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Acts whose titles are printed in light type are those relating to day-to-day management of agricultural matters, and are generally valid for a limited period.

The titles of all other Acts are printed in bold type and preceded by an asterisk.

I

(Acts whose publication is obligatory)

COUNCIL REGULATION (EC) No 1466/97

of 7 July 1997

on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 103 (5) thereof,

Having regard to the proposal from the Commission [1],

Acting in accordance with the procedure referred to in Article 189c of the Treaty [2],

(1) Whereas the Stability and Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation;

(2) Whereas the Stability and Growth Pact consists of this Regulation which aims to strengthen the surveillance of budgetary positions and the surveillance and coordination of economic policies, of Council Regulation (EC) No 1467/97 [3] which aims to speed up and to clarify the implementation of the excessive deficit procedure and of the Resolution of the European Council of 17 June 1997 on the Stability and Growth Pact [4], in which, in accordance with Article D of the Treaty on European Union, firm political guidelines are issued in order to implement the Stability and Growth Pact in a strict and timely manner and in particular to adhere to the medium term objective of budgetary positions of close to balance or in surplus, to which all Member States are committed, and to take the corrective budgetary action they deem necessary to meet the objectives of their stability and convergence programmes, whenever they have information indicating actual or expected significant divergence from the medium-term budgetary objective;

(3) Whereas in stage three of Economic and Monetary Union (EMU) the Member States are, according to Article 104c of the Treaty, under a clear Treaty obligation to avoid excessive general government deficits; whereas under Article 5 of Protocol (No 11) on certain provisions relating to the United Kingdom of Great Britain and Northern Ireland to the Treaty, Article 104c(1) does not apply to the United Kingdom unless it moves to the third stage; whereas the obligation under Article 109e(4) to endeavour to avoid excessive deficits will continue to apply to the United Kingdom;

(4) Whereas adherence to the medium-term objective of budgetary positions close to balance or in surplus will allow Member States to deal with normal cyclical fluctuations while keeping the government deficit within the 3 % of GDP reference value;

(5) Whereas it is appropriate to complement the multilateral surveillance procedure of Article 103 (3) and (4) with an early warning system, under which the Council will alert a Member State at an early stage to the need to take the necessary budgetary corrective action in order to prevent a government deficit becoming excessive;

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[1] OJ No C 368, 6. 12. 1996, p. 9.

[2] Opinion of the European Parliament of 28 November 1996 (OJ No C 380, 16. 12. 1996, p. 28), Council Common Position of 14 April 1997 (OJ No C 146, 30. 5. 1997, p. 26) and Decision of the European Parliament of 29 May 1997 (OJ No C 182, 16. 6. 1997).

[3] See p. 6 of this Official Journal

[4] OJ No C 236, 2. 8. 1997, p. 1.

(6) Whereas the multilateral surveillance procedure of Article 103 (3) and (4) should furthermore continue to monitor the full range of economic developments in each of the Member States and in the Community as well as the consistency of economic policies with the broad economic guidelines referred to in Article 103 (2); whereas for the monitoring of these developments, the presentation of information in the form of stability and convergence programmes is appropriate;

(7) Whereas there is a need to build upon the useful experience gained during the first two stages of economic and monetary union with convergence programmes;

(8) Whereas the Member States adopting the single currency, hereafter referred to as 'participating Member States', will, in accordance with Article 109j, have achieved a high degree of sustainable convergence and in particular a sustainable government financial position; whereas the maintenance of sound budgetary positions in these Member States will be necessary to support price stability and to strengthen the conditions for the sustained growth of output and employment; whereas it is necessary that participating Member States submit medium-term programmes, hereafter referred to as 'stability programmes'; whereas it is necessary to define the principal contents of such programmes;

(9) Whereas the Member States not adopting the single currency, hereafter referred to as 'non-participating Member States', will need to pursue policies aimed at a high degree of sustainable convergence; whereas it is necessary that these Member States submit medium-term programmes, hereafter referred to as 'convergence programmes'; whereas it is necessary to define the principal contents of such convergence programmes;

(10) Whereas in its Resolution of 16 June 1997 on the establishment of an exchange-rate mechanism in the third stage of Economic and Monetary Union, the European Council issued firm political guidelines in accordance with which an exchange-rate mechanism is established in the third stage of EMU, hereafter referred to as 'ERM2'; whereas the currencies of non-participating Member States joining ERM2 will have a central rate *vis-à-vis* the euro, thereby providing a reference point for judging the adequacy of their policies; whereas the ERM2 will also help to protect them and the Member States adopting the euro from unwarranted pressures in the foreign-exchange markets; whereas, so as to enable appropriate surveillance in the Council, non-participating Member States not joining ERM2 will nevertheless present policies in their convergence programmes oriented to stability thus avoiding real exchange rate misalignments and excessive nominal exchange rate fluctuations;

(11) Whereas lasting convergence of economic fundamentals is a prerequisite for sustainable exchange rate stability;

(12) Whereas it is necessary to lay down a timetable for the submission of stability programmes and convergence programmes and their updates;

(13) Whereas in the interest of transparency and informed public debate it is necessary that Member States make public their stability programmes and their convergence programmes;

(14) Whereas the Council, when examining and monitoring the stability programmes and the convergence programmes and in particular their medium-term budgetary objective or the targeted adjustment path towards this objective, should take into account the relevant cyclical and structural characteristics of the economy of each Member State;

(15) Whereas in this context particular attention should be given to significant divergences of budgetary positions from the budgetary objectives of being close to balance or in surplus; whereas it is appropriate for the Council to give an early warning in order to prevent a government deficit in a Member State becoming excessive; whereas in the event of persistent budgetary slippage it will be appropriate for the Council to reinforce its recommendation and make it public; whereas for non-participating Member States the Council may make recommendations on action to be taken to give effect to their convergence programmes;

(16) Whereas both convergence and stability programmes lead to the fulfilment of the conditions of economic convergence referred to in Article 104c,

HAS ADOPTED THIS REGULATION:

SECTION 1

PURPOSE AND DEFINITIONS

Article 1

This Regulation sets out the rules covering the content, the submission, the examination and the monitoring of stability programmes and convergence programmes as part of multilateral surveillance by the Council so as to prevent, at an early stage, the occurrence of excessive general government deficits and to promote the surveillance and coordination of economic policies.

Article 2

For the purpose of this Regulation 'participating Member States' shall mean those Member States which adopt the single currency in accordance with the Treaty and 'non-participating Member States' shall mean those which have not adopted the single currency.

SECTION 2

STABILITY PROGRAMMES

Article 3

1. Each participating Member State shall submit to the Council and Commission information necessary for the purpose of multilateral surveillance at regular intervals under Article 103 of the Treaty in the form of a stability programme, which provides an essential basis for price stability and for strong sustainable growth conducive to employment creation.

2. A stability programme shall present the following information:

(a) the medium-term objective for the budgetary position of close to balance or in surplus and the adjustment path towards this objective for the general government surplus/deficit and the expected path of the general government debt ratio;

(b) the main assumptions about expected economic developments and important economic variables which are relevant to the realization of the stability programme such as government investment expenditure, real gross domestic product (GDP) growth, employment and inflation;

(c) a description of budgetary and other economic policy measures being taken and/or proposed to achieve the objectives of the programme, and, in the case of the main budgetary measures, an assessment of their quantitative effects on the budget;

(d) an analysis of how changes in the main economic assumptions would affect the budgetary and debt position.

3. The information about paths for the general government surplus/deficit ratio and debt ratio and the main economic assumptions referred to in paragraph 2 (a) and (b) shall be on an annual basis and shall cover, as well as the current and preceding year, at least the following three years.

Article 4

1. Stability programmes shall be submitted before 1 March 1999. Thereafter, updated programmes shall be submitted annually. A Member State adopting the single currency at a later stage shall submit a stability programme within six months of the Council Decision on its participation in the single currency.

2. Member States shall make public their stability programmes and updated programmes.

Article 5

1. Based on assessments by the Commission and the Committee set up by Article 109c of the Treaty, the Council shall, within the framework of multilateral surveillance under Article 103, examine whether the medium-term budget objective in the stability programme provides for a safety margin to ensure the avoidance of an excessive deficit, whether the economic assumptions on which the programme is based are realistic and whether the measures being taken and/or proposed are sufficient to achieve the targeted adjustment path towards the medium-term budgetary objective.

The Council shall furthermore examine whether the contents of the stability programme facilitate the closer coordination of economic policies and whether the economic policies of the Member State concerned are consistent with the broad economic policy guidelines.

2. The Council shall carry out the examination of the stability programme referred to in paragraph 1 within at most two months of the submission of the programme. The Council, on a recommendation from the Commission and after consulting the Committee set up by Article 109c, shall deliver an opinion on the programme. Where the Council, in accordance with Article 103, considers that the objectives and contents of a programme should be strengthened, the Council shall, in its opinion, invite the Member State concerned to adjust its programme.

3. Updated stability programmes shall be examined by the Committee set up by Article 109c on the basis of assessments by the Commission; if necessary, updated programmes may also be examined by the Council in accordance with the procedure set out in paragraphs 1 and 2 of this Article.

Article 6

1. As part of multilateral surveillance in accordance with Article 103 (3), the Council shall monitor the implementation of stability programmes, on the basis of information provided by participating Member States and of assessments by the Commission and the Committee set up by Article 109c, in particular with a view to identifying actual or expected significant divergence of the budgetary position from the medium-term budgetary objective, or the adjustment path towards it, as set in the programme for the government surplus/deficit.

2. In the event that the Council identifies significant divergence of the budgetary position from the medium-term budgetary objective, or the adjustment path towards it, it shall, with a view to giving early warning in order to prevent the occurrence of an excessive deficit, address, in accordance with Article 103 (4), a recommendation to the Member State concerned to take the necessary adjustment measures.

3. In the event that the Council in its subsequent monitoring judges that the divergence of the budgetary position from the medium-term budgetary objective, or the adjustment path towards it, is persisting or worsening, the Council shall, in accordance with Article 103 (4), make a recommendation to the Member State concerned to take prompt corrective measures and may, as provides in that Article, make its recommendation public.

SECTION 3

CONVERGENCE PROGRAMMES

Article 7

1. Each non-participating Member State shall submit to the Council and the Commission information necessary for the purpose of multilateral surveillance of regular intervals under Article 103 in the form of a convergence programme, which provides an essential basis for price stability and for strong sustainable growth conducive to employment creation.

2. A convergence programme shall present the following information in particular on variables related to convergence:

(a) the medium-term objective for the budgetary position of close to balance or in surplus and the adjustment path towards this objective for the general government surplus/deficit; the expected path for the general government debt ratio; the medium-term monetary policy objectives; the relationship of those objectives to price and exchange rate stability;

(b) the main assumptions about expected economic developments and important economic variables which are relevant to the realization of the convergence programme, such as government investment expenditure, real GDP growth, employment and inflation;

(c) a description of budgetary and other economic policy measures being taken and/or proposed to achieve the objectives of the programme, and, in the case of the main budgetary measures, an assessment of their quantitative effects on the budget;

(d) an analysis of how changes in the main economic assumptions would affect the budgetary and debt position.

3. The information about paths for the general government surplus/deficit ratio, debt ratio and the main economic assumptions referred to in paragraph 2 (a) and (b) shall be on an annual basis and shall cover, as well as the current and preceding year, at least the following three years.

Article 8

1. Convergence programmes shall be submitted before 1 March 1999. Thereafter, updated programmes shall be submitted annually.

2. Member States shall make public their convergence programmes and updated programmes.

Article 9

1. Based on assessments by the Commission and the Committee set up by Article 109c of the Treaty, the Council shall, within the framework of multilateral surveillance under Article 103, examine whether the medium-term budget objective in the convergence programme provides for a safety margin to ensure the avoidance of an excessive deficit, whether the economic assumptions on which the programme is based are realistic and whether the measures being taken and/or proposed are sufficient to achieve the targeted adjustment path towards the medium-term objective and to achieve sustained convergence.

The Council shall furthermore examine whether the contents of the convergence programme facilitate the closer coordination of economic policies and whether the economic policies of the Member State concerned are consistent with the broad economic policy guidelines.

2. The Council shall carry out the examination of the convergence programme referred to in paragraph 1 within at most two months of the submission of the programme. The Council, on a recommendation from the

Commission and after consulting the Committee set up by Article 109c, shall deliver an opinion on the programme. Where the Council, in accordance with Article 103, considers that the objectives and contents of a programme should be strengthened, the Council shall, in its opinion, invite the Member State concerned to adjust its programme.

3. Updated convergence programmes shall be examined by the Committee set up by Article 109c on the basis of assessments by the Commission; if necessary, updated programmes may also be examined by the Council in accordance with the procedure set out in paragraphs 1 and 2 of this Article.

Article 10

1. As part of multilateral surveillance in accordance with Article 103 (3), the Council shall monitor the implementation of convergence programmes on the basis of information provided by non-participating Member States in accordance with Article 7 (2) (a) of this Regulation and of assessments by the Commission and the Committee set up by Article 109c of the Treaty, in particular with a view to identifying actual or expected significant divergence of the budgetary position from the medium-term budgetary objective, or the adjustment path towards it, as set in the programme for the government surplus/deficit.

In addition, the Council shall monitor the economic policies of non-participating Member States in the light of convergence programme objectives with a view to ensure that their policies are geared to stability and thus to avoid real exchange rate misalignments and excessive nominal exchange rate fluctuations.

2. In the event that the Council identifies significant divergence of the budgetary position from the medium-term budgetary objective, or the adjustment path towards it, it shall, with a view to given early warning in order to prevent the occurrence of an excessive deficit, address in accordance with Article 103 (4), a recommendation to the Member State concerned to take the necessary adjustment measures.

3. In the event that the Council in its subsequent monitoring judges that the divergence of the budgetary position from the medium-term budgetary objective, or the adjustment path towards it, is persisting or worsening, the Council shall, in accordance with Article 103 (4), make a recommendation to the Member State concerned to take prompt corrective measures and may, as provided in that Article, make its recommendation public.

SECTION 4

COMMON PROVISIONS

Article 11

As part of the multilateral surveillance described in this Regulation, the Council shall carry out the overall assessment described in Article 103 (3).

Article 12

In accordance with the second subparagraph of Article 103 (4) the President of the Council and the Commission shall include in their report to the European Parliament the results of the multilateral surveillance carried out under this Regulation.

Article 13

This Regulation shall enter into force on 1 July 1998.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 7 July 1997.

For the Council

The President

J.-C. JUNCKER

COUNCIL REGULATION (EC) No 1467/97

of 7 July 1997

on speeding up and clarifying the implementation of the excessive deficit procedure

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular the second subparagraph of Article 104c (14) thereof,

Having regard to the proposal from the Commission (1),

Having regard to the opinion of the European Parliament (2),

Having regard to the opinion of the European Monetary Institute,

(1) Whereas it is necessary to speed up and to clarify the excessive deficit procedure set out in Article 104c of the Treaty in order to deter excessive general government deficits and, if they occur, to further their prompt correction; whereas the provisions of this Regulation, which are to the above effect and adopted under Article 104c (14) second subparagraph, constitute, together with those of Protocol (No 5) to the Treaty, a new integrated set of rules for the application of Article 104c;

(2) Whereas the Stability and Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation;

(3) Whereas the Stability and Growth Pact consists of this Regulation, of Council Regulation (EC) No 1466/97 (3) which aims to strengthen the surveillance of budgetary positions and the surveillance and coordination of economic policies and of the Resolution of the European Council of 17 June 1997 on the Stability and Growth Pact (4), in which, in accordance with Article D of the Treaty on European Union, firm political guidelines are issued in order to implement the Stability and Growth Pact in a strict and timely manner and in particular to adhere to the medium term objective for budgetary positions of close to balance or in surplus, to which all Member States are committed, and to take the corrective budgetary action they deem necessary to meet the objectives of their stability and convergence programmes, whenever they have information indicating actual or expected significant divergence from the medium-term budgetary objective;

(4) Whereas in stage three of Economic and Monetary Union (EMU) the Member States are, according to Article 104c of the Treaty, under a clear Treaty obligation to avoid excessive government deficits; whereas under Article 5 of Protocol (No 11) to the Treaty, paragraphs 1, 9 and 11 of Article 104c do not apply to the United Kingdom unless it moves to the third stage; whereas the obligation under Article 109e (4) to endeavour to avoid excessive deficits will continue to apply to the United Kingdom;

(5) Whereas Denmark, referring to paragraph 1 of Protocol (No 12) to the Treaty has notified, in the context of the Edinburgh decision of 12 December 1992, that it will not participate in the third stage; whereas, therefore, in accordance with paragraph 2 of the said Protocol, paragraphs 9 and 11 of Article 104c shall not apply to Denmark;

(6) Whereas in stage three of EMU Member States remain responsible for their national budgetary policies, subject to the provisions of the Treaty; whereas the Member States will take the necessary measures in order to meet their responsibilities in accordance with the provisions of the Treaty;

(7) Whereas adherence to the medium-term objective of budgetary positions close to balance or in surplus to which all Member States are committed, contributes to the creation of the appropriate conditions for price stability and for sustained growth conducive to employment creation in all Member States and will allow them to deal with normal cyclical fluctuations while keeping the government deficit within the 3 % of GDP reference value;

(1) OJ No C 368, 6. 12. 1996, p. 12.
(2) OJ No C 380, 16. 12. 1996, p. 29.
(3) See p. 1 of this Official Journal.
(4) OJ No C 236, 2. 8. 1997, p. 1.

(8) Whereas for EMU to function properly, it is necessary that convergence of economic and budgetary performances of Member States which have adopted the single currency, hereafter referred to as 'participating Member States', proves stable and durable; whereas budgetary discipline is necessary in stage three of EMU to safeguard price stability;

(9) Whereas according to Article 109k (3) Articles 104c (9) and (11) only apply to participating Member States;

(10) Whereas it is necessary to define the concept of an exceptional and temporary excess over the reference value as referred to in Article 104c (2) (a); whereas the Council should in this context, *inter alia*, take account of the pluriannual budgetary forecasts provided by the Commission;

(11) Whereas a Commission report in accordance with Article 104c (3) is also to take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State;

(12) Whereas there is a need to establish deadlines for the implementation of the excessive deficit procedure in order to ensure its expeditious and effective implementation; whereas it is necessary in this context to take account of the fact that the budgetary year of the United Kingdom does not coincide with the calendar year;

(13) Whereas there is a need to specify how the sanctions provided for in Article 104c could be imposed in order to ensure the effective implementation of the excessive deficit procedure;

(14) Whereas reinforced surveillance under the Council Regulation (EC) No 1466/97 together with the Commission's monitoring of budgetary positions in accordance with paragraph 2 of Article 104c should facilitate the effective and rapid implementation of the excessive deficit procedure;

(15) Whereas in the light of the above, in the event that a participating Member State fails to take effective action to correct an excessive deficit, an overall maximum period of ten months from the reporting date of the figures indicating the existence of an excessive deficit until the decision to impose sanctions, if necessary, seems both feasible and appropriate in order to exert pressure on the participating Member State concerned to take such action; in this event, and if the procedure starts in March, this would lead to sanctions being imposed within the calendar year in which the procedure had been started;

(16) Whereas the Council recommendation for the correction of an excessive deficit or the later steps of the excessive deficit procedure, should have been anticipated by the Member State concerned, which would have had an early warning; whereas the seriousness of an excessive deficit in stage three should call for urgent action from all those involved;

(17) Whereas it is appropriate to hold the excessive deficit procedure in abeyance if the Member State concerned takes appropriate action in response to a recommendation under Article 104c (7) or a notice issued under Article 104c (9) in order to provide an incentive to Member States to act accordingly; whereas the time period during which the procedure would be held in abeyance should not be included in the maximum period of ten months between the reporting date indicating the existence of an excessive deficit and the imposition of sanctions; whereas it is appropriate to resume the procedure immediately if the envisaged action is not being implemented or if the implemented action is proving to be inadequate;

(18) Whereas, in order to ensure that the excessive deficit procedure has a sufficient deterrent effect, a non-interest-bearing deposit of an appropriate size should be required from the participating Member State concerned, whenever the Council decides to impose a sanction;

(19) Whereas the definition of sanctions on a prescribed scale is conducive to legal certainty; whereas it is appropriate to relate the amount of the deposit to the GDP of the participating Member State concerned;

(20) Whereas, whenever the imposition of a non-interest-bearing deposit does not induce the participating Member State concerned to correct its excessive deficit in due time, it is appropriate to intensify the sanctions; whereas it is then appropriate to transform the deposit into a fine;

(21) Whereas appropriate action by the participating Member State concerned in order to correct its excessive deficit is the first step towards abrogation of sanctions; whereas significant progress in correcting the excessive deficit should allow for the lifting of sanctions in accordance with paragraph 12 of Article 104c; whereas the abrogation of all

outstanding sanctions should only occur once the excessive deficit has been totally corrected;

(22) Whereas Council Regulation (EC) No 3605/93 of 22 November 1993 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community [1] contains detailed rules for the reporting of budgetary data by Member States;

(23) Whereas, according to Article 109f (8), where the Treaty provides for a consultative role for the European Central Bank (ECB), references to the ECB shall be read as referring to the European Monetary Institute before the establishment of the ECB,

HAS ADOPTED THIS REGULATION:

SECTION 1

DEFINITIONS AND ASSESSMENTS

Article 1

1. This Regulation sets out the provisions to speed up and clarify the excessive deficit procedure, having as its objective to deter excessive general government deficits and, if they occur, to further their prompt correction.

2. For the purpose of this Regulation 'participating Member States' shall mean those Member States which adopt the single currency in accordance with the Treaty and 'non-participating Member States' shall mean those which have not adopted the single currency.

Article 2

1. The excess of a government deficit over the reference value shall be considered exceptional and temporary, in accordance with Article 104s(2) (a), second indent, when resulting from an unusual event outside the control of the Member State concerned and which has a major impact on the financial position of the general government, or when resulting from a severe economic downturn.

In addition, the excess over the reference value shall be considered temporary if budgetary forecasts as provided by the Commission indicate that the deficit will fall below the reference value following the end of the unusual event or the severe economic downturn.

2. The Commission when preparing a report under Article 104c (3) shall, as a rule, consider an excess over the reference value resulting from a severe economic downturn to be exceptional only if there is an annual fall of real GDP of at least 2 %.

3. The Council when deciding, according to Article 104c (6), whether an excessive deficit exists, shall in its overall assessment take into account any observations made by the Member State showing that an annual fall of real GDP of less than 2 % is nevertheless exceptional in the light of further supporting evidence, in particular on the abruptness of the downturn or on the accumulated loss of output relative to past trends.

SECTION 2

SPEEDING UP THE EXCESSIVE DEFICIT PROCEDURE

Article 3

1. Within two weeks of the adoption by the Commission of a report issued in accordance with Article 104c (3), the Economic and Financial Committee shall formulate an opinion in accordance with Article 104c (4).

2. Taking fully into account the opinion referred to in paragraph 1, the Commission, if it considers that an excessive deficit exists, shall address an opinion and a recommendation to the Council in accordance with Article 104c (5) and (6).

3. The Council shall decide on the existence of an excessive deficit in accordance with Article 104c (6), within three months of the reporting dates established in Article 4 (2) and (3) of Regulation (EC) No 3605/93. When it decides, in accordance with Article 104c (6), that an excessive deficit exists, the Council shall at the same time make recommendations to the Member State concerned in accordance with Article 104c (7).

4. The Council recommendation made in accordance with Article 104c (7) shall establish a deadline of four months at the most for effective action to be taken by the Member State concerned. The Council recommendation shall also establish a deadline for the correction of the excessive deficit, which should be completed in the year following its identification unless there are special circumstances.

Article 4

1. Any Council decision to make public its recommendations, where it is established that no effective

(1) OJ No L 332, 31. 12. 1993, p. 7.

action has been taken in accordance with Article 104c (8), shall be taken immediately after the expiry of the deadline set in accordance with Article 3 (4) of this Regulation.

2. The Council, when considering whether effective action has been taken in response to its recommendations made in accordance with Article 104c (7), shall base its decision on publicly announced decisions by the Government of the Member State concerned.

Article 5

Any Council decision to give notice to the participating Member State concerned to take measures for the deficit reduction in accordance with Article 104c (9) shall be taken within one month of the Council decision establishing that no effective action has been taken in accordance with Article 104c (8).

Article 6

Where the conditions to apply Article 104c (11) are met, the Council shall impose sanctions in accordance with Article 104c (11). Any such decision shall be taken no later than two months after the Council decision giving notice to the participating Member State concerned to take measures in accordance with Article 104c (9).

Article 7

If a participating Member State fails to act in compliance with the successive decisions of the Council in accordance with Article 104c (7) and (9), the decision of the Council to impose sanctions, in accordance with paragraph 11 of Article 104c, shall be taken within ten months of the reporting dates pursuant to Regulation (EC) No 3605/93 as referred to in Article 3 (3) of this Regulation. An expedited procedure shall be used in the case of a deliberately planned deficit which the Council decides is excessive.

Article 8

Any Council decision to intensify sanctions, in accordance with Article 104c (11), other than the conversion of deposits into fines under Article 14 of this Regulation, shall be taken no later than two months after the reporting dates pursuant to Regulation (EC) No 3605/93. Any Council decision to abrogate some or all of its decisions in accordance with Article 104c (12) shall be taken as soon as possible and in any case no later than two months after the reporting dates pursuant to Regulation (EC) No 3605/93.

SECTION 3

ABEYANCE AND MONITORING

Article 9

1. The excessive deficit procedure shall be held in abeyance:

— if the Member State concerned acts in compliance with recommendations made in accordance with Article 104c (7),

— if the participating Member State concerned acts in compliance with notices given in accordance with Article 104c (9).

2. The period during which the procedure is held in abeyance shall be included neither in the ten month period referred to in Article 7 nor in the two month period referred to in Article 6 of this Regulation.

Article 10

1. The Commission and the Council shall monitor the implementation of action taken:

— by the Member State concerned in response to recommendations made under Article 104c (7),

— by the participating Member State concerned in response to notices given under Article 104c (9).

2. If action by a participating Member State is not being implemented or, in the Council's view, is proving to be inadequate, the Council shall immediately take a decision under Article 104c (9) or Article 104c (11) respectively.

3. If actual data pursuant to Regulation (EC) No 3605/93 indicate that an excessive deficit has not been corrected by a participating Member State within the time limits specified either in recommendations issued under Article 104c (7) or notices issued under Article 104c (9), the Council shall immediately take a decision under Article 104c (9) or Article 104c (11) respectively.

SECTION 4

SANCTIONS

Article 11

Whenever the Council decides to apply sanctions to a participating Member State in accordance with Article 104c (11), a non-interest-bearing deposit shall, as a rule, be required. The Council may decide to supplement this deposit by the measures provided for in the first and second indents of Article 104c (11).

Article 12

1. When the excessive deficit results from non-compliance with the criterion relating to the government deficit ration in Article 104c (2) (a), the amount of the first deposit shall comprise a fixed component equal to 0,2 % of GDP, and a variable component equal to one tenth of the difference between the deficit as a percentage of GDP in the preceding year and the reference value of 3 % of GDP.

2. Each following year, until the decision on the existence of an excessive deficit is abrogated, the Council shall assess whether the participating Member State concerned has taken effective action in response to the Council notice in accordance with Article 104c (9). In this annual assessment the Council shall decide, in accordance with Article 104c (11), and without prejudice to Article 13 of this Regulation, to intensify the sanctions, unless the participating Member State concerned has complied with the Council notice. If an additional deposit is decided, it shall be equal to one tenth of the difference between the deficit as a percentage of GDP in the preceding year and the reference value of 3 % of GDP.

3. Any single deposit referred to in paragraphs 1 and 2 shall not exceed the upper limit of 0,5 % of GDP.

Article 13

A deposit shall, as a rule, be converted by the Council, in accordance with Article 104c (11), into a fine if two years after the decision to require the participating Member State concerned to make a deposit, the excessive deficit has in the view of the Council not been corrected.

Article 14

1. In accordance with Article 104c (12), the Council shall abrogate the sanctions referred to in the first and second indents of Article 104c (11) depending on the significance of the progress made by the participating Member State concerned in correcting the excessive deficit.

Article 15

In accordance with Article 104c (12), the Council shall abrogate all outstanding sanctions if the decision on the existence of an excessive deficit is abrogated. Fines imposed in accordance with Article 13 of this Regulation will not be reimbursed to the participating Member State concerned.

Article 16

Deposits referred to in Articles 11 and 12 of this Regulation shall be lodged with the Commission. Interest on the deposits, and the fines referred to in Article 13 of this Regulation constitute other revenue referred to in Article 201 of the Treaty and shall be distributed among participating Member States without a deficit that is excessive as determined in accordance with Article 104c (6) in proportion to their share in the total GNP of the eligible Member States.

SECTION 5

TRANSITIONAL AND FINAL PROVISIONS

Article 17

For the purpose of this Regulation and for as long as the United Kingdom has a budgetary year which is not a calendar year, the provisions of sections 2, 3 and 4 of this Regulation shall be applied to the United Kingdom in accordance with the Annex.

Article 18

This Regulation shall enter into force on 1 January 1999.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 7 July 1997.

For the Council

The President

J.-C. JUNCKER

ANNEX

TIME LIMITS APPLICABLE TO THE UNITED KINGDOM

1. In order to ensure equal treatment of all Member States, the Council, when taking decisions in Sections 2, 3 and 4 of this Regulation, shall have regard to the different budgetary year of the budgetary year of the United Kingdom, with a view to taking decisions with regard to the United Kingdom at a point in its budgetary year similar to that at which decisions have been or will be taken in the case of other Member States.

2. For the provisions specified in Column I below there shall be substituted the provisions specified in Column II.

Column I	Column II
'three months of the reporting dates established in Article 4 (2) and (3) of Council Regulation (EC) No 3605/93' *(Article 3, (3))*	'five months after the end of the budgetary year in which the deficit occurred'
'the year following its identification' *(Article 3(4))*	'the budgetary year following its identification'
'ten months of the reporting dates pursuant to Council Regulation (EC) No 3605/93 as referred to in Article 3(3) of this Regulation' *(Article 7)*	'twelve months from the end of budgetary year in which the deficit occurred'
'the preceding year' *(Article 12(1))*	'the preceding budgetary year'

II

(Acts whose publication is not obligatory)

COUNCIL

COUNCIL RECOMMENDATION

of 7 July 1997

on the broad guidelines of the economic policies of the Member States and of the Community

(97/479/EC)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 103 (2) thereof,

Having regard to the recommendation from the Commission,

Having regard to the conclusions of the European Council in Amsterdam of 16 and 17 June 1997,

HEREBY RECOMMENDS:

1. **Main objectives: growth, employment and convergence**

Since the summer of 1996, when the previous Guidelines were adopted, a moderate recovery in economic activity has taken hold in the Community. Supply-side fundamentals continue to improve whereas demand prospects are brightening. These developments in combination with an increasingly well-balanced macroeconomic policy mix and the emerging improvement in confidence should allow for a gradual strengthening in output growth to about its trend rate this year and to well above trend next year.

In the present environment, two fundamental policy concerns should be given prominence, with success on both fronts being mutually reinforcing. Firstly, although employment is expected to increase moderately in the short run, there is a need to raise the Community's low employment rate and to reduce unemployment significantly as emphasized in the Dublin Declaration on employment: 'The Jobs Challenge'. Secondly, despite appreciable strides in recent years towards the goals of price stability and sustainable public finances, further progress is required. This also contributes to achieving and maintaining a high degree of convergence so that a significant number of Member States will be in a position to participate in Economic and Monetary Union (EMU) as from 1 January 1999. In the coming quarters, it is of crucial importance to avoid any doubt about the strict application of the Maastricht criteria and the 1999 launch date for the single currency so as to reassure European citizens and businesses that the opportunities brought by EMU will indeed be seized, thus fostering growth and employment. Since the pursuit of sounder budgetary positions will bring important growth and employment benefits over the medium term, continuing budgetary consolidation efforts are in the interest of all Member States.

With the single Market and EMU, the Community is becoming one of the most important economic entities in the world. Its medium to longer term potential in terms of technological progress, labour and wealth creation is considerable. In order to exploit fully this potential for raising the standard of living, the Community must progressively achieve a high employment rate. Such a performance would also help to safeguard the sustainability of pension schemes, in a reformed manner, which form an integral part of the social protection systems in the Member States.

Restoring a sustained, high rate of non-inflationary growth, based on sound public finances, will create a favourable environment, both from a political and social point of view, for dealing with the Community's unemployment problem.

However, since structural deficiencies continue to restrain both growth and the degree to which growth can be translated into additional employment, most Member States need to implement structural reforms.

A high employment rate can be achieved only if productive capacity is large enough. The current investment ratio does not seem to provide for this. It is essential therefore that the currently favourable investment conditions, in terms of high profitability and low interest rates, are maintained. In addition, the realization of the transeuropean transport, energy and communication networks should be actively pursued, with the existing Community financial instruments and the European Investment Bank (EIB) playing a key role and with a greater involvement of the private sector. Investment in human resources, knowledge and skills can also help in developing stronger employment growth as also emphasized in the Commission's report 'Europe as a economic entity'.

Against this background, the Member States and the Community are urged, in accordance with Article 102a of the Treaty, to conduct their economic policies with a view to making significant progress towards sustainable, non-inflationary growth respecting the environment and a high level of employment, which are among the objectives stipulated in Article 2 of the Treaty. To this end, they are also called upon to coordinate their policies (Articles 3a and 103) within the context of increased integration of their economies.

2. Growth and stability-oriented macroeconomic policy mix

The present Guidelines reaffirm that the achievement of sustained, investment-supported output growth and job creation over the medium term without inflationary tensions continues to require a common macroeconomic policy strategy which builds further on the following three elements, as formulated in the 1996 Guidelines:

— 'A stability-oriented monetary policy whose task is not undermined by inappropriate budgetary and wage developments,

— sustained effort to consolidate the public finances in most Member States consistent with the objectives of their convergence programmes,

— nominal wage trends consistent with the price stability objective; at the same time, real wage developments should be below the increase in productivity in order to strengthen the profitability of employment-creating investment.

The more the stability task of monetary policy is facilitated by appropriate budgetary measures and wage developments, the more monetary conditions, including exchange rates and long-term interest rates, will be favourable to growth and employment.'

The recommendation on nominal wage trends can be considered, where appropriate, according to the past trends in the share of wages in the total added value.

With regard to medium-term prospects, EMU will lock in the fundamental change in the macroeconomic policy mix which has been progressively achieved in the Community and which has to be taken fully into account by the social partners and economic agents.

(i) A single monetary policy under the responsibility of an independent European Central Bank will have price stability as its primary objective while, without prejudice to this objective, supporting the general economic policies in the Community so as to contribute to the achievement of the objectives laid down in Article 2 of the Treaty.

(ii) The Treaty provisions in the field of budgetary policy (Articles 104 to 104c) and the Stability and Growth Pact will ensure sound and disciplined budgetary policies. Subject to these legal provisions, responsibility for budgetary policies will reside with the sovereign national governments which will have to coordinate their policies in the framework of the Broad Economic Policy Guidelines.

(iii) As regards wages, which are determined by autonomous social partners according to individual countries' practices, stability-oriented monetary and budgetary policies and the impossibility of exchange rate movements within the euro area will reinforce both the conditions and the incentives for an adequate evolution. These incentives should also be strengthened by an intensified social dialogue with all relevant parties, where possible and according to prevailing traditions, at the national level. A well-functioning wage formation process is a necessary requirement for high economic growth and reduces unemployment. At the Community level, the Commission, in accordance with Article 188b, will continue to develop the social dialogue, notably on macroeconomic policy issues, with a view to building on the common understanding of the economic policy strategy laid down in the Guidelines. The European social partners' contribution on the macroeconomic framework transmitted to the Dublin European Council constitutes an important step in the right direction which should be encouraged.

A cooperative application by everyone involved in economic decision making of this new framework will help to establish the conditions for sustained, high and employment-creating growth in the Community.

3. **Price and exchange rate stability**

Price stability

The Community has made considerable headway towards price stability and inflation convergence which is an essential requirement both for achieving sustained medium-term growth and for adopting a single currency. Inflation in the Community on average is expected to fall to 2 ¼ % in 1997, the lowest rate since the Community's inception. In the EMU perspective, Member States should aim at price stability and to target such a level over the medium term.

In nearly all Member States, the rate of inflation was low or came down significantly in the early part of 1997. In April 1997, fourteen Member States had an inflation rate (1) of 2 % or less.

Inflation fell rapidly in recent months in some Member States (in particular Spain, Italy and Portugal), but it is not yet reflected fully in their average rate of inflation observed over the last year (2). In April 1997, the average rate of inflation observed over the last year was at or below 2 % in nine Member States (Belgium, Denmark, Germany, France, Luxembourg, the Netherlands, Austria, Finland and Sweden); it was between 2 and 2,5 % in Ireland and the United Kingdom (3); and it was around 3 % in Spain, Italy and Portugal. Provided the good recent inflation performance in the latter countries is maintained, the average rate of inflation observed over one year will decline in the months ahead.

In Greece, where substantial progress in reducing inflation has been made over recent years, reinforced efforts are needed in order to bring inflation down to the official inflation targets of 4,5 per cent by the end of 1997 and to below 3 per cent by the end of 1998.

Exchange rate stability

In accordance with Article 109m, all Member States must continue to treat their exchange-rate policies as a matter of common interest. Finland and Italy entered the exchange-rate mechanism (ERM) in the autumn of last year and a significant majority of ERM currencies have registered a remarkable stability. Sounder and more credible economic policies, including budgetary policies, have contributed to a more appropriate alignment of exchange rates within the Community. In this context, as well as with a view to participation in EMU, it is imperative that Member States maintain — and where appropriate intensify — their commitments to stability-oriented macroeconomic policies. For countries which are not currently participating in the ERM, these policies would also contribute to creating the conditions for making such participation possible. Sound macroeconomic policy management creates the conditions for stable exchange rates and low long-term interest rates within the Community and contributes to a stable international monetary system.

4. **Sound public finances**

In the Community as a whole, the actual budget deficit declined from 5 % of GDP in 1995 to 4,3 % of GDP in 1996. Slow economic growth in 1996 made efforts at budgetary consolidation more difficult and masked the underlying improvement which was achieved. On the basis of the budget measures decided upon until mid-April 1997, the net borrowing of general government in the Community as a whole is likely to fall to just below 3 % of GDP in 1997, declining further to 2,5 % of GDP in 1998.

(1) As measured by the latest monthly harmonized index of consumer prices (HICP) relative to the same month one year earlier.

(2) As measured by the arithmetic average of the latest twelve monthly harmonized indices (HICP) relative to the arithmetic average of the twelve monthly harmonized indices of the previous period.

(3) For Ireland and the United Kingdom, the assessment is based on the Commission's own estimates since both countries have not yet published HICP data in a manner which allows the calculation.

In their budgets for 1997, a large majority of Member States have taken significant measures to reduce their budget deficits to 3 % of GDP or less. It is of paramount importance that Member States rigorously implement these budgets and take immediate corrective action in the event of slippage from budgetary targets. As regards the budgets for 1998, an enactment of additional deficit-reducing measures is required in most Member States in order to achieve their convergence programme targets. This would serve to provide the needed confidence about the sustainability of the budgetary adjustment, especially in those countries where the budget deficit is not expected to be clearly below 3 % of GDP in 1997 or where the 1997 budget contained temporary measures or where the ratio of debt to GDP is not diminishing sufficiently and approaching the reference value at a satisfactory pace. This resolve is needed not only to comply with the Maastricht budgetary criteria but also to make further progress towards the attainment, over the medium-term, of the objective of a budgetary position close to balance or in surplus as referred to in the Stability and Growth Pact, thereby safeguarding a growth and stability-oriented macroeconomic policy mix.

It is necessary that budgetary adjustment programmes are credible and sustainable. The burden of adjustment should be allocated in a fair and just way. To be credible, it is important that programmes are transparent. Transparency requires that commonly agreed accounting rules and economic principles are strictly applied. Furthermore, annual budgets and medium-term budgetary projections should clearly indicate the underlying economic assumptions. To be sustainable, it is essential that deficit-reducing measures form part of a clearly stated medium-term strategy, including necessary structural reforms as stated in convergence programmes and from the beginning of Stage 3 in the stability or convergence programmes. These programmes should be closely monitored at the Community level.

Realizing the economic rewards of budgetary consolidation crucially hinges upon the quality of the measures taken. In this respect, the present Guidelines reaffirm the general principles which have been identified in previous Guidelines. Firstly, in most Member States, it is desirable to give more prominence to expenditure restraint than to an increase in the overall tax burden, taking account, where necessary, of the relationships between systems for social transfers and the tax system. In these Member States action should focus on structural measures to control better spending on public consumption, public pension provisions, health care, passive labour market measures and subsidies. If tax increases are unavoidable, care should be taken to minimize the adverse effects on growth and employment and to avoid a revival of inflationary pressures. Secondly, to the extent possible and without threatening the necessary reduction in budget deficits, government spending priorities may favour productive activities such as investment in infrastructure, human capital and active labour market initiatives. Thirdly, the desired reduction in the tax or social contribution burden in most Member States should be carried out consistently with the achievement and maintenance of sound budget balances. Demographic changes in Member States will put strain on public expenditure over the next years. In this respect, Member States should review the financial sustainability of their social protection and public pension schemes and timely implement reforms.

Given the interrelationship between taxation policy on the one hand and the Single Market, EMU and the fight against unemployment on the other, Member States stand to gain from increased cooperation in tax measures. Harmful competition between the tax regimes of the different Member States should be avoided. In this respect, Member States are called upon to examine, among other possibilities, the establishment of a code of conduct, setting out politically binding principles of fair tax competition.

As regards individual Member States, five — *Denmark, Ireland, Luxembourg, the Netherlands* and *Finland* — already respected the 3 % reference value in 1996. In Denmark where the budget balance is expected to turn positive this year, it is important to consolidate this performance over the business cycle and to keep the public debt-to-GDP ratio on a steady downward trajectory. Ireland should take advantage of the current strong growth phase to intensify efforts to restrain public expenditure, thereby making further progress towards a balanced budgetary position. A continuation of the restrained expenditure policy is also essential in the Netherlands and Finland, with a particular focus needed on social security transfers, offering the opportunity to lower further non-wage labour costs, income taxes or other employment-impeding taxes.

In *Belgium*, the budget deficit is expected to reach 3 % of GDP or less in 1997. On the basis of current policies, the deficit is likely to fall further in 1998. To pursue further budgetary consolidation, the Belgian government should strictly adhere to its new convergence programme. Particular attention should be given to ensuring sound social security accounts, with key elements being the introduction of effective mechanisms to control better health care spending and the continued pursuit of pension reforms.

In *Germany*, the budget deficit is expected to reach 3 % of GDP or less in 1997. On the basis of current policies, the deficit is likely to fall slightly further in 1998. The German government has made a firm commitment to take all the necessary measures to respect the 3 % reference value in 1997 and should take the necessary action to arrest the upward trend of the public debt-to-GDP ratio. The pace of budgetary consolidation should be maintained in 1998 in line with the new convergence programme. Continued budgetary consolidation should focus on a further reduction in the share of government spending in the economy — including reforms in the tax and social security systems. This could lead to a relief in the tax and contribution burden without threatening a strict adherence to the budgetary objectives of the new convergence programme.

In *Spain*, the budget deficit is expected to reach 3 % of GDP or less in 1997. On the basis of current policies, the deficit is likely to fall slightly further in 1998. In their 1998 budget, the Spanish authorities, which are fully committed to reaching the deficit target of 3 % of GDP in 1997, should pursue further budgetary consolidation as envisaged in the new convergence programme. It is important to continue the implementation of structural deficit-reducing measures, particularly to curb current expenditure and improve the efficiency in budgetary management.

In *France*, the budget deficit is expected to reach 3 % of GDP or less in 1997. On the basis of current policies, the deficit might not fall significantly further in 1998. It is essential that budgetary consolidation should be put on a sustainable basis over the medium term by implementing its recently agreed convergence programme without fail. In particular, it is necessary to contain health spending and to balance the social security accounts and to ensure that any further tax reductions, in themselves supportive to growth and employment, will not slow down the pace of deficit reduction.

In *Italy*, with the new measures taken in March, the budget deficit is expected to reach 3 % of GDP in 1997. The Italian authorities are urged to take all necessary measures to ensûre that this target is reached. In order to achieve a reduction of the public deficit below 3 % in 1998 and in the following years, it is essential to fully implement the recently approved convergence programme. The objectives set out by the programme should be considered by the Italian government as ceilings, with a view to preventing shortfalls and to fostering faster decline in the government debt ration. In the 1998 budget, prominence should be given to measures with a permanent effect on deficit reduction, including structural measures, as the latter will also have a favourable impact on the efficiency of the entire economic system. Of crucial importance is the reform of the welfare state and the Italian tax system.

In *Austria*, the budget deficit is expected to reach 3 % of GDP or less in 1997. On the basis of current policies, the deficit is likely to fall slightly further in 1998. The Austrian government is urged to take all the necessary measures to meet its budget deficit target of 3 % of GDP in 1997 and to secure the sustainability of its budgetary consolidation efforts in subsequent years through a programme of ongoing and, where necessary, reinforced structural adjustments.

In *Portugal*, the budget deficit is expected to reach 3 % of GDP or less in 1997. In their 1998 budget, the Portuguese authorities, which are fully committed to reaching the deficit target of 2,9 % of GDP in 1997, should pursue further budgetary consolidation as envisaged in the new convergence programme. On the basis of current policies, the deficit is likely to fall slightly further in 1998. The new strategic agreement between the government and the social partners should be strictly complied with in order to achieve significant progress in reforming public administration and the social security and taxation systems.

In *Sweden*, the budget deficit is expected to be less than 3 % of GDP in 1997. On the basis of current policies, the deficit is likely to fall considerably further in 1998. Sweden should continue to implement the convergence programme implying improved public finances as well as carry on the regular follow-up of the programme.

In the *United Kingdom*, the budget deficit is expected to reach 3 % of GDP or less in 1997. On the basis of the previous Government's projections, the deficit is projected to fall further in 1998. It is recommended that the new Government establish an effective framework establishing sustainable fiscal consolidation.

As regards *Greece*, where announced measures are expected to lead to a further reduction in the government budget deficit in 1997, sustained efforts on a wide range of fronts are required in order to meet the targets of the convergence programme, including reinforced efforts to widen the tax base, to increase the efficiency of the tax administration and of the tax collection system, to curb government spending and to pursue and extend privatization plans. The deficit is expected to fall further in 1998.

Just in 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 Interinstitutional Agreement on budget discipline and improvement of the budget procedure.

5. **Better functioning product and services markets**

In order to safeguard and promote the EC's competitiveness, employment and living standards in a world of free trade and constant technological change, it is essential that Member States and the Community, in line with the Brad Guidelines for Economic Policies, intensify their efforts to modernize their markets for goods, services and labour. In order to increase the ability of the Member States' economies to adapt to changing conditions and to enhance the growth potential, there is also a need to promote innovation, research and development and to improve education and training systems. To increase the efficiency of environmental policies contributing to economically and environmentally sustainable developments, they should rely on more market-based instruments both at the national level and — if EU-wide action appears necessary — at Community level.

As part of the strategy to foster growth and employment, while achieving price stability, it is essential to improve the operation of product and service markets, to stimulate competition, to foster invention and innovation and to ensure efficient price setting. This was the rationale for the Single Market Programme (SMP), the importance of which has clearly been highlighted in the Commission's recent evaluation [1]. The conclusion of that evaluation was that on the one hand Member States' product markets are now generally highly integrated; on the other hand, the markets for services are less integrated, although the situation has improved significantly since the start of the SMP. Particular problems clearly remain. Services, especially insurance and banking as well as construction, should become the subject of more attention, particularly on the need to fully implement Single Market legislation. In addition Member States should take steps necessary to increase the efficiency of their public services.

Furthermore, product markets associated with public procurement continue to escape the full force of competition; other product markets continue to be excessively regulated by the Member States. Consumer face higher prices as a result. State aids continue to distort markets and blunt competition without any sign of improvement. Product standards, especially the concept of 'mutual recognition' is another area where progress has been too slow. The business environment for SMEs should be improved. In this respect their access to information should be quickened and made more user-friendly and measures should be taken to streamline regulations (the SLIM initiative).

Competition in, and the efficiency of, product and service markets will be improved by making the Single Market work better, with additional Member State commitment to: (i) implement fully and ensure proper enforcement of the existing legislative framework, particularly in the telecom sector; (ii) to make further progress on the legal framework in areas such as taxation and company law; (iii) complete the liberalization of the energy markets in the framework of existing directives and directives under negotiation; (iv) reduce the burden of over-regulation and to revise or remove national, market fragmenting measures; and (v) avoid using state aids to postpone essential restructuring. The Commission's Action Plan on the Single Market proposes a number of concrete actions that should be in place before 1 January 1999 to redynamize the Single Market.

The Community should further reform its own policies in accordance with the requirement in Article 102a of the Treaty that the Member States and the Community shall act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources, and in compliance with the principles set out in Article 3a.

(1) See Commission Communication on 'The impact and effectiveness of the Single Market' (COM(95)520, October 1996) and 'Economic Evaluation of the Internal Market' (European Economy, Reports and Studies, No 4, 1996).

6. **Fostering labour market reforms and investment in knowledge**

The positive experience of a number of Member States permits some important policy conclusions to be drawn both on the content and on the implementation of reforms. Firstly, structural reforms need to be comprehensive in scope, as opposed to limited or occasional measures, so as to address in a coherent manner the complex issue of incentives in creating and taking up a job. This approach allows policy complementarities to be exploited, thereby increasing the overall effectiveness of reforms and, by enhancing their social and political acceptability, reducing the likelihood of policy reversal. Secondly, mechanisms to monitor the impact of reforms on the labour market and on employment help asses the effectiveness of the reform and indicate the need for possible changes in priorities or implementation. As a result, the multi-annual employment programmes need to focus more on the interplay between the Guidelines and specific labour market measures whereas, the joint Employment Reports, which monitor their application, need to pay particular attention to the identification of good practices arising from the Member States policies.

A wide array of measures aimed at reinforcing labour market efficiency have been adopted in recent years at the national level and important reforms are currently under discussion in a number of Member States. This process should continue and, where necessary, be intensified. In this context, the challenge is to reconcile the maintenance of cohesive societies and the need to enhance job creation. Priority should be given to:

(i) higher employment growth fostered by the maintenance of appropriate wage trends and by wages that better take into account differences qualifications and regions. This is an important task, for the social partners;

(ii) reductions in non-wage labour costs and lower income taxes which maximize job opportunities;

(iii) reform of the taxation and social protection systems, which should be linked to improving the functioning of labour markets;

(iv) new patterns of work organization, including more flexible working-time arrangements, tailored to the specific needs of firms and workers; greater use of voluntary part-time work and the promotion of local employment initiatives;

(v) adaptation of the whole educational system — including vocational training — both to the needs of markets and to the improvement of human capital, thereby fostering the growth potential of the economy. In this respect, priority should be given to improving the employability of the unemployed, in particular low skilled, inexperienced labour, and to reducing skill mismatches on the labour market by providing training better fitted to the changing needs of the labour market.

In addition, these reforms need to be supported by a stronger employment orientation in other policies. In particular, measures undertaken with the assistance of the Community's structural funds should also fit into the global employment strategy and the multi-annual employment programmes of the Member States.

Done at Brussels, 7 July 1997.

For the Council

The President

J.-C. JUNCKER