Situation of the European economy, Commission recommendation on the broad economic policy guidelines

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The Council held an exchange of views and adopted the Key Issues Paper on the Broad Economic Policy Guidelines (BEPGs) for 2003 and decided to forward it to the European Council on 20-21 March 2003. On the eve of its enlargement, the European Union is confronted with several challenges: - Economic growth has turned out weaker than anticipated a year ago, and the outlook is clouded by economic uncertainties and global political risks. However, our economies remain resilient and we recognize the imperative for higher growth. To this end, and in order to strengthen confidence, we are determined to further pursue sound macroeconomic policies combined with steps to accelerate labour, product and capital market reforms. In this context, our top priorities are reforming employment systems and fostering entrepreneurship and innovation. - the Council is committed to attaining the targets for employment rates agreed by the Lisbon and Stockholm European Councils. To this end, each Member State should pursue reforms in tax and benefit systems, improve wage formation systems, modernise employment protection legislation, improve the effectiveness of active labour market programmes and labour mobility, and take measures to increase labour supply. - Europe has an entrepreneurial deficit, especially in knowledge-based sectors. In order to improve the framework conditions for entrepreneurship and innovation, we must take measures to facilitate market entry and exit, improve access to finance and know-how, improve regulation and reduce administrative burdens. We must also pursue concrete measures in the direction of increasing EU investments in innovation, knowledge and R&D, and lifting barriers to the economy-wide application of technology. - Despite progress in recent years, further budgetary and structural reforms, including addressing the challenges stemming from ageing populations, are necessary in order to secure the long-term sustainability of public finances while improving their quality and increasing the long-term growth potential of European economies. - The European Union enlargement is a major challenge for the coming years and makes it necessary to reinforce the policy co-ordination procedures and review the EU system of economic governance for acceding countries to be effectively integrated into the process of economic policy coordination. The BEPGs are the central instrument for economic policy co-ordination. The Treaty provides for the consistency of the Employment Guidelines with the BEPGs, and the current streamlining exercise should increase the efficiency and ensure coherence of the various policy co-ordination processes. The BEPGs should be concise. They set out the economic policy strategy and priority actions for the EU and for each member country covering a three-year time-span. In this framework, and where appropriate, recommendations on economic reforms should be accompanied by specific deadlines. In the current environment, economic policies in the EU should be oriented towards the restoration of confidence and economic growth by a determined implementation of the agreed economic policy strategy: the 2003 Spring European Council should reaffirm its commitment andstrengthen the implementation and enforcement of the Stability and Growth Pact, give credibility and a new impetus to the Lisbon process, and highlight the mutually reinforcing links between sound macroeconomic and structural policies. In the context of weak economic growth, Member States should maintain budgetary discipline in line with the Stability and Growth Pact. They should: - achieve and maintain budgetary positions of close to balance or in surplus over the economic cycle. Those euro area Member States that are not yet there, should annually improve their cyclically-adjusted budget position by at least 0.5% of GDP; - let the automatic stabilizers operate fully within the Stability and Growth Pact; and - improve the quality and sustainability of public finances as part of a medium-term oriented strategy. EU Member States should implement policies contributing to price stability, including, for example, closer wage monitoring.