Economic realities are moving faster than political realities, as we have seen with the global impact of the financial crisis. We need to accept that the increased economic interdependence demands also a more determined and coherent response at the political level. The last two years have left

millions unemployed. It has brought a burden of debt that will last for many years. It has brought new pressures on our social cohesion. It has also exposed some fundamental truths about the challenges that the European economy faces. And in the meantime, the global economy is moving forward. How Europe

responds will determine our future. The crisis is a wake-up call, the moment where we recognise that "business as usual" would consign us to a gradual decline, to the second rank of the new global order. This is Europe's moment of truth. It is the time to be bold and ambitious. Our short-term priority is

a successful exit from the crisis. It will be tough for some time yet but we will get there. Significant progress has been made on dealing with bad banks, correcting the financial markets and recognising the need for strong policy coordination in the eurozone. To achieve a sustainable future,

we must already look beyond the short term. Europe needs to get back on track. Then it must stay on track. That is the purpose of Europe 2020. It's about more jobs and better lives. It shows how Europe has the capability to deliver smart, sustainable and inclusive growth, to find the path to create

new jobs and to offer a sense of direction to our societies. European leaders have a common analysis on the lessons to be drawn from the crisis. We also share a common sense of urgency on the challenges ahead. Now we jointly need to make it happen. Europe has many strengths. We have a talented

workforce, we have a powerful technological and industrial base. We have an internal market and a single currency that have successfully helped us resist the worst. We have a tried and tested social market economy. We must have confidence in our ability to set an ambitious agenda for ourselves and then gear our efforts to delivering it. The Commission is proposing five measurable EU targets for 2020 that will steer the process and be translated into national targets: for employment, for research and innovation, for climate change and energy, for education and for combating poverty. They

represent the direction we should take and will mean we can measure our success. They are ambitious, but attainable. They are backed up by concrete proposals to make sure they are delivered. The flagship initiatives set out in this paper show how the EU can make a decisive contribution. We have powerful

tools to hand in the shape of new economic governance, supported by the internal market, our budget, our trade and external economic policy and the disciplines and support of economic and monetary union. The condition for success is a real ownership by European leaders and institutions. Our new

agenda requires a coordinated European response, including with social partners and civil society. If we act together, then we can fight back and come out of the crisis stronger. We have the new tools and the new ambition. Now we need to make it happen. Europe faces a moment of transformation. The crisis

has wiped out years of economic and social progress and exposed structural weaknesses in Europe's economy. In the meantime, the world is moving fast and long-term challenges – globalisation, pressure on resources, ageing – intensify. The EU must now take charge of its future. Europe can succeed if

it acts collectively, as a Union. We need a strategy to help us 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. Europe 2020 sets out a vision of Europe's social market economy for

the 21st century. EU-level instruments, notably the single market, financial levers and external policy tools, will be fully mobilised to tackle bottlenecks and deliver the Europe 2020 goals. As an immediate priority, the Commission charts what needs to be done to define a credible exit strategy, to pursue the reform of the financial system, to ensure budgetary consolidation for long-term growth, and to strengthen coordination within the Economic and Monetary Union. Stronger economic governance will be required to deliver results. Europe 2020 will rely on two pillars: the thematic approach

outlined above, combining priorities and headline targets; and country reporting, helping Member States to develop their strategies to return to sustainable growth and public finances. Integrated guidelines will be adopted at EU level to cover the scope of EU priorities and targets. Country-specific

recommendations will be addressed to Member States. Policy warnings could be issued in case of inadequate response. The European Council will have full ownership and be the focal point of the new strategy. The Commission will monitor progress towards the targets, facilitate policy exchange and

make the necessary proposals to steer action and advance the EU flagship initiatives. The European Parliament will be a driving force to mobilise citizens and act as co-legislator on key initiatives. This partnership approach should extend to EU committees, to national parliaments and national, local and

regional authorities, to social partners and to stakeholders and civil society so that everyone is involved in delivering on the vision. The crisis has wiped out recent progress. The recent economic crisis has no precedent in our generation. The steady gains in economic growth and job creation witnessed

over the last decade have been wiped out. The crisis has been a huge shock for millions of citizens and it has exposed some fundamental weaknesses of our economy. The crisis has also made the task of securing future economic growth much more difficult. The still fragile situation of our financial system

is holding back recovery as firms and households have difficulties to borrow, spend and invest. Our growth potential has been halved during the crisis. Many investment plans, talents and ideas risk going to waste because of uncertainties, sluggish demand and lack of funding. Europe's structural weaknesses have been exposed. Moving out of the crisis is the immediate challenge, but the biggest challenge is to escape the reflex to try to return to the pre-crisis situation. Even before the crisis, there were many areas where Europe was not progressing fast enough relative to the rest of the world. Europe's average growth rate has been structurally lower than that of our main economic partners, largely due to a productivity gap that has widened over the last decade. Much of this is due to differences in business structures combined with lower levels of investment in R&D and innovation, insufficient use of information and communications technologies, reluctance in some parts of our societies to embrace innovation, barriers to market access and a less dynamic business environment. Demographic ageing is accelerating. The combination of a smaller working population and a higher share of retired people will place additional strains on our welfare systems. Global challenges intensify. While Europe needs to address its own structural weaknesses, the world is moving fast and will be very different by the end of the coming decade. Our economies are increasingly interlinked. Europe will continue to benefit from being one of the most open economies in the world but competition from developed and emerging economies is intensifying. Countries such as China or India are investing heavily in research and technology in order to move their industries up the value chain and "leapfrog" into the global economy. This puts pressure on some sectors of our economy to remain competitive, but every threat is also an opportunity. As these countries develop, new markets will open up for many European companies. Global finance still needs fixing. The availability of easy credit, short-termism and excessive risk-taking in financial markets around the world fuelled speculative behaviour, giving rise to bubble-driven growth and important imbalances. Europe is engaged in finding global solutions to bring about an efficient and sustainable financial system. Climate and resource challenges require drastic action. Strong dependence on fossil fuels such as oil and inefficient use of raw materials expose our consumers and businesses to harmful and costly price shocks, threatening our economic security and contributing to climate change. The expansion of the world

population from 6 to 9 billion will intensify global competition for natural resources, and put pressure on the environment. The EU must continue its outreach to other parts of the world in pursuit of a worldwide solution to the problems of climate change at the same time as we implement

our agreed climate and energy strategy across the territory of the Union. Europe must act to avoid decline. There are several lessons we can learn from this crisis. The 27 EU economies are highly interdependent: the crisis underscored the close links and spill-overs between our national economies, particularly

in the euro area. Reforms, or the lack of them, in one country affect the performance of all others, as recent events have shown; moreover, the crisis and severe constraints in public spending have made it more difficult for some Member States to provide sufficient funding for the basic infrastructure they

need in areas such as transport and energy not only to develop their own economies but also to help them participate fully in the internal market. Coordination within the EU works: the response to the crisis showed that if we act together, we are significantly more effective. We proved this by taking common

action to stabilise the banking system and through the adoption of a European Economic Recovery Plan. In a global world, no single country can effectively address the challenges by acting alone; The EU adds value on the global scene. The EU will influence global policy decisions only if

it acts jointly. Stronger external representation will need to go hand in hand with stronger internal co-ordination. The crisis has not just been a one-off hit, allowing us to resume "business as usual". The challenges that our Union faces are greater than before the recession, whilst our room for manoeuvre is limited. Moreover, the rest of the world is not standing still. The enhanced role of the G20 has demonstrated the growing economic and political power of emerging countries. Europe is left with clear yet challenging choices. Either we face up collectively to the immediate challenge of

the recovery and to long-term challenges – globalisation, pressure on resources, ageing, – so as to make up for the recent losses, regain competitiveness, boost productivity and put the EU on an upward path of prosperity. Or we continue at a slow and largely uncoordinated pace of reforms, and we risk

ending up with a permanent loss in wealth, a sluggish growth rate possibly leading to high levels of unemployment and social distress, and a relative decline on the world scene. Europe can succeed. Europe has many strengths. We can count on the talent and creativity of our people, a strong industrial

base, a vibrant services sector, a thriving, high quality agricultural sector, strong maritime tradition, our single market and common currency, our position as the world's biggest trading bloc and leading destination for foreign direct investment. But we can also count on our strong values,

democratic institutions, our consideration for economic, social and territorial cohesion and solidarity, our respect for the environment, our cultural diversity, respect for gender equality – just to name a few. Many of our Member States are amongst the most innovative and developed economies

in the world. But the best chance for Europe to succeed is if it acts collectively – as a Union. When confronted with major events in the past, the EU and its Member States have risen to the challenge. In the 1990s, Europe launched the largest single market in the world backed by a common currency. Only a

few years ago, the division of Europe ended as new Member States entered the Union and other states embarked on the road towards membership or a closer relation with the Union. Over the last two years common action taken at the height of the crisis through the European Recovery Plan helped prevent economic meltdown, whilst our welfare systems helped protect people from even greater hardship. Europe is able to act in times of crisis and to adapt its economies and societies. And today Europeans face again a moment of transformation to cope with the impact of the crisis, Europe's structural weaknesses

and intensifying global challenges. In so doing, our exit from the crisis must be the point of entry into a new economy. For our own and future generations to continue to enjoy a high-quality of healthy life, underpinned by Europe's unique social models, we need to take action now. What is needed is a

strategy to turn the EU into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion. This is the Europe 2020 strategy. This is an agenda for all Member States, taking into account different needs, different starting points and

national specificities so as to promote growth for all. Where do we want Europe to be in 2020? Three priorities should be the heart of Europe 2020: smart growth, sustainable growth and inclusive growth. These three priorities are mutually reinforcing; they offer a vision of Europe's social market

economy for the 21st century. To guide our efforts and steer progress, there is a large consensus that the EU should commonly agree on a limited number of headline targets for 2020. These targets should be representative of the theme of smart, sustainable and inclusive growth. They must be

measurable, capable of reflecting the diversity of Member States situations and based on sufficiently reliable data for purposes of comparison. These targets are interrelated. For instance, better educational levels help employability and progress in increasing the employment rate helps to reduce

poverty. A greater capacity for research and development as well as innovation across all sectors of the economy, combined with increased resource efficiency will improve competitiveness and foster job creation. Investing in cleaner, low carbon technologies will help our environment, contribute to fighting climate change and create new business and employment opportunities. Meeting these targets should mobilise our collective attention. It will take strong leadership, commitment and an effective delivery mechanism to change attitudes and practices in the EU to deliver the

results which are summarised in these targets. These targets are representative, not exhaustive. They represent an overall view of where the Commission would like to see the EU on key parameters by 2020. They do not represent a "one size fits all" approach. Each Member State is different and the EU of 27

is more diverse than it was a decade ago. Despite disparities in levels of development and standards of living the Commission considers that the proposed targets are relevant to all Member States, old and newer alike. Investing in research and development as well as innovation, in education and in

resource efficient technologies will benefit traditional sectors, rural areas as well as high skill, service economies. It will reinforce economic, social and territorial cohesion. To ensure that each Member States tailors the Europe 2020 strategy to its particular situation, the Commission proposes

that these EU targets are translated into national targets and trajectories to reflect the current situation of each Member State and the level of ambition it is able to reach as part of a wider EU effort to meet these targets. In addition to the efforts of Member States the Commission will propose an

ambitious range of actions at EU level designed to lift the EU onto a new, more sustainable growth path. This mix of EU and national efforts should be mutually reinforcing. Smart growth – an economy based on knowledge and innovation Smart growth means strengthening knowledge and innovation as drivers of our

future growth. This requires improving the quality of our education, strengthening our research performance, promoting innovation and knowledge transfer throughout the Union, making full use of information and communication technologies and ensuring that innovative ideas can be turned into new products and services that create growth, quality jobs and help address European and global societal challenges. But, to succeed, this must be combined with entrepreneurship, finance, and a focus on user needs and market opportunities. Sustainable growth means building a resource efficient, sustainable and

competitive economy, exploiting Europe's leadership in the race to develop new processes and technologies, including green technologies, accelerating the roll out of smart grids using ICTs, exploiting EU-scale networks, and reinforcing the competitive advantages of our businesses, particularly in

manufacturing and within our SMEs, as well through assisting consumers to value resource efficiency. Such an approach will help the EU to prosper in a low-carbon, resource constrained world while preventing environmental degradation, biodiversity loss and unsustainable use of resources. It will also underpin

economic, social and territorial cohesion. The EU has prospered through trade, exporting round the world and importing inputs as well as finished goods. Faced with intense pressure on export markets and for a growing range of inputs we must improve our competitiveness visà- vis our main trading

partners through higher productivity. We will need to address relative competitiveness inside the Euro area and in the wider EU. The EU was largely a first mover in green solutions, but its advantage is being challenged by key competitors, notably China and North America. The EU should maintain its lead in

the market for green technologies as a means of ensuring resource efficiency through out the economy, while removing bottlenecks in key network infrastructures, thereby boosting our industrial competitiveness. Achieving our climate goals means reducing emissions significantly more quickly in the

next decade than in the last decade and exploiting fully the potential of new technologies. Improving resource efficiency would significantly help limit emissions, save money and boost economic growth. All sectors of the economy, not just emission-intensive, are concerned. We must also strengthen our economies' resilience to climate risks, and our capacity for disaster prevention and response. Meeting our energy goals could result in € 60 billion less in oil and gas imports by 2020. This is not only financial savings; this is essential for our energy security. Further progress with the integration

of the European energy market can add an extra 0.6% to 0.8% GDP. Meeting the EU's objective of 20% of renewable sources of energy alone has the potential to create more than 600 000 jobs in the EU. Adding the 20% target on energy efficiency, it is well over 1 million new jobs that are at stake. Action

under this priority will require implementing our emission-reduction commitments in a way which maximises the benefits and minimises the costs, including through the spread of innovative technological solutions. Moreover, we should aim to decouple growth from energy use and become a more resource

efficient economy, which will not only give Europe a competitive advantage, but also reduce its dependency of foreign sources for raw materials and commodities. Inclusive growth means empowering people through high levels of employment, investing in skills, fighting poverty and

modernising labour markets, training and social protection systems so as to help people anticipate and manage change, and build a cohesive society. It is also essential that the benefits of economic growth spread to all parts of the Union, including its outermost regions, thus strengthening

territorial cohesion. It is about ensuring access and opportunities for all throughout the lifecycle. Europe needs to make full use of its labour potential to face the challenges of an ageing population and rising global competition. Policies to promote gender equality will be

needed to increase labour force participation thus adding to growth and social cohesion. Action under this priority will require modernising, strengthening our employment education and training policies and social protection systems by increasing labour participation and reducing structural unemployment, as well as raising corporate social responsibility among the business community. Access to childcare facilities and care for other dependents will be important in this respect. Implementing flexicurity principles and enabling people to acquire new skills to adapt to new conditions and potential career shifts will be key. A major effort will be needed to combat poverty and social exclusion and reduce health inequalities to ensure that everybody can benefit from growth. Equally important will be our ability to meet the challenge of promoting a healthy and active ageing population to allow for social cohesion and higher productivity. All EU policies, instruments and legal acts, as well as financial instruments, should be mobilised to pursue the strategy's objectives. The Commission intends to enhance key policies and instruments such as the single market, the budget and the EU's external economic agenda to focus on delivering Europe 2020's objectives. Operational proposals to ensure their full contribution to the strategy are an integral part of the Europe 2020. A stronger, deeper, extended single market is vital for growth and job creation. However, current trends show signs of integration fatigue and disenchantment regarding the single market. The crisis has added temptations of economic nationalism. The Commission's vigilance and a shared sense of responsibility among Member States have prevented a drift towards disintegration. But a new momentum – a genuine political commitment - is needed to re-launch the single market, through a quick adoption of the initiatives mentioned below. Such political commitment will require a combination of measures to fill the gaps in the single market. Every day businesses and citizens are faced with the reality that bottlenecks to cross-border activity remain despite the legal existenceof the single market. They realise that networks are not sufficiently inter-connected and that the enforcement of single market rules remains uneven. Often, businesses and citizens still need to deal with 27 different legal systems for one and the same transaction. Whilst our companies are still confronted with the day-to-day reality of fragmentation and diverging rules, their competitors from China, the US or Japan can draw full strength from their large home markets. The single market was conceived before the arrival of Internet, before information and communication technologies became the one of the main drivers of growth and before services became such a dominant part of the European economy. The emergence of new services shows huge potential, but Europe will only exploit this potential if it overcomes the fragmentation that currently blocks the flow of on-line content and access for consumers and companies. To gear the single market to serve the Europe 2020 goals requires well functioning and wellconnected markets where competition and consumer access stimulate growth and innovation. An open single market for services must be created on the basis of the Services Directive, whilst at the same time ensuring the quality of services provided to consumers. Access for SMEs to the single market must be improved. Citizens must be empowered to play a full part in the single market. This requires strengthening their ability and confidence to buy goods and services crossborder, in particular on-line. Through the implementation of competition policy the Commission will ensure that the single market remains an open market, preserving equal opportunities for firms and combating national protectionism. But competition policy will do more to contribute to achieving the Europe 2020 goals. Competition policy ensures that markets provide the right environment for innovation, for example through ensuring that patents and property rights are not abused. Preventing market abuse and anticompetitive agreements between firms provides a reassurance to incentivise innovation. State aid policy can also actively and positively contribute to the Europe 2020 objectives by prompting and supporting initiatives for more innovative, efficient and greener technologies, while facilitating access to public support for investment, risk capital and funding for research and development. Economic, social and territorial cohesion will remain at the heart of the Europe 2020 strategy to ensure that all energies and capacities are mobilised and focused on the pursuit of the

strategy's priorities. Cohesion policy and its structural funds, while important in their own right, are key delivery mechanisms to achieve the priorities of smart, sustainable and inclusive growth in Member States and regions. The financial crisis has had a major impact on the capacity of European

businesses and governments to finance investment and innovation projects. To accomplish its objectives for Europe 2020, a regulatory environment that renders financial markets both effective and secure is key. Europe must also do all it can to leverage its financial means, pursue new avenues in

using a combination of private and public finance, and in creating innovative instruments to finance the needed investments, including public-private partnerships. The European Investment Bank and the European Investment Fund can contribute to backing a virtuous circle where innovation and

entrepreneurship can be funded profitably from early stage investments to listing on stock markets, in partnership with the many public initiatives and schemes already operating at national level. The EU multi-annual financial framework will also need to reflect the long-term growth priorities. The

Commission intends to take the priorities, once agreed, up in its proposals for the next multi-annual financial framework, due for next year. The discussion should not only be about levels of funding, but also about how different funding instruments such as structural funds, agricultural and rural

development funds, the research framework programme, and the competitiveness and innovation framework programme (CIP) need to be devised to achieve the Europe 2020 goals so as to maximise impact, ensure efficiency and EU value added. It will be important to find ways of increasing the impact of the EU budget – while small it can have an important catalytic effect when carefully targetted. Global growth will open up new opportunities for Europe's exporters and competitive access to vital imports. All instruments of external economic policy need to be deployed to foster European growth through our

participation in open and fair markets world wide. This applies to the external aspects of our various internal policies (e.g. energy, transport, agriculture, research and development) but this holds in particular for trade and international macroeconomic policy coordination. An open

Europe, operating within a rules-based international framework, is the best route to exploit the benefits of globalisation that will boost growth and employment. At the same time, the EU must assert itself more effectively on the world stage, playing a leading role in shaping the future

global economic order through the G20, and pursuing the European interest through the active deployment of all the tools at our disposal A part of the growth that Europe needs to generate over the next decade will need to come from the emerging economies as their middle classes develop and import

goods and services in which the European Union has a comparative advantage. As the biggest trading bloc in the world, the EU prospers by being open to the world and paying close attention to what other developed or emerging economies are doing to anticipate or adapt to future trends. Acting

within the World Trade Organization and bilaterally in order to secure better market access for EU business, including SMEs, and a level playing field vis-à-vis our external competitors should be a key goal. Moreover, we should focus and streamline our regulatory dialogues, particularly in new

areas such as climate and green growth, where possible expanding our global reach by promoting equivalence, mutual recognition and convergence on key regulatory issues, as well as the adoption of our rules and standards. The Europe 2020 strategy is not only relevant inside the EU, it can also offer considerable potential to candidate countries and our neighbourhood and better help anchor their own reform efforts. Expanding the area where EU rules are applied, will create new opportunities for both the EU and its neighbours. In addition, one of the critical objectives in the next few years will be

to build strategic relationships with emerging economies to discuss issues of common concern, promote regulatory and other co-operation and resolve bilateral issues. The structures underpinning these relationships will need to be flexible and be politically rather than technically driven. The EU is a

global player and takes its international responsibilities seriously. It has been developing a real partnership with developing countries to eradicate poverty, to promote growth and to fulfil the Millenium Development Goals (MDGs). We have a particularly close relationship with Africa and will need to

invest further in the future in developing that close partnership. This will take place in the broader ongoing efforts to increase development aid, improve the efficiency of our aid programmes notably through the efficient division of labour with Member States and by better reflecting development

aims in other policies of the European Union. Policy instruments were decisively, and massively, used to counteract the crisis. Fiscal policy had, where possible, an expansionary and counter-cyclical role; interest rates were lowered to historical minima while liquidity was provided to the

financial sector in an unprecedented way. Governments gave massive support to banks, either through guarantees, recapitalization or through "cleaning" of balance sheets from impaired assets; other sectors of the economy were supported under the temporary, and exceptional, framework for State aid.

All these actions were, and still are, justified. But they cannot stay there permanently. High levels of public debt cannot be sustained indefinitely. The pursuit of the Europe 2020 objectives must be based on a credible exit strategy as regards budgetary and monetary policy on the one hand, and the direct support given by governments to economic sectors, in particular the financial sector, on the other. The sequencing of these several exits is important. A reinforced coordination of economic policies, in particular within the euro area should ensure a successful global exit. Given remaining

uncertainties about the economic outlook and fragilities in the financial sector, support measures should only be withdrawn once the economic recovery can be regarded as self-sustaining and once financial stability has been restored4. The withdrawal of temporary crisis-related measures should be

coordinated and take account of possible negative spill-over effects both across Member States as well as of interactions between different policy instruments. State aid disciplines should be restored, starting with the ending of the temporary state aid framework. Sound public finances are critical for

restoring the conditions for sustainable growth and jobs so we need a comprehensive exit strategy. This will involve the progressive withdrawal of short-term crisis support and the introduction of medium- to longer-term reforms that promote the sustainability of public finances and enhance potential

growth. To support the EU's economic growth potential and the sustainability of our social models, the consolidation of public finances in the context of the Stability and Growth Pact involves setting priorities and making hard choices: coordination at EU can help Member States in this task and

help address spill-over effects. In addition, the composition and quality of government expenditure matters: budgetary consolidation programmes should prioritise 'growth-enhancing items' such as education and skills, R&D and innovation and investment in networks, e.g. high-speed internet, energy and

transport interconnections – i.e. the key thematic areas of the Europe 2020 strategy. The revenue side of the budget also matters and particular attention should also be given to the quality of the revenue/tax system. Where taxes may have to rise, this should, where possible, be done in conjunction with making the tax systems more "growth-friendly". For example, raising taxes on labour, as has occurred in the past at great costs to jobs, should be avoided. Rather Member States should seek to shift the tax burden from labour to energy and environmental taxes as part of a "greening" of taxation

systems. Fiscal consolidation and long-term financial sustainability will need to go hand in hand with important structural reforms, in particular of pension, health care, social protection and education systems. Public administration should use the situation as an opportunity to enhance

efficiency and the quality of service. Public procurement policy must ensure the most efficient use of public funds and procurement markets must be kept open EU-wide.