# Broad guidelines of the economic policies of the Member States and the Community for 2002

2002/2075(COS) - 14/01/2003

This Communication offers an overall assessment of the implementation of the policy recommendations set in the 2002 Broad Economic Policy Guidelines. An assessment for each Member State is also given. The strategy consists of sound macro-economic policies coupled with comprehensive structural reforms on labour, product and capital markets. The following key messages emerge: Following the slowdown in 2001, growth started to recover in early 2002 but failed to accelerate thereafter. Already weak domestic demand was depressed by a further collapse in confidence following accounting scandals in the USA, further slides in stock prices and rising international tension. For the EU as a whole, the fiscal policy stance was broadly neutral if not slightly expansionary. Wage increases showed little sign of coming down against the background of weak economic activity and the continued slow growth in labour productivity. Budgetary positions deteriorated in 2002. In several Member States coping with still high structural deficits, progress towards achieving budgetary positions of close to balance or in surplus stalled or reversed, forcing the Commission to take action in the context of the Stability and Growth Pact. The Commission activated the Excessive Deficit Procedure for Germany and Portugal. A recommendation for an early warning to France was also issued in the autumn. Ireland and Austria failed to maintain structural budget positions. While the pension reforms undertaken in 2002 by Portugal, Greece, Finland and the UK are a step in the right direction, the report questions the long-run sustainability of public finances in Belgium, Germany, Greece, Spain, France, Italy, Austria, and Portugal. In particular, the failure to move more decisively towards sound budget positions in Germany, Greece, France, Italy and Portugal is worrying. Similarly, the failure of Greece and Italy to secure a steady reduction in their still high government debt ratios is a source of concern. The report states that there are tentative signs that labour market reforms of recent years are starting to pay off. However, while most Member States made some progress in adapting tax and benefit systems, measures were generally piecemeal and focussed on the tax side, rather than addressing the combined effects of taxes and benefits. There is a lack of comprehensive active ageing policies including energetic reform of pension and early retirement schemes. France, Italy, and Portugal have introduced new measures to promote flexibility on the labour market, and in this context there is an increasing trend to better balance security with flexibility in labour markets. Member States generally responded to emerging bottlenecks in labour markets due to skill mismatches by further adjusting vocational training systems and lifelong learning strategies. To promote women's participation, Germany, Spain, Ireland and Luxembourg took measures to increase childcare facilities and Belgium, Spain and Ireland strengthened financial incentives. On the product markets, the high number of Internal Market infringement proceedings, particularly in France and Italy, shows that the application of Internal Market legislation is inadequate. Progress in eliminating remaining barriers to trade and cross-border service activities remains very slow. On the other hand, good progress has been made in strengtheningcompetition and regulatory authorities. The downward trend in State aid continued (except in Denmark, Ireland, Luxembourg, and the Netherlands). The market share of incumbents remains high in the network industries. Encouraging progress has been made in integrating financial markets and the objectives set by the Barcelona European Council for 2002 will be largely achieved. Progress in implementing the Risk Capital Action Plan requires acceleration in all main policy areas. The regulatory environment for business is improving in all Member States. France, Italy, Austria and Portugal took measures to reduce the typical time and cost involved in setting up a new company, to alleviate administrative burdens, and to stimulate competition in certain sectors. Reforms to increase public sector efficiency were undertaken in Belgium, Denmark, Portugal, and Sweden. Corporate tax rates were lowered in France, Ireland, the Netherlands and Portugal, while the corporate tax system in Greece was simplified. While the EU is slowly catching up with the US in terms of ICT usage, gaps in terms of patenting and business R&D remain large. The Council's failure so far to agree on the Community Patent is disappointing. The document details the measures taken to wards environmental sustainability. The

overall picture is disappointing. The reaction to the slowdown in economic growth is characterised by policy inertia and backtracking. The report condemns the failure to act more decisively on public finances when growth was favourable. It also condemns government failure to push through structural reform. Rather than relying on externally driven economic expansion, the EU should rely much more on its domestic strengths. It needs urgently to strengthen the necessary growth-supportive, supply-side framework conditions. Structural reforms can be growth supportive also in the short run through positive effects on confidence.