

**COUNCIL RECOMMENDATION**  
**of 14 October 2004**  
**on the implementation of Member States' employment policies**  
(2004/741/EC)

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to the Commission recommendation,

Having regard to the opinion of the Employment Committee,

Whereas:

- (1) The European Employment Strategy has the leading role in the implementation of the employment and labour market objectives of the Lisbon strategy. The successful implementation of the Lisbon agenda calls for the employment policies of Member States to foster, in a balanced manner, the three complementary and mutually supportive objectives of full employment, quality and productivity at work, and social cohesion and inclusion. The achievement of these objectives requires further structural reforms concentrating on 10 key specific priorities and improved governance.
- (2) The reform of the European Employment Strategy in 2003 has placed the emphasis on medium-term orientation and on the importance of implementation of the full range of policies recommended in the Employment Guidelines. The Employment Guidelines should therefore be fully reviewed only every three years, while in the intermediate years their updating should remain strictly limited.
- (3) The Council adopted without change the Guidelines for the employment policies of the Member States in 2004 by Decision 2004/740/EC<sup>(1)</sup>.
- (4) The Council adopted a recommendation on the implementation of Member States' employment policies on 22 July 2003<sup>(2)</sup>. The examination of the Member States'

National Action Plans for employment contained in the Joint Employment Report 2003-2004 shows that Member States and the social partners have given limited responses to these Council recommendations.

- (5) The European Employment Taskforce recommended that the EU should address more forceful recommendations to the Member States. Priority should be given to increasing adaptability of workers and enterprises; attracting more people to enter and remain on the labour market, making work a real option for all; investing more and more effectively in human capital and lifelong learning; and ensuring effective implementation of reforms through better governance. The Council and the Commission share this assessment and have integrated the policy messages of the Employment Taskforce report in the Joint Employment Report.
- (6) The analysis of the implementation of the Guidelines and 2003 Council recommendations in the Joint Employment Report and the general and country-specific policy messages in the Employment Taskforce report provide the basis for the formulation of the EU recommendations for national employment policies in 2004.
- (7) The Employment Guidelines apply to the new Member States since accession. All of the new Member States have reported over the last few years on the implementation of Joint Assessment Papers (JAP) which refer to the Employment Guidelines. To successfully pursue the ongoing restructuring of their economies, most new Member States, together with the social partners, need to further develop their efforts to modernise their employment policies. A new balance between flexibility and security, increased participation in employment and investment in human capital through lifelong learning are essential, as is the need to improve the health of the workforce. Social partnership, and significant improvements in the administrative capacity of public authorities are still crucial in most new Member States to achieve full implementation and efficient use of European Social Fund support, a major tool for investing in human capital and lifelong learning.
- (8) The country-specific messages contained in the report of the European Employment Taskforce are fully consistent with the examination of the JAP implementation reports, and may serve as guidance for the implementation of the Employment Guidelines in the new Member States,

<sup>(1)</sup> See page 45 of this Official Journal.

<sup>(2)</sup> OJ L 197, 5.8.2003, p. 22.

HEREBY RECOMMENDS that the Member States should take the actions specifically referring to them, which are set out in the Annex. This recommendation replaces the Council Recommendation of 22 July 2003.

Done at Luxembourg, 14 October 2004.

*For the Council*

*The President*

P. VAN GEEL

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## ANNEX

**COUNTRY SPECIFIC RECOMMENDATIONS AND PRIORITIES**

Delivering more and better jobs is the most urgent issue to be addressed. In the context of an overall employment strategy, the Spring European Council stressed that Member States should give urgent attention to four particular challenges: adaptability, attracting more people into the labour market, improving the quality of employment and investing in human capital. The European Council also emphasised that support and advocacy for change must reach beyond governments. In order to generate this support, the European Council called on Member States to build Reform Partnerships involving the social partners, civil society and the public authorities, in accordance with national arrangements and traditions.

The Employment, Social Policy, Health and Consumer Affairs Council's Key Messages, endorsing the assessment of the Employment Taskforce and the analysis in the Joint Employment Report of the implementation of the Guidelines and 2003 Council recommendations, show that all Member States and the social partners should give immediate priority to:

- increasing adaptability of workers and enterprises, *inter alia*, by promoting flexibility combined with security in the labour market; by modernising and broadening the concept of job security; by maximising job creation and raising productivity,
- attracting more people to enter and remain on the labour market: making work a real option for all, *inter alia*, by building comprehensive active ageing strategies; by further developing policies to increase labour market participation; by strengthening active labour market policies, with personalised services to all those seeking employment; by pursuing 'make work pay' policies through both financial and non-financial incentives,
- Investing more and more effectively in human capital and lifelong learning, *inter alia*, by sharing costs and responsibilities between public authorities, companies and individuals; by broadening the supply of training, in particular for those most in need such as the low-skilled and older workers, and
- Ensuring effective implementation of reforms through better governance, *inter alia*, by building reform partnerships to mobilise the support and participation of the social partners and various stakeholders; where appropriate, by defining targets to reflect those set at a European level, and ensuring effective use of public funds; by promoting the role of National Action Plans and increasing their visibility; by strengthening the role of the country-specific recommendations and developing more effective mutual learning.

Within this framework, the country specific recommendations and priorities are set out as follows:

**COUNTRY SPECIFIC RECOMMENDATIONS****BELGIUM**

Despite positive trends since 1997, the employment rate in Belgium remains markedly below the EU average and far below the Lisbon targets. The employment rate for older workers is amongst the lowest in EU25. The employment rate of non-nationals is strikingly low. After several years of steady decline, unemployment has started to rise. Participation of adults in education and training is stagnating.

The assessment of the Employment Taskforce and the analysis in the Joint Employment Report of the implementation of the EU guidelines and 2003 Council recommendations show that Belgium should give immediate priority to:

**Increasing adaptability of workers and enterprises**

- better anticipate and accompany restructuring of enterprises, in particular in the case of collective redundancies,
- further reduce non-wage labour costs, in particular for the low-paid while safeguarding budgetary consolidation,
- improve cooperation between regional employment services to support mobility between regions.

Attracting more people to the labour market and making work a real option for all

- review tax and benefit systems to remove subsisting unemployment traps and provide adequate incentives for active job search by reviewing the conditionality of benefits,
- increase the coverage of unemployed adults, disadvantaged young people and immigrants in the measures run by the employment services,
- define a comprehensive strategy for active ageing, access to continuing training, the promotion of a flexible working environment and effective job search for older unemployed workers, including determination in reducing early retirement schemes.

Investing more and more effectively in human capital and lifelong learning

- take action to reduce early school leaving,
- monitor recent inter-professional agreements to raise worker participation in training, with special attention for the low-skilled.

#### DENMARK

Denmark has employment rates well above the Lisbon employment targets, including for women and older workers. Despite recent increases, particularly hitting graduates and worsening the long-term unemployment, unemployment remains relatively low. Given the high employment rates, a key priority for Denmark is to ensure adequate labour supply in the longer term.

The assessment of the Employment Taskforce and the analysis in the Joint Employment Report of the implementation of the EU guidelines and 2003 Council recommendations show that Denmark should give immediate priority to:

Increasing adaptability of workers and enterprises

- further reduce the overall fiscal pressure on labour safeguarding budgetary consolidation.

Attracting more people to the labour market and making work a real option for all

- pursue a comprehensive strategy for active ageing, including the removal of incentives for early retirement where appropriate,
- review tax and benefit systems to reduce marginal tax rates and raise incentives for low-income groups to work, including the unemployed and the inactive,
- monitor the impact of recent reforms to integrate immigrants into the labour market, in particular of efforts to build up the necessary basic skills required to match job requirements.

Investing more and more effectively in human capital and lifelong learning

- monitor trends in vocational training in the light of recent increases in training fees

#### GERMANY

The German employment rate is above the EU average but still far below the Lisbon targets. The employment rate for older workers is lagging behind. The employment rate for women exceeds the EU average but is stagnating. While performance varies across regions, overall, the German labour market has benefited from the years of economic growth in the EU between 1997 and 2000. In subsequent years, employment has been on the decline and unemployment has increased. Unemployment and especially long-term unemployment remain among the highest in the EU. Substantial regional disparities between the eastern and western parts of the country persist.

The assessment of the Employment Taskforce and the analysis in the Joint Employment Report of the implementation of the EU guidelines and 2003 Council recommendations show that Germany should give immediate priority to:

#### Increasing adaptability of workers and enterprises

- review the financing of the social protection systems to reduce non wage labour costs while safeguarding budgetary consolidation,
- encourage the social partners to take responsibility for steadily reflecting local, regional and sectoral differences in productivity and labour market conditions in wage setting, and to aim at further progress in working time flexibility and the provision of training facilities, for example through training accounts (see Broad guidelines of the economic policies of the Member States and of the Community (BEPG) guideline 5),
- promote the development of SMEs, notably through simpler regulation and better access to financing; strengthen the entrepreneurial culture, especially in the Eastern part of the country.

#### Attracting more people to the labour market and making work a real option for all

- continue reform of the tax and social benefit system, thereby ensuring sufficient incentives to take up work; closely monitor and evaluate the Hartz and other labour market reforms, to ensure a continuous improvement of the public employment services' efficiency in supporting the unemployed,
- review possible tax disincentives to female participation in the labour market; increase childcare facilities, especially in the Western Länder, and improve the correspondence between school schedules and working hours; encourage social partners to take their responsibility to considerably reduce the gender pay gap,
- further develop a comprehensive strategy for active ageing to ensure that people stay in work longer, especially after the age of 60; further encourage part-time work for men and increase access to training for older workers,
- strengthen efforts to integrate immigrants.

#### Investing more and more effectively in human capital and lifelong learning

- improve education levels of the workforce and strengthen incentives to increase participation in lifelong learning, especially for the low-skilled, SME employees and older workers,
- continue the modernisation of the dual system; reduce early school leaving.

#### GREECE

Although job creation has increased recently, Greece still has one of the lowest employment rates in the EU, particularly for women, and declining but high unemployment. Undeclared work is substantial. Labour productivity has risen significantly but remains at low levels. Adult participation in training also remains particularly low, especially given the low educational attainment of the working-age population. In recent years, increased immigration has contributed to labour supply.

The assessment of the Employment Taskforce and the analysis in the Joint Employment Report of the implementation of the EU guidelines and 2003 Council recommendations show that Greece should give immediate priority to:

#### Increasing adaptability of workers and enterprises

- implement fully the agreed labour market reform package; further raise the attractiveness of part-time work and develop temporary work agencies to increase the diversity of work arrangements,
- reduce non-wage labour cost safeguarding budgetary consolidation; do more to transform undeclared work into regular employment by improving the attractiveness of standard and non-standard contracts to employers and employees and strengthening law enforcement capacity,
- promote a more employment-friendly business environment.

Attracting more people to the labour market and making work a real option for all

- take stronger action to increase the level and effectiveness of active labour market policies so as to cover a larger share of the inactive and the unemployed,
- speed up the development of efficient employment services throughout the country offering preventative and personalised services; upgrade the statistical monitoring systems,
- further raise incentives for women to participate in the labour market, including through part-time employment; increase the availability and affordability of care facilities for children and other dependants,
- define a comprehensive strategy for active ageing providing flexible working arrangements, incentives to encourage older workers to remain longer in employment and support for skills development.

Investing more and more effectively in human capital and lifelong learning

- reduce early school leaving and strengthen the labour market relevance of tertiary education,
- review incentives to promote life-long learning and increase participation in training, in particular for the low-skilled and for immigrants.

SPAIN

Between 1997 and 2002, Spain had the highest increase in employment rates and the highest reduction in unemployment rates among the Member States. However, unemployment remains well above the EU average, while the employment rate remains well below. With wide differences in performances across regions, addressing regional disparities remains a priority. Female participation and the employment rate of older workers remain particularly low. Moreover, a particularly high share of people (about a third of all workers) is still employed under fixed-term contracts. Labour productivity remains at low levels. Overall levels of educational attainment and participation of adults in training remain particularly low. In recent years, increased immigration has contributed to labour supply.

The assessment of the Employment Taskforce and the analysis in the Joint Employment Report of the implementation of the EU guidelines and 2003 Council recommendations show that Spain should give immediate priority to:

Increasing adaptability of workers and enterprises

- promote modernisation of work organisation to strengthen productivity and quality at work,
- revise the regulatory framework to make permanent contracts more attractive for employers and to discourage the use of fixed-term contracts so as to counter the segmentation of the labour market; increase the attractiveness of temporary agency work for workers; remove obstacles to part-time work,
- use possibilities of wage differentiation according to productivity developments at local, regional and sectoral levels (see BEPG guideline 5).

Attracting more people to the labour market and making work a real option for all

- raise incentives for women to participate in the labour market; increase the availability and affordability of care facilities for children and other dependants,
- ensure greater access to and efficiency of active labour market measures for disadvantaged people, in particular young people, disabled people, immigrants and long-term unemployed; complete the modernisation of the public employment services, including the statistical monitoring system; strengthen the coordination between regional employment services; and address remaining obstacles to geographical mobility,
- define a comprehensive strategy for active ageing providing flexible working arrangements, incentives to encourage older workers to remain longer in employment and training.

Investing more and more effectively in human capital and lifelong learning

- reduce early school leaving and ensure quality and labour-market relevance of tertiary education,
- strengthen incentives for lifelong learning to increase participation, in particular for the low-skilled.

## FRANCE

In France, the overall employment rate is below the EU average. The employment rate for older workers (55-64) is one of the lowest in the EU. Unemployment fell significantly between 1997 and 2000 but has risen again with the economic slowdown. Unemployment remains among the highest in the EU and it is particularly high for young people (15-24). The employment rate of non-nationals is strikingly low, notably for women. The share of fixed-term contracts continues to exceed the EU-15 average, whereas participation of adults in education and training remains just below average.

The assessment of the Employment Taskforce and the analysis in the Joint Employment Report of the implementation of the EU guidelines and 2003 Council recommendations shows that France should give immediate priority to:

## Increasing adaptability of workers and enterprises

- facilitate the transition of people employed under fixed-term contracts into permanent contracts to avoid segmentation of the labour market and increase opportunities to remain and progress in the labour market,
- develop a more effective system of anticipation and management of restructuring,
- promote a business-friendly environment for the development of SMEs and monitor progress in increasing number of business start-ups.

## Attracting more people to the labour market and making work a real option for all

- monitor the impact of the pension reform on the exit age and develop a comprehensive strategy for active ageing to retain older workers longer in employment by adapting working conditions, greater access to training and determination in reducing early retirement schemes,
- improve coordination of employment services to strengthen the provision of individualised services; build effective pathways to work and training for unemployed young people and for immigrants, notably women,
- ensure proper evaluation of the recent reform of the unemployment insurance system and ensure that it is accompanied by appropriate requirements and effective job search.

## Investing more and more effectively in human capital and lifelong learning

- ensure that the social partners' agreement on vocational training and the law on training throughout the working life result in an increased share of the population participating in training, giving particular attention to the low-skilled and workers in SMEs,
- reduce early school leaving; facilitate and encourage wider and easier access to apprenticeships.

## IRELAND

Ireland has made impressive progress in terms of employment and productivity performances since 1997. The total employment rate has increased from 56,1 % to 65,3 % while unemployment has fallen by nearly two-thirds and long-term unemployment from 5,6 % to 1,3 %. Female participation in the labour force has improved, but there is still a significant gap between employment rates for women and men, as well as a high gender pay gap. Labour shortages remain a problem although they are eased by increased immigration. A significant element in Ireland's success is its capacity to attract foreign direct investment. Social partnership, its tax system, a good regulatory environment and investment in human capital are also major factors.

The assessment of the Employment Taskforce and the analysis in the Joint Employment Report of the implementation of the EU guidelines and 2003 Council Recommendations shows that Ireland should give immediate priority to:

## Attracting more people to the labour market and making work a real option for all

- increase access to active labour market measures for a larger share of the unemployed and inactive population and ensure their effectiveness,
- increase the supply and affordability of childcare facilities and take urgent action to tackle the causes of the gender pay gap.

Investing more and more effectively in human capital and lifelong learning

- implement a coherent lifelong learning strategy to reduce early school leaving and increase participation in training, especially for the low-skilled and for older workers.

ITALY

Despite weak economic conditions employment growth still continues to be positive and confirms the improvements since 1997. However, the employment rate continues to be one of the lowest in the EU. Female participation and the employment rate of older workers also remain among the lowest in EU25. Unemployment decreased over the recent period, but still stands above the EU15 average. With unemployment at about 5% in the centre-north, compared to 18% in the south, addressing regional disparities is a priority. Undeclared work still remains particularly significant, even if the employment situation of 700 000 immigrants has been regularised. Overall levels of educational attainment and participation in training remain particularly low.

The assessment of the Employment Taskforce and the analysis in the Joint Employment Report of the implementation of the EU guidelines and 2003 Council recommendations show that Italy should give immediate priority to:

Increasing adaptability of workers and enterprises

- closely monitor the regulatory reforms aimed at reducing the imbalances between permanent and non-permanent contracts and labour market segmentation; improve the level, coverage and effectiveness of unemployment insurance,
- pursue further reductions of non-wage labour costs, especially for the low-paid, safeguarding budgetary consolidation; do more to transform undeclared work into regular employment by removing tax disincentives and improving law enforcement capacity,
- encourage the Social Partners to review wage bargaining systems to take account of regional labour market differences (see BEPG guideline 5).

Attracting more people to the labour market and making work a real option for all

- ensure the development, together with regional authorities, of effective employment services throughout the country and implement partnership between public and private operators; increase access to efficient personalised services and participation in active labour market schemes, especially in the South; give particular attention to the situation of the young, the disadvantaged and the low-skilled; implement a nationwide computerised labour market data system without any further delay,
- increase the availability and affordability of care facilities for children, especially under three years of age, and other dependants to promote female participation in the labour market, including through part time work,
- develop the designed active ageing strategy, and ensure that the envisaged reforms provide adequate incentives to keep workers longer in employment and discouraging early retirement.

Investing more and more effectively in human capital and lifelong learning

- monitor recent reforms to ensure that they raise educational attainment of the workforce, reduce early school-leaving and increase the labour market relevance of tertiary education to aid the transition to work,
- ensure effective incentives for lifelong learning and, together with the Social Partners, increase participation in training, in particular for the low skilled, through, *inter alia*, the effective development of inter-professional funds.

LUXEMBOURG

In Luxembourg, the employment rate is close to the EU average but still below the EU target. Unemployment remains low and the long-term unemployment rate is one of the lowest in the EU.

However, the economic boom of the late 1990s has not led to increased employment rates across the board. New jobs were notably taken up by cross-border workers and women, while employment of older workers remained at a very low level. Participation in education and training remains below the EU15 average.



The assessment of the Employment Taskforce and the analysis in the Joint Employment Report of the implementation of the EU guidelines and 2003 Council recommendations shows that Luxembourg should give immediate priority to:

Increasing adaptability of workers and enterprises

- support the development of start-ups and promote business training with a view to encouraging alternative sources of job creation.

Attracting more people to the labour market and making work a real option for all

- develop a comprehensive strategy for active ageing, notably in the private sector and strengthen recent initiatives to retain workers longer in employment by determination in reducing early retirement schemes,
- promote work-oriented solutions for people covered by the disability scheme who are able to work,
- improve services to facilitate a better reconciliation of work and private life, and encourage women to return to work after long periods outside the labour market; take action to tackle the causes of the gender pay gap.

Investing more and more effectively in human capital and lifelong learning

- ensure effective implementation of the framework law on continuing training with a view to strengthening incentives for lifelong learning and increasing participation in training, notably for the low-skilled,
- revise the overall lifelong learning system to achieve better coherence between the education and training systems and reduce early school leaving.

#### THE NETHERLANDS

While the employment rates for women and men well exceed the Lisbon targets, the employment rate of immigrants remains low. The labour market is characterised by an exceptionally high level of part-time work (about 44 % of the workforce), and a high number of people on disability benefits. The employment rate of older workers exceeds the EU average but is still far below the EU target.

Unemployment has risen significantly since 2001, although it remains among the lowest in the EU. In the autumn of 2003 the government and the social partners have signed an agreement which, among other things, includes a freeze in the development of wages in 2004 and 2005.

The assessment of the Employment Taskforce and the analysis in the Joint Employment Report of the implementation of the EU guidelines and 2003 Council recommendations shows that the Netherlands should give immediate priority to:

Increasing adaptability of workers and enterprises

- implement and closely monitor wage developments in line with the 'Autumn Agreement' between the government and the social partners (see BEPG guideline 5).

Attracting more people to the labour market and making work a real option for all

- carry out systematic work ability screenings of the people on disability benefits and assist those, who are able to work, to prepare for and find a suitable job; pay special attention to over-represented groups in the disability scheme such as women under the age of 40,
- reinforce the preventative approach for adults; increase effectiveness of and access to active measures for social benefit recipients and those with the greatest risk of inactivity; facilitate the integration of immigrants,
- combine the removal of early retirement schemes with incentives to retain workers longer in work and training, in particular for under-skilled older workers,
- facilitate transition from part-time to full-time jobs; take urgent action to tackle the causes of gender pay gaps; increase the affordability of childcare.

Investing more and more effectively in human capital and lifelong learning

- take action to reduce early school leaving; strengthen incentives to develop lifelong learning and increase participation in training, especially for the low-skilled and the inactive.

AUSTRIA

Austria has achieved a high employment rate overall, and a relatively high employment rate for women, in line with the Lisbon targets. Unemployment is amongst the lowest in the EU. Social partnership plays an important role for modernising work organisation, improving labour legislation and ensuring satisfactory wage developments. The employment rate of older workers, however, is particularly low. Employment growth has slowed down and unemployment has started to rise. Participation of adults in education and training is below the EU average. The gender pay gap remains one of the highest in the EU.

The assessment of the Employment Taskforce and the analysis in the Joint Employment Report of the implementation of the EU guidelines and 2003 Council Recommendations show that Austria should give immediate priority to:

Increasing adaptability of workers and enterprises

- monitor and if necessary complement reforms on severance pay legislation and progress on the planned implementation of entitlement to unemployment benefit for the self-employed to increase levels of occupational mobility.

Attracting more people to the labour market and making work a real option for all

- develop a comprehensive strategy for active ageing, including the removal of early retirement schemes, broadening the incentives to retain older workers longer in employment, notably older women; monitor the impact of the revision of the pension system on the effective exit age and progress towards the national targets,
- take action to tackle the causes of the gender pay gap; increase the availability and affordability of childcare facilities and evaluate the impact of the present childcare allowance scheme on the level and quality of female employment.

Investing more and more effectively in human capital and lifelong learning

- review incentives to increase participation in training, especially for the low-skilled and for immigrants.

PORTUGAL

Portugal is close to achieving the Lisbon target on overall employment and slightly exceeds the employment targets for women and older workers. The recent economic slowdown has led unemployment to rise, although it remains at a relatively low level in comparison to the EU. Levels of productivity, overall levels of educational attainment and access to training remain particularly low. Moreover, a significant share of people (more than 20%) is employed under fixed-term contracts. In recent years, increased immigration has contributed to labour supply.

The assessment of the Employment Taskforce and the analysis in the Joint Employment Report of the implementation of the EU guidelines and 2003 Council recommendations show that Portugal should give immediate priority to:

Increasing adaptability of workers and enterprises

- promote modernisation of work organisation to strengthen productivity and quality at work,
- building on the new Labour Code, make permanent contracts more attractive to employers as well as employees, and counter the segmentation of the labour market,
- develop a more effective system of anticipation and management of restructuring.

Attracting more people to the labour market and making work a real option for all

- strengthen active labour market measures for the unemployed and the inactive and ensure their efficiency; strengthen efforts to integrate immigrants,
- take action to tackle the causes of the gender pay gap in the private sector and increase the availability and affordability of care facilities for children and other dependants;

- develop a comprehensive active ageing strategy, including removing incentives for early retirement, increasing access to training and providing appropriate working environments.

Investing more and more effectively in human capital and lifelong learning

- ensure that the national strategy for lifelong learning effectively results in raising the educational attainment of the whole workforce, in strengthening the incentives for lifelong learning and in increasing participation in training, in particular for the low-skilled,
- reduce early school leaving and strengthen the labour market relevance of tertiary education.

#### FINLAND

Finland is close to the overall employment rate target and it exceeds the employment rate target for women. It has achieved a high increase in the participation of older workers over the last decade, coming close to the EU target for older workers. The unemployment rate is above the EU average, and is particularly high for young people.

The assessment of the Employment Taskforce and the analysis in the Joint Employment Report of the implementation of the EU guidelines and 2003 Council Recommendations shows that Finland should give immediate priority to:

Increasing adaptability of workers and enterprises

- reduce non-wage labour costs on the low-paid while maintaining sound public finances.

Attracting more people to the labour market and making work a real option for all

- monitor the impact of recent reforms of active labour market policies on structural unemployment and regional disparities; take special measures to facilitate the activation and integration of disadvantaged young people, disabled people and immigrants,
- further reform tax and benefit systems to remove unemployment traps,
- follow-up the national strategy for active ageing by improving working conditions, incentives and the provision of training for the low-skilled and older workers.

Investing more and more effectively in human capital and lifelong learning

- take action to reduce early school leaving and increase training for the low-skilled.

#### SWEDEN

Sweden exceeds all EU employment targets including those for women and for older workers. The total unemployment rate stands at about 5%. Efforts should be maintained to avoid labour supply constraints. In view of the ageing population, there will be a need to sustain labour supply by exploiting potential sources of labour among immigrants, the young and the long-term sick, and by improving incentives to work.

The assessment of the Employment Taskforce and the analysis in the Joint Employment Report of the implementation of the EU guidelines and 2003 Council Recommendations show that Sweden should give immediate priority to:

Increasing adaptability of workers and enterprises

- facilitate the development of SMEs in particular by reducing administrative burdens.

Attracting more people to the labour market and making work a real option for all

- address the rising number of people on long-term sick leave by promoting work-oriented solutions and improving conditions of work,
- eliminate remaining unemployment and inactivity traps,
- closely monitor the results of actions to integrate immigrants into the labour force.

Investing more and more effectively in human capital and lifelong learning

- reduce early school-leaving and increase access to training for the low-skilled and the inactive; address the issue of emerging bottlenecks and skills mismatches in low- and medium-skilled sectors.

UNITED KINGDOM

The UK exceeds all the employment rate targets, including those for women and for older workers. Despite the slowdown in the global economy, employment rates have remained fairly stable and unemployment levels are well below the EU average. However, concentrations of economic inactivity, and to a lesser extent unemployment, persist in certain communities and amongst particular groups. Productivity levels, especially as expressed per hour worked, remain comparatively low. This is in part due to the prevalence of low skills amongst the workforce, including insufficient basic skills. The gender pay gap remains one of the largest in the EU.

The assessment of the Employment Taskforce and the analysis in the Joint Employment Report of the implementation of the EU guidelines and 2003 Council Recommendations shows that the United Kingdom should give immediate priority to:

Increasing adaptability of worker and enterprises

- ensure that wage developments do not exceed productivity developments (see BEPG guideline 3).

Attracting more people to the labour market and making work a real option for all

- ensure that active labour market policies and benefit systems prevent de-skilling and promote quality in work, by improving incentives to work and supporting the sustainable integration and progress in the labour market of inactive and unemployed people; address the rising number of people claiming sickness or disability benefits, and give particular attention to lone parents and people living in deprived areas,
- improve the access to and affordability of childcare and care for other dependants, increase access to training for low paid women in part-time work, and take urgent action to tackle the causes of the gender pay gap.

Investing more and more effectively in human capital and lifelong learning

- implement national and regional skills strategies to provide better incentives for lifelong learning and thereby increase productivity and quality in work; place particular emphasis on improving literacy and numeracy of the workforce, the participation and achievement of 16-19 year olds, and low-skilled workers, especially those in poorly paid jobs.

#### PRIORITIES FOR NEW MEMBER STATES

CYPRUS

The employment rate in Cyprus is well above the EU15 average and unemployment rate is low. The share of foreign workers, who are often employed on a temporary basis, has increased significantly over the years in response to labour market needs.

Increasing adaptability of workers and enterprises

- A particular challenge for Cyprus is to raise innovation capacities and to diversify the service sector.

Attracting more people to the labour market and making work a real option for all

- While female participation stands above the EU average, more can be done to bridge gender gaps. Measures should include improving care facilities, increasing the participation of women in training, and raising the attractiveness of part-time work.
- Foreign workers who come to Cyprus on a temporary basis constitute a large number of the working population. There is therefore a case for a review of policies in relation to the employment of foreign workers, both in terms of their contribution to labour market flexibility and of rights and opportunities for immigrant workers.
- Preventive and active labour market measures should be strengthened to address individual needs and cover a larger share of unemployed and disabled people, ageing job-seekers and women. Strengthening and modernising the public employment services is also a priority.

Investing more and more effectively in human capital and lifelong learning

- Building on the reorganisation of education underway since 2000, Cyprus needs to develop a comprehensive national strategy for lifelong learning. This should contribute to reducing school drop-outs, improving the links between initial education and continuing training and to ensuring greater participation in training.

CZECH REPUBLIC

The employment rate in the Czech Republic is slightly above the EU15 average. Unemployment is around the EU15 average but has been slowly increasing since the mid-1990s. The employment rate of older workers is close to the EU average but low, particularly for women, given the early statutory retirement age. Regional imbalances are important.

Increasing adaptability of workers and enterprises

- In pursuing its strategy for economic and employment growth, the Czech Republic needs to ensure that wage developments remain in line with productivity developments.
- The relatively high tax wedge on labour income and non-wage labour costs hinders job creation and prices low-skilled labour out of the labour market and into welfare benefits and/or into undeclared work. A coherent reform of the tax and benefit system should therefore further discourage welfare dependency and ensure that regular work pays.

Attracting more people to the labour market and making work a real option for all

- While standing above the EU average, raising the participation of women and older workers should be a priority. In this respect, strengthening incentives to part-time work could make an important contribution.
- More efforts are needed to integrate the most vulnerable groups in the labour market. This is particularly needed in regions other than Prague and for the Roma population. This calls for preventive and active labour market measures, combined with anti-discrimination measures, putting a strong emphasis on education, training, support to entrepreneurship and job creation. Modernising the public employment services should be seen as priority.

Investing more and more effectively in human capital and lifelong learning

- Building on the recent strategy for human resources development, raising participation in tertiary education and in training, both overall and for the low-skilled, seem crucial to sustain job creation and support occupational and geographic mobility.

ESTONIA

The employment rate in Estonia is a little below the EU15 average. The unemployment rate has decreased over the years but remains higher than the EU average. Moreover, the share of long-term unemployed is high. Estonia is expected to be most affected by the decline in the working-age population resulting from demographic change.

Increasing adaptability of workers and enterprises

- Reducing the tax wedge on labour, especially on lower wage earners, and promoting contractual and working time diversity could contribute to creating more job opportunities. This should go hand-in-hand with efforts to improve the tax systems and to transform undeclared work into regular jobs. It is also important that wage developments remain in line with productivity developments.

Attracting more people to the labour market and making work a real option for all

- In the light of the rapid decline of its working age population, Estonia should seek to reduce levels of inactivity and to maintain and attract more people in the labour market. It remains essential for Estonia to raise further the participation of women, older workers and the low-skilled.
- To complement to the recent Unemployment Insurance Act, it would seem important to strengthen active labour market measure so as to support active job search, provide greater access to training for the unemployed and ensure that the labour market becomes more inclusive. Public employment services should also benefit from increased resources. Disadvantaged people, such as the long-term unemployed, young people, disabled and older job-seekers, need special attention. Belonging to an ethnic minority and lack of knowledge of the national language are particular risk factors.

Investing more and more effectively in human capital and lifelong learning

- Bearing in mind the risk of mismatches, Estonia should be encouraged to improve access to training for all employees, especially for the low-skilled. Reducing school-drop outs and ensuring quality of education and training is a particular challenge. Building a system of lifelong learning has to be put clearly on the agenda.

HUNGARY

The employment rate in Hungary is low, particularly for the low-skilled, the disadvantaged, women and for older workers. At the same time, unemployment remains well below the EU15 average. This is explained by a low participation rate, i.e. a large inactive population of working age. There are major labour market imbalances between the central and western regions, where the 'modern economy' is concentrated, and the rest of the country. Regional and sectoral mobility is low, while skills bottlenecks reflect both a lack of skilled labour and the insufficient responsiveness of education and training systems to labour market needs.

Increasing adaptability of workers and enterprises

- The tax wedge on labour remains high and represents an obstacle to job creation and a factor likely to contribute to undeclared work. Moreover, given the slowdown in economic growth, further efforts are required to ensure, together with the social partners, more employment-friendly wage developments. These are driven by the more competitive part of the economy and therefore not necessarily conducive to strengthening the job creation capacity of its weaker parts.

Attracting more people to the labour market and making work a real option for all

- The health situation of workers is an issue of concern, which may partially explain low activity. To this end, there is a need for a policy to promote better working conditions, and improving preventive and curative healthcare. Reforms of the social benefit systems, including sickness benefits, should be pursued with the view to make work pay and to reduce undeclared work.
- This should be accompanied by the development of more flexible and family-friendly working arrangements, including more attractive part-time work, in particular for women and older workers. Strengthening preventive and active labour market measures for the unemployed and the inactive is also necessary, especially in the most disadvantaged regions. This calls for modern public employment services, so as to support occupational and geographic mobility. Building on the Integration Strategy, efforts are needed to improve the labour market prospects of the Roma population.

Investing more and more effectively in human capital and lifelong learning

- Efforts to develop lifelong learning strategies should be pursued and should encompass measures to reduce school drop-outs, to promote equal access to university education and to broaden access to training, in particular for the low-skilled and disadvantaged. It is important to improve the efficiency of the education system, and increase its flexibility in order to better adapt to the skills needs of the labour market.

LITHUANIA

The employment rate in Lithuania has risen slightly recently but remains well below the EU15 average. The unemployment rate has decreased significantly but is still well above the EU average.

Increasing adaptability of workers and enterprises

- The still comparatively low share of employment in services is a challenge. Although efforts have been made to alleviate the tax burden, there is still a high tax wedge on the low-paid, which hampers job creation. Social partners have a particular role to play in anticipating and accompanying restructuring.

Attracting more people to the labour market and making work a real option for all

- Building on the reform of social assistance and further efforts to make work pay, it seems important to strengthen active labour market policies to help unemployed or inactive people move back into employment. Greater access to training, support for job search, occupational mobility, and the modernisation of the public employment services are key priorities.
- Although the participation of women and older workers is comparatively high compared to the EU average, removing obstacles to part-time work could contribute to raising levels further.

Investing more and more effectively in human capital and lifelong learning

- Serious efforts are needed to develop lifelong learning, and in particular to further modernise the education system, reduce school drop-outs and increase participation in training, in particular for the low-skilled. The participation of employers in training, including their contribution to the continuing vocational training of employees is low.

LATVIA

Supported by strong economic growth, employment in Latvia has increased quite strongly over the last two years. However, the overall employment rate stands below the EU15 average. Unemployment remains above the EU15 average with wide regional variations. At the same time, labour and skill shortages exist in Riga.

Increasing adaptability of workers and enterprises

- To achieve higher job creation, it is important to support the development of the services, especially in disadvantaged regions and to address the issue of undeclared work. The size of undeclared work reduces social security contributions and leads to a high tax burden on labour.

Attracting more people to the labour market and making work a real option for all

- The combination of the minimum wage and of the tax and benefit systems should be made sufficiently attractive for people to take up a job in the formal economy. Particular attention needs to be paid to ensuring that women are encouraged to stay in the labour market.
- This also requires greater efforts to develop active and preventive policies for the unemployed, in particular measures supporting job search, entrepreneurship, geographic mobility and greater access to training. The modernisation of public employment services should be seen as a priority. Particular attention is needed to ensure a more equitable and inclusive labour market for the young and the low-skilled. Belonging to an ethnic minority and lack of knowledge of the national language are particular risk factors.

Investing more and more effectively in human capital and lifelong learning

- Overcoming skills gaps and skills mismatches is a particular challenge. More efforts are needed to increase access to education, reduce school drop-outs and increase access to training, in particular for the low-skilled. This should be part of an overall strategy to develop lifelong learning.

MALTA

The employment rate in Malta is particularly low compared to EU15 average. The employment rate of older workers is particularly low. The employment rate of women is the lowest in the EU25: only a third of women of working age are in work. Unemployment has increased slightly over the last two years but remains below the EU15 average.

Increasing adaptability of workers and enterprises

- Key challenges facing Malta are to roll out its privatisation program while redeploying employees as necessary and progressively to reduce administrative costs and tax burden on labour. In this respect, it will be important to build on the provisions of the revised Business Promotion Act and to monitor its impact.

Attracting more people to the labour market and making work a real option for all

- Malta's over-riding challenge is to expand its labour supply by raising the employment rate for women. Building on the revised Conditions of Employment Regulations Act, further action is needed to raise female participation in the formal economy. Increasing childcare facilities would significantly contribute.
- A reform of the tax-and-benefit systems is also deemed a top priority, as the gap between minimum wage and benefit level is recognised as too small to provide sufficient incentives to take up a job. This reform would also help to transform undeclared work into regular employment.

Investing more and more effectively in human capital and lifelong learning

- Low levels of education among the workforce and skills' mismatches are a matter of concern. The high rates of early school-leavers, of illiteracy and of the low-skilled people are particularly worrying. Raising general educational levels, reducing school drop-outs and raising participation in training, in particular for the low-skilled, are key priorities. Efforts to include the social partners in the development of a more systematic approach to education and training should be pursued.

POLAND

The employment rate in Poland is among the lowest in the EU25. The situation on the labour market has deteriorated during the last four years. The employment rates of women, of older workers, of young people and of the low-skilled are particularly low. At about 20 %, the unemployment rate is at its highest level since the start of the economic transformation, and the highest in EU25.

Increasing adaptability of workers and enterprises

- Actions to enhance the creation of a more employment-friendly environment and measures to support entrepreneurship are of particular importance, especially in the context of restructuring.
- Building on recent measures to reduce labour costs for the low-skilled and the young, it seems important to review the tax-benefit system to address the high tax wedge on labour in a comprehensive manner, particularly at the lower end of the wage scale. This would also contribute to reducing undeclared work.
- Social partners have a key role not only for sustaining employment-friendly wage developments but also for actively promoting change at enterprise level and facilitating job mobility.

Attracting more people to the labour market and making work a real option for all

- As part of the endeavour to build up effective partnerships for employment at local level and to develop active labour market policies, Poland should accelerate the establishment of the new public employment services, with sufficient resources in terms of funding, staff numbers, training and equipment.
- It is also important that the reform of the different benefit systems including disability benefits and social assistance continues with a focus on promoting active job search and reintegration. Disadvantaged young people deserve particular attention. Efforts to remove obstacles to part-time work would also contribute to sustaining job opportunities for women and older workers.

Investing more and more effectively in human capital and lifelong learning

- Building on efforts to develop a coherent lifelong learning strategy, it will be important to ensure that the education and training system provides new labour market entrants with the skills needed in a labour market characterised by structural change. Particular attention will be needed to ensure equal access to education and to improve the efficiency and quality of education. Greater incentives to invest in training and to facilitate access to training as well as the commitment of the social partners are key requirements for the development of the lifelong learning strategy.

SLOVENIA

The employment rate in Slovenia is slightly below the EU15 average, but is particularly low for older workers. The unemployment rate is well below the EU average.

Increasing adaptability of workers and enterprises

- The interaction between the minimum wage and the different components of tax burden on labour should be assessed to increase activity and reduce undeclared work. It is important to pursue the efforts in order to promote flexible forms of work while maintaining the appropriate balance between flexibility and security.



Attracting more people to the labour market and making work a real option for all

- Increasing the employment of people over 55 is a clear priority for Slovenia. Further efforts should include reducing the use of early retirement schemes, ensuring consistency between tax and benefit reforms (e.g. measures aimed at reducing undeclared work and at reforming pensions), to promote flexible forms of work and access to training for older workers.
- In order to make work pay, it is important to review the interactions between unemployment, social benefits and the minimum wage, to increase the incentive to take up a job in the formal economy. The public employment service has developed a comprehensive model of management in its implementation of the preventive approach, yet it would be necessary to improve staff training in the public employment service in order to deal efficiently with the most difficult to employ. The relations between private and public employment services could be intensified.

Investing more and more effectively in human capital and lifelong learning

- Building on recent progress and initiatives to develop lifelong learning systems, it would seem important to increase the share of the adult population participating in further education and training. Adequate resources and incentives for workers and employers to invest in training as well as a clear definition of all stakeholders' roles are needed. Reducing drop-out rates appear to be an important problem.

SLOVAKIA

The overall employment rate in Slovakia remains low compared to the EU15 average. Although it is declining, unemployment is still very high, with a large share of long-term unemployed. The employment rate of women is low and the employment rate of young people, of the low-skilled and of older workers (especially women) is particularly low. Regional imbalances are important.

Increasing adaptability of workers and enterprises

- It is necessary to further reduce the high tax wedge on labour, mostly composed of social contributions. Social partners should be encouraged to promote more contractual and working time diversity (e.g. remove obstacles to part-time work) so as to create more job opportunities and facilitate job mobility.

Attracting more people to the labour market and making work a real option for all

- It is important to effectively continue implementing the removal of unemployment and inactivity traps and to transform undeclared work into employment by building on the ongoing reforms of the tax and benefit systems. The implementation and impact of the reforms should be properly monitored.
- In addition to efforts aimed at making work pay, special attention continues to be needed to be paid to increase the participation of older workers in employment, especially through the implementation of employment legislation and pensions reform, more flexible forms of work and greater use of part-time work. This could also contribute to raising female participation.
- The financing of active labour market policy and the share of people taking part in active measures are set to increase, from low levels. It is important to make the labour market more inclusive and to implement reforms to enforce active job search. This calls for modern active labour market policies, greater access to training for the unemployed and the inactive and modern public employment services to ensure a wider coverage of the population. Further attention is needed for groups at risk (e.g. the long-term unemployed, young people, people with disabilities, older workers) and disadvantaged regions. The new priority given to integrating the Roma population needs to be rapidly translated into action.

Investing more and more effectively in human capital and lifelong learning

- The alarmingly high unemployment rate of young people points to the need to bridge the gap between skills acquired in the initial education and the skills needed to succeed on the labour market. Economic restructuring, regional and skills mismatches also call for greater support for occupational and geographic mobility throughout the life-cycle.
  - Greater incentives to invest in training and to facilitate access to training are key requirements for the development of a lifelong learning strategy. There is a need to encourage investment in human capital and foster lifelong learning by further reforming the education system and to review the contributions to be made by individuals, enterprises and society as a whole.
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