ECONOMIC POLICY COMMITTEE

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REPORT ON STRUCTURAL INDICATORS

In March 2006 the EPC mandated a specific Structural Indicators Task Force (SITF) to take forward work in a number of areas:

1. Examine the indicators to be used in surveillance of Lisbon National Reform Programmes;

2. Take stock of the Eurostat list of structural indicators and propose areas for improvement;

3. Prepare for a possible review of the shortlist of structural indicators and their role in surveillance;

4. Improve the presentation and use of benchmarking and cross-country analysis, and review the arguments for and against the use of ranking the performances of Member States.

In addition the Task Force has been briefed on the Commission's proposed methodology to assess progress on Lisbon reforms and has discussed the development of indicators of EU integration.

This report sets out the key conclusions of the Task Force as endorsed by the EPC in each of these areas.

1. Key Indicators to be used in surveillance of Lisbon National Reform Programmes

Structural reform, to raise productivity levels and attain high and sustainable rates of employment, is a priority for the European economies. In 2005, the European Council has agreed on a review of the Lisbon strategy putting more focus on growth and employment. The Task Force has consulted with Members on the most appropriate indicators to be used in the surveillance of the National Reform Programmes using as a common framework the objectives set out in the Broad Economic Policy Guidelines (BEPGs). Based on that consultation and in dialogue with Eurostat on quality issues the SITF suggests a list of 24 key indicators that might be used in surveillance (see annex I).

The primary purpose of the list is to inform the work of the EPC's Country Reviews Working Group in its examinations of Member States National Reform Programmes and, in subsequent rounds, to inform assessment of Member States' National Reform Programmes by the European Commission. As such, the list is for the internal use of the EPC and Ecofin and so co-ordination problems with other Council formations are avoided. Even so, consistency with the work of other Council formations is desirable and the Task Force has co-ordinated closely.

The criteria that have been used to select indicators are:

- Parsimony in the use of indicators – limiting the number of indicators proposed for each Guideline;
- Consistency with the focus of the relevant guideline;
- Balance between output indicators that measure performance in achieving the core Lisbon objectives, and input indicators that measure policy strategies or structural framework conditions;
- Clarity of the indicator - aiming to guarantee a straightforward interpretation and thus to promote public understanding and debate on policy issues;
- Availability and comparability of data;
- Quality and cost of producing the indicator.

The balance of the package, and the coverage of priorities set out in Member States' National Reform Programmes have also been taken into consideration.

The Task Force decided against the inclusion of composite indicators like the OECDs Product Market or Employment Protection indicators in the list. The element of discretion in the indicators appear to make them inappropriate for inclusion in a quantitative aspect of the surveillance process. However, the OECD composite indicators remain a valuable tool. The challenge is to extract and translate the valuable policy lessons in these indicators into the right policy messages.

Indicators must be used with caution – and quantitative assessment complemented by qualitative assessment and the use of judgement. In employing these key indicators in surveillance it is useful to keep in mind a number of caveats. In particular, for certain guidelines – most notably BEPG guidelines 13 (open and competitive markets) and 16 (infrastructure) – by not using composite indicators, the choice is constrained to measures which cover only partially the field in question (eg product and services markets). A complete list of caveats is included in separate annex II. All these elements point to the need for avoiding mechanical use of indicators in relation to measuring progress with the BEPGs.

The Task Force underlined the importance of a continuous systematic selection of best indicators, including assessments of the need for change or expansion of the list in the light of further development of existing indicators and the development of new indicators, as well as reflecting the themes selected for the country review process. This will allow for the use of indicators in a nuanced and flexible way.

2. Improvements to the Eurostat database of structural indicators

The Task Force welcomes and supports the efforts by the Commission, particularly Eurostat, and the National Statistical Institutes to improve the quality of the existing indicators. Especially, the Task Force notes the improvements made by Eurostat against the priorities set out by the EPC in its 2003 opinion, including the development of indicators concerning at risk of poverty rate, R&D, public and private spending on education and training, childcare facilities, environment and the gender pay gap[1]. The Taskforce noted the work currently underway by Commission services to investigate ways to improve data on private expenditures for education.

[1] See: http://ec.europa.eu/economy_finance/epc/documents/2003/structindic_en.pdf

The Task Force also underlined the importance of establishing more indicators covering the performance of the Union as a whole and ensuring that comparisons with non-EU countries, in particular the US and Japan, whenever meaningful, are possible. This reflects the global dimension of progress towards the Lisbon goals. Whilst in some areas it might be valuable to develop new indicators, the benefits should clearly outweigh the costs. The need to prioritise the burden for the European Statistical System should be kept in mind.

The Task Force has taken stock of the Eurostat database of indicators and proposed a number of areas for improvement. In particular, the Task Force proposes progress on measuring:

- Employment related indicators based on per hour data. Among these, productivity per hour – which has some advantages over productivity per worker when labour market reforms have managed to increase the share of part time and/or temporary employment

- Comparative price levels – where it would be valuable to have relative price levels for both tradable and non-tradable sectors

- Product and services markets, including interconnections among MS – where a more complete set of indicators is needed to have a better picture of the impact of economic reforms

- Life long learning - where there is scope for better data comparability across countries

- Financial markets as this is a relatively under-covered area

- Openness and integration into the world economy: where further indicators could be developed

The suggestions by the SITF Members and Eurostat responses are set out in an annex III. The Task Force suggests that Eurostat might in due course be invited to report on progress against the suggestions made by Members.

3. Review of the shortlist

In line with the original mandate the Task Force stresses the benefits of stability in the shortlist. Stability in the shortlist promotes comparability over time. Stability will also allow the various actors to focus on the important task of improving performance against the indicators – rather than engaging in unproductive debate over what the indicators should be. Should other Council formations propose revisions to the shortlist, Ecofin should of course be ready to react.

In addition, it appears that the shortlist, whilst a useful tool for drawing public attention to the importance of structural reform, has limitations as the main means for reviewing the progress made by Member States. The European Commission's 2005 Report on Member States' National Reform Programmes did not make extensive use of the shortlist. In this context the Task Force welcomes the intention of the Commission to move to a more flexible system, where indicators from the Eurostat database and other reliable sources are used as appropriate to assess different Member State's progress.

The SITF also encourages the Commission to make full use of the key indicators presented in this report.

4. Benchmarking and the use of indicators in surveillance

The Task Force was asked to consider ways of improving the presentation and use of benchmarking and cross-country analysis, and to review the arguments for and against the use of ranking the performances of Member States.

The main reason for using indicators for benchmarking and ranking is the positive impact of transparency on the incentive structure. As argued in the Kok Report, enhancing the comparison at EU level and stimulating peer pressure produce "clear incentives for the Member States to deliver on their commitments by measuring and comparing their respective performance and facilitating exchange of best practice."[2]

At the same time, it is important not to use EU agreed indicators mechanically. They are a tool and not a substitute for intelligent analysis. Shortcomings of the agreed indicators should also be acknowledged. In this respect it is important to identify significant common caveats and relevant country specificities.

There are well known reasons of political economy why implementation of structural reforms is often far from straightforward. By allowing meaningful comparisons among Member States performances benchmarking enhances the discipline of transparency and thus reinforces the stimulus to implement structural reforms.

In this context, the pressure of an external anchor may help overcome domestic resistance to reforms. It also helps to identify the current position on structural reform, and to determine priorities and areas for the exchange of best practice.

Moreover, benchmarking exercises at EU level help stimulate an evaluation culture. Regular comparison with other countries' performances in specific fields can spur monitoring and evaluation routines. Identification of best practice policies helps countries in avoiding policy mistakes and contributes to mutual learning. Benchmarking should lead to a return to, and re-examination of, the policies which generated the results.

At the same time, it is important to avoid delivering inflexible policy messages, which do not take account of national policy priorities and country specificities. Benchmarking and ranking are based on commonly agreed indicators which are used to describe every Member State economy. Avoidance of an excessively mechanical approach requires careful assessment of relevance for the key challenges of each Member State, and different starting positions, in particular when suggesting policy priorities. In addition, time lags between reform measures and changes in indicator values, and sometimes weak correlation between objectives and associated indicators need to be factored into the evaluation.

In principle, some of these comparability issues could be dealt with by refining the indicators. It would be possible to adjust for the cycle, run econometric tests to identify more robust variables, and so on. These might be useful developments but they do not detract from the general point that benchmarking must be conducted intelligently and carefully, using the indicators as tools in this endeavour. Furthermore, using a more

[2] Wim Kok, Facing the Challenge: The Lisbon Strategy for Growth and Employment, November 2004; see also contribution by the EPC to the mid-term review of the Lisbon strategy under:
http://ec.europa.eu/economy_finance/epc/documents/2005/epc_lisbon_2005.pdf

complex process to define the indicators might undermine the simplicity, transparency and clarity of the exercise needed in order to be useful for policymakers and the general public. The Task Force suggests, as noted earlier, that composite indicators have to used carefully, for this reason. The necessary weighting involved in such indicators can obscure the clarity and meaning of such devices.

Improving the presentation of indicators

The aim must therefore be to reap the maximum benefits from benchmarking while avoiding the potential pitfalls. This has implications both for the design and presentation of the agreed indicators. In particular, the Task Force stresses the importance of three issues:

First, international comparisons should be done presenting both level and change. This enables a focus on the progress of countries lagging behind which might be neglected if the attention would be focused only on levels. In 2003 the EPC stressed that consideration *"should be on both current performance and the progress made in Member States. In order to better mirror the progress made by Member States, the EPC suggests that for each of the 14 [headline] indicators chosen both the latest available figure (level) and a change in recent years should be presented. Moreover, levels and changes should be taken into account when indicators are chosen and interpreted."* The last EPC Report on the Lisbon National Reform Programmes 2005 presents in its annex both levels and changes, an approach that the Task Forces suggests to maintain.

Secondly, outcome indicators should be preferred when comparing Member States. Heterogeneity in institutions and, more broadly, in the economic systems is high in many fields and so relying on policy indicators increases the risk of delivering misleading policy messages. This is the main reason way the key indicators proposed here are by and large performance indicators. Nevertheless, some policy indicators may be unavoidable, especially where reliable ways of capturing outcomes across the member states are not available.

Thirdly, as noted above, benchmarking needs to be underpinned by qualitative assessment and the use of judgement:

- The linkage between indicators and the underlying policy objectives should be clear for every indicator.
- It should be clear whether an indicator reflects an ultimate policy goal, an intermediate goal or framework conditions which are supportive to ultimate goals, or whether it describes a policy instrument.
- There should be a clear distinction and balance between indicators that measure performance in achieving the core Lisbon objectives and indicators that measure policy strategies or structural framework conditions that are conducive to future increases in potential growth.
- Indicators should be put into a narrative in terms of underpinning reform efforts: they should be classified as performance/output or policy/input indicators and every input indicator should be linked to an output indicator.

A sensible way of presenting the indicators could be the tables already being used by Eurostat, which allow a straightforward comparison across Member States and across time for each Member State. Consideration might also be given to the OECD approach to the use of indicators, where benchmarking is used to identify for each country 3 or 4

main areas where structural reforms are most needed (see Annex VI). This strategy is a useful means of setting priorities for the reform agenda.

Ranking can be considered as a special form of benchmarking, since Member States would not only be compared against some relevant benchmark, but also presented in order of performance. In this sense, the arguments for and against benchmarking are similar but amplified in respect of ranking. Ranking enhances the discipline of transparency more strongly than benchmarking and produces a more powerful stimulus to action. Equally, there is a risk that the amplified strength of the stimulus to policy action in ranking increases the risks associated with the delivery of inflexible policy messages which do not take account of national priorities. As far as ranking is concerned, the Task Force has not reached a common view.

5. Indicators of integration

The existing work on structural indicators mainly points to the importance of monitoring Member States performance in implementing their national reform agendas. This focus is vital and should be maintained. Given the strong interdependency of EU Member States, it could be worthwhile for the EPC to have some instruments for monitoring and assessing on a regular basis the developments in economic integration at European level. This would be different from having the same indicators used at national level produced at EU level (EU GDP per capita, EU employment rate, etc). To highlight this process and the growing challenges it poses a number of indicators could be developed to show the degree of European integration towards the creation of a more dynamic and competitive area. This new indicators would not result in unnecessary expansion of the lists to be used when assessing single countries. It could be seen as a companion set of EU variables at the disposal of the EPC and other potential users for monitoring the degree of EU integration in the main economic dimensions (e.g. employment, intra-EU FDI and trade, financial markets – an area where the European Central Bank already does valuable work).

The Task Force suggests that the EPC might, in the future, work with Eurostat and DG Ecfin on further defining a work programme on indicators of integration. Any work in this area would have to be taken forward in close co-operation with other Council formations where relevant, and especially take account of the work of the Competitiveness Council, with the aim of avoiding duplication of work already carried out on the Score Board for the Internal Market.

6. The context of the methodologies to assess Lisbon reforms

The renewed Lisbon strategy needs a transparent and commonly agreed framework to monitor progress and assess the impact of reforms. The approach proposed by the Commission for the assessment of progress made by Member States, of which the use of indicators is rightly a part, represents a good starting point[3]. A clearly articulated method is vital to the transparency of the Lisbon strategy, while at the same time avoiding a purely formulastic approach and allowing for proper application of intelligent judgement.

The main weakness of the Lisbon Strategy in the past has been the gap in the delivery of reforms. Both the scale of structural reforms and the speed with which they have been implemented have been insufficient to meet the Lisbon challenge. It is therefore a

[3] See opinion by the EPC on the methodological framework for assessing progress with the implementation of the Growth and Jobs Strategy, ECFIN/EPC(2006)REP/54310 of 15 September 2006

clear priority to devise a well-focused method to allow for better monitoring of actions and results.

Both quantitative and qualitative methods have a role to play. Structural indicators will have a valuable part to play in whatever methodology is ultimately agreed as they provide a transparent and comparable way to assess Member States structural conditions. In this perspective, it will be even more important to reduce the lags in the availability of data. At the same time, it is clear that indicators are just one part of the methodology for assessing progress with the Lisbon agenda.

The Commission's proposed approach is built upon three methodologies – of which the second and third are still being developed. In the context of the Commission's proposal and its development, a few principles should be acknowledged. First, transparency of the assessment should be a prerequisite. Second, the assessments should be based on both qualitative and quantitative aspects. Third, more attention should be paid to the reforms within the identified key policy areas and in particular to the reforms which might have significant spillover effects for the community as a whole. Finally, the clear indication and presentation of best practices will help their diffusion.

Looking forward, the Task Force sees ensuring ownership as a crucial element. In this perspective, the development of a commonly agreed approach seems the right way to be followed and it should be as consistent as possible with the relevant analytical tools elaborated by other EPC working groups (e.g. the OGWG potential GDP model and the AWG long term analysis). In the development of a new methodology, close co-operation between the Commission and the Council will be the key to foster ownership.

At this stage the SITF highlights two general issues which have to be addressed carefully when developing a model based approach. First, a commonly agreed methodology has to balance the importance of simplicity and equal treatment with the need to take into account significant country specific features. Secondly, time lags have to be considered as structural reforms usually need time to deliver their outcomes.

The OECD makes extensive use of indicators in their Going for Growth process – and their place within the OECD methodology might provide relevant lessons for the EU as we take forward our thinking on the Lisbon methodology (se annex VI).

Annex I

Key Indicators for use in Surveillance

The list does not cover indicators where other Council formations might be expected to conduct substantial work and it does not fully mirror particular sets of indicators developed and used by ECOFIN in other contexts – for example those being used to assess Member State Stability and Convergence Programmes. In line with the mandate of the Task Force, attention is focussed on the BEPGs (Integrated Guidelines 1-16).[4] The Employment Committee's Indicators Sub Group has prepared its own list of indicators on measuring progress against the Employment Guidelines (Integrated Guidelines 17-24).[5] In June 2006, the Social Protection Committee has adopted a list of 14 overarching indicators to reflect social cohesion and its interaction with the Lisbon growth and job objectives[6]..

The Task Force selected indicators only from existing databases. So for example it did not consider indicators proposed in annex III as additions to the Eurostat database (see also section 2) as possible candidates as key indicators for surveillance.

A quality assessment by Eurostat of the proposed indicators, is set out in a separate table. Numbers in brackets next to indicators indicate that they are being used to measure progress against more than one guideline.

The proposed indicators are presented following the structure of the Guidelines. Whilst the indicators which have been selected are intended to capture the spirit of the Guidelines it is clear that in many cases only certain aspects are explicitly covered. This is due partly to the choice to have a limited number of indicators for surveillance. Secondly, some aspects of the BEPGs cannot be captured by indicators and need a more complex judgment. For example guideline n. 13 on open and competitive markets is covered only to a limited extent by indicators on telecommunications and on electricity markets. Equally, more comprehensive assessments are needed for long term sustainability including measures to assess the impact of reforms on long-term adequacy (guideline n. 2) or to evaluate the coherence between macroeconomic, structural and employment policies, supplementing the use of indicators with judgement (guideline n. 5). This implies that a richer approach is needed when assessing the performance of Member States with regard to the BEPGs - with indicators taking their place within an overall

[4] http://ec.europa.eu/economy_finance/epc/documents/2005/bepg_26102005.pdf

[5] Employment Guidelines (2005-08) - indicators for monitoring and for analysis, EMCO/14/190906/EN

[6] See http://ec.europa.eu/employment_social/social_inclusion/indicators_en.htm

approach that includes a substantial role for intelligent judgement. To facilitate understanding of the uses and limitations of the key indicators proposed the elements of the guidelines which we consider to be explicitly covered by the key indicators are highlighted in the text below.

Guideline n°1. ***To secure economic stability for sustainable growth,*** in line with the Stability and Growth Pact, MSs should respect their medium-term budgetary objectives. As long as this objective has not yet been achieved, they should take all the necessary corrective measures to achieve it. MSs should avoid pro-cyclical fiscal policies. Furthermore, it is necessary that those MSs having an excessive deficit take effective action in order to ensure a prompt correction of excessive deficits. 2. MSs posting current account deficits that risk being unsustainable should work towards correcting them by implementing structural reforms, boosting external competitiveness and, where appropriate, contributing to their correction via fiscal policies

- Real GDP growth rate
- Public Balance
- Public capital investment as share of GDP – Gross fixed capital formation
- Labour productivity
- Real unit labour cost growth
- Inflation rate

Guideline n°2. ***To safeguard economic and fiscal sustainability as a basis for increased employment,*** MSs should, in view of the projected costs of ageing populations, 1. undertake a satisfactory pace of government debt reduction to strengthen public finances, 2. reform and re-enforce pension, social insurance and health care systems to ensure that they are financially viable, socially adequate and accessible, and 3. take measures to increase labour market participation and labour supply especially amongst women, young and older workers, and promote a lifecycle approach to work in order to increase hours worked in the economy.

- S2 sustainability gap indicators *(source – DG Ecfin)*
- Public debt
- Employment rate of older workers
- Employment rate: total/female

Guideline n°3. To promote a growth, employment orientated and efficient allocation of resources MSs should, without prejudice to guidelines on economic stability and sustainability, re-direct the composition of public expenditure towards growth-enhancing categories in line with the Lisbon strategy, adapt tax structures to strengthen growth potential, ensure that mechanisms are in place to assess the relationship between public spending and the achievement of policy objectives and ensure the overall coherence of reform packages

- Employment rate: total/female (2)
- Public capital investment as share of GDP (2)
- Gross domestic expenditure on Research and Development (GERD)

Guideline n°4. To ensure that wage developments contribute to macroeconomic stability and growth and to increase adaptability MSs should encourage the right framework conditions for wage-bargaining systems, while fully respecting the role of the social partners, with a view to promote nominal wage and labour cost developments consistent with price stability and the trend in productivity over the medium term, taking into account differences across skills and local labour market conditions.

- Labour productivity (2)
- Real unit labour cost growth (2)

Guideline n° 5. To promote greater coherence between macroeconomic, structural and employment policies, MSs should pursue labour and product markets reforms that at the same time increases the growth potential and support the macroeconomic framework by increasing flexibility, factor mobility and adjustment capacity in labour and product markets in response to globalisation, technological advances, demand shift, and cyclical changes. In particular, MSs should renew impetus in tax and benefit reforms to improve incentives and to make work pay; increase adaptability of labour markets combining employment flexibility and security; and improve employability by investing in human capital.

- Science and technology graduates
- Long term unemployment rate

Guideline n°6 To contribute to a dynamic and well-functioning EMU, euro area MSs need to ensure better co-ordination of their economic and budgetary policies, in particular 1. pay particular attention to fiscal sustainability of their public finances in full compliance with the Stability and Growth Pact; 2. contribute to a policy mix that supports economic recovery and is compatible with price stability, and thereby enhances confidence among business and consumers in the short run, while being compatible with long term sustainable growth; 3. press forward with structural reforms that will increase euro area long-term potential growth and will improve its productivity, competitiveness and economic adjustment to asymmetric shocks, paying particular attention to employment policies; and 4. ensure that the euro area's influence in the global economic system is commensurate with its economic weight.

- S2 sustainability gap indicators *(source – DG Ecfin)* (2)
- Inflation rate (2)

Guideline n°7. To increase and improve investment in R&D, in particular by private business, the overall objective for 2010 of 3% of GDP is confirmed with an adequate split between private and public investment, MSs will define specific intermediate levels. MSs should further develop a mix of measures appropriate to foster R&D, in particular business R&D, through: 1. improved framework conditions and ensuring that companies operate in a sufficiently competitive and attractive environment; 2. more effective and efficient public expenditure on R&D and developing PPPs; 3. developing and strengthening centres of excellence of educational and research institutions in MSs, as well as creating new ones where appropriate, and improving the cooperation and transfer of technologies between public research institute and private enterprises; 4. developing and making better use of incentives to leverage private R&D; 5. modernising the management of research institutions and universities; 6. ensuring a sufficient supply of qualified researchers by attracting more students into scientific, technical and engineering disciplines and enhancing the career development and the European, international as well as inter-sectoral mobility of researchers and development personnel.

- Business Expenditure on Research and Development (BERD)
- Science and technology graduates (2)
- Gross domestic expenditure on Research and Development (GERD)(2)

Guideline n°8. To facilitate all forms of innovation, MSs should focus on: 1. improvements in innovation support services, in particular for dissemination and technology transfer; 2. the creation and development of innovation poles, networks and incubators bringing together universities, research institution and enterprises, including at regional and local level, helping to bridge the technology gap between regions; 3. the encouragement of cross-border knowledge transfer, including from foreign direct investment; 4. encouraging public procurement of innovative products and services; 5. better access to domestic and international finance, and 6. clearly defined IPRs, including by overcoming outstanding problems for a Community Patent system.

- Science and technology graduates (3)
- Patents (EPO)
- Venture capital investment

Guideline n°9. To facilitate the spread and effective use of ICT and build a fully inclusive information society, MSs should: 1. encourage the widespread use of ICT in public services, SMEs and households; 2. fix the necessary framework for the related changes in the organisation of work in the economy; 3. promote a strong European industrial presence in the key segments of ICT; 4. encourage the development of strong ICT and content industries, and well functioning markets; 5. ensure the security of networks and information, as well as convergence and interoperability in order to establish an information area without frontiers; 6. encourage the deployment of broad band networks, including for the poorly served regions, in order to develop the knowledge economy.

- Household internet access

Guideline n°10. To strengthen the competitive advantages of its industrial base, Europe needs a solid industrial fabric throughout its territory. The necessary pursuit of a modern and active industrial policy means strengthening the competitive advantages of the industrial base, including by contributing to attractive framework conditions for both manufacturing and services, while ensuring the complementarity of the action at national, transnational and European level. MSs should: 1. start by identifying the added value and competitiveness factors in key industrial sectors, and addressing the challenges of globalisation. 2. also focus on the development of new technologies and markets. a) This implies in particular commitment to promote new technological initiatives based on public-private partnerships, including the possible setting up and implementation of joint European technology initiatives and cooperation between MSs, that help tackle genuine market failures. b) This also implies the creation and development of networks of regional or local clusters across the EU with greater involvement of SMEs.

- High-tech exports
- Science and technology graduates (4)

Guideline n°11. To encourage the sustainable use of resources and strengthen the synergies between environmental protection and growth, MSs should: 1. give priority to energy efficiency and co-generation, the development of new and sustainable energies and the rapid spread of environmentally friendly and eco-efficient technologies a) inside the internal market on the one hand particularly in transport and energy, inter alia in order to reduce the vulnerability of the European economy to oil price variations, b) towards the rest of the world on the other hand as a sector with a considerable export potential; 2. promote the internalisation of external environmental costs and decoupling of economic growth from environmental degradations, including the loss of biodiversity; 3. continue to fight against climate change, implementing the Kyoto targets in a cost-effective way, particularly in regard to SMEs. The implementation of these priorities should be in line with existing European legislation and with the action and instruments proposed in the Environmental Technologies Action Plan (ETAP).

- Energy intensity of the economy

Guideline n°12. To extend and deepen the Internal Market, MSs should: 1. speed up the transposition of Internal Market directives; 2. give priority to stricter and better enforcement of Internal Market legislation; 3. eliminate remaining obstacles to cross-border activity; 4. apply EU public procurement rules effectively; 5. promote a fully operational internal market of services, while preserving the European social model; 6. accelerate financial market integration by a consistent and coherent implementation and enforcement of the Financial Services Action Plan.

- Market integration – trade integration of services

Guideline n°13. To ensure open and competitive markets inside and outside Europe, reap the benefits of globalisation, MSs should give priority to: 1. the removal of regulatory, trade and other barriers that hinder competition; 2. a more effective enforcement of competition policy; 3. selective screening of markets and regulations by competition and regulatory authorities in order to identify and remove obstacles to competition and market entry; 4. a reduction in State aid that distorts competition; 5. in line with the upcoming Community Framework, a redeployment of aid in favour of support for certain horizontal objectives corresponding to well-identified market failures; 6. the promotion of external openness, also in a multilateral context; 7. full implementation of the agreed measures to open up the network industries to competition in order to ensure effective competition in European wide integrated markets. At the same time, the delivery, at affordable prices, of effective services of general economic interest has an important role to play in a competitive and dynamic economy.

- Price of telecommunications (national calls)
- Market share of the largest generator in the electricity market

Guideline n°14. To create a more competitive business environment and encourage private initiative through better regulation, MSs should: 1. reduce the administrative burden that bears upon enterprises, particularly on SMEs and start ups; 2. improve the quality of existing and new regulations, while preserving their objectives, through a systematic and rigorous assessment of their economic, social (including health) and environmental impacts, while considering and making progress in measurement of the administrative burden associated with regulation, as well as the impact on competitiveness, including in relation to enforcement; 3. encourage enterprises in developing their corporate social responsibility

- Business investment (gross fixed capital formation by the private sector as a % of GDP)

Guideline n°15. To promote a more entrepreneurial culture and create a supportive environment for SMEs, MSs should: 1. improve access to finance, in order to favour their creation and growth, in particular micro-loans and other forms of risk capital; 2. strengthen economic incentives, including by simplifying tax systems and reducing non-wage labour costs; 3. strengthen the innovative potential of SMEs, and 4. provide relevant support services, like the creation of one-stop contact points and the stimulation of national support networks for enterprises, in order to favour their creation and growth in line with Small firms' Charter. In addition, MSs should reinforce entrepreneurship education and training for SMEs. They should also facilitate the transfer of ownership, modernise where necessary their bankruptcy laws, and improve their rescue and restructuring proceedings. See also integrated guidelines "To promote a growth, employment orientated and efficient allocation of resources" (n°3) and "To facilitate all forms of innovation" (n°8), n° 22 and 23.

- Business demography – survival rate of enterprises

Guideline n°16**. **To expand, improve and link up European infrastructure and complete priority cross-border projects with the particular aim of achieving a greater integration of national markets within the enlarged EU. MSs should: 1. develop adequate conditions for resource-efficient transport, energy and ICT infrastructures – in priority, those included in the TEN networks - by complementing Community mechanisms, notably including in cross-border sections and peripherical regions, as an essential condition to achieve a successful opening up of the network industries to competition; 2. consider the development of public-private partnerships; 3. consider the case for appropriate infrastructure pricing systems to ensure the efficient use of infrastructures and the development of a sustainable modal balance, emphasizing technology shift and innovation and taking due account of environmental costs and the impact on growth.

- Market share of the largest generator in the electricity market (2)
- Price of telecommunications (national calls) (2)

Annex II

Quality features of the key indicators for use in surveillance

Proposed indicators	SI yes/no	1. Robustness - i.e. accuracy and comparability over time and space	2. Coverage - EU25, ACC/CC, US/JP	3. Time lag - periodicity and timeliness t = reference period/year
Real GDP growth rate	Yes	Good overall assessment of accuracy. High comparability over time and space.	EU-Member States, Euro-zone, EU-25, EU-15, US, Japan, Norway, Iceland; in part also for Candidate Countries	Annual
Public Balance	Yes	Good overall assessment of accuracy. High comparability over time and space.	EU25: 1991-2005 for EU15, 1998-2005 onwards for EU25 ACC/CC: 1997-2004, HR 2001-, MK no data US/JP: 1991-2004	Annual data t+2 months t+8 months revised data Most recent data: 2005
Public debt (i.e. general government debt)	Yes	Good overall assessment of accuracy. High comparability over time and space.	EU25: 1991-2005 for EU15, 1998-2005 onwards for EU25 ACC/CC: 1997-2004, HR 2001-, MK no data US/JP: 1991-2004	Annual data t+2 months t+8 months revised data Most recent data: 2005
Total employment rate of older workers	Yes	Data is collected from reliable sources applying high standards with regard to the methodology and ensuring comparability.	EU25: 1991 for 13 MS, by 2000 onwards full EU25 coverage ACC/CC: 1997 1 ACC/CC, by 2002 4 ACC/CC, MK no data US/JP: 1992-2004	Annual. T+12 weeks Most recent data 2005
Public capital investment as % of GDP-Gross fixed capital formation	Yes	Good overall assessment of accuracy. High comparability over time and space.	EU 25: 1991 for 15 MS, by 2000 onwards full EU 25 coverage ACC/CC: BG: 1991-2001, RO: 1998-2004 IC: 1990-2004, NO: 1990-2005 JP/US: no data	Annual: t+3, t+8 months (new legislation proposal: t+9) Most recent data 2005

Labour productivity per person employed	Yes	Data is collected from reliable sources applying high standards with regard to the methodology. Restrictions in comparability over time are related to the construction of the indicator as such rather than to shortcomings with regard to data production and are well documented and explained.	EU25: 1995 for EU23, 2000 onwards for EU 24 ACC/CC:1995 -2005, RO-1999 onwards, MK no data US/JP:1995-2005	Annual data t+5 months, revised data t+10 Most recent data 2005
Real unit labour cost growth	Yes	Good overall assessment of accuracy. High comparability over time and space.	EU-Member States, Euro-zone, EU-25, EU-15, US, Japan, Norway, Iceland; in part also for Candidate Countries	Annual
S2 sustainability gap indicator	No	The indicator is under the responsibility of DG ECFIN.		
Inflation rate	Yes	High overall assessment of acuracy & comparability both over time and space. US/JP publish CPI wich is not fully comparable with HICP published by EU	EU25: 1997 onwards ACC/CC: 1997 onwards, HR, MK: no data US/JP: 1991 onwards	Annual data calculated on monthly base data t+18 days after end of ref month
GERD	Yes	Data is collected from reliable sources applying high standards with regard to the methodology –as laid down in the Frascati Manual (OECD, 2002) and ensuring a high degree of comparability.	EU25: from 1991 for 17 MS, 2003 EU25 ACC/CC: from 1991 for 2 countries, 2002 4 countries, MK no data US/JP: 1991-2003	Annual data t+18 with release t+21 Most recent: 2004/2005
GERD financed by industry	Yes	Data is collected from reliable sources applying high standards with regard to the methodology –as laid down in the Frascati Manual (OECD, 2002) and ensuring a high degree of comparability.	EU25: from 1991 for 17 MS, 2003 EU25 ACC/CC: from 1991 for 2 countries, 2002 4 countries, MK no data US/JP: 1991-2003	Annual t+18 with release t+21 Most recent: 2004/2005
Patents - EPO	Yes	Data is collected from reliable sources applying high standards with regard to the methodology and ensuring a high degree of comparability.	EU25: from 1991 for 22 MS, 1999 EU25 ACC/CC: from 1991 for 3 countries, 2002 4 countries, TR 2003 only, MK no data US/JP: 1991-1999	Annual 2 years after the end of the reference period data are quite definitive for EPO, 4 years for USPTO

Venture capital investment - early stage	Yes	Good overall assessment of accuracy.	EU25: from 1991 for 13 MS, 2001 19 MS, EE, CY, LU, HU, MT, SI no data ACC/CC: RO 2000, rest no data US/JP: US 1995-2002, JP no data	Annual t+ 7 months Most recent: 2004
Level of Internet access by households	Yes	High assessment of accuracy and comparability both over time and space.	EU25: from 2002 for 15 MS, 2004 22 MS ACC/CC: BG/MK/RO/TR 2004, HR no data US/JP: 2002-2004	Annual. Data generally delivered to ESTAT 4th quarter of the ref year. Most recent data: 2005
High-tech exports	Yes	High assessment of accuracy and comparability over time whilst restricted spatial comparability. Data is collected from reliable sources applying high standards with regard to the methodology. Shortcomings with regard to the comparability across countries are assessed and well documented	EU25: from1991 for EU15 (exc LU), 1999 EU25 ACC/CC: 1999 BG/RO/TR, HR/MK no data US/JP: 1991-2003	Annual. The indicator is compiled twice a year: June & Nov. Most recent data: 2004
Energy intensity of the economy	Yes	Data is collected from reliable sources applying high standards with regard to the methodology ensuring a high degree of comparability across countries. Restrictions in comparability over time are related to the construction of the indicator as such rather than to shortcomings with regard to the underlying methodology and are well documented and explained.	EU25: 1991-2004 ACC/CC: 1991-2004 BG/RO/TR, HR 1995-2004, MK no data US/JP: 1991-2003	Annual. t+18 months Most recent data: 2004

Market integration – trade integration of services	Yes	High overall assessment of accuracy and comparability over time and space.	EU25: from 1992 for 12 MS, 2002 full EU25 coverage ACC/CC: 1993 BG/TR, 1998 RO, HR/MK no data US/JP: 1991-2004	Annual t + 11-13 months. Preliminary data, with limited detail for partners and posts, are released 9 months after the reference period. Most recent data 2005
Market share of the largest generator in the electricity market	Yes	High overall assessment of accuracy and comparability over time and space (for electricity market).	EU25: 1999-2004 to a max total of 22 MS ACC/CC: 1999-2004 TR, 2004 3 countries, BG/MK no data US/JP: no data Confidentiality issue for a couple of countries.	Annual. t+18 months Most recent data 2004
Price of telecommunications (to US)	Yes	Data is collected from reliable sources applying high standards with regard to the methodology. Accuracy is hampered as the indicator presents a very narrow scope for one service only. However, only by choosing this kind of indicator, it is possible to ensure comparability across countries.	EU25: 1997 for 15 MS, 2002 onwards full EU25 coverage ACC/CC: no data US/JP: 1997-2004	Annual. Most recent data: 2004

Business demography – survival rate of enterprises	Yes	Comparability within ESS is good but not with US/Japan because of different methodologies (coverage of self-employment definition of demographic events statistical units). Data collections at national level are conducted using a harmonized methodology which is documented in the Business Demography Recommendations Manual. The data collection benefits from a high degree of harmonization of the business registers. Some national particularities in terms of identification of demographic events the use of administrative sources and coverage of units do however occur.	EU25: 1991 for 9 MS and by 2003 15 MS ACC/CC: RO 2002-2003, BG/HR/MK/TR no data US/JP: no data	Annual. t + generally published within 2 calendar years of the end of the reference year. Most recent data: 2003
Business investment (gross fixed capital formation by the private sector as a % of GDP)	Yes	Data is collected from reliable sources applying high standards with regard to the methodology and ensuring a high degree of comparability.	EU25: 1991 for 13 MS and by 1999 onwards full EU25 coverage ACC/CC: 1991-2004 BG, RO/TR 2001-2002, HR/MK no data US/JP: no data	Annual. T + 17 months. Most recent data 2004
Employment rate, also Employment rate female	Yes	High overall assessment of accuracy and comparability over time and space. Data is collected from reliable sources applying high standards with regard to the methodology and ensuring high comparability.	EU25: 1991 for 13 MS, by 2000 onwards full EU25 coverage ACC/CC: 1997 1 ACC/CC, by 2002 4 ACC/CC, MK no data US/JP: 1992-2004	Annual. t+12 weeks Most recent data 2005

Long-term unemployment rate	Yes	Data is collected from reliable sources applying high standards with regard to the methodology. Shortcomings with regard to comparability across countries are not sufficiently assessed. A task-force took place in 2005 and 2006 in order to improve the comparability of definitions for the Labour Force Survey variables, including those used to build this indicator. The overall assessment may be changed depending on the implementation of these new guidelines by Member States from 2008 onwards.	EU25: 1991-2005 for 11 MS, by 2000 onwards full EU25 coverage ACC/CC: 1997 1 ACC/CC, by 2002 4 ACC/CC, MK no data US/JP: 1992-2004	Annual. t+12 weeks Most recent data 2005	
Science and technology graduates	Yes	EU25: 1993-2004 for 13-22 MS ACC/CC: 1997-2004 2-5 ACC/CC, by 2003 full coverage US/JP: US 1993-2004, JP 1995-2004	Annual t+18 months Most recent data 2004		

Annex III: Caveats with the Key Indicators for use in surveillance

Key indicators	Caveats
Public capital investment as share of GDP	Not all public capital investment is growth enhancing
Labour productivity	It should be kept in mind that this indicator does not take into account the structure of employment and therefore may for instance not properly reflect the impact of part-time employment. This may reduce its comparability across countries. The indicator is indexed to the EU average (EU-25=100). Rescaling of the indicator following enlargement has to be taken into account when comparing it with previous releases. The indicator is constructed primarily for spatial comparison and not for comparison over time.
S2 sustainability gap indicator	This is a synthetic indicator and therefore dependent on the assumptions underpinning it. As it is based on projections it will be particularly important to take on board the qualitative judgements on long term fiscal sustainability reached and agreed upon by the Council in the annual assessments of Member States Stability and Convergence Programmes
Public debt	It does not take into account contingent liabilities
Employment rate of older workers	Persons living in institutional households (halls of residence, medical care establishments, religious institutions, collective workers' accommodation, hostels etc) are not included that reduces accuracy of the data.
Employment rate total/female	Persons living in institutional households (halls of residence, medical care establishments, religious institutions, collective workers' accommodation, hostels etc) and persons carrying out obligatory military service are not included that reduces accuracy of the data. They represent on average less than 2% of the working age

	population.
GERD	The optimal level of GERD depends on a Member State's position in relation to the technology frontier and the composition of the economy – with SME based economies having a lower optimal level of R&D spending GERD includes total intramural expenditure on R&D performed within a country, funded nationally and from abroad but excludes payments for R&D performed abroad. To complete the picture, information on international purchases of R&D performed abroad should be taken into account. Moreover, an emerging EU emphasis on encouraging international collaboration in R&D may not be fully revealed as recording each partner's actual (intramural) R&D expenditure only understates the investment, provided all parts have full access to the outcome of the project. For some countries which attract significant foreign direct investments, a use of GDP as denominator restricts relevance as while these investments are visible in GDP and high-tech exports figures for countries where investments are made, R&D work may be performed in investors countries and they are not visible in R&D expenditure figures for the countries where the investments are made. In these cases it would be better to use Gross National Income (GNI) as denominator, provided all transactions between R&D-exporting and importing countries are measured. Measurement problems may occur in case of multi-nationals.
Business expenditure on Research and Development	As with GERD, the optimal level is affected by both the position of the Member State in relation to the technology frontier and the composition of the economy.
Patents	Patents typically reflect product rather than process innovation – which is important in some economies.

	This measure does not capture research collaboration in the way that a measure of triadic patents might do. Concerning the last reference years 2003 and 2004 due to delays in the underlying administrative procedures for patenting the number of patent applications to the EPO is much lower for the two years mentioned and will increase considerably in the years to come. Not all inventions are patented and not all patents have the same value.
Venture capital investment	In some countries reliable databases on venture capital are still being constructed. Management buyouts, management buy-ins and venture purchases of quoted shares are excluded.
High tech exports	The fact that this indicator reflects the specialisation of a country in certain economic sectors hampers to some degree a clear normative interpretation in a policy context. This indicator should also be seen together with the data on foreign direct investments.
Energy intensity of the economy	A Member State may score well on this indicator by substituting domestically produced goods for foreign produced goods. This indicator might not capture environmental concerns perfectly – for example an economy which used 100% renewable energy could still be energy intense. The relevance is restricted as GDP is calculated in prices of 1995 i.e. a price structure and exchange rates of 1995 are used. This affects comparability over time as changes in price structure and exchange rates are not taken into account. The relevance is restricted as GDP is calculated in Euro which affects comparability in particular with the US and Japan through exchange rate effects.

Market integration – trade integration of services	As FDI is still by large the main mode of service export supply, the indicator captures only a small percentage of service transactions (namely cross border ones). The indicator is thus biased towards economies specialised in tradable services (finance, ITC, business services). Data on FDIs (establishments) in the service sector could be integrated in future.
Price of telecommunications (national calls)	This is a narrowly focussed indicator looking only at a sector that has experienced a significant degree of deregulation – so it should be used with caution as a basis for looking at the openness and competitiveness of markets in general.
Market share of the largest generator in the electricity market	This indicator covers only one sector and it captures only the incumbent's market power, unlike the Herfindal index of market concentration. This indicator fails to capture sub-national competition issues. For example if each region in a country had a single generator the level of competition at a national level would appear to be high whereas the reality at a regional level would be monopoly supply.
Business investment (gross fixed capital formation by the private sector as a % of GDP)	Private investments are linked to structural characteristics of the economy but also to the economic cycle
Business demography – survival rate of enterprises	Fails to capture the creation of new enterprises. Data not available for all Member States

Annex IV: Overview on proposals by EPC members for improvements in the Eurostat SI database and reaction by Eurostat

Indicator	Proposal	Eurostat reaction
GENERAL ECONOMIC BACKGROUND		
GDP/Capita	This indicator does not consider the transfrontalier workers issue.These workers do not contribute to the GDP per capita. To overcome this limit it should be used GNI per inhabitant.	ESTAT agrees. However, most countries are not affected in such a significant way. Coverage and timeliness are better for GDP than for GNI, and despite the aspect mentioned, GDP per head is a much better established indicator. It could be considered to add GNI per head as a separate indicator. But this additional indicator would show significantly different values only for LU and IE, so its interest/justification for the whole EU may be doubted.
Labour productivity and Unit labour cost growth	To have both indicators distinguished by manufactures and services sectors	It would imply to go from 3 to 9 indicators. ESTAT does not think that is worthwhile. The information is currently not available on ESTAT website. The necessary source data is available in principle to calculate them, in particular for the EU, but country data coverage would be worse than for the total, in particular for unit labour cost.
Labour productivity per person/hour	Productivity per hour is seen as a better indicator than productivity per person employed. It reflects labour market developments when part time and temporary jobs represents a significant part of employment.	ESTAT is working on it.
Employment Growth, Unit Labour Cost Growth	This indicator does not take into account the structure of employment and therefore may for instance not properly reflect the impact of part-time	The remark is correct. To cover the impact of part-time jobs employment should be measured in terms of hours worked. Such data have become recently available on an annual

	employment. This may reduce its comparability across countries.	basis for most Member States in the framework of national accounts. Work on getting full country coverage is ongoing.
EMPLOYMENT		
Gender pay gap in unadjusted form	Restricted comparability between the countries due to different sources for the indicator (Labour Force survey, LFS; EU Statistics on Income and Living Conditions, EU-SILC; Structure of Earnings Survey, SES; Registers….). Possible solutions: Harmonisation of the data source, ex-post harmonisation by Eurostat.	Further improvements of the 'Gender pay gap' indicator are under discussion within the European Statistical System.
Life-long learning and Early school leavers	Data referring to informal learning should be collected on the basis of more clear and reliable definition or one should be very cautious while interpreting data. It seems that from the respondent's point of view and because of some cultural differences there may exist different interpretations of what learning is.	The various breaks in series to achieve better comparability among countries are addressed. There is however room for improvement on the basis of the new Adult Education Survey.
INNOVATION AND RESEARCH		
Science and technology graduates	There are some tensions between the classification of educational programmes according to the International Standard Classification of Education (ISCED) and the recognition of the corresponding qualifications with respect to the labour market exists with some variability by country. In addition, figures on graduates partly include double-counting, especially on ISCED 5A and over time, respectively.	The ISCED mappings give information on which educational programmes are covered in each country and can be used for clarifying the issue. Since 2005, information is also collected on qualifications, e.g. a mapping of qualifications (the quality of this information is being reviewed at the moment by the international data requesters). The issue of double-counting of graduates has been reviewed and it was concluded that the problem was not important. Data are collected on both number of graduations and graduates. For the very few countries where national systems allow for multiple graduations within

		the same reference period, the risk of double-counting can be checked.
Venture Capital Investments - Expansions and replacement	To refer exclusively to "Expansions“ and not to "Replacement”	The indicators are based on the data provided by EVCA (European Venture Capital Association) as published in their Yearbook. The two published indicators are built to reflect the total investments according to the different stage: early stage (seed + start-up) and expansion and replacement (expansion and replacement capital). ESTAT is therefore not in favour of withdrawing or separating the replacement capital in the structural indicator. ESTAT could however think of separating the four different stages in the domain data.
ICT expenditure	II.7.1 and II.7.2 should be merged, since most studies look at entire ICT sector and the sub-sectors.	Ongoing EITO indicator work to improve the situation. Merging the Information Technology and Telecommunication Indicators is as simple as adding up the two and there we would get the ICT Indicator. Presenting the two separately gives an opportunity to the user to identify which part of the ICT expenditure comes from IT, and which one from telecomm. If we want to save space and if indeed the separate figures are not requested then it is very simple to merge the two ones into one indicator.
E-Commerce - Percentage of enterprises' total turnover from E-Commerce	Unclear name of indicator. New name proposed: "Internet-Commerce" or "E-Commerce via Internet"	Valid comment. Eurostat has already implemented the appropriate changes.
Youth education attainment level	Definition accepted in the UNESCO/OECD/EUROSTAT (UOE) data collection manual differs from that used by the European Commission. The criterion that is used refers only to the length of programme but not to the content. This can encourage some countries to "upgrade" the implicit duration of programmes classified at ISCED	The current structural indicators referring to ISCED are based on the LFS. This survey is the first statistical source where a slight adaptation of the ISCED-1997 was decided for harmonisation purpose. All changes in ISCED classification need cooperation at international level (via UNESCO) and it is very likely that this discussion will start in the next months.

	3C. The criteria should be better defined and take into account the objective of the programme rather than its duration. Additionally definition used by the EU should be consistent with that used by the OECD.	
High Tech Exports	Indicator ought to be improved. It does not reflect medium-tech industries (engineering, chemistry or motor car industry), which are also very innovative. In addition to high-tech exports, the Commission (DG Enterprises) also uses in its European Innovation Scoreboard 2005 the indicator “Share of Employees in high- and medium-tech industries. It is therefore suggested to use this indicator.	The indicator on high tech exports is based on an aggregation of high tech products exported by high tech and also medium high tech industries. It could possibly be complemented by the indicator on the "share of employees in high and medium high-tech industries" which is based on an aggregation of certain industries. But Eurostat would not be in favour to replace the high tech export indicator by the one on high and medium-high tech employment. Eurostat is currently working on a revision of the High Tech domain, aiming namely to an extension of the list of indicators, including more information on the different High Tech sectors among which the Medium High Tech sector. Those developments should certainly be reflected in the structural indicator set.
ECONOMIC REFORM		
Comparative price levels	To have the relative price level for both tradable and non tradable sectors.	Valid proposal. The technical work on it is finalised and the numbers could be published regularly.
	Purchase Power Parities (PPP) need to be urgently improved since they do not seem to reflect correctly the price levels relative to the purchase power in EU countries. Not suitable as an indicator for competition.	The suitability to use this indicator for evaluating competition is questioned and it is suggested that the indicator should not be at aggregated level but at partial market level. However, the current PPP exercise is targeted at the overall GDP level and a very few main aggregates as e.g. total private household consumption. The underlying price samples do not allow constructing more detailed indicators of price convergence.

	Should be improved by removal of tax/duty components.	The existing indicator and the newly proposed one would both have analytical value. Removing tax and duty, however, is very resource intensive. Doing it as a regular exercise is therefore probably not feasible. However, a study could be envisaged, if the necessary resources are available.
Gas Prices	Indicators are satisfactory regarding scope and customer segments. New indicators are not necessary. It would be helpful to reduce the time-lag between the price surveys and publication.	Due to liberalisation of the electricity and gas markets, increased delays have been observed in reporting gas and electricity price data. The maximum delay for reporting is 60 days after the reference date (e.g. 1st January prices must be reported within 2 months, being before 28th February). For instance, German gas prices for industrial consumers were received 124 days, being 64 days late! The comment is correct, but in order to reduce the time lag between the survey and the publication, obligations on reporting delays as defined in Council Regulation 90/377/EEC should be respected.
Public procurement	To replace the denominator, GDP, by a measure of the public sector's size	The indicator measures the value of public procurement (as advertised in the Official Journal) which is openly advertised, as a percentage of GDP. The indicator could also be calculated as a % of total public procurement. Although a comparison to "total public procurement" is not quite the same as to "the public sector's size" since it includes the various utility sectors whether or not they are in public ownership, it could be considered as a very similar measure.
Business demography	The international comparability of the business demography (BD) data needs still to be improved; although not all Members States are yet in a position	Comparability at international level is still to be improved. However, a high degree of comparability has already been achieved with the development of the Business

	to provide data.	Demography Recommendations Manual. Co-operation has also started with the OECD to develop a harmonised framework to improve comparability with (other) OECD countries. The recast Council Regulation on Structural Business Statistics (SBS) is expected to make the data collection on BD compulsory probably from 2007 onwards, thus further increasing the number of participating countries.
SOCIAL COHESION		
Dispersion of regional employment rates	This indicator cannot be calculated for Luxembourg, Denmark, Ireland, Cyprus, Estonia, Lithuania, Latvia, Malta and Slovenia. Those countries are too small to have regions at NUTS 2 level.	Valid comment. This indicator could in future be calculated using data at NUTS 3 level. The advantages of this solution would be to improve both the precision of the dispersion measurement and the country coverage, while the concurrent disadvantage could be a slightly reduced comparability between countries because of the use of various information sources.
ENVIRONMENT		
Share of renewable energy	The indicator compares two aspects which are correctly not comparable (a special part of production with the overall consumption). The "electricity produced from renewable energy sources" should not be compared with "gross national electricity consumption" but with "overall national electricity production" or the "gross national electricity consumption" shall be compared with "consumption of electricity produced from renewable energy sources".	The statement is in principle correct. However, Council Directive 2001/77/EEC of 27 September 2001, article (7) defines that: "The Commission should assess to what extent Member States have made progress towards achieving their national indicative targets and to what extent the national target of 12% of gross domestic energy CONSUMPTION by 2010, considering..... etc" This structural indicator has thus been defined accordingly to measure the compliance to the Council Directive.
PROPOSALS FOR NEW INDICATORS		
Level of electricity interconnections (as % of installed production capacity)		The basic information related to interconnection capacity is already collected by ESTAT in the questionnaire on competition indicators. More or less complete information is available for 22 Member States, + RO + BG + TR +HR. Technically is would thus be possible to develop this

		indicator. However, this request would have to be approved at the appropriate level with sufficient support from other MS.
Internal labour mobility		There are several types of mobility: geographical (region to region, country to country - source EU LFS or EU-SILC), job tenure (time spent with the same employer including promotions, etc. - source EU LFS), and transitions from employment/unemployment/inactivity into employment/unemployment/ inactivity. This latter belongs the 2005 employment guidelines and is measured through a panel of individuals (ECHP and soon EU-SILC).
Effective age of retirement		ESTAT and DG Employment are drafting a background document for a quality profile for the indicator 'average exit age of the labour force'. The indicator proves to lack stability in certain countries. Alternatives and/or improvements have to be found. There is no other indicator of age of retirement available at EU level.
Openness and integration	Openness and integration into the world economy are strong growth drivers and indicators on national level should be complemented with indicators at the EU-level for FDI and trade restrictiveness index in the spirit of the World bank indicator. Further, policy indicators on the framework conditions (in line with OECD PMR-indicators) should be developed	ESTAT agrees that this is a valid point.
Migration	Improvements could be made to incorporate the impact of migration, particularly in terms of the classification of employment indicators by nationality, as well as by the existing divisions of age, sex etc. For some indicators such disaggregation already exists, however, others e.g. Gender Pay Gap in Unadjusted form and Average Exit Age from the Labour Market, do not take account of region or nationality explicitly.	Country of birth becomes the preferred indicator (see the work of the Social Protection Committee on this issue). Data by nationality area already part of the indicators for the monitoring of the employment guidelines. Employment and unemployment rates are available on ESTAT website. The average exit age from the labour force can not be calculated by nationality or region due to the low sample size of the reference survey used for this indicator (LFS).

		The source proposed by ESTAT to improve the comparability of the indicator gender pay gap is the Structure of Earnings Survey. Gender Pay Gap: It will be considered together with Member States in the autumn which breakdowns (if any) would be possible in the future.
Age and gender breakdowns	There is a need for more of age and gender breakdowns for different indicators, for example in the area of social cohesion and employment in order to get a better picture	All indicators which can be calculated by gender are also available. Different age groups are available for the main employment indicators (employment and unemployment), both on ESTAT webpages on the monitoring of the employment guidelines (EMCO).
Employment rates for 65-74 year olds	In the face of an ageing population and a higher dependency ratio in many European countries there should be an indicator measuring the employment rate for people aged 65-74 since the labour supply of these individuals is crucial for public finances in the future.	The calculation of an employment rate of persons aged 65-74 is feasible for most countries (reliability problems due to small sample size in very few Member States). It is already available on ESTAT website. It would however be better to foresee such indicator as a breakdown of the employment rate under the employment guidelines and discuss its possible interpretation at policy level (targets are defined for persons aged 55-64 but not older than 65).

Annex V

Benchmarking - example

The table and graph below gives an example of the way in which indicators could be presented to show both level and change and a benchmark against EU25, EU15, and euro area average.

	Structural Indicators															
	Headline		Energy				Labour Markets									
	Real GDP growth		Market share of the largest generator in the electricity market		Energy intensity*		Labour Productivity per person employed**		Total employment rate***		Total employment rate – female****		Employment rate - older workers*****		Long term unemployment rate******	
	2000	2005	2000	2004	2000	2004	2000	2005	2000	2005	2000	2005	2000	2005	2000	2005
EU (25 countries)	**3.9**	**1.7**	**n.a.**	**n.a.**	**208.8**	**204.9**	**100.0**	**100.0**	**62.4**	**63.8**	**53.6**	**56.3**	**36.6**	**42.5**	**3.9**	**3.9**
EU (15 countries)		**2.0**		**n.a.**		**187.5**		**105.5**		**65.2**		**57.4**		**44.1**		**3.3**
Euro area		**1.8**		**n.a.**		**n.a.**		**105.0**		**63.5**		**55.2**		**40.4**		**3.8**
Belgium	3.9	1.2	91.1	87.7	236.1	208.2	125.8	127.9	60.5	61.1	51.5	53.8	26.3	31.8	3.7	4.4
Czech Republic	3.6	6.1	69.2	73.1	888.4	851.8	58.1	65.8	65.0	64.8	56.9	56.3	36.3	44.5	4.2	4.2
Denmark	3.5	3.0	36.0	43.0	125.0	120.3	104.9	106.5	76.3	75.9	71.6	71.9	55.7	59.5	0.9	1.1
Germany	3.2	0.9	34.0	n.a.	159.7	158.8	101.2	101.4	65.6	65.4	58.1	59.6	37.6	45.4	3.7	5.0
Estonia	10.8	10.5	91.0	93.0	1214.8	1140.2	43.5	58.6	60.4	64.4	56.9	62.1	46.3	56.1	5.9	4.2
Greece	4.5	3.7	97.0	97.0	263.6	240.4	90,4 (e)	98,4 (e)	56.5	60.1	41.7	46.1	39.0	41.6	6.2	5.1
Spain	5.0	3.5	42.4	36.0	227.0	222.5	97.5	97.3	56.3	63.3	41.3	51.2	37.0	43.1	4.6	2.2
France	4.0	1.2	90.2	90.2	186.6	185.5	122.0	119.0	62.1	63.1	55.2	57.6	29.9	37.9	3.5	3.9
Ireland	10.2	5.5	97.0	83.0	175.1	156.9	121.8	127.4	65.2	67.6	53.9	58.3	45.3	51.6	1.6	1.5
Italy	3.6	0.0	46.7	43.4	186.9	189.1	121.2	108.0	53.7	57.6	39.6	45.3	27.7	31.4	6.3	3.9
Cyprus	5.0	3.8	99.6	100.0	282.3	261.8	79.2	75.6	65.7	68.5	53.5	58.4	49.4	50.6	1.2	1.2
Latvia	6.9	10.2	95.8	91.1	756.0	696.3	38.3	46.3	57.5	63.3	53.8	59.3	36.0	49.5	7.9	4.1
Lithuania	4.1	7.6	72.8	78.6	1208.4	1135.6	40.8	53.1	59.1	62.6	57.7	59.4	40.4	49.2	8.0	4.3
Luxembourg	8.4	4.0	n.a.	80.9	186.6	194.3	159.2	160.9	62.7	63.6	50.1	53.7	26.7	31.7	0.6	1.2
Hungary	8.1	4.2	41.3	35.4	600.5	534.1	61.7	69.8	56.3	56.9	49.7	51.0	22.2	33.0	3.1	3.2
Malta	6.4	2.2	100.0	100.0	303.2	292.4	90.2	80.4	54.2	53.9	33.1	33.7	28.5	30.8	4.4	3.4
Netherlands	3.9	1.5	n.a.	n.a.	198.5	203.2	105.0	107.8	72.9	73.2	63.5	66.4	38.2	46.1	0.8	1.9
Austria	3.4	2.0	32.6	n.a.	134.4	146.1	n.a.	n.a.	68.5	68.6	59.6	62.0	28.8	31.8	1.0	1.3
Poland	4.2	3.2	19.5	18.5	680.2	596.6	58,0 (e)	63.0	55.0	52.8	48.9	46.8	28.4	27.2	7.4	10.2
Portugal	3.9	0.4	58.5	55.8	241.5	239.6	71.9	65,5 (f)	68.4	67.5	60.5	61.7	50.7	50.5	1.7	3.7
Slovenia	4.1	4.0	n.a.	53.0	341.7	329.2	69.7	76.9	62.8	66.0	58.4	61.3	22.7	30.7	4.1	3.1
Slovakia	0.8	3.4	85.1	83.7	955.9	854.3	54.5	62.1	56.8	57.7	51.5	50.9	21.3	30.3	10.3	11.7
Finland	5.0	2.9	23.3	26.0	260.1	272.1	110.9	108.3	67.2	68.4	64.2	66.5	41.6	52.7	2.8	2.2
Sweden	4.3	2.7	49.5	47.0	215.0	217.5	106.6	104.4	73.0	72.5	70.9	70.4	64.9	69.4	1.4	1.2
United Kingdom	3.8	1.9	20.6	20.1	227.3	207.2	103.4	106.6	71,2 (b)	71.7	64,7 (b)	65.9	50,7 (b)	56.9	1.4	1.0

(f) Forecast

(e) Estimated value
(b) Break in series

* Gross inland consumption of energy divided by GDP - at constant prices, 1995 - kilogram of oil equivalent per 1000 €
** GDP in Purchasing Power Standards - PPS - per person employed relative to EU-25; EU-25 = 100
*** Number of persons aged 15 to 64 in employment by the total polulation of the same age group; %
**** Number of women aged 15 to 64 in employment by the female polulation of the same age group; %
***** Number of persons aged 55 to 64 in employment by the total polulation of the same age group; %
****** Persons aged at least 15 who have been unemployed for 12 months or more divided by the total labour force (employed and unemployed persons); %

Source: Eurostat

Annex VI

OECD approach to use of indicators in surveillance

In a presentation to the Task Force the OECD summarised their use of indicators in the Going for Growth process as follows:

- A regular cross-country structural surveillance based to an important extent on joint benchmarking of performance and policies.

- The overall objective: Increase GDP per capita and speed up convergence in living standards.

- Selection of five policy priorities:
  - Three priorities based on explicit benchmarking
  - Two priorities determined on the basis of country expertise

- Principle:
  - Deviation from best-practice in policy area considered as a candidate for policy priority only if a weak performance is also identified in the area affected by policy.
  - Policy areas are chosen on the basis of proven empirical link with related performance area.

- Motivation:
  - Avoids one-size-fits-all policy recommendations
  - Helps to minimise the problem of potentially misleading indicators
  - Similar performance outcomes may be achieved with different policy packages

- Step 1: Identification of policy areas candidates for priorities for each country

  - Matching of specific performance area and related policy settings.

  - OECD average set as benchmark

  - When countries are found to lie below OECD average in both a specific performance and the related policy area, the latter becomes a candidate for priority.

- Step 2: Identifying the 3 priorities among the potential candidates
  - Result from Step 1 is that the number of candidates may vary across countries from less than three (*e.g*. New Zealand) to much more than 3.
  - Second set of criteria is required to either discriminate among candidates or to identify "relative" priorities
- Case of discrimination : 2nd set of criteria
  - In the case of performance indicators in levels: direction and speed of change in recent period
  - Size of the impact on performance area (and ultimately GDP per capita) of narrowing the gap vis-à-vis OECD average in policy setting
    - Combines information about size of parameter in empirical work with distance from the mean (overall multiplicative effect)
    - Careful use of empirical results, especially in interpretation of parameter size
  - Judgement and local expertise
- Case of insufficient candidates : 2nd set of criteria
  - In the case of performance indicators in levels: direction and speed of change in recent period
  - Identify areas of "relative" weaknesses in either performance or policy settings
    - Areas closest to OECD average
  - Judgement and local expertise
- Step 3: Identifying the additional 2 priorities
  - May or may not be based on indicators
  - Motivation: There remain important policy areas that are not (and may never) be assessed on the basis of quantitative indicators
- Step 4: Formulation of concrete policy recommendations for each of the selected priorities

  - What it is exactly that policy makers should do.
  - Same policy indicator need not imply same policy recommendation in every country.
  - Importance of country-specific context and institutions
  - Expertise from country desks. Feedbacks from Member States

- For less-well performing, important policy prescriptions left out

- For good performers, lead to policy priorities that may not seem strikingly pressing
  - May also include policy priorities not selected for other countries even if policy setting is further away from best practice in the latter.

- How best to treat cross-border issues in the context of country-specific priorities
  - Recommendations on issues involving international cooperation that are hampering market integration

- How best to take into account interactions between policy areas (and other non-linearities)
  - Difficult to capture empirically

- Regular up-dates (and refinements) of policy indicators