Broad Economic Policy Guidelines and enhanced economic governance (including the governance of the euro) in the context of the Europe 2020 Strategy

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The Council **approved a report concerning draft broad guidelines for the economic policies of the EU and the Member States**. It is agreed to submit the report to the European Council meeting on 17 June for endorsement.

The draft recommendation, together with a draft decision on guidelines for the employment policies of the Member States, form "integrated guidelines" setting a multi-annual framework for structural reforms to be carried out under the EU's new "Europe 2020" strategy for jobs and growth.

On the basis of the integrated guidelines, Member states will draw up national reform programmes setting out in detail the actions to be taken. Particular emphasis will be given to efforts to meet national targets and to measures to remove the bottlenecks that constrain sustainable growth at national level.

Every year the European Council will assess progress in implementing the strategy both at EU level and at national level. Macroeconomic, structural and competitiveness developments and overall financial stability will be examined simultaneously.

The Council is expected to adopt the recommendation at its meeting on 13 July.

The **main guidelines for the economic policies of the EU and the Member States** can be summarised as follows:

Guideline 1: Ensuring the quality and the sustainability of public finances:

- Member States should vigorously implement budgetary consolidation strategies under the Stability and Growth Pact (SGP): this implies for most Member States achieving a consolidation well beyond the benchmark of 0.5 % of gross domestic product (GDP) per year in structural terms until debt ratios are on a solid declining path. Fiscal consolidation should start in 2011 at the latest, earlier in some Member States where economic circumstances make this appropriate;
- focus on expenditure restraint and prioritise growth-enhancing expenditure items within for example areas such as education, skills and employability, research and development (R&D) and innovation and
- investment in networks with positive impacts on productivity, where appropriate for example high-speed internet, energy and transport interconnections and infrastructure;
- where taxes may have to rise, this should, where possible, be done in conjunction with measures to make tax systems more employment, environment and growth-friendly for example by shifting the tax burden towards environmentally harmful activities;
- tax and benefits systems should provide better incentives to make work pay;
- Member States should strengthen national budgetary frameworks, enhance the quality of public expenditure and improve the sustainability of public finances, pursuing in particular determined

debt reduction, reform of age-related public expenditure, such as pensions and health spending, and policies contributing to raising employment and effective retirement ages to ensure that age-related public expenditure and social well-fare systems are financially sustainable.

Guideline 2: Addressing macroeconomic imbalances:

- Member States with large current account imbalances rooted in a persistent lack of competitiveness or due to other reasons should address the underlying causes by acting for example on fiscal policy, on wage developments, on structural reforms relating to product and financial services markets (including the flow of productivity enhancing capital), on labour markets;
- Member States should encourage the right framework conditions for wage bargaining systems and labour cost developments consistent with price stability, productivity trends over the medium-term and the need to reduce macroeconomic imbalances;
- Member States with large current account surpluses should pursue measures aimed at implementing structural reforms conducive to strengthening potential growth and thereby also underpinning domestic demand;
- addressing macro-economic imbalances would also help achieving economic cohesion.

Guideline 3: Reducing imbalances within the euro area:

- Euro area Member States should regard large and persistent divergences in current account positions and other macroeconomic imbalances as a matter of common concern and take urgent action to reduce the imbalances where necessary;
- the need for policy action is particularly pressing in Member States showing persistently large current account deficits and large competitiveness losses;
- macroeconomic imbalances should be closely monitored within the Eurogroup, which should propose remedial actions when needed.

Guideline 4: Optimising support for R&D and innovation, strengthening the knowledge triangle and unleashing the potential of the digital economy:

- Member States should review national (and regional) R&D and innovation systems, ensuring effective and adequate framework conditions for public investment within the budgetary consolidation strategies under the Stability and Growth Pact (Guideline 1), and orienting them towards higher growth while addressing where appropriate major societal challenges (including energy, resource efficiency, climate change, biodiversity, social and territorial cohesion, ageing, health, and security) cost-effectively. In particular, public investment should serve to leverage private R&D financing;
- the reforms should foster excellence and smart specialisation, promote scientific integrity, reinforce cooperation between universities, research institutes, public, private and third sector players, both domestically and internationally and ensure the development of infrastructures and networks that enable knowledge diffusion;
- the governance of research institutions should be improved to make national research systems more cost-effective and productive. To this end university-based research should be modernised, world class infrastructures developed and made accessible, attractive careers and mobility of researchers and students promoted;
- funding and procurement schemes should be adapted and simplified;
- Member States and the European Union should integrate innovation in all relevant policies and promote innovation in a broad sense (including non-technological innovation);
- improve the general framework to facilitate access to private finance (including risk-capital) and simplify access for SMEs, boost demand, in particular in eco-innovation, (where appropriate

through green public procurement and interoperable standards), promote innovation-friendly markets and regulations, and provide efficient, affordable and effective protection and management of intellectual property;
- Member States and the EU should put in place appropriate framework conditions for the rapid development of a digital single market offering widely accessible online contents and services.

Guideline 5: Improving resource efficiency and reducing greenhouse gases:

- Member States and the European Union should put measures in place to promote the decoupling of economic growth from resource use, turning environmental challenges into growth opportunities and making more efficient use of their natural resources;
- further efforts should be made to speed up the creation of an integrated and fully functioning internal energy market to enable gas and electricity flows without bottlenecks;
- in order to reduce emissions and improve energy efficiency, Member States should make extensive use of market-based instruments, supporting the principle of internalization of external costs, including taxation, and other effective support instruments in order to reduce emissions and better adapt to climate change, support sustainable growth and jobs and resource efficiency in a cost-effective manner, incentivise the use of renewable energy and low-carbon climate-resilient technologies, a shift to more environmentally friendly and interconnected modes of transport and promote energy savings and eco-innovation.
- Member States should phase out environmentally harmful subsidies;
- Member States and the European Union should use regulatory, non-regulatory and fiscal instruments, for example EU-wide energy performance standards for products and buildings, labelling, and 'green procurement';
- Member States should decisively work towards smart, upgraded and fully interconnected transport and energy infrastructures, use Information and Communication Technologies to secure productivity gains, ensure coordinated implementation of infrastructure projects and support the development of open, competitive and integrated network markets.

Guideline 6: Improving the business and consumer environment, and modernising and developing the industrial base in order to ensure the full functioning of the internal market:

- while ensuring the protection of consumers, Member States and the European Union should put in place predictable framework conditions and ensure well-functioning, open and competitive goods and
- services markets;
- the external dimension of the internal market should be further developed with the aim of enhanced trade and investment;
- due attention must be paid to respecting the adequate provision of services of general interest;
- Member States should continue to improve the business environment by modernising public administrations, improving corporate governance, removing remaining barriers to the internal market, eliminating unnecessary administrative burdens and avoid unnecessary new burdens by applying smart regulation instruments, including by developing further inter-operable e-government services, removing tax obstacles;
- supporting small and medium-sized enterprises (SMEs), improving their access to the Single Market ensuring stable and integrated financial services markets, facilitating access to finance, improving conditions for promoting access to and protecting intellectual property rights, supporting internationalisation of SMEs and promoting entrepreneurship, including female entrepreneurship;
- public procurement should encourage innovation, particularly for SMEs, and support the transition toward a resource- and energy-efficient economy.