2004 enlargement: progress towards accession by the candidate countries. Strategy paper and report

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The Economic and Finance Ministers of the EU and the candidate countries, along with representatives of the Commission and the ECB, met for their fourth economic policy dialogue meeting. On the whole, the 2002 programmes describe a credible medium-term macroeconomic and fiscal framework conducive to strong and sustainable economic growth. The candidate countries made further progress in 2001 in macroeconomic stabilisation and structural reforms. The gap, in terms of average GDP per capita, between most accession countries and the current Member States, although narrowing, remains significant. While average growth in recent years has been consistently higher than in the EU, many accession countries have made only modest progress in terms of real convergence. In 2001, GDP per capita measured in Purchasing Power Standards reached, on average for the ten acceding countries, 39.3% of the EU average, up from 38.5% in 2000. The 2002 PEPs envisage a medium-term growth rate of the order of 4-6%. A number of countries still continue to grow below potential. In some of the candidate countries, the authorities have made considerable progress in consolidating public finances and plan to carry on with prudent fiscal policies in the medium term. However, in several countries the current level of fiscal deficits is still very high, which underlines the need for a high level of ambition for fiscal consolidation and the sustainability of the fiscal stance over the medium term. Substantial efforts in this regard are required notably in the Czech Republic, Hungary, Malta and Poland. Continued fiscal consolidation will provide the conditions for economic growth. Price and enhanced exchange-rate stability has become a positive feature in the accession countries, but further progress is required in some countries. In the pre-accession phase, exchange-rate strategies must remain consistent with other macroeconomic policies and convergence. An increasing degree of exchange-rate orientation towards the euro as the main reference currency is in line with further economic integration, but the speed depends on the particular circumstances of individual countries. The report by the Ecofin ministers of 8 November 2000 to the European Council in Nice on the exchange rate aspects of enlargement will be the basis for discussing the further path towards euro adoption. In many candidate countries the prospect of accession has acted as a catalyst for comprehensive structural and institutional reforms. Progress has, however, been uneven and is notably lagging in a number of priority areas, for example labour, product and financial markets and the agricultural sector. In particular, in several countries the relatively high rate of unemployment and the low rate of participation indicate a need for urgent further structural adjustment. The Ministers of the EU Member States and the candidate countries concluded that: - the second PEPs in general demonstrate further progress in capacity building towards participation in the EU's multilateral surveillance and economic policy co-ordination. Overall, they reflect the main economic policy challenges that lie ahead for these countries on their road to accession and which need to be addressed together. - achieving a high and sustainable level of real growth isimportant in order to ensure a rapid economic convergence with the EU. Closing the real income gap over the longer term will require substantial further progress with respect to the outstanding structural reform agenda, backed by forceful implementation. Efforts to create a more favourable environment for investment and entrepreneurship and to simplify and improve the regulatory environment should be vigorously pursued. - continued vigilance against potential external risks is paramount given the accession countries' high openness, import dependence and export sensitivity to EU and international growth. Institutions for financial regulation, supervision and risk management need to be further strengthened as highlighted in the updated Commission report on macroeconomic and financial stability. - sound and credible fiscal policy is crucial not only for coping with difficult economic policy choices but also for enhancing confidence in the stability of the macroeconomic policy framework. The weak fiscal positions of several accession countries argue strongly for taking decisive steps towards sustainable fiscal consolidation in line with the EU's fiscal surveillance

procedures, inter alia so as to create room for private investment. Effective public expenditure management and efficient tax collection should be central elements of any consolidation programme. Long-term challenges due to ageing populations have also to be factored in. The Ministers underline their commitment towards continuing, with the support of the Economic and Financial Committee (EFC), the Economic Policy Committee (EPC) and the Commission, the surveillance of progress with economic, budgetary and structural policies in the accession countries, including for those countries which will not be in the first wave of EU accession, within the existing economic and fiscal policy co-ordination processes. This should help the accession countries to define strategies for progressive economic integration. In the 2003 PEPs, recommendations need to be followed through as a matter of high priority so to contribute to growth and employment in an enlarged EU. The EFC, the EPC and the Commission are invited to propose to the high-level meeting in spring 2003, taking into account the results of the current efforts to streamline the processes, on how the accession countries could be integrated as early as possible in the Community' s economic policy co-ordination and fiscal surveillance procedures. The Commission is also invited to present, for approval by this meeting, an action plan on the most urgent statistical requirements and a report on deficit and debt reporting. The Ministers of the candidate countries agree to putting forward in the 2003 updates of their PEPs' adjustment paths based on realistic assumptions regarding the economic outlook and detailed underlying reform measures. Ministers will meet again in the second half of 2003 to continue their dialogue. The dialogue at the level of the Economic and Financial Committee and their counterparts will continue in May 2003.