Broad guidelines of the economic policies of the Member States and the Community for 2001

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The European Commission has adopted a report with an overall assessment of implementation of the 2001 Broad Economic policy Guidelines (BEPGs). The main conclusions of the report are as follows: - Macroeconomic performance : the macroeconomic environment deteriorated considerably in 2001. Already suffering under the continuing effects of adverse economic shocks, the economic outlook further darkened by the terrorist attacks of 11th September. Growth decelerated throughout the year and came to a standstill towards the end of the year. Job creation slowed down but still exceeded the number of job losses thereby allowing for a further small drop in the unemployment rate. Having been temporarily higher in the early months of 2001, inflation has subsequently engaged on a clear downward path; - Macroeconomic policies : Monetary authorities took advantage of leeway provided by diminishing risks to price stability by cutting official interest rates on several occasions. Budgetary authorities maintained a broadly neutral fiscal stance by making use of regained budgetary margins to allow for some deterioration in budget balances as a result of the operation of the automatic stabilisers. Wage developments remained broadly compatible with price stability and job creation; - Budgetary policies : as actual budget positions in the EU generally deteriorated under the impact of the economic slowdown (through the play of automatic stabilisers) and tax reforms, structural budget positions did generally not worsen. Several Member States are not yet fulfilling the "close to balance or in surplus" requirement of the Stability and Growth Pact; - Quality and sustainability of public finances :a growing number of Member States have introduced institutional reforms to budgetary rules and procedures to improve efficiency and spending controls. Several made progress in improving the long-term sustainability of public finances through reform of pension systems and the creation of reserve funds. However, in several cases, long-term sustainability seems not yet ensured and would require additional measures; - Labour markets : efforts are being undertaken but need to be stepped up. Progress in reforming tax and benefit systems to make them more employment friendly has been limited in 2001, especially when it comes to undertaking comprehensive reforms on the benefit side and taking account of the interactions between tax and benefit systems. Also in line with the Employment Guidelines, most Member States are pursuing comprehensive strategies for lifelong learning to enhance employability and promote the adaptability of the labour force to structural change and thus fostering occupational mobility. Barriers to geographical mobility have, however, hardly been addressed. In the past year, only some Member States have taken measures to better target and improve the efficiency of active labour market policies; - Product markets : European product market functioning improved in 2001 but problems remain. Following transposition of Internal Market Directives into national legislation, attention should focus on ensuring effective implementation. Barriers to cross-border trade in services are particularly persistent. Notwithstanding progress made in opening up public procurement markets, a large share of public procurement markets is still notyet open to competition across the Union. Competition was enhanced by ongoing reforms and liberalisation in some network industries, but market shares of incumbents remain very high. Similarly, effective competition is likely to benefit from steps taken by several Member States to increase powers and the operating capacity of their competition authorities and a more intense co-operation between competition and regulatory authorities. Overall State aid as a share of GDP has continued to decrease in the vast majority of Member States, but it remains relatively high in some Member States; - Capital markets : progress in various areas underway, but the implementation of the FSAP needs new impetus to implement the FSAP by the deadlines of 2003 for securities markets and 2005 for the financial markets in general. Member States have undertaken a number of reforms to promote the risk capital market, notably by easing some of the legal/regulatory constraints on institutional investment and by intruding tax changes that foster, among other things, the risk capital market. On the other hand, little has been done to address the disincentive effects of bankruptcy and insolvency procedures. While several Member States have undertaken a reform of their supervisory arrangements, different models are being followed. Enhanced cross-border and cross-

sector co-operation will be necessary; - Entrepreneurship : many Member States introduced measures aimed at reducing the regulatory burden and at promoting start-ups and SMEs, but there are still big differences between Member States in the time and cost needed to establish new businesses. However, taxation of cross-border activities and the still large differences in effective rates of company taxation continue to create distortions within the Internal Market; - The knowledge-based economy : progress continued on several accounts.In particular, internet access prices dropped, and governments took measures to promote internet access at schools. Despite progress in unbundling the 'local loop', it is still slow; - Environmental sustainability : Member States have implemented a variety of measures that contribute to environmental sustainability, notably by leading to a better reflection of environmental costs in prices. Limited progress has been made in agreeing upon a framework for energy taxation at Community level in 2001.