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PROMOTING ECONOMIC RECOVERY IN EUROPE

(The Edinburgh Growth Initiative)

Autumn 1993 Review

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PROMOTING ECONOMIC RECOVERY IN EUROPE
(The Edinburgh Growth Initiative)
Autumn Review 1993

INTRODUCTION

The European Council, at its meeting in December 1992, launched the Edinburgh Growth Initiative aimed at promoting economic recovery and employment. The Initiative was clearly identified as being complementary to the continued observance of the economic objectives set out in the Maastricht Treaty. It was geared towards exploiting the available room for manoeuvre at both the Community and the national levels within this framework. Both the EcoFin and the Copenhagen European Council have since reviewed the Initiative's progress and the EcoFin, at its meeting of 19 April 1993, requested a further review in the Autumn to include details *"of the conjunctural situation, of the effectiveness of the measures already taken and of the possible need for further measures to be included in national budgets for 1994"*. This paper addresses this request as well as two parallel requests, firstly that by the Copenhagen European Council to continue to attach the highest priority to the Initiative and secondly, the request of the current Presidency to consider a further deepening of the measures undertaken as a possible response to the deterioration in growth and employment.

ECONOMIC DEVELOPMENTS SINCE THE INITIATIVE'S LAUNCH

The clearly deteriorating economic situation in the Community was the principal motive behind the launch of the Growth Initiative. This deterioration was reflected in the sharp downward revision to the Commission's January 1993 forecast for Community growth in 1993 from 2.4% to 0.8%. However, the downturn intensified in the following months and this growth figure was revised further downwards in the Summer 1993 to a fall of half a percentage point - the first negative growth figure projected for the Community as a whole since 1975. This further deterioration contributed to the Copenhagen European Council's decision to prolong and supplement the measures undertaken in pursuit of the Growth Initiative. This decision was additional to its request that the Commission present a **White Paper** on a a medium term strategy on growth, competitiveness and employment to the European Council in December.

Short-term growth prospects remain weak

In recent months there has been little evidence to support any significant amendment to the Commission's growth forecast for 1993. As expected, economic activity has slowed significantly and signs of recovery remain weak. Preliminary data for the first half of 1993 and survey evidence for the remainder of the year, suggests that the forecasted fall of half a percentage point in GDP in 1993 as a whole remains tenable. This generalised scenario masks significant country divergences with Germany enduring a severe recession and the U.K. showing increasingly positive signs of recovery. As regards prospects for 1994 there is little evidence to suggest any upward revision to the current growth forecast of just 1.4% of GDP.

The employment situation remains of great concern

The most serious consequence of the current downturn remains the very sharp rise in the jobless level in the Community. Unemployment in the Community rose to a level of 10.6% in July and is expected to continue rising for the remainder of the year and into 1994. While the rate of increase has been somewhat slower than expected, unemployment is nonetheless unacceptably high which emphasises the need for the fundamental review of the Community's growth and employment performance to be carried out by the European Council in December.

Consolidation of public finances is increasingly essential

While there is near universal recognition of the need to correct the unsustainable level of budgetary deficits in several Member States, the current downturn greatly complicates any such correction. The operation of the automatic stabilisers in a recessionary environment, in the absence of offsetting measures, leads to an inevitable deterioration in deficit levels. However, the necessary corrective measures have been slow to materialise particularly given the acceptance that pressure on public finances must be eased through expenditure cuts given the very limited scope for increased taxation. In the circumstances there is little or no prospect of an improvement in the forecast overall deficit for the Community in 1993 of 6.3% of GDP. Indeed there is the prospect of greater than anticipated deficit levels in several Member States. In the current economic environment the best contribution that budgetary policy can make to recovery is to announce credible, medium-term measures to reduce fiscal imbalances - the view expressed by the EcoFin at its meeting of 12 July.

Monetary conditions remain tight

Annual inflation in the Community, as measured by consumer price increases, has fallen by half a percentage point to 3½% in the year to August 1993. The easing of inflationary pressures has facilitated falls in both long and short-term interest rates in virtually all Member States, though the scope for reductions in several has been limited by the need for caution on the exchange rate consequences following the most recent tensions within the ERM. As inflationary pressures continue to ease, the prospects for an acceleration in short-term interest rate cuts can be expected to improve. However, these prospects would be further enhanced by stronger evidence of budgetary consolidation and wage moderation in Member States with continued unsatisfactory price performances.

The external environment remains unfavourable

World growth (excluding the Community) in output and trade in 1993 is likely to remain broadly within the range of 2.3% and 5.7% respectively forecast by the Commission. While the absence of reliable trade figures (largely due to the revised procedures accompanying the introduction of the Single Market) complicates the position, it appears that Community exports to the rest of the world are faring poorly. This is partly due to the continued recession in the EFTA bloc, the Community's largest trading partner, and the relatively poor performance of Community exports in the fastest growing regions such as Latin America and the Far East. The failure of short-term interest rates in the Community and the U.S. to converge in 1993, as anticipated, has also increased competitive pressures due to the smaller than expected appreciation of the dollar. The continuing absence of a conclusion to the Uruguay Round of trade talks also continues to have a damaging psychological effect on export growth potential.

Confidence indicators hover around historic lows

None of the principal measures of economic confidence have shown signs of recovery to date in 1993. The Commission's consumer confidence indicator has remained resolutely stuck at a level even lower than the previous trough reached during the 1981/83 recession. The industrial and construction confidence indicators are only marginally less pessimistic. These factors help explain the continued absence of credible signs of recovery in consumer and investment spending.

The Edinburgh Growth Initiative has helped to offset the worst effects of the current downturn. Nonetheless, it has to be repeated that its primary objective is to exploit the limited room for manoeuvre available to promote growth in the short-term. The factors which will ultimately determine the speed and strength of recovery meanwhile remain valid, namely the full implementation of the Maastricht Treaty, the full implementation of the Single Market programme, an improved commitment to price and exchange rate stability and sound fiscal policies, structural measures to improve employment prospects and the Community's international competitiveness and a successful conclusion to the Uruguay Round of trade negotiations. These in turn can assist consumer and business confidence to recover from their present very depressed levels, thus re-inforcing the recovery process.

THE IMPLEMENTATION OF THE GROWTH INITIATIVE'S RECOMMENDATIONS

The Edinburgh European Council attached priority to the implementation of its recommendations in accordance with the medium-term requirements outlined in the Maastricht Treaty. The Growth Initiative is therefore intended to remain coherent with the priority of restoring the Community economy to a growth path based on price and monetary stability, sound public finances, free competition and a sustainable balance of payments. It is focused on promoting investment in physical infrastructure and human capital and related progress on improved wage moderation and structural reforms. The measures have been undertaken at both the Community and national level and are designed to provide a concerted and mutually re-inforcing boost to economic activity. They are designed to strike a delicate balance between providing a short-term stimulus to economic activity and not jeopardising longer term growth prospects[1]. Within these necessary constraints, progress since the EcoFin's previous review of the Growth Initiative's implementation in April 1993 can be summarised as follows:

COMMUNITY MEASURES

The "temporary lending facility" of the EIB

Loans of almost ECU 3 billion in respect of 46 projects have already been granted under the **temporary lending facility** of ECU 5 billion established by the European Investment Bank, at the European Council's initiative - a virtual doubling of loan approvals since April. The total investment involved in these projects is estimated at ECU 27 billion. They are focused under four major groupings, transport, energy, telecommunications and the environment. This reflects the priority attached to the development of Trans-European Networks (TENs). The projects assisted include some of the most ambitious and far reaching undertaken in the Community in recent years such as the "Great Belt" link in Denmark, the Jubilee rail-line extension to London's docklands, the Belgian TGV and a gas pipeline between Italy and Algeria. A full list of assisted projects is attached (Annex I-A). In view of the lending facility's success, the Copenhagen European Council invited the EIB and the Commission to prolong its duration beyond 1994 and to increase its resources by ECU 3 billion. These additional resources are to be split between trans-european networks (ECU 2 billion) and measures to improve the competitiveness of SMEs (ECU 1 billion) - see below.

In addition, further loans of ECU 246 million have been approved for projects in the countries of central and eastern europe in respect of trans-european networks of mutual interest. These are aimed at up-grading air traffic services in Romania, Bulgaria and Poland and road transit links with the former two countries and the Slovak Republic. Finally, the Commission is also in the process of preparing a list of projects in the transport, telecommunications and energy sectors as part of the on-going commitment to the promotion of trans-european networks. This list will be submitted to the European Council scheduled for December 1993 and approved projects may benefit from the additional resources available under the temporary lending facility.

The European Investment Fund (EIF)

Progress has continued towards the establishment of a **European Investment Fund,** with capital of ECU 2 billion, to be provided by the European Investment Bank, the Community and private financial institutions. The fund will be able to

1 See Com (93) 164 of 19 April 1993 for a comprehensive list of the Community and national measures adopted under the Growth Initiative.

provide loan guarantees for projects with a total value of more than ECU 20 billion. The necessary additions to the statutes of the EIB were agreed by an inter-governmental conference on 25 March 1993. This enables national parliaments to proceed with the ratification of these additions to the statutes of the EIB. Since then the draft statute of the fund was approved by the Board of Directors of the EIB on 29 April. Arrangements for the necessary administrative framework and discussions with the financial institutions regarding their participation in the fund are also being finalised, with a view to the fund becoming operational by the end of 1993. However, this is conditional on the entry into force of the Act amending the Protocol on the Statute of the EIB. To date only two Member States (Denmark and Ireland) have fully implemented the required legislative changes. The EcoFin Council has therefore requested Member States to accelerate ratification so that the fund can contribute as quickly as possible to the Growth Initiative's aims.

Once operational, the Fund will offer a substantial addition to the existing financial instruments available for trans-european networks, facilitating in particular access to private finance. The Fund will also be active from the beginning in helping SMEs, by easing their access to loan funding in acceptable terms. The Commission and the Bank are determined to ensure that the impact of the Fund can be as rapid and effective as possible, with the Fund's finanacial services taking account of the specific needs of its two different spheres of activity. Work is already well advanced on the Fund's operational rules, and a preliminary indicative business plan is being prepared. Potential beneficiaries of the Fund's services will also need to be properly informed through appropriate publicity at Community and national level.

The Cohesion Fund

Considerable progress has been achieved in relation to accelerating investments under the new **Cohesion Fund** financial instrument under which ECU 1.5 billion is available in commitments in 1993. In order to encourage a rapid up-take under this fund, eligible projects submitted to the Commission before 1 September 1993 were to attract 2/3 of the first year payment rather than the normal 50% level. There has been a strong response to this incentive with all four cohesion fund Member States submitting project lists before the deadline. This has enabled the Commission to already approve total appropriations of ECU 300 million in respect of 21 projects (see Annex I-B for a full list of projects) in Spain (7), Ireland (9) and Portugal (5). Payments of ECU 154 million have already been effected in respect of these approvals which represents a satisfactory commencement. Consideration of outstanding applications is continuing and every effort is being made to expedite the approval and payment of further grant aid.

Structural Funds

Similarly, the amendments to the Regulations which govern the operations of the Structural Funds for the period 1994-99 were agreed by the Council on 20 July. The amended Regulations will allow the timely adoption on the new Community Support Frameworks (CSFs) 1994-99, therefore avoiding delays in the implementation of the 141 billion ECU structural fund package for that period. This amount represents a significant increase of resources for 1994-99 compared with the first period of the reform of the funds 1989-93; for Objective 1 regions resources from the Funds and the Cohesion Fund will allow for a doubling of Community assistance in 1999 compared to 1992. A number of Member States have submitted their regional development plans (and in some cases, as envisaged by the Regulations, operational programmes) and it is expected that other Member States will be forwarding their plans and, where possible, operational programmes as soon as possible. The Commission is committed to a rapid negotiation of the new CSFs which will allow expenditure commitments to be made from Spring 1994. Given that over ECU 20 billion will be available in commitments in 1994 this will impact strongly on investment growth next year. Meanwhile, the Commission will review in 1994, in the light of the potential for accelerating further SF spending, its proposal to put in place a bridging facility of ECU 5 billion to provide loans to Member States which can be recouped from future structural fund payments.

The revision of the European Social Fund regulation is of particular importance: a more effective and flexible response to the changing labour market requirements and specific challenges facing Member States is now possible. The creation of the new Objective 4, which aims to facilitate the adaptation of workers to industrial change and changes in production systems throughout the Community, adds a preventive dimension to the fight against unemployment and contributes to competitiveness and growth. Moreover, ESF support has been extended to cover those at risk of long-term unemployment as well as the long-term unemployed. (This latter flexibility was first introduced in the context of the Growth Initiative earlier this year as a derogation under the old regulation and several Member States have taken it up.) Particular emphasis is also placed in the new regulations on strengthening employment services, broadening the scope of direct aids to employment, extending the range and quality of initial training and, in the least favoured regions, reinforcing education and training systems.

Small and medium sized enterprises

The potential for greatly increased employment creation in SMEs is widely recognised. Accordingly, the Edinburgh European Council strongly emphasised the need to implement measures to encourage private investment by SMEs. This need has been addressed through the adoption by the Council on 14 June 1993 of a new multi-annual action programme to cover the period 1 July 1993 to end 1996.

This action programme foresees an overall expenditure of ECU 112.2 million of which ECU 85 million are earmarked for growth related measures including measures aimed at increasing the awareness of the opportunities of SMEs arising from the Single Market and instruments for the promotion of partnerships and cooperations between enterprises established in different Community countries.

In addition the Copenhagen European Council provided for additional loans of ECU 1 billion under the EIB temporary lending facility for measures to improve the competitiveness of SMEs, with an interest rate subsidy linked to employment creation. Following examination by EcoFin on 13 September, the Commission is examining the possibility of new proposals for the implementation of such a subsidy scheme as part of a Community Initiative. The European Council in December will review the loan resources available for SMEs in the light of the utilisation of the resources available under the temporary lending facility. Measures aimed at exploiting the job creation potential of SMEs will also be included on the forthcoming **White Paper** to be presented to the European Council in December.

Training

Training is assuming an increasingly important role at the Community level, particularly given the need to upgrade the level of skills in the workforce to improve competitiveness and the need to improve the employment prospects of the large number of long-term and young unemployed throughout the Community. This enhanced role is reflected in the increased resources available to Member States under the European Social Fund. Given the current unacceptable level of unemployment in the Community the Employment and Social Affairs Ministers have requested the Commission to come forward with suggestions for action to deal with this situation. In response a programme of analysis and co-ordinated actions will be presented to the Council over the next 18 months. This programme will focus on issues such as adaptability of the workplace, the development of new working time structures, training and incentive systems, improved employment intensity, exploiting the job creating potential of SMEs and local initiatives etc. The need for new strategies in relation to training and education also featured prominently at the Copenhagen European Council and will be addressed further in the forthcoming **White Paper** for the December European Council. Further, it should be added that over the next few weeks the Commission will submit action proposals for developing cooperation action in the field of education and training, as a follow up of existing action programmes such as COMETT, ERASMUS, FORCE, PETRA, etc. ...

Research and Development

A financial supplement to the third framework programme for the promotion of Community research and development was agreed by the Council of Research Ministers on 13 March 1993. The additional resources of ECU 900 million will greatly stimulate this sector which has been under resourced throughout the Community. Meanwhile, proposals for the fourth framework programme to cover the period 1994-1998 were forwarded on 17 June 1993 to the Council and Parliament and working documents on the specific programmes are in preparation. An indicative amount of ECU 11.6 billion should be available under the fourth framework programme, plus ECU 1.5 billion for EURATOM. The request by the Edinburgh European Council to *bring forward proposals for improving the management and efficiency of research funded by the Community to achieve better* *economic effectiveness* is closely addressed in the new programme which specifically aims at increasing the impact of Community R&D on european competitiveness, as well as in a manual of revised management procedures which the Commission has in preparation.

However, even greater efforts are required if the Community is to improve its international competitiveness in key industrial sectors where it lags behind the U.S. and Japan in particular. This was explicitly recognised in the presentation to the Copenhagen Council on the competitiveness of the Community economy which, inter alia, identified the objective of raising spending on R&D from 2% to 3% of GNP. Not only the quantity but also the quality of R&D spending is important. These issues will feature in the forthcoming **White Paper** to be presented to the European Council in December.

The Internal Market and other Community Structural Measures

It has long been apparent that structural factors account to a very substantial degree for the current economic difficulties in the Community, particularly in relation to labour markets. Measures to tackle these structural rigidities have featured strongly in the contributions of Member States to the Growth Initiative. At the Community level, the Single Market Programme constitutes the major initiative aimed at removing structural obstacles to growth in the Community (together with the structural and cohesion funds referred to above). The Single Market programme as set out in the 1985 White Paper has now been about 95% completed and about 85% of the necessary transposition measures have been adopted by the Member States. The Commission is making every effort to ensure the early completion of the remaining steps, particularly as regards freedom of movement of persons. However, it is necessary to ensure that the framework that has been established will operate efficiently, and, where a clear need exists to remove obstacles to trade, further measures must be considered.

With this in mind, the Commission published, in June, a communication to the Council on *Reinforcing the effectiveness of the Internal Market,* together with a working document, *Towards a strategic programme for the Internal Market.* This working document has served as a basis for consultation with a view to taking account of a wide range of views in the preparation of the strategic programme itself by the end of 1993. The programme will cover the action necessary to consolidate what has been achieved to date, particularly by reinforcing the partnership between the Commission and the Member States in the implementation of the Internal Market legislation and by improving the transparency of legislation; it will also indicates certain areas in which further measures may be required, particularly in order to improve the environment for businesses, including improvements to the tax environment so as to eliminate obstacles to co-operation and cross-border activities, an active policy of standardization, and a policy for quality. The programme will also envisage a coherent and coordinated approach to the development of trans-european networks in the transport, energy and telecommunications sectors, which are of major importance in ensuring that the full benefits of the Internal Market are realized.

Nonetheless, the Copenhagen European Council recognised that still greater progress is required on the structural front in order to significantly reduce the present intolerable level of unemployment in the Community. The Council considered that these structural measures should be tackled by individual Member States in accordance with their particular characteristics. However, at the Community level, it associated itself fully with the analysis presented by President Delors in relation to a medium term plan for economic recovery in Europe. As a follow-up to the President's analysis it requested the Commission to present a **White Paper** on a a medium term strategy on growth, competitiveness and employment to the European Council in December.

This new initiative is aimed primarily at improving the Community's competitiveness and reversing its poor employment creation record relative to its trading partners. The **White Paper** will develop further the measures outlined in President Delors' presentation ("A l'aube du XXIème siècle"). Member States have forwarded specific measures and ideas to the Commission for possible inclusion in the paper. In turn, the Commission will integrate the themes of the **White Paper** into its proposal on the broad guidelines of the economic policies of the Member States and of the Community to permit the EcoFin to take it into account in its submission to the European Council in December.

NATIONAL MEASURES

The strategy recommended by the Edinburgh European Council in relation to the measures to be pursued by Member States under the Growth Initiative centered on the following priorities:

- exploit the limited margins of manoeuvre available for budgetary policy;
- switch public expenditure towards infrastructure investment and other growth supporting priorities;
- implement measures to encourage private investment (especially by SME's);
- introduce further structural adjustment measures to enhance competition and market flexibility;
- restrain wage settlements in the public sector.

These priorities feature prominently in the measures adopted by virtually all Member States under the Growth Initiative. A full update by Member States of progress in relation to the measures reviewed by the EcoFin Council in April and subsequent measures is attached in Annex II. The following general overview highlights the progress achieved to date.

Promotion of public investment

Member States have been urged to afford priority to public investment in their spending plans in order to avoid a repetition of the experience of previous recessions when it was the first casualty of expenditure cutbacks. This strategy seems to be meeting with a positive response and public investment in the Community has continued to escape the brunt of spending cuts. This in turn is offsetting the impact of the very sharp fall-off in private investment on total investment growth. The available budgetary plans for Member States for 1994 point to a continuation of this strategy.

New innovative approaches to fund public investment have been adopted including the "Balladur bond" in France (which is principally aimed at promoting private investment), the "Natural Gas Fund" in the Netherlands and increased public and private sector joint ventures in the UK. In the four Cohesion Member States, public investment is being increased through the additional resources available under the new CSFs and through the new Cohesion Fund financial instrument. France, Denmark, Belgium, Greece and Ireland have all adopted additional measures to promote public housing investment.

Reduction of public consumption growth

The positive developments in relation to public investment are being accompanied by a very significant slowdown in public consumption growth. Having risen at a real average annual rate of 2¼% since 1974, public consumption growth has now slowed to the region of a ¼ to ½ a percentage point in 1993 - its lowest rate in several decades. The fall is particularly large in Germany, where the authorities commitment to reducing public spending is meeting with considerable success. Moreover, the much improved public sector wage moderation underlying this overall trend is helping to reduce wage pressures generally, as advocated by the Edinburgh European Council. In most Member States (e.g. Italy, UK, Greece, Spain, Portugal, Germany, Denmark), the rise in public sector wages in 1994 is now projected to again remain at or below the rate of inflation.

Promotion of private investment

Measures to improve business investment feature strongly in Member States' contributions to the Growth Initiative, particularly in relation to small and medium sized enterprises. These are largely concentrated on tax incentives or tax reductions for enterprises, loan subsidies for start-up businesses or measures to boost private housing demand and hence the construction industry. The newly created funds in Portugal which are providing risk capital to firms are such an example. In the Netherlands, the new "industrial facility" is a similar initiative. In general, however, there is an even greater recognition that structural rather than fiscal measures are required to boost private investment and hence the latter is increasingly the focus of attention.

Tackling of structural rigidities

There is an increasing recognition by Member States that the structural reforms necessary to improve their growth potential must finally be tackled. This is in contrast with the lack of commitment to such reforms in the past when they were frequently postponed, as the short-term cost was given higher priority than the much greater long-term gains. At the Community level, the removal of structural obstacles to improved output and employment growth feature prominently in the reflections for the White Paper being prepared for the European Council in December. At the national level, Member States are beginning to show an increased commitment to such reforms, including:

1. measures to improve **work incentives** such as tighter controls of disability benefits, extension of qualifying periods for pensions, increased re-training opportunities etc;

2. measures to increase **labour market flexibility**, such as greater access of employers and workers to part-time working, job sharing, temporary leave for family/study purposes, private employment agencies etc;

3. in order to promote competition, increased **privatisations** of public companies and reduced expenditures on **state aids** - measures which will also ease the public spending burden;

4. reduced and simplified **regulation** of planning procedures, particularly for industry, to reduce the incentives for Community enterprises to invest elsewhere.

In several cases the implementation of these structural adjustment measures is being assisted through on-going dialogue with the social partners.

THE NEED FOR A CONTINUED COMMITMENT

The April EcoFin undertook to consider the possible need for further measures to be included in national budgets for 1994 in its Autumn review of the Growth Initiative. In the meantime, the Copenhagen European Council agreed on a number of additional Community measures, particularly the extension and prolongation of the temporary lending facility administered by the EIB. At the **national level**, besides the prudent management of macroeconomic policies, growth oriented measures should continue to be actively pursued. At the Community level, given that there has been little fundamental change in the economic situation since the Copenhagen European Council's review of the Growth Initiative, the existing *general* orientations remain valid, namely:

1. it is essential to increasingly direct public spending towards growth oriented expenditures, principally by boosting investment. The Commission's Spring forecasts for 1994 pointed to much stronger growth in real public investment than in public consumption. This trend, if realised in Member States budgetary plans for 1994,

compares favourably with previous recessions when public investment bore the brunt of public expenditure cuts;

2. it is similarly essential to promote private investment, with particular attention to small and medium sized enterprises. A reduction in labour taxes and a consequential improvement in the competitiveness of Community industry would be a step in the right direction in this respect;

3. a continued commitment to wage restraint where there has been encouraging signs of progress in several Member States. This commitment is especially important in respect of the public sector, in order to both relieve pressure on over-stretched public finances and to set an example for private sector wage developments;

4. a more determined implementation of structural reforms is required, particularly in relation to labour markets, in order to improve the Community's competitiveness and speed of response to structural change; these include the upgrading of education and training systems and support for active employment measures with a view to improving the flexibility of the labour market;

and *specifically*;

5. the continued monitoring of the EIB's temporary lending facility and the consideration of even further additional resources in the light of the utilisation of funds observed in 1994; and

6. accelerated efforts to ratify the changes in the statutes of the European Investment Bank in the national parliaments, in order for the proposed European Investment Fund to become operational;

As emphasised by the Copenhagen European Council, concerted and coordinated action by all Member States is the most effective means to promoting recovery. In the present conjuncture such action would be mutually re-inforcing and supportive. Finally, greater coordination with the Community's principal trading partners of measures to promote recovery (EFTA members' growth initiatives, the increased attention to unemployment in the deliberations of the G7 and the (third) Japanese fiscal package) should also be pursued.

PROMOTING ECONOMIC RECOVERY IN EUROPE

(The Edinburgh Growth Initiative)

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ANNEX I

Actions and measures at Community level

A - Temporary Lending Facility: Approved Projects

B - Cohesion Fund: Approved Projects

TEMPORARY LENDING FACILITY: APPROVED PROJECTS
(up to July 1993)

(ECU million)

	New Loans (temporary facility)	Total EIB (including earlier loans)	Project Cost
TRANSPORT			
Supporting Eurocontrol to set up a unified system of air traffic control	79	176	368
Expanding and improving the passenger handling capacity of six airports: Frankfurt, Paris-Roissy, Torino-Caselle, Palma de Mallorca, Barcelona, Malaga	247	585	1645
Construction of Danish, French and Greek motorways. Automation of toll charging in Italian Motorways	292	899	1433
Modernisation of the Danish railways. Construction of the Belgian HST	250	960	2035
Great Belt link	50	672	5683
London's Jubilee Line Extension	188	188	2605
Small road infrastructure projects carried out by British Local authorities and French and Spanish regions	166	518	893
Sub-total	**1272**	**3998**	**14662**
ENERGY			
Algeria-Italy natural gas pipeline. Italian section	196	476	2246
Renovation of natural gas transmission system in the new German Länder	78	230	445
Upgrading the electricity grids of Ireland, Portugal and several Spanish regions	299	768	1048
Sub-total	**573**	**1474**	**3739**
TELECOMMUNICATIONS			
Modernisation of trunk telecommunications in Italy	196	448	708
Extension and modernisation of telecommunications in Ireland	63	188	361
Extension of the telephone network in the new German Länder	153	486	709
Modernisation of the British switching network (BT)	93	375	1650
Modernisation of the telephone network in Portugal	84	336	1100
Sub-total	**589**	**1833**	**4528**
ENVIRONMENT			
Water management facilities in UK, France, Portugal and Spain; other small environmental projects in France and the Netherlands	541	2186	3966
Sub-total	**541**	**2186**	**3966**
TOTAL	**2975**	**9491**	**26895**

COHESION FUND: APPROVED PROJECTS
(up to end September 1993)

(ECU million)

Country	Project	Total Cost	Contribution from EC
IRELAND	Longford by-pass	8.4	7.1
	Killarney inter-change	4.2	3.6
	Enniscorthy-Wexford road	6.4	5.4
	Killongford-Dungarvan	2.8	2.5
	Drogheda by-pass	1.9	1.6
	Balbriggan by-pass	1.9	1.6
	Dunleer-Dundalk	3.1	2.7
	River Lee tunnel	3.1	2.7
	Robertstown sewage scheme	1.9	1.3
	Sub-total	**33.7**	**28.5**
SPAIN	Ring Road Madrid M40 West	112.5	81.7
	Ring Road Madrid M40 North Tr3	85.3	63.0
	Madrid-Valencia (Fuente de Higuera-Silla-1st phase)	1.3	1.1
	Masarabique (TGV Sevilla)	4.0	3.2
	Valencia-Terragona-Barcelona (1st phase)	4.0	3.3
	Madrid-Barcelona (TGV - 1st phase)	9.8	8.0
	Hydrographic Basins	40.8	32.7
	Sub-total	**257.7**	**193.0**
PORTUGAL	Northern Line - Modernization	40.2	32.2
	A1 Alverca -Vila Franca de Xira	40.5	32.4
	A1 Vila Franca de Xira - Carregado	7.9	6.3
	Cleansing of Alviela Basin	5.8	5.0
	Sewage Treatment	1.1	1.1
	Water reception and coastal erosion measures	0.7	0.7
	Sub-total	**96.2**	**77.7**
	TOTAL	**387.6**	**299.2**

PROMOTING ECONOMIC RECOVERY IN EUROPE

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ANNEX II

Actions and measures at national level

(Contributions presented by Member States)

- Belgium
- Denmark
- Germany
- Greece
- France
- Ireland
- Italy
- The Netherlands
- Portugal
- United Kingdom

Le Gouvernement grec a informé la Commission que la contribution grecque se réfère seulement à des politiques antérieures et non pas à des positions et politiques futures. Une nouvelle contribution sera fournie par le nouveau gouvernement lorsqu'il aura reçu le vote de confiance du Parlement grec.

PROMOTING ECONOMIC RECOVERY IN EUROPE (THE EDINBURGH GROWTH INITIATIVE) Autumn 1993 Review

Belgium

I. Federal Government

1. At the end of July 1993, the Belgian Government launched an appeal in favour of a broad pact concerning the global problems of employment, competitiveness and social security.

   The main objectives of this pact are the following :

   - to preserve the competitiveness of the Belgian enterprises;
   - to reduce labour costs in order to stimulate employment;
   - to grant employment opportunities to more people especially through flexible labour redistribution formulas and a higher efficiency and flexibility of the labour market;
   - to adapt the social security to demographic evolutions and to the development of a post-industrial society, while preserving its financial equilibrium and maintaining the fundamental solidarity principles on which the social security is based.

   Once the social pact is concluded, the Government commits itself to introduce a draft legislative framework to Parliament in order to reach the objectives, on the basis of the results deriving from the consultative process.

2. The employment policy has three main objectives: intensive supporting and training of the unemployed workers, reduction of the labour costs and redistribution of the available jobs.

   a) The support and training policy is being implemented.

   b) The Government has decided to reduce the labour costs (BFR 8.5 billion to alleviate the charge of the firms' social contributions and BFR 1 billion for a plan aimed at hiring workers).

   c) Measures have been taken within the scope of the round table on employment, especially :

      (i) an employment plan for young people which is based on an exemption of social security contributions;

      (ii) half-time early retirement opportunity from 55 years of age onwards;

      (iii) career interruption, limited to maximum three years;

      (iv) setting up of a support cell for corporate restructuring.

The global cost is estimated at BFR 1.3 billion for 1994 and about BFR 2.2 billion for 1995.

3. As far as privatization is concerned, a private holding has bought the CGER (Bank and Insurance) for an amount of 49% of the shares, including a control right. The bid amounts to BFR 35 billion. Certain agreements have been signed between the Government and the buyer. The procedure for selling other assets goes on and new operations will take place. For 1994, sales are estimated at BFR 40 billion. To this end, the Government has asked the Commission for the Evaluation of the Public Assets to examine the following possibilities :
   - sales of real estimate;
   - creation of the legal conditions to allow the introduction of BELGACOM in the stock exchange and to open a minority share of its capital to the public;
   - realization of additional revenues coming from the National Lottery, for example through licensing for commercial operations.

4. The Government has decided a reorganization of the federal public services in order to guarantee a more efficient functioning of the civil service.

II. Flemish Community

1. The Flemish Government has increased its capital expenditure by 16.4% (from BFR 91.4billion in 1992 to BFR 106.4 billion in 1993.

   More than half of the BFR 15 billion increase has taken place in the housing, environment and public works sector (BFR 12.5 billion).

   Important credit increases have been realized in the following fields :
   - social housing (+BFR 5 billion);
   - building of "service flats" and rest homes (+BFR1.1 billion);
   - infrastructure works (+BFR 3.5 billion);
   - waste collection and processing (+ BFR 0.7 billion).

   Investment programmes will be kept at a high level in 1994.

   The financial means for this growth oriented policy have been freed thanks to the scaling down of aid to enterprises.

2. During 1993, the Flemish Government has approved a package of measures aimed at promoting employment. BFR 500 million have been budgeted for 1993. This amount will be brought up to BFR 4.55 billion in 1994.

   The main new projects which will be launched are the following :
   - specific plan to guarantee employment for young people (BFR 900 million);
   - initiative to stimulate part-time work (BFR 1.2 billion);

- supplementary infrastructure works (BFR 475 million);
- modernization projects for social housing (BFR 400 million);
- investments for selective waste collection (BFR 240 million);
- additional jobs in the health sector (BFR700 million).

III. Walloon Region

The main measures taken are the following :

1. BFR 2 billion selective stimulative measures for employment:
   a) a first billion relates to the acceleration of equipment works in order to promote a rapid location of companies and SME;
   b) a second billion is allocated to policies concerning mainly :
      (i) foreign trade (BFR 250 million for export);
      (ii) employment promotion in the profit sector;
         - BFR 150 million for integration contracts in companies;
         - BFR 100 million for scientific and technological research;
         - BFR 250 million for road works;
         - BFR 250 million for urban renewal and housing.

   The objective is to commit these funds to labour intensive projects before the end of the year.

2. Involvement of the Region in the support plan at the federal level.

3. Creation of the "Employment Observatory" to improve the knowledge of the labour market.

4. Initiative to allow 2.000 additional trainings within the scope of the second stage of the support plan for the unemployed.

IV. Brussels Region

1. Forecasted capital expenditures in the regional budget have been revised downward during 1993. The investment programme which initially amounted to BFR 8.22 billion has been reduced to BFR 7.51 billion. These investments will amount to BFR 6.99 billion in 1994.

2. For employment, the effort of BFR 206 million announced for the 1993-1994 period is increased by BFR 5 million.
   (i) BFR 81 million in the framework of the support plan for the unemployed;
   (ii) BFR 112.2 million for measures linked to objectives 3 and 4 of the new regulation of the European Social Fund;

(iii) BFR 18 million for professional integration.

3. As far as the economic expansion is concerned, the current means will be re-oriented mainly to different actions in favour of SME and promotion of regional economy.

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Denmark

The Ecofin Council requested at its meeting of April 19, 1993 a further review in the Autumn of the Community Growth Initiative. This should include details of the conjunctural situation and of the effectiveness of the measures already taken and of the possible need for further measures to be included in national budgets for 1994.

The Economic Situation in Denmark in 1993 and 1994

The Danish economy has experienced slow growth and increasing unemployment through the last seven years. The unemployment figures have now risen to such an extent that the risk of unemployment is seriously affecting business and consumer confidence.

In this situation the Danish Government has taken an initiative lead in spring 1993. A temporary fiscal stimulus was implemented, mainly starting in 1994, in order to arrest the rise in unemployment and restore private sector confidence. These initiatives were accompanied by structured reform of the income tax system and the labour market in order to establish the ground work for long-term sustained growth.

Since the announcement of the "Growth Initiative" in May the outlook for growth in Denmark in 1993 has been revised downwards to just 1/4% against 3/4% foreseen in May. A significant pick up in activity in 1994 is foreseen, although the growth expectations for 1994 also have been modified (down 1/2 percentage point to slightly less than 3%) since May 1993. The main reason for dampening expectations is the more gloomy prognoses for the international economy - and notably the European economies - which surfaced during the summer. But also developments of some parts of domestic demand has been disappointing, especially housing construction and urban renewal and - to a lesser extent - private consumption.

The inflation rate is seen to remain modest in the Danish economy of around 3% in 1994, which is only slightly more than this year.

One main factor behind the expectation of the domestic growth resumption from 1994 is the temporary fiscal stimulus to the economy contained in the Government initiatives, finally adopted in June. Another important factor is a strong fall in the interest rate from 1992 to 1993.

As mentioned in the Danish contribution to the EC Growth Initiative (including the addendum) key elements in the fiscal stimulus are acceleration of public investments, the introduction of subsidies to consumer services and a tax reform. The tax reform introduces earmarked labour market contributions and significant reductions of the personal income tax. The net revenue loss in 1994 will be of the size of about one per cent of total personal disposable incomes. This revenue loss will be gradually recovered by increasing green taxes and other taxes over the years until 1998.

These growth initiatives were taken in extension of the agreement on structural reforms in the labour market (including a leave of absence reform) and increased educational activities earlier in spring 1993.

As the fiscal stimulus is temporary and as activity in the private sector picks up, the above mentioned efforts to reduce unemployment are consistent with a medium-term fiscal policy aiming at budget consolidation and it is a significant contribution to the EEC growth initiative agreed on by the European Council in Edinburgh and Copenhagen.

Some of the above mentioned initiatives have become effective already this year. The limit for grants to household repair and maintenance has been increased twice this year by 1/2 bill, DKK to a total of 2 1/2 bill, DKK for 1993, in order to improve the employment situation in the building sector.

But the main elements in the "Growth Package" will be concentrated in 1994 and the following years. This autumn proposals for further measures directed towards implementing the initiatives in the "Growth Package" will be presented. Although the main direct impact of the Growth Package will not be felt until next year it is thought, that there has already been important effects on business and consumer confidence.

In the agreement from June 1993 between the Government and local authorities (kommuner og amter), the local authorities were given better loan opportunities for investment and temporary grants for extra expenses on topics of high priority e.g.. care for elderly people, in this way local fincances are integrated in the Governments "Growth Initiative".

In the course of this autumn further work will be done within fixed expenditure limits - in order to allocate resources to small and medium size firms specially with the aim of promoting finance. Moreover methods to strengthen the education activities for full-time students as well as retraining of persons already in the labour force are under review.

In the financial markets several initiatives have been passed in order to improve conditions on the real estate market, including an easing of the regulations and the financing of owner occupied houses. Further initiatives are under study in order to remove other impediments, thus making it possible to obtain the full benefits of lower interest rates.

The budgetary consequences of the Government part of the initiatives are integrated in the Budget Proposal for 1994, which was presented by the Minister of Finance on the 31st August.

It is the Government's objective in effect to keep the public expenditure markedly below the growth rate of the economy. This is the case with the Budget for 1994. The limits for expenditure now have been set, as it is a key principle of the expenditure control system that ministers must finance new initiatives by changing priorities within fixed limits.

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Germany

I. Progress on implementing the Edinburgh Initiative

The measures communicated in April (see COM(93)164 final) as Germany's contribution to the Edinburgh Growth Initiative have been swiftly put into practice in the intervening period. The main points are as follows:

- The Federal Consolidation Programme (FKP), which is part of the Solidarity Pact, became law in May:
  - under the new Federal fiscal equalization mechanism, from 1995 the new Länder and their local authorities will receive transfers and reliefs amounting to approximately DM 57 billion; this will provide the catching-up process in eastern Germany with a clear and solid financial framework;
  - from 1995, the financial management of the inherited debts of the Treuhandanstalt, the Loan Processing Fund (Kreditabwicklungsfond) and the East German housing system (Wohnungswirtschaft) will be handled by an Inherited Debt Redemption Fund (Erblastentilgungsfond);
- In the field of taxation, in early July the Bundestag and the Bundesrat passed the Law to improve the investment environment (Standortsicherungsgesetz), which becomes effective in 1994 and 1995. The main new provisions are:
  - reduction of corporation tax on retained profits from 50% to 45% and on distributed profits from 36% to 30%;
  - reduction of the top marginal rate of income tax on business income from 53% to 47%;
  - promotion of small and medium-sized firms through introduction of a DM 500 000 inheritance tax allowance for business assets and a tax depreciation scheme for savings.

II. Additional measures taken since 19 April

1. Budgetary measures

- The automatic stabilizers continue to operate, especially under the supplementary budget for 1993 (cyclical shortfall of tax revenues of DM 6.4 billion and extra expenditure in the labour market area of DM 19.1 billion not financed by expenditure cuts and/or extra revenues). Any additional cyclical effects are not to be offset either through expenditure cuts and/or extra revenues.
  - The Federal Government's consolidation strategy is being continued. The budget reliefs in the FKP are supplemented by deeper expenditure cuts. On 11 August, the Cabinet approved a Savings, Consolidation and Growth

Programme (SKWP) which is currently before Parliament and will be adopted in November. The plan is to curb the Federal budget by about DM 21 billion in 1994, rising to nearly DM 29 billion annually from 1996. The public authority budgets as a whole are to be reined in by about DM 25 billion in 1994, rising to about DM 35 billion by 1996. Savings measures consist primarily of significant cuts in consumption expenditure (social security, government expenditure on goods and services), thereby improving the structure of public-sector budgets and, in the long term, their contribution to growth.

- In the Federal budget for 1994, additional measures are planned for promoting growth and employment:
  - public investment by the Federal Government is to be brought forward to the first half of 1994. At the same time, the Länder and local authorities and the railways and the Post Office will be urged to follow this example;
  - productive investment in the Federal budget will be stepped up:
    - including ERDF resources, about DM 7.3 billion will be available in 1994 as appropriations for the joint Federal Government/Länder programme for improving regional economic structures. Thus, this important promotional instrument is maintained at a high level;
    - the funds available for promoting urban development are increased to DM 1 billion in 1994;
    - in the case of new housing construction, owner-occupiers will continue for a further year to benefit from tax relief for debt interest: this concession now also applies to housing projects which will be completed by 31 December 1995 (formerly by 31 December 1994).

2. Structural measures

- As regards the labour market, the draft of a new Working Hours Law has been adopted which is intended to increase the competitiveness of the German economy. Among other things it provides for further exemptions from the ban on working on Sundays and public holidays. Private, commercially operated employment agencies are being given an opportunity to prove themselves in two-year pilot projects.
- Work has proceeded on the remaining privatizations, reorganizations and closures in the new Länder. By July the Treuhand had concluded a total of 12 806 privatization contracts, for 5 458 enterprises, 6 951 sections of businesses and 397 mining concessions. Large-scale projects affecting the country as a whole will also be launched as part of the planned reform of the railway system and the privatization of the post.
- On deregulation, efforts are being made to simplify planning requirements for investment in buildings and roads, and to speed up approval procedures for industrial plant. Particularly severe government restrictions and regulations governing approval for power stations or the chemical industry, for example, are to be abolished.
- The system of financial assistance and tax reliefs has been marked by a reduction in subsidies in the West and an increase in aid in the new Länder which is intended to

underpin the process of adaptation there. The rise in total financial assistance and tax reliefs provided by the Federal Government, from DM 36.6 billion in 1993 to DM 37.6 billion in 1994, is a result of an exceptional item, namely inherited housing construction debt in the new Länder. In the old Länder, by contrast, Federal subsidies are to fall in 1994 by 8% on the previous year, to DM 22 billion, and by about a quarter on 1991. This will help to remove structural obstacles to growth.

- The Federal Government is also taking measures to strengthen the international competitiveness of the German economy in the medium term. The Government's report on improving the investment environment in Germany sets out a number of medium-term objectives. These include a reduction in public spending as a proportion of GDP, a restriction of state aid, and the continuation of the growth-oriented tax reform process. Work is in hand on the formulation of future objectives for social security systems, deregulation, privatization, research and development, education and training, infrastructure, the environment, energy policy and the division of labour at world level.

3. Wage moderation

- After the excessively expansionary wage policy of 1991 and 1992, the wage trend was set on a more moderate course in the old Länder in 1993, with settlements of between 3 and 4%. In the new Länder, delays were agreed in moving towards western wage levels. In the mechanical and electrical engineering industry, for example, wages are now to be brought fully into line with the West on 1 July 1996 rather than 1 April 1994.

- In the medium term, wage moderation is set to continue in the West. By way of example, the agreement under the Savings, Consolidation and Growth Programme not to increase civil servants' salaries in 1994 sends an important signal for the next round of wage negotiations.

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Greece

I. Privatization

Virtually all of the 66 companies under the state-holding company Industrial Restructuration Organization (IRO) have been sold or placed under liquidation. State-owned banks are also in the process of selling companies in which they own a majority share. Recent privatizations include two shipyards and a major textile company.

Following the award of two licenses for mobile telephones to the private sector for a record fee last August, the network is already functioning in the Athens area.

Pending the general elections of October 10th 1993, a number of additional important privatization initiatives are well under way :

> Following the adoption of the new regulatory framework for tele-communications (Law 2075/92), the law for the privatization of the Hellenic Telecommunications Organization (OTE) (Law 2167/93) was voted in August. A total of 49% of the shares would be divided between a strategic partner (35%), and OTE's employees and the wider public through a public offering (14%).
>
> In the area of energy, a major step to increase competition and reduce costs in the energy sector was taken in July with the adoption of Law 2165/93, which permits new electricity generation plants to be constructed and operated by the private sector on a BOT basis.
>
> Furthermore, the adoption of Law 2160/93 in July for the development of the tourist sector would permit the construction and operation in Greece of casinos and tourist marinas by the private sector. The law also provides the transfer to the private sector of state-owned hotels through leasing agreements.
>
> The process of privatizing the two state-owned refineries is also well advanced, and would normally be concluded by end-1993.

These projects are additional to certain projects listed under infrastructure investment which include private sector involvement on a BOT basis in areas that were hitherto public monopolies (such as the Athens airport and the road to the airport).

II. Infrastructure investment

There has been a major shift in priority for public consumption to public investment in the 1993 budget. Expenditure of the public investment budget is projected to increase to 5,6% of GDP from 4,8% in 1992.

Among the infrastructure projects to be financed by the Delors II package, a list of which has been published, the Metro of Athens is already under construction. In August, the contract for the Athens Airport of Spata, which will be constructed on a BOT basis with little public funding, was awarded to a German consortium. A number of other infrastructure projects are under examination for their financing and construction planning.

To further promote private and public investment, in July the Government decided to request an EIB global loan to finance the national budget contribution of investment grants under Law 1892/90. Up to 70% of these grants could be financed from the Community's Structural Funds, thus leaving a margin to be financed through an EIB global loan, subject to the requirement that EIB financing cannot exceed 50% of total project cost and that Community support (Structural Funds and EIB) cannot exceed 70% of total project cost.

It was also decided to set up a working group within the Ministry of National Economy to identify investment projects outside the Community Support Framework which may be eligible for EIB financing. These include mainly investment budget grants to local authorities.

III. Competition policy

Further progress has been made in lifting administrative and legal barriers to market entry and competition, including those applying to professional associations. Following decrees opening up the profession of auditors, lifting restrictions on the sale of bread and liberalizing shopping hours, further initiatives were taken since last April. The commercial exploitation of private ports was permitted, in competition with public ports (Law 2160/93), and the professions of housing brokers and commercial representatives were opened to competition by abolishing barriers to entry (Decree 248/93).

The banking system has been further liberalized. The requirement on banks to invest a certain percentage of new deposits in goverment paper was abolished as from May 1, 1993, while the requirement to extend loans to small- and medium-size enterprises was abolished as from 1 July, 1993. Bank lending rates are now almost fully liberalized; banks are free to determine interest rates on over 90% of their loans. Minimum interest rates on deposit accounts have been lifted. Banks have been authorized to extend credit on their own terms and to offer new financial services and products. Finally, the ceiling on consumer credit has been raised from DRA 200,000 to 300,000.

Following the full liberalization of current international transactions in July 1992, when Greece accepted the obligations of Article VIII of the IMF, capital transactions were liberalized by Presidential decree in March 1993. All long-term capital flows and most short term flows to EC countries were fully liberalized, and residents were allowed to enter freely into transactions in a range of derivatives and to conduct forward market operations. The liberalization was extended to third countries in May 1993. The only remaining restrictions, to be lifted in June 1994, relate to short-term lending to non-residents and to short-term deposits of residents abroad.

IV. Tax reform

In August, a new tax law (Law 2166/93) was introduced aimed at :

- facilitating mergers and acquisitions of firms by introducting a modern legal framework and providing tax credits and exemptions;
- facilitating the payments of tax arrears through incentives to tax payers and tax collectors;

- providing for the establishment and the functioning of the Capital Market Committee, responsible for the supervision and the implementation of the capital market legislation;
- providing for the abolition, as of 1.1.94, of the Special Tax on Banking Turnover (EFTE) which adds about 2% to borrowing costs. A part of this tax, equal to 3% of bank loans contracted, was abolished in June 1993.

V. Wage moderation

Incomes policy in the public sector was exceptionnally tight in 1993 to help curb budgetary expenditure. Public sector salaries rose by 4% in January, while public sector pensions were adjusted by 4% in January and by 2% in July. In the broader public sector restrictions on the wage bills of public enterprises and entities remain in force through 1994.

In the private sector, a collective agreement was reached in June 1993 which took into consideration the need for wage moderation. The agreement provided for a 4% wage increase in the first half of 1993 and a 7% increase in the second half. It also provided for training and retraining at the expense of employees.

VI. Investment incentives

In an effort to increase EIB lending to Greece, measures were adopted to reduce reduce the cost of such loans through tax exemptions and by lowering the cost of obtaining government guarantees (Law 2166). Specifically :

- Commercial and investment bank loans were exempted from the 1% and 0,1% tax, respectively, levied on the basis of Law 128/75 to fund interest rate subsides, if the lending resources come from EIB global loans.
- The cost of obtaining the government guarantee required by the EIB on global loans was lowered to 0,1%, from 1% and 0,5% for commercial and investment banks respectively.

In addition to reducing borrowing costs, these measures are expected to increase competition between commercial and investment banks, and also between Greek and foreign banks, which often obtain guarantees at minimal cost from their parent institution.

Moreover, Law 2166/93 extended investment incentives for investors in the Greek border region to Greek entrepreneurs investing in Albania; it also modified the legal framework governing investment incentives (Law 1892/90), by extending such incentives to the sectors of private health care and education.

VII. Small and medium-sized enterprises

In June 1993, in the context of the Community's Regional Programmes for medium-size enterprises, nine regional institutions were established to act as intermediaries for medium-size enterprises all over Greece. Their main functions would be : to provide small and medium-size enterprises with technical and economic research, sectoral studies and consulting; to help upgrade product quality and to assist in the production of new brands and products; to publish information and promotional material; and to organize seminars and conferences for the promotion of their activities. The programmes will start as soon as the Community approves the already submitted business plan for each region.

VIII. Housing sector initiatives

A joint Ministerial Decision (B5156/9.9.93) was issued in September including measures to boost construction activity and to support large families. The ceiling on the commercial value of housing purchased with subsidized loans by families with four children or more was raised to DRA35 million from drs. 30 million previously; and to DRA 30 million, from DRA 25 million previously, in all other cases. In addition, the interest rate subsidy on housing loans for first residence was raised by 2 percentage points for families with four children or more, and by 1 percentage point in all other cases. The interest rate subsidy applies to all types of housing loans, including fixed- and floating rate. The subsidy now ranges from 4 to 10 percentage points, depending on family status.

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France

The French economy has not escaped the effects of the worsening economic situation in Europe. Over the last quarter of 1992 and the first quarter of 1993, GDP declined by 1%. However, some signs of stabilization are now emerging; the trough of the cycle may have been reached and activity could remain stable until the end of the year. A gradual recovery is expected for 1994 (GDP could expand by 1.4% in 1994, after contracting by 0.8% in 1993). Stabilization in France is part and parcel of the general consolidation of activity in the major industrial countries.

However, at this early stage in the recovery, the rise in unemployment in the OECD countries has certainly not been halted. In August 1993 the unemployment rate in France was 11.7%.

Growth is still so low that resolute and sustained action is needed to prevent a further rise in unemployment. Beyond the cyclical support measures introduced in the spring, the Government has embarked on a structural reform of the labour market that will make an active contribution to improving the employment situation.

The Government's draft budget for 1994 is intended to restore control of public finances while introducing exceptional cyclical support measures. One of the conditions for greater convergence is the consolidation of public finances in the Community: with this in mind, France and Germany intend to present and implement jointly convergence plans involving measures to reduce the budget deficit. At all events, the emerging stabilization of activity must be encouraged, without compromising the reordering of public finances, through back-up measures that concentrate on the sectors driving the recovery: housing, infrastructure and durable household goods.

I. The draft five-year employment law

The specific measures in favour of employment introduced by the Government as part of the plan to underpin activity and employment adopted in the spring are being followed by measures in the draft five-year employment law aimed at reducing the major causes of unemployment in France: the very high cost of unskilled labour, the lack of flexibility in the organization of work, and the lack of an efficient system of vocational training.

1. Reducing the cost of unskilled labour

- The partial exemption from social security contributions for monthly wages below a figure equal to 1.2 times the minimum wage (SMIC), which the Government approved in the spring, will be gradually extended to cover wages up to 1.6 times the SMIC in an attempt to cut the cost of unskilled labour.
- A new type of employment contract will be introduced to help young people with no skills to find a job in the market sector. The young person with such a contract will be placed under the wing of a more experienced employee and will

receive training. In return, the employer will be granted a SMIC allowance and a reduction in social security contributions.

2. Placing people in employment and vocational skills

The approach outlined in the spring involved encouraging the development of combined training/work-experience schemes, e.g. apprenticeship. This is to continue. Administrative formalities for the conclusion of contracts will be simplified, apprenticeship contracts and training contracts will be gradually merged, and the education system will play a greater role as apprenticeship sections are opened in schools.

Regional Councils will have full powers for the training of young people and will therefore be in a position to draw up regional vocational training plans adapted to the needs expressed by businesses.

3. Increased flexibility of business organization

More flexible organization of work within businesses should enable them to adapt more rapidly to market developments and to cope with cyclical swings in activity, thereby maximizing employment. This flexibility will be achieved by annualizing working time, developing part-time working, introducing continuous shift-working for business reasons and providing aid for short-time working over a long period.

4. Helping the unemployed return to work

The number of schemes to equip the unemployed with new skills will be reduced as much as possible so that the system as a whole is more accessible to firms and workers.

This policy will be based on strengthening the role of employment exchanges.

In return, the obligations of the unemployed will be clarified, particularly in connection with active job-seeking.

II. Support for activity in the draft 1994 finance law

The draft finance law for 1994 supplements the arrangements in support of activity and employment that were introduced in the spring.

1. The reform of personal income tax should encourage consumption

The simplification of income tax schedules will bring France more closely into line with its main partners and will enable taxpayers to understand the tax more easily. All taxpayers will benefit from the resulting tax cuts (FF 19 billion), irrespective of their level of income. The cuts will increase the amount of disposable income available for consumption and investment. Further personal income tax cuts are expected in 1995.

2. The reform of the taxation of savings should redirect savings towards growth

Several incentives have been introduced to persuade households to redirect their savings towards growth-creating activities.

- In order to encourage investment in housing, people transferring funds out of monetary SICAVs to cover the purchase of their homes will be exempt from capital gains tax on the transaction for one year from 1 October.
- Arrangements for transferring funds from a SICAV to an equity savings scheme (*plan d'épargne en actions*) have been improved.
- The tax advantages enjoyed by monetary SICAVs will be gradually reduced between 1 January 1994 and 1 January 1995.
- The taxation of savings has been simplified.

3. Continued support for housing, building and public works

Financial assistance for the construction of new housing and support for low-cost housing will continue, while 90 000 subsidized rented property loans (PLAs), and 50 000 subsidized ownership loans (PAPs) are to be renewed.

Interest rates payable on PAPs by borrower households, which fell from 9% to 7.7% in the spring, have been reduced further, to 6.95%, to make them even more accessible to households. In addition, 200 000 low-cost dwellings are to be rehabilitated.

The 1994 budget should make it possible to continue all current road-building programmes, which were significantly speeded up when the spring support plan was adopted.

4. Assistance to businesses

The support plan adopted by the Government in the spring abolished the one-month time-lag for the payment of VAT on purchases, with the refund of payments spread over time. The Government has decided to allocate FF 35 billion of the proceeds of the Government loan to improving the repayment of companies' claims resulting from the abolition of the one-month rule.

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Ireland

I. Introduction

Despite a weak international economy, Ireland achieved GDP growth of 4 1/2% in 1992. Inflation averaged 3%, falling to 2 1/4% at end-year. Ireland's trade surplus increased to over 11 1/2% of GDP, while the balance-of-payments surplus on current account was over 5% of GDP. Employment held up well relative to the general international performance. However, because of substantial labour force growth, registered unemployment rose significantly.

GDP is forecast to expand by about 2 3/4% in 1993. This represents a strong performance given the projected decline of 1/2% in average Community GDP. Inflation is expected to average about 1 3/4%. The current account surplus is expected to remain around 5% of GDP. A modest increase in numbers at work is projected, but unemployment continues to rise, though more slowly than in recent years. Growth may be more vigorous in 1994, but unemployment is likely to remain unacceptably high.

In view of the present high unemployment levels both in Ireland and across the EC, and given the weakness of the international economy, Ireland strongly supports the concept of a European growth initiative. Accordingly, Ireland submits herewith a brief report on implementation of the measures included in the package announced by ECOFIN in April 1993, plus a list of the initiatives taken since then and an indication of progress on planning for 1994.

II. Implemenation of Existing Measures

1. Overall Ireland is vigorously implementing the measures set out in the package announced by ECOFIN in April 1993, with some necessary minor modifications. The key feature of these measures is the increase of over 26% in expenditure on the Public Capital Programme (PCP), helped by the EC Structural and Cohesion Funds; this expanded Programme is being pressed ahead as quickly as possible and expenditure on it is proceeding as expected. The PCP is of course being funded within the overall parameters set out in the 1993 Budget; in this context the Irish Government is confident; on the basis of revenue and expenditure trends to date, that the Budget target of 3.4% for the general government deficit in 1993 should be comfortably achieved.

Two important aspects of the increased expenditure are that the construction content of the PCP, up some £248m, or 22%, over 1992, is now expected to generate up to 5,000 additional jobs directly in the construction industry in 1993; and that expenditure on social housing in 1993 will now increase by £52m to £179m, up by more than 40% over 1992.

2. EC Cohesion Fund Since April, virtually all the projects which Ireland proposes to be aided under the Cohesion Interim Instrument in 1993 have been the subject of formal applications to the Commission. While difficulties have been experienced due to limitations arising under the Cohesion Interim Instrument, the processing of projects is now well advanced. It is envisaged that the planned investment in the majority of the projects will have taken place by the end of 1993, with further expenditure on them also arising in early 1994.

3. National Development Plan A comprehensive National Development Plan setting out Ireland's proposals for the use of EC Structural and Cohesion Fund aid for Ireland for the period 1994-1999 is about to be published. The Plan's central objective is to increase the sustainable growth rate of the Irish economy and expand self-sustaining employment within the context of respecting the criteria for participation in EMU. It is also designed to reintegrate into the economic mainstream the long-term unemployed and those at high risk of becoming so.

NEW MEASURES/UPDATE ON EXISTING MEASURES

Promotion of Private Funding

4. Initiative on Pension Fund Investment in Venture and Development Capital Agreement in principle has been reached with the pension funds industry to increase pension fund investment in the venture and development capital area. A detailed consultancy study is currently nearing completion which, among other things, is examining the opportunities for, and suitability of, investment in this area by pension funds. Subject to the outcome of the study and to sufficient suitable projects being brought forward, the Government have proposed that pension funds work towards a target investment of £100 million in this area in addition to their existing investment in unquoted companies, phased over a five-year period, with £15 million to be invested by mid-1994.

Tax Facilities for Enterprises

5. Urban Renewal The 1993 Finance Act extended the deadlines for tax reliefs available for urban renewal in several towns and cities.

6. Investment in the Film Industry The Finance Act introduced a new scheme for individuals investing in film productions, provided for an increase in the amount of tax-relieved investment permitted for corporate investors and instituted changes to facilitate the making of films under co-production agreements with other countries.

7. Business Expansion Scheme (BES) The limit on tax-relieved BES investment in any particular company has been doubled to £1 million, restrictions on further

investments by original entrepreneurs have been removed and the scheme has been extended to certain research and development activities.

8. **Capital Gains Tax - "Rollover Relief"** The 1993 Finance Act introduced a new "rollover relief" which allows for deferment of capital gains tax (CGT) on gains arising from the disposal of shares in an unquoted trading company, provided the proceeds of the disposal are re-invested in shares in an unquoted company falling within the scope of the Business Expansion Scheme. This measure will encourage new business start-ups.

9. **Seed Capital Scheme** A Seed Capital scheme has also been introduced. Under this Scheme, an employee who leaves employment and invests in a new business may claim a refund of income tax paid in previous years in respect of an investment of up to £75,000. An unemployed person may also avail of this scheme.

10. **Stamp Duty on Corporate Bonds** The 1993 Finance Act exempts from stamp duty the issue and transfer of certain types of corporate bonds. This measure will encourage the development of a corporate bond market in Ireland and will improve access to longer-term fixed-rate finance for private sector borrowers and mortgage holders.

11. **Capital Acquisitions Tax - Agricultural Relief** The Finance Act provided for an increase in agricultural relief in respect of capital acquisitions tax on gifts. This measure will considerably reduce the tax on gifts as compared with inheritances, and should provide a strong incentive for the early transfer of farms to young farmers.

12. **VAT on certain Labour-intensive Services** In order to encourage employment, the VAT rate applied to certain labour-intensive services - such as garage services, repair and maintenance services and various personal services - has been cut from 16% to 12 1/2%. In addition, the rate on flour confectionery and other bakery products was reduced from the 21% standard rate to 12 1/2%.

13. **Car-Hire** A scheme of parial refund of Vehicle Registration Tax (VRT) has been introduced for cars in the short-term car hire sector. Special extended deferment arrangements for the payment of VRT are also available for cars purchased by these operators. These measures will help to underpin capacity for growth in tourism.

Structural Measures

14. **Probate Tax** The introduction in the 1993 Finance Act of a 2% probate tax will broaden the tax base and increase the yield from capital taxation.

15. **Industrial Policy** Legislation has been passed providing for the restructuring of the industrial development agencies.

16. **Regional Authorities** New regional authorities will be established in 1993.

17. **Food Industry** The Government has accepted the broad strategy recently recommended by an Expert Group for the development of the Irish food industry.

Wage Moderation

18. **Public Sector** The Government have been holding discussions with the public sector trade unions on a radical change in the public sector pay determination process to provide for greater transparency, less frequent recourse to adjudication, more weight on budgetary considerations and greater efficiency and effectiveness in the public sector. The Unions have given a commitment to bring these discussions to an agreed conclusion by end-October 1993.

Planning for 1994

19. **Public Expenditure, National Development Plan and 1994 Budget** Preparation of the estimates of public expenditure (including capital expenditure) for 1994 is well underway and they will be published before end-1993. As already mentioned, the National Development Plan setting our Ireland's proposals for the use of EC Structural and Cohesion Fund aid for the 1994-1999 is about to be published. Finally, preparations for the 1994 Budget have also begun, although the Budget itself will not be announced until early 1994. In all cases the aims of the European growth initiative are being kept firmly in mind, within, of course, the fiscal parameters set out in the Treaty on European Union.

PROMOTING ECONOMIC RECOVERY IN EUROPE
(The Edinburgh Growth Initiative)

ITALY

The economic crisis which is affecting the economies of industrial countries is characterized by its length and by high levels of unemployment.

Among the factors responsible for the present recession the persistent high level of long term real interest rates plays an important role. Moreover, the public finance conditions in most of the industrial countries have not allowed policy makers to use the fiscal stimulus.

The scarcity of world savings and the great uncertainty in international financial markets are the main factors behind the high real interest rates.

In Europe, the main problems are connected with rising unemployment, worsening conditions of public finances and the growing difficulties faced by the process of economic and political unification.

Recession is depressing the European economy in a stage of industrial restructuring, characterized by losses in competitiveness. Since the current difficulties are also structural in nature, the rise in unemployment is to be tackled by structural policies aimed at increasing labour markets efficiency and flexibility and improving their functioning.

In Italy, the economy is reflecting the unfavourable international economic development and the internal imbalances.

Despite the remarkable rise in exports, for 1993 we expect a growth rate slightly higher than zero. For 1994 we expect a recovery of the order of 1.4 - 1.6 per cent.

Inflation news are positive, being at the present time at a level in line with the 4.5 percent target at the year end. Although for next year we cannot exclude some effect of the further depreciation of the lira, we expect a further decline of average inflation towards the EEC average since unit labour costs are expected to go down.

The main problems concern employment and public finance. A further reduction of the employment is expected (about 200,000 people), bringing the unemployment rate to 10.2 per cent at the end of the current year.

The problem is particularly serious in the Mezzogiorno region as inter-regional labour migration has come to a halt. Long duration unemployment is an important share of the total unemployment in the southern regions.

Public finances are also a key structural problem if one considers the high level of transfer payments to companies and households and the huge size of public debt. However, the Government is making the most important efforts to achieve the targets of the medium term financial plan adopted last July.

Structural Policy

To tackle structural problems, the Government is acting in three main areas:

a) labour market;

b) privatisation;

c) implementation of the reforms adopted by Parliament last year in the sectors of pensions, health care, public employment and local finance.

a) As concerns labour market, on 3 July 1993 an important agreement was signed between the Government and social partners, the second in twelve months. The indexation system has been definitively abolished and labour cost increases are expected to be kept below the officially projected inflation rate.

The Accord focuses also on the bargaining system and the labour market reform, as well as on the economic recovery measures.

Two bargaining levels are set up for the private sector : at the first one - national, sectoral - four years term legal rules and two years term wage increases will be drawn up; at the second one - at firm or territorial level - allocations will be granted according to the productivity and quality performance. National sectoral wage increases will be consistent with targeted inflation rates.

In order to face increasing unemployment, the Government has adopted measures aimed at extending and easing up the access to the extraordinary and ordinary 'Cassa Integrazione Guadagni'. Moreover, new, more flexible forms of employment contracts are provided for by the Accord. To faster the insertion of unemployed people in the labour world, mainly in the Mezzogiorno, an 'entry wage' will be introduced; furthermore, the 'temporary work' will be regulated.

By the July 3, 1993 Accord the Government pledged to improve the enforcement conditions of youth training and work contracts. In particular, the age limit was brought to 32 years, and the training systems are meant to be strengthened.

The "social pact" approved in July, by setting a reference framework for labour policy will pave the way to a reform of the wage supplementation fund (Cassa integrazione guadagni) and of the part-time jobs.

Finally, wages in the public sector have been frozen in nominal terms for the current year and the freeze is expected to be confirmed for 1994.

b) The Government has adopted a plan aiming at privatising several important State owned enterprises in the areas of energy, food products, machine tools and some of the largest banks (Credito Italiano and Banca Commerciale Italiana), the State owned insurance company (INA) and IMI, a large medium term lending group.

A special committee, chaired by the Director General of the Treasury has already appointed the advisors for the assessment of the capital of these companies and the coordinators for floatation. Some important results have already been achieved; two Italian companies have been bought by foreign capital.

c) Public Finances have been reformed along the lines of the enabling law indicated in the contribution presented last April. The provisions of the enabling law have already been implemented by the Government. In the health sector, the criterion for transferring the health fund resources to the regions has been modified. As of 1993, the resources will be allotted to the regions on the basis of the number of National Health Service users.

Health reform also includes full responsibility of the regions for funding any health expenditure above a minimum level to be provided throughout the country; a drastic cut of Local Health Units as well as an increase of individual co-payments for health service based on household income brackets. Moreover, the reform provides for voluntary switching to indirect health care systems.

As concerns the implementation of the reform of local finance, local authorities have been made more responsible for their budgets by giving them the authority to levy income. The municipal tax on real estate was paid for the first time last June.

Finally, specific rules on mobility procedures for filling vacancies in the public secor have been presented to Parliament aiming at public employees.

This reform aims at increasing the efficiency and productivity of public services.

PROMOTING ECONOMIC RECOVERY IN EUROPE
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The Netherlands

At the EcoFin meeting of 19 April 1993, an overview was given of Dutch policy measures and plans in relation to the Community Growth Initiative. In the months following, considerable progress has been made in the implementation of the measures that had already been decided upon, while policies that were still under consideration have taken a clearer shape. Below, an update on these developments is given. Moreover, for each policy area, an overview is given of new policy initiatives that have been laid down in the 1994 Budget Memorandum, which was submitted to Parliament on 21 September.

Budgetary situation

From 1989 onwards, the Dutch central government deficit has been on a systematic downward track, in accordance with the targets set in the 1989 Coalition Agreement. In view of the difficult economic conditions, it was decided this year to meet only part of the fall in planned tax receipts for 1994 with a cut in expenditure. Nevertheless, a strict control over expenditure will be maintained, resulting next year in a decrease of about 1% in real terms of this year's level of spending.

In a medium term perspective, expenditure reduction measures have been taken - amounting to somewhat over 1% of GDP in 1994 with an increase to about 2 1/4% of GDP in 1997 - in order to reduce the budget deficit and to control tax and social premium revenues. As a result, general government net lending (according to EMU definition) will have fallen from 4.7% of GDP in 1989 to 3.0% of GDP in 1993, and is projected to fall further to a level below 3% of GDP in 1996 - after a temporary increase in 1994. In doing so, the rising trend in the government debt to GDP ratio can be reversed by 1996 and control of interest payments on government debt can be further enhanced.

Promotion of private investment

The creation of an "industrial facility", that will lend risk-bearing capital to viable enterprises of structural importance to the Dutch economy, is now well under way. Resources raised by the government and private financial institutions are expected to total HFL 0.9 billion and to be available this Autumn.

In order to promote R&D investment, in particular by small and medium-sized enterprises, a fiscal facility for R&D-related wage costs will be created. The cost of this facility will amount to 210 million guilders in 1994 (350 million yearly on a structural basis).

The position of small and medium-sized enterprises is also a point of attention as far as the net wealth tax is concerned. Its burden on enterprise will be mitigated, resulting in lower tax revenues to the amount of HFL 95 million in 1994 (130 million on a structural basis).

Public investment

The so-called Natural Gas Fund established in January 1993 has been broadened and renamed "Fund for the Strengthening of the Economic Structure"; it will contribute HFL 8 billion to infrastructural projects over the 1994-1998 period. Of this total, 3 billion have already been earmarked for special projects (High Speed Rail Link, Rail Link between Rotterdam and its German hinterland). Of the remainder, 4.25 billion will be spent on infrastructural projects in traffic and transport, 500 million on soil clean-up projects, and 250 million on technological infrastructure.

In addition to this, from 1994 onwards, 50 million yearly will go to municipalities in order to boost investment in short-term projects, especially in construction. The effectiveness of this expenditure will be greatly enhanced by its short-term availability, so that this fund may serve as a catalyst of which the importance exceeds its relative size.

Structural measures in the labour market

The Dutch government has laid down a comprehensive plan of action to tackle unemployment in a paper (entitled "Meer werk, weer werk") that contains a number of policy initiatives in the labour market area. A central theme remains the importance of wage cost moderation. For 1994 a stabilization of nominal wages is actively promoted; if necessary, this may be achieved by means of an overall legal "wage freeze".

In addition to the changes in the sickness and disability systems decided upon earlier, other elements of the social security system are subject to reform as well. The conditions for receiving unemployment benefits have been tightened, and the implementation of social security schemes is being changed in order to allow for a more effective control.

In order to increase work incentives, the fiscal facility for professional costs will be extended. At the same time, social security benefits will not be increased in 1994.

Deregulation is necessary to improve labour market flexibility. The abolition of the preventive check on firing requests by employers is foreseen to take place next year. Liberalisation of the laws on working hours and working conditions, and of the licensing system for private employment agencies, is in preparation. The government is also reconsidering certain aspects of the "legal extension" of collective wage agreements.

Finally, the government plans to create additional jobs by investing in apprenticeship schemes, work experience places, and job pools, and by an increase in employment in the healthcare sector. Total extra spending on these projects will range from HFL 290 million in 1994 to HFL 500 million in 1997.

Privatization

Shares in the Dutch PTT will be sold over the next years. The national railways will be given a greater degree of (financial) independence. Both in telecommunication and public transport, the opening of the market to new competitors is under consideration.

Competition policy

The streamlining of the Business Establishment Law is still under way. Since July this year, horizontal price agreements between firms in the same industry have been banned. Market sharing agreements and collusive tendering will be forbidden as of this Autumn.

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Portugal

In the context of the Edinburgh Growth Initiative, Portugal has been implementing a number of structural measures. The situation regarding the measures covered by the programme and reported at the Ecofin Council on 19 April 1993 is described below.

1. Infrastructure

Physical infrastructure

Projects to be financed by the Cohesion Fund:

- Projects approved up to 29 July 1993:

ECU million

Sector	Number of projects	Total Investiment
Communications	3	88.536
Road network	2	48.337
Rail network	1	40.199
Environment	3	7.638
TOTAL	6	96.174

- Projects awaiting approval:

ECU million

Sector	Number of projects	Total Investiment
Communications	5	185.634
Road network	5	185.634
Environment	6	71.735
TOTAL	11	257.369

- Applications pending:

ECU million

Sector	Number of projects	Total Investiment
Communications	16	279.371
Road network	7	252.210
Rail network	1	9.096
Harbour facilities	8	18.065
Environment	14	84.310
TOTAL	30	363.681

- Planned Fund expenditure on the projects concerned:

MECU million

Sector	1993	1994
Communications	180.397	197.142
Road network	150.582	169.533
Rail network	21.944	17.491
Harbour facilities	7.871	10.118
Environment	50.796	82.210
TOTAL	231.193	279.352

Human capital

The planned measures are in progress and are expected to be completed on schedule.

2. Support for the restructuring and internationalization of enterprises

Funds for the restructuring and internationalization of enterprises (FRIEs)

The FRIEs are a financial instrument whose main aim is to support via equity participations enterprises or their foreign subsidiaries implementing or wishing to implement restructuring or internationalization plans.

Four FRIEs were set up in 1993 on the initiative of the Government or public entities with resources totalling more than ESC 20 billion:

- the Government has launched two FRIEs, in which other entities may take equity participations, with initial capital of ESC 11 billion, of which 5 billion is subscribed directly by the Government and the remainder by various publicly and privately owned banks; one is to be managed by Norpedip and the other by Sulpedip;
- a third FRIE, endowed with ESC 9 billion, has been set up by the Banco de Fomento Exterior;
- a fourth FRIE, endowed with ESC 2.5 billion, has been launched by Investimentos e Participações do Estado, the State holding group.

It is estimated that, in 1994, the development of these Funds will entail a direct financial effort of the State of some ESC 15 billion and a revenue shortfall (tax expenditure) of ESC 1 billion.

3. Support for the housing sector

Financial and tax incentives for investment in housing

(a) Incentives for the acquisition or rental of residential property: Overall expenditure is forecast at around ESC 42.3 billion, some 5% up on 1992, and is set to rise substantially in 1994 (+13.7%). Under the programme for helping young people to rent accommodation, expenditure of around ESC 2 billion is planned in 1993 and ESC 4.5 billion in 1994. The scheme is developing at a highly satisfactory rate, with around 600 contracts being signed per month.

(b) Clearance of slum housing in the metropolitan areas of Lisbon and Oporto, and support for private schemes to house low-income families

- Under the special rehousing programme covering the metropolitan areas of Lisbon and Oporto, funds have been earmarked for local authorities to enable them to build or acquire residential property for rehousing slum dwellers.

  Of the 27 municipalities in the areas concerned, 18 have already submitted applications for funding.

  Planned investment under this programme is in the region of ESC 150 billion. Contributions to the programme by IGAPHE (Instituto de Gestão e Alienação do Património Habitacional do Estado, the agency for the management and sale of government-owned housing) were originally intended to total ESC 1 billion in 1993 but, as the programme is not yet fully operational, that amount is not expected to be disbursed. The cost to the Central Government is expected to be in the region of ESC 4.5 billion in 1994.

- The programme for building low-cost housing and the changes to the rules governing housing development contracts are intended to improve the quantity and quality of low-cost housing placed on the market, in particular through the sale of government-owned land at reduced prices.

  IGAPHE has sold 27 tender processes to low-cost-housing construction firms and has launched four international tenders for the construction of 1 950 low-cost housing units.

  Investment in this connection is planned to be in the region of ESC 120 billion. The programmes are not expected to require any financing in 1993; in 1994, the cost to the Central Government is expected to be some ESC 1.5 billion.

4. Tax incentives to promote investment

<u>Investment incentives: negotiated tax concessions for investments made up to 1995 (amendment of Article 49a of the Rules on Tax Concessions)</u>

The tax incentives are targeted at enterprises in regions affected by the economic and social repercussions of the restructuring of certain designated sectors. These incentives, for which only projects carried out up to 1995 are eligible, are granted on a contractual basis and according to the merits of each project.

Under the contractual arrangements governing foreign investment (investments of more than ESC 10 billion), incentives totalling some ESC 16.7 billion have been granted to four enterprises, and two more contracts are under negotiation.

5. Support for reconversion of the agricultural sector

<u>Programme of support for the marketing and processing of agricultural produce</u>

This programme provides direct support for farmers and farming organizations and brings in measures to assist the recovery of viable enterprises and the implementation of new business initiatives for improving the marketing of domestic production in the agri-food sector.

- Line of credit to support the marketing of agricultural produce: For the second half of 1993 only, a ceiling of ESC 20 billion has been set, and almost all of this has already been used. The cost of the associated interest-rate subsidies works out at some ESC 300 million.

  The forecasts for 1994 and subsequent years are given below:

  Esc million

Year	Amount of credit	Interest-rate subsidies
1994	40 000	57.5
1995	46 000	66.2
1996	52 000	74.8
1997	56 000	80.5

- Other measures to support the marketing and processing of agricultural produce: These measures are under discussion and are due to be decided on in September.

6. Incentives for industry and foreign trade

<u>Promotion of foreign trade and the internationalization of Portuguese industry</u>

The package of measures for industry, and SMEs in particular, comprises ten support programmes to promote the strengthening of trade relations and investment, particularly in new markets.

- Measure I: Lines of credit backed by government guarantee for diversifying markets
  - Lines of credit already opened:
    - Algeria: USD 150 million (planned ceiling: USD 150 million)
    - Morocco: USD 45 million (planned ceiling: USD 200 million)
    - Argentina: USD 45 million (planned ceiling: USD 100 million)
    - Chile: USD 45 million (planned ceiling: USD 100 million)
    - Czech Republic: USD 60 million (planned ceiling: USD 100 million)
  - Agreed and due to be signed in the near future:
    - China: instrument signed by both Governments with an undertaking to open lines of credit in the near future
  - To be signed during forthcoming trade missions:
    - Tunisia (September)
    - Iran (October)
    - Hungary (November)
    - Israel (November)
  - Under negotiation with banks and expected to be signed by the end of the year:
    - South Africa

- Under negotiation, but encountering certain difficulties on the recipient countries' side:
  . Egypt
  . Uruguay

Algeria is the only target market to which exports have actually been carried out.

- Measure II: Subsidized loans for investments in the Maghreb countries
  - Partnership protocols have already been signed with Algeria and Morocco;
  - The text of a partnership protocol with Tunisia has been agreed on and is to be signed on 23 September by the State Secretary for Foreign Trade;
  - Five potential projects have been identified, representing an estimated investment of ESC 94 million and sales put at ESC 1.3 billion.

  However, no investment project in the countries concerned has so far been submitted to the FCE.

- Measure IV: Trade missions to target markets

  The FCE has undertaken to bear the costs, amounting to ESC 97.041 million. Only ESC 25.835 million has so far been disbursed. The missions to South Africa, Tunisia, Hungary, the Czech Republic, Israel and Iran have yet to take place.

- Measures VIII and IX: Financial support for exporting firms particularly affected by exchange-rate instability; Support for footwear enterprises with claims in the former Soviet Union
  - The ICEP (Portuguese Institute for Foreign Trade) has received 63 applications for assistance to date;
  - Nine applications have been approved by the SET (State Secretariat for Tourism) and the SECE (State Secretariat for Foreign Trade);
  - Two applications have been approved by the Board of Directors of the ICEP;
  - The remaining applications are under examination and awaiting the supply of missing information and/or the opinion of the banks.
  - Potential value of support granted, assuming all applications are approved:

Esc '000

Measure VIII	
Exchange-rate differences	2 816 670
Losses of orders	2 542 880
Measure IX	
Credits for operations in the former Soviet Union	546 040
TOTAL (contribution by the banks)	5 905 590
Treasury contribution	1 476 398
GRAND TOTAL	7 381 988

- Value of support granted in respect of projects already approved:

Esc '000

Contribution by the banks	847 453
Treasury contribution	211 863
TOTAL	1 059 316

7. New lines of credit for the tourist industry

Tourist industry

A programme of financial support for the tourist industry, worth a total of ESC 50 billion, has been drawn up.

In 1992 271 projects were vetted, involving total investment of ESC 37.6 billion and support amounting to ESC 14.4 billion. Up to 30 August 1993, 180 projects had been vetted, involving total investment of ESC 38.3 billion and support amounting to ESC 8.8 billion. At the moment, however, the rate of utilization of funds under the programme is only around 46.4%.

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United Kingdom

The UK's contribution to the report to Ecofin on 19 April described an ambitious programme of measures targeted towards improving prospects for growth and creating lasting jobs, including structural reforms and budgetary, public expenditure and other measures. The component measures to carry forward this extensive programme are now being implemented. This report therefore covers only new items, or those where there is specific progress to report.

The material follows the structure of the April report.

I. OBJECTIVE 1

Take every opportunity, according to their national circumstances, to exploit the limited margins of manoeuvre available as concerns budgetary policy.

The measures announced in the March 1993 Budget and included in the last report to Ecofin are now being implemented. The Chancellor will be presenting his Unified Budget on 30 November against the background of the Government's objective of bringing about a sustained reduction in the public sector deficit. The Government has set a very tough remit for the public spending aspects of the Budget to ensure that its objective to reduce the burden of public spending as a share of GDP is realised.

II. OBJECTIVE 2

Switch, to the extent possible, their public expenditure priorities towards infrastructure and other capital investment and growth supporting expenditures which earn a worthwhile return.

Progress in improving arrangements for privately raised finance to meet needs traditionally met by the public sector includes:

- the Government has completed consultations on the best means of involving private finance in the Channel Tunnel Rail Link and expects to announce its conclusions shortly;
- construction of the Jubilee Line Extension - a new £1.8 billion link to London's Docklands - will begin as soon as negotiations on a private sector contribution to the line are finalised;
- the Chancellor has announced the setting up of a Working Group drawn from both public and private sectors to promote the private finance initiative;
- the Chancellor also announced a list of almost 80 projects and project proposals, valued at some £12 billion, all of which involve a significant element of private finance.

III. OTHER INFRASTRUCTURE MEASURES

Privatisation of the electricity supply industry has opened up access to the National Grid to new independent electricity generators. There are now 38 members of the electricity pool arrangements.

IV. OBJECTIVE 3

Implement measures to encourage private investment, especially by small and medium sized enterprises.

Reduction in the premiums for guarantees under the Loan Guarantee Scheme for SMEs in inner city areas came into effect on 1 April 1993. The Budget changes to the Loan Guarantee Scheme, including reductions in premiums for all guarantees, with a larger reduction for guarantees of fixed rate loans, and increases in the maximum size of eligible loan and the proportion of loan guaranteed, for guarantees to established businesses, came into effect on 1 July.

The Chancellor has announced a programme reviewing all the current sources of funding for industry with the aim of identifying whether there are any market imperfections which may distort the flows of finance; and if there are, to consider how the present arrangements can be improved.

The President of the Board of Trade announced the names of the first six areas to have pilot "one stop shops", now called Business Links, on 15 April 1993. The first will open in the Autumn. Business Links will bring together local organisations which support small businesses to improve the delivery of high quality business advisory services.

V. OBJECTIVE 4

Act to improve further the efficiency of their economies, for example through action to reduce subsidies and measures to enhance competition and market flexibility.

Reform of Civil Service Pay Arrangements

In accordance with the Citizen's Charter, many Civil Service organisations are having delegated to them responsibility for their own pay bargaining. By April 1994, 304,510 of the 560,000 Civil Servants will be employed under delegated pay bargaining, which will then cover 21 Agencies, 2 Departments and one Non-Departmental Public Body.

Virtually all 560,000 Civil Servants (ie all at Grade 2 and below) now have an annual, direct link between pay and performance. In the wider public sector, the pay review body covering 442,000 teachers is considering proposals to introduce performance-related pay. Similar pay reforms are also in train for the police.

VI. OTHER STRUCTURAL REFORM MEASURES

Competition and Deregulation

Following consultation on options for controlling abuses of market power, the Government announced in April proposals to strengthen the existing system of case by case consideration. New measures, including stronger investigative powers, aim to build on the wide scope and flexibility of this approach without increasing regulatory burdens on firms.

The Government has set up seven task forces of businessmen to advise on priorities for repealing or simplifying regulations. They will report in the Autumn, and work alongside departments on their internal reviews of regulatory burdens. The Prime Minister held a progress meeting with Ministers in July, and announced that a deregulation Bill will be introduced as soon as Parliamentary time permits.

Privatisation

Following the near completion of the Government's privatisation programme in the nationalised industries, the Government is seeking to identify central government functions which might benefit from being transferred to the private sector.

VII. OBJECTIVE 5

Make efforts to achieve restraint in wage settlements within the public sector.

As the Chancellor announced in the 1992 Autumn Statement, pay settlements in the public sector have been restricted to the range 0 - 1 1/2% in 1992-93. This affects one annual pay settlement for each bargaining group. Around 60% of public sector workers have now settled under pay restraint. This approach should save the Exchequer approximately £1 1/2 bn in 1992-93.

The Chancellor announced on 14 September that there will be no formal limit on public sector pay in 1993-94, but that departments will be expected to keep pay costs to the same level in cash terms as in 1992-93, except where there are significant changes in activity. This is not a freeze on pay settlements, but it will help to ensure that increases in pay do not add to public spending.