EUROPEAN COMMISSION

Brussels,
SEC(2010) 488/3

Recommendation for 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

{COM(2010) 193}

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 2020[1], 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 [have set] their national targets. 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.

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.

[1] COM(2010) 2020, 3.3.2010

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 emissions

Guideline 6: Improving the business and consumer environment and modernising the industrial base

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

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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 macro-structural 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 its productivity and competitiveness, while enhancing social cohesion, in the face of global competition, technological change 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 2005[2] and revised in 2008[3]. 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.

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[2] COM(2005)141

[3] COM(2007)803

(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 Plan[4] 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.

(6) The Commission proposed to set up a new strategy for the next decade, the Europe 2020 Strategy[5], 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 and of the Union. Member States should make every effort to meet the national targets and to remove the bottlenecks that constrain growth.

(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. Temporary measures introduced in response to the crisis should be withdrawn in a coordinated manner 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 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, and strengthening research and business performance 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) Member States should also, through their reform programmes, aim at 'sustainable growth'. Sustainable growth means decoupling economic growth from use of resources, building a 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 should implement the necessary reforms to reduce greenhouse gases emissions and use resources efficiently. They should also improve the business environment, stimulate creation of green jobs and modernise their industrial base.

(10) 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

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[4] COM(2009)615, 19.11.2009

[5] COM(2010) 2020, 3.3.2010

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 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, should therefore be at the heart of Member States' reform programmes.

(11) 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.

(12) The Europe 2020 strategy has to be underpinned by an integrated set of policies, which Member States should implement fully and at the same pace, in order to achieve the positive spill-over effects of coordinated structural reforms.

(13) While these guidelines are addressed to Member States, 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.

(14) 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'.

(15) These new integrated guidelines reflect 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.

(16) These guidelines should remain largely 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, which form part of the 'Europe 2020 integrated guidelines'.

(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

Annex:
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 implement budgetary consolidation strategies under the Stability and Growth Pact 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 a consolidation of well beyond the benchmark of 0.5 % of gross domestic product (GDP) per year in structural terms until medium-term budgetary objectives have been reached. 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, they should favour taxes that do not harm growth and employment and prioritise growth-enhancing expenditure items such as education, skills and employability, research and development (R&D) and innovation and investment in networks, for example high-speed internet, energy and transport interconnections. Where taxes may have to rise, this should, where possible, be done in conjunction with measures to make tax systems more growth-friendly by shifting the tax burden from labour to other tax bases, for example environmentally harmful activities. Tax and benefits systems should provide 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 through a three-pronged strategy consisting of a fast pace of debt reduction, reform of age-related public expenditure, such as health spending, and contributing to raising effective retirement ages to ensure that age-related public expenditure is financially viable, socially adequate and accessible.

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 prudential and taxation policies should address the underlying causes by acting on fiscal policy, on wage developments, on structural reforms relating to product and financial services markets, 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 and the need to reduce external imbalances. Wage developments should take into account differences in skills and local labour market conditions and respond to large divergences in economic performance across regions within a country.

Guideline 3: Reducing imbalances in 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 action to reduce the imbalances where necessary. Euro area Member States with large and persistent current account deficits that are rooted in a persistent lack of competitiveness should achieve a significant yearly reduction in structural terms. Those Euro area Member States should also aim to reduce real unit labour costs. Euro area Member States with large current account surpluses should pursue measures to remove structural impediments to private domestic demand. Similarly, the Euro area Member States should act on any other macroeconomic imbalances such as excessive private debt accumulation and inflation divergence. This is why macroeconomic imbalances should be regularly 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 adequate and effective public investment, and orienting them towards higher growth while addressing major societal challenges (for example energy, resource efficiency, climate change, social cohesion, ageing, health, and security). 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 effective. To this end university-based research should be modernised, world class infrastructures developed, attractive careers and mobility of researchers promoted. National funding and procurement schemes should be adapted and simplified to facilitate cross-border cooperation, knowledge transfer and merit-based competition.

Member States' R&D and innovation policies should be set within an 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 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 should improve framework conditions — notably with regard to the business environment, competitive and open markets — combine fiscal incentives and other financial instruments with measures to facilitate access to private finance (including risk-capital), boost demand, in particular in eco-innovation, (notably through public procurement and interoperable standards), promote innovation-friendly markets and regulations, and provide efficient, affordable and effective protection of intellectual property. 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, and should ensure a sufficient supply of science, mathematics and engineering graduates. School curricula should strive to support creativity, innovation, and entrepreneurship.

Member States should promote the roll-out and take up of high-speed internet as an essential mean for acceding to knowledge and participating in its creation. Member States should put in place appropriate framework conditions for the rapid development of a digital single market offering widely accessible online contents and services. Public funding, including EU funding instruments such as structural funds, agricultural and rural development funds, should be targeted on areas not fully served by private investment. Policies should respect the principle of technological neutrality. Member States should seek to reduce the costs of network roll-out, by coordinating public works; promote the deployment and use of modern accessible online services, including by further developing e-government, e-signature, e-identity and epayment; support active participation in the digital society, 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 that, by 2020, 3% of the EU's GDP should be invested in R&D. An indicator which would reflect R&D and innovation intensity is being developed.

Guideline 5: Improving resource efficiency and reducing greenhouse gases

Member States should decouple economic growth from resource use, turning environmental challenges into growth opportunities and making efficient use of their natural resources. They should implement the necessary structural reforms to be successful under increasing global carbon and resource constraints. In order to reduce emissions, Member States should make extensive use of market-based instruments, including taxation, to support green growth and jobs, incentivise the use of renewable energy and clean, climate-resilient technologies and promote energy savings and eco-innovation. Member States should phase out environmentally harmful subsidies and ensure fair distribution of their costs and benefits, limiting exceptions to people with social needs. Member States should use regulatory, non-regulatory and fiscal instruments, including energy performance standards for products and buildings, subsidies, preferential loans and ‘green procurement’, to incentivise cost-effective adaptation of production and consumption patterns, promote recycling, make the transition to resource-efficiency and a low-carbon economy and ensure progress towards decarbonising transport and energy production while maximising European synergies in this respect. Member States should develop 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. EU funds should be fully mobilised by Member States to support these objectives.

The EU headline target, on the basis of which Member States will set their national targets, is to reduce by 2020 greenhouse gases emissions by at least 20% compared to 1990 levels or by 30%, if the conditions are right[6]*; to increase the share of renewable energy sources in our final energy consumption to 20%; and to increase energy efficiency by 20%.*

Guideline 6: Improving the business and consumer environment and modernising the industrial base

Member States should ensure that markets work for citizens and consumers. Member States should put in place predictable framework conditions and ensure well-functioning, open and competitive goods and services markets, particularly through fostering the single market integration and effective implementation and enforcement of single market and competition rules and developing the necessary physical infrastructure. Member States should continue to improve the business environment by modernising public administrations, reducing administrative burdens, including by developing further inter-operable e-government services, removing tax obstacles, supporting small and medium-sized enterprises (SMEs) in line with

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[6] The European Council of 10-11 December 2009 concluded that as part of a global and comprehensive agreement for the period beyond 2012, the EU reiterates its conditional offer to move to a 30% reduction by 2020 compared to 1990 levels, provided that other developed countries commit themselves to comparable emission reductions and that developing countries contribute adequately according to their responsibilities and respective capabilities.

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 enforcing intellectual property rights, supporting internationalisation of SMEs and promoting entrepreneurship. Public procurement should be used to provide incentives to innovate, particularly for SMEs, while respecting the principles of market-openness, transparency and effective competition.

Member States should support a modern, diversified, competitive, resource- and energy-efficient industrial base, partly by facilitating any necessary restructuring in full compliance with EU competition rules and other relevant rules. EU funds should be fully mobilised 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 development, particularly by encouraging corporate social responsibility, identifying bottlenecks and anticipating and managing change.