ordinated EU approach, Portugal has adopted financial sector support measures to stabilise the banking sector, which should also help improve access to finance and thus support the wider economy, and underpin macro-economic stability. In addition, in response to the economic downturn, Portugal recently announced measures, including reduced taxation on business and financial support for low-income families.
4. The Commission will assess measures taken by Portugal to respond to the economic downturn in line with the principles set out in the European Economic Recovery Plan as adopted by the European Council. As regards public finances, the Commission will assess the compatibility of the updated Stability Programme with the Stability and Growth Pact. Moreover, the measures recommended in paragraph 7 should be implemented swiftly, in particular to encourage the transition towards a low carbon economy and enhance long-term growth potential.
5. Portugal has continued the implementation of its National Reform Programme. Important steps have been taken towards a sustainable reduction of the government deficit, to reform the public administration and improve the sustainability of public finances. Measures have been taken to achieve the public R&D target and some steps have been taken to increase private investment, and towards addressing the shortcomings in the innovation system. The educational system has become more efficient, and an agreement to revise the labour code has been reached with social partners, and already approved by Parliament. More efforts are needed to redirect public spending towards uses more supportive to potential growth, to monitor results, and to increase effective competition in energy markets.
6. As a result of progress in fiscal consolidation and public administration reform, public finances have become sounder. The business environment has improved, as has education and training. Nonetheless, Portugal still faces a number of significant challenges to ensure increased productivity growth and a more balanced external position. Against this backdrop, Portugal would benefit from implementing and monitoring a more integrated policy approach which addresses the quality of public expenditure, improves the functioning of markets, raises the efficiency of the education and training systems, and addresses competitiveness. A further important

aspect of restoring competitiveness is to ensure that wage developments are more closely aligned with productivity developments. The implementation of the energy and climate change package, agreed by the European Council, will require close attention

7. In light of the Commission's assessment of progress made, the Council recommends Portugal to pursue the implementation of structural reforms. In particular, it is recommended that Portugal:

- within the context of fiscal consolidation in the medium-term and public administration reform, pursues the efforts to redirect public expenditure towards areas beneficial to raising the country's growth potential and external competitiveness whilst maintaining firm overall expenditure control.
- continues the efforts to improve in a sustained way the overall efficiency of the education system, and developing a vocational training system relevant to labour market needs, by the full achievement of the National Qualifications Framework and with the involvement of appropriate stakeholders;
- implements the legislation to modernise employment protection, in order to reduce the high levels of labour market segmentation, within the flexicurity approach.

## ROMANIA

1. Romania's GDP growth accelerated to an estimated 7.8% in 2008, mainly driven by a record surge in private consumption and investment. However, it is likely to decelerate considerably in 2009, following significantly tighter lending conditions, a decrease in consumer and investor confidence, and weaker external demand. While inflation has surged to almost 8% in 2008, it is projected to fall in 2009. The government deficit reached an estimated 5.2% of GDP in 2008 and without a change in policy is likely to increase further in 2009. Despite some easing following weaker domestic demand, the current account deficit is expected to remain high, at 13% of GDP in 2008 and stay at a two-digit level in 2009.
2. The employment rate is expected to remain below 60% in 2009 and unemployment is anticipated to slightly pick-up. Youth unemployment, at over 20%, is among the highest in the EU. The global downturn is expected to result in higher unemployment, in particular in some economic sectors, including those that have faced labour shortages (automotive, textile, petro-chemical industries and construction). It will affect the low skilled and young people in particular.
3. The Commission will assess measures taken by Romania to ensure fiscal consolidation and respond to the economic downturn in line with the principles set out in the European Economic Recovery Plan as adopted by the European Council. As regards public finances, the Commission will assess the compatibility of the updated Convergence Programme with the Stability and Growth Pact. In this context, Romania should intensify steps to pursue fiscal consolidation and urgently address its macro-economic imbalances. Moreover, the measures recommended in paragraph 6 should be implemented swiftly, in particular to encourage the transition towards a low carbon economy and enhance long-term growth potential.
4. Romania has continued the implementation of its National Reform Programme, although progress has been slow. Romania has continued to conduct a loose fiscal policy, which has contributed to macro-economic and fiscal imbalances. It has implemented some measures to improve the quality of education and continued the implementation of its R&D strategy. More efforts are needed to radically improve the efficiency and effectiveness of public administration. There remains major scope for progress to cut red tape, and invest much more in skills.
5. In the current economic context, Romania's first priority should be to tackle macro-economic and fiscal imbalances that pose risks to the sustainability of its medium to long-term growth path. At the same time, as its cost-advantages are gradually eroding, Romania should speed up structural reforms to transform the economy from one based on cost-advantages to one based more on productivity, innovation and knowledge, tapping into new sources of growth. The effective implementation of the required reforms critically depends on Romania's ability to improve urgently the efficiency and effectiveness of its public administration. The implementation of the energy and climate change package, agreed by the European Council, will require close attention.



6. In light of the Commission's assessment of progress made, the Council recommends Romania to pursue the implementation of structural reforms. In particular, it is recommended that Romania:
- strengthens the efficiency, effectiveness and independence of the public administration, at both central and local level, by building up effective regulatory control and enforcement capacity;
  - in order to preserve external competitiveness, and to contain the current account deficit and inflation, significantly tightens fiscal policy and urgently implements a binding medium-term fiscal framework, revises the composition of expenditure to increase the share of growth-enhancing spending inter alia by reducing and redirecting state aid to horizontal objectives and keeps wage developments in line with productivity growth;
  - in the context of a coherent better regulation policy, urgently implements measures to substantially reduce administrative procedures and delays in obtaining authorisations, in order to improve the business environment and reduce sources for corruption;
  - improves the quality and labour market relevance of the education and training systems, including lifelong learning, reduces early school leaving, and facilitates the transition of young people into employment, including through work-based training.

## SLOVENIA

1. Slovenia's GDP growth decelerated to 4% in 2008 from 6.8% in 2007, and is set to further slow in 2009. Inflation picked up markedly in 2007 due to rising energy and food prices, and strong demand pressures, and will fall from its peak of 6½%. The current account deficit is expected to have been 6% of GDP in 2008. It is expected to improve only slightly in 2009. The public finances, which recorded a surplus in 2007, are projected to have slipped into a deficit in 2008.
2. In line with economic activity, employment growth lost momentum in 2008 and is expected to weaken further in 2009. The unemployment rate is expected to have fallen to 4.5% in 2008, and to increase in 2009. Current indications suggest a rise in unemployment in export-oriented and labour-intensive services that will mostly affect workers on fixed-term contracts (mainly the young and foreign workers) and low skilled.
3. In response to the financial crisis and as part of a co-ordinated EU approach, Slovenia has adopted financial sector support measures to stabilise the banking sector, which should also help improve access to finance and thus support the wider economy, and underpin macro-economic stability. In addition, in response to the economic downturn, Slovenia recently announced measures.
4. The Commission will assess measures taken by Slovenia to respond to the economic downturn in line with the principles set out in the European Economic Recovery Plan as adopted by the European Council. As regards public finances, the Commission will assess the compatibility of the updated Stability Programme with the Stability and Growth Pact. Moreover, the measures recommended in paragraph 7 should be implemented swiftly, in particular to encourage the transition towards a low carbon economy and enhance long-term growth potential.
5. Slovenia has continued the implementation of its National Reform Programme. Notable measures have been taken to strengthen the link between the educational system and the labour market. Additional efforts are needed to improve long-term fiscal sustainability, to further develop flexicurity, R&D performance, improving competition, and further implementing energy efficiency measures. There has been also some progress with regard to unlocking business potential.
6. Slovenia faces challenges in the area of pension reform and active ageing in order to address the budgetary implications of the ageing population. Removing structural rigidities in the labour and product markets would help to absorb country-specific shocks and strengthen the adjustment capacity of Slovenia within the euro area. Containing wage growth in excess of productivity improvements is also essential to ensure sustained growth and competitiveness. The implementation of the energy and climate change package, agreed by the European Council, will require close attention.
7. In light of the Commission's assessment of progress made, the Council recommends Slovenia to pursue the implementation of structural reforms. In particular, it is recommended that Slovenia:
  - reforms the pension system and implements active ageing, with a view to increasing the employment rate of older workers and improving the long-term sustainability of public finances;

- within an integrated flexicurity approach counters labour market segmentation in particular by reviewing employment protection for permanent contracts and conditions for so-called student work.

## SLOVAKIA

1. Slovak GDP growth moderated to 7.1% in 2008, down from 10.4% in 2007, mainly as a result of a slowdown in the external demand. Growth has been supported by buoyant domestic demand, including strong public and private consumption and by vigorous investment in construction. In 2009 the Slovak economy will grow more slowly. Inflation increased to 4% in 2008, but will ease in 2009. The government budget deficit is expected to have widened to 2.25% of GDP in 2008. The current account deficit is estimated to have been 6% of GDP in 2008, and is expected to remain at that level in 2009.
2. Employment grew by 2.3% in 2008, but is expected to slow in 2009. Unemployment is likely to stay high, at above 10%. The export-oriented companies, in particular the automotive sector, and employees with atypical contracts will likely be hardest hit by the slowdown.
3. Slovakia recently adopted measures, including support for SMEs, to respond to the economic downturn.
4. The Commission will assess measures taken by Slovakia to respond to the economic downturn in line with the principles set out in the European Economic Recovery Plan as adopted by the European Council. As regards public finances, the Commission will assess the compatibility of the updated Stability Programme with the Stability and Growth Pact. Moreover, the measures recommended in paragraph 7 should be implemented swiftly, in particular to encourage the transition towards a low carbon economy and enhance long-term growth potential.
5. Slovakia has continued the implementation of its National Reform Programme. Some steps have been taken to improve the business environment, and to reform the education and training system. Additional measures are needed to improve entrepreneurship, to improve competition in the supply of energy, to create an active ageing strategy and to address youth employment.
6. Slovakia's main medium-term challenges are to continue reducing unemployment, notably long-term unemployment, to improve the quality of the education and training system, to enhance the employability of certain groups, and reduce regional differences in both income and employment. In the area of R&D and innovation it will be important to increase the quality of output and private sector involvement. In view of the recent entry into the euro area, Slovakia also needs to enhance the focus on fiscal discipline in order to ensure macro-economic stability and improve the adjustment capacity of the economy. The implementation of the energy and climate change package, agreed by the European Council, will require close attention.

7. In light of the Commission's assessment of progress made, the Council recommends Slovakia to pursue the implementation of structural reforms. In particular, it is recommended that Slovakia:

- in the medium term ensures implementation of further fiscal consolidation measures in order to preserve macro-economic stability while continuing to reallocate expenditure towards education, R&D and innovation, creating further incentives for the private sector in R&D and innovation and implementing a coherent R&D and innovation strategy, with a particular focus on the institutional reform and substantial improvement of business-research cooperation;
- implements a comprehensive better regulation strategy, conducts impact assessments and continuously simplifies the existing legislation, while stepping up the reduction of administrative burdens on businesses, particularly SMEs;
- within an integrated flexicurity approach, makes progress in the implementation of the lifelong learning strategy and continues the reforms of education and training systems to address the skill mismatch, develops an active ageing strategy and enhances access to employment for the long-term unemployed and disadvantaged groups.

## FINLAND

1. Finland's GDP growth decelerated to 1.5% in 2008, driven by weaker external demand and investment. Economic activity is expected to further weaken in 2009. Inflation accelerated sharply to 3.9% in 2008, reflecting global food and fuel price increases and relatively high wage increases. However, falling global commodity prices should lead to a marked deceleration in 2009. Finland's budget surplus should still have reached 4.5% of GDP in 2008. The present current account surplus of 4% of GDP is expected to moderate somewhat.
2. Employment grew in 2008, although at a slower pace than in 2007. This growth is expected to reverse in 2009. Recent tight labour market conditions are expected to dampen the immediate impact of the downturn on unemployment, which is expected to rise in exporting industries and among older workers and the young.
3. In response to the financial crisis and as part of a co-ordinated EU approach, Finland has adopted financial sector support measures to stabilise the banking sector, which should also help improve access to finance and thus support the wider economy, and underpin macro-economic stability. In addition, in response to the economic downturn Finland recently announced measures, including financial support for SMEs and promoting construction.
4. The Commission will assess measures taken by Finland to respond to the economic downturn in line with the principles set out in the European Economic Recovery Plan as adopted by the European Council. As regards public finances, the Commission will assess the compatibility of the updated Stability Programme with the Stability and Growth Pact.
5. Finland has continued the implementation of its National Reform Programme. Efforts have been made within the framework of previously launched reform plans, in particular with regard to the implementation of the revised Competition Act and the implementation of the Services Directive. However, the improvement of competition enforcement has still to be implemented. A number of reforms are ongoing to address bottlenecks in the labour markets, but a reinforced implementation of measures is needed to tackle increasing labour mismatches. Moreover, a review of the social benefit system is in the making and a new Climate and Energy Strategy has been launched to secure a more sustainable economic development.

6. Finland's export-oriented economy has performed very strongly over the last few years. However, economic growth and competitiveness are held back by labour shortages that will increase in the medium term because of a rapidly ageing population. Given the already high employment level, the main challenges will be to further enhance participation rates and reduce structural unemployment stemming from regional, sectoral and skills mismatches. The adoption and implementation of the new innovation strategy could also contribute to securing long-term sustainable growth. Given that the Finnish economy is very energy intensive, its growth and productivity potential would benefit from improvements in energy efficiency. The implementation of the energy and climate change package, agreed by the European Council, will require close attention.

## SWEDEN

1. GDP growth in Sweden slowed from 2.5% in 2007 to around 0.5% in 2008, as a result of sluggish external demand, rapidly weakening consumer and business confidence, falling stock markets and a cooling housing market. A further slowdown is expected in 2009. In 2008, inflation was 3.3%, but should ease in 2009. Sweden ran a budget surplus of 2.3% of GDP in 2008. Sweden continued enjoying sizeable current account surpluses (6.2% of GDP) in 2008.
2. As the economy slows, employment growth is also slowing. Unemployment looks set to rise significantly from its current level of around 6%. The sectors most affected by the crisis are likely to be manufacturing and construction, as well as private services and retail.
3. In response to the financial crisis and as part of a co-ordinated EU approach, Sweden has adopted financial sector support measures to stabilise the banking sector, which should also help improve access to finance and thus support the wider economy, and underpin macro-economic stability. In addition in response to the economic downturn, Sweden recently announced measures, including support for the automobile and construction sectors and reduced taxation for business.
4. The Commission will assess measures taken by Sweden to respond to the economic downturn in line with the principles set out in the European Economic Recovery Plan as adopted by the European Council. As regards public finances, the Commission will assess the compatibility of the updated Convergence Programme with the Stability and Growth Pact.
5. Sweden has continued the implementation of its National Reform Programme. In response to the need to focus on competition, the government has commissioned an in-depth study of the causes of the lack of competition. In an effort to increase labour supply, measures have been announced to further reduce taxes and employers' contributions, and to raise the productivity and employability of people.
6. While the Swedish economy is robust and economic reform is being taken forward, further progress could be made in enhancing competition and raising employment rates among particular groups. Enhanced competition could raise productivity, growth and narrow the price gap between Sweden and the rest of the EU. Increased labour market participation from long-term unemployed, people returning from sick-leave, the young and people with a migrant background could also raise growth and further improve the sustainability of public finances. The implementation of the energy and climate change package, agreed by the European Council, will require close attention.



## UNITED KINGDOM

1. The UK economy has slowed significantly, falling from 3% GDP growth in 2007, to 0.7% in 2008, and is set to contract in 2009. The slowdown reflects the impact of the current financial crisis and a steep downturn in the housing market, which have led to a marked weakening of domestic demand with reductions in private consumption and investment. Inflation peaked at almost 4% during 2008, but is expected to fall back to a very low level in 2009. Public finances are rapidly deteriorating under the impact of the downturn and large discretionary fiscal easing. The government deficit is expected to rise to 5.7% of GDP in the financial year 2008/2009 and widen further in the next financial year. Since mid-2007, a large depreciation of the exchange rate has taken place. The current account deficit of around 2.3% of GDP in 2008 is expected to widen significantly in 2009.
2. The employment rate increased modestly in 2008, but is projected to fall as the economy contracts in 2009. Unemployment increased to around 6% in the course of 2008, and looks set to rise further in 2009. The sectors most affected by job losses are financial services and construction but the effects are likely to be felt throughout the private sector. Young people have experienced sharper increases in unemployment rates. Since the financial sector may be particularly hit, many of the job losses could be among higher skilled workers.
3. In response to the financial crises and as part of a co-ordinated EU approach, the UK has adopted financial sector support measures to stabilise the banking sector, which should also help improve access to finance and thus support the wider economy, and underpin macro-economic stability. In addition, in response to the economic downturn, the UK recently announced measures, including a reduction in VAT, financial support for SME's and advancing investment.
4. The Commission will assess measures taken by the UK to respond to the economic downturn in line with the principles set out in the European Economic Recovery Plan as adopted by the European Council. As regards public finances, the Commission will assess the compatibility of the updated Convergence Programme with the Stability and Growth Pact. Moreover, the measures recommended in paragraph 7 should be implemented swiftly, in particular to encourage the transition towards a low carbon economy and enhance long-term growth potential.
5. The UK has continued the implementation of its National Reform Programme. A number of measures have been taken to increase skills levels and further improve employment prospects for the most disadvantaged. Short-term measures have been announced to support individuals and employers to develop their skills during the downturn. In addition, there has been good progress in the implementation of R&D and innovation policy. Whilst some measures have been taken to increase the supply of housing in the medium term, it is difficult to judge whether these will be effective in the face of current market conditions.
6. Given the high indebtedness of UK households, the importance of the financial sector to the economy and the large on-going adjustment in the housing market, the UK is particularly exposed to the sharp deterioration in global financial markets conditions. Growth potential is likely to have been damaged by the financial crisis. Structural reforms have facilitated recent productivity catch up, but the UK still faces a productivity challenge. Continued reform efforts, including implementation of policies to improve skills, R&D and innovation, combined with placing the UK fiscal

position on a path of sustainable improvement in the medium term, will be key to enhance the growth potential and strengthen the resilience of the UK economy to future shocks. The implementation of the energy and climate change package, agreed by the European Council, will require close attention.

7. In light of the Commission's assessment of progress made, the Council recommends the UK to pursue the implementation of structural reforms. In particular, it is recommended that the UK:

- ensures a sustainable fiscal position in the medium-term, including through fiscal consolidation measures geared towards enhancing the quality of the public finances;
- continues to implement plans to substantially improve skill levels and establish an integrated approach to employment and skills in order to raise productivity and increase opportunities for the disadvantaged.

## EURO AREA MEMBER STATES

1. The global financial crisis has hit the euro-area hard and a recession is now underway. Financial market conditions are likely to be tighter for longer than expected. Confidence amongst households and firms has deteriorated considerably and the spreading of the crisis is having negative effects for exports of euro area countries. Inflation fell sharply in the second half of 2008 to below the ECB's reference value, and it is expected to continue to fall to around 1% in the course of 2009. Good progress was made in the consolidation of public finances in the past few years, but budget deficits and debt are now set to increase reflecting the economic downturn and the public finance impact of the financial rescue packages.
2. Labour market developments withstood the economic slowdown relatively well until recently also thanks to past labour market reforms, but will be negatively affected in the near future with unemployment forecast to rise some 2½-3 percentage points by 2010. While some countries are being more hit than others, no euro-area Member State is expected to come out unscathed.
3. In response to the financial crisis, and as part of a co-ordinated EU approach, many euro area Member States have adopted financial sector support measures to stabilise their banking sectors, which should also help improve access to finances and thus support the wider economy, and underpin macro-economic stability. Forceful implementation of such national rescue schemes is key to safeguarding financial stability, restore the normal functioning of wholesale credit markets and underpin credit availability for businesses and households. In addition, given the area-wide nature of the shocks, the significant risks attached to a stronger contraction of economic activity and the rapidly falling inflation, macroeconomic policies have been eased to support demand. The ECB cut its main refinancing rate considerably, thereby supporting non-inflationary growth and contributing to financial stability. Fiscal policy has a special role to play at the current juncture given that the impaired interbank market reduces the effectiveness of monetary policy.
4. The Commission will assess measures taken by euro-area Member States to respond to the economic downturn in line with the principles set out in the European Economic Recovery Plan as adopted by the European Council. As regards public finances, the Commission will assess the compatibility of euro-area Member States' updated Stability Programmes with the Stability and Growth Pact. Moreover, the measures recommended in paragraph 7 should be implemented swiftly, in particular to encourage the transition towards a low carbon economy and enhance long-term growth potential.
5. The euro-area Member States' have continued with the implementation of reforms that respond to the euro area recommendations and the euro area dimension is reflected, albeit to differing degrees in overall reform strategies as announced in their National Reform Programmes. The fragile economic situation underlines the need to tackle remaining structural weaknesses also on product and labour markets, which are essential for adjustment in a monetary union.
6. The euro-area Member States' growth potential depends crucially on stepping up reforms facilitating labour market transitions and improving competition in service sectors. In addition, especially in economies with large external imbalances, labour cost developments should take account of intra-area competitiveness positions.

7. In light of the Commission's assessment of progress, the Council recommends euro area Member States to pursue the implementation of structural reforms. In particular, it is recommended that euro area Member States:
- Ensure timely and consistent implementation of all pending and new EU financial services legislation and take measures to deepen cooperation among national authorities in the fields of crisis prevention, management and resolution.
  - Following the fiscal stimulus injected during the current economic crisis, euro area member states should take appropriate measures to secure the sustainability of their public finances. Where appropriate address macroeconomic imbalances, contain persistent inflation divergences or trends of unbalanced growth.
  - Strive to improve the quality of public finances by reviewing public expenditures and taxation and by modernising public administration, with the intention to enhance productivity and innovation, thereby contributing to economic growth, employment and fiscal sustainability underpinned by a dynamic and competitive single market.
  - vigorously implement the EU Common Principles of Flexicurity in accordance with the specific circumstances of each Member State and fully compatible with sound and financially sustainable public budgets; and enact measures to promote labour mobility across borders, regions, sectors and occupations; better align wage growth with productivity growth at the aggregate, sector, regional and occupational level.
8. To maximise policy synergies, which are stronger in a monetary union, and enhance political ownership of reforms, euro-area Member States should continue to strengthen policy coordination in the context of the Eurogroup, to enhance the effectiveness of the expansionary measures, implement the agreed monitoring of competitiveness developments, and pursue consistent positions in international fora. Existing agreements for the external representation of the euro area should be fully implemented.