

Box 5

The Broad Economic Policy Guidelines 2003

On 19/20 June 2003, the European Council endorsed the 2003 Broad Economic Policy Guidelines (BEPGs). They are likely to have been formally adopted at the 15 July 2003 Ecofin Council meeting. The 2003 BEPGs lay down recommendations for the economic policies of the Member States and the Community over the period 2003-05.¹ While the 2004 BEPGs will take a closer look at the economic situation in and requirements to be fulfilled by the acceding countries, the main general recommendations of the 2003 BEPGs, as set out below, are to a large extent also relevant to the new Member States at this stage already.

Growth-oriented and stability-oriented macroeconomic policies

The BEPGs state that fiscal policies should continue to be pursued as part of a medium term-oriented, comprehensive and growth-friendly strategy. They call on Member States to reach or maintain budgetary positions close to balance or in surplus throughout the economic cycle. Countries with excessive deficits need to correct them in line with the Stability and Growth Pact. Subject to this, Member States should avoid procyclical fiscal policies and allow automatic stabilisers to operate over the cycle. Moreover, Member States are urged to promote the right framework conditions for wage negotiations by social partners, as it is important that nominal wage increases are consistent with price stability and productivity gains.

Economic reforms

Labour markets

Creating the conditions for full employment, better quality of and productivity at work, greater cohesion and inclusive labour markets is a top priority in the Lisbon strategy. Member States should vigorously implement all of the Employment Guidelines for 2003 and the associated recommendations. The Employment Guidelines are required by the Treaty to be consistent with the BEPGs, but deal with employment issues in greater detail.

¹ *The Treaty contains a separate framework for economic policies and monetary policy. The BEPGs only deal with the economic policies, whereas the ECB is independently responsible for monetary policy.*

The BEPGs emphasise the need for policy measures to increase labour supply and enhance the adaptability of labour markets to changing economic conditions. Member States should implement reforms of tax and benefit systems in order to make work pay and provide incentives for taking up work. In addition, the level and duration of and/or eligibility criteria for benefits should be assessed, while preserving an adequate level of social protection. Member States are requested to ensure that wage bargaining systems allow wages to better reflect productivity, in line with differences in skills and local labour market conditions, and to review labour market regulations by relaxing overly restrictive employment protection legislation. Member States should also facilitate geographical and occupational mobility by promoting life-long learning, the recognition of qualifications and the transfer of social security and pension rights, as well as by eliminating obstacles to mobility related to the housing market.

Product and financial markets and corporate governance

Member States are urged to foster competition in goods and services markets and, in particular, to further open up public procurement, ensure the independence and effectiveness of competition and regulatory authorities, encourage market entry and effective competition in network industries and continue efforts to reduce state aid and target it to identified market failures. Member States should increase the “transposition” rate of Internal Market Directives, i.e. they should adapt their national legislation as quickly as possible to give effect to these Directives.

They should accelerate the integration of EU capital markets implementing the Risk Capital Action Plan by 2003 and the Financial Services Action Plan by 2005. The BEPGs also urge Member States to agree and implement measures to strengthen corporate governance at the national and Community level and improve arrangements for delivering efficient cross-sector and cross-border co-operation in financial supervision and financial crisis management.

Entrepreneurship, investment in knowledge and innovation, the public sector

The BEPGs ask Member States to take active steps to promote investment in knowledge, new technologies and innovation and make progress towards the objective of allocating 3% of GDP to total R&D investment. These objectives can be pursued by developing the appropriate framework conditions, developing the institutional framework and intellectual property protection, promoting science-industry links, researcher mobility, access and use of information and communication technologies (ICT), facilitating the development of the Union’s satellite navigation system, Galileo, and improving the quality and efficiency of education and training systems.

In the public sector, Member States should redirect public expenditure towards growth, while respecting overall budgetary constraints, and ensure that tax structures strengthen the growth potential by promoting employment and investment. The efficiency of the public sector should be improved through better controls on spending, and an appropriate framework should be established for joint public-private initiatives, outsourcing and competition in public procurement.

Strengthening sustainability

Public finances

Member States with a government debt ratio above the reference value of 60% of GDP are urged to ensure a satisfactory pace of debt reduction towards that value. Other Member States should ensure a sufficient further decline in government debt ratios in view of the costs of ageing, including higher age-related spending.

Reforms of pension systems should be forcefully pursued. Member States should encourage a longer working life and modify incentives embedded in pension and tax and benefit systems that encourage early withdrawal from the labour market. Access to early retirement schemes should also be restricted. A better link between benefits and contributions is needed in order to cope with demographic developments and increases in life

expectancy. Member States are also requested to improve, where necessary, access to supplementary pension schemes – including funded schemes – and to adapt pension systems to more flexible employment and career patterns as well as to individual needs, including the portability of pension benefits.

Social sustainability

Member States are urged to take steps to modernise social protection systems and to fight poverty and exclusion. Reforms are needed to improve the functioning of markets in order to encourage private investment in the regions lagging behind – particularly in terms of allowing wages to better reflect disparities in skills and local labour market conditions. Public support, including EU resources, should be focused on investment in human capital accumulation and knowledge as well as on ensuring the availability of adequate infrastructure. Co-operation between the European Commission and the European Investment Bank should be strengthened.

Environment

The BEPGs call upon countries to reduce sectoral subsidies, tax exemptions and other incentives that have a negative environmental impact. Through the use of, inter alia, taxes and charges, Member States should ensure that the pricing of natural resources adequately reflects their scarcity and all environmental damage. They should promote market instruments and ensure an appropriate level of taxation on energy with a view to promoting efficient energy consumption, the use of renewable energy and heightened competition and interconnections in energy markets. In the field of transport, the system of taxes, charges and subsidies should be adjusted to reduce distortions and increase competition.

Member States should renew efforts to meet their commitments under the Kyoto protocol. To this end, they should implement the EC greenhouse gas emissions trading scheme and prepare and implement policies for those sectors not covered by the scheme. Measures should be taken to meet targets set by subsequent European Councils, particularly on energy efficiency, renewable energy and bio-fuels.

Euro area specific challenges

This year's BEPGs for the first time include a separate section relating to challenges for the euro area. Structural and fiscal policies in the euro area are implemented at the national level against the background of the single monetary policy of the ECB, the primary objective of which is to maintain price stability in the euro area as a whole.

The BEPGs note that certain inflation differentials between Member States may be due to a malfunctioning of product and labour markets or inappropriate policies. These inflation differentials should therefore be monitored by Member States and, where undesirable, be addressed using the available levers.

The BEPGs recommend that policy actors at the national level implement policies which are compatible with price stability and in line with the need to enhance confidence among business and consumers in the short run and promote economic growth close to potential in the medium term. Budgetary positions close to balance or in surplus should be maintained throughout the economic cycle in cyclically adjusted terms. If this has not yet been achieved, measures should be taken to ensure an annual improvement in the cyclically adjusted budget position of at least 0.5% of GDP. Countries with excessive deficits need to correct them in line with the Treaty.

Structural reforms are seen as essential in order to meet the challenges faced and, in particular, reinforce confidence and increase growth potential. The BEPGs note that by introducing flexibility in the economy, they will contribute to macroeconomic stability. The efficiency of the existing co-ordination procedures in the area of structural reforms needs to be improved. Intensified structural reform will also help to raise potential growth.