

Box 4

The Broad Economic Policy Guidelines 2002

Following the endorsement by the European Council in Seville on 21 and 22 June 2002, the Broad Economic Policy Guidelines (BEPGs) for 2002 were formally adopted by the ECOFIN Council. The BEPGs are addressed to EU Member States and the Community as a whole and lay down both general and country-specific guidelines for economic policies.

This year's BEPGs highlight four key challenges: to safeguard and further strengthen the macroeconomic framework, to promote more and better jobs, to strengthen conditions for high productivity growth and to promote sustainable development in the interest of current and future generations. To meet these challenges, it is of great importance that the EU Member States respect the targets agreed both for fiscal consolidation and for structural policy reforms. The main general recommendations are mentioned below.

Ensure growth- and stability-oriented macroeconomic policies

Member States should achieve and preserve a sound budgetary position as agreed in the Stability and Growth Pact. In particular, Member States with remaining imbalances should step up efforts to achieve budgetary positions close to balance or in surplus as soon as possible and at the latest by 2004. All Member States should ensure that tax reforms are financed appropriately, avoid pro-cyclical fiscal policies and allow automatic stabilisers to operate in full as the recovery gets under way. Public finances should be strengthened, with a view to securing their long-term sustainability prior to the demographic changes taking hold.

According to the BEPGs, it is necessary for nominal wages to be consistent with price stability and for real wage increases not to exceed labour productivity growth. In addition, wage developments in Member States have to reflect different economic and employment situations. National labour institutions and collective bargaining systems, respecting the autonomy of social partners, should be designed in such a way as to take into account local labour market conditions.

Improve the quality and sustainability of public finances

Member States should make tax and benefit systems more employment-friendly and, where appropriate, reduce the overall tax burden while continuing with fiscal consolidation. They are asked to pursue targeted reforms of the tax and benefit systems, especially with respect to low-wage labour. They should redirect public expenditure towards physical and human capital accumulation and research and development and enhance the efficiency of public spending by institutional and structural reforms.

In order to improve the long-term sustainability of public finances, Member States should pursue a comprehensive three-pronged strategy, based on actions to raise employment rates, a reduction in public debt and adapting pension systems. They should also pursue tax co-ordination further so as to avoid harmful tax competition.

Invigorate labour markets

Member States are asked to "vigorously implement" the Employment Guidelines adopted by the Council in January 2002.¹ In particular, they are asked to adapt tax and benefit systems to make work pay, encourage job search and reduce incentives for early retirement. They should improve the efficiency and effectiveness of active labour market policies and target these towards individuals most prone to the risk of long-term

1 For details on the 2002 Employment Guidelines, see Box 4 of the January 2002 issue of the ECB Monthly Bulletin.

unemployment. In addition, they should facilitate occupational mobility through training, reskilling and better lifelong learning and bring down obstacles to labour mobility within and between Member States.

In collaboration with social partners, Member States are urged to promote more flexible work organisation and review employment contract regulations. They should remove existing barriers to female labour participation and address the underlying factors that lead to gender pay gaps.

Reignite structural reform in product markets

Member States are asked to increase the transposition rate of internal market directives and pursue more vigorously the elimination of remaining barriers to trade and market entry. They should open up further and render more transparent public procurement markets, ensure independence and adequate capacity of the competition and regulatory authorities and reduce and redirect state aid towards identified market failures.

Furthermore, Member States are asked to accelerate the liberalisation of the network industries. In particular, they should fully implement the new communications regulatory package by July 2003. As regards electricity and gas, they should ensure freedom of choice of supplier as of 2004 for all non-household consumers and establish a national regulatory function. Member States are also urged to agree on a transparent and non-discriminatory tariff system for cross-border electricity transactions and to ensure a minimum level of interconnection capacity between Member States by 2005. As regards transport, they are urged to make immediate decisions on European Commission proposals concerning airport slot allocation, port services and public services contracts, open the trans-European rail freight network to competition by early 2003 and consider measures to create a “Single Sky” by 2004.

Promote the efficiency and integration of the financial services market

In order to move towards a truly single market for financial services in Europe, all relevant parties – the Council, the European Parliament and the Commission – will need to ensure full implementation of the Financial Services Action Plan by 2005. In particular, they will need to implement the securities market legislation by 2003. They are also urged to step up efforts to implement the Risk Capital Action Plan by 2003. The BEPGs highlight the need to further improve arrangements to deliver efficient cross-border and cross-sector co-operation and co-ordination for prudential supervision and to strongly encourage the removal of barriers to efficient cross-border clearing and settlement systems.

Encourage entrepreneurship

Member States are urged to create a business-friendly environment, improving and simplifying the corporate tax system and regulatory environment and increasing the efficiency of public services. They should reduce barriers to cross-border economic activity associated with, among other things, differences in accounting standards, rules of corporate governance, business taxation and VAT. They should also encourage risk-taking through improved access to finance for small and medium-sized enterprises.

Foster the knowledge-based economy

Member States are invited to develop framework conditions conducive to raising EU research and development spending to 3% of GDP by 2010, with two-thirds of this coming from the private sector. They are also invited to improve ties between universities and business, enhance collaboration on research and innovation across Europe and adopt the sixth Research Framework Programme. In order to promote access to and use of information and communications technology, Member States are asked to implement the unbundling of the telephone “local loop”, thus speeding up the development of the broadband network, and stimulate internet use.

Enhance environmental sustainability

According to the BEPGs, market-based environmental policies should be used more extensively, for example taxation, user and polluter charges, insurance/liability schemes and tradable emission rights. By contrast, sectoral subsidies and tax exemptions with negative environmental impact should be reduced. Member States are asked to take appropriate measures and have in place monitoring and verification procedures to meet their Kyoto Protocol obligations. They are invited to agree on an appropriate framework for energy taxation at the European level and to continue to implement measures targeted at energy use. Finally, they should encourage the disclosure of environmental information in the annual accounts of companies and should provide environmental impact analysis of all policy measures.