EUROPEAN COMMISSION
DIRECTORATE GENERAL ECONOMIC AND FINANCIAL AFFAIRS

Quo vadis Lisbon?

EU economic policy coordination after the mid-term review of the Lisbon strategy

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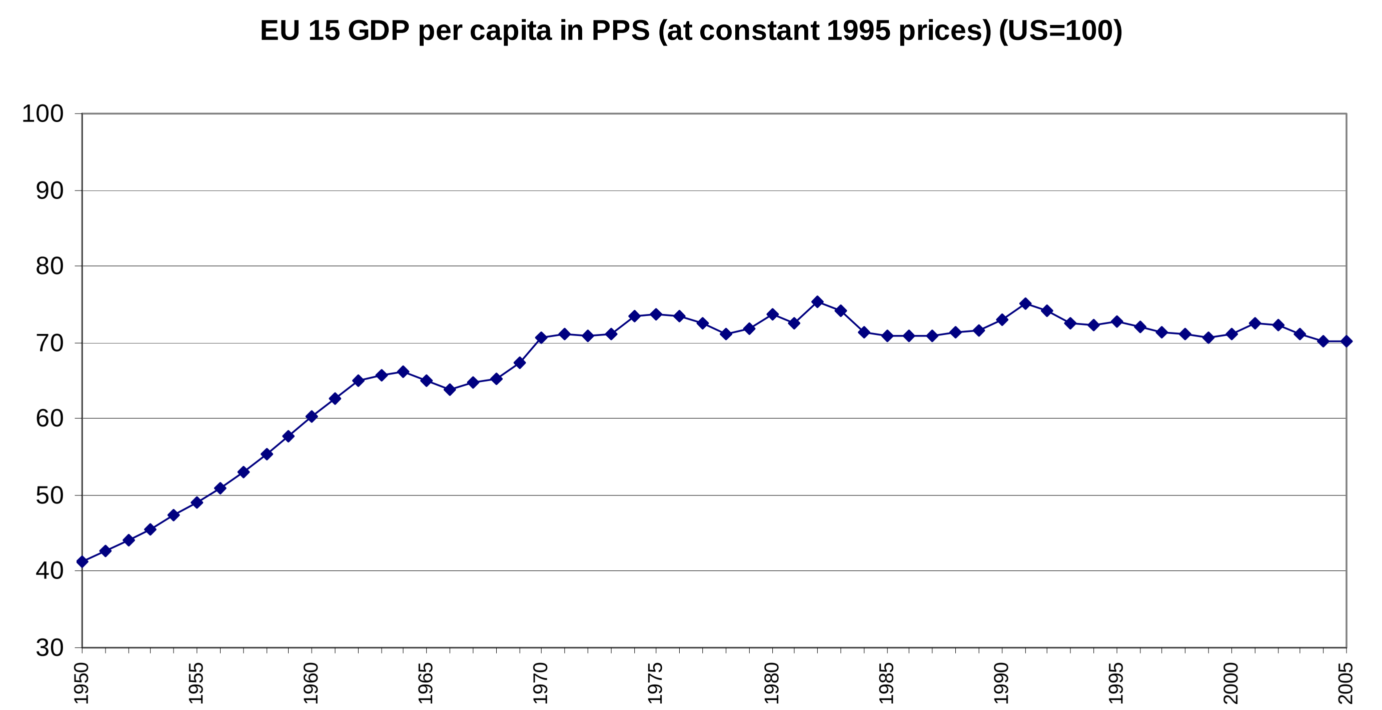
Outline

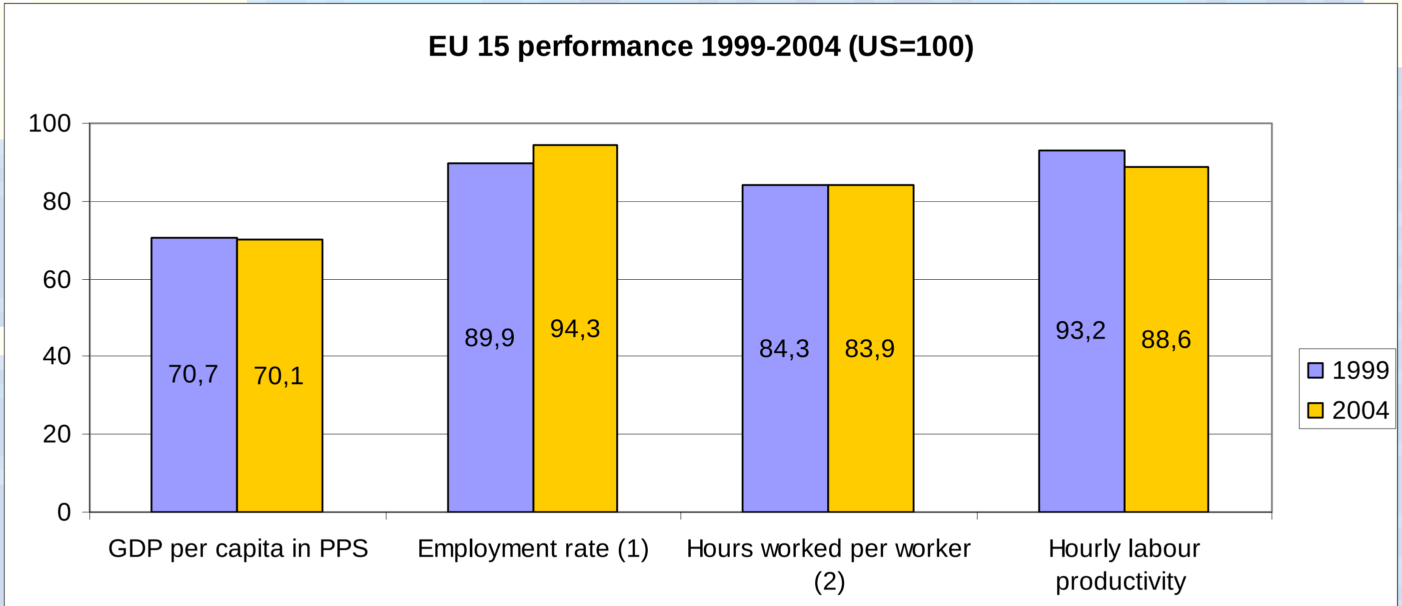
- Why Lisbon strategy?
- What is Lisbon strategy?
- The mid-term review
- “New” Lisbon strategy

Lisbon: The problem!



Source: DG Ecfin - AMECO
2004, 2005: forecasts

Lisbon: Where are we now?



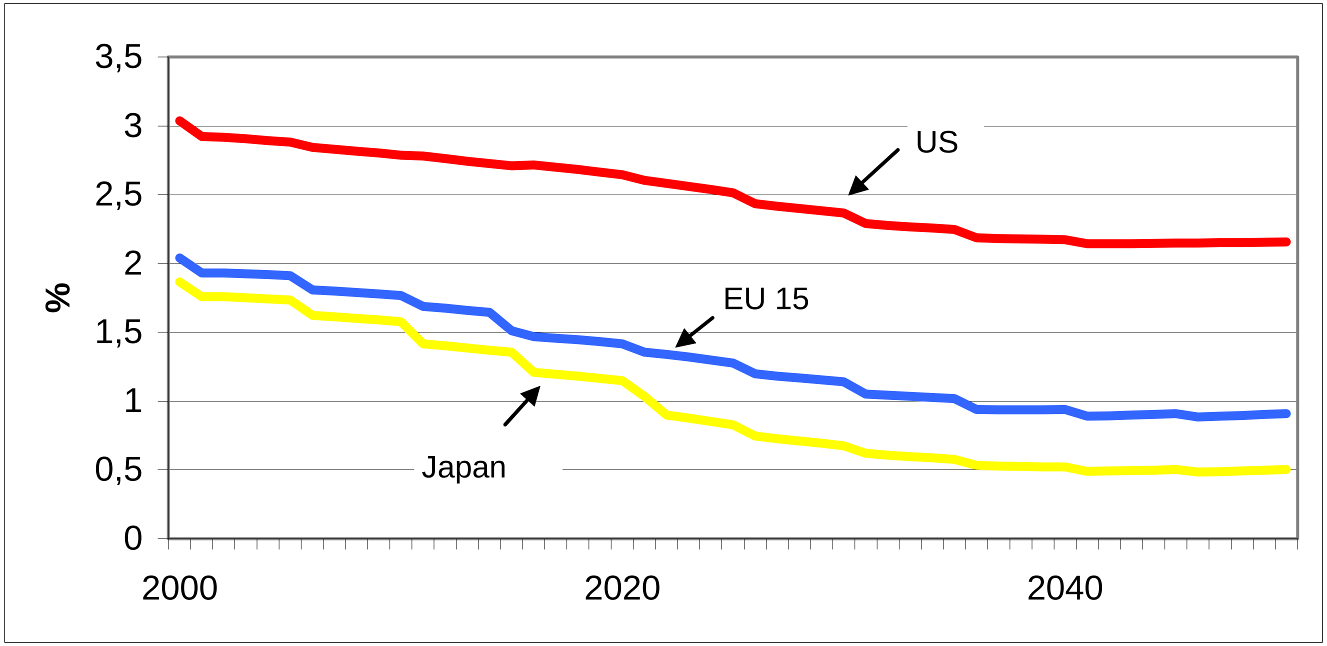
(1) Calculated - Employment rate = 100 * (GDP per capita / Labour productivity per person employed)

(2) Calculated - Hours w orked per w orker =100 * (Labour productivity per person employed / Hourly labour productivity)

Source: DG ECFIN

Lisbon: The future???

Potential GDP growth rates in EU, US and Japan (2000-2050)



Source: Commission Services

The cost of “non-Lisbon”

- Product and labour market reforms **½ % growth per annum**
- Knowledge investment **¼ % growth per annum**

=> Lost growth of **¾ % growth per annum**

+ potential gains from
- financial market integration
- synergies between reforms

How structural reforms work …

Product, labour and financial market reforms and increased emphasis on knowledge and innovation

↓

Increased competition and higher investment lead to productivity gains

↓

Higher growth and more jobs

Lisbon! What is it Lisbon?

A comprehensive strategy of coordinated reforms:

- Coherence of reforms / spillovers
- Political economy of reforms
- Momentum in periods of economic slowdown
- Structural reforms and macro-economic policy

What form of coordination???

- Structural reforms touch on areas of national competence
- Subsidiarity principle => Less binding forms of co-ordination

Forms of economic policy co-ordination

Single policy	Monetary policy and exchange rate policy, Competition policy …
Close co-ordination	Budgetary policy (SGP) Structural policies (Internal market) …
Weak co-ordination	Wage developments Labour market policies Product and capital market policies …

Lisbon strategy: coordination methods

- No new coordination processes
- Existing instruments used: BEPGs, Cardiff process, Luxembourg process (Employment Guidelines), Cologne process
- Introduced open method of coordination: MS develop their own policies through the discussion and dissemination of best practices (indicators, benchmarks, peer review…)

Lisbon and Spring Councils

- Lisbon (March 2000): Comprehensive strategy of reforms
- Stockholm (March 2001): Focus on employment and social cohesion
- Göteborg (June 2001): Integration of sustainable development into the Lisbon strategy
- Barcelona (March 2002): Focus on opening up of markets (energy, internal market) and R&D
- Brussels (March 2004): Launch of the Mid-Term Review (MTR)
- Brussels (March 2005): MTR concluded and Lisbon relaunched

The mid-term review

- European Council: March 2004 in Brussels
- Kok Report: November 2004
- Main conclusions of the Kok Report:

- *urgency to act*

- Lisbon strategy still relevant

- lack of implementation: a new approach has to be applied to achieve the targets

- lack of focus: growth and employment strengthened

- greater commitment of the MS to deliver needed

The “new” Lisbon strategy

Focus on growth and employment

Priority areas:

- Make Europe a more attractive place to invest and work
- Support knowledge and innovation for growth
- Create more and better jobs

+ new delivery mechanism

The “new” Lisbon strategy

The “NEW” element in the Lisbon strategy not so much about “WHAT” should be done, but rather about **“HOW”** it should be done

“HOW” to do it better?

- EU level:

  - *Lisbon Action Programme*

  - *new Integrated Guidelines*

- National level:
  - *National Reform Programmes*
  - *“Mr.” or “Ms. Lisbon” at the government level*
- Simplified reporting: one single “Lisbon Report” both on the EU and national level

New Integrated Guidelines

- A three-year period 2005-2008
- Structure:

  1.A Macroeconomic part
  1.B Microeconomic part *(Broad Economic Policy Guidelines)*
  2. Employment (Employment Guidelines)

- Less and more focused (22 in total)
- No country-specific challenges and recommendations…
- …but still a basis for National Reform Programmes (allowing the MS to develop their own policy mixes, thus increasing national ownership)

The BEPGs

The <u>macroeconomic</u> part of the BEPGs calls on Member States to:

- *avoid pro-cyclical budgetary policies*
- *prepare for the onset of ageing populations*
- *redirect government expenditure and taxes towards growth and jobs*
- *increase flexibility, mobility and adjustment capacity*
- *promote nominal wage increases that contribute to growth and employment*

The BEPGs

- The microeconomic part focuses on (i) making Europe a more attractive place to invest and work; and (ii) spurring knowledge and innovation for growth.
- Member States are called upon to
  - *speed up transposition of Internal Market directives*
  - *accelerate financial market integration*
  - *cut red-tape*
  - *increase public expenditure on R&D*
  - *promote business R&D*

The 2004 BEPGs and the CR

Country specific recommendations

To ensure a reduction of budgetary deficits and the long-term sustainability of public finances:

1. reduce the general government deficit in a credible and sustainable way within a multi-annual framework in line with the decisions to be taken by the Council in the context of the forthcoming budgetary surveillance exercise.

2. reform the health care and pension systems to ensure their financial sustainability, in particular to counter the expected increase in the old-age dependency ratio and take measures to reduce fiscal risk stemming from the rising stock of contingent liabilities; and to ensure that incentives to work are enhanced and the high social security contribution rates are lowered.

To continue to address the structural problems in the labour market:

3. strengthen labour supply by reforming tax benefit systems to eliminate disincentives to work and enhance occupational and regional mobility by reducing skill mismatches, whilst ensuring the efficiency of retraining measures and other active labour market policies, deregulating the housing market, and improving transport infrastructure.

To improve conditions for an accelerated productivity growth:

4. improve the efficiency and quality of the education and training system and its responsiveness to changing skills requirements.

5. improve the efficiency of R&D and innovation activities, foster the transfer of knowledge through FDI and support the diffusion of knowledge.

In order to promote entrepreneurship and SMEs:

6. improve the business climate by, in particular, removing administrative burdens, improving and enforcing the legal framework and increasing access to finance.

The Employment Guidelines

- The Employment Guidelines aim at
  - *getting more people into employment*
  - *increasing investment in education and skills*
  - *raising the adaptability of workers and enterprises*
  - *modernising social protection systems*

National reform programmes: a major novelty

- to be presented by the autumn 2005 (mid-October)
- also a 3-years cycle (possibility to amend every year)
- identifying main challenges to achieve higher growth and employment and specific measures to be (or which have been) taken
- subject to a broad political debate at the national level (Parliament, social partners, broad public…)
- to bring together all the previous national reports relevant to the Lisbon strategy
- annual national implementation reports

Commission's communication

… to address the main open issues linked to the cycle of policy coordination and the National Reform Programmes, such as …

- the coordination cycle
- a common framework and format for the NRPs
- the integration of the existing sectoral reports
- the monitoring of the programmes by the Commission
- the strategic plans concerning Structural Funds

… expected to be released on **25 May 2005**

… high-level missions to the MS (**June/July 2005**)

New policy co-ordination framework

- Combination of single EU policies (monetary and exchange-rate policy, competition, trade,…) and national policies where EU coordination is

  1) strong

  2) weak

Advantage: the new National Action Programme unifies original two fields of co-ordination

Challenge: possible overlaps (i.e. with convergence and stability programmes)

- Consistent links to the next Financial Perspective

The new policy co-ordination cycle – YEAR 1

Spring European Council

March 2005

Integrated Guidelines (2005-2008)

June 2005

Community Lisbon Action Programme (2005-2008)

June 2005

National Reform Programmes

October 2005

Annual Progress Report + update of guidelines

January 2006

Spring European Council

October 2006

The reform of the Stability and Growth Pact

- Greater clarity over the role and responsibilities of the Commission, Council and MS
- Greater **ownership** at the national level (the national Parliaments invited to discuss the MS commitments)
- The preventive stage strengthened
- The corrective stage: economic analysis more important (exceptions to the 3% deficit ceiling: if growth negative, if a protracted period of very low growth relative to potential); debt dynamics more important

The reform of the Stability and Growth Pact

- Key: medium-term budgetary objective (MTBO); as a percentage of GDP
- Triple aim of the MTBO: (i) safety-margin against 3%; (ii) rapid progress towards sustainability; (iii) budgetary room for manœuvre if the above conditions are secured
- MTO will be set by the Council (and not MS!), in the context of the BEPGs

Conclusions

- We hope to have been able to shed some light on the “Lisbon puzzle”
- Thank you for your attention
- We are looking forward to the discussion