Broad guidelines of the economic policies BGEP of the member States and the Community for 2003-2005

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LEGISLATIVE ACT : Council Recommendation 2003/555/EC on the broad guidelines of the economic policies of the Member States and the Community (for the 2003-2005 period). CONTENT : These broad economic policy guidelines (BEPGs) concentrate on the contribution that economic policies can make over the next three years to the Lisbon agenda. The EU needs higher and sustainable growth rates. Sound macroeconomic conditions and policies are a prerequisite for a sustainable increase in economic prosperity. A stronger entrepreneurial spirit and improved investment in knowledge and innovation, and reform of employment systems are key to increasing productivity and opening up new opportunities for growth. Better functioning and more competitive labour, product and capital markets are indispensable to achieve a more flexible economy and increase potential growth. The general economic policy guidelines in Part I are applicable to all Member States and to the Community. Part I includes a section on the euro area, addressing its specific challenges. Part II presents country-specific economic policy recommendations. The Recommendation points out that economic growth has turned out to be significantly weaker than anticipated. GDP growth remained sluggish in 2002 and short-term indicators suggest that it will continue to do so in 2003. Beyond the recent geopolitical tensions and fading external demand, weak growth stems from an insufficient resilience to shocks. However, the decline in oil prices, the end of the conflict in Iraq, the recovery in financial markets and improvements in financial conditions reinforce the basis for a growth recovery in the second half of 2003, although the pace of recovery is likely to be affected by still rising unemployment. Employment growth has been resilient until late 2002, but a deterioration in employment prospects is likely in 2003. Furthermore, wages have been slow to adapt to low productivity growth. Headline inflation has recently hovered just above two percent. Core inflation has been decelerating since the second half of 2002, albeit at a slow rate. Against this background, it is important that economic policies inspire confidence and thereby help to create conditions for stronger domestic demand and job creation. The BEPGs emphasise the following: - growth- and stability-oriented macroeconomic policies. In particular, Member States should reach or maintain budgetary positions of close to balance or in surplus throughout the economic cycle and subject to this, avoid pro-cyclical policies that counteract the symmetric play of the automatic stabilisers over the cycle. Wage developments should contribute to stable macroeconomic conditions and to an employment-friendly policy mix. - economic reforms to raise Europe's growth potential, with particular emphasis on structural reforms in the labour markets. Labour market reforms that increase labour supply and make labour markets more adaptable to changing economic conditions are of great importance for the EU economies. Such reforms must make work pay. The Recommendation also emphasizes that further productivity increases are indispensable to maintain and increase future living standards. The Recommendation states that the following actions areimportant for the EU economy: - accelerate the integration of EU capital markets, in particular by implementing the Risk Capital Action Plan by 2003 and the Financial Services Action Plan by 2005; - generate a supportive environment for entrepreneurship and for SMEs; - implement measures to strengthen corporate governance; - take active steps to promote investment in knowledge, new technologies and innovation and make progress towards the 3 % of GDP objective of total R& D investment; - enhance the contribution of the public sector to growth; - ensure the long-run sustainability of public finances, especially in view of ageing populations. In particular, the BEPGs speak of ensuring a further decline in government debt ratios and effective reforms of pensions systems; - modernise social protection systems and fight poverty and exclusion with a view to supporting the broad Lisbon objectives, notably on employment, in order to achieve an inclusive labour market and a more cohesive society for all; - contribute to environmental sustainability. There is a need for government action to successfully de-couple economic growth from environmental degradation and consumption of natural resources. In

particular, the Recommendations speak of the need to reduce sectoral subsidies, tax exemptions and other incentives that have a negative environmental impact and are harmful for sustainable development, and reducing subsidies to non-renewable energy.