



**COUNCIL OF
THE EUROPEAN UNION**

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NOTE

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| from: | The General Secretariat of the Council |
| to: | Delegations |
| Subject: | Recommendation for a Council Recommendation on broad guidelines for the economic policies of the Member States and of the Union - Draft report to the European Council |

Delegations will find attached the Recommendation for a Council Recommendation on broad guidelines for the economic policies of the Member States and of the Union as agreed by the EPC and the EFC.

Encl.:

Recommendation for a

COUNCIL RECOMMENDATION

on broad guidelines for the economic policies of the Member States

and of the Union

EXPLANATORY MEMORANDUM

On 26 March 2010, the European Council agreed to the European Commission's proposal to launch a new strategy for jobs and growth, Europe 2020¹, based on enhanced coordination of economic policies, which will focus on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness. To that end, the European Council agreed to set EU headline targets, which constitute shared objectives guiding action of the Member states and of the Union. In the light of these targets, Member States will set their national targets in time for their National Reform Programmes. For its part, at EU level, the Commission will work to implement the strategy, notably through its seven 'flagship initiatives', which have been announced in the Europe 2020 Communication.

The Treaty on the functioning of the EU provides that Member States are to regard their economic policies and promoting employment as matters of common concern and coordinate them within the Council. In two distinct articles, it provides that the Council is to adopt broad economic policy guidelines (Article 121) and employment guidelines (Article 148), specifying that the latter must be consistent with the former. Given this legal basis, the guidelines for employment and economic policies are presented as two distinct — but intrinsically interconnected — legal instruments:

- A Council Recommendation on broad guidelines for the economic policies of the Member States and of the Union -Part I of the Europe 2020 Integrated Guidelines;
- A Council Decision on guidelines for the employment policies of the Member States –Part II of the Europe 2020 Integrated Guidelines.

These guidelines implemented by the above mentioned legal instruments form together the integrated guidelines for implementing the Europe 2020 strategy.

¹ COM(2010) 2020, 3.3.2010

The "Europe 2020 Integrated Guidelines" set out the framework for the Europe 2020 strategy and reforms at Member State level. To ensure coherence and clarity, the guidelines are limited in number and reflect the European Council conclusions. The guidelines are integrated to ensure that national and EU-level policies contribute fully to achieving the objectives of the Europe 2020 strategy. Following them in a synchronised manner will help Member States reap the positive spill-over effects of coordinated structural reforms, particularly within the euro area.

On this basis, Member States will draw up National Reform Programmes setting out in detail the actions they will take under the new strategy, with a particular emphasis on efforts to meet the national targets and on measures to remove the bottlenecks that constrain sustainable growth at national level. Building on monitoring by the Commission and work done in the Council, the European Council will assess every year the overall progress achieved both at EU and at national level in implementing the strategy. Macroeconomic, structural, and competitiveness developments and overall financial stability will be examined simultaneously. The timing of reporting and assessment of the National Reform Programmes and Stability and Convergence Programmes should be better aligned, in order to enhance overall consistency of policy advice to Member States. The instruments will however be kept clearly separate.

The Europe 2020 Integrated Guidelines" are the following:

Guideline 1: Ensuring the quality and the sustainability of public finances

Guideline 2: Addressing macroeconomic imbalances

Guideline 3: Reducing imbalances in the euro area

Guideline 4: Optimising support for R&D and innovation, strengthening the knowledge triangle and unleashing the potential of the digital economy

Guideline 5: Improving resource efficiency and reducing greenhouse gases

Guideline 6: Improving the business and consumer environment and modernising the industrial base in order to ensure the full functioning of the internal market

Guideline 7: Increasing labour market participation and reducing structural unemployment

Guideline 8: Developing a skilled workforce responding to labour market needs, promoting job quality and lifelong learning

Guideline 9: Improving the performance of education and training systems at all levels and increasing participation in tertiary education

Guideline 10: Promoting social inclusion and combating poverty

Recommendation for a
COUNCIL RECOMMENDATION
on broad guidelines for the economic policies of the Member States and of the Union

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121(2) thereof,

Having regard to the recommendation from the European Commission,

Having regard to the conclusions of the European Council,

Whereas:

- (1) The Treaty provides that Member States are to regard their economic policies as a matter of common concern and to coordinate them within the Council. In accordance with Treaty provisions, the European Union has developed and implemented policy coordination instruments for fiscal policy (the Stability and Growth Pact) and macrostructural policies.
- (2) The Treaty provides that employment guidelines and broad economic policy guidelines are to be adopted by the Council to guide Member States' policies.
- (3) The Lisbon Strategy, launched in 2000, was based on an acknowledgement of the EU's need to increase employment, productivity and competitiveness, while enhancing social cohesion, in the face of global competition, technological change, environmental challenges and an ageing population. The Lisbon Strategy was re-launched in 2005, after a mid-term review which led to greater focus on growth, more and better jobs.

- (4) The Lisbon strategy for growth and jobs helped forge consensus around the broad direction of the EU's economic and employment policies. Under the strategy, both broad economic policy guidelines and employment guidelines were adopted by the Council in 2005² and revised in 2008³. The 24 guidelines laid the foundations for the national reform programmes, outlining the key macro-economic, micro-economic and labour market reform priorities for the EU as a whole. However, experience shows that the guidelines did not set clear enough priorities and that links between them could have been stronger. This limited their impact on national policy-making.
- (5) The financial and economic crisis that started in 2008 resulted in a significant loss in jobs and potential output and has led to a dramatic deterioration in public finances. The European Economic Recovery Plan⁴ has nevertheless helped Member States to deal with the crisis, partly through a coordinated fiscal stimulus, with the euro providing an anchor for macroeconomic stability. The crisis therefore showed that EU economic policy coordination can deliver significant results if it is strengthened and rendered effective. The crisis also underscored the close interdependence of the Member States' economies and labour markets.
- (6) The Commission proposed to set up a new strategy for the next decade, the Europe 2020 Strategy⁵, to enable the Union to emerge stronger from the crisis, and to turn its economy towards smart, sustainable and inclusive growth. Five headline targets, listed under the relevant guidelines, constitute shared objectives guiding the action of the Member States, taking account of their relative starting positions and national circumstances, and of the Union. Member States should make every effort to meet the national targets and to remove the bottlenecks that constrain growth.

² COM(2005)141

³ COM(2007)803

⁴ COM(2009)615, 19.11.2009

⁵ COM(2010) 2020, 3.3.2010

- (7) As part of comprehensive ‘exit strategies’ for the economic crisis, Member States should carry out ambitious reform programmes to ensure macroeconomic stability and the sustainability of public finance, improve competitiveness, and reduce macroeconomic imbalances and enhance labour market performance. Temporary measures introduced in response to the crisis should be withdrawn in a coordinated manner as appropriate when the recovery is secure. The withdrawal of the fiscal stimulus should be implemented and coordinated within the framework of the Stability and Growth Pact.
- (8) Within the Europe 2020 strategy, Member States and the European Union should implement reforms aimed at ‘smart growth’, i.e. growth driven by knowledge and innovation. Reforms should aim at improving the quality of education, ensuring access for all, strengthening research and business performance, and further improving the regulatory framework in order to promote innovation and knowledge transfer throughout the EU. They should encourage entrepreneurship and help to turn creative ideas into innovative products, services and processes that can create growth, quality jobs, territorial, economic and social cohesion, and address more efficiently European and global societal challenges. Making the most of information and communication technologies is essential in this context.
- (9) The policies of the European Union and of Member States, including through their reform programmes, should aim at ‘sustainable growth’. Sustainable growth means decoupling economic growth from use of resources, building an energy and resource-efficient, sustainable and competitive economy, a fair distribution of the cost and benefits and exploiting Europe’s leadership in the race to develop new processes and technologies, including green technologies. Member States and the European Union should implement the necessary reforms to reduce greenhouse gases emissions and use resources efficiently, which will also assist in preventing environmental degradation and biodiversity loss. They should also improve the business environment, stimulate creation of green jobs and help enterprises modernizing their industrial base.

- (10) The policies of the European Union and Member States' reform programmes should finally also aim at 'inclusive growth'. Inclusive growth means building a cohesive society in which people are empowered to anticipate and manage change, thus to actively participate in society and economy. Member States' reforms should therefore ensure access and opportunities for all throughout the lifecycle, thus reducing poverty and social exclusion, through removing barriers to labour market participation especially for women, older workers, young people, disabled and legal migrants.

They should take into account the gender perspective in all these policies. They should also make sure that the benefits of economic growth reach all citizens and all regions. Ensuring effective functioning of the labour markets through investing in successful transitions, appropriate skills development, rising job quality and fighting segmentation, structural unemployment and inactivity while ensuring adequate and sustainable social protection and active inclusion to reduce poverty, while at the same time adhering to agreed fiscal consolidation, should therefore be at the heart of Member States' reform programmes.

- (11) As an essential element, Member States and the Union should continue and expand their efforts to further improve their regulatory framework, especially for European enterprises. By strengthening their smart regulation instruments, Member States and the Union should guarantee that legislation is well-designed, proportionate, regularly reviewed and does not cause unnecessary burdens. Achievement of the administrative burdens reduction targets remains a priority.
- (12) The EU's and Member States' structural reforms can effectively contribute to growth and jobs if they enhance the EU's competitiveness in the global economy, open up new opportunities for Europe's exporters and provide competitive access to vital imports. Reforms should therefore take into account their external competitiveness implications to foster European growth and participation in open and fair markets worldwide.

- (13) The Europe 2020 strategy has to be underpinned by an integrated set of European and national policies, which Member States and the European Union should implement fully and at a similar pace, in order to achieve the positive spill-over effects of coordinated structural reforms, and more consistent contribution from European policies to the Strategy's objectives, taking into account national starting positions.
- (14) While these guidelines are addressed to Member States and the European Union, the Europe 2020 strategy should be implemented in partnership with all national, regional and local authorities, closely associating parliaments, as well as social partners and representatives of civil society, who shall contribute to the elaboration of national reform programmes, to their implementation and to the overall communication on the strategy.
- (15) The Europe 2020 strategy is underpinned by a smaller set of guidelines, replacing the previous set of 24 and addressing employment and broad economic policy issues in a coherent manner. The guidelines for the economic policies of the Member States and of the Union, annexed to this Recommendation, are intrinsically linked with the guidelines for employment policies annexed to Council Decision [...] of [...]. Together, they form the 'Europe 2020 integrated guidelines'.
- (16) These new integrated guidelines are in line with the conclusions of the European Council. They give precise guidance to the Member States on defining their national reform programmes and implementing reforms, reflecting interdependence and in line with the Stability and Growth Pact. The guidelines will form the basis for any country-specific recommendations that the Council may address to the Member States, or, in the case of the broad guidelines on economic policies, for policy warnings that the Commission may issue in cases of insufficient follow-up to the respective country-specific recommendations.

(17) These guidelines should remain stable until 2014 to ensure a focus on implementation,

HAS ADOPTED THIS RECOMMENDATION:

- (1) Member States and, where relevant, the EU should take into account in their economic policies the guidelines set out in the Annex.
- (2) Member States should design national reform programmes consistent with the objectives set out in the ‘Europe 2020 integrated guidelines’.

Done at Brussels,

For the Council

The President

Broad guidelines for the economic policies of the Member States and of the Union***Guideline 1: Ensuring the quality and the sustainability of public finances***

Member States should vigorously implement budgetary consolidation strategies under the Stability and Growth Pact (SGP) and in particular recommendations addressed to Member States under the excessive deficit procedure, and/or in memoranda of understanding, in the case of balance-of-payments support. In particular Member States should achieve consolidation in line with Council recommendations and meet their medium-term objectives in line with the SGP. Without prejudice to the legal framework of the SGP, this implies for most Member States achieving a consolidation well beyond the benchmark of 0.5 % of gross domestic product (GDP) per year in structural terms until debt ratios are on a solid declining path. Fiscal consolidation should start in 2011 at the latest, earlier in some Member States where economic circumstances make this appropriate, provided that the Commission forecasts continue to indicate that the recovery is strengthening and becoming self-sustaining.

In designing and implementing budgetary consolidation strategies should focus on expenditure restraint and prioritise growth-enhancing expenditure items within for example areas such as education, skills and employability, research and development (R&D) and innovation and investment in networks with positive impacts on productivity, where appropriate for example high-speed internet, energy and transport interconnections and infrastructure. Where taxes may have to rise, this should, where possible, be done in conjunction with measures to make tax systems more employment, environment and growth-friendly for example by shifting the tax burden towards environmentally harmful activities. Tax and benefits systems should provide better incentives to make work pay.

Furthermore, Member States should strengthen national budgetary frameworks, enhance the quality of public expenditure and improve the sustainability of public finances, pursuing in particular determined debt reduction, reform of age-related public expenditure, such as pensions and health spending, and policies contributing to raising employment and effective retirement ages to ensure that age-related public expenditure and social well-fare systems are financially sustainable.

Budget efficiency and quality of public finances are also important at the EU level.

Guideline 2: Addressing macroeconomic imbalances

Member States should avoid unsustainable macroeconomic imbalances, arising notably from developments in current accounts, asset markets and the balance sheets of the household and corporate sectors. Member States with large current account imbalances rooted in a persistent lack of competitiveness or due to other reasons should address the underlying causes by acting for example on fiscal policy, on wage developments, on structural reforms relating to product and financial services markets (including the flow of productivity enhancing capital), on labour markets, in line with the employment guidelines, or on any other relevant policy area. In this context, Member States should encourage the right framework conditions for wage bargaining systems and labour cost developments consistent with price stability, productivity trends over the medium-term and the need to reduce macroeconomic imbalances. Where appropriate, adequate wage setting in the public sector should be regarded as an important signal to ensure wage moderation in the private sector in line with the need to improve competitiveness. Wage setting frameworks, including minimum wages, should allow for wage formation processes that take into account differences in skills and local labour market conditions and respond to large divergences in economic performance across regions, sectors and companies within a country. The social partners have an important role to play in this context. Member States with large current account surpluses should pursue measures aimed at implementing structural reforms conducive to strengthening potential growth and thereby also underpinning domestic demand. Addressing macro-economic imbalances would also help achieving economic cohesion.

Guideline 3: Reducing imbalances within the euro area

Euro area Member States should regard large and persistent divergences in current account positions and other macroeconomic imbalances as a matter of common concern and take urgent action to reduce the imbalances where necessary. Action is required in all euro area Member States, but the nature, importance and urgency of the policy challenges differ significantly depending on the countries considered. Given vulnerabilities and the magnitude of the adjustment required, the need for policy action is particularly pressing in Member States showing persistently large current account deficits and large competitiveness losses. They should achieve a significant permanent reduction of the current account deficit. These Euro area Member States should also aim to reduce unit labour costs taking into account productivity developments at regional, sector and company level, and enhance competition in product markets. Euro area Member States with large current account surpluses should pursue measures aimed at implementing structural reforms conducive to strengthening potential growth and thereby also underpinning domestic demand. Similarly, the Euro area Member States should act on any other macroeconomic imbalances such as excessive private debt accumulation and inflation divergence. Institutional barriers to flexible adjustments of prices and wages to market conditions should be removed. Macroeconomic imbalances should be closely monitored within the Eurogroup, which should propose remedial actions when needed.

Guideline 4: Optimising support for R&D and innovation, strengthening the knowledge triangle and unleashing the potential of the digital economy

Member States should review national (and regional) R&D and innovation systems, ensuring effective and adequate framework conditions for public investment within the budgetary consolidation strategies under the Stability and Growth Pact (Guideline 1), and orienting them towards higher growth while addressing where appropriate major societal challenges (including energy, resource efficiency, climate change, biodiversity, social and territorial cohesion, ageing, health, and security) cost-effectively. In particular, public investment should serve to leverage private R&D financing. The reforms should foster excellence and smart specialisation, promote scientific integrity, reinforce cooperation between universities, research institutes, public, private and third sector players, both domestically and internationally and ensure the development of infrastructures and networks that enable knowledge diffusion. The governance of research institutions should be improved to make national research systems more cost-effective and productive. To this end university-based research should be modernised, world class infrastructures developed and made accessible, attractive careers and mobility of researchers and students promoted. Funding and procurement schemes should be adapted and simplified, helping where appropriate to facilitate cross-border cooperation, knowledge transfer and merit-based competition, building on synergies and achieving greater value.

Member States' R&D and innovation policies should directly address national opportunities and challenges and should take into account the EU context in order to enhance opportunities for pooling public and private resources in areas with EU value added, exploiting synergies with EU funds, thus achieving sufficient scale and avoiding fragmentation. Member States and the European Union should integrate innovation in all relevant policies and promote innovation in a broad sense (including non-technological innovation). With a view to promoting private investment in research and innovation, Member States and the European Union should improve framework conditions — notably with regard to the business environment, competitive and open markets, and the high economic potential of the cultural and creative industries — combine, as appropriate, cost-effective fiscal incentives, depending on each Member State's fiscal room for maneuver, and other financial instruments with measures to facilitate access to private finance (including risk-capital) and simplify access for SMEs, boost demand, in particular in eco-innovation, (where appropriate through green public procurement and interoperable standards), promote innovation-friendly markets and regulations, and provide efficient, affordable and effective protection and management of intellectual property. All three sides of the triangle (education-research-innovation) should mutually support and feed into each other. In line with guidelines 8 and 9, Member States should equip people with a broad range of skills needed for innovation in all its forms, including eco-innovation, and should seek to ensure a sufficient supply of science, mathematics and technology graduates.

Member States and the EU should put in place appropriate framework conditions for the rapid development of a digital single market offering widely accessible online contents and services. Member States should promote the roll-out and take up of high-speed internet as an essential mean for accessing to knowledge and participating in its creation. Public funding should be cost-efficient and targeted to address market failures. Policies should respect the principle of technological neutrality. Member States should seek to reduce the costs of network roll-out, in particular by enhancing the coordination of public works. Member States and the EU should promote the deployment and use of modern accessible online services, including by further developing e-government, e-signature, e-identity and e-payment; support active participation in the digital society, in particular by promoting access to cultural content and services including through media and digital literacy; and promote a climate of security and trust.

The EU headline target, on the basis of which Member States will set their national targets, is to improve the conditions for research and development, in particular with the aim of bringing combined public and private investment levels in this sector to 3% of GDP by 2020. The Commission will elaborate an indicator reflecting R&D and innovation intensity.

Guideline 5: Improving resource efficiency and reducing greenhouse gases

Member States and the European Union should put measures in place to promote the decoupling of economic growth from resource use, turning environmental challenges into growth opportunities and making more efficient use of their natural resources, which also assists in preventing environmental degradation and ensuring biodiversity. They should implement the necessary structural reforms to be successful under increasing global carbon and resource constraints in creating new business and employment opportunities. The EU and Member States should make further efforts to speed up the creation of an integrated and fully functioning internal energy market to enable gas and electricity flows without bottlenecks. In order to reduce emissions and improve energy efficiency, Member States should make extensive use of market-based instruments, supporting the principle of internalization of external costs, including taxation, and other effective support instruments in order to reduce emissions and better adapt to climate change, support sustainable growth and jobs and resource efficiency in a cost-effective manner, incentivise the use of renewable energy and low-carbon climate-resilient technologies, a shift to more environmentally friendly and interconnected modes of transport and promote energy savings and eco-innovation. Member States should phase out environmentally harmful subsidies and ensure fair distribution of their costs and benefits. Member States and the European Union should use regulatory, non-regulatory and fiscal instruments, for example EU-wide energy performance standards for products and buildings, labeling, and ‘green procurement’, to incentivise cost-effective transition of production and consumption patterns, promote recycling,

make the transition to energy- and resource-efficiency and a safe and sustainable low-carbon economy, and ensure progress towards more sustainable transport and safe and clean energy production while maximising European synergies in this respect and take into account the contribution of sustainable agriculture. Member States should decisively work towards smart, upgraded and fully interconnected transport and energy infrastructures, use Information and Communication Technologies, in line with guideline 4, to secure productivity gains, ensure coordinated implementation of infrastructure projects and support the development of open, competitive and integrated network markets.

The EU headline target, on the basis of which Member States will set their national targets, is to reduce by 2020 greenhouse gas emissions by 20% compared to 1990 levels; to increase the share of renewable energy sources in our final energy consumption to 20%; and moving towards a 20% increase in energy efficiency; the EU is committed to take a decision to move to a 30% reduction by 2020 compared to 1990 levels as its conditional offer with a view to a global and comprehensive agreement for the period beyond 2012, provided that other developed countries commit themselves to comparable emission reductions and developing countries contribute adequately according to their responsibilities and respective capabilities.

Guideline 6: Improving the business and consumer environment, and modernising and developing the industrial base in order to ensure the full functioning of the internal market.

Member States should ensure that markets work for citizens, consumers and businesses. While ensuring the protection of consumers, Member States and the European Union should put in place predictable framework conditions and ensure well-functioning, open and competitive goods and services markets. In particular, these actions should aim for the deepening the single market and regulation system, notably in the financial sector, as well as the promotion of a level playing field in financial markets at global level, effective implementation and enforcement of single market and competition rules and developing the necessary physical infrastructure, also with a view of reducing regional disparities.

The external dimension of the internal market should be further developed with the aim of enhanced trade and investment. In the context of the single market due attention must be paid to respecting the adequate provision of services of general interest. Member States should continue to improve the business environment by modernising public administrations, improving corporate governance, removing remaining barriers to the internal market, eliminating unnecessary administrative burdens and avoid unnecessary new burdens by applying smart regulation instruments, including by developing further inter-operable e-government services, removing tax obstacles, supporting small and medium-sized enterprises (SMEs), improving their access to the Single Market in line with the ‘Small Business Act for Europe’ and the ‘Think Small First’ principle, ensuring stable and integrated financial services markets, facilitating access to finance, improving conditions for promoting access to and protecting intellectual property rights, supporting internationalisation of SMEs and promoting entrepreneurship, including female entrepreneurship. Public procurement should encourage innovation, particularly for SMEs, and support the transition toward a resource- and energy-efficient economy (in line with Guideline 5), while respecting the principles of market-openness, transparency and effective competition.

Member States should support a modern, innovative, diversified, competitive, low-carbon, resource- and energy-efficient industrial base, partly by facilitating any necessary restructuring in a cost-effective manner and in full compliance with EU competition rules and other relevant rules. EU funds should be reprioritised by Member States in this context. Member States should work closely with industry and stakeholders to contribute to EU leadership and competitiveness in global sustainable and inclusive development, particularly by encouraging corporate social responsibility, identifying bottlenecks and enabling change.