

UNICE RESPONSE

**TO THE COMMISSION'S RECOMMENDATION FOR THE
2002 BROAD ECONOMIC POLICY GUIDELINES**

Economic outlook

The Broad Economic Policy Guidelines (BEPG) for 2002 reflect the consequences of the global economic slowdown in 2001 and the recent improvement in the international economic situation. The GDP growth in the euro area is estimated at 1.4% in the Commission's Spring Economic Forecasts. It is expected to accelerate in the second half of 2002, reaching 2.9% in the course of 2003. The euro area recovery, relying on the US growth and the world trade increases, will be modest in 2002. However, the fact that the EU is free of any macroeconomic imbalances creates a platform for a sustainable pick up.

UNICE's view on the current recovery is more cautious. The improvement in the business climate is recognised by UNICE members, as shown in the March 2002 Economic Outlook. However, the positive expectations towards the future economic developments are met with more negative assessment of the current situation. The business is still waiting to see the renewed upswing in the hard facts on sales and profits. Overall, business recognises the signs of recovery in Europe but expects the upswing to be weak in 2002.

One cannot forget about the risks that could undermine the recovery process in Europe:

- US imbalances: internally, pronounced private sector savings deficit is now coupled with a budget deficit due to very expansionary fiscal policy. Externally, this imbalance translates into a worrying current account deficit, which is not sustainable in the long term. Concerns arise about the possible volatility of the euro/ dollar exchange rate.
- Increasing oil prices with possible negative supply side effects
- End of wage moderation in Europe, which could become a serious danger for renewed investments and job creation.
- Escalation of the EU-US trade conflict: it could undermine the WTO system and harm world trade.

Therefore, the policy response should make the European economy fit to face these risks, in case any of them materialises.

Broad Economic Policy Guidelines 2002

UNICE broadly welcomes the tone and the content of the BEPG 2002. UNICE supports their focus on maintaining a stable macroeconomic environment and the implementation of much needed structural reforms. In particular, we welcome the importance attached to Member States achieving balanced fiscal positions. Sound public finances are a pre-condition for a successful response to the ageing problem.

1. Ensure growth and stability-oriented macroeconomic policies

The business community sees no justification for any relaxation of the Stability and Growth Pact and welcomes the Commission's insistence to its strict adherence. UNICE supports achieving balanced budgets by 2004 and no later. The Stability and Growth Pact is only credible if backed by credible policies of the governments that created it. Commitments to fiscal consolidation need to be respected. We support proceeding with budgetary consolidation in order to gain the room of manoeuvre that a balanced position offers. The moderate recovery under way offers an opportunity to achieve that, and this opportunity should not be missed. A balanced fiscal stance will make the European economy better equipped to respond to future external shocks.

Monetary policy, in hands of the European Central Bank and geared towards price stability, is an important pillar of a stable macroeconomic environment in which business can operate. Any ambiguity regarding implementation of the Stability and Growth Pact in the BEPG would have consequences for the effectiveness of the monetary policy.

Wage moderation is a necessary contribution to macroeconomic stability and employment-oriented policy mix. We agree with the Commission stance that wage and productivity developments should be aligned, and that wage increases should take into account price stability.

Any discussion on streamlining the processes of economic policy co-ordination will be welcomed by UNICE. As a social partner we believe that we should also be involved in any discussion on future framework for economic policy management.

2. Population ageing should be considered a medium-term problem, not a long-term one. We need a bigger active population to generate enough income to distribute to growing inactive population. Consolidating budgets is essential for public finances to be able to respond to the ageing challenge. Achieving balanced budgets by 2004 is particularly important in this respect. UNICE welcomes a more comprehensive approach to the ageing question in BEPG 2002, which involves action in three areas: public debt reduction, pension system reform, and increasing employment rates. To this end, sustainable pension schemes should be in place in all Member States by the end of 2002. We also call upon the Member States to follow the Commission's recommendations and to pursue implementation of the Barcelona Summit conclusions regarding the increase in the effective retirement age. Member States should be encouraged to adopt directive on the IORP and to take forward the discussion on tax obstacles to the cross-border provision on pensions.

3. Invigorate labour markets

The Commission emphasises the need to reform tax and benefit systems to make work pay. Lowering non-wage labour costs needs to be addressed in order to create conditions in which companies can gainfully employ more workers. Employment prospects are not only influenced by the wage level, but also by the way labour markets function. Here, the timely implementation of labour markets reforms in all Member States is of crucial importance. More flexible labour markets should include not only the question of unemployment benefits, but also of flexible working time, work organisation, wage differentiation, mobility, appropriate education and training systems, and active labour market policies.

It is necessary to increase levels of employment and productivity in order to address the problem of ageing. Labour market policies geared towards activating unused labour potential need to be accompanied by further deregulation of product and services markets, to allow for productivity growth.

4. Strengthening conditions for high productivity growth

Full transposition of **internal market** directives should be a priority. Liberalising protected markets will create opportunities for investment and growth. Opening up the markets for public procurement will improve economic efficiency.

Without further integration of **financial markets**, the full benefits of the single market will not be realised. Ready access to the capital markets is essential for the vibrant economy. The priority should be given to implementation of the Financial Services Action Plan. We underline the importance of meeting the 2002 target date for adoption of the key directives listed in the BEPG.

Creating a **business-friendly environment** is crucial to promoting entrepreneurship, which in turn is necessary for growth and job creation. In particular, we support the Commission's efforts to reduce the tax obstacles to cross-border economic activity. As ever, we point to the need for simplification and shortening of procedures required to meet administrative regulations.

In order to have a competitive **knowledge-based economy**, Member States must recognise Europe's potential in areas of science and high technology, and provide a regulatory environment in which this can flourish. This includes facilitating the mobility of highly skilled workers, providing European business with a competitive Community patent and encouraging the development of the biotechnology. Education and training systems should become more market-responsive, in order to secure a match between skills demand and supply.

5. Sustainable development

The strategy for sustainable development must be a balance between three pillars: economic, social and environmental. In order to develop strategies which combine high environmental effectiveness and high economic efficiency, it is essential to create more space for co-regulation and negotiated agreements.