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COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

Taking stock of the Europe 2020 strategy for smart, sustainable and inclusive growth

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Taking stock of the Europe 2020 strategy for smart, sustainable and inclusive growth

INTRODUCTION[1]

Early in 2010, the Commission proposed the Europe 2020 strategy which was launched as the EU's strategy for smart, sustainable and inclusive growth.[2] The aim was to improve the EU's competitiveness while maintaining its social market economy model and improving significantly its resource efficiency. When it was launched the Europe 2020 strategy was a front runner in advocating a growth model going beyond simply increasing GDP. Today many bodies promote smart, sustainable and inclusive growth as a crucial element of economic development.

The Europe 2020 strategy was initiated against a background of lower growth and productivity levels than in other developed countries and a rapidly deteriorating economic and social environment, in the wake of the worst global financial crisis the EU has ever faced. It drew the lessons from the Lisbon strategy for growth and jobs which was launched in 2000, renewed in 2005 and was in place until 2010. The founding document made it clear that the "short-term priority (was) a successful exit from the crisis", but that "to achieve a sustainable future", the EU needed "to tackle its structural weaknesses" and "already look beyond the short-term". The ambition was to "come out stronger from the crisis and turn the EU into a smart, sustainable and inclusive economy, delivering high levels of employment, productivity and social cohesion."[3]

The strategy was conceived as a partnership between the EU and its Member States, with a set of goals focused around the priorities of smart, sustainable and inclusive growth, and a dedicated delivery system. It set out five interrelated headline targets for the EU to achieve by 2020 in the areas of employment, research and development (R&D), climate change and energy, education, and the fight against poverty and social exclusion. The targets were not exhaustive but considered exemplary of the kind of dynamic change advocated in the strategy.

To catalyse progress at EU level, the Commission set out seven flagship initiatives[4], which included specific work programmes in areas identified as important levers for growth. In addition, the strategy has served as a frame of reference for action at EU level in the areas of the Single Market, the EU budget for 2014-2020 and the EU's external policy agenda.

Any review of the Europe 2020 strategy must take account of the financial and economic crisis of recent years and the EU's response to it (see box 1). As the crisis spread and took on new forms, a particular challenge for the EU was to break the vicious circle between rising levels of sovereign debt, contagious financial instability and low or even negative growth. This required both short-term and

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1 Unless otherwise indicated, the source of the figures quoted in this Communication is Eurostat, the statistical office of the EU, and EU averages refer to EU28.

2 Commission's Communication COM(2010)2020 of 3 March 2010. The overall strategy and its targets were discussed by the European Parliament and endorsed at the meetings of the European Council respectively in March and June 2010. More information can be found at: http://ec.europa.eu/europe2020/index_en.htm

3 COM(2010)2020 of 3 March 2010.

4 "Digital agenda for Europe", "Innovation Union", "Youth on the move", "Resource efficient Europe", "An industrial policy for the globalisation era", "Agenda for new skills and jobs", "European platform against poverty".

systemic action, notably within the Euro area, such as the establishment of a lending capacity for countries in financial distress and stronger rules for economic governance as well as enhanced financial supervision and regulation.

Box 1. EU action to overcome the financial and economic crisis 2008-2013

In November 2008, the Commission launched a European Economic Recovery Plan to increase investments in infrastructure and other key sectors, and it proposed that Member States co-ordinate their national budgetary stimulus packages. The total package represented around EUR 200 billion or 1.5 % of EU GDP. State aid rules and rules for the use of EU funds were also adjusted to facilitate the mobilisation of public funds.

As the recovery was short-lived and as the risks of a fully-fledged sovereign debt, financial and economic crisis spread, several decisions were taken, among which:

- A crisis resolution mechanism was set up to mitigate the risk of contagion and financial fragility across Member States. In May 2010, two temporary crisis resolution mechanisms were established: the European Financial Stabilisation Mechanism (EFSM) and the European Financial Stability Facility (EFSF). In 2012, the Euro area Member States decided to create a permanent crisis resolution mechanism, and the European Stability Mechanism (ESM), with a financial firepower of EUR 500 billion, which was established in October 2013. Loans were granted to countries in financial distress.
- The EU embarked on an ambitious and substantial reform of its financial system. The EU tightened supervision of financial markets by establishing a European System of Financial Supervisors (ESFS) composed of three sector-specific European Supervisory Authorities (ESAs) and of a macro-prudential watchdog, the European Systemic Risk Board (ESRB). Major steps were also taken towards a "Banking Union", comprising a single centralised mechanism for the supervision of banks, taking effect as of November 2014, and agreement on ways to restructure and resolve failing banks.
- EU economic governance was reinforced significantly by fully integrating the various components of economic and budgetary surveillance under the European Semester of economic policy coordination. In 2011, a legislative package[5] introduced a new Macroeconomic Imbalance Procedure (MIP) to prevent and correct economic imbalances. The Stability and Growth Pact (SGP) was also reinforced. A complementary set of regulations[6] entered into force in May 2013, providing inter alia for Commission's scrutiny of draft budgetary plans of Euro area Member States. In the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (EMU), the Euro area signatory Member States (and some non-Euro area Member States) have committed to integrating the core principles of the SGP into their national legal order. In December 2013, a new scoreboard of key employment and social indicators was approved by the Council and integrated in the Joint Employment Report.

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[5] OJ L306, 23 November 2011.

[6] OJ L140, 27 May 2013.

A crisis on the scale of recent years required an immediate and strong policy response to supplement the longer-term aims of the Europe 2020 strategy. From its Annual Growth Surveys, where it set out EU-wide priorities for the coming year, to the presentation of targeted legislative proposals and the issuance of country-specific guidance, the Commission has been advocating a mix of actions to stabilise the financial sector combined with recovery strategies, fiscal consolidation efforts and structural reforms adjusted to country specificities and reflecting the interdependencies of EU economies.

To monitor and advance national implementation of the Europe 2020 strategy, Member States were invited to set their own targets and to spell out detailed actions as part of their national reform programmes. These programmes are reviewed annually at EU level as part of the European Semester of economic policy coordination. Conceived as a way to reinforce EU's economic governance, the first European Semester started early in 2011 and the mechanism has rapidly established itself as the new annual policy cycle of economic guidance and monitoring at EU level (see below and annex 1). Reflecting the partnership approach, there is regular dialogue with the European Parliament and the various formations of the Council.

Four years after launching the Europe 2020 strategy, the purpose of this Communication is to take stock.[7] The European Council is expected to hold a first discussion at its meeting in March 2014, following which the Commission will launch a public consultation to gather the views of all stakeholders to help it develop the strategy for the 2015-2020 period.

1. WHERE DOES EUROPE STAND FOUR YEARS ON?

In 2009, the European economy suffered an unprecedented blow: a contraction of 4.5% in GDP. A temporary respite in economic decline in 2010 proved short lived and the negative trends continued through 2011 to 2012. A gradual recovery has set in since 2013 and is expected to continue, with real GDP projected to grow again by 1.5% in 2014 and 2.0% in the EU in 2015.[8] The EU average expresses diverse growth trajectories and very different experiences during the crisis across Member States, with some countries particularly hard hit and others faring better over time.

At the launch of the Europe 2020 strategy in 2010, the depth and length of the crisis were still largely unknown. Various scenarios were considered for the following decade, ranging from a return to " strong" growth, a scenario of "sluggish" recovery or the risk of a "lost decade". A lot depended on the ability of the EU to exit rapidly and strongly from the 2009 recession.[9]

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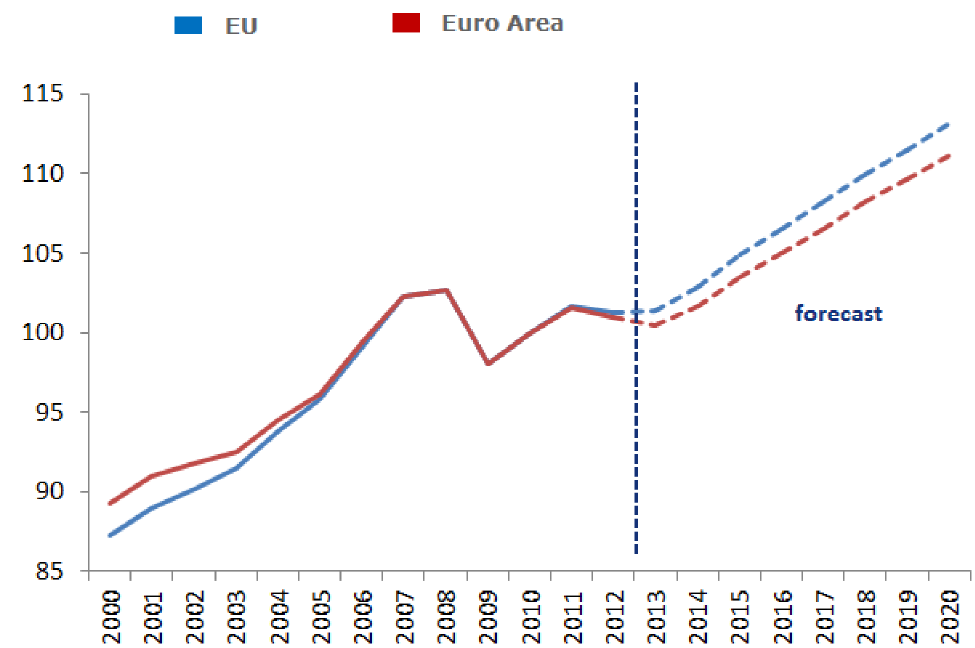
7 More information on the Europe 2020 targets and flagship initiatives is provided in annex.

8 For latest and more detailed data, see the Commission's winter 2014 economic forecast, European Economy 2/2014.

9 See presentation of J.M. Barroso to the informal European Council of 11 February 2010, available at: http://ec.europa.eu/europe2020/documents/documents-and-reports/subject/europe-2020-presentations/index_en.htm#top

Graph 1. EU and Euro area real GDP level over 2000-2020 (index 2010 = 100)



Four years on, it has become clear that the likely growth trajectory for the EU over 2010-2020 is closer to the second scenario (i.e. around 1.3% per annum). As graph 1 indicates, the economic output in the EU in 2014 is expected to reach the same level as in 2008, with losses from the downturns now offset by the ongoing recovery. However, the impact of the crisis is both immediate and longer-term: it has already cost Europe a loss in wealth, and it has also eroded its potential for future growth as jobs, firms and "know-how" have been lost.

According to the latest forecasts[10], the EU's annual GDP growth could be in the order of 1.6% throughout the period 2014-2020, compared to 2.3% over 2001-2007 (prior to the crisis). Expressed in GDP per capita, average annual growth in the EU would thus be in the order of 0.9% over 2014-2020, compared to 1.8% over 2001-2007.

A first critical step in designing a post-crisis growth strategy for the EU is to understand clearly the full impact of the crisis and to share a common diagnosis of where Europe stands. In so doing, it is also important to bear in mind that seeking to return to the growth "model" of the previous decade would be both illusory and harmful: fiscal imbalances ; real estate bubbles ; widening social inequalities ; lack of sufficient entrepreneurship and innovation ; dysfunctional financial systems ; growing energy dependency ; multiple pressures on the use of resources and the environment; sharp increase in unemployment; weaknesses in education and training systems; underperforming public administrations – these were issues that could be observed but that were not resolved in the past. They contributed to the collapse of parts of our economies when the full crisis hit.

[10] For latest and more detailed data, see the Commission's winter 2014 economic forecast, European Economy 2/2014.

Behind headline figures on GDP, it is also essential to look at, and sometimes re-discover, the underlying trends and structural changes determining Europe's ability to grow. This is also why understanding and stimulating the factors that drive progress towards the Europe 2020 targets is of critical importance.

1.1. The impact of the crisis

The sustainability of public and private finances is at stake

Government deficits reached 6.5% of GDP on average in 2010 in the EU and are expected to decrease to 2.7% in 2015.[11] This reflects the massive efforts made in several Member States, particularly in 2011 and 2012, to restore the sustainability of their public finances.[12] However, given the accumulation of deficits and the slowdown in growth, sovereign debt ratios have increased markedly, from 60% of GDP on average before the crisis, to 80% in 2010 and they are forecast to reach 89.5% in 2015.[13] With growth resuming and deficits shrinking, gross government debt is expected to start declining in 2015. Improving the quality of public expenditure and placing greater emphasis on the efficiency of public administrations and making tax systems more growth-friendly, including by further shifting the tax burden from labour to tax bases linked to consumption, property and pollution, will play an increasingly important role in safeguarding and shaping the future of the European growth and social models.

Levels of private debt – households and companies – were also particularly high in some countries prior to the crisis and have increased further as a result. Reducing financial exposure is a priority for many private actors. However, it may have the adverse side effect of slowing growth for some time to come, particularly in a context of low growth and low inflation.

Despite some stabilisation in the financial sector, access to finance remains limited in some parts of the EU

The overall situation in financial markets has shown encouraging developments in recent months but these still need to translate into the real economy and some fragilities remain within the financial sector. After 24 successive quarters of tightening since 2008, bank lending to small and medium-sized enterprises (SMEs) has shown some first signs of relaxation in the first quarter of 2014.[14] However, access to finance remains a concern in large parts of the EU and varies between Member States, pointing to an issue of market fragmentation.

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[11] For latest and more detailed data, see the Commission's winter 2014 economic forecast, European Economy 2/2014.

[12] COM(2013)800.

[13] For latest and more detailed data, see the Commission's winter 2014 economic forecast, European Economy 2/2014.

[14] European Central Bank, Bank Lending Survey, January 2014.

Rising levels of unemployment and poverty

Unemployment has increased sharply in Europe as a result of the crisis, from a rate of 7.1% in 2008 to a peak of 10.9% in 2013. Given the time lag between recovery and net job creation, the unemployment rate is expected to decline only slowly in the foreseeable future (10.4% in 2015[15]).

The situation has become more entrenched with time. Long-term unemployment – i.e. the percentage of active population unemployed for more than a year – has increased by 2.1 percentage points between 2008 and 2012 (from 2.6% to 4.7%). This may point to an increase in the level of structural unemployment, which has far-reaching consequences for the labour force and the growth potential of the economy, and also for the political and social fabric of the EU – notably in terms of rising levels of poverty and social exclusion (see below).

The situation varies very significantly across countries and regions, with unemployment rates ranging from 5.0% in Austria to 27.6% in Greece in 2013. All age groups are concerned but the situation is particularly difficult for persons over 55 and for young people, with youth unemployment rates – the percentage of unemployed young people aged 15-24 – reaching 23.3% on average in the EU in 2013, and as much as 59.2% in Greece and 55.7% in Spain. The increasing share of young people neither in employment nor in education or training (NEETs), at 13.2% in 2012, is another major source of concern.

Diverse situations across the EU

Although significant differences already existed across the EU prior to the crisis, its severity has revealed a series of imbalances accumulated over the years. The crisis has amplified a growing divergence across and often within Member States. Distinguishing between cyclical and structural trends is particularly difficult in times of extreme adverse circumstances, and there is a risk that several effects of the crisis become long-standing. One of them is a more diverse EU in terms of economic situation and performance. This diversity is also apparent when reviewing progress towards the Europe 2020 targets.

1.2. Long-term trends affecting growth

The Europe 2020 strategy was launched with a vision of the long-term challenges confronting the EU. Some of these challenges were starkly highlighted during the crisis, others have sometimes been neglected because of the many other pressing issues topping the political agenda. Most of the challenges identified in 2010 have not gone away and some have even intensified.

[15] For latest and more detailed data, see the Commission's winter 2014 economic forecast, European Economy 2/2014.

Societal change

European society is transformed by domestic and global forces, to which everyone is adapting: new forms of urban and rural lifestyles, new consumption and mobility patterns, new and more diverse family settings, the growing presence of technology in daily lives, etc. Two trends, in particular, will frame the Europe 2020 strategy.

First, the ageing of the European population creates a new context, with both opportunities and challenges. Ageing is a gradual yet very palpable process: the median age in Europe – the age which divides the population in two halves – has increased from 35.7 years old in 1992 to 41.5 in 2012 and could reach 52.3 by 2050. The population aged 65 plus is expected to double in the EU from 1990 to 2050.

Ageing has a far-reaching impact on Europe's society and economy. Net migration is and will be necessary because of demographic developments. Net migration has exceeded natural population increase (the difference between births and deaths) since 1992 and now accounts for two-thirds of Europe's population growth. Economic dependency – the ratio between the number of people not in employment and those who are – is expected to rise from 1.32 in 2010 to 1.47 in 2030, with old age dependency creating unprecedented challenges for the social adequacy and financial sustainability of welfare systems. The working age population is set to decline and will increasingly consist of older workers. This will limit Europe's growth potential unless the EU is able to put more people to work and ensure that they work more productively and for a longer time, in line with the increase in life expectancy and healthy life years.

Second, the crisis has brought to the fore the long-standing issue of the effectiveness and fairness of the wealth produced and distributed through growth. While GDP and wealth have continued to increase overall, inequality has risen in Europe – as in other developed countries – since the mid-1980s. There are now wide inequalities in the distribution of income in the EU: on average, the top 20% earned 5.1 times as much income as the bottom 20% in 2012. This ratio varied significantly across the EU, from 3.4 in Slovenia and 3.5 in Czech Republic to more than 6.0 in Greece, Romania, Latvia and Bulgaria, peaking at 7.2 in Spain. The crisis is expected to have led to a further rise in inequality and to have constrained redistributive systems even more. The issue of distributional fairness, in turn, increases the difficulty of addressing the challenges faced by Europe's economies.

Globalisation and trade

The EU is the world's largest exporter and biggest trader in goods. It is also the world's largest trader in services where it still has a strong potential to grow. It is estimated that in the next 10-15 years, 90% of the world's growth will come from outside the EU, so the EU has every interest in making sure that its companies remain very competitive and are able to access new markets and benefit from these sources of growth.

Globalisation is not just about facilitating trade and exchanges. It is about joining global value chains and delivering products, services and technologies that no individual country would be able to produce on its own. It is also about creating the conditions for a balanced partnership and development across countries, starting with Europe's neighbourhood.

The ability of the EU to compete internationally starts at home. The EU benefits significantly from its integration into the world economy, which is built on its own internal market: two-thirds of the EU's merchandise trade currently takes place within the borders of the EU. The global success of European firms in international trade, therefore, reflects not only national strengths but, through cross-border value chains, the involvement of suppliers in other EU countries, which provide important contributions to competitiveness. In addition, evidence shows that SMEs that are active on international markets grow faster and are more innovative than those that limit their activities to local markets.

In the crisis, the EU benefitted directly from trade as an engine for growth and was able to maintain a strong position on the world markets. In 2015, in spite of its large dependency on energy imports, the EU economy is expected to register a current account surplus of around 1.5% of GDP (adjusted for intra-EU trade) compared to a deficit of 0.5% of GDP in 2010. This trend also reflects the fact that many Member States have now managed to regain competitiveness and increase exports.

Productivity developments and use of information and communication technologies (ICT)

Europe's growth has been lagging behind that of other advanced economies for the last thirty years and much of this widening gap is due to weak productivity growth. Euro area output reached 90% of US per capita GDP in 1980 but now stands at around 70% and for several Euro area economies at less than 60%.[16] It is often estimated that reforms in the product, services and labour markets that are well calibrated and sequenced to the needs of the economy, have the potential to trigger significant productivity gains in the long term. The benefits would be larger in the periphery countries due to a larger scope for reform but also to positive spill-overs from the Euro area core. Enhancing the quality of human capital, the performance of research, education and training systems and their capacity to foster innovation is also key to foster productivity. Europe's ageing and shrinking working age population makes it even more pressing to boost productivity gains as a source of growth.

Modern electronic communications and online services, including e-government, are important economic sectors in their own right but they are also crucial levers of growth and productivity for the economy as a whole. Lower investment in and use of ICT in Europe account for a large part of the labour productivity gap between the EU and the US. EU investment in state-of-the-art communications infrastructure is also lagging behind that of its main competitors, especially as regards mobile infrastructure. The average mobile data speed in the EU is half of that of the US,[17] and Europe has only 6% of the world's 4G mobile subscriptions. In South Korea, 58% of households are connected by fibre to the home, but only 5% in Europe. 54% of European households have access to next generation networks, able to deliver

16 IMF, "Jobs and Growth: supporting European Recovery", 2014.
17 "The state of the Internet", Akamai (Q4 2012), Cisco VNI Mobile forecast (2013).

30 Mbps. In the new, data-based economy, European companies are almost absent from the value chain.

Pressure on resources and environmental concerns

During the twentieth century, the world increased its fossil fuel use by a factor of 12, whilst extracting 34 times more material resources. Today in the EU, each person consumes 15 tonnes of materials annually while generating 5 tonnes of waste, with half going to landfill. Businesses are facing rising costs for essential raw materials, energy and minerals, and the absence of security of supply and price volatility has a damaging effect on the economy. Sources of minerals, metals and energy, as well as stocks of fish, timber, water, fertile soils, clean air, biomass and biodiversity are under pressure, as is the stability of the climate system. Demand for food, feed and fibre may increase by 70% by 2050, yet 60% of the world's major ecosystems that help produce these resources have already been degraded or are used unsustainably.[18] Water quality and air pollution levels are still problematic in many parts of Europe. Unsustainable land use is consuming fertile soils, while soil degradation continues, and the use of green infrastructure remains suboptimal. Similarly, the unsustainable use of seas threatens the fragile balance of marine ecosystems and affects related economic activities such as fishing and tourism.

Our economic system still encourages the inefficient use of resources by pricing some below true costs. The World Business Council for Sustainable Development estimates that by 2050, a 4 to 10 fold increase in resource efficiency is necessary, with significant improvements needed by 2020. Promoting a more efficient use of resources makes a lot of business sense and should help improve competitiveness and profitability. It can also boost employment and economic growth: during the crisis, action to improve energy efficiency in the residential sector has proved particularly helpful in boosting local demand for local jobs and in producing financial savings over time.

1.3. Progress towards the Europe 2020 targets

Against this background, progress towards the Europe 2020 targets has inevitably been mixed (see annex 2). The crisis has had a clear impact, particularly on employment and levels of poverty, and has constrained progress towards the other targets, with the exception of its effect on the reduction of greenhouse gas emissions. It has also exacerbated the differences in performance between Member States in several areas, such as employment and R&D. Progress has also been affected by the varying degree of policy response across the EU.

Despite the crisis, there have been more positive structural trends, for instance in education levels, building a more sustainable energy mix and the reduction in the carbon intensity of the economy. The relative resilience of the employment rate during the crisis in a number of countries, coupled with progress achieved in the previous period, can also be read as a sign of better labour market performances compared to the past.

The following section sets out the main developments in each of the five target areas.

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18 COM(2011)571.

Increasing the employment rate of the population aged 20-64 to at least 75%

The EU employment rate stood at 68.4% in 2012, compared to 68.5% in 2010 and 70.3% in the peak year of 2008. Based on recent trends, it is expected to increase to around 72% in 2020. The fulfilment of national targets would bring it up to 74%, just below the 2020 target.

National performances are very heterogeneous, with Sweden and Germany displaying high employment rates and approaching their national targets, whereas Spain, Greece, Bulgaria and Hungary are furthest away. Most of the best performers in terms of employment have registered notable progress since 2000. However, strong falls in employment between 2000 and 2012 have hit most of the Member States which currently have the lowest rates. The employment situation also varies a lot across regions, pointing to mismatches and the reality of limited geographic mobility across the EU. However, during the crisis, many Member States have begun to implement labour market reforms which will make labour markets more resilient in the future, even if the results take time to work their way through.

Around 16 million additional men and women in employment would be needed to meet the 75% target. A large share of young and well-educated people will be available for work, nevertheless progress towards the target would also require tapping into a potential labour force consisting largely of women, older people as well as so far inactive adults, including migrants. The last two groups tend to be less educated than the rest of the labour force on average. This means that activating them may prove more difficult, but also that they are likely to join the less-skilled part of the workforce, despite evidence suggesting that future demand will concentrate on high-skilled rather than low-skilled work. Active labour market policies, coupled with lifelong learning strategies and comprehensive integration policies, thus remain essential for the achievement of employment goals.

Increasing combined public and private investment in R&D to 3% of GDP

With a level of 2.06% in 2012, and limited progress over time, the 3% target for 2020 is unlikely to be met. Investment in R&D is forecast to increase to 2.2% by 2020. If Member States meet their national targets, this share could amount to 2.6%.

Since 2000, most Member States have increased the level of public and private investment in R&D (with the exception of some countries such as Croatia, Luxembourg, the United Kingdom and Sweden). Estonia has shown the fastest growth between 2000 and 2012 and currently stands above EU average in this area.

Reducing greenhouse gas emissions by at least 20% compared to 1990 levels, increasing the share of renewable energy in final energy consumption to 20%, and moving towards a 20% increase in energy efficiency

These targets are broadly achievable by 2020 and progress is already noticeable:

- The EU already achieved an 18% reduction in greenhouse gas emissions by 2012. Current climate and energy policies have delivered on progress, with the economic slowdown also having a significant effect on emissions' reduction.

Notwithstanding the current recovery and due to structural improvements, further progress can be expected by 2020 and could bring the reduction of greenhouse gas emissions to 24% compared to 1990, thus over-achieving the target.[19] However, according to national projections, in 13 Member States the existing policies would not be sufficient to meet national targets by 2020.

- From 7.5% in 2000[20], the share of renewables already reached 14.4% in 2012[21]. The target of a 20% share by 2020 seems achievable and may be exceeded (around 21%). This progress means that the EU is the world’s leader in terms of global investment in renewables. For instance, the EU had installed about 44% of the world's renewable electricity (excluding hydroelectricity) by the end of 2012.
- Primary energy consumption fell by around 8% between the 2006 peak and 2012. A further reduction of 6.3% would be needed by 2020 to meet the target. A large part of the reduction in consumption is a function of the economic slowdown and thus recovery could limit progress towards the target. However, some structural shifts are also taking place: the energy intensity of the EU economy has reduced by 24% between 1995 and 2011 whilst the improvement by industry was about 30%.

Overall, beyond the short-term impact of the crisis, the EU is steadily decoupling growth in economic activities and greenhouse gas emissions – between 1990 and 2012, EU GDP grew by 45% and emissions decreased by 18%.

Reducing school drop-out rates to less than 10% and increasing the share of the population aged 30-34 having completed tertiary education to at least 40%

These targets are broadly achievable by 2020:

- The share of early school leavers has fallen from 15.7% in 2005 to 12.7% in 2012, with half of Member States having already reached or approaching their targets. While part of this reduction may be attributable to a more difficult employment environment, there is also evidence of structural improvements and the trend is expected to continue, albeit at a slower pace.
- The share of young people having completed tertiary education has increased from 27.9% in 2005 to 35.7% in 2012. While this may vary from country to country, the trend is also considered structural and the 2020 target is expected to be met.

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19 In January 2014 the Commission launched a framework for energy and climate policies up to 2030. A reduction in greenhouse gas (GHG) emissions by 40% below the 1990 level, an EU-wide binding target for renewable energy of at least 27%, renewed ambitions for energy efficiency policies are among the main objectives of the new framework – COM(2014)15.

20 Study commissioned by the European Commission

21 EurObserv'ER.

Lifting at least 20 million people out of the risk of poverty and social exclusion

The number of people at risk of poverty and social exclusion in the EU (comprising people at risk of financial poverty, experiencing material deprivation or living in jobless households) increased from 114 million in 2009[22] to 124 million in 2012.

The EU has thus drifted further away from its target – equivalent to a number of 96.4 million people by 2020 – and there is no sign of rapid progress to remedy this situation – the number of people at risk of poverty might remain close to 100 million by 2020. The situation is particularly aggravated in certain Member States and has been driven by increases in severe material deprivation and in the share of jobless households. The crisis has demonstrated the need for effective social protection systems.

2. HAS THE EUROPE 2020 STRATEGY WORKED?

Whether, and to what extent, the Europe 2020 strategy has played a role in the above trends is open for scrutiny. The public consultation foreseen later this year will be important to gather evidence and provide input for the review process. It is nevertheless possible to draw a number of tentative lessons concerning the main features of the strategy.

2.1. The role of targets

The five headline targets set in 2010 were put forward as ambitious yet attainable policy goals for the EU. The indicators are also instrumental in tracking trends across Member States. Beyond what is quantifiable, they also contribute to changing the quality and nature of Europe's growth model. As shown above, mixed progress has been achieved so far.

The use of targets and indicators is regularly a matter for discussion at EU level. It has received particular attention lately in the context of work on the reinforcement of EU's economic governance and deepening of Economic and Monetary Union (EMU). The Commission has reported on the breadth of indicators in use and available at EU level.

The Europe 2020 headline targets present several intrinsic limitations:

- The targets are not exhaustive. Many quantified objectives and indicators exist at EU level to monitor performance over time, between countries and across policy areas. Among the most commented, some key indicators are used for assessing public finances under the SGP. A new scoreboard was also developed to support the prevention and correction of macroeconomic imbalances, as part of the new EU Macroeconomic Imbalance Procedure, alongside a new scoreboard of key employment and social indicators. Other targets also exist in several policy areas, often agreed by Council formations over the years, for example for internet broadband coverage in the context of the "Digital agenda for Europe" flagship initiative. There is thus a tendency to suggest adding or substituting indicators over time, but the challenge – as was

[22] EU27 data.

the case for the Lisbon strategy – is to avoid a dilution of priorities and to maintain focus on the essentials.

- The targets are politically binding. Contrary to the SGP, or even the new EU Macroeconomic Imbalance Procedure, where reference values or benchmarks are set in a legally binding framework, including possible sanctions, the Europe 2020 targets are essentially political objectives. There are, however, two notable exceptions: the targets on greenhouse gas emissions' reduction and on the use of renewable energy, which are supported by a legally binding framework at EU level, including values to be reached at national level by 2020. The political nature of the targets reflects the primary role that national governments are expected to play in the strategy, in line with the principle of subsidiarity. For instance, it proved difficult to agree on education targets at EU level and it was not possible for Member States to agree on a single indicator to express the target on the reduction of the number of people at risk of poverty, hence an indicator made up of three components is commonly used.

- A qualitative assessment remains necessary. Each target has its limits. The target on R&D is essentially an "input" target where the share of public and private expenditure is reported. This is why, as a complement to this target, the European Council requested, and the European Commission is developing, a complementary indicator also looking at innovation "outputs"[23]. Likewise, the targets on employment and education do not say much about the quality of the work occupied or the levels or adequacy of skills achieved. Moreover, averages at EU or national level often hide very significant age, gender or regional differences. Complementary indicators, more specific analysis as well as qualitative information are thus important to interpret the targets and the actual situation in Member States. It is also important to bear in mind that some targets – such as the ones on education – are more directly within the realm of public authorities, while others – such as employment or spending on R&D – reflect broader economic trends.

The headline targets, however, have several clear advantages:

- The targets are illustrative of the dynamic change promoted by the Europe 2020 strategy. Although the EU has no shortage of indicators, the current set of targets has allowed for a sense of focus on the three dimensions of the smart, sustainable and inclusive growth model advocated by the strategy. In this respect, the targets express the longer-term direction necessary to sustain Europe's future and serve as benchmarks to guide policy. Moreover, they are closely interrelated and self-reinforcing, with progress in one dimension feeding into progress in another.

- The targets play their role as policy anchors. As can be seen from the annex, Member States translated EU targets into their own targets at national level. Their existence allows for a transparent cross comparison, across themes and countries, although the degree of publicity given to them and levels of ambition vary between countries. For instance, in addition to the general

[23] COM(2013)624

employment target, some Member States (Belgium, Czech Republic, Germany, Spain, France, Lithuania) have chosen to set national targets broken down by gender, thus providing employment rate targets for women. However, national targets are not sufficiently ambitious to cumulatively reach the EU-level ambition. They also help to monitor and discuss progress at EU level. For instance, they have already been instrumental in the analysis underpinning country-specific recommendations and in the discussion on priorities for the programming of the European Structural and Investment Funds over 2014-2020 (see below).

- The targets are easy to monitor. Facts and figures about the targets – as well as a wealth of related indicators – are easily accessible through Eurostat, the statistical office of the EU. The experience of other international institutions, such as the OECD in its work on "quality of life" or the PISA survey on literacy, or the World Bank's work on the ease of doing business, has also shown that focused analyses are effective communication tools.

The targets are not ends in themselves. While being aware of their limitations, it can be said that the Europe 2020 headline targets help to measure and guide the different aspects of the strategy, thus helping to steer political awareness and policy focus at both national and EU level.

2.2. The role of flagship initiatives and related EU-level levers

The flagship initiatives presented in 2010 were mini work programmes for the key areas of the strategy. They set out a number of specific actions at both EU and national levels in thematic areas (see annex 3). Most of the initiatives envisaged at the outset have by now been presented by the Commission and many have been adopted, but it is too early to be able to assess their follow-up and impact.

Major EU-level policy and legislative actions were put forward by the Commission as part of its annual work programme and discussed with the other institutions, so inevitably some time was needed for their adoption and implementation. Other "soft-law" initiatives, sometimes backed up by EU funding, were also developed, often in close collaboration with sectoral ministries and stakeholders in the respective policy fields, and may have had a more immediate impact on the ground. During the consultation period the Commission will work to gather evidence on their impact.

In addition to their role as catalyst for action at EU level, the flagships carry a certain legacy:

- They have contributed to mutual learning and thematic knowledge at EU level, including through networking and collection of evidence. For example, a dedicated monitoring mechanism has been developed to assess Member States' progress in the implementation of the European Research Area. Other examples are the Digital Assembly bringing together digital stakeholders, the annual Digital Agenda scoreboard and increased focus on industrial competitiveness issues across several policy areas.
- They have at times served as a guide for the use of EU funding for the 2007-2013 period and provided a framework for the design of EU funds for 2014-2020. One such example is the launch, by the Commission in January 2012, of Youth Action Teams to help Member States most hit by rising levels of youth unemployment to re-programme EU funds towards this priority. Other examples regard the new, integrated approach of the Erasmus+ programme and the new Horizon 2020 programme – the EU funding programme for research and innovation – which puts the emphasis on excellence in science, industrial leadership and the importance of tackling societal challenges and thus complements the objectives of the Innovation Partnerships foreseen in the flagships. In addition, specific earmarking of the European Regional Development Fund for investments in low-carbon economy was introduced.
- Several of them have triggered or inspired policy action in the Member States, including at regional and national levels to complement the EU initiatives, e.g. in areas such as the digital economy or research and innovation. For instance, the development of smart specialisation strategies at national and regional level contributes to place-based growth. In addition, more than 20 Member States, as well as regions, have launched digital agenda programmes.

In addition to the flagships, the goals and means of the Europe 2020 strategy have been promoted through three major EU-level policies:

- The European single market, with more than 500 million consumers, remains the most powerful lever of growth at EU level and new steps have been taken to tap more of its potential. The Single Market Acts I and II identified 24 key actions, such as in the field of the digital economy, energy, transport, public procurement and consumer protection, which are adopted or close to adoption by the legislator. An annual report on the state of integration is produced to monitor progress and identify areas for action. Competition policy has also been supporting the objectives of the single market. Strategic thinking and consultation have been launched in areas such as the long-term financing of the economy.
- Although the EU budget amounts to only about 1% of EU GDP, it can act as an important catalyst for growth. The new EU financial framework for 2014-2020 is closely aligned to the priorities of the Europe 2020 strategy, as illustrated in the re-design of EU-level programmes and the choice of priorities for investing EU funds in the Member States, including in terms of conditionality of EU aid.

- The EU external agenda is an important source of potential growth and jobs, although there is room to go further in linking the internal and external EU agenda better and ensuring that Europe speaks with one voice. Trade has become a crucial lever for growth and jobs due to the role of external demand and the wide scale of the EU agenda. Negotiations with the United States and Japan should deliver ambitious agreements and generate sizeable economic gains. In areas such as development policy, global standards, disaster risk reduction or combatting climate change, the EU has been and will remain a very active partner on the global scene, promoting its goals, values and interests.

2.3. The role of the European Semester

Since the adoption of the Europe 2020 strategy, the EU's economic governance has been significantly strengthened (see box 1). The European Semester has become key for delivering reforms between the national and the EU levels, through economic policy coordination, ensuring that EU and its Member States co-ordinate their economic policies and their efforts to promote growth and jobs.

The main steps of the European Semester are described in annex 1: the cycle is launched every year by the Commission’s Annual Growth Survey, which sets out the priorities for the EU; these feed into the discussion of the Member States in the run-up to the Spring European Council and into the preparation of their national reform programmes and stability or convergence programmes, which are presented in April. The Commission’s assessment of the programmes is reflected in country-specific recommendations and then endorsed by the Council and the European Council. The European Parliament has also become actively engaged in the process, for instance through its “parliamentary week” early in January to debate broad priorities as well as through the regular “economic dialogues” it organises with key actors at EU and national level. The social partners' involvement in the European Semester has also been strengthened.[24]

The goals of the Europe 2020 strategy are discussed as part of the European Semester and embedded in its various steps: they feed into the choice of priorities of the Annual Growth Survey; they are part and parcel of the analysis backing up the annual country-specific recommendations; Member States are invited to report on progress towards their targets in their national programmes.

Some first achievements can be recognised:

- The European Semester provides a credible framework for policy implementation, with the annual country-specific recommendations delivering first results in terms of policy reforms, as shown in the 2014 Annual Growth Survey.[25] The combination of EU priorities and country-specific recommendations is essential to take account of the specific circumstances of each Member State. While common goals set the direction and help facilitate progress towards a shared reform and modernisation agenda, the EU does not

[24] COM (2013) 690, Strengthening the Social Dimension of the Economic and Monetary Union, 2.102.2013.

[25] COM(2013)800.

follow a "one-size-fits-all" approach but rather tailors its guidance to each Member State, as well as over time.

- The European Semester provides integrated surveillance and helps to reconcile economic and budgetary priorities. In other words, it highlights the importance of achieving and maintaining sound public finances and unleashing the growth potential of the economies, taking into account EU-level and country-specific considerations.
- The Semester has contributed to a reinforcement of contacts between the EU and the national level and greater interaction between Member States, helping the EU to stick together. The timetable and procedures of the European Semester have been refined and are now stabilising. The Semester provides for pro-active discussions at EU level to prevent problems from emerging or developing (before national decisions are taken) and regular monitoring of progress (with guidance and the possible imposition of sanctions in cases where corrective action is needed).
- Analysis and monitoring capacities have been strengthened at EU level. The new EU economic governance builds on a stronger and more integrated evidence base for implementation, making better use of shared analytical frameworks, indicators and policy evaluations. The experience of countries under macro-economic adjustment programmes, thus outside the formal procedures of the European Semester, provides an extreme yet significant test case: the Commission and many Member States have had to deploy important resources, including on the ground, to provide direct and concrete support to these Member States, through policy advice and technical assistance at administrative level. This is exemplary of the scope of shared expertise that can be mobilised within the EU.
- Some ideas are still being discussed to complete the EMU architecture, such as a mechanism to facilitate the ex-ante coordination of major economic reform plans that can have significant spill-over effects on other Member States, as well as ideas of mutually agreed contractual arrangements and associated solidarity mechanisms (i.e. financial incentives).

Some initial challenges and limitations are also evident:

- The need to address the immediacy of the crisis sometimes made it challenging to reconcile short-term urgencies with longer-term needs. It is the nature of the country-specific recommendations to focus only on selected areas and suggest concrete steps to be taken within the coming year, with a clear understanding that not everything can be done at once. At the same time, it is essential that such steps are underpinned by a clear vision of where they are leading in the longer term. In a number of instances, the 2013 country-specific recommendations emphasise the need to preserve certain growth-enhancing expenditure while complying with the fiscal targets. As Europe recovers from the crisis, the choice of priorities should be able to move away from emergency situations.
- To be effective, the Semester depends not just on the commitment of each Member State, notably for the delivery of its recommendations, but also on the

collective capacity of EU actors to treat these issues as matters of common interest and ensure a strong multilateral surveillance. In this respect, the role of the different actors could be further clarified and enhanced. For instance, the different Council formations have strengthened peer-reviews and multilateral surveillance.

- Awareness and ownership by all relevant actors – governments, parliaments, regional and local authorities, social partners and all stakeholders – is a crucial prerequisite for success. In many Member States, the involvement of the different stakeholders in the implementation of the strategy could still be improved. In this context, the role of the national reform programmes should be re-assessed. At European level, the European Economic and Social Committee and the Committee of the Regions have been particularly active through close monitoring of the implementation of the Europe 2020 strategy and through mobilising action in the Member States, including at regional and local levels and reflecting the multi-level governance structure of the EU. The Commission has also reinforced its representations in the Member States to enhance the quality of its engagement with authorities and stakeholders in Member States.
- The multiplication of procedures, documents and legal steps at EU level risks overloading the process and damaging its clarity. Changes in the timetable can also be detrimental to the ownership of certain actors. The challenge in the coming years is thus to reinforce the institutional and administrative infrastructure underpinning the European Semester, while making sure it remains a politically-driven and focused process (not a bureaucratic one).

The review of the European Semester in conjunction with the review of the Europe 2020 strategy this year is thus timely.

CONCLUSION

The reasons for having a Europe 2020 strategy are equally pressing in 2014 as they were in 2010.

Over several decades, the EU has been synonymous with deeper economic integration, resulting in increasing flows of goods, services, labour and finance across the EU. This has fuelled convergence in incomes and living standards across countries, which led to the EU being characterised as a "convergence machine"[26] unique in the world. This convergence process has slowed and even gone into reverse in parts of Europe as a result of the accumulation of imbalances and under the pressure of the crisis.

Emerging from the worst economic and financial crisis in a generation, the EU needs to strengthen its smart, sustainable and inclusive growth strategy so that it can deliver on the expectations of its citizens and maintain its role in the world. Now is a good

[26] The World Bank, "Golden growth – restoring the lustre of the European economic model", 2012.

time to review the strategy so that the right post-crisis policy priorities can be set for the EU in the second half of the decade leading to 2020.

The analysis set out in this Communication shows that experience with the targets and flagships of the Europe 2020 strategy has been mixed. The EU is on course to meet or come close to its targets on education, climate and energy but not on employment, research and development or on poverty reduction. Yet, having EU targets has helped to focus on longer-term, underlying features which are crucial to the future of the EU's society and economy. Translating these targets at national level has also helped to highlight several uncomfortable trends – a growing gap between the best and least well performing Member States and a widening gap between regions inside and across Member States. The crisis has also highlighted growing inequalities in the distribution of wealth and of income. Experience has also shown that the active engagement and participation of regions and cities – which are responsible for delivering many EU policies – has been crucial in pursuit of Europe 2020 objectives. These are challenges to be addressed in the review and subsequent adjustment of the strategy.

The economic governance of the EU, implemented annually through the European Semester, was considerably strengthened in recent years and is a potentially powerful instrument for pursuing the post-crisis priorities that will be needed to meet the objectives of the Europe 2020 strategy. Key EU policies such as the 2014-2020 multi-annual financial framework and its various programmes have been constructed to take account of the lessons emerging from the European Semester and to support the achievement of the Europe 2020 targets, providing a basis on which future policy can be built at both EU and national levels.

In this Communication, the Commission has set out its analysis of what has happened in the framework of the Europe 2020 strategy so far. In many respects, this period has been used to lay the foundations for results that should come through in the coming years. The Commission has also sought to show the impact of the crisis on the expected results.

The Commission has not drawn policy conclusions nor made policy recommendations at this stage. Given the enormity of the change that the EU, its Member States, cities and regions have undergone as a result of the crisis, the Commission considers it necessary to launch an EU-wide consultation of all stakeholders on the lessons to be learned and on the main factors that should shape the next stages of the EU's post-crisis growth strategy. The Commission will run a public consultation, based on the analysis in this Communication, inviting all interested parties to contribute their views. Following the consultation, the Commission will make proposals for the pursuit of the strategy early in 2015.