COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 7.3.2001
COM(2001) 105 final

REPORT FROM THE COMMISSION

**on the implementation of the
2000 Broad Economic Policy Guidelines**

TABLE OF CONTENTS

EXECUTIVE SUMMARY 3

1. INTRODUCTION...6

2. OVERVIEW OF KEY POLICY AREAS 7

2.1 Ensure growth and stability-oriented macroeconomic policies 7

2.2 Speed up fiscal consolidation...9

2.3 Improve the quality and sustainability of public finances 10

2.4 Promote appropriate wage developments..12

2.5 Foster a knowledge-based society..13

2.6 Ensure efficient product markets 16

2.7 Promote capital markets through further integration and deepening 18

2.8 Invigorate labour markets 20

2.9 Enhance sustainable development..23

STATISTICAL ANNEX..24

Executive summary

Globalisation and new technologies prompted EU to adopt a comprehensive strategy in the 2000 BEPGs

Building upon and extending the existing economic policy strategy, the 2000 BEPGs focussed in particular on policies and reforms aimed at promoting the economic growth potential and employment. The 2000 BEPGs were the first adopted after the Lisbon European Council. They thus reflect the Council's conclusions. The present report offers an overall assessment of the implementation of the policy orientations set in the 2000 BEPGs. It is accompanied by a report of the Commission services that evaluates the implementation of the country-specific recommendations of last year's guidelines.

The following key messages emerge from the report.

Best macroeconomic performance for a decade, but growth slowing down mildly

Even though a mild growth deceleration set in last summer in response to a surge in oil prices, the EU achieved in the year 2000 its best economic growth performance for a decade. This was the result of the combined impact of strong domestic and external demand. Job creation continued at a rapid pace while unemployment continued to fall. Headline inflation rose as a result of higher prices for imported goods, but underlying inflation remained low in a favourable domestic price climate.

Tension-free macro-economic policy mix

With import prices rising and the output gap closing, monetary authorities increased official interest rates during the year to counter risks to price stability in the medium term. In the EU as a whole, the fiscal stance was neutral as indicated by an unchanged cyclically-adjusted primary surplus and wage developments remained compatible with price stability and job creation.

Budgets close to balance, but mostly due to high growth and a lower debt service burden

Actual budget deficits in the EU as a whole were further reduced to close to balance (including the one-off UMTS receipts there was even a surplus). However, this improvement in "headline" balances was primarily due to strong growth and lower debt service. By contrast, the estimated unchanged cyclically-adjusted primary surplus suggests that Member States taken together failed to seize the chances offered by strong economic growth to enhance their underlying fiscal position.

Quality and sustainability of public finances — more progress with tax than with expenditure reform; pension reform imperative

Progress was made towards making tax systems more efficient, and especially more employment-friendly: in many Member States, taxes on labour were reduced; in some the measures aimed primarily at the low-paid, in some they focused on the efficiency and transparency of the tax system; and in others they were designed to widen the tax base and/or reduce marginal tax rates. Moreover, more Member States plan to reform tax systems from 2001 onwards. In addition, the Council (ECOFIN) reached an agreement on key points of the tax package to curb harmful tax competition and reduce current distortions of the Single Market. Conversely, less progress was made in Member States on the expenditure side: rigorous medium-term expenditure control mechanisms are often lacking. Insufficient steps were taken to address problems in benefit systems, although there have been some attempts to improve their administration, tighten entitlement rights, and enforce eligibility conditions. Substantial pension reforms were implemented in previous years in only a few Member States while some other Member States took some measures in 2000 to alleviate the pressures arising from future demographic changes. As a result, most countries have not yet taken the necessary steps to meet the budgetary challenges of population ageing.

The knowledge-based society — despite progress still behind the USA

Europe's transition to a knowledge-based society is progressing, but still lagging in comparison with the United States due to relatively lower investments in human capital, R&D and ICT. Most Member States have taken measures to strengthen ICT education and training efforts; nevertheless there remains a need for enhancing and upgrading skills on ICT related activities. Measures have been taken to remedy the fragmentation of Europe's R&D effort and to create a business environment more favourable to innovation and technological progress, e.g. through incentive schemes and enhanced competition. But the relationship between industry and science, and more precisely the commercialisation of the research effort, remains one of Europe's structural weaknesses. The liberalisation of the telecom industries has contributed to a lowering of internet access costs, which in combination with more targeted measures has led to a rapid rise in internet penetration.

Product markets – general progress but problems with public procurement, State aid and integration of service markets

Over the past year, the functioning of European product markets has improved thanks to better co-ordination of national policies in various domains, the increased transposition of Internal Market Directives, the reinforcement of the powers of competition authorities, the liberalisation of the telecommunications and, to a lesser degree, energy sectors. However, a less positive assessment is made of progress in the areas of public procurement, State aid, administrative reform and efforts to reduce the regulatory burden on business. The creation of a truly integrated European market for business services, the further opening up of the transport sector to competition, and the liberalisation of the postal sector continue to pose problems.

Capital markets – co-ordination between supervisors strengthened, but other measures need to gather speed

Several Member States have taken measures to strengthen co-ordination between their national supervisors in order to help safeguard financial stability. Progress has been made with the implementation of the Financial Services Action Plan. There is also progress with the implementation of the Risk Capital Action Plan, but if the RCAP is to be completed before the 2003 deadline, efforts will have to be speeded up.

Labour markets – falling unemployment but delays in benefit and labour regulations reform

The labour market situation continued to improve in 2000, largely owing to the cyclical upswing, but also thanks to structural reforms in the labour market. Long-term unemployment has fallen faster than the overall rate, which is good for social cohesion, but several Member States still have to address structural unemployment and severe regional disparities. In the past year, good progress has been made with the implementation of active labour market policies and several Member States have taken measures to address the low employment rates of women. Problems in tax systems have recently been tackled by most Member States but such reforms have to be better complemented with reforms to the benefit systems, in particular to encourage older workers to stay longer in the labour force. Limited efforts have been made in some countries to improve labour market regulations, and work organisation.

Sustainable development – some market-based instruments introduced, but no Community energy tax framework

A number of Member States took action to strengthen market-based approaches to environmental issues. However, in response to rising fuel prices several Member States took measures that reduce the tax element of transport costs. No progress was made with a framework for energy taxation at Community level.

1. INTRODUCTION

Recognising that globalisation and the prospects of a new knowledge-driven economy present both major challenges and opportunities for the European Union, at Lisbon the European Council defined an ambitious strategy. It aims at accelerating the ongoing transformation of the European economy with a view to becoming by 2010 *"the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion"*.

For the 2000 Broad Economic Policy Guidelines (BEPGs), the Lisbon Council conclusions meant the inclusion of recommendations that would raise the average employment rate to as close as possible to 70 per cent in 2010, and recommendations to enhance the absorptive capacity for and the actual take-up of new technologies. Furthermore, the 2000 BEPGs identified the broad policy priorities for macro-economic stability and structural reform. They also presented country-specific recommendations in all policy domains and for all 15 Member States tailored to their particular circumstances.

This reports presents a comprehensive assessment of the implementation of the policy recommendation that were formulated in the 2000 BEPGs. In doing so, it serves two purposes: firstly, it contributes to the continuous multilateral surveillance of the economic policies of the Member States and the Union in accordance with Article 99(3) of the Treaty; and secondly, it provides input for the formulation of the forthcoming BEPGs.

This report makes use of and integrates the conclusions of the various economic policy co-ordination processes at the Union level, to which it adds a comprehensive evaluation. In this respect, the agreed list of structural indicators provides a useful tool for comparing progress. The report is accompanied by a working document of the Commission services, which presents a detailed examination of the implementation of the country-specific recommendations.

From the onset, the limitations of the present assessment should be noted. The Council adopted the 2000 BEPGs, including recommendations of a medium-term nature, only in June 2000. Therefore, and in view of the gradual impact of some of the measures as well as the provisional nature of most of the data employed,[1] a conclusive judgement about the degree of implementation cannot be given at this moment.

The BEPGs policy strategy

1. Ensure growth and stability-oriented macroeconomic policies
2. Speed up fiscal consolidation
3. Improve the quality and sustainability of public finances
4. Promote appropriate wage developments
5. Foster a knowledge-based society
6. Ensure efficient product markets
7. Promote capital markets through further integration and deepening
8. Invigorate labour markets
9. Enhance sustainable development

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1 The report is based on available data up to 1 March 2001.

2. OVERVIEW OF KEY POLICY AREAS

2.1 ENSURE GROWTH AND STABILITY-ORIENTED MACROECONOMIC POLICIES

Strong economic growth, although the recovery is losing momentum

In 2000, the EU achieved its best economic growth performance since 1989. Strong domestic demand, a brisk expansion of the global economy and enhanced price competitiveness of European exporters resulted in real GDP growth of an estimated 3.4 per cent. However, since last summer, rapid growth has given way to a gentle moderation in economic activity. Notably the high oil prices that prevailed until late in 2000 have increasingly weighed on profits and household income. More recently an emerging global economic slowdown has added to the moderation of growth in the EU. However, with the euro and progress in structural reforms, the EU economy should be able to withstand adverse global developments better than in the past.

Strong economic growth contributed to continued sizeable employment gains in the EU at a rate of some 1½ per cent in 2000. Consequently, the employment rate has risen to approximately 63 per cent. Current indicators suggest that job creation has remained strong, but a modest slowing is expected in line with more moderate economic growth. Unemployment continued on the clear downward path embarked on in 1997. It fell by 0.8 percentage points to 8.4 per cent in 2000, and has reached levels last seen a decade ago.

As a result of sharply rising energy prices and a prolonged weakening of the euro, HICP headline inflation in the EU rose by about 1 percentage point to 2.1 per cent in 2000. Underlying inflation (i.e. excluding energy prices and unprocessed food) increased only marginally to 1.3 per cent in an overall still favourable domestic price climate. As energy prices seem to have peaked and the euro has risen relative to the USD, headline inflation is expected to abate gradually.

Macro-economic policies in the euro area

The 2000 BEPGs recommended for the euro area an appropriate and tension-free economic policy approach consisting of: *(i) monetary policy committed to maintain price stability in accordance with the Treaty; (ii) sustained efforts by Member States to speed up the ongoing fiscal consolidation; and (iii) a continuation of responsible behaviour of social partners*.

The euro-area policy mix was tension-free in 2000. The ECB responded to risks to price stability while monetary conditions remained supportive to growth. The fiscal stance was neutral and wage developments remained consistent with price stability and job creation.

In an environment characterised by a closing output gap and dangers to price stability from imported inflation, the ECB raised its key policy rate on six occasions during 2000, by a cumulative 175 basis points to a minimum bid rate of 4.75 per cent as of October. Nevertheless, monetary conditions remained growth supportive but the combination of higher interest rates and a weakening euro prevailing in most of 2000 affected the pattern of growth. More recently, monetary conditions have tightened somewhat as the euro exchange rate responded positively to a favourable shift in growth prospects relative to the USA and Japan.

Budgetary consolidation progressed in 2000 to the extent that actual positions improved in all countries; in the euro area as a whole the deficit fell by ½ a percentage point to an estimated 0.7 per cent of GDP (net of one-off UMTS proceeds), slightly better than foreseen by the 1999/2000 stability programme updates. However, the improvement essentially stemmed from higher than anticipated growth. Clearly, euro-area Member States as a whole did not seize the opportunity to improve underlying fiscal positions.

Wage developments in the euro area as a whole remained appropriate, despite the emergence of some bottlenecks in cyclically advanced countries and skill shortages in some professions in many Member States. The growth of compensation per employee is estimated to have accelerated by half a point to 2½ per cent in 2000, but as a result of productivity gains, nominal wage increases remained fully compatible with price stability and sound job creation.

Macro-economic policies in the Member States outside the euro area in 2000

For the Member States outside the euro area, the 2000 BEPGs also recommended that they *maintain sound monetary and budgetary policies, in order to respect the exchange rate commitments* (ERM 2 participants), or *to achieve the inflation target* (Sweden and the United Kingdom).

Denmark remained in a cyclically advanced position. GDP growth picked up in 2000, the labour market has been tight and there were some domestic pressures on prices. The Danish National Bank succeeded in keeping the krone very close to its central rate of 7.44 DKK/€ throughout the year by following the interest cycle of the ECB; the spread widened only temporarily in the context of the referendum on adopting the euro. Public finances remained in healthy surplus in 2000, although the fiscal stance was eased.

In *Greece* (which was not part of the euro area when the 2000 BEPGs were adopted) real GDP growth accelerated to about 4 per cent in 2000. The output gap has been closing while inflation remained contained. Budgetary consolidation progressed and the fiscal stance was tightened, also in view of easier monetary conditions. Short-term rates, still above 10 per cent at the end of 1999, were gradually reduced to the level of the euro area by late December 2000 while the drachma was gently steered down towards its central rate. This rate of 340.75 GRD/€ that resulted from a 3.5 per cent revaluation in January, is also the fixed conversion rate effective since 1 January 2001, as decided at the Feira European Council last June.

Sweden again achieved strong growth in 2000. It is in an advanced cyclical position, has registered considerable employment gains, and so far inflation has been well contained. Even though taxes were cut, the strong cycle and the lower debt burden resulted in a further increase in the healthy budget surplus. The Riksbank increased its key repo rate in February by 50 basis points and in December by another 25 bp to 4 per cent. Throughout the year, consumer price increases remained in the lower half of the two percentage points tolerance interval around the 2 per cent inflation target of the central bank.

In the *United Kingdom*, GDP growth accelerated in 2000 and the economy operated close to potential. Budgetary and monetary policies were geared to secure macroeconomic stability. The budget surplus rose, to a large extent owing to stronger growth and lower interest payments. In addition, sizeable UMTS proceeds were received which helped in reducing public debt further. Monetary policy continued to be tightened until February 2000 when the repo rate reached 6 per cent. The inflation target of 2½ per cent (retail prices excluding mortgage interest payments) was comfortably met.

2.2 SPEED UP FISCAL CONSOLIDATION

The 2000 BEPGs recommended Member States: *(i) to take advantage of fiscal improvements due to better-than-expected economic growth to achieve budgetary positions in 2000 better than the objectives set in the updated stability and convergence programmes; (ii) to meet a budgetary position of close to balance or in surplus earlier than envisaged in the updated stability and convergence programmes and as a rule in the year 2001; (iii) to pursue further fiscal consolidation beyond the minimum to comply with the requirements of the Stability and Growth Pact.*

In 2000, actual budgetary positions in virtually all Member States improved compared to 1999, implying either smaller deficits or higher surpluses and a reduction in government gross debt ratios. Netting out the budgetary impact of the one-off UMTS proceeds, the EU-wide actual budget balance approached a balanced position while in the euro area the deficit is estimated to have been reduced from 1.3 per cent of GDP in 1999 to 0.7 per cent of GDP in 2000. In fact, in virtually all countries the estimated 2000 outcome (net of UMTS) is better than or equal to what was foreseen in the 1999 updates of stability and convergence programmes. Some countries significantly overachieved their programme targets (Belgium, Ireland, Luxembourg, the Netherlands, Finland, Sweden and the United Kingdom). Others (in particular Germany, France and Italy) did not take full advantage of the better-than-expected growth conditions to speed up consolidation efforts.

Based on the assessments made in the Commission services' Autumn 2000 Forecasts, in most Member States the budgetary plans for 2001 provide for an implicit safety margin large enough to allow the automatic stabilisers to play freely in case of a downturn without breaching the 3 per cent of GDP reference value. The exceptions are Germany, due to the implementation of the tax reform, and Portugal. In France, Italy and Austria the budgetary safety margins still remain on the low side with estimated 2001 structural deficits close to or above 1 per cent of GDP.

The current emphasis on tax cuts, generally not matched by further expenditure restraint, implies that the more ambitious consolidation targets as set out in the 1999/2000 updates of the stability and convergence programmes are not likely to be fully met. Some countries (Denmark, Greece, Ireland, Luxembourg, the Netherlands, Finland and Sweden) recognised the need to pursue fiscal consolidation beyond the minimum required by the Stability and Growth Pact and accordingly planned to reach (or retain) sizeable budget surpluses in the medium term.

2.3 IMPROVE THE QUALITY AND SUSTAINABILITY OF PUBLIC FINANCES

The 2000 BEPGs recommended Member States to: *(i) improve the sustainability of public finances principally through expenditure restraint; (ii) introduce or enhance mechanisms and institutions that help control spending; (iii) redirect government spending to investment in physical and human capital, R&D, innovation and information technologies; (iv) review benefit systems; (v) reduce the tax burden, especially on low-wage labour; (vi) promptly review pension and health care systems; (vii) improve the efficiency and transparency of tax systems; (viii) engage in reforms of the VAT system; and (ix) pursue tax-co-ordination further and reach an agreement on the tax package.*

Quality of fiscal consolidation

In contrast with the retrenchment in the 1990s, which relied significantly on tax increases, the current adjustment has so far been essentially based on expenditure restraint. Government revenues as a share of GDP were reduced for the first time in many years while the expenditure ratio declined even further (excluding the impact of UMTS receipts). This achievement is in line with the 2000 BEPGs.

Efficiency of government spending

Little progress was made in the reform of expenditure systems even if the issue of expenditure control is increasingly highlighted. In some countries, there are substantial mechanisms in place for controlling government expenditure (the Netherlands, Finland and Sweden have rigorous medium-term expenditure frameworks, the UK implements three year envelopes for discretionary central government spending and France has medium-term norms for central government spending) while in many others rigorous medium-term mechanisms are still lacking.

Fixed capital formation by general government in the EU is estimated to have remained at 2.3 per cent of GDP in 2000. However, investment expenditure is expanding faster than government spending at large and the share of public investment in GDP is expected to rise gradually. Moreover, several Member States (especially Ireland, Italy, the Netherlands and Sweden) re-allocated spending towards productive uses, especially to expenditures in the domain of the emerging knowledge-based society (see also Section 2.5). Some improvements have been made in the accessibility of life-long learning and in the provision of affordable child-care facilities, but in virtually all Member States more progress is necessary to facilitate the reconciliation of professional and family life.

Reforms of benefit systems lacked ambition. There have been some efforts (in particular in Denmark, Finland, Sweden and the United Kingdom) to tighten benefit entitlement conditions, thereby supporting participation in active labour market programmes. However, so far the shift from passive to active measures has been fairly limited. Very few Member States have introduced in-work benefits to boost earnings of low-paid workers (most notably the United Kingdom and Ireland). However, more Member States (including Belgium, France, the Netherlands and Finland) plan to do so in the future.

Pension reform

Some progress was made in reforming public pension systems in a number of countries (Denmark, Ireland, Netherlands, the Austria, Sweden and the United Kingdom) and ambitious reform plans were announced in Germany. Further reforms are now strongly required in Belgium, France, Greece, Spain, Italy and Portugal. While dialogue and consensus amongst social partners are needed for reforms to succeed, there is a disturbing trend for reforms in these countries to be repeatedly postponed. With the post-war baby boom generation fast approaching retirement age, delays only increase the cost of reform. Several Member States (Belgium, Spain, France, Ireland and Finland) have created or announced the establishment of pension reserve funds that will be used to offset some of the future increase in age-related expenditures. While this is a welcome development, these reserve funds, with exception of Ireland, remain relatively small in relation to the budgetary impact of ageing populations and need to be supplemented with other policies. Where reforms have been undertaken, there is a trend towards limiting entitlements rather than raising contribution rates. This is an appropriate development which needs to be accompanied by more ambitious plans to promote funded systems, via the establishment of a sound regulatory and fiscal framework.

Reform of tax system

For the first time since the 1970s, the overall tax burden is on a declining trend. Some progress was made towards making tax systems more efficient, and especially more employment-friendly. Many countries took steps to reduce taxes on labour (Belgium, Denmark, Germany, Greece, Spain France, Italy, Austria, Finland and Sweden), notably employer's social security contributions, especially at the lower end of the wage scale. Although most reforms provided for generalised reductions in taxes, some countries clearly targeted reductions at low-paid families with children (Greece, Austria and the United Kingdom).

Efficiency and transparency of the personal income tax were improved as several countries (Denmark, Germany, Spain, France, Ireland, Italy and the United Kingdom) widened the tax base and/or reduced marginal tax rates and plan to go further in this direction in the coming years. Other countries (the Netherlands, Portugal, Finland and Sweden) planned to do so from 2001 onwards. These reforms are expected to be all the more efficient as they mainly concern direct taxes, which typically have larger distortionary effects.

As regards the reform of VAT, measures envisaged or implemented have been rather limited in the last few years. Afraid of losing tax revenues, several Member States were reluctant to go further with the harmonisation of the tax as required by the definitive system proposed in 1987 by the Commission.

Consequently, in June 2000 the Commission proposed a new VAT Strategy which concentrates on improving the current VAT system. Furthermore, following Council Directive 1999/85/EC of 22 October 1999, a significant number of Member States were authorised to apply a reduced rate to certain categories of labour-intensive services, which, although only affecting a small share of the total tax base, led to the lowering of the tax rate in these countries.

Tax package

At the ECOFIN Council meeting in November 2000, finance ministers reached a significant agreement on the key points for the implementation of the tax package agreed in December 1997 and designed to curb harmful tax competition and reduce the current distortions of the Single Market. Progress was made on all three elements of the tax package: the Code of Conduct (business taxation), the proposal for a directive on taxation of savings income and the proposal for a directive on interest and royalty payments between associated companies.

As for the Code of Conduct, the finance ministers confirmed the timetable agreed in 1997 for the rollback of the harmful measures. They also agreed that no new beneficiaries shall enter into the harmful regimes after 31 December 2001 and that, irrespective of whether granted for a fixed period of time or not, all the benefits from the harmful measures must run out by the end of 2005. Only in the presence of particular circumstances and an express decision by the Council on a case-by-case basis the effects of the harmful measures may continue beyond that date. As regards the taxation of savings income the finance ministers approved the substantial content of the future directive. Equally, it was agreed that the Presidency and the Commission should enter into discussions with key non-member countries to ensure the adoption of equivalent measures in those countries and the Member States were invited to report regularly, starting from June 2001, on similar discussions with their dependent or associated territories with a view to ensuring the adoption of the same measures in these territories. With respect to the interest and royalty payments between associated companies the finance ministers reached a compromise solution on all outstanding points of disagreement.

The ECOFIN Council reaffirmed the deadline of 31 December 2002 established at the European Council in Feira for the final agreement on the tax package as a whole. Work will continue on all three elements of the package with this timetable in view.

2.4 PROMOTE APPROPRIATE WAGE DEVELOPMENTS

The 2000 Broad Economic Policy Guidelines *(i) required that nominal wage increases be consistent with price stability; (ii) stressed the importance of real wage developments for strong employment growth; (iii) demanded that collective bargaining systems take account of productivity differences; and (iv) insisted on a policy aiming to reduce gender pay differences due to de facto discrimination.*

Aggregate wage developments

Wage moderation continued to prevail, although nominal wage increases in 2000 accelerated slightly from the very low rate in 1999. Wage growth in the euro area remained stable at 3.2 per cent in the third quarter of 2000 and there is no evidence that wage earners have been trying to recoup the losses in purchasing power resulting from high oil prices. Structural reforms in the labour markets are dampening wage claims and the terms of trade shock due to energy price developments seemed to be largely perceived as temporary. However, it is worth stressing that wage moderation in 2000 owed much to wage settlements concluded before the oil prices went up.

Hourly wage increases accelerated in a third of the Member States (especially in Ireland, but also in Belgium, Denmark, Luxembourg and Portugal) – these are chiefly the countries with the tightest labour markets. On the other hand, high increases in hourly wage rates in France in 2000, were the result of the implementation of the 35-hour working week, and are not likely to be repeated in 2001. Some other Member States with high unemployment, such as Germany, Spain and Italy, had limited wage increases.

Wage moderation is likely to continue in 2001 as the partial reversal of the terms of trade shock diminishes the risk of second round effects. Furthermore, although there is some evidence of labour shortages in some Member States or some sectors, this does not seem to be enough to jeopardise the current trend of wage moderation. Finally, cuts in income taxes should help to keep wage claims in check.

As a result of these developments, real unit labour costs are expected to have fallen in 2000. In 2001 a further annual fall of some ½ per cent is likely in the EU. In five Member States (Belgium, Germany, the Netherlands, Portugal and Sweden) real unit labour costs have gone up, in the others they have fallen.

Wage differentiation and gender gap

The degree of difference in wages according to skill or qualification, a pressing issue at the lower end of the pay scale, has only been dealt with through the lowering of non-wage labour cost for the low paid. No major initiatives have been taken to reform statutory minimum wages or the collective wage bargaining process. Hardly any reforms have been implemented to allow wages to develop more in line with regional productivity differences (see also below under labour market reforms).

Data do not allow to conclude whether there has been an improvement over the last year with respect to the gender gap. On average women's earnings are 83 per cent of men's – with the difference being larger in the private sector than in the public sector – but this is due to a combination of factors, including the fact that many women work in lower paid sectors. Among the Member States, the differences are largest in Germany, Austria and the United Kingdom, and the smallest in Belgium, Spain and Portugal. Although many Member States report on policies to decrease the gender gap in wages, the results still have to be closely monitored and assessed.

2.5 FOSTER A KNOWLEDGE-BASED SOCIETY

The 2000 BEPGs recommended to: *(i) provide conditions to increase the involvement of the private sector in the financing of Research & Development expenditures; (ii) stimulate competition in product and capital markets; (iii) ensure efficient and adequate public support for the funding of research, the establishment of better links between research institutes and business and ensure the dissemination of information; (iv) ensure availability of low-cost, high-speed internet access; (v) reduce the fragmentation and compartmentalisation of the Research & Development effort; and (vi) strengthen education and training efforts.*

Europe's transition to the knowledge-based society is progressing, but should be speeded up. This late transition can be associated with insufficient investments in human capital, in research and development (R&D) and in information and communication technologies (ICT). The Lisbon European Council identified innovation and research as one of the pillars of the Union's effort to achieve its strategic goal of becoming the most competitive knowledge-based economy in the world. In response, the Member States have made a serious effort to catch up.

Research and Development (R&D)

In spite of this effort, overall spending on R&D in the European Union remains at 1.8 per cent of GDP. The European picture is heterogeneous though: Sweden (with close to 4 per cent) and Finland, followed by Germany and France, appear to be most advanced, while the Southern Member States, in particular, are less advanced.[2] While public expenditures on R&D expressed in percentage of GDP are equivalent in Europe and in the United States (at around 0.7 per cent), business expenditures are much lower in the former (1.2 per cent in 1999) than in the latter (2.0 per cent). In some countries such as Finland and Sweden, a rapid rise in business R&D expenditures has taken place over the recent period, but in most other EU Member States, private sector involvement in R&D as a percentage of GDP has not increased.

In order to encourage business expenditures on R&D, Germany, Greece, Spain, Ireland, the Netherlands, Austria, Portugal and the United Kingdom have introduced new incentive schemes or upgraded existing ones, for example by using tax measures. Progress has been made in the implementation of the Risk Capital Action Plan (see Section 2.7). Measures to enhance competition in product and capital markets continue to be implemented, creating a business environment more favourable to innovation and technological progress (see Section 2.6).

Despite progress made in streamlining the research infrastructure, the industry-science relationship, and more precisely the commercialisation of the research effort, remains one of Europe's structural weaknesses. In spite of a significant rise in the share of high-tech exports in total European exports (from 13.5 per cent in 1991 to 19.3 per cent in the first half of the year 2000),[3] the high-tech export share is particularly low in Belgium, Greece, Spain, Italy and Portugal. Many Member States have introduced new measures aimed at improving the links between publicly owned research institutes and business. However, there is still room for improvement in the design of the collaboration mechanisms, in order to have more commercially oriented technology transfers.

Additional public funds have been allocated to R&D in Ireland, Italy, the Netherlands and Sweden, but more importantly the focus is shifting toward the creation of centres of excellence, innovative clusters, and various technology transfer mechanisms to facilitate the commercialisation of R&D. Moreover, the Community strategy, "Towards a European Research Area", has been introduced to remedy fragmentation and compartmentalisation of R&D efforts in Europe by linking research networks across borders and facilitating collaboration. However, an agreement on a Community patent has not yet been achieved.

Information and communication technologies (ICT)

The lagging growth rate of the EU economy in comparison with the USA in the second half of the 1990s has been associated with the smaller size of the ICT producing sector in Europe as well as with lower investments in ICT in other sectors of the economy. In1999, the GDP share of the ICT producing sector in the EU (4.2 per cent) remained well below that in the US (6.8 per cent). However, the EU has been catching up with the USA in terms of ICT diffusion. In the year 2000, ICT expenditures in the Union were 5.8 per cent of GDP, which was marginally above the 5.6 per

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2 The corresponding figure for the United States is 2.7 per cent.

3 The corresponding figure for the United States was 28.7 per cent in 1998.

cent recorded for the USA. This is one indicator of the widespread progress across the EU in ICT diffusion.

Another indicator is the internet penetration rate in EU homes, which went up by ten percentage points between April and October 2000 (to 28 per cent). However, there are important differences between Member States. Some Member States (Denmark, the Netherlands and Sweden) have reached levels of internet penetration that surpass even the USA, while in others (Greece, France, Spain, and Portugal) internet penetration rates are much lower. The cross-country variation in internet usage may be explained by differences in local phone charges, home personal computer ownership and the reliability of service providers. In combination with the liberalisation of telecom industries, in particular the local loop unbundling, high bandwidth networks and new access tools are making internet access both faster and cheaper. Countries such as Denmark, Germany, France and the United Kingdom are also extending internet access through public-private partnerships or by establishing connections at public libraries. In line with the eEurope Action Plan, all Member States are linking schools to the internet with the aim of increasing digital literacy through better and more widespread access and use of the internet in schools. The impact of the differences between Member States in the allocation mechanisms for UMTSlicences has yet to unfold, but the choices made could have an effect on the diffusion of third-generation mobile phone technology.

The slower than expected take-up of electronic commerce, especially by consumers, is a particular area of concern. This is despite significant progress on the regulatory framework and steps to strengthen consumer confidence. Only 66 per cent of SMEs and 76 per cent of large companies have access to the internet. However, only 6 per cent can carry out true e-commerce. In this area as well there are important cross-country differences. The introduction of 'unmetered' phone charges in countries such as Germany, the UK and Spain makes it possible for Internet shoppers to browse and purchase without being concerned by per minute charges.

Education and training aspects of the knowledge-based society

Most Member States have taken measures to strengthen ICT education and training efforts, particularly in view of the well-publicised shortage of skilled ICT professionals in Europe. Although almost half of the working population use computers as part of their work, less than 22 per cent have had any formal computer training. Of course, the role of general education is also critical in this respect -- it is interesting to note that in the Nordic countries, where the diffusion of ICT has been most rapid, public expenditure on education is also the highest as a share of GDP. The US experience so far suggests that the knowledge-based society has the potential to create jobs throughout the economy -- across a wide range of sectors, occupations and skill levels. Recent job creation in the EU has been predominantly in 'high education' areas (i.e. managers, professionals, technicians), where ICT skills may be more in demand. The other side of the coin, however, is that job creation among the low-skilled in the EU remains very low. Progress on education initiatives which take into account the needs of this group (including the need to improve general basic skills, as well as ICT skills) has perhaps been morelimited.

2.6 ENSURE EFFICIENT PRODUCT MARKETS

The 2000 BEPGs recommended to: *(i) implement the internal market legislation fully and effectively; (ii) ensure the independence of competition authorities; (iii) reduce State aid; (iv) complete the liberalisation of the telecommunications market; (v) speed up the liberalisation of the energy, postal services and transport sectors and fully implement the Community Directives that open markets for public utilities; (vi) reinforce competition in services sectors; (vii) reduce regulatory burdens on business; (viii) develop a systematic approach to the regulatory framework for services; and (ix) monitor the effective implementation of the many regulatory reforms.*

Over the course of the past year, the functioning of European product markets has improved thanks to better co-ordination of national policies in various domains, the increased transposition of Internal Market Directives, the reinforcement of competition authorities' powers, the liberalisation of the telecommunications and, to a lesser degree, energy sectors. A less positive assessment is made of progress in the areas of public procurement, State aid, administrative reform and efforts to reduce the regulatory burden on business, while the creation of a truly integrated European market for business services and the liberalisation of the transport and postal sectors remain problematic.

Completion of the Internal Market

Survey results show an increasing level of satisfaction among businesses with the operation of the Internal Market. This is consistent with the observation that transposition of Internal Market Directives has considerably improved in most Member States. However, the transposition gap between Greece and other Member States has increased as important reforms are still pending in that country. France and Portugal have improved their performance, but their transposition deficits are still more than three times as large as those of the best performers.

Some Member States, including Spain and Italy, have significantly increased their efforts to facilitate the opening up of public procurement. In particular, a more widespread use of the electronic publication and dissemination of calls for tenders is foreseen. This might help resolve the structural problem of insufficiently transparent tendering procedures, particularly at the local and regional level. The share of public procurement tenders published in the Official Journal as a percentage of GDP is still relatively low in Germany, the Netherlands and Austria. The rapid adoption and enforcement of the new legislative package presented by the Commission in May 2000 will increase transparency, openness and competition in public procurement markets.

Progress in the area of competition policy is encouraging. The reinforced capacity, independence and resources of the competition agencies in most Member States is a positive development, even if progress could be more rapid in improving the institutional framework in some countries.

Sectoral and ad-hoc State aid levels are declining gradually in most Member States, but continue to distort competition in European markets, particularly in Belgium, Germany, France and Portugal[4], where such aids remain relatively high. The European Commission intends to create a public register of State aids and publish its first scoreboard on State aid in the first half of 2001. The register and the scoreboard serve to increase the transparency of national and Community policies.

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[4] The high amount of such aid in Portugal is largely due to a single regional aid scheme for Madeira - accounting for 0.8 per cent of GDP - that has many characteristics of a sectoral scheme. Since January 2001, this aid scheme is closed for new applications and the Portuguese proposal for its renewal is currently being examined by the Commission.

Over the last decade, EU goods markets have become more and more integrated, resulting in stronger competition and a gradual convergence of price levels between Member States. The variation of consumer prices between Member States declined from 18.2 per cent in 1992 to an estimated 14.4 per cent in 1999. Technical barriers to cross-border trade within the EU remain a problem, especially in certain sectors (food and beverages, and motor vehicles, in particular).

Public utilities

Some of the sector-specific economic reforms undertaken have already started to pay off in terms of price reductions for the consumer. The liberalisation of the telecommunications sector, for instance, has contributed to significant reductions in the costs of long-distance calls. Technical progress has had an impact as well. In Belgium, Spain, Italy and Austria, however, long-distance national calls remain relatively expensive. Prices have fallen less for local calls, which is due to a large extent (in many cases) to a re-balancing of tariffs. However, it also indicates that work towards strengthening competition in local access networks needs to continue.

In the energy market, progress is somewhat less clear. Price reductions and improvements in choice and quality of service delivered have generally been most evident in those countries that have gone furthest and fastest in opening up their markets, while ensuring the fulfilment of the universal service obligations and a sufficient level of competition in the liberalised markets. The setting up of independent regulatory bodies has contributed to consolidate reforms in most Member States. In Germany, for example, the liberalisation of the energy sector is well advanced but no independent regulatory body has been created, which has been a factor contributing to large regional differences in the fees for the use of local electricity distribution networks. Complete market opening with uniformly implemented rules and tight deadlines in both production and distribution should now be the target.

The further opening up of the transport sector to competition and the liberalisation of the postal sector continue to pose problems. In the postal sector, the need to reach an agreement on market opening and on the regulatory framework to be put in place is becoming increasingly urgent. In rail transport, an agreement was reached on the market opening of international rail freight, but the challenge regarding passenger transport and domestic rail freight remains. In public rail and road transport, a number of smaller steps (a revision of the tariff system for access to the rail infrastructure network in France, the legal separation of rail infrastructure management and operations in Italy, the introduction of a system of concessions to bus, tram and underground transport networks in the Netherlands, etc.) have been taken to facilitate market opening at a later stage. In air transport, further action is urgently needed, building on the recommendations of the High Level Group on Air Traffic Reform concerning the creation of a single European sky and revising the rules on the allocation of airport slots.

Services

A majority of firms involved in the cross-border provision of services report remaining barriers to their activities in other countries. Professional services (lawyers, auditors etc.), in particular, remain subject to access restrictions in many Member States, including Germany, Greece and Italy. The absence of a true internal market in services has led the Commission to adopt a new horizontal strategy for this sector. Moreover, competition in the distribution sector will benefit from the growth of B2C e-commerce, especially in the Netherlands, Sweden, and the United Kingdom, countries with an e-commerce share in total retail sales similar to that in the United States. This development is especially important in countries like Sweden and Finland, which suffered most from an insufficient level of competition in distribution. However, specific measures to deal with this problem have yet to be introduced in these two countries.

Regulatory reform

Different measures (including one-stop-shops, e-government and business tax reform) have been taken to reduce the administrative burden on enterprises, whereby particular attention has been given to the needs of start-ups as well as other small and medium sized enterprises. Nevertheless, there remains a significant scope for a simplification of administrative procedures imposed on businesses in the Member States, especially in Belgium, Greece, Spain and France. Efforts to increase the efficiency of public administration have been particularly evident in countries with a large public sector, such as the Nordic Member States, but also in Italy, the Netherlands and Portugal.

Increasingly, public sector bodies or public private partnerships are supplying market goods or services. As they enter into direct competition with private enterprises, rules need to be laid down ensuring transparency and competition on equal terms. For competition to lead to efficient outcomes, public and the private entities must compete on a level playing field. In the Netherlands and Sweden, specific measures are being considered to ensure that this is the case.

The Commission has published several reports on its monitoring of the effective implementation of the reforms and of their impact in terms of efficiency and consumer benefits. Benchmarking has been increasingly used in several structural policy domains. In this respect, the agreed list of structural indicators provides a useful tool for comparing progress.

2.7 PROMOTE CAPITAL MARKETS TROUGH FURTHER INTEGRATION AND DEEPENING

The 2000 BEPGs recommended to: *(i) establish a "single passport for issuers"; (ii) eliminate barriers to investments in and by pension funds and clarify the distinction between sophisticated and retail investors; (iii) promote further integration of government bond markets; (iv) improve the efficiency of securities clearing and settlement systems; (v) enhance the efficiency of cross-border retail payment services; (vi) enhance the comparability of financial statements of companies (vii) promote the development of new firms and investment in venture capital; (viii) ensure more intensive co-operation between EU financial market regulators and supervisors; and (ix) follow-up on EU provisions on take-over bids and on the restructuring and winding-up of credit institutions and insurance companies.*

Specifically, the Lisbon European Council, which highlighted the need to intensify efforts to create an integrated EU financial system, called for implementation of the Community's Financial Service Action Plan (FSAP) by 2005 and for implementation of the Risk Capital Action Plan (RCAP) by 2003. In line with this mandate, the 2000 BEPGs recommended swift action in a set of priority areas identified in the FSAP and in the RCAP.

Implementing the Financial Services Action Plan (FSAP)

Progress has been made in many of these priority areas. For instance, the Commission has tabled proposals designed to create a fully operational 'single passport' for investment firms, to clarify the distinction between sophisticated and retail investors, to ensure that pension funds enjoy sufficient freedom to develop an effective investment policy and to harmonise accounting standards. The Commission has also tabled a Communication on E-Commerce and financial services, which should help negotiations on the draft directive on distance marketing of financial services to make progress in the Council. The adoption of a proposed Directive on take-over bids hoped for the by end of 2000 will be subject to conciliation between the Council and the Parliament. The directive on the winding up of insurance institutions was adopted and the negotiations on the draft directive for the winding up of credit institutions are progressing well. In order to facilitate implementation of the FSAP, the Lamfalussy Group was established in July 2000 with a mandate to propose improvements in the framework for EU regulation of securities markets. The Group's final report, which recommends a series of procedural changes, was published on 15 February 2001.

Implementing the Risk Capital Action Plan (RCAP)

Progress has also been made in developing the EU risk capital market. In addition to those actions under the FSAP that are relevant to the implementation of the RCAP, progress has been made at the national level.

A key area requiring a national response has been the easing of legal/regulatory constraints on institutional investment in equity markets and venture capital. Only four Member States (Ireland, the Netherlands, Finland and the United Kingdom) have no such constraints - beyond a general requirement for prudence - on institutional investment in equities. Constraints have been eased in Belgium, Sweden, France, Italy and Spain and the Danish government proposes to introduce rules on institutional investment in equity based on prudential considerations. Finland and the United Kingdom are taking measures to further encourage investment by institutional investors in equity markets.

A second key area requiring a national response relates to the removal of fiscal disincentives to risk-capital investment (to be achieved by adjustment of taxation of corporate profits and capital gains). Fiscal disincentives have been addressed in several Member States. Belgium has taken fiscal measures in favour of spin-off and start-up companies; France has offered fiscal incentives for investment by business angels; Greece and Spain have increased existing tax relief on capital gains; Italy has reinforced its Dual Income Tax system of 1998 which favours equity financing of corporations. On the other hand, little has been done to address the disincentive effects of bankruptcy and insolvency procedures, except in Italy and the Netherlands. Similarly, too few countries have taken steps to ensure that the taxation of share ownership and stock options does not act as a disincentive to entrepreneurship.

As recommended in the October 2000 Progress Report on the RCAP, Member States' efforts will need to be intensified, accelerated and extended if the RCAP is to be implemented by the 2003 deadline.

Safeguarding financial stability

The 2000 BEPGs addressed the issue of stability in the EU financial system, recommending improved co-ordination among national supervisors. While no change was advocated to the existing institutional arrangements, it was recommended that the practical functioning of those arrangements should be enhanced.

Several Member States have taken measures to strengthen co-ordination between their national supervisors. In Germany, plans to integrate the supervisory authorities for the banking sector, the insurance sector and securities markets have been announced. In France, the banking and insurance supervisory authorities are to co-ordinate more closely, while the securities regulatory authorities are to be merged. In the Netherlands, a formal consultative body has been set up as a forum in which the various financial supervisors discuss cross-sectoral issues. In Portugal, the creation of the National Council of Financial Supervisors should contribute to promote co-ordination among the different supervisors of the financial system. Measures have also been taken to improve the exchange of information between supervisors in different Member States. For instance, the Danish, Swedish and Norwegian Financial Supervisory Authorities have signed a co-operation agreement covering the entire financial sector. However, it would seem necessary to build on the progress made so far.

2.8 INVIGORATE LABOUR MARKETS

The 2000 BEPGs recommended: *(i) promote the transition from passive to active measures; (ii) review and reform tax and benefit systems; (iii) enhance labour mobility; (iv) modernise work organisation; (v) strengthen efforts on equal opportunities policy; and (vi) work towards a more inclusive labour market by the end of 2000*.

The improvement in labour market performance continues, with rapid employment growth (1.7 per cent) and a fall of almost one percentage point in unemployment during 2000. This is to a large extent due to the cyclical upswing, but the evidence also suggests a fall in structural unemployment, thanks to the strategy of labour market reforms and active measures to improve employability. Long-term unemployment fell from over 49 per cent of total unemployment in 1997 to 45.7 per cent in 1999. However, progress has been uneven with some labour markets showing signs of tightening.

A few Member States (Denmark, the Netherlands and the United Kingdom) are reaping the benefits of earlier comprehensive labour market reforms. However, problems remain in all Member States, and most have pursued a piecemeal approach, thereby failing to exploit the possible synergies between different reforms. On the whole, Member States have not taken full advantage of the current macroeconomic conditions to introduce the structural reforms that will be needed to sustain the favourable employment performance of recent years.

Active labour market policies

One area where good progress has been made is in implementing active and preventive measures to tackle youth and long-term unemployment Only Belgium, Greece and Italy still need to take significant further steps to hit the targets for early activation set in the Employment Guidelines by 2002. However, while many Member States have increased spending on active measures in recent years, efforts to improve the design and monitoring of these policies need to be redoubled, in order to ensure efficiency.

Most Member States are broadening support for young people with learning difficulties and taking steps to equip young people with a greater capacity to adapt to technological and economic change. All Member States are improving ICT equipment in schools. They are also devoting increased attention to the promotion of lifelong learning, although only Denmark, Ireland, the Netherlands, Finland, Sweden and the United Kingdom have set out a comprehensive approach.

Tax and benefit systems

There remains ample scope for further reform of tax and benefit systems to ensure appropriate incentives to seek and take up employment, particularly given the need to increase labour supply in many Member States. This applies also to some with very low official unemployment rates, but with significant numbers of 'hidden unemployed' receiving passive benefits, such as Denmark, Luxembourg, the Netherlands and the United Kingdom. Passive benefits include disability and early retirement pensions, which are not conditional on seeking work. Some Member States have reformed early retirement schemes or taken other measures to reduce incentives to withdraw early from the labour market.

During the 1990s, a number of Member States undertook reforms of tax and benefit systems, but only in some cases addressing both taxes and benefits in a comprehensive manner. Many Member States have reduced taxes on labour recently (see Section 2.3), and further reforms have been announced. However, during the year 2000 there has been little in the way of benefit reforms or comprehensive tax and benefit reforms, even though it is the overall impact of taxes and benefits that is crucial to people's labour supply decisions. Several Member States (Belgium, France, the Netherlands, Austria and the United Kingdom) have pursued or intend to pursue measures that explicitly address the combined incentive effects of taxes and benefits. These in-work benefits typically aim to boost the income of low-paid working people or families while minimising disincentive effects due to high marginal effective tax rates.

Flexibility and modernisation of the labour market

A lack of labour market flexibility is one of the factors underlying the high rates of structural unemployment still witnessed in Belgium, Germany, Greece, Spain, France, Italy and Finland. In most cases, this is accompanied by severe regional disparities, yet little has been done to reform where appropriate wage formation systems so that these better reflect local productivity and labour market conditions. Limited measures have been taken to promote labour mobility, but further progress here is needed. Mobility is impeded by rigidities in the housing market in several Member States, as well as the lack of progress on mutual recognition of qualifications and portability of pension rights.

There has been some progress in the modernisation of work organisation, including the facilitation of part-time work and more flexible working arrangements. Agreements in these areas may have served to minimise any negative effects of statutory reductions in working time. However, the degree of involvement of the social partners in this area has been disappointing. Moreover, unless rigidities under existing employment contracts are addressed, there is a risk that employers will be forced to rely on temporary contracts, even when longer-term arrangements would be appropriate.

Nothing has been done in 2000 to address strict employment protection legislation for permanent contracts in Spain, France, Italy and Portugal. In these countries, the growth of fixed-term contracts was well in excess of the increase in permanent jobs, underlining the need for greater flexibility.

Equal opportunities and social inclusion

As far as equal opportunities are concerned, most Member States have taken specific measures to address low female employment rates, occupational segregation and pay differentials between men and women. These are assessed in detail in the Joint Employment Report2000. Few measures are proposed in two of the countries with the lowest female employment rates, Greece and Italy. Tax and benefit reforms in some Member States (such as Luxembourg and the Netherlands) appear to paying off in terms of increased female participation. In addition, almost all Member States have taken significant steps to improve childcare facilities for working parents.

As regards social inclusion, the progress made in reducing unemployment – particularly youth and long-term unemployment – over the course of 2000 is encouraging. Little has been done, however, to tackle the basic rigidities that underlie severe regional unemployment disparities, which have serious consequences in terms of cohesion. In addition, as overall unemployment has fallen, its disproportionate impact on certain communities and social groups has become more apparent. Several Member States have taken employment initiatives targeted at deprived areas, single parents and ethnic minorities, to name three examples. Many Member States have targeted reductions in the tax burden on labour towards the low-paid, partly with the aim of improving the job prospects of the low skilled, who are also heavily over-represented among the unemployed. However, there is a need for a more integrated approach towards social inclusion, combining policy measures in different areas, in light of the common objectives agreed by the European Council of Nice.

2.9 ENHANCE SUSTAINABLE DEVELOPMENT

The 2000 BEPGs were the first to include a separate section on sustainable development. Member States were recommended to: *(i) introduce or strengthen market-based policies like taxation, user charges, insurance/liability schemes and tradable permits; help achieving the EU objectives under the Kyoto protocol; and contribute to break the link between environmental pressure and economic growth; (ii) reassess sectoral subsidies and tax exemptions and other existing measures which have a negative environmental impact while taking full account of other relevant economic and social factors; (iii) work to agree on an appropriate framework for energy taxation at the European level.*

A number of Member States took action to strengthen market-based approaches to environmental issues. Germany continued to implement its policy of shifting the tax burden from labour to energy. Attempts by France to do likewise by extending the scope of the Taxe générale sur les activités polluantes (TGAP) to electricity use were ruled out by the constitutional court. The United Kingdom continued preparations to introduce a revenue-neutral climate change levy, with revenues being used to cut social insurance contributions. Denmark established a scheme of tradable emission permits for carbon dioxide emissions from the electricity sector. In the Netherlands, a trading scheme for NOx emissions by industry has been linked to a voluntary agreement by industry to reduce the NOx intensity of energy consumption and total emissions.

Some Member States recently introduced specific incentives for environmentally beneficial behaviour.

Appropriate pricing of water to cover the full costs is essential to encourage a more sustainable use of this resource. In line with the Water Framework Directive, pricing is playing an increasing role in the water policy of several Member States. However, there are major differences between Member States in the systems they apply and in many cases the supply conditions for water are still strongly influenced by sectoral subsidies.

Some Member States continue to grant substantial subsidies for certain sources of energy, such as coal, that have a negative environmental impact. Furthermore, in response to rising fuel prices some Member States offered excise duty exemptions (France, Italy and the Netherlands) or other measures aimed at reducing the costs of transport (Belgium, Germany and Finland). In Italy, the planned step-by-step increase of excise duties in the framework of an environmental tax reform was thus (temporarily) abandoned. The fact that the sectors concerned benefit from fuel tax reductions and exemptions or derogations from Community legislation – and for which the relative increase in price compared to those that do not benefit from these derogations was therefore greater – argues in favour of a less generous approach to the granting of such measures. Most recently, the February 2001 ECOFIN Council took note of the intention of the Commission not to propose further prolongations relating to the derogations in favour of road haulage after the year 2002.

No progress was made with the third recommendation, to agree a framework for energy taxation at Community level.

REPORT FROM THE COMMISSION

on the implementation of the 2000 Broad Economic Policy Guidelines

STATISTICAL ANNEX

TABLE OF CONTENTS

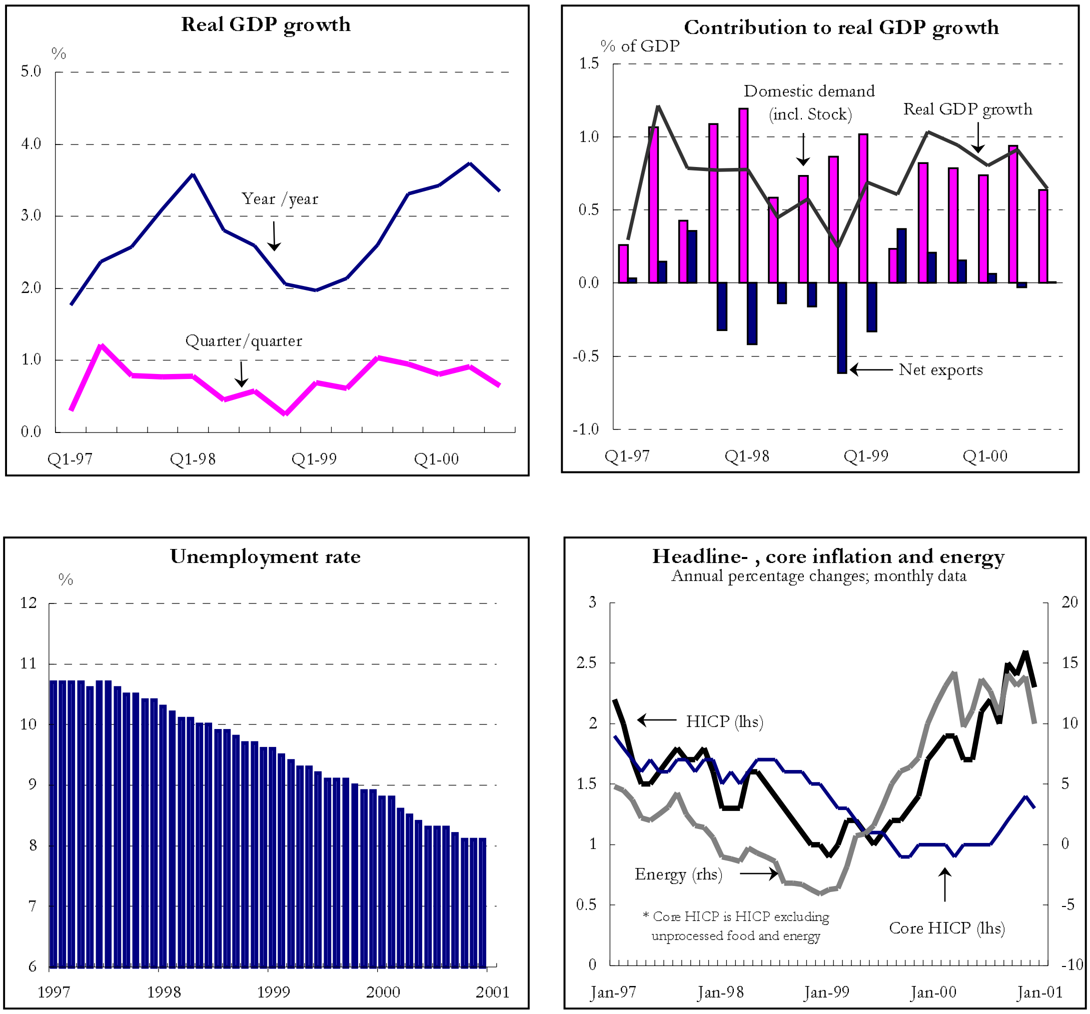
GRAPHS

1 Economic developments in the EU 26
2. Policy mix in the euro area 27
3. Public education and R&D expenditures in 1997 28
4. Level of internet access 28
5. Public procurement and sectoral and ad hoc State aids....................29
6. Telecommunication price change in per cent between 1997 and 2000....................30
7. Electricity price change in per cent between January 1996 and July 2000 31
8. Equity financing in the EU 32
9. Labour market situation in the EU 33

TABLES

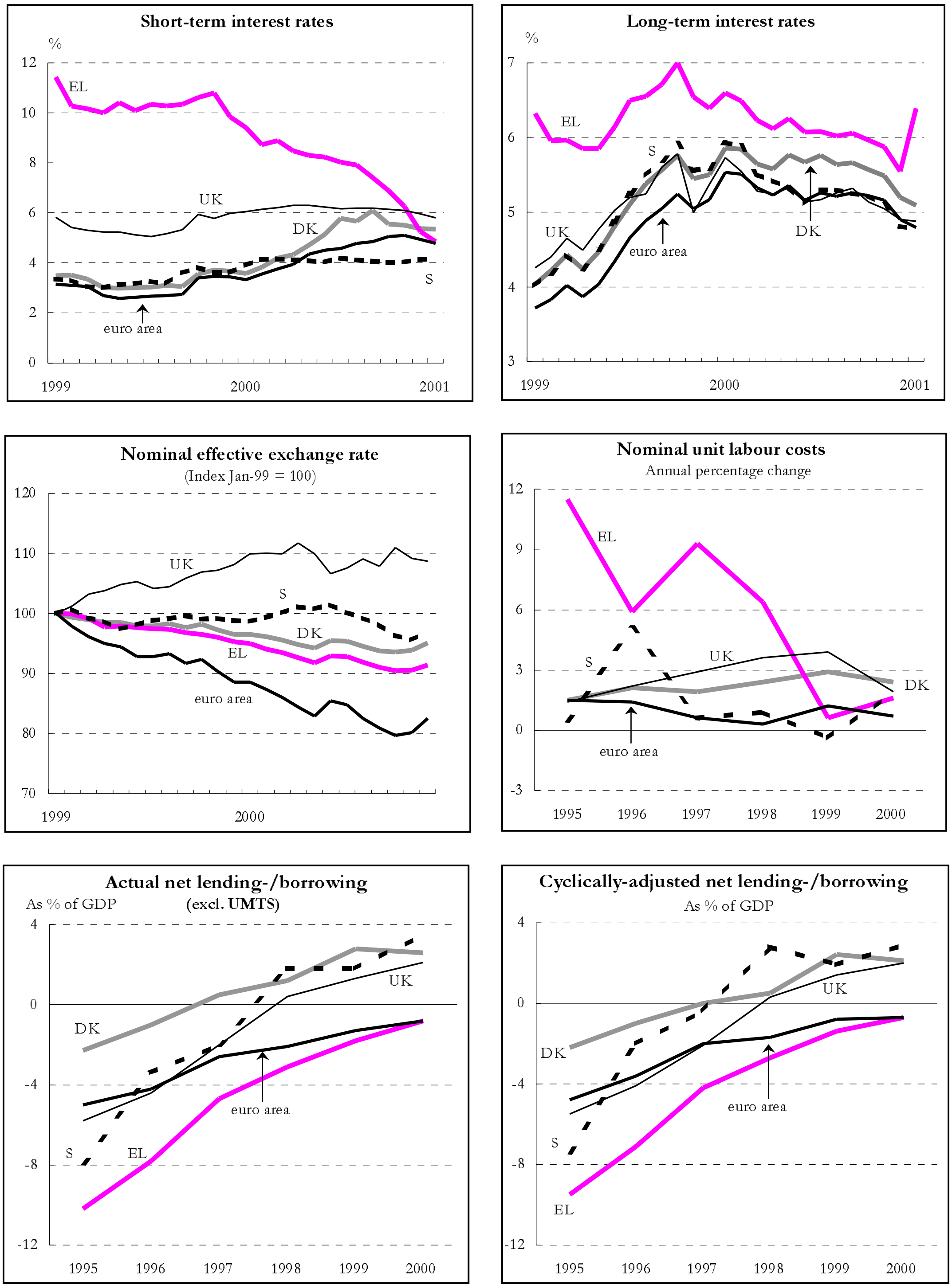
1 Evolution in estimates of government budgets for 2000....................34
2. Change in actual and cyclically-adjusted budget balances in 2000 35
3. Projections for general government surplus/deficit 36
4. Wage developments in 2000....................37

Graph 1: **Economic developments in the EU**



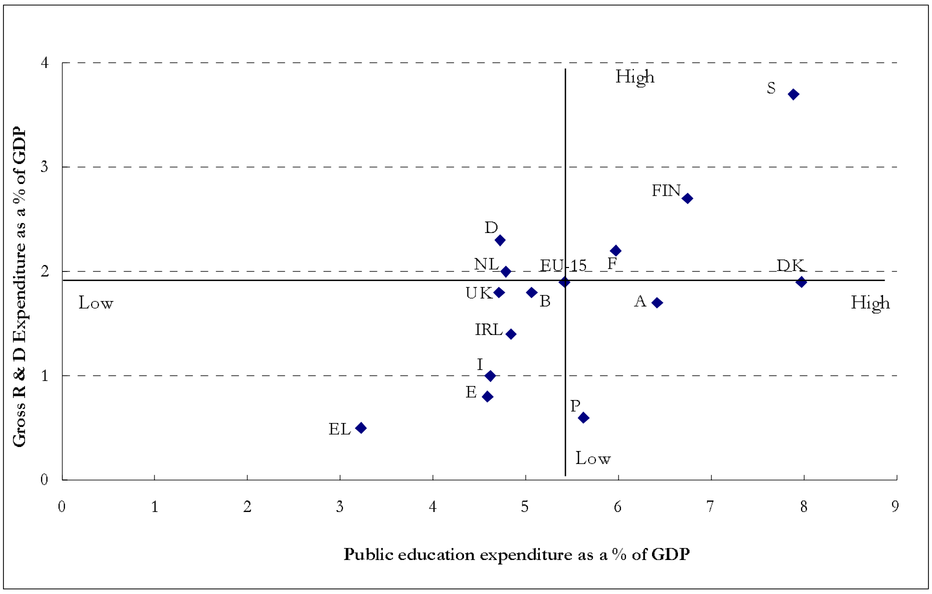
Source: Commission services.

Graph 2: **Policy mix in the euro area**



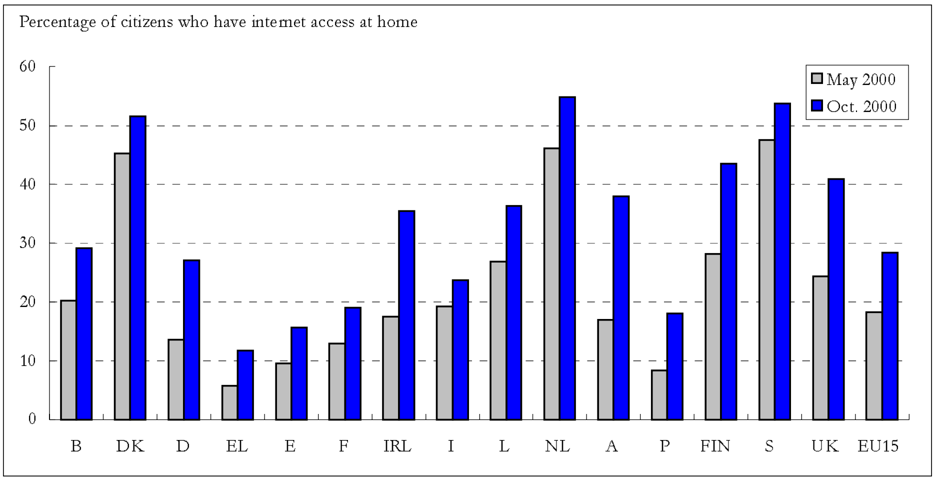
Source: Commission services.

Graph 3: **Public education and R & D expenditures in 1997**



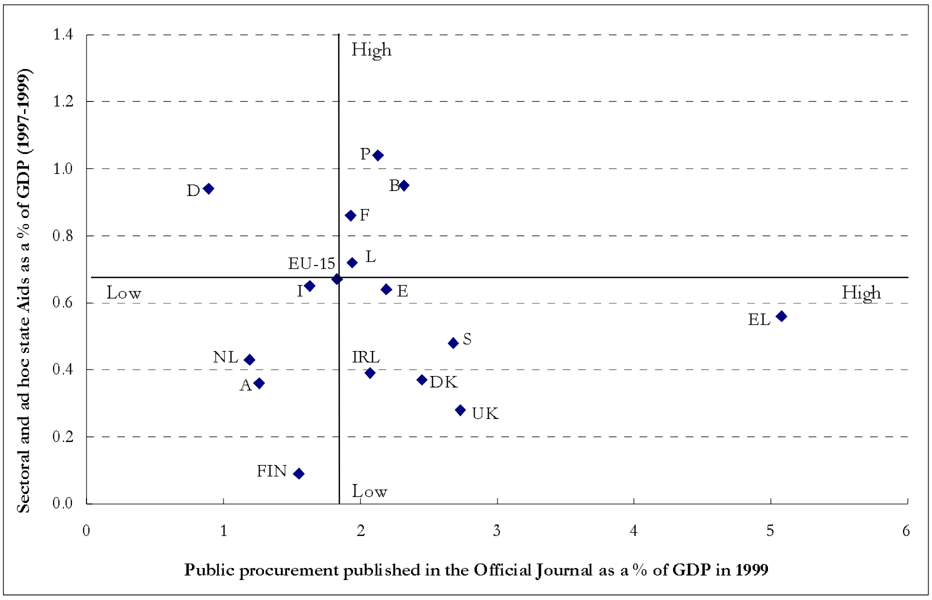
* No data available on R & D for L .
Source: UNESCO/OECD/Eurostat

Graph 4: **Level of internet access**



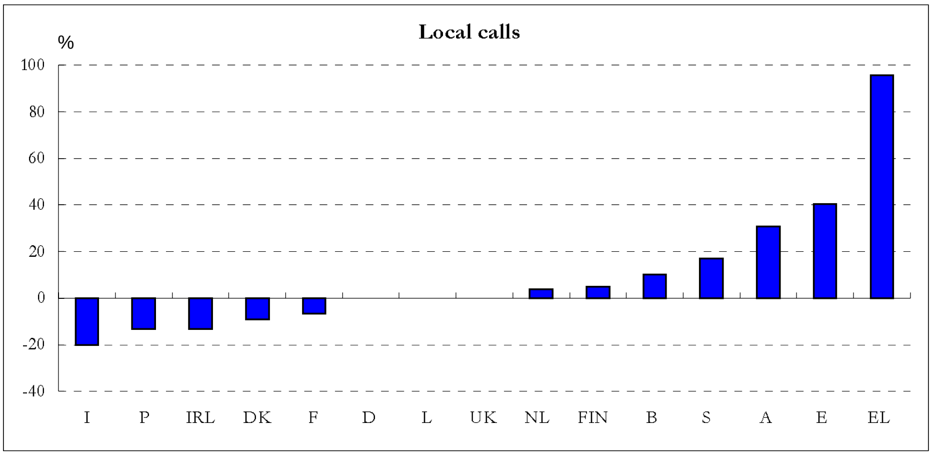
Source: Eurobarometer.

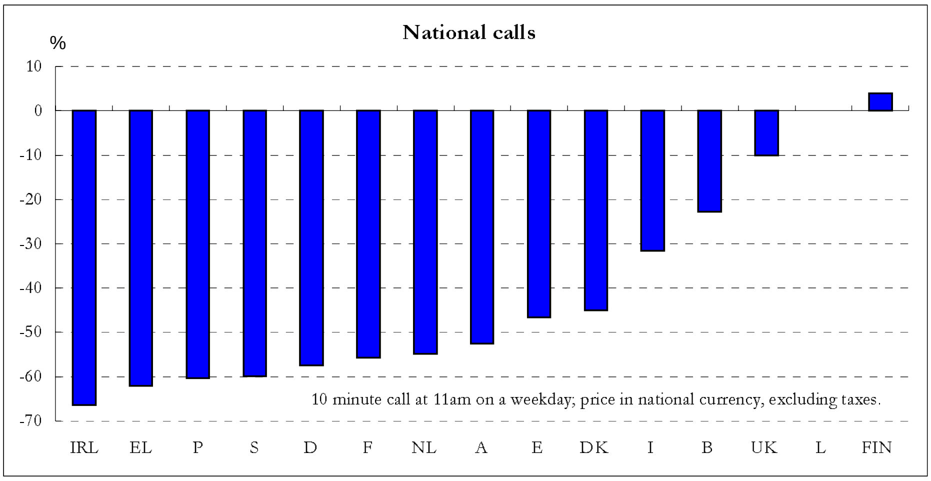
Graph 5: **Public procurement and sectoral and ad hoc State aids**

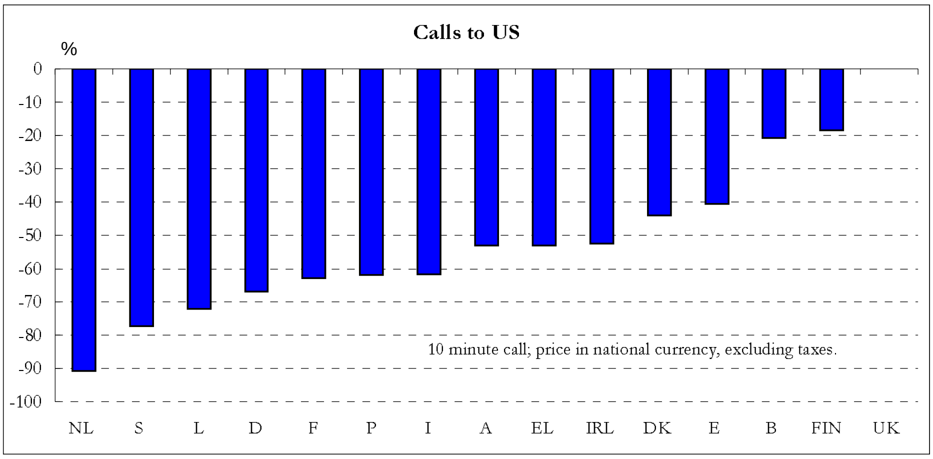


Source: Commission services.

Graph 6: **Telecommunication price change in per cent between 1997 and 2000**

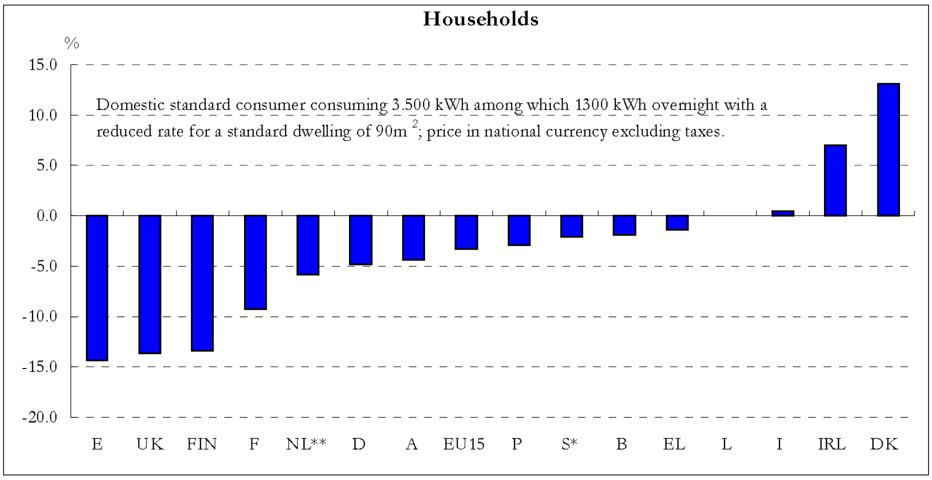




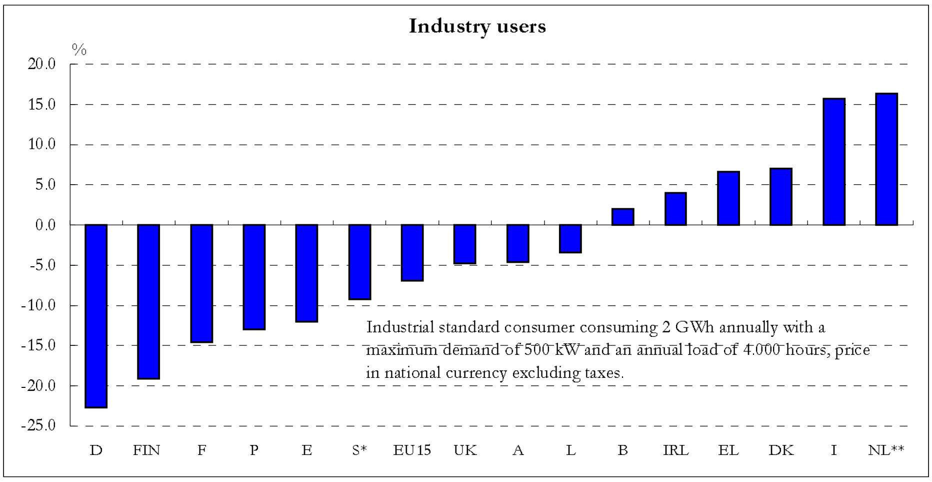


Source: Commission services.

Graph 7: **Electricity price change in per cent between January 1996 and July 2000**

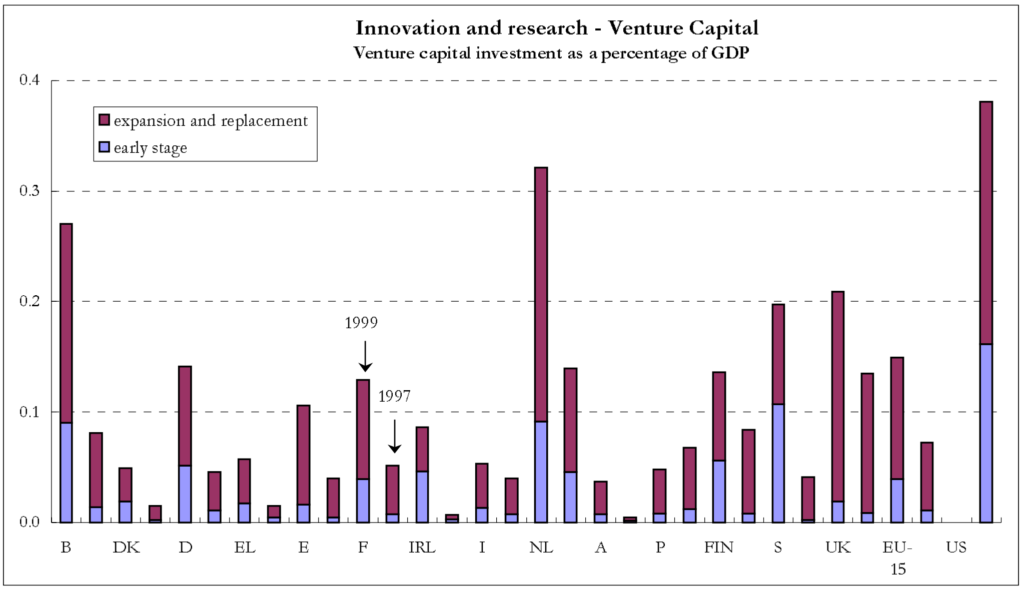


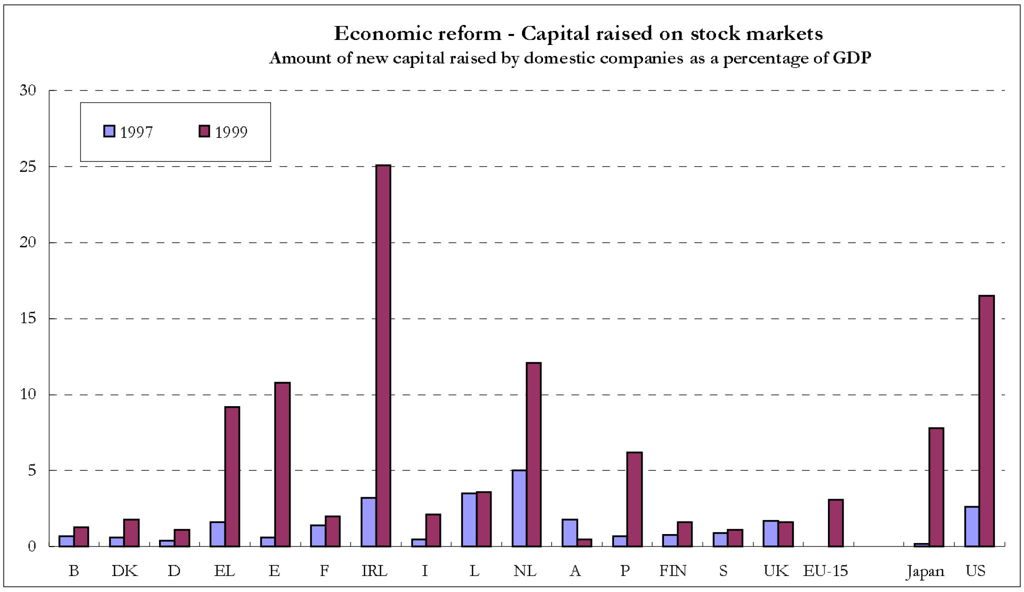
(*) S Data for July 1996 and July 2000
(**) NL data for Jan 1996 and Jan 2000



(*) S Data for July 1996 and July 2000
(**) NL data for Jan 1996 and Jan 2000
Source: Eurostat.

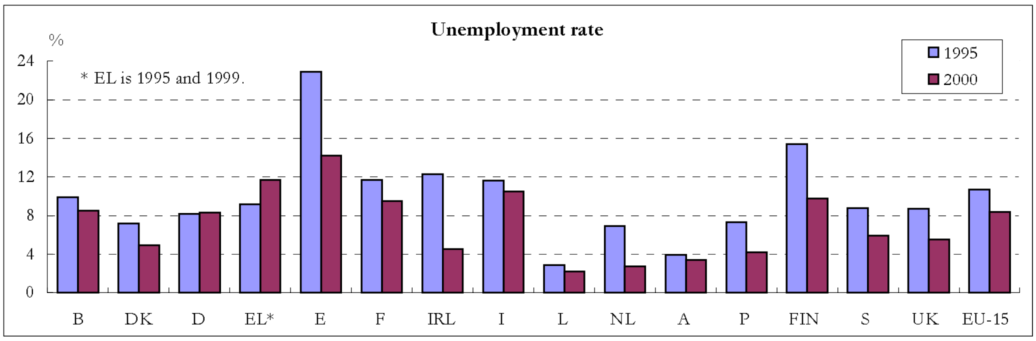
Graph 8: **Equity financing in the EU**

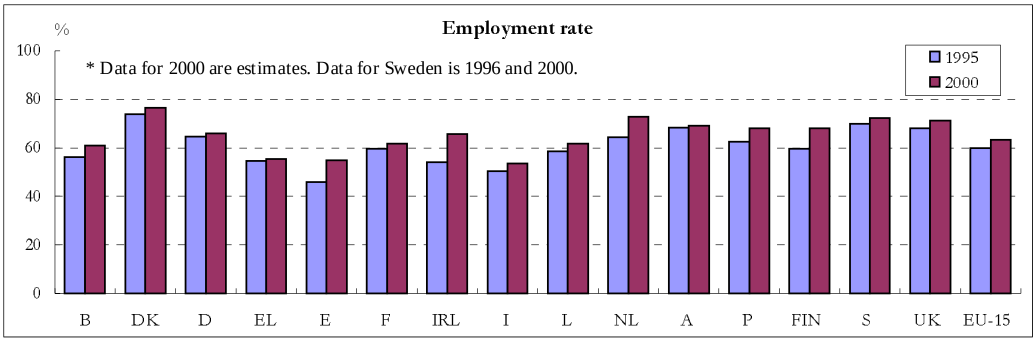


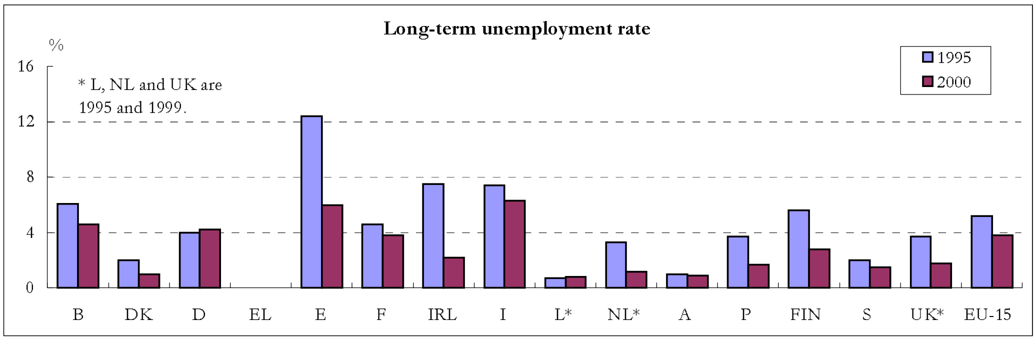


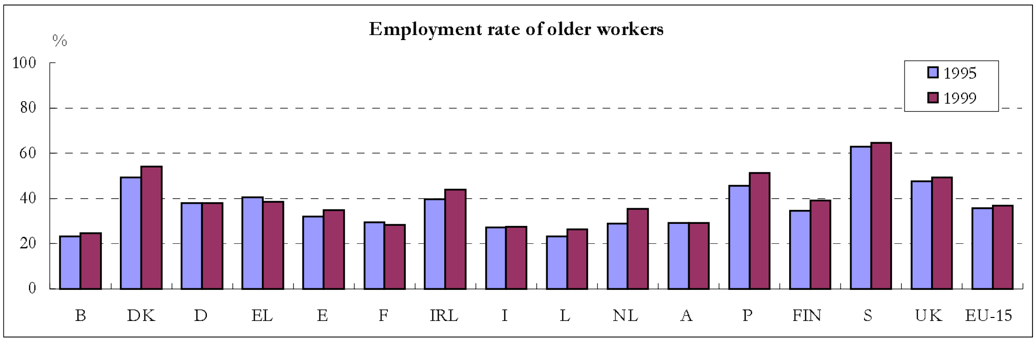
Source: EVCA and FIBV.

Graph 9: **Labour market situation in the EU**









Source: Commission services.

Table 1: **Evolution in estimates of government budgets for 2000***

	Stability/ Convergence Programme* [1]		**Estimated outturn** [2]		**Difference**	
	Real GDP growth (% change)	Budget balance (% GDP)	Real GDP growth (% change)	Budget balance (% GDP)	Real GDP growth (% change)	Budget balance (% GDP)
B	2.5	-1.0	3.9	-0.0	1.4	1.0
D	2½	-1.0 [3]	3.0	-1.0	0.5	0.0
E	3.7	-0.8	4.1	-0.3	0.4	0.5
F	3.0	-1.7	3.3	-1.4	0.3	0.3
IRL	7.4	3.3	10.5	4.5	3.1	1.2
I	2.2	-1.5	2.9	-1.5	0.7	0.0
L	4.9	2.5	8.5	4.9	3.6	2.4
NL	2½	-0.6	3.9	1.3	1.4	1.9
A	2.8	-1.7	3.5	-1.5	0.7	0.2
P	3.3	-1.5	3.0	-1.7	-0.3	-0.2
FIN	3.9	4.7	5.7	6.7	1.8	2.0
Euro area	2.8	-1.0	3.5	-0.7	0.7	0.3
DK	1.6	2.1	2.6	2.5	1.0	0.4
EL	3.8	-1.2	4.1	-0.9	0.3	0.3
S	3.0	2.1	4.0	4.0	1.0	1.9
UK	2 1/4 [4]	0.2 [4]	3.0	2.1	3/4 [5]	1.9 [5]
EU-15	2.7	-0.7	3.4	0.0	0.7	0.7

* Excluding UMTS proceeds.
1) First round of updates of late 1999/early 2000.
2) Commisson services Autumn 2000 Economic Forecasts or provisional outturn data.
3) Addendum of 1 February 2000.
4) Financial year.
5) Indicative, since comparison between financial year and calendar year figures.
Source: Commission services.

Table 2: **Change in actual and cyclically-adjusted budget balances in 2000 ***
(% of GDP)

	Actual balance 2000 1)	Change in balance 99/00	Change in balance due to:			Change in balance due to:		Change in CAB due to:	
			Change revenues	Change primary exp.	Change interest exp.	Change cyclical comp.	Change CAB	Change interest exp.	Change primary CAB
	1	2 = 3 - 4 - 5 = 6 + 7	3	4	5	6	7 = -5 + 9	5	9
B	-0.0	0.7	-0.2	-0.7	-0.2	0.7	0.0	-0.2	-0.1
D	-1.0	0.4	0.1	-0.2	-0.1	0.5	-0.1	-0.1	-0.2
E	-0.3	0.9	0.1	-0.4	-0.2	0.3	0.5	-0.2	0.3
F	-1.4	0.4	-0.6	-0.8	-0.1	0.3	0.0	-0.1	-0.1
IRL	4.5	2.4	-1.2	-3.1	-0.4	0.6	1.7	-0.4	1.2
I	-1.5	0.3	-0.2	-0.4	-0.4	0.4	0.3	-0.4	-0.1
L	4.9	0.5	0.1	-0.5	0.0	1.1	-0.6	0.0	-0.6
NL	1.3	0.3	-0.3	0.0	-0.5	0.5	-0.3	-0.5	-0.8
A	-1.5	0.6	-0.9	-1.2	-0.1	0.2	0.2	-0.1	0.1
P	-1.7	0.3	2.0	1.9	0.0	0.0	0.1	0.0	0.1
FIN	6.7	4.9	0.0	-2.0	-0.3	0.4	2.0	-0.3	2.1
Euro Area	-0.7	0.6	-0.2	-0.5	-0.2	0.4	0.1	-0.2	-0.1
DK	2.5	-0.6	-1.5	-1.0	-0.3	0.1	-0.3	-0.3	-0.6
EL	-0.9	0.9	0.6	-0.1	-0.3	0.3	0.7	-0.3	0.4
S	4.0	2.2	-1.7	-2.1	-1.3	0.7	1.0	-1.3	-0.3
UK	2.1	0.8	0.1	-0.4	-0.3	0.2	0.6	-0.3	0.3
EU-15	0.0	0.6	-0.2	-0.6	-0.3	0.4	0.3	-0.3	0.0

* Excluding UMTS.

1) Estimated outturn: Commission services Autumn 2000 Economic Forecasts or provisional outturn data. Most recently available information has been used for columns 1 and 2. Due to imcompleteness of recent information, the remainder of the table is based on the Commission services Autumn 2000 Economic Forecasts and columns 3 to 9 may not add up to column 2.

Source: Commission services.

Table 3: **Projections for general government surplus(+)/deficit(-)**
(% of GDP)

	Date [1]	1999	2000 [2]	2001 [2]	2002	2003	2004
				Stability programmes			
B	SP 12/-99	-1.1	-1.0	-0.5	0.0	0.2	
	UD 12/-00	-0.7	-0.1	0.2	0.3	0.5	0.6 [3]
D	SP 12/-99 [6]	-1.2	-1	-1½	-1	-½	
	UD 10/-00	-1.4	1½(-1)	-1½	-1	-½	0
EL	CP 12/-99	-1.5	-1.2	-0.2	0.2		
	SP 12/-00	-1.8	-0.8	0.5	1.5	2.0	2.0
E	SP 01/-00	-1.3	-0.8	-0.4	0.1	0.2	
	UD 01/-01	-1.1	-0.3	0.0	0.2	0.3	0.3
F	SP 01/-00	-2.1	-1.7	-1.2 [7]	-0.7 [7]	-0.3 [7]	
	UD 12/-00	-1.8	-1.4	0.1(-1.0)	-0.6	-0.4	0.3(0.2) [8]
IRL	SP 12/-99 [9]	1.4	3.3	2.8	2.9		
	UD 12/-00	2.1	4.7	4.3	3.8	4.6	
I	SP 01/-00	-2.0	-1.5	-1.0	-0.6	-0.1	
	UD 12/-00	-1.9	-0.1(-1.3)	-0.8	-0.5	0.0	0.3
L	SP 02/-00	2.3	2.5	2.6	2.9	3.1	
	UD 12/-00	4.4	3.0	2.6	2.5	2.5	
NL	SP 11/-99	-0.6	-0.6	-1.3 [10]	-1.1 [10]		
	UD 09/-00	1.0	1.7(1.0)	0.7	0.6 [11]	1.1 [11]	1.9 [11]
A	SP 03/-00	-2.0	-1.7	-1.5	-1.4	-1.3	
	UD 12/-00	-2.1	-1.4(-1.8)	-0.75	0.0	0.0	0.0
P	SP 02/-00	-2.0	-1.5	-1.1	-0.7	-0.3	0.0
	UD 01/-01	-2.0	-1.5(-1.9)	-1.1	-0.7	-0.3	0.0
FIN	SP 09/-99	3.1	4.7	4.2	4.6	4.7	
	UD 09/-00	1.9	4.5	4.7	4.4	4.5	4.9
Euro area	SP -99	-1.4	-1.0	-1.0	-0.6	-0.3	
	UD -00	-1.3	0.3(-0.7)	-0.4(-0.6)	-0.3	0.1	0.4
				Convergence programmes			
DK	CP 12/-99	2.9	2.1	2.2	2.3	2.5	2.6 [4]
	UD 12/-00	2.8	2.7	2.8	2.6	2.6	2.7 [5]
S	CP 11/-99	1.7	2.1	2.0	2.0		
	UD 11/-00	1.9	3.4	3.5	2.0	2.0	
UK	CP 12/-99 [12]	0.3	0.2	0.2	-0.1	-0.4	-0.5
	UD 12/-00 [12]	1.8	1.1	0.6	-0.1	-0.9	-1.0 [13]
EU-15	C/SP -99	-0.9	-0.7	-0.7	-0.4	-0.1	
	UD -00	-0.6	0.6(-0.2)	0.0(-0.2)	-0.1	0.0	0.2

CP = convergence programme; SP = stability programme; UD = updated stability/convergence programme; 1) Dates of adoption by Member States government of its first and second updated stability or convergence programme or date of adoption of national budget proposal (NB) for 2001. 2) Government balances in 2000 or 2001 are affected by receipts from the sale of UMTS licences in several countries. Where relevant and where information is available, two figures are shown: the first includes the proceeds from UMTS licences and the second (in brackets) excludes these proceeds. 3) Government surplus of 0.7% of GDP projected for 2005. 4) Government surplus of 2.8% of GDP projected for 2005. 5) Government surplus of 2.9% of GDP projected for 2005. 6) Addendum to the updated stability programme as of 1 February 2000. 7) Government deficit of 1.3% of GDP in 2001, 0.9% in 2002, and 0.5% of GDP in 2003 projected if international environment less favourable (annual GDP growth rate of 2.5%). 8) Government deficit of 0.5% of GDP in 2004 projected in more prudent growth scenario. 9) From 2000 onwards excludes pensions prefunding and associated once off costs. 10.) Cautious scenario; the middle scenario projects a deficit of ¾% of GDP in 2001, ¼% in 2002 ; the favourable scenario projects a deficit of ½% of GDP in 2001 and a balanced government deficit (0% of GDP) in 2002. 11) Favourable scenario, with margin available used for debt reduction; in the cautious scenario, with margin available used for debt reduction, the government surplus is projected to be 0.3% of GDP in 2002 and in 2003 and 0.6% in 2004. 12) Financial years. 13) A government deficit of 1.1% of GDP is projected for 2005-06.
Source: National stability and convergence programmes and Commission services.

Table 4: **Wage developments in 2000**
(Annual percentage change)

	Nominal compensation per employee	Real wages 1)	Labour productivity	NULC 2)	RULC 3)
B	3.2	2.7	2.6	0.6	0.1
D	1.2	1.6	1.5	-0.3	0.0
E	3.4	0.1	1.0	2.4	-0.9
F	1.5	0.7	1.3	0.2	-0.6
IRL	7.7	3.2	5.2	2.4	-1.9
I	2.6	0.7	1.5	1.0	-0.8
L	5.0	3.3	2.2	2.8	1.1
NL	4.2	1.9	1.6	2.6	0.3
A	2.1	1.3	2.6	-0.5	-1.2
P	5.4	3.6	1.5	3.9	2.1
FIN	4.1	0.9	2.8	1.2	-1.9
Euro area	2.3	1.1	1.6	0.7	-0.5
DK	4.2	1.3	1.7	2.4	-0.4
EL	4.6	2.2	2.9	1.6	-0.6
S	4.0	2.7	2.0	1.9	0.7
UK	4.1	1.7	2.2	1.9	-0.4
EU-15	2.7	1.3	1.7	1.0	-0.4

1) Nominal compensation adjusted by the GDP deflator.
2) Nominal unit labour costs.
3) Real unit labour costs.
Source: Commission services.