Basic information

2002/2287(INI) INI - Own-initiative procedure	Procedure completed
Situation of the European economy, Commission recommendation on the broad economic policy guidelines **Subject** 5.10 Economic union	

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
ITRE Industry, Research and Energy	The committee decided not to give an opinion.	
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	2485	2003-02-18
Economic and Financial Affairs ECOFIN	2493	2003-03-07

European Commission

Commission DG	Commissioner
Economic and Financial Affairs	

Key events

Date	Event	Reference	Summary
13/02/2003	Committee referral announced in Parliament		
18/02/2003	Debate in Council		
19/02/2003	Vote in committee		Summary
19/02/2003	Committee report tabled for plenary	A5-0051/2003	
07/03/2003	Debate in Council		Summary
11/03/2003	Debate in Parliament	CRE link	

12/03/2003	Decision by Parliament	T5-0089/2003	Summary
12/03/2003	End of procedure in Parliament		
10/03/2004	Final act published in Official Journal		

Technical information	
Procedure reference	2002/2287(INI)
Procedure type	INI - Own-initiative procedure
Procedure subtype	Strategic initiative
Legal basis	Rules of Procedure EP 55 Rules of Procedure EP 148-p1
Stage reached in procedure	Procedure completed
Committee dossier	ECON/5/19086

Situation of the European economy, Commission recommendation on the broad economic policy guidelines

2002/2287(INI) - 28/02/2003 - Document attached to the procedure

The Council endorsed the Economic Policy Committee (EPC) Annual Report on structural reforms. The report notes where progress has been achieved but also draws attention to areas where progress has been less satisfactory and where efforts need to be reinforced. The current Report was underpinned by a peer review of structural reform in the product, capital and labour markets of each Member State, in co-operation with the Commission. This year, the scrutiny focused on early retirement schemes as the special topic. The first pages of the Report summarise its key messages. These cover a variety of areas but the underlying essence is as follows: - Progress with structural reform has continued in 2002. Countries have taken a number of further measures. - The benefits of these and previous reforms are starting to come through, as shown, for example, in the pleasing resilience of EU labour markets at a time of difficult world conditions. - Nevertheless, the pace of reform has undoubtedly slackened. - As a result, reform is now too slow and insufficient. The pace needs to be quickened substantially if the Lisbon objectives are to become within reach.

Situation of the European economy, Commission recommendation on the broad economic policy guidelines

2002/2287(INI) - 12/03/2003 - Text adopted by Parliament, single reading

The European Parliament adopted a resolution based on its own-initiative report drafted by José Manuel GARCIA-MARGALLO Y MARFIL (PPE-DE, Spain), on the Commission recommendation on the Broad Economic Policy Guidelines. (Please refer to the document dated 19/02/03.) Parliament voiced its concerns about the ever-growing trend in Europe towards lower employment rates and ageing populations, and the persistent high core inflation in the services sector. In order to increase employment rates and productivity, it is necessary to accelerate structural reforms. Strong political willpower is needed to implement these reforms as they invariably first require sacrifices and only later do they produce benefits. Social dialogue is one of the keys to the success of the reforms. Parliament went on to state that high levels of public and private investment are the key to productivity growth and full employment. This means the rapid implementation of new technologies, increased resources for education and training, high-technology industries, research and development, as well as for infrastructure, trans-European network industries and private-public partnerships. Moreover the Lisbon targets will only be reached if a culture of entrepreneurship is fostered in Europe. This involves: - measures to facilitate the quick setting-up of new companies by using new technologies and allowing tax deferral schemes; - a simplification of the regulatory environment; - ways to reduce the cost of capital for SMEs. Parliament reaffirmed the importance of speeding up the Lisbon strategy. Any short-term demand policies aimed at recovering activity (interest rate changes and fiscal adjustments) should be compatible with the reduction of public debt and the increase in public savings in order to finance public investments Significant efforts must be made to raise employment rates, especially for women, disabled and older workers, by the following actions: - tax incentives for enterprises which hire these targeted groups, such as deductions on income taxes linked to job creation and reduction of taxes on labour (including social contributions), in particular for low income workers. This should be balanced by an increase in indirect taxation if budgetary stability were to be put at risk; - an increase in the effective retirement age through voluntary decisions by workers, supported by an increase of expectations on pension levels and by incentives for enterprises who do not reduce employment of older workers; - promoting quality of work; - regional and local employment strategies. Parliament also discussed the need for higher labour mobility within the EU, the removal of competition distorting tax regulations, and a corporate social responsibility (CSR) "scorecard" system. Finally, the European Parliament felt it should be fully involved in the development and implementation of the EU's Broad Economic Policy Guidelines. The positions of the Council and Parliament should carry equal weight in the annual adoption of the Broad Economic Policy Guidelines on the basis of a proposal by the Commission.

Situation of the European economy, Commission recommendation on the broad economic policy guidelines

2002/2287(INI) - 11/12/2002 - Document attached to the procedure

In addition to analysing the macro-economic developments in the euro area, the 2002 EU Review provides an in-depth analysis on the record of and benefits from structural reforms; the benefits from and pace of bond market integration; the economic and financial impact of ageing; and the process of convergence for the Accession Countries. The Commission's communication underlines disappointing growth and inflation performance. Rather than bringing a return to healthy growth rates after a slowdown in 2001, the year 2002 was characterised by anaemic growth in domestic demand and uncomfortably high core inflation. The macroeconomic policy mix has responded broadly appropriately to the adverse cyclical conditions but its conduct was complicated by the slow decline in inflation and the fact that certain Member States came into this period without sufficiently strong fiscal balances. Monetary conditions have remained accommodative throughout the year. However, despite low real long-term interest rates on government bonds, firms' financing conditions have tightened due to increased uncertainty. The budgetary stance, including the use of the automatic stabilisers, clearly helped cushion the economic downturn. In countries, which have not reached close-to-balance budgetary positions, the room for manoeuvre was constrained and substantial fiscal consolidation is still required. A credible fiscal adjustment will contribute to a more balanced policy mix. The required adjustment does not need necessarily to be costly in terms of short-term output losses, if pursued in the right way. Reviewing the broad patterns of structural reforms and improvements in the functioning of labour and product markets over the period 1995 to 2001, it finds in an illustrative macro-econometric simulation exercise a medium-term increase in GDP relative to its baseline level of about 3-4%. In terms of growth rates, this translates into an acceleration of output growth by almost 1/2% annually over that period. The assessment suggests that without the progress in structural reforms in product and labour markets and, not forgetting the observed wage discipline, there would be 5-6 million fewer jobs in the EU today, about 2 million more unemployed people, and the average growth rate would have been 2.2% instead of the 2.6% realised in the period 1996-2001. Thus, structural reform efforts have indeed borne fruit and delivered significant benefits in terms of output and employment levels. Ageing will affect growth and standards of living in the EU dramatically. The ageing of the large post-war cohorts ('baby boom'), low fertility rates and growing life expectancy will decrease the size of the working-age population and increase the number of pensioners. The impact over the period 2000-2050 might be that EU potential growth will fall from the present underlying rate of 2-2.5% to around 1.25%, in a scenario of no policy changes. This translates into a reduction of per capita GDP growth in the EU on average by about 0.4% per year. At the same time a growing pool of developed-world retirement savings will intensify the search for high returns and geographical diversification. These global capital flows will result in significant changes in countries' balance of payment and net foreign asset positions. They imply adjustments of real exchangerates and a worldwide decline in rates of return of about 3/4% over the next fifty years. To moderate the economic burden of ageing, budgetary sustainability needs to be safeguarded, while employment and productivity growth are promoted. For pensions policy, a partial shift to funding needs to be part of a broad growth promoting package of reforms, in order to enhance significantly the EU's productive capacity. As regards the candidate countries, full convergence will take its time as the average per capita income in the prospective new Member States was 40 per cent of the EU average in 2001. Differences between countries are large and affect the pace of real convergence and the nature of adjustment. For instance, countries with technologically more advanced industries show relatively fast catching-up, with a dynamic pattern of integration. Others have so far been 'locked in' to a rather traditional pattern of trade and industrial specialisation, making it difficult to improve their position. Macro-economic stabilisation has played a major role in the transition countries in helping the economy to turn around. Looking forward, the evolution of exchange rate regimes in the transition is a key question. Persistent inflation differentials may pose a risk to fixed exchange rate regimes. On the other hand, adopting the euro eliminates transaction costs and exchange rate risks and encourages convergence. Exchange rate policies should evolve on a country-by-country basis.

Situation of the European economy, Commission recommendation on the broad economic policy guidelines

2002/2287(INI) - 07/03/2003

The Council held an exchange of views and adopted the Key Issues Paper on the Broad Economic Policy Guidelines (BEPGs) for 2003 and decided to forward it to the European Council on 20-21 March 2003. On the eve of its enlargement, the European Union is confronted with several challenges: - Economic growth has turned out weaker than anticipated a year ago, and the outlook is clouded by economic uncertainties and global political risks. However, our economies remain resilient and we recognize the imperative for higher growth. To this end, and in order to strengthen confidence, we are determined to further pursue sound macroeconomic policies combined with steps to accelerate labour, product and capital market reforms. In this context, our top priorities are reforming employment systems and fostering entrepreneurship and innovation. - the Council is committed to attaining the targets for employment rates agreed by the Lisbon and Stockholm European Councils. To this end, each Member State should pursue reforms in tax and benefit systems, improve wage formation systems, modernise employment protection legislation, improve the effectiveness of active labour market programmes and labour mobility, and take measures to increase labour supply. - Europe has an entrepreneurial deficit, especially in knowledge-based sectors. In order to improve the framework conditions for entrepreneurship and innovation, we must take measures to facilitate market entry and exit, improve access to finance and know-how, improve regulation and reduce administrative burdens. We must also pursue concrete measures in the direction of increasing EU investments in innovation, knowledge and R&D, and lifting barriers to the economy-wide application of technology. - Despite progress in recent years, further budgetary and structural reforms, including addressing the challenges stemming from ageing populations, are necessary in order to secure the long-term sustainability of public finances while improving their quality and increasing the long-term growth potential of European economies. - The European Union enlargement is a major challenge for the coming years and makes it necessary to reinforce the policy co-ordination procedures and review the EU system of economic governance for acceding countries to be effectively integrated into the process of economic policy coordination. The BEPGs are the central instrument for economic policy co-ordination. The Treaty provides for the consistency of the Employment Guidelines with the BEPGs, and the current streamlining exercise should increase the efficiency and ensure coherence of the various policy co-ordination processes. The BEPGs should be concise. They set out the economic policy strategy and priority actions for the EU and for each member country covering a three-year time-span. In this framework, and where appropriate, recommendations on economic reforms should be accompanied by specific deadlines. In the current environment, economic policies in the EU should be oriented towards the restoration of confidence and economic growth by a determined implementation of the agreed economic policy strategy: the 2003 Spring European Council should reaffirm its commitment andstrengthen the implementation and enforcement of the Stability and Growth Pact, give credibility and a new impetus to the Lisbon process, and highlight the mutually reinforcing links between sound macroeconomic and structural policies. In the context of weak economic growth, Member States should maintain budgetary discipline in line with the Stability and Growth Pact. They should: - achieve and maintain budgetary positions of close to balance or in surplus over the economic cycle. Those euro area Member States that are not yet there, should annually improve their cyclically-adjusted budget position by at least 0.5% of GDP; - let the automatic stabilizers operate fully within the Stability and Growth Pact; and - improve the quality and sustainability of public finances as part of a medium-term oriented strategy. EU Member States should implement policies contributing to price stability, including, for example, closer wage monitoring.

Situation of the European economy, Commission recommendation on the broad economic policy guidelines

2002/2287(INI) - 14/01/2003 - Document attached to the procedure

This Communication relates the progress made in response to the Broad Economic Policy Guidelines (BEPGs) adopted in 2002. The 2002 BEPGs set out and confirmed the economic policy strategy aimed at contributing to the achievement of the Treaty's fundamental objectives and the Union's policy agenda agreed upon by the European Council in Lisbon and Stockholm. This policy strategy has taken shape over recent years and has become well-established. The following key messages emerge from this communication: - Macroeconomic policy was broadly adequate but was complicated by sticky inflation : 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. Despite weak economic growth, employment creation has continued albeit at a weak pace and the rise of the unemployment rate - for the first time since 1996 - has been only marginal. Headline inflation has been slow to come down, reflecting the upsurge in energy and fresh food prices, but also, and more importantly, persistently high core inflation, especially on account of the services sector. - Budgets deteriorate as automatic stabilisers operate, but also because of discretionary loosening in some Member States that can ill afford it : in several Member States coping with still high structural deficits, progress towards achieving budgetary positions of close to balance or in surplus stalled or moved into reverse, forcing the Commission to take action in the context of the Stability and Growth Pact. Following the issuance of early warning recommendations to Germany and Portugal early in 2002, it activated the Excessive Deficit Procedure for both Member States in the autumn. A recommendation for an early warning to France was also issued in the autumn. Some of the other Member States that had already achieved structural budget positions close to balance or in surplus, clearly failed to maintain them (Ireland and Austria). - Quality and sustainability of public finances - some progress but long-run sustainability far from secured : while the pension reforms undertaken in 2002 by Portugal, Greece, Finland and the UK are a step in the right direction, the long-run sustainability of public finances is in most Member States far from secured (particularly so 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 very worrisome in this regard. Similarly, the failure of Greece and Italy to secure a steady reduction in their still high government debt ratios is a source of concern. - Labour markets - increasing signs that structural reforms start to pay off in terms of increased resilience are no excuse for inaction as there remains a real need to step up the pace of labour market reform to achieve the Lisbon objectives : while most Member States made some progress in adapting tax and benefit systems to make work pay and encourage the search for jobs, measures were generally piecemeal and focussed on the tax side, rather than addressing the combined effects of taxes and benefits. The Barcelona European Council's call to raise theeffective average age at which people stop working by about 5 years by 2010 has yet to be followed up by comprehensive active ageing policies including energetic reform of pension and early retirement schemes. Whereas monitoring of the efficiency of active labour market policies is generally speaking inadequately developed, Sweden, Denmark and Finland and, to a lesser extent Germany, Spain and the UK, took measures to strengthen monitoring. There is little evidence that Member States have taken action to abolish barriers to geographical mobility. A few Member States (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. - Product markets : full implementation of the Internal Market remains difficult, good progress has been made on harmonising competition policies but competition in the liberalised network industries is still insufficient : progress over the past year in terms of the full implementation of the Internal Market has been disappointing. Only five Member States (Denmark, the Netherlands, Finland, Sweden and the UK) meet the European Council's target of a transposition deficit of 1.5 per cent or less by the spring of 2003, while three Member States (France, Greece, Portugal) have a deficit of more than double that target. Moreover, the stubbornly high number of Internal Market infringement proceedings, particularly in France and Italy, shows that the full application of Internal Market legislation leaves much to be desired. Furthermore, 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 strengthening competition and regulatory authorities. The downward trend in State aid continued (except in Denmark, Ireland, Luxembourg, and the Netherlands) and the share of horizontal aid increased on account of falling ad hoc and sectoral aid. The liberalisation process in the network industries has continued, but the market share of incumbents remains high. Competition is still insufficient even if the benefits to consumers of liberalising the telecommunication and energy sectors are starting to be felt. - Capital markets : encouraging progress has been made in integrating financial markets and the ambitious objectives set by the Barcelona European Council for 2002 will be largely achieved. This positive new momentum should be maintained in order to secure full implementation of the Financial services Action Plan by the 2005 deadline. - Entrepreneurship - slow improvement in the business environment, but achievements vary considerably between Member States and policy areas : a number of Member States (including 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, and government services are increasingly being made available online. Corporate tax rates were lowered in France, Ireland, the Netherlands and Portugal, while the corporate tax system in Greece was simplified. All Member States made progress in implementing the European Charter for Small Enterprises. - The knowledge-based economy - slow catching up on ICT usage,but important gaps remain in business R&D and patenting : 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 and persistent. Against the background of repeated calls from the European Council for rapid progress, the Council's failure so far to agree on the Community Patent is a clear disappointment. Internet usage continued to increase. Some Member States acted to improve education, in particular by strengthening the vocational training in order to respond adequately to changes in skill requirements. Several initiatives were taken to facilitate the transfer of qualifications and skills for academic and professional purposes. - Environmental sustainability - various measures have been taken : existing energy and/or carbon taxes were increased in Germany and Sweden, whereas the Netherlands, France and the UK took other measures to promote environmental protection. Solid progress was made towards adopting the Commission's proposal for an EC emissions trading scheme, whereas the UK's greenhouse gas emission trading system came into effect and the Netherlands advanced in preparing for setting up such a system. No progress was made in reducing environmentally pernicious subsidies and tax exemptions. Despite progress in some areas, the overall picture that emerges from this review is rather disappointing. The reaction to the slowdown in economic growth is characterised by policy inertia and backtracking. Once more, the failure to act more decisively on public finances when growth was favourable takes its toll. Once again, governments display insufficient resolve in pushing through badly needed structural reform to instil the dynamism into the economy that is needed to move decisively towards the Lisbon goals. It is necessary to match words with action and develop a new sense of urgency. 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.