

Broad economic policy guidelines (2005- 2008)

The European Union must focus its policies on economic growth and employment. The current broad economic policy guidelines (BEPGs) reflect the new start for the Lisbon strategy. They focus on macroeconomic policies and on the measures and policies that the Member States should adopt to make Europe a more attractive place in which to invest and work (macroeconomic policies).

ACT

Council Recommendation 2005/601/EC of 12 July 2005 on the broad economic policy guidelines of the Member States and the Community (2005-2008) [Official Journal L 205, 6.8.2005].

SUMMARY

The recommendation falls within the general framework of the Lisbon strategy : the European Union must mobilise all the resources available in order to achieve the objectives of this strategy, which is designed to make the EU economy the most competitive in the world by 2010. The recommendation is in two parts. The first one addresses the way in which macroeconomic policies can contribute to relaunching the Lisbon strategy while the second deals with the measures and policies that the Member States should adopt in order to boost knowledge and innovation for growth (macroeconomic policies). The BEPGs apply to all the Member States and will be complemented by the Lisbon Community Programme 2005 to 2008.

The state of the EU economy

First of all, the recommendation takes stock of the current state of the EU economy, which, after gathering momentum from mid-2003 onwards, decelerated in the second half of 2004 as a result of external factors such as high, volatile oil prices and the slowdown in world trade expansion. The Council considers that the lack of resilience in some European economies is attributable partly to structural weaknesses. GDP is expected to continue to grow at a moderate pace in 2005.

As the world growth cycle reaches maturity, offsetting the dampening effect of high world oil prices, the emphasis will fall increasingly on domestic demand in the EU to provide greater impetus to the upswing.

Structural and macroeconomic policies need to be thought of against the background of an increase in the prices of raw materials, in particular oil, and a downward pressure on industrial prices. Potential growth rates in the EU therefore depend to a large extent on increasing confidence among businesses and consumers, as well as on favourable global economic developments, including oil prices and exchange rates.

The sluggishness of the EU's economic recovery is a continuing source of concern, even if the forecasts are for a fall in the unemployment rate.

Macroeconomic policies for growth and jobs

The Council wishes to see macroeconomic policies that will create the conditions for more growth and jobs and will secure economic stability. Monetary policies can contribute to this by pursuing price stability.

The recommendation lists the following six economy policy guidelines to be implemented by the Member States:

- **to secure economic stability for sustainable growth.** In line with the stability and growth pact, Member States should respect their medium-term budgetary objectives. They should avoid pro-cyclical fiscal policies, i.e. they should not spend more at times of excessive deficit if the converse proves to be necessary, i.e. reducing public spending. Member States with excessive deficits should adopt effective measures

in order to correct them promptly, and if necessary introduce structural reforms;

- **to safeguard economic and fiscal sustainability.** In view of the projected costs of ageing populations, the Member States should reduce their public debt in order to strengthen public finances and reinforce their pension, social security and health care systems so as to ensure that they are financially viable, socially adequate and accessible. They should also take measures to increase labour market participation among women, young people and older workers;
- **to promote a growth- and employment-orientated and efficient allocation of resources.** Member States should redirect public expenditure towards growth-enhancing categories. They should also adapt their tax structures in order to strengthen growth potential. Mechanisms should be put in place in order to assess the relationship between public spending and the achievement of policy objectives aimed at ensuring the coherence of the reforms;
- **to ensure that wage developments contribute to economic stability.** Member States should put in place the right framework conditions for wage-bargaining systems, while respecting the role of the social partners. This should promote nominal wages and labour cost developments consistent with price stability and the trend in productivity over the medium term;
- **to promote greater coherence between macroeconomic, structural and employment policies.** Member States should pursue labour and product market reforms that increase growth potential. They should reinforce the macroeconomic framework by increasing flexibility, factor mobility and adjustment capacity in labour and product markets in response to globalisation, technological advances, demand shift and cyclical changes. In addition, tax and benefit systems should be reformed in order to improve incentives and to make work pay. The ability of labour markets to adapt to economic requirements needs to be increased, while at the same time ensuring employment flexibility and security and investing in human capital;
- **to contribute to a dynamic and well-functioning EMU.** Member States in the euro area need to ensure better coordination of their economic and budgetary policies, in particular:
 - pay particular attention to the fiscal sustainability of their public finances;
 - contribute to a policy mix that supports long-term economic recovery and ensures price stability, thereby enhancing consumer and investor confidence;
 - press forward with structural reforms;
 - ensure that the euro area's influence in the global economic system is commensurate with its economic weight.

Microeconomic reforms to raise Europe's growth potential

The Council considers that, in order to enhance the EU's growth potential, it is necessary to create jobs and increase productivity. An essential growth factor is investment in R&D, innovation and education. Their international dimension should be strengthened in terms of joint financing and reducing barriers to researcher and student mobility. The Council sets out ten guidelines for microeconomic reforms aimed at increasing growth potential. These are:

- **to increase and improve investment in R&D.** Businesses will need to play a key role in increasing and improving investment in this area. The Council confirms an overall objective for investment of 3% of GDP by 2010. This level of investment must be achieved by an adequate split between private and public investment. Member States must further develop measures to foster R&D, in particular by:

- improving framework conditions to ensure that companies operate in a sufficiently competitive and attractive environment;
 - allocating more effective and efficient public expenditure to this area;
 - developing public-private partnerships;
 - developing and strengthening centres of excellence of educational and research institutions;
 - improving the transfer of technologies between research institutes;
 - developing and making better use of incentives to leverage private R&D;
 - modernising the management of research institutes and universities;
 - ensuring a sufficient supply of qualified researchers;
- **to facilitate all forms of innovation.** Member States should focus on improvements in innovation support services, in particular for the dissemination and transfer of technology, the creation of innovation poles bringing together research institutes, universities, etc. They should also take measures to encourage cross-border knowledge transfer and public procurement of innovative products and services. Access to domestic and international finance should be improved. Effective and affordable means of enforcing intellectual property rights should be put in place;
 - **to facilitate the spread and effective use of information and communication technologies (ICT) and build a fully inclusive information society.** Member States should encourage the widespread use of ICT in public services, small and medium-sized enterprises (SMEs) and households. They should provide the necessary framework for the related changes in the organisation of work in the economy and promote a European presence in the ICT sector. They must ensure the stability and security of networks and information;
 - **to strengthen the competitive edge of Europe's industrial base.** Europe needs to pursue a modern and active industrial policy, which entails bolstering the competitive advantages of its industrial base. This means establishing attractive framework conditions for manufacturing, enhancing competitiveness factors in response to the challenges of globalisation, developing new technologies and creating new markets by promoting new technological initiatives based on public-private partnerships and creating business clusters within the EU;
 - **to encourage the sustainable use of resources and step up environmental protection.** Member States should give priority to energy efficiency and the development of sustainable energies, in particular renewable energies, and promote the rapid spread of environmentally friendly technologies both in Europe and worldwide. Member States should pay particular attention to SMEs by withdrawing subsidies with a negative effect on the environment and sustainable development. Environmental protection should be pursued in areas such as halting the loss of biological diversity between now and 2010, combating climate change and implementing Kyoto targets ([EN](#)), etc.;
 - **to extend and deepen the internal market.** Member States should speed up the transposition of internal market directives, give priority to stricter and better enforcement of internal market legislation, apply Community rules effectively, promote an internal market in services, speed up the integration of financial markets, etc.;
 - **to ensure open and competitive markets in response to globalisation.** In order to reap the benefits of globalisation, Member States should give priority to removing the regulatory and trade barriers that hinder competition. Competition policy must be enforced more effectively and state aid reduced. Open and competitive markets also require the kind of investment in R&D described above. Member States should promote external openness, particularly in a multilateral context;

- **to create a more competitive business environment.** The Council recommends that Member States increase competition between businesses and encourage private initiative through better regulation. It calls on Member States to reduce the administrative burden on enterprises, particularly SMEs and start-ups, to improve the quality of regulations and to encourage businesses to develop their corporate social responsibility;
- **to promote entrepreneurship and create a supportive environment for SMEs.** Member States should improve access to finance in order to favour the creation and growth of SMEs. A favourable environment is also created by simplifying tax systems and reducing non-wage labour costs. In addition, the innovative potential of SMEs should be strengthened, e.g. by providing relevant support services. National legislation on bankruptcy, transfer of ownership, etc. should be revised in order to remove any remaining barriers;
- **to improve European infrastructure.** Efficient, modern infrastructures are important in facilitating the mobility of persons, goods and services within the EU. The presence of infrastructure is often a decisive factor for businesses seeking new locations. Member States should put in place conditions conducive to the development of such infrastructure and consider the possibility of developing public-private partnerships. Lastly, they should examine the question of appropriate infrastructure pricing systems.

Key terms used in the act

Macroeconomic policies: this term covers policies aimed at influencing economic aggregates such as prices, unemployment, growth potential, GDP, etc.
 Microeconomic policies: this term refers to policies designed to influence economic decisions taken, for example, by natural or legal persons.

RELATED ACTS

Council Recommendation 2007/209/EC of 27 March 2007 on the 2007 update of the broad guidelines for the economic policies of the Member States and the Community and on the implementation of Member States' employment policies [Official Journal L 92 of 3.4.2007].
 The Council calls upon Member States to take action along the lines set out in the recommendation with a view to updating the broad economic policy guidelines for 2007. The guidelines set out in the Annex to the Recommendation contain specific recommendations for each Member State.

Member States must report on the follow up in their next annual progress reports on the implementation of their national reform programmes in the framework of the Lisbon Strategy.

For further information, please consult the following websites:

- SCADPlus: [Employment policy guidelines \(2005-2008\)](#) ;
- [Globalisation](#) ;
- European Commission: [Directorate-General \(DG\) for Enterprise and Industry](#) , [DG for Economic and Financial Affairs \(EN \)](#) , [DG for Trade](#) , [DG for Internal Market and Services](#) , [DG for Employment, Social Affairs and Equal Opportunities](#) , [DG for the Environment](#) ;
- Support for SMEs: Euro Info Centres (EIC) ([EN](#)) and innovation networks ([EN](#)).

