COUNCIL RECOMMENDATION
of 12 July 1999
on the broad guidelines of the economic policies of the Member States and of the Community
(1999/570/EC)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular to Article 99(2) thereof,

Having regard to the recommendation from the Commission,

Having regard to the conclusions of the European Council in Cardiff of 15 and 16 June 1998,

Whereas a resolution on the recommendation from the Commission was adopted by the European Parliament,

HEREBY RECOMMENDS:
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I. GENERAL ECONOMIC POLICY GUIDELINES

1. Main priority: strong, sustainable growth and employment

1.1. Launch of the euro

The successful birth of the euro on 1 January 1999 constituted a milestone in the process of European integration. It is the culmination of an unprecedented degree of economic and political cooperation. This process has made an essential contribution to stability and the prospects for prosperity within the Union. The introduction of the euro is bound to act as a powerful lever for further integration and to strengthen the Union’s position in the world economy.

At the same time, the introduction of the euro emphasises the challenges that lie ahead. More than ever, economic and social conditions in each of the participating Member States will be profoundly influenced by economic developments and policies in partner Member States. The durable success of economic and monetary union will demand discipline from all policy actors, including the social partners, as well as well-functioning labour, product and capital markets, a deepened and adequate coordination of economic policies and a continuous and fruitful dialogue between the Council and the ECB.

The new institutional framework, the clear mandates given to individual policy actors, and enhanced surveillance and coordination instruments ensure that economic policy making in the European Union countries has the potential to achieve substantial benefits in terms of durably higher economic growth and employment. However, the realisation of this potential is not assured. Exploiting to the full and in a resolute and coordinated manner the mutually-reinforcing effects of growth and stability-oriented macroeconomic policies and sound structural policies at both the European Union and the national level is key. By pursuing this overall sound policy approach, the European Union Member States will also make a positive contribution to solving global economic problems.

The introduction of the euro and the completion of the Single Market have led to the creation of one of the largest economic entities in the world. This implies global responsibilities for the Community and the necessity to speak with one voice and to be represented effectively on issues of particular relevance to EMU. The Union is confronted with a twofold need:

(i) to engage in an effective dialogue with its main trading partners with a view to promoting sound economic policies in all of the major currency areas, thereby contributing to exchange rate stability in the international monetary system; and

(ii) to help ensure that the architecture of the international financial and monetary system is adapted to the globalisation of financial markets, by promoting inter alia: enhanced institutional arrangements for the international monetary system; improved transparency and better policy making procedures; strengthened financial sector surveillance; a well-sequenced and orderly approach to liberalising financial markets and mechanisms for cooperative crisis management involving the private sector.

1.2. Economic and employment situation

Since the summer of 1998, when the previous Broad Economic Policy Guidelines were adopted, the recovery of the European Union economy lost momentum. This essentially reflects the direct and indirect impact of the sharp deterioration in the world economic situation on exports and investment in the Union. Although there are still some downside risks, on the back of sound economic fundamentals, some improvement of the external economic environment and confidence-building economic policies, economic activity is expected to regain its momentum. The recent lowering of interest rates by the ECB in the context of its monetary policy strategy aimed at price stability in the euro area will be helpful in further exploiting the considerable growth potential of the euro area.
The pace of job creation in the European Union quickened markedly during the last two years and in late 1998 the European Union unemployment rate dropped below 10% for the first time since 1992. Employment growth is expected to continue at a moderate pace, implying a further, albeit gradual, reduction in unemployment.

However, at about 61% in 1998, the employment rate in the European Union as a whole is low, both in historical and international comparative terms. Achieving a significantly higher employment rate and lower unemployment rate over the medium term would be beneficial for improving living standards significantly, facilitating the sustainability of public finances and ensuring a cohesive society. The overall European Union employment situation masks, however, important differences between countries. The countries that have made most progress in structural reforms while pursuing growth and stability-oriented macroeconomic policies, have achieved the greatest improvement in their employment and growth performance in recent years.

Economic conditions favourable to growth and a rapid rise of production capacity should provide the basis for high economic growth and a high employment rate. It is essential, therefore, that the currently favourable investment conditions, in terms of high profitability and low interest rates, are fully exploited. In addition, the realisation of the trans-European transport, energy and communication infrastructure should be actively pursued. Investment in infrastructure, knowledge and skills should also be enhanced to accelerate the development of the high-technology, high-skilled and service-based sectors of the economy. The Member States' and the Community's financial instruments and the EIB have to continue to play a key role. The contribution made by public and private partnership should be explored.
1.3. Policy strategy for sustainable growth and employment: towards a European Employment Pact

Europe's employment challenge is the key priority for economic policy. The successful launch of the euro and a well-functioning EMU set a favourable framework. However, creating the conditions for high and sustainable growth and employment, which is primarily a matter for Member States, will require a comprehensive and coherent strategy that consists of three mutually-reinforcing key components:

(i) sound macroeconomic policies that are conducive to growth, employment and price stability, involving full respect of the stability and growth pact and continued appropriate wage developments;

(ii) policies that improve the overall functioning of labour markets and in particular improve employability, entrepreneurship, adaptability and equal opportunities via a steadfast, prompt and transparent implementation of the employment guidelines tailored to Member States' conditions; and

(iii) economic reforms that enhance the efficiency and flexibility of goods, services and capital markets, reinforce private sector confidence, benefit consumers and favour an environmentally-sustainable growth path, involving a close monitoring of the Single Market, a vigorous competition policy, regulatory reforms and more efficient taxation and benefit systems. Given that economic reforms can imply adjustment costs, the reform agenda should attempt to reconcile efficiency and equity considerations.

These three components are reflected in the three pillars of the European Employment Pact.
The pursuit of this strategy will be essential to achieve self-sustaining, non-inflationary, investment-supported growth over the medium and longer term. To this end, on the national and the European level, all economic policy actors in line with their respective responsibilities should contribute to sound public finances, a stability-oriented monetary policy, appropriate wage developments and economic reforms.

All actors and groups of actors are urged to maintain a fruitful macroeconomic dialogue while retaining their respective responsibilities and preserving their independence with a view to realising positive synergies, including the greater synergy requested by the Vienna European Council between the broad economic policy guidelines and the employment guidelines. In this context, it will be essential to enhance the policy dialogue on the basis of mutual trust on both the national and European level, with particular emphasis to be given to improve the effectiveness of the policy coordination in the Council and reinforce the dialogue between the Commission, Council, the ECB and the social partners. To be as effective as possible, such a dialogue process would have to be suitably structured and be based on comprehensive information.

On this basis, the European Employment Pact should define the process whereby all the policy actors enter into a dialogue with a view to achieving the Union's central economic and social objective of high employment within the framework of a strong and sustained medium-term growth process.
As indicated by the Treaty (Article 99), the broad economic policy guidelines are the corner-stone of the coordination of economic policies. The 1999 broad economic policy guidelines consist of general guidelines and country-specific guidelines that are equally valid. The general guidelines, which are applicable to all Member States, indicate the required direction of economic policies. Within this broader frame, the country-specific guidelines seek to identify economic policy priorities for each Member State, taking account of their particular circumstances. It must be noted in this context that Member States are currently revising their National Action Plans for Employment to take account of the 1999 employment guidelines. The country-specific guidelines, in so far as labour market issues are concerned, are the 1999 employment guidelines and underpin the implementation of the revised National Action Plans. Finally, the basis for the 1999 broad economic policy guidelines is the economic situation and outlook in the Member States and the Union as outlined in the Commission services' Spring 1999 Economic Forecasts. Although a substantially different unfolding of economic developments would not profoundly alter the strategy articulated in the guidelines, it might nevertheless require an adjustment of the policy setting.

2. Growth and stability-oriented macroeconomic policies

2.1. Macroeconomic policy mix in the euro area

A policy mix conducive to growth, employment and stability in the euro area should consist of the following elements:

(i) sustained efforts to bring budgets securely to close to balance or to a surplus over the medium term through a full and determined implementation by Member States of their stability programmes (see section 2.3);
(ii) a monetary policy aimed at maintaining price stability in accordance with the Treaty;

(iii) a continued responsible behaviour on the part of the social partners that supports wage developments that are consistent with price stability and job creation (see section 2.4); and

(iv) a commitment from the Member States to press ahead with front-loaded, coherent and comprehensive economic reforms with a view to enhancing the adaptability and efficiency of product, capital and labour markets (see section 3).

In the light of prevailing economic conditions characterised by a considerable slack in product and labour markets in most Member States, concrete actions by governments and the social partners that contribute to continued low inflationary pressures, make it easier for monetary policy to pursue its primary objective of maintaining price stability and, without prejudice to the latter, to contribute further to an overall environment which supports the general economic policies in the Community.

The implementation of economic policies that are adequate in the present context is a key test for the euro area.
The framework for an effective coordination has been established, notably by creating the Euro-11 Group, but experience with the procedures needs to be gained. In this context and in full respect of the provisions of the stability and growth pact, the economic and budgetary situation will be periodically examined with a view to assessing the policy mix in the euro-area.

To overcome the current difficult environment, it will be essential to establish an open dialogue involving all policy actors, including, where appropriate, the European social partners notably in the framework of the European Employment Pact, with a view to exchanging information and standpoints on, policy issues and creating a climate of mutual trust in the ability of policy actors to deliver on their respective commitments. The macroeconomic dialogue process, which is a key element of the European Employment Pact, could contribute to a smooth interaction between macroeconomic policies.

2.2. Macroeconomic policy mix in the Member States outside the euro area

The Member States not participating in the euro area are subject to different macroeconomic policy challenges than the euro-area Member States in so far as they retain national responsibility for monetary and exchange rate policy. However, they are subject to most of the provisions of the stability and growth pact. The non-euro-area Member States will also need to maintain stability-oriented macroeconomic policies as the basis for sustained growth and employment creation. In addition, monetary and budgetary policies will need to be conducted so as to maintain, and where appropriate foster, price stability and the sustainability of the government financial position. This would also help to prepare countries for the adoption of the euro.
In the two Member States whose currencies participate in the ERM 2, the main focus must be to maintain sound monetary and budgetary policies in order to respect exchange rate commitments. In the two Member States that pursue a direct inflation target, it is important that the conduct of monetary and fiscal policy be consistent with the achievement of that target, thus creating the conditions for exchange rate stability. To these ends, all of the non-euro-area Member States should continue the rigorous implementation of their convergence programmes.

2.3. Sound and efficient public finances

Visible progress in reducing general government budget deficits was made in 1996 and 1997. Yet, budgetary consolidation was generally only modest in 1998 even though economic activity generally expanded at a strong pace and the budgetary positions of most Member States were not in line with the medium-term objective of the stability and growth pact.

Further budgetary consolidation is therefore needed. This will create the necessary scope to face adverse cyclical developments. In addition, Member States should strive to reduce the vulnerability of budgets to rising interest rates, make government spending and taxation more conducive to growth and employment creation and to prepare for the longer term budgetary challenges associated with an ageing population.

Within the framework of the stability and growth pact, all Member States submitted stability programmes or convergence programmes that set out the medium-term objective for the budgetary position of close to balance or in surplus and the adjustment path towards this objective. Up to the first few months of 1999, the Council examined all programmes and delivered an opinion on all programmes. In conducting budgetary policies during 1999 and beyond, Member States are urged:
(i) to achieve budgetary positions of close to balance or in surplus no later than by the end of 2002 in conformity with the stability and convergence programmes;

(ii) given the expectation of a mild, temporary slowdown, to meet fully their 1999 budgetary targets; and

(iii) provided the economic outlook unfolds better than expected in their stability or convergence programmes, to front-load the budgetary adjustment efforts envisaged in their programmes as of the year 2000 and, where programmes target minimum adjustment, to aspire to more ambitious objectives and update stability/convergence programmes accordingly.

### General government net lending/borrowing

(% of GDP)

**Stability and convergence programme projections**

#### Stability programmes

<table>
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#### Convergence programmes

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(1) Date when programme was adopted.

(2) Central scenario. Low/high growth scenario projections: 0.9/1.2, 0.8/1.5, 0.7/1.9 and 1.0/2.5 % of GDP, respectively, in the years 1999 to 2002.

(3) No annual data provided for the years 2000/2001.

(4) Prudent scenario; favourable scenario projection: -1.7, -1.2 and -0.8 % of GDP, respectively, in the years 2000 to 2002.

(5) Figures based on ESA 95 conventions. Compared with the ESA 79 conventions on which the table is generally based, these reduce the surplus by about 0.4 % of GDP from 1999.

(6) Projection for the year 2005: 3.5 % of GDP.

(7) Central scenario. Low/high growth scenario projections: 0.9/1.2, 0.8/1.5, 0.7/1.9 and 1.0/2.5 % of GDP, respectively, in the years 1999 to 2002.

(8) Projection in the financial year 2003/2004: 0.1 % of GDP.

Source: Commission services.
For budgetary adjustment and restructuring to take place efficiently, it has to take into account the particularities of each Member State’s economic, social and institutional conditions. In general, and without threatening the necessary ongoing consolidation process, Member States are urged to:

(i) improve their budgetary positions through expenditure restraint rather than through tax increases; in this context, to enhance the credibility of budgetary consolidation and to influence private sector expectations positively. Member States would be well advised to introduce or enhance the mechanisms and institutions that help control spending so that taxes could be cut without jeopardising the achievement or maintenance of healthy budgetary positions; and

(ii) improve the sustainability and efficiency of their public finances through:

(a) reviewing pension and health care systems in order to be able to cope with the financial burden on welfare spending by the ageing of the population and the need to influence future labour supply, in line with the options already being examined by the Member States;

(b) reversing, where appropriate, the decline in government investment; in this context the Union and the Member States should be guided by the Commission’s four-point action plan that was submitted to the Vienna European Council;

(c) giving incentives for investment in human capital and providing for the necessary financing of other active labour market policies that are called for in the employment guidelines while taking into account the national budgetary position;

(d) reducing the overall tax burden and especially the tax wedge on the lower paid preferably via reduced spending or through shifts to environmental, energy or consumption taxes; to increase the employment effects of reductions in the fiscal burden on labour and non-wage labour costs, the social partners are urged, at their various levels of responsibility and action, to commit themselves to actions aimed at improving the conditions for job creation and investment;

(e) improving the efficiency of their taxation systems; and

(f) pursuing tax coordination further so as to ensure a smooth functioning of the Single Market and to avoid harmful tax competition; the Council awaits the outcome of the ongoing discussions on the VAT-system, taxes on energy, the taxation of corporate income and the taxation of the interest on savings in line with the conclusions of the European Council held in Vienna in December 1998.

In just the same way as the Member States, the Community also is called upon to continue to maintain strict budgetary discipline. Strict budgetary discipline must be applied to all categories of the financial perspectives, while respecting the inter-institutional agreement on budget discipline and the improvement of the budget procedure.

2.4. Appropriate wage developments

As underlined in the Amsterdam resolution on growth and employment, the social partners are responsible — at the national, regional, sectoral or even at a more decentralised level following their respective traditions — for reconciling high employment with appropriate wage settlements and for setting up a suitable institutional framework for the wage formation process, supported, where appropriate, by public authorities. In EMU, with a single monetary regime, the link between wages and employment will become more apparent and strict.
Wage cost developments in Member States should be allowed to reflect different economic and employment situations. Governments can create the right framework conditions which facilitate the negotiations of social partners. For wage developments to contribute to an employment-friendly policy mix, the social partners should continue to pursue a responsible course and conclude wage agreements in Member States in line with the general principles set out in previous broad economic policy guidelines:

(i) nominal wage increases in Member States must be consistent with price stability; thereby in the euro area, aggregate wage increases will be consistent with keeping price increases within the price stability objective of the ECB;

(ii) real wage increases in relation to labour productivity growth should take into account the need to strengthen, where necessary, and subsequently maintain the profitability of capacity enhancing and employment-creating investment. This implies that in countries where overall labour productivity growth is slowing down, the scope for real wage increases will be reduced. More specifically, a reduction in working time should not lead to an increase in real unit labour costs. For improved profitability to result in higher investment in the Community, it is essential to forge an investment-supportive environment in terms of demand developments, labour market conditions, taxation and the regulatory framework;

(iii) in order to improve employability, wage agreements should better take into account differentials in productivity levels according to qualifications, skills and geographical areas; and

(iv) especially within the euro area, it will be of crucial importance to avoid a convergence of nominal and real wages across countries and regions in advance of productivity; therefore, wage imitation effects should be avoided. Labour cost differences between Member States should continue to reflect discrepancies in labour productivity.

To achieve the right results, effective dialogue at all the appropriate levels will be essential. The outcomes should be jointly assessed from a growth and employment point of view.
3. Comprehensive and coordinated economic reforms

Structural reforms have a key role to play in stimulating economic growth, improving productivity, enhancing private sector confidence and fostering employment in the European Union. Structural reform will enhance the ability to deal with globalisation, environmental problems and technological change. It is also essential to the success of Economic and Monetary Union: better functioning markets will increase the growth potential of the European economies. Economic reform is also required to increase employment and to lower the substantial level of structural unemployment in Europe. The fact that monetary policy is geared to maintaining price stability in the euro area as a whole underscores the need to ensure that product and labour markets are flexible enough to respond smoothly to country-specific economic developments. Opening up markets to competition, at both a national level and European Union level, will mean lower prices for consumers and more efficient production. The entry of new firms into the markets will facilitate innovation and the transmission of new technologies, which will increase overall levels of output and employment.

Whilst reforms are being implemented throughout the European Union, they often lack comprehensiveness and progress remains uneven across policy fields and Member States. In general, progress is relatively satisfactory in goods and capital markets, but much remains to be done in services, including financial services, and labour markets.

Member States should therefore carry out in a transparent manner the employment guidelines and use the Cardiff process on economic reforms to increase competition, speed up regulatory reforms and improve the working of the Single Market. It is particularly important to reform existing mechanisms and structures in such a way that people without jobs and potential entrepreneurs are enabled to get a better access to labour and product markets.

Open and competitive international markets are an important driver for growth, prosperity and stability in the Community. The Community should seek further trade liberalisation in accordance with the conclusions of the European Council in Vienna.
3.1. More efficient product (goods and services) markets

Thanks to the Single Market Programme, European Union product markets are relatively integrated and function quite well. However, price differences between Member States and between the European Union and the United States of America suggest that there is scope for improvement. Regulatory reform is another cornerstone of efforts to improve the functioning of product markets. Regulatory reform consists of improving the quality of regulations, and may or may not involve deregulation. To attain these goals, Member States are urged to undertake the following measures:

(i) the Single Market and competition policy should be strictly applied and closely monitored; more effective enforcement of the Single Market should be ensured especially in the areas of public procurement and technical standards via renewed commitments from the public authorities; a purposeful continuation of work to resolve issues arising in connection with limitations on parallel trade, leading to higher prices, should be pursued;

(ii) for State aids, there is a need for the Commission to control them strictly and for Member States to exercise rigorous self-discipline;

(iii) regulatory reforms should be pursued and speeded up in telecommunications, transport and energy, with a view to increasing competition among service providers; benefits in terms of lower prices and/or higher quality resulting from the liberalisation process will be transmitted without delay to consumers and industrial users due to increased competition, and will also support initiatives such as the information society and electronic commerce; thus, these regulatory reforms will bring about new investment opportunities and new jobs;

(iv) the quality of the legal and regulatory environment has improved but further progress should be made, especially for SMEs; procedures and administrative delays for business start-ups should be reduced. In this sense, Member States should set themselves targets and deadlines for such reductions; moreover, regulations aimed at consumer protection should be further improved and better enforced;

(v) VAT should be further revised and simplified in order to ensure that it is adapted to the Single Market;

(vi) further progress should be made to avoid harmful tax competition in line with the conclusions of the European Council in Vienna; and

(vii) Member States should also put more emphasis on the environmental dimension of economic policy. The promotion of environmentally-friendly technologies and the use of market-based instruments could contribute to a more sustainable development. A sound environmental policy would also bring benefits in terms of higher growth and employment.

3.2. More integrated and deeper capital markets

Despite substantial progress, differences in both national regulatory environments and fiscal regimes continue to fragment the European Union capital market. By offering the prospect of a large, single capital market, the introduction of the euro creates a further incentive to increase transparency and to remove the remaining barriers. Deeper and better functioning risk capital markets would facilitate the expansion of small and medium-sized enterprises (SMEs), through easier access to fund-raising on the stock market and the development of venture capital, and promote research and development (R&D) and innovation, thereby leading to stronger growth in our economies and more and better jobs. Therefore Member States are urged to:

(i) coordinate their efforts for reducing differences in national regulations and tax regimes, while preserving the consistency with prudential and fiscal national requirements;

(ii) ensure, where appropriate, that additional host country requirements only apply to financial services offered to retail customers and not to professionals; this implies the pursuit of a policy distinguishing between retail consumers and those operators acting in their professional capacity;
(iii) ensure that existing national ‘general good’ rules, which aim at ensuring consumer protection and promoting cross-border business, are applied in a transparent and proportionate manner as called for in the Commission communication ‘Financial services: building a framework for action’; and

(iv) promote risk taking and innovation in Europe; in this respect follow up quickly on the risk capital action plan, facilitating access to both risk capital for SMEs and capital for R&D for all enterprises.

3.3. Better functioning labour markets

The functioning of labour markets in the European Union can be improved significantly and this would make a major contribution to the reduction of high unemployment. However, the problem differs considerably between Member States, between regions within Member States and between categories of labour. These differences also suggest a number of lessons: (i) differences between Member States indicate that countries which have made most progress in structural reforms while pursuing sound macroeconomic policies, have been able to improve their employment situation; (ii) differences in regional unemployment in several countries highlight the need in these countries to account for productivity differences according to qualification, skills and geographical areas in collective bargaining and the need to enhance labour mobility; and (iii) the particularly high incidence of unemployment among certain categories of labour (low skilled, women, youth) mainly reflects labour supply behaviour and recruitment patterns, including de facto discrimination, but also the high costs of some of these labour categories (in particular unskilled workers) and the inadequacy of skills.

To tackle these problems, the integrated four-pillar strategy set out in the employment guidelines should be fully implemented and in a prompt and transparent manner. Member States should give particular attention to the following:

(i) policies should act on both the demand for and supply of labour by applying the preventive approach of the employment guidelines and by reducing the gender gap; this should include raising the employability of the individual, in particular by means of access to labour market training, education and lifelong learning, a lowering of taxes, especially on low-paid workers and an assessment of duration and eligibility criteria in benefit systems, combined with active policies to reintegrate the unemployed; in accordance with the Vienna European Council conclusions the national action plans for Employment should include concrete national targets and deadlines where appropriate;
(ii) reviewing and adapting, where appropriate, the tax and benefit systems to ensure that they actively support employability and job creation; the portability of pension entitlements should be improved, to the extent possible, in order to sustain labour mobility across sectors and regions in the European Union; achieving the appropriate balance between economic efficiency and social inclusion; transfers of unemployed to expensive, passive systems should be avoided; and

(iii) the social partners should be encouraged to modernise the organisation of work, including flexible and annualised working time arrangements; any overall reduction of working time must prevent an increase in unit labour costs and take future needs in terms of increased labour supply into account; efforts to increase women's participation in working life and to encourage the combination of career and family life should be pursued.

II. COUNTRY-SPECIFIC ECONOMIC POLICY GUIDELINES

1. Belgium

Economic growth will decelerate in Belgium in 1999 to about its trend rate, but should be sufficient to bring about a further gradual decline in unemployment.

Budgetary policy

Budgetary policy should focus on the following:

— any risk of slippage from the 1999 budget target for the primary surplus of 6% of GDP should be offset by timely corrective measures, thus enabling the target of 1.3% of GDP for the total deficit to be met,

— real primary expenditure in the current and subsequent years should be monitored closely in order to ensure that its annual growth rate remains in compliance with the primary surplus target of 6% of GDP. The stability programme provides for an annual increase in real primary expenditure of 1.5%,

— in future years, the primary surplus should be maintained at 6% of GDP and the total government deficit reduced as planned in the Belgian stability programme so as to secure a continuing rapid reduction in the general government debt ratio, and

— within the Belgian institutional framework, it would be desirable to renew from 2000 the 'cooperation' agreement signed in 1996 between the Federal government, the regions and Communities, with a view to ensuring the coordination of budgetary policy during the period covered by the stability programme.

Product and capital markets

Belgium’s authorities have taken important steps to liberalise product and capital markets and to promote competition. However, further efforts are needed in specific areas:

— despite steady improvement since November 1997, Belgium's record on implementing Single Market Directives could still be improved, especially in areas such as telecommunications and transport, and

— liberalisation of the network industries (telecommunications, post, energy, transport) is generally keeping pace with the requirements of Community legislation. Further opening-up of these markets should entail lower prices for business and consumers.

Labour markets

The Belgian labour market is characterised by persistently high long-term unemployment and relatively low employment rates. Labour market policies are still overemphasising the importance of income maintenance measures. The trend towards an active policy has been reinforced with the 1998 National Action Plan for employment. As a consequence, reforms should focus, in particular, on the following areas:

— while activation of the unemployed is being pursued with particular focus on low skilled and youngsters, more needs to be done, especially concerning unemployed adults,

— in order to create incentives to participate in the active measures and to take up new job offers, the active policy measures should be combined with a review of benefit duration and a closer scrutiny of the availability of the unemployed,

— employment protection legislation in Belgium is considered to be relatively strict for white-collar workers. Further consideration should be given to this matter since more flexible employment protection legislation is likely to improve Belgian labour market performance, and

— given substantial differences in regional unemployment, it is desirable to facilitate the use of opening clauses to allow wage negotiations to better reflect local labour market conditions or the financial situation of the enterprises.

2. Denmark

A slowing in economic growth in Denmark to below its trend rate is likely in 1999 as economic activity is close to capacity limits and in response to counter-cyclical budgetary measures at central government level. Unemployment is likely to stabilise at its already low level.
Budgetary policy

Budgetary policy should focus on the following:

— the implementation of budgetary policy should seek to maintain a strong government surplus in 1999 — in line with the planned surplus of 2.5% of GDP — through strict adherence to expenditure targets, in particular at the level of local governments, and

— in the medium term, the reduction of distortions in the tax system (included in the ‘Whitsun package’), should be maintained and allowed to produce its results.

Product and capital markets

The Danish authorities have significantly advanced structural reforms in a number of markets. Nonetheless, further efforts are needed in specific areas:

— competition problems (high prices, high concentration ratios, high margins and low degrees of foreign penetration) are noticeable in certain sectors, calling for a strengthening and a more vigorous application of existing regulations,

— the Danish public sector is comparatively large, so the authorities’ efforts to increase its efficiency by introducing competitive tendering in the provision of public services are particularly appropriate,

— significant progress has been achieved in deregulating the network industries. Recently-agreed reforms in the electricity sector aimed at further liberalisation should be implemented without delay, and

— the liberalisation of shop-opening hours, which has already led to increased employment, should be further reviewed.

Labour market

Denmark has a high employment rate and a low unemployment rate. The country is part of a group of Member States in which the implementation of comprehensive structural reforms, in particular in the labour markets, has produced clear positive results. Nevertheless, reforms should focus, in particular, on the following areas:

— given the relatively large part of the active population on benefits and the need to increase the labour supply, it is important that the recent reforms, including the reform of the early retirement scheme, are fully implemented and closely monitored, with a view to evaluating whether incentives to take up or remain in jobs are sufficient,

— the latest tax reform which aimed at, inter alia, reducing the tax burden on low incomes and the increased incentives should be evaluated with a view to a possible reinforcement because the tax wedge on labour is still high, and

— the various leave schemes should be reconsidered in the light of the need to increase labour supply.

3. Germany

The slowdown in Germany in 1999 appears to be more pronounced than in most other Member States, because of a generally greater exposure to weaker world trade and some specific domestic influences, such as substantial processes of structural adaptation in the New German Länder especially in the construction industry. This carries the risk of an interruption in the decline in unemployment.

Budgetary policy

Budgetary policy should focus on the following:

— implementation of budgetary policy in 1999 should respect the target for the government deficit of 2% of GDP. This should be possible through tight control of expenditure,

— if the strengthening of the economy in 2000 will be stronger than envisaged in Germany’s stability programme, this should be used to make faster progress towards the medium-term objective for the deficit set in the programme, and

— the guiding principle of the planned tax reform, i.e. a cut in tax rates and a simultaneous widening of the tax base, is appropriate. In order to maximise its positive impact, the reform should result in an effective simplification of the tax code.

Product and capital markets

There is evidence that the functioning of German product markets is improving. However, further efforts are needed in specific areas:

— since November 1997, Germany has made significant progress in completing the legislative work necessary for the implementation of the Single Market. In public procurement, however, further progress could be made,

— in the past, the level of State aids had increased due to reunification, but since then, it has decreased. This process should be continued, especially for sectoral aids,

— significant progress has been achieved in liberalising the network industries leading to lower prices. A similar effort should be considered for other services, including opening hours in retail distribution after the review of the 1996 liberalisation, and

— business registration procedures for creating SMEs were simplified and accelerated. Further accelerations seem to be possible.
Labour markets

The German labour market has been characterised by weak job creation over the past five years. The unemployment rate in the East is nearly twice as high as in the West. Active labour market policies have traditionally focused on the promotion of vocational and prevocational training, job creation schemes, structural adjustment measures and rehabilitation measures, while the role of the Public Employment Service is being strengthened further. The 1998 National Action Plan for employment focuses on employability by further developing the successful dual apprenticeship system, as well as actions for disadvantaged youth. As a consequence, reforms should focus, in particular, on the following areas:

— the emphasis put on active labour market measures should be supplemented by a review of the benefit and assistance schemes in order to ensure that for all groups sufficient incentives exist for participating in job training and taking up job offers,

— the government's decision to lower non-wage labour costs — financed via increased energy taxes — and income taxes for especially low-paid workers is welcomed. Such moves should be continued in order to reduce labour costs further at the lowest end of the wage scale, while respecting the need for fiscal consolidation; and to assess the employment legislation for SMEs with a view to its impact on job creation.

4. Greece

Economic growth in Greece has been strong in recent years and any slowdown in 1999 is likely to be modest. Unemployment is expected to decline gradually.

Budgetary policy

Budgetary policy should focus on the following:

— the target set in the budget for a government deficit in 1999 of 1.9% of GDP should be achieved. The proposed restructuring of government expenditure in favour of investment should be effectively implemented,

— the budget for 2000 should aim for a further decline in the deficit helped by a reduction in the primary current expenditure ratio to GDP in order to contribute to lowering inflation expectations. Clear and binding norms for securing expenditure control should continue to be respected,

— in parallel, the Greek authorities should, in line with the tax law adopted in the recent past, further pursue their efforts to increase the efficiency of the tax system by combating tax avoidance and evasion; and the public sector should be further reformed with vigour; in particular the restructuring and privatisation of public companies, should be implemented as scheduled.

Privatisation receipts should be used to contribute to a rapid reduction in the general government debt ratio.

Product and capital markets

Greece has striven to liberalise its economy in the last few years. Nonetheless, efforts need to be reinforced in specific areas:

— the Greek authorities should improve their transposition record on implementing Single Market legislation, which is worse than average, particularly as regards public procurement,

— to improve productivity, the strategy of restructuring management in state-owned enterprises should be accompanied by a sustained effort to privatise,

— although the creation of new firms is encouraging, reducing further the administrative burden for registering a new company could stimulate entrepreneurship. Ideally, this would be accompanied by a strategy to develop further venture capital markets, as Greek SMEs find raising finance difficult. The plan for the enlargement of the stock market so that small dynamic companies can start trading within 1999 is a significant first step in the strategy to help Greek SMEs in raising finance, and

— although recent measures to stimulate business R&D expenditure from its currently low level are encouraging, further measures along similar lines should be envisaged.

Labour markets

The Greek labour market is characterised by a low employment rate, stagnating unemployment and high long-term unemployment. A reform of the labour market aimed at enhancing flexibility entered into force last year. The law introduces new types of work contracts, flexible working hours and private employment offices. The 1998 National Action Plan for employment and the implementation report point to the establishment of a more general employment strategy to tackle these problems. Particular efforts have been made to address key problems affecting young people and women, both of which have high unemployment rates. As a consequence, reforms should focus, in particular, on the following areas:

— the preventive approach of labour market policies should be reinforced. Efforts to reform training and education systems with a view to taking better account of the needs of the productive system should be further pursued, and

— the use of new types of part-time contracts and more flexible working hours should be encouraged.
5. Spain

In the Spanish economy, high and above trend growth is expected in 1999, although at a somewhat lower rate than in previous years. A further substantial decline in the still very high level of unemployment is anticipated.

Budgetary policy

Budgetary policy should focus on the following:

— the implementation of budgetary policy in 1999 should ensure that the target for the government deficit of 1.6% of GDP is met, if necessary, through a further tightening of primary current expenditure, taking advantage of the better-than-expected results in 1998 and the potential for larger savings in interest payments,

— the budget for 2000 should reaffirm the targets and strategy outlined in the stability programme: i.e. a deficit of 1% of GDP based on the containment of primary current expenditure. This will allow room for strengthening government investment, given the catching-up needs of Spain. If evidence of overheating emerges, a tighter fiscal stance should be adopted, and

— control of government expenditure should be re-enforced through the planned reform of the National Budget Law; given the increasing role of territorial governments in many fields of expenditure, the existing internal stability pact between the regions and the state should be monitored closely and respected fully.

Product and capital markets

Over the recent period, Spain has made serious endeavours to improve the functioning of product markets. Nonetheless, further efforts are needed in specific areas:

— despite progress in transposing Single Market legislation during 1997 and 1998, further improvement is still necessary, especially in transport,

— a large part of non-agricultural State aid takes the form of sector-specific aid. Such aids should be reduced,

— under regulatory reforms, much has been done to deregulate telecommunications, electricity, gas and air transport. A similar effort should be made in retail distribution,

— the administrative burden facing Spanish companies is high, both in terms of the number of procedures and of delays for company registration. Measures should be taken to rectify this situation, and

— the law for the promotion of industrial innovation being prepared by the Spanish government to stimulate industrial innovation is particularly welcome, given the present low share of R&D expenditure,

— while privatisation and deregulation have been significant and may permit an increase in efficiency in goods and service markets, competition policy should be reinforced in order to guarantee that the benefits of this process are fully transmitted to consumers.

Labour markets

Although the unemployment rate decreased by more than 2 percentage points in 1998, to reach 18.7%, Spain has one of the most difficult starting points of all Member States. Apart from high rates of youth, long-term and female unemployment, the Spanish labour market suffers from a low employment rate, a low rate of female participation and a low rate of part-time work. The 1998 National Action Plan for employment represents a significant move towards activation and prevention. Furthermore, a new law recently introduced should enhance the attractiveness of part-time work for employers and employees, while the new decentralised management model of the National Employment Institute will help improve employability. Negotiation structures have been created to actively involve the social partners in the definition and implementation of employment policies. As a consequence, reforms should focus, in particular, on the following areas:

— the high levels of long-term and youth unemployment call for a shift from passive to active labour market policies, with particular emphasis on investment in training and education to increase human capital and adaptability as indicated in the 1998 national action plan for employment,

— efforts in line with the recent personal income tax reform to reduce the tax wedge, combined with further reforms of the pension system aimed at discouraging early retirement, should provide additional incentives on the supply side of the labour market, while helping to ensure the sustainability of social protection in Spain,

— recent agreements with the social partners to reduce the cost of dismissal should be reinforced in order to diminish the relative weight of temporary contracts, while enhancing part-time work and thereby introducing more flexibility in the labour market, and

— striking regional differences as regards unemployment rates indicate that the social partners should review wage formation systems with a view to adapting wage developments to productivity differentials at geographical, sectoral and company level.

6. France

Economic growth in France will decelerate in 1999 to about its trend rate. A further but less rapid decline in unemployment is expected.
Budgetary policy

Budgetary policy should focus on the following:

— implementation of budgetary policy in 1999 should respect the target for the government deficit of 2.3% of GDP. This requires the French Government to respect the expenditure targets that have been set,

— government expenditure in 1999 and subsequent years should be strictly controlled and any slippage should be promptly corrected. In particular, social security spending should be closely monitored. The government should rapidly announce measures that will ensure a durable compliance with the expenditure ceilings established in the stability programme, and

— the expected strengthening of economic activity in 2000 and beyond should be used to make progress towards the medium-term objective for the deficit projected in the favourable scenario of France's stability programme.

Product and capital markets

The French authorities have made efforts to deregulate and promote competition in product and capital markets. Nonetheless, further efforts are needed in specific areas:

— despite steady improvement since November 1997, France's record in implementing Single Market Directives could still be improved, particularly in telecommunications,

— the large proportion of non-agricultural State aid which has been devoted in recent years to rescuing and restructuring a number of firms facing exceptional difficulties should be reduced. As the French authorities themselves recommend in their report on French economic reforms, an increased emphasis should be given to generic measures to improve firms' ability to adapt and innovate,

— although liberalisation of the network industries (telecommunications, post, electricity, gas, transport) is generally keeping pace with the requirements of Community legislation, faster progress could be made, particularly in the energy sector, and

— measures already taken to simplify formalities and to encourage innovation should be closely monitored and the effort made in these areas should be continued.

Labour markets

The employment rate is relatively low, in particular for workers aged 55 and more. The unemployment rate, including youth unemployment, is higher than the European Union average. Recent reforms have improved the employment content of growth by means of a good combination of active and preventive measures. The 1998 National Action Plan for employment has clearly addressed the prevention of youth unemployment, as well as the integration of the long-term unemployed. There are important programmes of job creation, especially in emerging community services. Also, new initiatives on life long learning are under discussion. As a consequence, reforms should focus, in particular, on the following areas:

— the increased emphasis on active labour market policies of the 1998 national action plan for employment should be backed up by a review of both unemployment benefit schemes (job availability requirements) and employment protection legislation. Such a review should aim at removing the impediments to take up jobs, encouraging participation in active labour market measures and enhancing the incentives to create jobs,

— provided budgetary room is created, the recent policy of tax cuts at the lower end of the wage scale and the promotion of jobs in certain service areas should be continued, and

— a prominent reform of the French labour market is the gradual introduction of the 35-hour working week. The bulk of the implementation remains to be done. Special attention should be paid to the avoidance of increasing the cost of labour and to the introduction of more flexibility regarding work organisation and working time (annualisation of working time).

7. Ireland

Very rapid growth in the Irish economy is expected to continue in 1999, albeit not quite as strongly as in the previous two years. Unemployment should decline further at a significant pace.

Budgetary policy

Budgetary policy should focus on the following:

— since the public finances are already in strong surplus, the main challenge for budgetary policy is to ensure stability. Should there be evidence of wage inflation continuing to gather pace, there should be a readiness to use budgetary policy appropriately to restrain the economy; and

— the growth in government consumption should be steadily restrained from the estimated 5% volume increase in 1998 to 2% in 2001, as outlined in the stability programme.

Product and capital markets

Reforms of product and capital markets are key elements of the government's economic strategy. Nonetheless, further efforts are needed in specific areas:

— Ireland should accelerate the reduction of its transposition deficit on Single Market legislation especially in transport,

— the Competition Authority should be given power to enforce directly Articles 85 (cartels) and 86 (abuse of dominant positions) of the EC Treaty,
— liberalisation and regulatory reform of the Irish network industries generally follows progress made in European Union legislation. However, telecommunications, electricity and gas supply, and domestic and international transport are dominated by state-owned companies. Telecom Éireann is being partially privatised this year. Similar initiatives to promote competition in these sectors should be considered, and

— venture capital in Ireland is modest. This is a handicap to Irish SMEs particularly in the start-up phase. However, since 1995, improvements are being made in the venture capital market and efforts in this direction should be continued. R&D expenditure is also low. In view of this, measures should continue to be taken to create incentives encouraging venture capital and local R&D and the government should continue to participate and could consider participating more fully to improve Ireland’s R&D performance.

Labour markets

Ireland has made substantial progress both in increasing the employment rate and in reducing the unemployment rate, which has been more than halved in four years. The 1998 national action plan for employment places most emphasis on employability, relying strongly on active policies. To address the problem of long-term unemployment, specific preventive measures involve young unemployed and older workers, while a clear commitment has been made to raise the participation level of the long-term unemployed in training from 11 to 20%. Reflecting such measures, but especially its recent strong growth, Ireland’s unemployment rate was well below the European Union average by late 1998, while its employment rate is now approaching the European Union average. Long-term unemployment has fallen faster than unemployment as a whole and is continuing to decline. However, further efforts are required to reintegrate the long-term unemployed and those with low educational qualifications. As a consequence, reforms should focus, in particular, on the following areas:

— the 1999 National Action Plan for employment should place greater emphasis on a balanced approach involving preventive as well as active measures. Furthermore measures to increase the participation rate of the long-term unemployed and the low-skilled in education and training programmes remain important,

— in line with the fourth national economic programme — Partnership 2000 —, adherence to the social pact plays an important role in furtherance of the wage moderation that is necessary for the maintenance of employment growth, and

— while the setting of a minimum wage can be important for addressing issues of social inclusion and poverty, potential negative effects from setting the minimum wage level too high should be avoided.

8. Italy

Economic growth in Italy continues to be subdued, with both domestic and external demand lacking strength, and there has not yet seen any significant decline in unemployment.

Budgetary policy

Budgetary policy should focus on the following:

— given that GDP growth in 1999 is expected to be clearly below what was foreseen in the budget, implementation of budgetary policy in 1999 should aim at limiting any slippage from the target for the total deficit of 2% of GDP, which in any event will stay below 2.4%. In such a case, reaching the objective of 1% of GDP in 2001 could require additional corrective measures on a larger scale than envisaged,

— the budget for 2000 should aim to re-establish the primary surplus of 5.5% of GDP indicated in Italy’s stability programme. This is necessary to ensure a continued rapid decline in the general government debt ratio. The momentum of the privatisation programme should be maintained and privatisation receipts should be used to reduce public indebtedness further,

— government current primary expenditure in the current and subsequent years should be tightly controlled, in order both to respect programme targets and to allow room for the desired expansion in government investment, and

— targeting the stabilisation of pension expenditure as a percentage of GDP is welcome. Since current and future developments in pension expenditure give some reasons for concern, the Italian government is encouraged to reassess the reform of the pension system.

Product and capital markets

Past years have witnessed continuous progress in Italy’s macro-economic adjustments and some structural reforms aimed at promoting competition and enhancing efficiency. Nevertheless, further efforts are needed in specific areas:

— Italy has made recent progress in the transposition of Single Market legislation. Since the past record of transposition is relatively poor, measures should be taken to rectify this situation, especially in areas such as transport and public procurement,

— efforts should be made to reduce further the overall level of non-agricultural State aid and improve its structure,

— liberalisation of the network industries is generally progressing in line with the requirements of Community legislation. However, transport liberalisation should be intensified, especially road and rail transport, and
recent reforms have set the stage for a significant reduction of the time necessary for registering a company. However, the measures should be closely monitored and reinforced in order to cut more radically both the high number of procedures and the long time-span for establishing new businesses.

Labour markets

The Italian labour market is characterised by low employment rates and high unemployment rates, in particular, very high rates of youth and long-term unemployment and severe imbalances between the North and South. The recent adoption of a tailor-made approach vis-à-vis the newly unemployed shows that efforts are being made towards preventing the drift into long-term unemployment. Furthermore, the tightening of eligibility criteria of unemployment benefit schemes and the targeting of employability measures should improve the current situation. As a consequence, reforms should focus, in particular, on the following areas:

— efforts to improve active labour market measures would need to be substantially increased in addition to recent measures concerning job-search assistance, training and apprenticeships,
— the effort to shift the tax burden away from labour to other tax bases, undertaken with the Italian Tax Reform of 1997 (in particular with the introduction of the IRAP) and recently confirmed by the so-called Carbon tax implemented in the 1999 Budget, should continue to be pursued intensively within the process of fiscal consolidation,
— such efforts have to be combined with reforms of benefit schemes to reduce the number of employed being transferred to pensions and other schemes,
— without compromising the budgetary targets, early activation and adequate unemployment benefits should ensure an increased labour supply and greater labour mobility,
— a review of employment protection legislation should also have positive results, and
— tripartite local agreements in the South introducing wage flexibility in line with lower labour productivity should be encouraged.

9. Luxembourg

Economic activity in Luxembourg is likely to expand robustly in 1999, although not as rapidly as in 1998. Unemployment should stay at its very low level.

Budgetary policy

Budgetary policy should focus on the following:

— government expenditure should be monitored closely, so that the high government surplus does not rely just on the rapid increase in tax receipts linked to strong economic growth, and
— structural reforms, in particular regarding the social security system, should continue in order to contribute to the maintenance of sound public finances and to prepare for the challenge of population ageing.

Product and capital markets

Several sectors are undergoing structural reforms in Luxembourg. However, further efforts are needed in specific areas:

— despite recent efforts to catch-up, Luxembourg has been relatively slow to implement Single Market regulations. Implementation should be stepped up, particularly in the areas of telecommunications and transport,
— in Luxembourg, regional aids account for a very large part of non-agricultural State aids, a high percentage for a prosperous country. Evaluating the necessity and effectiveness of these aids therefore seems appropriate, and
— price levels in Luxembourg are relatively moderate except in the construction sector. The country maintains an extensive system of price regulation that is unique within the European Union. The purpose of the system is to help reduce pressures on wage levels, which are indexed to the rate of inflation. In order to alleviate the administrative burden of firms, the abolition of the price regulation system should be considered and the emphasis shifted to a more active competition policy.

Labour markets

The overall performance of the Luxembourg labour market is among the best in the European Union. Low unemployment rates coexist with high employment growth rates. The latter has mainly been achieved due to a large share of cross-border commuters, who count for almost one third of employees. However, the Luxembourg labour market performance is weak with regard to the low employment rate of women and older workers. As a consequence, reforms should focus, in particular, on the following area:

— the 1998 national action plan for employment envisages measures to remedy this situation by, inter alia, on-the-job training in firms and the creation of additional childcare facilities. This could also help to reduce the risk of overheating through rapid wage increases in this fast-growing economy.
10. The Netherlands

After several years of rapid expansion, the Dutch economy is expected to slow in 1999 to about its trend rate. Nevertheless, the already low unemployment is likely to fall further.

Budgetary policy

Budgetary policy should focus on the following:

— any deterioration in the budgetary position in 1999 should be limited and should not lead to a general government deficit exceeding the budget target of 1.3% of GDP, taking advantage of the better-than-expected result for 1998. In particular, some increases in expenditure planned in the 1999 budget should, if necessary, be reconsidered, and

— the very limited planned reduction in the deficit to 1.1% of GDP in 2002 in the context of the cautious scenario of the Dutch stability programme should in any case be considered as a minimum objective and the Dutch government is encouraged to achieve better budgetary results.

Product and capital markets

The Netherlands is a good example of a country in which important product market reforms have already taken root. However, problem areas remain, particularly in the non-traded sectors such as construction and some services where competition is relatively weak. In this context, further efforts are needed in specific areas:

— although the Netherlands has a generally good record in transposing Single Market directives, its transposition deficit is concentrated in a small number of sectors, particularly transport. With a view to enhancing competition, transposition should be stepped up,

— important reforms were made to competition policy in 1998 and their efficiency should now be assessed. This includes the innovative Dutch 'Competition, Deregulation and Legislative Quality Project' ('MDW operatie'), launched in 1994. Central to the 'MDW operatie' is the intensification of competition and the removal of regulatory obstacles wherever possible. Such obstacles continue to hinder business start-ups, in spite of the important measures already taken (reducing both the administrative costs and number of steps needed to set up a business). The implementation of such measures should be strictly followed,

— liberalisation of the public transport sector is still little advanced and reforms in this area should be speeded up, and

— in the retail sector, shop-opening hours have been extended but spatial planning regulations continue to be a constraint and should be reviewed.

Labour markets

Due to comprehensive structural reforms and sustained economic growth, the Dutch labour market performance is one of the best in the European Union, both in terms of employment increases and unemployment reductions. Nevertheless, the share of long-term unemployment in total unemployment is still high. Personalised integration plans may be effective tools in preventing youth and long-term unemployment. Dutch performance regarding youth unemployment is already relatively good, partly as the result of a lower minimum wage for younger workers. The government’s continued efforts to reduce taxes on low wages and to reduce the share of the working-age population dependent on benefits deserve to be recognised, although there is still a large number of persons on disability benefits. Furthermore, the social partners take the interests of unemployed outsiders to a great extent into account. The privatisation of the sickness benefit system has helped reduce sickness-related absence from work. As a consequence, reforms should focus, in particular, on the following areas:

— the tax burden on average wages remains one of the highest in the European Union. Continued efforts are therefore needed to reduce the overall tax burden on labour, especially at the lower end of the labour market, and

— further efforts seem to be required to ensure sufficient incentives in benefit and assistance schemes to encourage take-up of job offers and to increase the effective labour supply, in particular, among older workers.

11. Austria

Austria is likely to experience a slowdown in economic growth in 1999 to about its trend rate, allowing the already low unemployment rate to remain broadly stable.

Budgetary policy

Budgetary policy should focus on the following:

— tight control of government expenditure is needed in order to ensure that the recent adaptation of family taxation does not lead to a build-up of pressures on the budget and that the target of 2% of GDP for the government deficit in 1999 is met,

— for the years beyond 1999, the Austrian Government should do its utmost to overachieve, as in the past, the budgetary targets set in the stability programme and ensure that the general government debt ratio is kept firmly on a downward path, and
— while the net tax relief provided by the recently adopted tax reform is to be welcomed, significant savings on the expenditure side will be necessary in order not to compromise the objective of a further reduction in the deficit from 2000 onwards.

**Product and capital markets**

Several measures have been taken to promote competition and entrepreneurship in Austria. However, further efforts are needed in specific areas:

— Austria should accelerate transposition of Single Market Directives into domestic law in transport and public procurement,
— the Austrian cartel law (dating from 1988) is not in line with Community law. However, the government intends to reform the present law and create an independent Cartel Office. These reforms should be put in place as soon as possible,
— efforts should be continued to reform public services and the deregulation process of utilities should be accelerated,
— acknowledging a recent liberalisation of shop-opening hours further steps should be considered,
— recent Austrian initiatives to simplify the procedures necessary to start a new business such as the development of ‘one-stop shops’ should be continued and expanded to include all registration procedures, and
— measures should be taken to develop the venture capital market,
— the government is invited to meet its objective to increase R&D expenditure to 2,5% of GDP by 2005, *inter alia* by improving tax allowances.

**Labour markets**

A key element of the relatively high employment and low unemployment rates in Austria is the traditional consensus approach of the social partners, helping to smooth out the effect of business cycles on the labour markets and also to adjust ex post to wage agreements which turn out to be harmful for growth. One weakness is the low activity rate, and rising unemployment, among older workers. As a consequence, reforms should focus, in particular, on the following areas:

— the 1998 national action plan for employment represents a further move towards a more active labour market approach, supported by a substantial increase in budgetary resources. The new 1999 national action plan should make clear how the targets will be met,
— the difficulty in retaining older workers in activity suggests in particular the need to reconsider the revision of the overall framework by: improving work incentives, modernising the organisation of work and reviewing early retirement conditions,
— special emphasis needs to be paid to low-wage and low-skilled workers, as their share among the unemployed recently started rising, and
— recent reforms to encourage part-time work and increase the working time flexibility during the year (annualisation of working time) should support the rather successful labour market performance in Austria relative to most other European Union countries.

**12. Portugal**

Although economic growth in Portugal is expected to slow in 1999, it will remain close to the trend rate and should allow a further decline in unemployment.

**Budgetary policy**

Budgetary policy should focus on the following:

— the implementation of budgetary policy in 1999 should ensure that the target for the government deficit of 2,0% of GDP is fully met; the opportunity presented by the favourable economic growth conditions and the budgetary outcome in 1998 could be used to bring the deficit down further; lower interest payments should also be used to improve the deficit,
— the budget execution should pay close attention to primary current expenditure, especially health expenditure and the government’s wage bill, in order to generate an efficient and permanent budgetary consolidation; if evidence of overheating will emerge, a tight fiscal stance should be adopted,
— the structural reforms with a direct impact on the budget outlined in the stability programme (e.g. standardisation of accounting systems and multiannual programming of current expenditures) should be swiftly implemented to achieve better budgetary control and to improve expenditure efficiency, and
— where possible and necessary, more intense introduction of private-public partnerships in health care systems, which are already applied in some cases in Portugal, and reviewing the eligibility criteria of pensions should cope with demographic trends, without significantly increasing the tax burden on labour.

**Product and capital markets**

Developing economic integration has helped improve the functioning of product markets in Portugal. However, further efforts are needed in specific areas:
— Portugal has been relatively slow to implement Single Market Regulations. Measures should be taken to rectify the situation, especially in areas such as public procurement, telecommunications and transport,

— the level of non-agricultural State aids is relatively low. However, still a significant part of this aid is devoted to restructuring and sector-specific measures. Efforts should therefore be made to reduce the share of these aids,

— the anti-trust legislation is currently being reviewed with the aim of bringing it into line with the European Union legislation. This reform of competition law should be implemented as soon as possible,

— liberalisation of the network industries, which is generally progressing in line with the requirements of Community legislation, should be pursued further,

— in retail distribution, a problem of excessive concentration has been identified. The competition laws have been strengthened to deal with abuses. However, the law restricting the licensing of large retail outlets may not be an appropriate solution,

— administrative requirements to create a business are complex and can take a very long time. The Portuguese Government should develop the National Network of Enterprise Formalities Centres, created in 1998, as well as the multipurpose Administrative Services Centres (Loja do cidadão), which will strengthen the strategy of simplifying and speeding up procedures, and

— efforts should be made to develop a venture capital market and to improve innovative activity.

Labour markets

Although the overall unemployment rate is much below the European Union average, long-term unemployment and unemployment among the unskilled is relatively high. Given this situation, and the ongoing restructuring of the Portuguese economy, the 1998 national action plan for employment envisages enhanced education and training, as well as an improved coordination between both systems. As a consequence, reforms should focus, in particular, on the following areas:

— measures to improve education and training should be accompanied by an adequate benefit system to ensure appropriate incentives to participate in these active measures and to take up job offers, and

— a number of laws aimed at improving the performance of the labour market have been implemented in the past few years, including the easing of dismissal and job assignment rules and the introduction of higher working time flexibility. This policy should be pursued further with a view to enhancing labour market flexibility.

13. Finland

After several years of rapid growth, the Finnish economy is expected to expand more slowly in 1999. But further progress in reducing unemployment is expected.

Budgetary policy

Budgetary policy should focus on the following:

— while taking into account the impact of the economic cycle, the government surplus should be improved further so as to cope with the rapidly ageing population and the pressure that this will impose on the social security accounts,

— priority needs to be given to the reduction in central government deficit, given its still unbalanced position and the need to reduce further the central government debt ratio,

— further fiscal consolidation should be based on a reduction in government expenditure (in percentage of GDP) which would also create room for the needed reduction in the high tax burden, especially aimed at supporting job creation, and

— the stability programme set annual ceilings on central government expenditure. Whereas the ceilings for the years 2000 to 2002 are non-binding, they should be firmly respected in the budget laws for those years.

Product and capital markets

The progress of structural reforms has been important in Finland. However, competition problems persist in sheltered sectors. Further efforts are needed in specific areas:

— significant reforms to extend the powers of the competition authority have been carried out recently. National authorities should, however, be given the power to enforce Articles 85 (cartels) and 86 (abuse of dominant positions) of the EC Treaty, and

— because the Finnish public sector is comparatively large, areas where public and private enterprises compete to provide services should be closely monitored. Efforts made to create a competitive environment in those areas should be continued.

Labour markets

Both employment and unemployment rates are higher than the European Union average. The labour force participation rate among older workers is very low. The 1998 national action plan for employment is a combination of preventive and curative action, contributing to a reduction of the stock of the unemployed while increasing the employment rate. The government is aware of the incentive problems of the tax-benefit system and has taken several steps to improve the current situation. These measures have been successful to some extent. As a consequence, reforms should focus, in particular, on the following areas:
— in order to improve the employment content of growth, measures should be directed at a reduction of the overall tax burden on labour,

— benefit and assistance systems need to be reviewed with the aim of increasing job availability, making job search more effective, and ensuring sufficient incentives to take up a job offer, and

— given the impact of ageing on future labour supply, pension systems should be strengthened by reviewing the conditions for access to early retirement.

14. Sweden

Economic growth in Sweden is likely to slowdown in 1999, but a further gradual decline in unemployment is expected.

Budgetary policy

Budgetary policy should focus on the following:

— the government should adhere to its announced policies since these are expected to achieve the government's budgetary targets of a rising government surplus,

— the government should ensure the maintenance of the tight expenditure control on which its budgetary outlook is heavily reliant, and

— given the high burden of taxation in Sweden, the government should seek ways of reducing the burden further while ensuring the achievement of its budgetary targets.

Product and capital markets

Sweden has a good record of reforms to goods and capital markets. However, further efforts are needed in specific areas:

— there are competition problems (high prices and high concentration ratios) in the retail and wholesale distribution and construction sectors. Measures should be taken to improve the situation. The Swedish competition authority should be given the power to enforce Articles 85 (cartels) and 86 (abuse of dominant positions) of the EC Treaty,

— the Swedish public sector is comparatively large, so the authorities' efforts to improve its efficiency are particularly appropriate,

— Sweden is among the Member States that have undertaken the most comprehensive reforms of utilities liberalisation in the Union. In spite of efforts to ensure equality amongst the different suppliers, further efforts should be taken to ensure that dominant firms do not constitute a potential threat to market efficiency. Further measures to increase competition and to promote new entry in these sectors should be envisaged, and

— Regulations limiting the establishment of grocery stores reduce competition in retail distribution.

Labour markets

Total employment has been falling throughout the 1990s as a result of weakened economic activity, although showing some recovery in 1998 and still remaining among the highest employment rate for the European Union. The employment of women is concentrated in a limited number of sectors, especially in health and social services. Sweden stands above the European Union averages as regards female and part-time employment rates. The unemployment rate was below the European Union average in 1998. The Swedish labour market policy rightly puts emphasis on investment in human capital, through employment training and skill development in the workplace. It has emphasised active labour market measures, which have, however, proved to be less effective in circumstances of high unemployment. As a consequence, reforms should focus, in particular, on the following areas:

— on the government's plans to promote job creation in private firms and to reduce the overall number of people in labour market programmes while focusing the programmes more precisely and increasing the share of people in labour market training,

— given the disincentives that stem from the very high tax burden on labour, in particular, on low and medium wages in combination with generous welfare benefits, the government's aim to use the budgetary room for manoeuvre for reducing taxes on labour with a priority for low and medium-paid workers is also welcome, and

— further reviews of benefit and assistance schemes in order to clarify eligibility criteria, introduce gradually rising demands on the unemployed, strengthen the supervision of the administration and ensure efficient incentives to take up a job offer, should strengthen and balance the efforts in taxation and activation schemes.

15. United Kingdom

Economic growth in the United Kingdom in 1999 is likely to be lower, falling below trend.

Budgetary policy

Budgetary policy should focus on the following:
announced expenditure plans should be strictly adhered to, so that the government's fiscal rules — on average over the cycle, borrowing only to invest and not to finance current expenditure, and keeping the net public debt ratio at a stable and prudent level — can be respected. As a consequence, the medium-term objective of the public finances broadly in balance can be achieved, as projected in the budget for 1999/2000, and

— the government should take corrective action promptly if there is evidence of a deterioration in the government balance which cannot be explained by the economic cycle.

Product and capital markets

Since the 1980s, the United Kingdom has undertaken considerable reforms of its product markets. Nonetheless, areas of weakness in competitiveness remain. As a result, further efforts are needed in specific areas:

— although the United Kingdom has a relatively good record in transposing Single Market legislation, little progress has been made over the recent period and further efforts are necessary, particularly in the area of transport,

— in the area of competition policy, new legislation will strengthen the powers of the Office of Fair Trading. The enforcement of these reforms should be strictly applied, and

— growth of small business into larger firms, innovation and R&D expenditure (especially R&D by SMEs) are all relatively weak in the United Kingdom. The United Kingdom has a highly developed venture capital market, but only a small share of such funds go to early-stage business. The government adjustment of the tax structure in favour of SMEs and alteration of laws on insolvency and bankruptcy should help redress the situation.

Labour markets

The labour market reforms pursued in recent years have contributed much to the improved employment and unemployment performance of the United Kingdom. At 71%, the United Kingdom's employment rate is among the highest in the European Union, while the unemployment rate fell from over 10% in 1992 to around 6% in 1998. The New Deal and the Welfare to Work initiatives should lead to an improved performance among the young and adult long-term unemployed groups and to a start in addressing investment in educational skills. As a consequence, reforms should in particular focus on the following areas:

— the emphasis in 1998 on the national action plan for employment on active labour market policy should be accompanied by continued efforts to lower marginal effective tax rates on low-paid workers, and

— further efforts are planned or have recently been put in place to deal with regional unemployment differences and to address the issue of social inclusion. In this context, the full implementation of new initiatives relating to self-employment at a local level and the promotion of affordable child care should prove helpful. It remains to be seen whether further action along the lines of these programmes will be needed.

Done at Brussels, 12 July 1999.

For the Council

The President

S. NIINISTÖ