

Situation of the European economy, report on the broad guidelines for economic policies BGEF

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The Council adopted conclusions and held a policy debate on the main questions addressed.

It welcomed the Commission's Second Implementation Report on the 2003-2005 Broad Economic Policy Guidelines, which provides a comprehensive account of progress made since the original Guidelines were adopted in June 2003 (and updated in July 2004). The Council welcomed the improved focus on policy measures, compared to the concentration on policy intentions in last year's Implementation Report. The Council also acknowledged that the assessment of the new Member States is less conclusive as they had only limited time to respond to the country-specific challenges identified in the 2004 update of the BEPGs.

In discussing the Implementation Report on the BEPGs, Ministers fully shared the view that macroeconomic policies supportive of stability and growth are indispensable in reaping the full benefits of structural reforms in terms of growth and employment. Successful structural reforms enhance the effectiveness of macroeconomic policies, ensuring long-lasting growth and the long-term sustainability and quality of public finances.

Ministers also highlighted the following elements, which are central to the Lisbon strategy aim to enhance Europe's growth potential:

- **Enhancing productivity.** The Council noted that the recovery was only moderate and that the budgetary position of the EU as a whole did not improve. In this context, the appreciation of the euro, the oil price increase, inflation differentials and wage developments within the euro area are relevant. The Council reiterated the need for reaching or maintaining sound budgetary positions, which are a key requirement for a macroeconomic framework supportive of growth and stability. It welcomed progress made in specific areas crucial for raising the EU's growth potential. In this context, one should note the good progress made in providing a regulatory framework for more efficient capital markets, in making the overall business environment more favourable and enhancing the effectiveness of competition policies. However, the Council noted with concern the disappointing transposition record for Internal Market directives and the high number of infringement cases. The EU continues to lag behind the US in the transition towards a knowledge-based economy. The current pace of reform in research, innovation, education and training systems is too slow to attain the objectives set in Lisbon and Barcelona.

- **Increasing employment.** The Council noted that progress has been made in reforming European labour markets towards efficiency, but recalls with some concern that the pace is insufficient in order to achieve the employment targets (possibly with the exception of the female employment rate target). As regards Member States, the Council welcomed the measures adopted in Germany in 2004 and the good progress made in Denmark, Ireland, the Netherlands and Austria. Measures have generally remained focused on tax cuts, life-long learning strategies or active labour market policies. Most Member States undertook measures in 2003 and/or 2004 to make work pay by increasing work-related tax credits or reducing the marginal tax rate at the low end. Reforms to address the unemployment benefit system were also undertaken in some Member States (notably the Czech Republic, Denmark, Germany, France and the Netherlands). The Council noted that only few initiatives have been taken related to wage bargaining or employment protection legislation.