Basic information

2003/2074(INI) INI - Own-initiative procedure	Procedure completed
Broad guidelines of the economic policies BGEP of the member States and the Community for 2003-2005 **Subject** 5.10.01 Convergence of economic policies, public deficit, interest rates	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
ECON Economic and Monetary Affairs	GARCÍA-MARGALLO Y MARFIL José Manuel (PPE-DE)	27/11/2002

Committee for opinion	Rapporteur for opinion	Appointed
EMPL Employment and Social Affairs	The committee decided not to give an opinion.	

Council of the European Union

Council configuration	Meetings	Date
Economic and Financial Affairs ECOFIN	2506	2003-05-13
Economic and Financial Affairs ECOFIN	2513	2003-06-03
Agriculture and Fisheries	2516	2003-06-25

European Commission

Commission DG	Commissioner
Economic and Financial Affairs	

Key events

Date	Event	Reference	Summary
08/04/2003	Non-legislative basic document published	COM(2003)0170	Summary
23/04/2003	Vote in committee		Summary
23/04/2003	Committee report tabled for plenary	A5-0142/2003	
12/05/2003	Committee referral announced in Parliament		
13/05/2003	Debate in Council		

15/05/2003	Decision by Parliament	T5-0222/2003	Summary
15/05/2003	Debate in Parliament		
15/05/2003	End of procedure in Parliament		
03/06/2003	Resolution/conclusions adopted by Council		Summary
17/03/2004	Final act published in Official Journal		

Technical information

Procedure reference	2003/2074(INI)
Procedure type	INI - Own-initiative procedure
Procedure subtype	Strategic initiative
Legal basis	Rules of Procedure EP 148-p1 Rules of Procedure EP 55
Stage reached in procedure	Procedure completed
Committee dossier	ECON/5/19460

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Committee report tabled for plenary, single reading		A5-0142/2003	23/04/2003	
Text adopted by Parliament, single reading		T5-0222/2003 OJ C 067 17.03.2004, p. 0210-0295 E	15/05/2003	Summary

European Commission

Document type	Reference	Date	Summary
Non-legislative basic document	COM(2003)0170	08/04/2003	Summary
Document attached to the procedure	COM(2004)0020	21/01/2004	Summary
Follow-up document	COM(2005)0008	27/01/2005	Summary

Other institutions and bodies

Institution/body	Document type	Reference	Date	Summary
EU	Implementing legislative act	32003H0555 OJ L 195 01.08.2003, p. 0001-0054	26/06/2003	Summary

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

2003/2074(INI) - 26/06/2003 - Implementing legislative act

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.

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

2003/2074(INI) - 08/04/2003 - Non-legislative basic document

PURPOSE : to present the Commission Recommendation on the Broad Guidelines of the Economic Policies of the Member States and the Community for the 2003-2005 period. CONTENT : to recall, the BEPG's concentrate on the contribution that economic policies can make to achieve the EU's strategic Lisbon goal. The Lisbon agenda has seen notable successes, like the creation of five million jobs and agreement on the opening up of energy markets and on a Community patent. However much more needs to be done to further boost employment, productivity and business dynamism. Interim target dates are less than two years away. The BEPGs make both general and country-specific recommendations. They focus on the key economic policy priorities. They underline the need for growth and stability-oriented macroeconomic policies and for pursuing structural reforms to raise Europe's growth potential. Finally, they focus on actions to strengthen economic, social and environmental sustainability. With a clear strategy and new streamlined processes for making recommendations and measuring progress, the focus is now firmly on implementation. The guidelines testify to the EU's recognition of the imperative for higher and sustainable growth rates and its resolve to take the necessary action to achieve this result. 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 is key to 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 lift potential growth. Due regard must however be paid to economic, social, and environmental sustainability concerns to ensure that efforts will produce the expected results in the longer term. The general economic policy guidelines are applicable to all Member States and to the Community. Within the overall strategy, key economic policy challenges may differ across Member States due to differences in economic performance, prospects, structures and institutions. Taking due account of them, this report presents country-specific economic policy recommendations as well as a section on the euro area, addressing its specific challenges. The Commission's recommendations concern three main axes: 1) Growth and stability oriented macroeconomic policies : Macroeconomic policies play a key role in sustaining growth and employment and in preserving price stability. They should aim at supporting a well-balanced expansion and the full realisation of current growth potential. They should furthermore aim at establishing the framework conditions that promote adequate levels of saving and investment, as well as a stronger orientation of the latter towards knowledge and innovation, to position the economy on a sustained, higher, non-inflationary, growth and employment path. In planning for the future, firms and individuals must have confidence that price stability will be maintained,

and that exchange rates and long-term interest rates will be reasonably stable. The maintenance of sound macroeconomic conditions depends on the policies pursued by central banks and governments, and the wage developments resulting from settlements concluded by social partners. Monetary authorities should pursue price stability and, subjectto this being achieved, support the general economic policies. Member States should contribute through their budgetary policies to stabilising output around a higher and sustainable growth trend, by allowing the full and symmetric play of the automatic stabilisers over the cycle and reinforce the co-ordination of their budgetary policies. Two conditions apply. First, excessive deficits should be avoided. Second, budget positions close to balance or in surplus in cyclically-adjusted terms should be achieved. However, when assessing compliance with the close to balance or in surplus requirement, particular attention shall be paid to country-specific circumstances. Wage developments should contribute to stable macroeconomic conditions and to an employment-friendly policy mix. 2) Economic reforms to raise Europe's growth potential : action to improve incentives in order to make work pay, to facilitate job creation and to improve the functioning of the labour market is important in this respect. Member States should: - improve the combined incentive effects of taxes and benefits, reduce high marginal effective tax rates in order to eliminate unemployment and poverty traps, cut the tax burden on low-paid labour, improve the administration of eligibility criteria for benefits whilst preserving an adequate level of social protection, and ensure the efficiency of job search assistance for benefit recipients; - ensure that wage bargaining systems allow wages to reflect productivity, taking into account productivity differences across skills and local labour market conditions; - promote more adaptable work organisation and review labour market regulations, notably those relating to employment contracts taking account of the need for both flexibility and security; - facilitate labour mobility, both geographical and occupational, especially by promoting the recognition of qualifications and the transfer of social security and pension rights, by eliminating obstacles to mobility related to the housing market, and by promoting lifelong learning; - ensure efficient active labour market policies that are targeted towards individual needs with special attention to people facing the greatest difficulties in the labour market, according to rigorous impact evaluations. Increasing the EU's growth potential depends not only on job creation but also on giving an additional stimulus to labour productivity and business dynamism. Labour productivity gains are highly dependent on increased investment in physical capital ('capital deepening') and in knowledge and innovation. Member States are invited to : - foster competition in goods and services markets; - 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 (2003 for securities markets); ensuring consistent enforcement of EU rules and removing barriers to efficient cross-border clearing and settlement; - generate a supportive environment for entrepreneurship and for SMEs to start-up and grow by reducing the administrative burden on business; by increasing the efficiency of the public sector; by simplifying the corporate tax system; and by improving the regulatory environment; - promote investment in knowledge and innovation and make progress towards the 3% of GDP objective of total R&D investment. 3) Strengthening sustainability : growth will only be sustainable if action is taken now to cater for the impact over the long-run of economic, environmental and social factors. Growth will only prove to be sustainable if due attention is being paid to issues of economic, social, and environmental sustainability. Carrying out impact assessments and cost-benefit analysis of proposed legislation will allow synergies and trade-offs between economic, environmental and social objectives to be identified and assessed systematically. Where possible, flexible, market-based solutions that achieve environmental and social goals without jeopardising economic performance, should be preferred. Beyond increasing employment rates, the focus should be on continued reductions in public debt burdens and on reforming pension and health care systems. Recommended measures here include a further decline in government debt ratios, especially for countries that have not achieved the 60% debt to GDP ratio. In addition Member States should remove incentives that encourage early withdrawal from the labour market and reform pension systems to accommodate flexible employment and career patterns. To contribute to an increase in the well-being of current and future citizens, economic growth must not be at the expense of the environment. The environmental costs of economic activity should gradually be priced in. The use of scarce natural resources should be paid for. The "polluter pays principle" should be systematically applied. Finally, the Commission formulates specific recommendations for the euro zone and invites the decision making bodies at national eurozone level to : - cater for a balanced macroeconomic policy mix; - address unwarranted inflation differences; - strengthen economic policy-coordination.

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

2003/2074(INI) - 21/01/2004

PURPOSE: Implementation of the 2003-2005 Broad Economic Policy Guidelines.

CONTENT: This Communication presents a first assessment of the follow-up given to the general guidelines in the 2003-05 Broad Economic Policy Guidelines (BEPGs). The European Commission focuses on the three main areas defined in the Lisbon strategy:

- growth- and stability-oriented macroeconomic policies;

- economic reforms to raise Europe's growth potential; and

- strengthening sustainability.

Although some progress has been made in a few policy areas, it does not appear as if the overall pace of

reforms has been stepped up as requested by the Council. There is a clear risk that with the current reform pace, full implementation of the BEPGs can not be secured by 2006, thereby putting the fulfillment of the Lisbon targets by 2010 at risk.

The main points cited in this communication are as follows:

- Economic stagnation reigned in the first half of 2003 and, despite a clear improvement in economic activity in the third quarter, growth over the year as a whole is expected to have been a modest 0.8% in the EU (and only 0.4% in the euro area).

- Macroeconomic policies supported growth in 2003. Both the ECB and the national central banks in Denmark, Sweden, and the United Kingdom lowered further their key interest rates, thereby supporting domestic demand. Despite the appreciation of the euro, overall monetary conditions remained accommodative. The free play of automatic stabilisers helped to stabilise the economy. The EU's cyclically-adjusted primary balance remained broadly unchanged, indicating an overall neutral fiscal stance in 2003.

- The economic slowdown continued to weigh on public finances and progress seems mixed as regards reaching or maintaining a sound budgetary position. The average nominal budget deficit worsened further in 2003 to 2.7% of GDP. However, differences are sizeable across Member States. Belgium, Denmark, Spain, Austria, Finland and Sweden had a cyclically-adjusted budgetary position close to balance or in surplus in 2002. With the exception of Austria, the other five Member States maintained such a budgetary position in 2003. Nominal deficits deteriorated sharply in several other Member States, with two countries (Germany and France) expected to have deficits exceeding the 3% of GDP limit by a wide margin in 2003. While the economic slowdown is the main factor behind the recent deterioration in the public finances, part of the slippage in 2003 also stems from discretionary measures in some Member States (notably Greece, Austria, and the United Kingdom).

- The labour market performed quite well in the beginning of this economic downturn, reaping the benefits of earlier reforms but also reflecting labour hoarding. The effect of the slowdown started to be felt more strongly in 2003 with employment growth stagnating and a continued rise in unemployment. The increase in the pace of labour market reforms in 2003 appears encouraging, but it needs to accelerate further. In particular, efforts have been made by most Member States to make work pay, even if reforms remain focused on the tax side. Some Member States have taken action to address incentive effects in the benefit systems (Denmark, Germany, France, the Netherlands, and the United Kingdom), which contribute most to the risk of unemployment- and inactivity traps. Several Member States have taken further measures to make the work organization more adaptable (notably Denmark, Spain, France, Italy, the Netherlands and Sweden) and most Member States aim to foster occupational mobility through lifelong learning initiatives. Active labour market policies have also become better in responding to the individual needs of the unemployed. However and despite some improvements noted or planned in Denmark, Ireland, and the Netherlands, progress appears limited as regards improving the efficiency of ALMPs: e.g. evaluations are not systematically carried out or reported. Progress also appears limited in promoting wage differentiation or addressing the regulatory burden in the labour market. Despite the progress noted with some types of labour market reforms, the Lisbon- and Stockholm employment rate targets risk being missed.

- Labour productivity growth continued to disappoint and the gap with the USA widened. Lower labour productivity per hour worked now represents 40% of the difference in GDP per capita between the EU and the USA. The gradual deterioration in labour productivity growth since the mid-1990s can be explained in equal parts by the slowdown in investment and in total factor productivity (which generally include effects from more efficient resource utilisation, technological progress and the natural catching-up process of lesser developed EU countries). ICT and their adoption are a key driver of productivity growth and the differentials between the EU and US productivity trends are strongly influenced by differences in the extent to which ICTs have penetrated the respective economies. This illustrates the need to stimulate market integration, business dynamism, and investment, particularly in knowledge.

- As regards capital markets, the Risk Capital Action Plan is almost completely implemented. The Financial Services Action Plan is well on the way to full implementation and transposition of the adopted legislative measures into national law has begun. However, a final effort is required to meet the 2005 deadline. Integration of clearing and settlement arrangements has become a clear priority for action at both the EU and the Member State level in 2003. Following corporate scandals in recent years, several Member States have strengthened corporate governance arrangements at the national level, while the Commission has adopted an Action Plan on company law and corporate governance in May 2003. Financial supervision arrangements are being streamlined, both at Member State- and EU level.

- Long-term sustainability of public finances, particularly in view of the ageing population, is not yet secured in about half of the Member States, notably Belgium, Germany, Greece, Spain, France, Italy, and Portugal. While significant progress has been made through pension reform measures in some Member States in 2003, in particular in France and Austria, less progress was made in bringing the public debt down. Public debt remained above 60% of GDP in 2003 in six Member States, including in Belgium, Greece, and Italy where it continued to exceed 100% of GDP.

- Some progress has been made towards improving environmental sustainability in 2003. At the EU level, the Council extended the coverage of Community legislation in energy taxation (on e.g. minimum taxation levels). Several Member States (e.g. Belgium, the Netherlands, and Sweden) took further measures to promote the use of renewable energy. Other Member States (notably Germany and Austria) took measures in the area of transport pricing. In the United Kingdom, congestion charges were introduced in London, causing a marked change in behaviour. In contrast, and despite the good progress made at the end of the 1990s, no progress was noted as regards reduction of greenhouse gas emissions.

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

2003/2074(INI) - 15/05/2003 - Text adopted by Parliament, single reading

The European Parliament adopted a resolution based on the report by Jose Manuel GARCIA (EPP-ED, Spain) on the Commission recommendation on the Broad Economic Policy Guidelines. (Please see the summary dated 29/04/03.) Parliament felt that the main causes of the failure of previous BEPGs and the delay in delivering the results of the Lisbon strategy were the lack of implementation by Member States. The fact that the Commission's enforcement powers are non-existent should not be used as an excuse by Member States to avoid fulfilling their obligations. The current timetable and agreed measures upon which the Lisbon strategy is based are totally insufficient to achieve real and effective coordination. The Commission is asked to propose an action plan to improve the implementation of the Lisbon strategy. Parliament expressed its surprise that no serious proposals had been put on the table at a time when a European constitutional treaty is being drafted. As well as the recommendations mentioned in the previous summary, Parliament added the following principal recommendations: - ensure better coordination within the eurozone of supplies of raw material, particularly oil, with long-term contracts and stable prices; - better working conditions taking into account innovative and sustainable forms of work organisation; - on the job-training, particularly language skills; - the elimination of tax obstacles which impede the smooth functioning of the single

market and the establishment of a consolidated corporate tax base for those companies incorporated under the European Company Statute, or alternatively for companies operating in several Member States; - reach the 3% objective of total R and D investment by 2010; - support new and cleaner technologies; - take steps to increase pressure on Member States which are failing to transpose fully important single market directives; - select a single representative for the euro area, with a strong mandate to speak on behalf of the euro area.

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

2003/2074(INI) - 03/06/2003

The Council adopted its report on the Broad Economic Policy Guidelines (BEPGs) (for the 2003-2005 period) and decided to forward it to the Thessaloniki European Council (20 June 2003). The Council draws specific attention to three main priorities for policy action, namely: 1) Giving priority to growth in Europe, 2) Reforms for more and better jobs, and 3) Reforming pensions and health care systems. 1) Giving priority to growth in Europe : the most promising approach to increase growth performance and its potential in mutually reinforcing growth- and stability-oriented macroeconomic policies and structural reforms. Price stability, including labour cost developments that are in line with productivity developments, and sound public finances are pre-conditions for the restoration of confidence. Therefore, there is a need to achieve an appropriate balance of monetary and fiscal policies to provide a platform for the strengthening of domestic demand, job creation and growth. In addition to sound macroeconomic policies, making Europe the most competitive and dynamic knowledge-based economy in the world requires a stepping up in investment in human and physical capital. In this context, the EU and Member States should create framework conditions that facilitate investment in Research and Development as well as in infrastructure. Member States should lift barriers to the economy-wide application of technology and should also foster public-private links to exploit research findings. Furthermore, Member States need to prioritise the involvement of SMEs in R&D through their participation in integrated projects. The completion of the internal market is also key to increase the competitiveness of industry. 2) Reforms for more and better jobs : Increasing employment in Europe will require far-reaching structural reforms. Labour markets must become more efficient, inclusive and adaptable, with more and better employment opportunities for all. Action is urgently needed to make work pay so that people seeking work are not discouraged by the prospect of losing benefits and paying higher taxes. For most Member States, this implies undertaking tax-benefit reforms to reduce non-wage labour costs, and to increase incentives to take up employment. In establishing security and minimum standards for workers, it is necessary to strike a balance favourable to employment creation allowing flexibility for firms to respond to changing economic conditions. A key objective is to increase labour market participation, particularly amongst women, the over-50s, the low-skilled and the long-term unemployed. Life-long learning and constant upgrading of skills are key for higher productivity and better jobs. There is also a need to encourage closer co-operation in skills standards across Europe, so that qualifications and experiences are widely recognised and mobility is facilitated. 3) Reforming pensions and health care systems : Europe will face major demographic changes in the years to come, which will put increasing pressure on public finances. To avoid leaving an unsustainable burden for future generations, most Member States need, on top of further consolidating their public finances and raising employment rates, to engage in far-reaching pension and health care reforms now. The demographic window of opportunity for the phasing-in of effective reform is closing rapidly. Reform action is of utmost importance. These reforms can be achieved more easily and successfully if implemented in a comprehensive and coordinated way.

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

2003/2074(INI) - 27/01/2005 - Follow-up document

The Commission has presented its second implementation Report on the 2003-2005 BEPGs.

The report states that the overall conclusion from this second Implementation Report on the 2003-2005 BEPGs is that progress continues to be mixed. Some Member States are making better progress than others. For instance, a relatively good follow-up of the country-specific recommendations has been given by Belgium, Denmark, Ireland, the Netherlands, Finland and the United Kingdom, while progress can be considered limited in several Member States.

Concerning the recommendations to the new Member States, addressed just half a year ago, the assessment of their implementation indicates that, albeit with different speeds, it goes in the right direction, notably in Cyprus and Slovakia. Alternatively, when focusing on the development by sector,

relatively good progress has been made in making the overall business environment more favourable, in enhancing the effectiveness of competition policies and in improving environmental sustainability. The pace of labour market reforms, which was stepped up somewhat in 2003, appears to have been maintained. Progress, however, has been limited as regards the ongoing transition to a knowledge-based economy where a substantial gap remains between the EU and the US. The pace of Internal Market integration also appears to have slowed down with limited progress noted on the transposition of Internal Market directives and a continued high level of infringement cases. Furthermore, the limited progress in several Member States to reach a sound budgetary position and/or correct an excessive deficit continues to be a source of concern. Although some progress was made in improving fiscal sustainability with inter alia pension reforms in some Member States,

debt ratios remain high and long-term sustainability is not yet secured in 14 of the Member States in 2004. Taken together, the overall pace of reform remains unchanged in 2004. It is clear that with the current reform pace, full implementation of the 2003-2005 BEPGs will not be secured, making it difficult to fulfil the Lisbon ambitions.