frontier-free EUROPE

Monthly newsletter

ISSN 1021-2353

Managing economic and monetary union

by Pedro Solbes, Member of the European Commission

The introduction of the euro on 1 January 1999 has been a major achievement. Meticulous preparation ensured a very smooth changeover to the new single currency and the sound economic policy framework established in the run-up to EMU is beginning to yield results.

Safeguarding macroeconomic stability

The year 1999 was not only characterised by the launch of the euro but was also the first test of EMU's institutional set-up, and the test was positive. EMU establishes a framework for sound economic policies which comprises an independent monetary policy devoted primarily to price stability, disciplined fiscal policies governed by mutually agreed rules and a set of procedures to enhance structural reform.

The European Central Bank (ECB) has quickly established its anti-inflationary credibility. This is reflected in a historically low inflation rate and continued moderate inflation expectations in the euro area.

The second test for macroeconomic management now lies ahead. The euro-area Member States have a special responsibility to support monetary policy by adhering to a strict budgetary discipline and implementing necessary structural reforms. Against the background of an increasingly robust upswing, the EMU framework must bring the economy onto a sustained, high-growth path whilst preserving price stability.

Member State governments have maintained – and in most cases enhanced – budgetary discipline despite the economic slowdown in 1999. In sum, the policy-mix has been adjusted appropriately. Last year, the Stability and Growth Pact showed that it can place an upper ceiling on deficits during downturns. Now we must ensure that an appropriate fiscal stance is maintained during economic upturns.

From stability to economic dynamism

In the past, it was possible for national authorities to react to adverse events by using monetary policy or even a change in the exchange rate. As these policies often did no more than postpone the required adjustment, the loss of such options should not be exaggerated.

What is needed in EMU are markets that react rapidly to changed circumstances. It is necessary to replace the often devastatingly slow adjustment of the past with more flexible markets which are able to swiftly reallocate workers and capital to where they are needed. The Member States have, therefore, committed themselves to comprehensive structural reforms in the areas of labour, product and capital markets.

The proper working of EMU demands flexible labour markets and the brightening economic outlook provides the opportunity for bold steps in this direction. Reforms of product markets are also needed. The more the EU's product markets are integrated, the more the euro will contribute to price transparency and competition. Furthermore, in case of regional or sectoral shocks, a high flexibility on product markets will facilitate the realignment of competitive positions in industries or regions. As regards capital markets, remaining barriers exist in both national and regulatory environments and fiscal regimes. In all three areas the Commission has taken specific initiatives to promote necessary reforms.

While economic policies remain primarily a national responsibility, a smoothly functioning EMU presupposes a significant degree of economic policy coordination among the euro-area Member States. The appropriate type and level of coordination differs between the various policy fields but they all fall under the umbrella of the broad economic policy guidelines established and monitored annually. To ensure consistency between policies, there is a need for Member States to intensify coordination. Peer pressure has become an important instrument in this respect in the field of budgetary policy, which gives reason to hope that it will become an effective instrument also in the area of structural reforms.

Let us not forget the need to finalise preparation work and coordinate communication on the euro during the final phase before the 2002 changeover. Earlier this year the Commission updated the priorities and the strategy of the campaign, shifting the focus towards smaller businesses and non-participant countries in particular.

In conclusion, what is needed for EMU is a continuation of stability-oriented macroeconomic policies and energetic economic reforms to boost the dynamism of Europe's economy. The European Commission is determined to play its role.

■ 'Youth' programme is agreed

The European Parliament and EU Council of Ministers reached an agreement on 29 February on financing the 'Youth' programme. The programme is designed to allow young people to gain experience at the European level through informal education and training. It has a budget of EUR 520 million (EUR 1 = GBP 0.62 or IEP 0.79), runs from 2000 to 2006 and covers three major areas of activity. The 'Youth for Europe' programme, which organises exchanges between groups of young people, aged between 15 and 25 years, and coming from different EU countries, is continued. The 'Youth' programme also runs the 'European Voluntary Service', under which those in the age group 18–25 can take part in community activities in a European environment. Lastly, the 'Youth' programme supports 'Youth initiatives', under which young people can take part in creative and innovative activities. The two other training programmes of the new 2000–06 generation are Socrates and Leonardo, covering education and vocational training respectively. They were adopted this January and last April. Together the three programmes have a budget of more than EUR 3.5 billion.

■ European checks on CO_2 emissions

A European system of checks on CO_2 emissions from new cars will shortly see the light of day. The European Parliament and EU Council of Ministers reached agreement on 9 March on the decision which, once it has been confirmed by the two bodies, will make this possible. Under this decision, national authorities will have the task of collecting the data and forwarding them to the European Commission, which will publish them in an annual report. The aim of the new system is not only to verify the effectiveness of the European strategy for reducing CO_2 emissions but also to look into its impact on the European market for new cars, as well as on road safety and other policies. This strategy rests on three kinds of measures: agreements with car manufacturers, fiscal incentives and information on CO_2 emissions from new cars. Private cars account for half the CO_2 emissions which can be attributed to the transport sector, and for 12 % of all such emissions in the EU.

■ Lower VAT rates for local services

The nine EU Member States which applied to the European Commission can reduce the rate at which VAT is charged as regards two or three categories of locally provided, labour-intensive services. The concession is available until 31 December 2002. The decision which in practice authorises such derogations from EU rules governing VAT was adopted by the EU Council on 28 February. These rules had already been amended last year, on 8 October. Eight Member States had asked to implement the derogation over their entire national territory: Belgium, Greece, Spain, France, Italy, Luxembourg, the Netherlands and Portugal. The United Kingdom's application covered only the Isle of Man. The most popular category is the renovation and repair of private dwellings; it was selected by six of the eight Member States from the list contained in the amended regulation, the exceptions being Greece and Luxembourg. Domestic care services were chosen by Greece, France, Italy and Portugal, and hairdressing by Spain, Luxembourg and the Netherlands. The small services category, covering repairs to bicycles, shoes and other goods, as well as to clothing and household linen, was chosen by the three Benelux countries, while Greece limited itself to repairs to clothing and household linen. Window cleaning and cleaning in private households will benefit from the lower VAT rate in France and Luxembourg.

■ Phthalates: banned for another three months

The European Commission has maintained the ban on phthalates for another three months. It took the decision on 7 March, after receiving the unanimous support of the Member States, whom it had consulted. The use of soft PVC containing phthalates, in teething rings and similar toys for babies, was first banned at the beginning of last December. Once mixed with saliva, phthalates, chemical substances which are used to soften plastics, can pose a serious risk to a baby's health, as they can damage its liver or kidneys, for example. The definitive measures which the European Commission proposed last November are still under discussion in the European Parliament and EU Council of Ministers. Scientists are working meanwhile on the development of standardised systems of measurement by simulating the quantity of phthalates released by the toys in question, in order to determine the maximum authorised levels. The Commission has preferred to extend the ban in the absence of a recognised system of measurement.

■ Regional aid maps of three countries

The map of the regions in which public aid can be given in support of investments by firms, over the period 2000–06, continues to take shape. The aim is both to reduce the extent of the regions entitled to such aid in the EU as a whole, and to ensure that national aid maps are consistent with the Europe-wide map. The European Commission reached a decision on 1 March on the proposals submitted by three Member States – Belgium, France and Italy. The map submitted by France, showing the regions entitled to a subsidy for town and country planning (Prime a l'aménagement du territoire, or PAT) between 2000 and 2006, was approved. The regions in question are home to 34 % of the national population. They are in all parts of metropolitan France, with the exception of the Île-de-France, as well as in the overseas departments. The Commission took two decisions in the case of Italy. It approved that part of the regional aid map which covers the most disadvantaged regions – Basilicata, Calabria, Campania, Pouilles, Sardinia and Sicily. At the same time it opened a scrutiny procedure in the case of the map covering the Centre–North of Italy, because it assumes – wrongly – that the list of regions which are beneficiaries of European redeployment aid has been adopted. In Belgium's case, the Commission decided to close the investigation into the federal government's proposal, the latter having submitted a new aid map. The regions initially proposed covered more than 35 % of the national population, although the Commission had set a ceiling of 30.9 %.

□ IN BRIEF

The EU Council adopted on 13 March two directives, each of which replaces a series of texts, in order to make them more accessible, while leaving their contents unchanged. One of the two directives deals with the **activities of credit institutions**; it replaces six directives, adopted between 1973 and 1992. The other directive, which

THE EUROPEAN INVESTMENT FUND

More finance for European integration

The European single market needs efficient cross-border infrastructure, so that companies can use the European dimension to the full. At the same time small business has been seen for more than a decade as the spearhead of job creation in the European Union (EU). But finding enough long- and medium-term finance at the right time has long been a problem for both infrastructure project promoters and small entrepreneurs. Over the last few years, the solution has increasingly been found in bringing together private investors and public institutions. Established in 1994, the European Investment Fund (EIF) is doing just that by providing loan guarantees and facilitating the raising of venture capital.

A good example of public-private partnership

The EIF is an autonomous financial institution of the EU acting, on a commercial basis, as a complement to the banking sector, with which it shares risk, and in coordination with other EU financial institutions and instruments. It was set up in response to an invitation by the EU Heads of State or Government at their 1992 summit in Edinburgh as one of the means of boosting the European economy. Its headquarters are in Luxembourg.

The initial authorised capital of the EIF amounts to EUR 2 billion. Its shareholders are the European Investment Bank, whose president is chairman of the EIF Supervisory Board, the European Union and various private and public financial institutions from all 15 Member States, such as Barclays Bank plc, the Bayerische Landesbank and the French Caisse des dépôts et consignations.

The EIF's cumulative total of signed guarantee agreements since its establishment amounted to EUR 2 675 million by the end of September 1999. Infrastructure operations accounted for two thirds of the total and small business operations for the remaining third. Moreover, by the end of September 1999 the EIF had signed commitments to 38 investments for 33 venture-capital funds for a total of EUR 190 million.

In 1998 the fund had a total income of EUR 33.63 million and made a net profit of EUR 13.71 million.

Transport, telecom and energy infrastructure

Public-private partnership has appeared as particularly relevant for building the EU's much needed cross-border infrastructure, the trans-European networks or TENs. The EIF is facilitating the participation of private capital in TEN projects in the transport, telecom and energy sectors. It provides guarantees for any type of debt finance, including loans, bonds, leases and asset-backed securities. By the end of September 1999, TEN operations accounted for EUR 1.87 billion, of which 35 % was for transport, 36 % for telecommunications and 29 % for energy.

The EIF takes a long-term view in considering risk exposures. For each project it carries out an independent technical, economic and financial appraisal in close cooperation with the other parties involved in the financing. The fund remains involved in the projects during the construction and operational periods.

In the **transport** sector, the fund can support the financing of a wide variety of projects related to road, rail, air and sea transport, as well as combined transport networks and urban transport linked to major nodal points. For example, it facilitated the design and pre-construction financing phase of the rail link between London and the Channel Tunnel, a high-priority TEN project. The EIF guaranteed part of a 17-year loan for the design, construction and operation of Malpensa, Milan's second airport, which is another TEN priority project. The fund also signed guarantees for the construction of two ring roads, one for Athens and the other for Lyons.

The EIF can support the financing of new **telecommunication** investments in the following fields: fixed line and wireless networks, cable networks, satellite networks and telecom applications like traffic management. The fund's interventions cover new networks as well as modernising or upgrading existing ones. The EIF guaranteed part of a transaction for the Telenet project providing a second fixed telecom network in the Belgian region of Flanders. In Italy the EIF participated in a guarantee facility supporting long-term lending to Omnitel, the second GSM operator.

There are two broad categories of **energy** projects that the fund can support. One of them comprises transmission, storage and distribution of energy, from gas and oil pipelines to electrical interconnections, and the other independent power generation, including waste-to-energy plants. In 1998 the EIF guaranteed part of loan facilities in favour of Lusitaniagas, a company set up for the distribution of natural gas within west-central Portugal and in 1996 the Turbogaz power station in Portugal.

Guarantees and venture capital for SMEs

Small and medium-sized enterprises (SMEs) established in an EU country and independent of larger companies can benefit from EIF guarantees or venture-capital activities. By the end of September 1999, the EIF had signed guarantee agreements for a total of EUR 864 million at its own risk, EUR 755 million at the EU's risk and investments for EUR 190 million.

Guarantee schemes

The EIF provides guarantees to all types of intermediaries involved in SME financing, ranging from banks and leasing companies to guarantee institutions and mutual guarantee funds. EIF guarantees reduce the risk exposure of these financial institutions, thus facilitating investment finance for smaller businesses with job-creation potential. But the fund does not provide direct guarantees for individual transactions, operating instead on the basis of a portfolio of guarantees or loans.

The EIF offers a variety of **standard products**, including credit insurance and counter-guarantees. It can also structure tailor-made transactions. As far as credit insurance is concerned, the EIF usually guarantees 50 % of the risk exposure of the banks or other financial institutions. SME beneficiaries must have no more than 500 employees and net fixed assets not exceeding EUR 75 million.

A sub-product of credit insurance is the **'Growth and environment' scheme**, designed to facilitate access by SMEs with no more than 100 employees to bank loans for new environmental investments. Smaller businesses with no more than 50 employees are a priority. This scheme provides for EIF guarantees on loans issued by banks as well as European Commission budgetary support to pay the fees for these guarantees and to help finance technical assistance. Various sorts of investments can qualify, such as purification equipment, the introduction of renewable sources of energy and the recycling of waste materials. In any event they must have a minimum maturity of three years and be no larger than EUR 1 million.

The **SME guarantee facility** aims to enhance the capacity of EU guarantee schemes to provide higher volumes of guarantees to a larger number of small companies for a wider range of investments, as well as guarantees for riskier loans. It is targeted at smaller businesses with less than 100 employees and either a turnover not exceeding EUR 40 million or an annual balance-sheet total not exceeding EUR 27 million. The EIF manages the SME guarantee facility for the European Commission. The full cost of the facility is covered by the EU budget with an allocation of EUR 150–190 million over the period 1998–2000.

Venture-capital activities

In its venture-capital activities, the EIF supports smaller companies with high-growth and job-creation potential. It does not invest directly in companies but exclusively in specialised venture-capital funds providing equity and other forms of risk capital. In this catalytic role, the EIF is boosting the venture-capital sector throughout the EU.

The EIF invests both from its own resources and through the **European technology facility (ETF)** which it manages for the European Investment Bank (EIB). The focus is on SMEs developing or using advanced technologies in industry or services, preferably early stage companies. The EIF invests in venture-capital funds having a successful track record and raising from EUR 15 million upwards. It requires selected funds not to invest more than 15 % of their capital outside the EU. Targeted companies must have less than 500 employees and net fixed assets not exceeding EUR 75 million. A typical EIF investment will be for 25 % of the venture-capital fund.

The **ETF start-up** facility, which is funded by the EU under the 'Growth and employment' initiative, has a higher risk profile. It aims to invest in specific types of venture-capital funds: smaller or newly established venture-capital funds, funds operating regionally, funds focused on specific industries or technologies, funds financing the exploitation of research activities' results – notably funds linked to research centres and science parks. All those funds' investments must be in businesses with less than 250 employees – priority being given to those with less than 100 employees – and either a turnover not exceeding EUR 40 million or net assets not exceeding EUR 27 million.

Enquiries can be made to the EIF at the following address:
43, avenue J. F. Kennedy – L-2968 Luxembourg
Tel. (352) 42 66 88-1; fax (352) 42 66 88-200
E-mail: info@eif.org
Lists of intermediaries are available on the EIF website (http://www.eif.org).

KEY FIGURES

Data Shop Eurostat Luxembourg
Tel. (352) 43 35 22-51 — Fax (352) 43 35 22-221

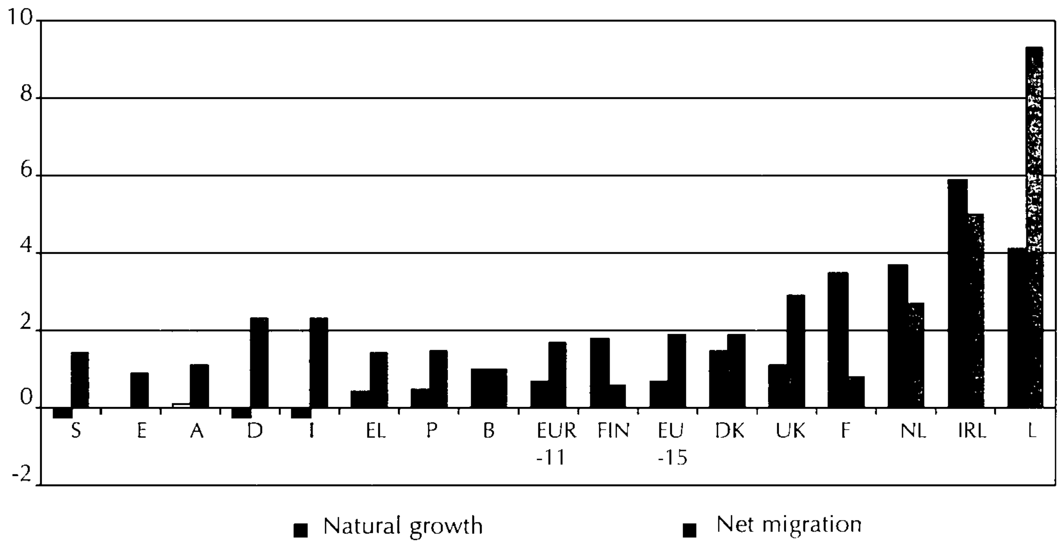
Lowest post-war natural population growth in the EU*

Since 1950, the population of the EU has increased from 295 million to 376 million

During 1999, the total population increased by about one million, mainly as a result of international migrations.

In Luxembourg and Ireland, the population increase was over 1 %, while in Spain and Sweden the rate did not exceed 0.1 %.

Total population growth, 1999 - Rate per 1 000 inhabitants



Population (1 000)

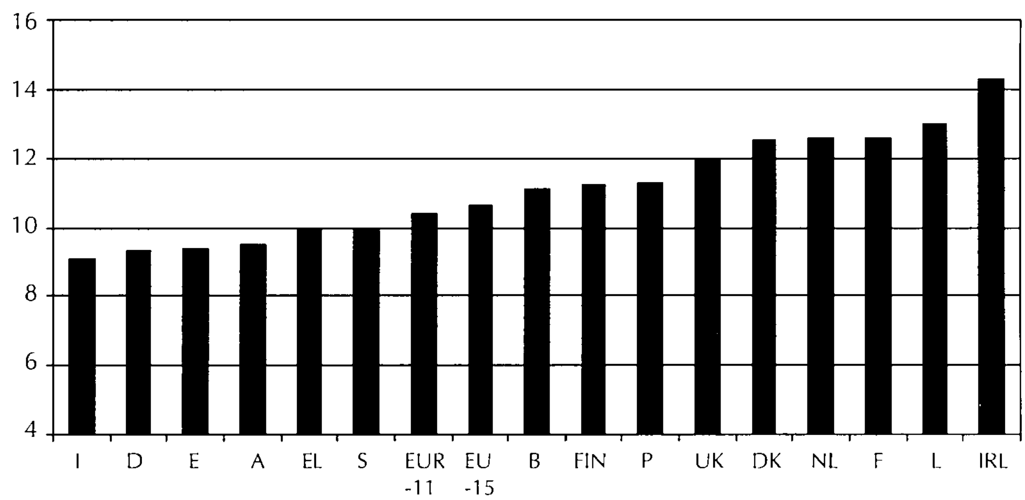
	EU-15	EUR-11	B	DK	D	EL	E	F (¹)	IRL	I	L	NL	A	P	FIN	S	UK
A	375 460	291 381	10 214	5 314	82 037	10 522	39 394	58 967	3 745	57 613	429	15 760	8 083	9 980	5 160	8 854	59 390
B	376 443	292 081	10 234	5 331	82 152	10 540	39 430	59 220	3 786	57 699	435	15 862	8 093	9 999	5 172	8 860	59 631

A: 1.1.1999 **B:** 1.1.2000

In 1999, live births in the EU are estimated to have reached 4 million, or 0.5 % less than in 1998, which is the lowest post-war figure recorded

In the mid-1960s, there were over 2 million live births per year, while the period 1965-75 saw a considerable decrease in fertility. In 1999, Ireland had the highest crude birth rate and Italy the lowest.

Crude birth rate, 1999 - Per 1 000 inhabitants



Live births (1 000)

	EU-15	EUR-11	B	DK	D	EL	E	F (¹)	IRL	I	L	NL	A	P	FIN	S	UK
A	4 000	3 027	115	66	784	101	362	740	54	515	5	199	81	114	57	89	717
B	3 995	3 027	113	67	765	104	369	747	54	527	6	200	77	113	58	88	710

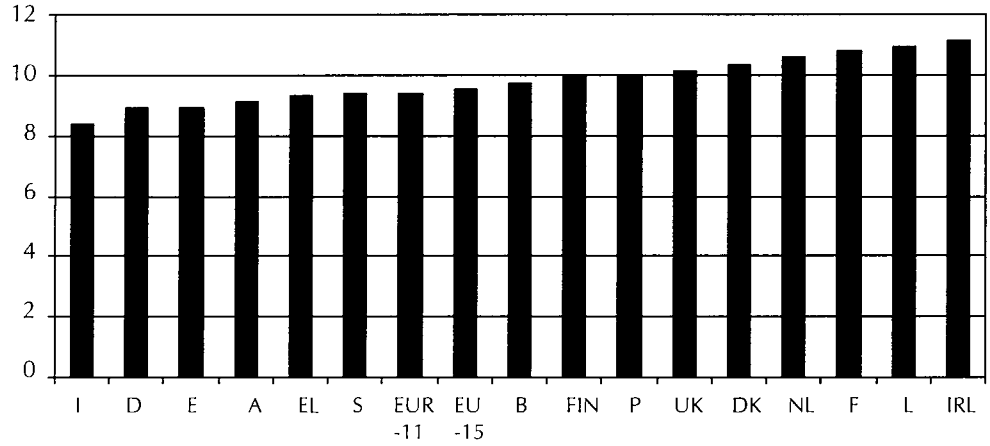
A: 1998 **B:** 1999

(¹) The population at 1 January 1999 is based on the 1990 census and live births, deaths and estimates of net migration for the period 1990-98. According to the 1999 census, the total population at 31 March 1999 was 58 518 121 (estimate at 1 December 1999).

1976 saw the highest number of deaths (almost 3.8 million) in the post-war period. Although the number of old people increased, the number of deaths in the EU remained stable at about 3.7 million in 1999.

The highest mortality rates are in Denmark (11.1 ‰), Portugal (10.9 ‰) and the United Kingdom (10.8 ‰).

Crude mortality rate, 1999 - Per 1 000 inhabitants



Deaths (1 000)

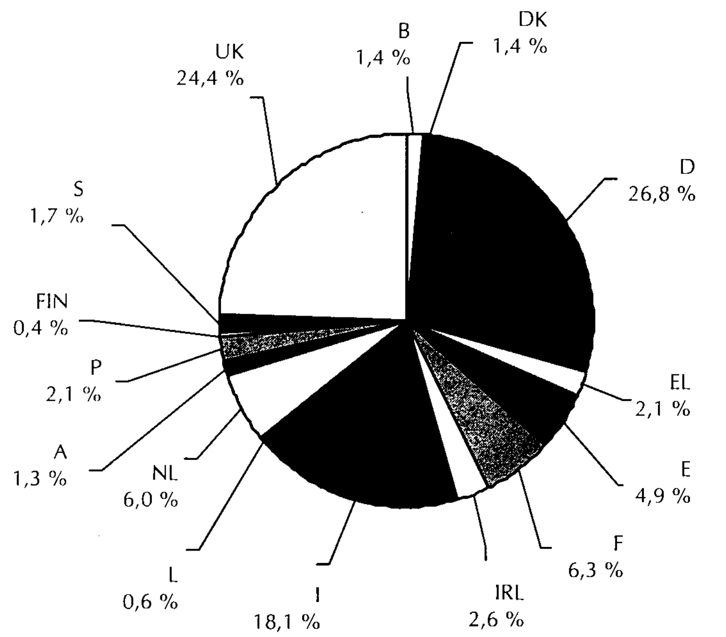
	EU-15	EUR-11	B	DK	D	EL	E	F (¹)	IRL	I	L	NL	A	P	FIN	S	UK
A	3 716	2 834	105	58	855	101	358	540	31	569	4	138	78	107	49	93	629
B	3 729	2 832	103	59	842	100	369	539	32	570	4	141	76	108	48	94	644

A: 1998 B: 1999

In the EU, the positive balance of international migration flows rose from 549 000 in 1998 to 717 000 in 1999.

About 70 % of the flows concerned Germany, Italy and the United Kingdom. Luxembourg remains the EU country with the highest net migration per 1 000 inhabitants in relative terms.

Net migration by Member State, EU-15, 1999



Net migration (1 000)

	EU-15	EUR-11	B	DK	D	EL	E	F (¹)	IRL	I	L	NL	A	P	FIN	S	UK
A	582	337	12	11	50	11	42	39	19	103	4	44	5	15	5	11	213
B	717	505	10	10	192	15	35	45	19	130	4	43	9	15	3	12	175

A: 1998 B: 1999

(¹) The population at 1 January 1999 is based on the 1990 census and live births, deaths and estimates of net migration for the period 1990-98. According to the 1999 census, the total population at 31 March 1999 was 58 518 121 (estimate at 1 December 1999).
(²)The figures for 1 January 2000 and the demographic trends in 1999 are based on Eurostat short-term estimates.

Source: Eurostat - Statistics in focus: Population and social conditions, N°15/1999.

covers the **labelling of foodstuffs**, replaces eight directives, dating from 1980 to 1987.

The **employment guidelines for 2000** were adopted definitively by the EU Council on 13 March. They set out the objectives and guidelines which Member States must follow in their employment policies. As in 1999, the new guidelines set four priorities. They are: the ability to integrate professionally; the development of the enterprise spirit; the ability of firms and workers to adapt; and equality of opportunity between men and women.

The Swedish company, **Volvo**, does not have the right to acquire its competitor **Scania**, which is also Swedish. The European Commission banned the takeover on 14 March, on the grounds that the combined market share of the resulting company would be very high, in the context of EU competition rules. The Commission took into account the market for heavy trucks in Ireland, Norway, Finland and Sweden; for touring coaches in Finland and the United Kingdom; for inter-city buses in Denmark, Norway, Finland and Sweden, and for city buses in these four countries, plus Ireland.

The European Commission gave its approval on 8 March to the regional action programme for **Burgenland, in Austria**, for the period 2000–06. This programme will decide the use to which some EUR 271 million, which the EU will provide this Austrian *Land* in the framework of aid to regions whose development is lagging behind, will be put.

On 14 March the European Commission approved in principle the regional development programme of **Portugal** for the period 2000–06, in the context of the Community support framework, which concerns regions whose development is lagging behind. The programme covers the entire country, with the exception of the Lisbon–Tagus valley region. The regions in question will receive over EUR 20.5 billion in aid.

● Simplifying single market legislation

The European initiative for simpler legislation for the internal market, or SLIM, has already produced results, but more can be done to simplify EU and Member States' texts. This is the main conclusion of the European Commission report published on 6 March, containing a series of recommendations aimed at improving the SLIM initiative. Since 1996, teams of experts from national administrations, companies and various interest groups have examined the practical application of existing legislation in 14 sectors. In six of them, including the mutual recognition of diplomas, VAT and social security, the Commission has submitted proposals, only some of which have been adopted by the European Parliament and Council of Ministers. The report proposes in particular that a committee of specialists on legislative improvements be set up, that would have to be consulted in the simplification process. The Commission, for its part, has offered to prepare a guide for the use of SLIM teams, setting out the objectives to be reached, and to submit proposals more quickly. Another suggestion calls for the preparation of reports covering simplification in each Member State. Another European Commission report, regarding the operation of the markets for goods and capital, submitted on 28 February, has already stressed the need to simplify national regulatory frameworks. According to this report, it is necessary to reduce the cost of setting up businesses, and to have greater recourse to mutual recognition in order to eliminate technical barriers to trade. The latter report is on the Internet (http://europa.eu.int/comm/dgs/internal_market).

● Making sense of the euro

The European Commission is co-financing pilot projects, so as to make the euro comprehensible to all Europeans who are likely to have difficulties with the new currency. The first concrete results were presented during a conference organised on 26 February, and devoted to the role of non-governmental organisations. Thanks to these projects, called 'Easy euro', it has been possible to develop some 30 information tools which do more than just provide technical information. There is a card game, for example, which makes it possible to compare stocks and shares denominated in euro and in national currencies, a comic strip reflecting the fears of the elderly, and the questions they ask, and a detailed description conceived for the blind. These projects, which are being reproduced and adapted in all the euro-area countries, will make it easier to prepare the more vulnerable groups of citizens for the euro. It has been estimated that up to 100 million people, in the EU as a whole, could find it difficult to adapt to the euro because of a physical or intellectual handicap, illiteracy or advanced age. More detailed information on the projects and their results are available on the Internet (http://europa.eu.int/euro/html/entry.html).

STABILITY AND CONVERGENCE PROGRAMMES ...

The EU Council of Ministers examined the updated stability programmes of all the euro-area countries, except Austria, when it met on 31 January, 28 February and 13 March. It also studied the updated convergence programmes of the four EU countries that did not adopt the euro last year: Denmark, Greece, Sweden and the United Kingdom. These national programmes seek to implement the Stability and Growth Pact, which organises the surveillance and coordination of the economic and budgetary policies of EU Member States. The aim of the stability programmes is to enable euro-area countries to continue to meet the criteria set for the adoption by them of the single currency, despite cyclical fluctuations in the economy. The convergence programmes must enable EU Member States that are still outside the euro area to be in a position to meet the criteria in question.

... AND THREE NEW EURO-AREA COUNTRIES?

Greece formally asked on 9 March to be a part of the euro area, which has consisted of 11 EU countries since 1 January 1999. The EU Council of Ministers will have to reply to this demand, after having examined the recommendations of the European Commission and the European Central Bank, and the opinion of the European Parliament, all of which are expected in May. Meanwhile, the Danish Prime Minister, Poul Nyrup, announced on 10 March that a national referendum, to be held on 28 September, will decide whether or not Denmark will join the euro area. Lastly, Sweden's Social Democratic Party, which is in power, voted on 10 March in favour of adopting the euro and holding a referendum on the subject. The government is now bound in principle to hold a referendum, but the date for it has yet to be set.

PD-AI-00-004-EN-C

Record growth for IC technologies

Last year, turnover in the information and communication technologies (ICT) in western Europe – the EU plus Iceland, Liechtenstein, Norway and Switzerland – grew by a record 12 % – more than in the Japan, the United States and the rest of the world. The news was released by the European Information Technology Observatory (EITO) on 18 February, and is to be found in its latest annual report. The telecommunications sector recorded a growth rate of 13 %; this was higher than the 10.8 % recorded by the IT sector. Growth in the IT sector was highest in Spain, and in the telecommunications sector in Greece. The next priority, according to EITO, will be to establish a European legal framework for e-commerce. Thanks to e-commerce, savings of between 30 and 50 % should be possible in product development, after-sales service and in managing the supply chain.

Economic policy in 1999

On the whole, the EU Member States have implemented its broad economic policy guidelines (BEPGs) for 1999 in an encouraging manner. Nearly all the Member States met or exceeded their budgetary targets for 1999, but weaknesses remain, and more work is needed before the economy is sufficiently dynamic. These are the main conclusions reached by the European Commission in its report on the implementation of the 1999 BEPGs, published on 14 March. In addition to the consolidation of public finances, the report points to the continued development of the single market and the liberalisation of telecommunications as positive elements. There was some progress in the areas of taxation and employment, State aid to companies, part-time work, R & D and innovation, and the environment for small and medium-sized enterprises (SMEs). Finally, the disappointing sectors range from public procurement to the railways and the postal sectors, and include work organisation, according to the report. Here greater liberalisation would be required. The text of the report can be found on the Internet (http://europa.eu.int/comm/economy_finance/new/new_en.htm)

A strategy for distant regions

With a gross domestic product (GDP) of just 59 % on average of the EU as a whole, and an unemployment rate which on average is twice as high as that of the EU, the problems of the Union's outermost regions are largely due to their geographic location. The European Commission proposed on 14 March a sustainable development strategy for these regions, which include Guadeloupe, French Guiana, Martinique, Réunion, the Azores, Madeira and the Canary Islands. The aim is to support traditional economic activities, such as agriculture and fisheries, relaunch the economy by diversifying its activities, and develop cooperation between these outermost regions and neighbouring countries and territories. The Amsterdam Treaty, the EU 'constitution' in force for under a year, provides in principle for special measures for these regions.

IN BRIEF

Last year, the **public deficit** for the euro area stood at 1.2 % of GDP, down from the 2 % recorded in 1998 and the 2.6 % in 1997. The public deficit for the EU as a whole was 0.7 %, according to Eurostat, the EU's statistical office, which based itself on the data provided by the Member States, on the basis of the new national accounts system. The **public debt** came to 72.2 % of GDP in the euro area last year, and to 68.1 % in the EU as a whole. This was lower than in previous years. In the euro area, the public deficit of each country must not exceed 3 % of GDP, while the public debt must remain below 60 % of GDP in principle, according to the Maastricht criteria.

The European Commissioner for competition, Mario Monti, asked his department on 23 February to **examine all relevant cases of fiscal State aids in the taxation of companies**. The aim is to avoid the negative effects of this type of aid, which the European code of conduct for business taxation, adopted at the end of 1997, can help uncover.

In order to help companies which raise funds on international capital markets compete on equal terms with firms from other parts of the world, the European Commission proposed on 25 February to introduce the **fair value accounting system**. Thanks to this system, whose adoption by the EU implies changes to the EU's accountancy directives, European firms could comply with internationally acceptable financial reporting requirements. The Member States could limit the application of this system to certain types of companies.

The **European Anti-Fraud Office** signed a protocol of cooperation in Rome on 17 February with the Italian **national anti-mafia bureau**. The aim is to establish regular cooperation between the two bodies, in order to combat the illegal activities which occur in the economic and financial fields.

SEEN FROM ABROAD

Candidates' hopes and disappointments

'Europe was a dream for our region ... we have lost our illusions ... Our marriage to western Europe is now taking place for mainly economic reasons. What is missing ... is a little more love.' Thus the President of Hungary, Arpad Göncz, on 12 March, speaking outside the meeting of the Heads of State or Government of Germany and four countries seeking EU membership. The Polish President, Aleksander Kwasniewski, felt that both the EU and the candidate countries were 'less enthusiastic'. The Slovak President, Rudolf Schuster, noted for his part, 'We wish to return to the community to which we belonged before the war, not as parasites, but having something to give'.

The text of this issue was completed on 14 March 2000.

A great deal of additional information on the European Union is available on the Internet. It can be accessed through the Europa server (http://europa.eu.int). If you have any questions, you can contact Europe Direct on the Internet (http://europa.eu.int/citizens/) or by telephone: United Kingdom: 0800 58 15 91; Ireland: 1800 55 31 88.
European Commission, Education and Culture Directorate-General, rue de la Loi/Wetstraat 200 – B-1049 Brussels
OFFICE FOR OFFICIAL PUBLICATIONS OF THE EUROPEAN COMMUNITIES, L-2985 Luxembourg