

Box 3**The Broad Economic Policy Guidelines 2000**

The Treaty establishing the European Community requires Member States to conduct their economic policies with a view to contributing to the achievement of the objectives of the European Union. They also have to regard their economic policies as a matter of common concern and to co-ordinate them within the EU Council. To this end, since the start of Stage Two of Economic and Monetary Union (EMU) the ECOFIN Council – upon a recommendation from the European Commission – has adopted annual Broad Economic Policy Guidelines (BEPGs). These provide the framework for the definition of the overall policy objectives and orientations of the Member States and the European Union. With regard to monetary policy, the BEPGs refer to the Treaty requirement that monetary policy shall remain committed to maintaining price stability. Insofar as all EU countries face broadly the same challenges and policy needs, the BEPGs set out a number of general orientations which apply to all Member States. At the same time, reflecting diversity among Member States in terms of economic performance and prospects as well as structures and institutions, the BEPGs also contain country-specific recommendations.

The BEPGs for 2000 operationalise the key objectives of economic policy-making in the EU (relating to economic growth, employment, innovation and social cohesion), as established at the Lisbon Special European Council of March 2000, with four central priorities: to maintain growth and stability-oriented macroeconomic policies; to promote the development of a knowledge-driven economy; to press ahead with far-reaching, comprehensive reforms of product, capital and labour markets; and to modernise social protection systems. In turn, the BEPGs for 2000 translate these priorities into the main recommendations set out below.

Ensuring growth and stability-oriented macroeconomic policies

In the euro area the key policy challenge consists in ensuring that the ongoing recovery develops into a lasting period of vigorous growth and rising employment. While monetary policy makes its contribution by being committed to maintaining price stability, Member States are requested to speed up the ongoing fiscal consolidation, both to achieve, as rapidly as possible, and to maintain, over the medium term, budgetary positions close to balance or in surplus, and also to lower public debt. Furthermore, social partners are expected to continue to support wage developments that are consistent with price stability and job creation. The Member States outside the euro area are also called upon to maintain sound monetary and budgetary policies.

Speeding up the ongoing process of fiscal consolidation

Member States are also urged to avoid a pro-cyclical budgetary policy stance, to take advantage of fiscal improvements resulting from the better than expected economic growth to achieve budgetary positions in 2000 which go beyond the objectives set in the updated stability and convergence programmes, to reach a budgetary position close to balance or in surplus earlier than envisaged in these programmes and, where appropriate, to pursue further fiscal consolidation beyond the minimum, creating additional room for manoeuvre, and to prepare for the budgetary challenges associated with population ageing.

Improving the quality and sustainability of public finances

The composition of budgetary consolidation is seen as instrumental in supporting investment and enhancing employment. Among other recommendations, deficit reduction is expected to take place through expenditure restraint rather than through tax increases; welfare systems need to be adapted to ensure that it pays to work and that disincentives to work are removed; and pension and healthcare systems need to be promptly reviewed in light of the challenges posed by ageing populations.

Promoting appropriate wage developments

Social partners are called upon to ensure that nominal wage increases are consistent with price stability, that wage levels reflect labour productivity differences according to skills, qualifications or geographical area, and that real wage developments take into account the need to strengthen the profitability of capacity-enhancing and employment-creating investment. Governments can therefore create the appropriate institutional conditions to facilitate the negotiations of social partners.

Fostering a knowledge-driven economy

The BEPGs for 2000 also call for the establishment or improvement of the conditions necessary to increase private sector involvement in the financing of research and development expenditure and partnerships. At the same time, adequate public support for the funding of basic research, the creation of centres of excellence, and the provision of incentives to establish better links between research institutes and business also need to be ensured. Education and training initiatives, both private and public, need to be strengthened in order to increase the adaptability of the labour force.

Ensuring efficient goods and services markets

Greater competition in product markets is regarded as essential in order to take full advantage of the opportunities provided by the introduction of the euro, globalisation and new technologies. Among other recommendations, the BEPGs for 2000 state that internal market legislation should be implemented fully and effectively in the areas of public procurement and technical standards. The independence of competition authorities has to be ensured, and their policies should be enforced with transparent and effective instruments. The liberalisation of the telecommunications sector needs to be completed by the end of 2001, while that in the electricity, gas, postal services and transport sectors is expected to be accelerated. The Community Directives that open up markets for public utilities need to be implemented fully. Barriers to trade in services, particularly in financial services, the distribution sector and business services, must be removed by the end of 2000.

Promoting capital markets through further integration and deepening

In the area of capital markets, in addition to fully implementing the action plans for Financial Services and Risk Capital by 2005 and 2003 respectively, further efforts need to be aimed at facilitating the greatest possible access to investment capital on an EU-wide basis (including small and medium-sized enterprises), eliminating barriers to investment in and by pension funds, promoting further integration of government bond markets through greater consultation and transparency, improving the efficiency of cross-border retail payment services, speeding up fiscal measures to promote the development of new firms and investment in venture capital, and amending bankruptcy legislation to give entrepreneurs a second chance.

Invigorating labour markets

A significant and sustained reduction in EU unemployment will require substantial structural improvements in the functioning of labour markets. The Employment Guidelines 2000 already set out an integrated strategy for achieving this objective. In this regard, the BEPGs for 2000 place particular emphasis on improving skills and employability in order to keep people in touch with labour markets, on improving work incentives and reducing labour costs through reforms of tax and benefit systems, on enhancing labour mobility across sectors and regions, inter alia through mutual recognition of qualifications and improving the transferability of pension entitlements, as well as modernising work organisation, on introducing flexible working time arrangements and on assessing tight job protection legislation and high severance payments.

Enhancing sustainable development

Finally, according to the BEPGs for 2000, sound environmental policy will reap benefits in terms of more efficient economic structures, thus contributing to higher growth and employment. Member States are therefore to place emphasis on introducing or strengthening market-based policies which put a price on scarce resources, on reassessing tax incentives and subsidies which have a negative environmental impact and on agreeing an appropriate framework for energy taxation at the European level.

The BEPGs for 2000 need to be implemented

Overall, the ECB welcomes the thrust, the richness and the specificity of the BEPGs for 2000. The ECB also applauds the recent initiatives to strengthen these guidelines even further, in particular by providing an ambitious and thorough follow-up and by developing structural performance indicators. The success of the recommendations now crucially depends on Member States' commitment to improving their performance with regard to public finances and structural reforms. Indeed, the current favourable outlook for economic growth provides an excellent opportunity to implement the necessary measures with vigour.