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PROMOTING ECONOMIC RECOVERY IN EUROPE

(The Edinburgh Growth Initiative)

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OF THE EUROPEAN
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1. The Edinburgh declaration

The current weak performance of the European economy is a matter of concern. Real GDP growth in the Community is slowing from only 1.1 % in 1992 to 3/4 % in 1993, with employment falling sharply in 1993 for the second year in succession and the unemployment rate as a consequence climbing further towards 11 % on average this year. A worrying feature of the economic climate has been the sharp deterioration in business and consumer confidence during the course of 1992. More recent information suggests that in general, despite some brighter signs in a few countries, the development of economic activity in the Community in 1993 is likely to continue weak.

Against this background of weakening economic activity in Europe the Commission proposed and the European Council, at its meeting in Edinburgh on 12 December last year, called for measures to be adopted at both national and Community level which would work to boost confidence, reinforce the fundamentals of economic growth and encourage the creation of new jobs (1). Early in February the Commission presented a communication to the Council on the implementation of the Community measures. It is now time for the ECOFIN Council to take stock of the package of measures and actions to help recovery, the **"growth initiative"**, that have been announced by individual Member States or agreed at Community level so far. These measures will start to take effect in 1993. Their aim, within the framework of appropriate fiscal, monetary, commercial and other economic policies, is **to provide opportunities and encouragement and support in specific areas of weakness that are key to the Community's future economic prosperity**, so that confidence can be rebuilt and the chances for recovery enhanced.

2. Coordinated policies for stability, growth and employment

The **growth initiative** includes measures at both Community and national level. They are part of a concerted effort, the impact of which will be greater than that of uncoordinated actions taken at different times in individual Member States. Because the linkages between Member States' economies are now so close (and are being developed further as a result of the Single Market) a stimulus to growth in one country also benefits its Community partners, while that country similarly draws advantage from the effects of

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(1) *Conclusions of the Presidency - Edinburgh, December 12, 1992; Annex 4 to Part A, Declaration on Promoting Economic Recovery in Europe.*

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measures introduced elsewhere. The effect a Member State could harvest from individual action could be roughly doubled were it accompanied by the others, with budgetary costs also reduced. Moreover measures in the Community are being complemented by similar initiatives being taken by EFTA countries, and measures to boost recovery are also being introduced in the USA and announced in Japan. While efforts in individual countries alone would not have a significant impact, coordinated action throughout the developed world will help to hasten the global recovery.

The measures being introduced in the package will provide short-term support to activity in the Community but in a way that improves the longer-term growth potential. Thus expenditure increases are focussed on capital investment (improving infrastructures, encouraging private investment) and investment in human capital of a kind that will already have an impact on employment and unemployment this year while also having lasting beneficial effects on the supply potential of the Community. Other measures and reforms with less direct expenditure implications will help to make the economic system more responsive and restore the dynamic to Community output.

The **growth initiative** measures are designed to come into effect as quickly as possible and will be concentrated in 1993 and 1994, although their effects will extend over a longer time. Many of the specific spending decisions announced by Member States are in the context of their budgets for 1993. There will be an opportunity for Member States' governments to reinforce these measures later in the year when national budgets for 1994 are presented, based on an assessment of prospects, needs and constraints at that time.

As stressed in the Edinburgh declaration, the underlying objectives of Member States' economic policies remain as set out in the **Maastricht Treaty**: an open market economy with free competition, sustainable growth respecting the environment, stable prices with sound public finances and monetary conditions and a sustainable balance of payments. The policy mix stemming from the Edinburgh declaration - exploiting the existing room for manoeuvre of budgetary policy; switching public expenditure priorities towards infrastructure and growth supporting expenditures; encouraging private investment; implementing structural reform; and achieving wage moderation - will enable growth to be resumed without jeopardizing the achievement of the Maastricht budgetary obligations. Member States remain determined to fulfil the convergence criteria established in the Maastricht Treaty and to comply fully with the convergence programmes submitted to the Council, including adherence to the medium-term goals of budgetary consolidation.

In current circumstances there is limited scope for a boost to public spending, which even if it gave some short-term support to activity would add further to public indebtedness, put upward pressure on interest rates and damage longer-term growth prospects. Instead the emphasis of the measures is on selective actions and on shifting the structure of public expenditure towards those areas which are more growth-enhancing. Economic recovery, when soundly reestablished, will then facilitate the overall convergence process within the Community, especially on the budgetary side.

Those Member States in a more favourable budgetary position are taking advantage of the room for stimulative action. On the other hand, those countries faced by large imbalances in their public finances can do most to countries faced by large imbalances in their public finances can do most to restore confidence and improve the economic climate by credible pursuit of measures to bring budget deficits under control so as to achieve the medium-term targets set in the fiscal consolidation strategies of their convergence programmes.

In the short term, however, the weakness of economic activity is depressing tax revenues and putting upward pressure on some categories of social expenditure, making progress in reducing budget deficits even more difficult. Except in those Member States facing very high deficits and public debt ratios, it is appropriate to allow some play to the automatic stabilizers, especially on the revenue side. This mechanism automatically gives support to domestic demand, which otherwise would be even weaker. But such an approach implies that when recovery does get under way budget balances must be improved rapidly to get back on track, both by allowing the favourable cyclical effects to operate and by continuing the necessary discretionary adjustment.

3. Need for progress on other key economic policy issues

Getting the Community economy back onto a satisfactory, sustainable growth path will be helped along by the growth initiative measures, but its effects would be significantly augmented by firm progress in resolving a number of other inter-related problems, both political and economic, which have caused much uncertainty during the last year and have depressed confidence and delayed expansion :

- **ratification of the Maastricht Treaty** is urgently needed so that the way forward for the Community and its enlargement is clearly established;

- **further reductions in still very high European short-term interest rates** are required, based on confidence that inflationary pressures are being contained and that budgetary positions can be consolidated over the next few years across the Community;

- **a return to steadier conditions within the European Monetary System,** which is highly dependent on the two previous factors, will favour an environment in which fuller advantage can be taken of the opportunities opened up by the Single Market;

- and in the international sphere, **conclusion of the long-drawn-out GATT negotiations** is needed with a comprehensive and balanced agreement which will offer much enlarged trading opportunities.

4. The growth initiative package of measures

A wide range of actions and measures has been announced and decided in the last few months at national and Community level for implementation during 1993; in some cases Member States are already taking advantage of the new or enlarged Community facilities agreed in Edinburgh.

The main areas where national and Community action is being taken are :

- greater **priority in public expenditure on infrastructure and other capital investment and on other growth-enhancing spending** (e.g. research and development);

- new facilities and incentives to **encourage private investment**;
- **improved support for small and medium-sized enterprises**, which hold considerable potential for employment creation;
- **additional training and other schemes** to prepare the unemployed for work and to improve the quality and skills of the labour force;
- **wage restraint**, especially in the public sector so as to keep current expenditure under control, but also to encourage economy-wide wage moderation to improve competitiveness and help reduce unemployment;
- **structural reforms**, to make markets work better (especially the labour market), increase competition and remove distortions.

Besides the concrete measures they are taking, some Member States are also giving support to activity by not attempting to offset the effects of the cycle on their budget deficits.

Moreover, it should not be forgotten that the rapid progress towards the completion of the Single Market, with the successful abolition of the internal frontiers from January 1993, is the biggest structural reform in the Community in recent time. It is making an important contribution to the functioning of the Community economy.

The measures at Community level, detailed proposals for which have been put forward by the Commission and by the European Investment Bank, contribute especially to action in the first four areas above. Full information about Community level measures which have been decided and proposed are given in Annex A. Details of the growth initiative measures announced by each of the Member States, covering all the areas for action, are presented in Annex B. Important features of the main areas of action are highlighted in the following paragraphs.

Priority to public investment

A significant part of the growth initiative package concerns investment, with contributions from both Community and the Member States. While investment as a whole is a precondition for sustained growth, public investment can be activated more rapidly. In previous periods of economic slowdown public investment has usually been one of the first categories of public spending to suffer cut-backs. This time Member States, conscious of the importance for long-term development of the economy as a whole of a modern, efficient public capital stock, are first seeking to protect capital spending from general budget economies and in addition have announced increases over earlier plans in selected areas of public sector capital expenditure, mainly on infrastructure projects. Besides its multiplier effect public investment will induce a crowding-in of private investment. Additional investment expenditures amounting in total to some ECU 6 billion in 1993 have been announced by Member States so far, with every single country making some additional effort.

The Edinburgh European Council gave the green light to several new and enlarged Community schemes. A new temporary lending facility of ECU 5 billion has been established by the European Investment Bank. A European Investment Fund with a capital of ECU 2 billion will be set up. Community structural funds are to be significantly increased for the period 1994-1998 and a Cohesion Fund was created with an amount of ECU 1.5 billion available for 1993. These will be making a significant contribution to the cofinancing of additional investment (both public and private), especially in the four cohesion countries (Greece, Spain, Ireland and Portugal) and in other less prosperous regions of the Community.

Particular emphasis is being given to using the new Community financial instruments for capital infrastructure projects connected with trans-European Networks (TENs), designed to make the Single Market work better and to improve links with Central and Eastern Europe. The Commission, after full consultation, has published the proposed guidelines (schémas directeurs) for road transport, for the TGV, for combined transport and for waterways. Consultation is well-advanced and the Commission will put forward within six months the proposed shémas directeurs for conventional rail, ports and airports, air traffic control and Vessel Traffic Systems (VTS). In two other important sectors, energy and telematic networks, guidelines or projects for action have also been proposed. The identification of projects which fall within the schémas directeurs is going ahead. In transport alone over ECU 40 billion is likely to be needed for projects of Community interest which could be initiated in 1993/94, some of which will be eligible for loan or credit from the new Community schemes or for structural or cohesion fund assistance. The Commission has also taken steps to increase the financing by the international financial institutions (especially the EIB) of TENs-related projects in the countries of Central and Eastern Europe.

The EIB has already approved loans within the Community under the temporary lending facility amounting to ECU 1.6 billion for 21 projects. Over 90% of this additional lending concerns TEN projects or related access infrastructure. In addition to these operations within the Community, the EIB has also agreed the financing of two projects in Central and Eastern Europe.

Encouraging private investment and help for small and medium-sized enterprises (SMEs)

Recovery in private investment will primarily be driven by improved business confidence about prospects for demand and profitability and will be helped by a lowering of interest rates. With the aim of encouraging the bringing forward of investment that would otherwise be delayed or which may be having difficulty in obtaining finance in present conditions, Member States' governments have announced a variety of new or enlarged incentives and schemes. Several countries have increased tax reliefs for investment (in some cases on a time-limited basis). Many have extended schemes which provide loan guarantees or credit on favourable terms, especially to small and medium-sized enterprises; it is estimated that the national schemes included in the growth initiative package could support investments by the private sector amounting to about ECU 6 billion in 1993.

The housing market is very depressed throughout much of the Community and several governments have take steps to encourage housing demand, often through reduced transaction taxes, and tax and other incentives for repair and maintenance, provision of rented accommodation, etc.

A proportion of the enlarged Community financial resources will be used to support private sector investment projects. In particular the new European

Investment Fund, plans for the setting up of which are now well advanced so that it should come into operation this autumn after ratification of the amended EIB protocol, will provide loan guarantees, e.g. for telecommunications, electronics and transport projects (TENs) and for SME projects. Preparatory work for the identification of projects is under way, so that decisions can be implemented before the end of this year.

In addition to investment-related support, other measures to reduce administrative burdens and to provide advice, information and technical assistance to small firms have been announced or are under consideration at national and Community level. In particular **the Commission has proposed a multi-annual programme of measures to support enterprises (especially SMEs)**. The programme envisages actions to facilitate the insertion of SMEs in the single market as well as measures to help SMEs adjust to industrial changes and to enhance competitiveness, based on the twin objectives of information and cooperation e.g. development of Euro-Info Centres, BRE/BC net, and the "Europartenariat" and "Enterprise" projects, and promotion of transnational sub-contracting and the strengthening of technological potential.

Making research and development more effective

A more competitive Europe will be able to create more jobs. Research plays an important role in shaping the overall competitiveness of an economy. Given the economies of scale and nature of risks there is a case for some research expenditures to be made at Community level. In this light **additional actions worth ECU 900 million are now being put in place by the Community**; these actions include a substantive effort in favour of the employment of researchers (including, specifically, technicians currently unemployed) and will give rise to an improved competitive position for industry. A recent independent evaluation has shown that supplementary financing of research with widespread industrial application gave rise to ECU 2.5 billion of direct economic effects and ECU 800 million of indirect economic effects over a 5-year period. In addition, and in order to maintain steady support to research, the Community is currently preparing the fourth framework programme with a view to further projects of research and technological development which will have industrial application and an effect on efficiency and jobs.

Adapting and reinforcing training and employment schemes

The boost to investment resulting from the actions mentioned above will be a source of job creation. However, more decisive actions are also needed to counteract the current loss in jobs. National measures in the package aimed at employment include **incentives for job creation, extension and reinforcement of training and labour market reform.**

Carefully targeted training measures are a key element in facilitating the adaptation of workers to the growing challenges of industrial change. Such measures can both increase competitiveness and combat unemployment. As industries adapt and modernise many of those who become unemployed are experienced and relatively skilled. The risk of such people becoming long-term unemployed can be minimized if early action is taken to retrain them and prepare them for alternative employment.

At Community level, the European Social Fund cannot presently intervene, except in areas eligible for Community regional development assistance, to help those who become unemployed unless they have been out of work for more than a year. Thus there is a risk not just for the people themselves who risk drifting into long-term unemployment but also for the Community that their potential and skills will be lost to the economy. Concrete proposals to apply the rules governing the Social Fund in a more flexible manner were approved by the Commission in March and their application can now be discussed with the Member States. A wider definition of long-term unemployment will be applied in certain specified conditions. This derogation, the possibility of which is expressly foreseen in the Social Fund Regulation, will permit a more effective use of the Social Fund and constitutes an important response to the situation in the labour market at Community level. It could be possible to redirect ECU 200 million or even more in this context within the current Community support framework.

Sharing the burden of the slow-down through wage moderation

In relation to public sector pay, most Member States are achieving success this year in moderating wage increases compared with 1992. Notably tight wage policies are in operation in Germany, Greece, Italy, Spain, Portugal and the United Kingdom. Slower growth in the wage bill is needed to make progress with budgetary consolidation and to make room for other, more growth-enhancing public expenditures.

Public sector wage moderation can also provide a lead to private sector wage setting, where the social partners are increasingly aware that wage increases out of line with productivity growth must be avoided so that international competitiveness can be maintained or improved and profitability safeguarded in order to encourage investment and employment. **Wage moderation in the private sector** is increasingly evident this year, and is especially welcome in Germany because of its implications for monetary policy.

Implementing structural reforms to improve long-term growth potential

Structural reforms to make the EC economies more flexible, responsive to change, innovative and efficient are an important part of the growth initiative and will play an increasingly decisive role in influencing performance in the Single Market in the coming years. Above all **rigidities in EC labour markets** are still very evident. The high level of unemployment in the Community is only partly due to the recent weakness of activity. Labour markets are not functioning properly.

Measures have recently been announced in several countries intended to start tackling labour market problems, such as establishing a more appropriate balance between income support for the unemployed and incentives to work, allowing a wider and more flexible range of modes of working, reducing barriers to entry to certain activities and professions, improving employment agencies and job counselling, introducing greater regional and occupational pay differentials where justified, attacking obstacles to mobility between jobs and regions such as rigid pension arrangements and housing difficulties, and improving the skills of the work-force.

This is a long-term process which will only slowly bear results and which will need to be pursued over many years, especially given the prospects of unemployment rates remaining at too high a level through the mid-1990s.

Other areas of structural reform are also being addressed. Measures to improve the operation of competition policy have been introduced or proposed in Belgium, Germany, Greece, Spain, Ireland, the Netherlands and Portugal, to adapt to Single Market pressures, strengthen legislation or reduce barriers to entry.

Proposals for a shift of public sector **enterprises** into the private sector (also with budgetary benefits) have been put forward in the **privatisation** programmes announced or extended in Belgium, Germany, Greece, Spain, France, Italy, the Netherlands and Portugal.

5. The economic impact of the package

Prompt implementation of the growth initiative package will have a positive impact on the Community economy. The combined impact of those measures being taken both at national and Community levels which can be directly expressed in terms of additional expenditure (mainly extra investment by public and private sectors) is assessed to add to growth in both 1993 and 1994, **taking real GDP in the Community in 1994 to a level 0.6% higher than it would have been without the growth initiative package. This extra value added in the Community represents some ECU 35 billion.** Corresponding to this boost to economic activity would be employment creation over the two years of some **450 000** jobs, and an increase in the level of total fixed investment in 1994 of 3%.

These results, already significant, account for only part of the full effects which can be expected from the package. By their nature the scale and timing of the positive effects of structural measures are difficult to quantify and no credit for them has been given here. Moreover, further cuts in interest rates are to be looked for in coming months based on evidence of inflation being brought under control, successful wage moderation and credible plans to reduce budgetary imbalances; but such falls in interest rates remain uncertain at present and the favourable impact they would in due course have on demand and debt servicing costs has not been allowed for in the quantitative assessment. **Achieving a successful revival in business and consumer confidence may be more important for economic recovery than the direct impact of those measures that can be quantified.**

Also helping to combat the recessionary tendencies in the European economies is the decision by several Member States to offset only partially or not at all the deterioration in their budget deficits resulting from the more pronounced weakening of activity than they expected when they announced their budget plans for 1993 last autumn. The extent to which this has been done or is appropriate varies from country to country depending in part on starting conditions. In general it can be estimated that letting the **automatic stabilizers** operate will offset about one third of the reduction in output growth.

6. *A significant stimulus but the situation must be continuously monitored*

The very large number of measures at both national and Community level which have been decided in the few months since the growth initiative was conceived already represent a significant stimulus to economic activity in the Community.

Energetic follow-up is required in coming months to ensure implementation of decisions: the ratification procedure for the setting-up of the European Investment Fund needs to be completed as rapidly as possible; other Commission proposals, e.g. in relation to research and development and SMEs, await Council approval; the good start made by the Commission and national authorities in identifying projects eligible for financial support needs to be continued and rapid progress made in actually getting projects under way; legislation necessary for some of the national proposals has still to be passed so that practical application can begin.

In the area of structural reform there is a wide agenda still to be considered. The measures announced recently (and those introduced in earlier years) go in the right direction but are only a beginning. While subsidiarity considerations suggest that often these issues are appropriately tackled at national level having regard to institutional specificities and traditions, a sharing of experience between countries and a parallel approach to reforms are likely to be fruitful. The design of reformed labour market policies to deal with high unemployment, which seems likely to persist even when economic recovery resumes, is a major challenge for European governments. On a remit from the ECOFIN Council, the Economic Policy Committee has already presented an opinion on "Improving the functioning of the labour market" in which it identifies a series of areas for concerted action.

The economic situation in Europe will continue to be closely monitored in coming months to see whether recovery is getting under way, to assess the impact of the growth initiative measures already taken and to decide whether further action is required, e.g. at the time when budgets for 1994 are being formulated.

The actions being taken in the Community are an essential part of the wider efforts by the developed countries to get the world economy back on a soundly-based expansion path. Close consultation and cooperation with the other main actors (USA, Japan, EFTA countries) is to be pursued and the results will be assessed by the next Economic Summit in Tokyo in July.

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ANNEX A

Actions and measures decided or announced at Community level

1. EIB temporary lending facility
2. European Investment Fund
3. Training for the unemployed. Increasing facility of the ESF.
4. The place of SMEs in the growth initiative
5. The contribution of Community research
6. The contribution of structural measures
7. The single market harnessed to the cause of growth

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EIB TEMPORARY LENDING FACILITY

I. MAIN FEATURES

1. The European Council in Edinburgh called for the establishment of a new and temporary lending facility of 5 billion ECU within the EIB to accelerate the financing of infrastructure projects, notably those connected with the transeuropean networks (TENs).

2. The EIB's Board of Governors decided accordingly at the beginning of the year that the following kinds of investment would be eligible for the facility:

   - first and foremost, investments in TENs in transport, telecommunications and energy, using as a reference point the guidelines on priorities presented by the Commission to the Council. It was also decided that in the absence of such guidelines for particular categories of investment, the choice of projects would reflect an assessment of their contribution to improving intra-Community flows;

   - investments in transport, telecommunications and energy designed to improve access to the TENs themselves (in line with Art. 129b.2 of the Treaty on the Union);

   - investments in environmental protection and management.

   It was agreed that for qualifying projects the EIB would be able to finance up to 75% of total project cost (as against its normal ceiling of 50%); and where the Bank co-finances with a Community budget instrument (e.g. the ERDF), the ceiling on the combined contribution would be raised from the normal 70% of project cost to 90%.

II. PROJECTS APPROVED

1. The EIB has already approved loans within the Community under the facility amounting to 1.6 billion ECU. These loans, which in some cases are raising the EIB contribution to between 70-75% of total project cost, are mostly of 15-20 year duration (longer than the maturities normally available from other sources). The facility is thus helping to ease the funding and to accelerate the implementation of 21 projects expected to be completed between 1993 and 1997 with a total investment cost of over 9 billion ECU (Annex). The projects are estimated by the Bank to involve employment in construction of more than 70.000 man-years and the creation of over 11.000 permanent jobs. These figures take no

account of the major indirect effects on employment in the equipment industries, which are particularly important in the case of the telecommunications and energy projects concerned.

2. Over 90% of the 1.6 billion ECU concerns TEN projects or related access infrastructure. In particular the Bank is helping to finance:

- in telecommunications: two major projects in, respectively, the new Länder and in Italy (each costing over 700 MECU) expanding the digital telephone networks;

- in energy: the renovation of a part of the gas transmission system in the new Länder (a project costing some 450 MECU); the part-financing of the Italian section of the Algerian-North Italian gas pipeline (a project of over 2 billion ECU); major projects to improve the electricity transmission and supply networks in parts of Spain, Portugal and Ireland;

- in transport: helping to construct sections of motorways in Denmark and France, modernising international rail links in Denmark, extending the air traffic control infrastructure of Eurocontrol and improving passenger handling facilities at three international airports.

In addition to these operations within the Community, the EIB has also agreed the financing of projects in Central and Eastern Europe (road modernisation in Slovakia, Bulgaria and Romania and air traffic control in Poland and Bulgaria) which will benefit from the same financing conditions.

III. FUTURE INVESTMENTS

1. After full consultation with interested parties, the Commission has already published the proposed guidelines on TENs priorities for the high speed train, for road networks, for combined transport and for waterways. Within the next six months, the guidelines for conventional rail, ports, airports, air traffic control and Vessel Traffic Systems (VTS) will also be put forward. In telecommunications, the Commission has already launched its proposals for telematic networks between administrations and expects shortly to come forward with further proposals on Integrated Systems Digital Networks (ISDN). As far as energy networks are concerned, the preparatory work by the Commission, in consultation with market operators, is at an advanced stage.

2. The financing needs are considerable. In transport alone over 40 billion ECU is likely to be needed for projects of Community interest which could be initiated in 1993-94. Some of these projects will qualify for structural or cohesion fund assistance. Others will be more natural candidates for finance from the temporary lending facility. Others may require a combination of grants and loans under the European growth initiative.

3. Against that background, the EIB has been pursuing discussions with the Commission, national administrations and market operators on further potential candidates for finance. On present estimates, and in addition to the EIB's normal lending, over 2 billion ECU in

further loans from the facility could be absorbed by the priority transport projects; at least a further 0.5 billion this year alone on major telecommunications projects, not counting possible new projects in the ISDN field; and a similar amount by energy transmission projects. These figures take no account of projects involving networks with neighbouring countries, notably in Central and Eastern Europe, or of environmental projects which may qualify for support.

4. These estimates are being refined. They refer in most cases to projects that are mature enough to be launched during the next 18 months provided that, where necessary, the appropriate administrative steps are taken by national and regional authorities and that the other complementary sources of finance, including government contributions in some cases, can be secured.

In order to facilitate the creation of satisfactory financing packages, the scope for co-financing operations between the facility, the Structural Funds, the interim Cohesion Fund instrument and the budgetary provisions for TENs is being actively explored by the Commission and the Bank.

Temporary Lending Facility: Projects Approved
(up to March 1993)

	(in MECU)		
	New Loans (Temporary Facility)	Total EIB (incl. 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 three airports: Frankfurt, Paris-Roissy, Torino-Caselle	136,1	346,7	1327
- Construction of Danish and French motorways and main roads	220	493	795
- Modernisation of the Danish railways	150	460	688
SUB-TOTAL TRANSPORT	585,1	1475,7	3178
ENERGY			
- Algeria-Italy natural gas pipeline. Italian section	195,8	475,6	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	236,1	617,3	833
SUB-TOTAL ENERGY	509,9	1322,9	3524
TELECOMMUNICATIONS			
- Modernisation of trunk telecommunications in Italy	195,8	447,6	708
- Extension of the telephone network in the new German Länder	153	486	709
SUB-TOTAL TELECOMMUNICATIONS	348,8	933,6	1417
ENVIRONMENT			
- Water treatment facilities in UK and Spanish regions; other smaller environmental projects	156	585,4	1114
SUB-TOTAL ENVIRONMENT	156	585,4	1114
TOTAL	1599,8	4317,6	9233

EIB Projects Approved in Central and Eastern Europe benefitting from Edinburgh facility conditions

TRANSPORT

Roads rehabilitation in Bulgaria, Romania and Slovakia		96 MECU
Upgrading of air traffic services facilities in Bulgaria and Poland		110 MECU
	TOTAL	206 MECU

EUROPEAN INVESTMENT FUND (EIF)

I. FEATURES

1. The EIF, with capital contributions from the European Investment Bank, the Commission (on behalf of the Community) and private and public sector financial institutions, is designed to facilitate investments in transeuropean networks (TENs), as well as projects by SMEs, especially in Community assisted areas.

2. The main business of the Fund will be to provide financial guarantees on loans; a secondary business at a later stage will be the limited provision of equity, largely through financial intermediaries. With a subscribed capital of 2 billion ECU, the Fund will be able to provide guarantees of 5 - 10 billion ECU and thereby support 20 billion ECU of projects.

II. PREPARATORY STEPS

1. At the beginning of January, the Commission made the necessary legislative proposals for the creation of the Fund[1]. Following a positive opinion of the European Parliament, an Intergovernmental Conference of the Member States took place on 25 March and agreed an addition to the Statute of the European Investment Bank which will now be presented to national parliaments for endorsement. The European Parliament has also given a favourable opinion on the question of Community participation in the Fund; the issue is now under examination by the Council itself.

2. In the meantime, and following consultations with the Commission and prospective third party shareholders, the Statute of the Fund itself is close to finalisation by the organs of the Bank. A decision will be made during April following a special meeting of the Bank's Board of Directors.

III. ACCELERATING THE CONTRIBUTION TO GROWTH

1. Everything is on course to allow the EIF to make its first commitments in the autumn, provided that there are no unforeseen

1 COM(93) 3 final of 12 January 1993. Proposal for an Addition to the protocol on the Statute of the European Investment Bank empowering the Board of Governors of the EIB to establish the European Investment fund. Proposal for a Council Decision on Community Membership of the European Investment Bank.

delays in the remaining legislative process at national and Community level.

In order to maximise its potential impact this year, however, the Commission intends to propose the immediate establishment of an Interim Board of shareholders of the Fund. This Board will work on the further arrangements for the entry into force of the Fund (its internal rules, administrative provisions etc.). Most importantly, it will also begin discussions right away with project promoters, financial institutions and national/regional administrations on specific potential candidates for support. At the same time, appropriate information on the Fund directed in particular at SMEs, including the practical steps to be followed for submitting projects, should be disseminated throughout the Community. On this basis, the necessary groundwork will have been done to allow a maximum of operations to begin immediately the legislative process is completed.

TRAINING FOR THE UNEMPLOYED
INCREASED FLEXIBILITY OF THE ESF

As part of the growth initiative, the Commission decided on 24 March 1993 to increase the effectiveness of the European Social Fund in combatting the growing problem of unemployment by increasing flexibility in the use of the ESF so as to permit training throughout the Community of those who have become unemployed.

I. TRAINING MEASURE

Training will play an important role in the growth initiative. Carefully targetted training measures are a key element in facilitating the adaptation of workers to the growing challenges of industrial change. Such measures can both increase competitivity and combat unemployment. As industries adapt and modernise many of those who become unemployed are experienced and relatively skilled. The risk of such people becoming long-term unemployed can be minimized if early action is taken to retrain them and prepare them for alternative employment.

Until now the European Social Fund has not been able to intervene, except in areas eligible for Community regional development assistance, to help those who become unemployed unless they have been out of work for more than a year. Thus there is a risk not just for the people themselves who risk drifting into long-term unemployment but also for the Community that their potential and skills will be lost to the economy. The Commission has therefore decided, on 24 March 1993, to apply the rules governing the Social Fund in a more flexible manner. A wider definition of long-term unemployment will be applied in certain specified conditions. This derogation, the possibility of which is expressly foreseen in the Social Fund Regulation, will permit the most effective use of the Social Fund and constitutes an important response to the situation in the labour market at Community level.

It will be for the Member States to bring forward proposals to avail of this new flexibility and the Commission will encourage them to do so. The indications are that there is considerable interest in this flexibility at Member State level.

II. POSSIBILITIES FOR COMMUNITY ACTION

In the context of increasing unemployment, and under existing Community measures to combat unemployment, a number of Member States have asked the Commission to make use of its powers under the terms of the first indent of Article 2(a) of ESF Regulation 4255/88 concerning Objective 3 which lays down that the period of 12 months used to define long-term unemployment "may be reduced in specific cases to be decided upon by the Commission".

At its meeting on 19 February 1993, the ESF Committee declared itself in favour of adopting such a derogation.

The Commission has decided to apply the derogation provided for in Article 2(a) of ESF Regulation 4255/88 within the limits set out below.

The aim is to take account of unemployed people experiencing particular difficulties on the job market, resulting in them in due course joining the long-term unemployed. These difficulties relate to personal characteristics (age, disability, insufficient vocational qualifications, etc.), a geographical environment dominated by economic recession and a significant increase in unemployment, and structural factors associated with industrial change, all taking place against the background of a changing economic and political environment at international level.

Workers who have been made redundant and find themselves in difficulties on the labour market because of their age, or a disability or because of insufficient vocational qualifications , can benefit from this derogation if they meet one of the following two criteria :

- those who face an unfavourable geographical environment (employment area in severe recession, sharp rise in unemployment);

- those facing major difficulties due to changes in the economic environment, particularly with regard to the international situation.

Since the people in question would in all probability remain unemployed for more than 12 months, the aim of combating long-term unemployment requires action to be taken as quickly as possible.

This derogation is intended to apply a priori to all sectors and regions of the Community, subject to the criteria above being met. The Member States that wish, therefore, to benefit from this derogation should, in the context of the programming or re-programming of the existing CSF's in agreement with the Commission, take these criteria into account .

III. CONTEXT

The derogation relating to long-term unemployment is not an isolated measure. On the contrary, it forms part of Community policy, which takes account of changes affecting the market for goods, services and jobs and, in order to remedy imbalances in these markets, proposes concerted Community measures (the growth initiative), measures aimed at restructuring certain branches of activity, and measures relating to human resources intended to accompany the industrial changes gradually affecting many of the Community's economic activities.

The European Parliament has, for its part, decided to support the efforts of the Commission, having voted credits of 45 MECU in 1993 for training measures under the KONVER programme, in order to come to the aid of regions affected by structural change in the arms industry and by the closure of military installations. The derogation in question will also apply in the context of this programme.

The Commission has proposed a new Objective 4 for the Structural Funds to make it easier for workers to adapt to industrial change and to changes in production systems, involving anticipatory and preventive measures to reduce the risk of unemployment in particular through training and retraining programmes. Article 123 of the Treaty on European Union will explicitly add this task to the traditional role of the European Social Fund.

IV. FINANCIAL ASPECTS

From the financial point of view, the derogation relating to the duration of unemployment **places no additional financial burden** on the European Social Fund for 1993, as the resources used would be those available under the CSFs for the Member States concerned. The Commission is inviting and encouraging Member States to make full use of the possibilities offered by the derogation. A number of Member States have already expressed an interest in the proposed flexibility. The Commission estimates, depending on the flexibility available in the light of the implementation of current Structural Funds programmes and on the priorities of Member States, that it could be possible to redirect 200 MECU or even more in this context, within the current CSFs, some of which might otherwise have gone unspent.

In other words, the Member States could revise certain existing CSFs so that the financial resources for Objective 3 (long-term unemployment) can be used to help those unemployed as a result of restructuring. Seen from this point of view, the derogation relating to long-term unemployment partly anticipates the ESF reform envisaged by the Commission applicable, in principle, as from 1994.

THE PLACE OF SMEs IN THE GROWTH INITIATIVE

I. CONTENT OF THE COMMISSION'S PROPOSALS[1]

In order to ensure that Community enterprise policy involves a significant value added element and to enable it to contribute to economic revival, the actions most closely geared to the situation of enterprises must be greatly developed and the interaction of instruments intensified.

In the context of the Europeanization and internationalization of enterprises, the effect of strengthening instruments is therefore a crucial factor for growth. It must be based principally on the following areas.

- <u>The development of Euro Info Centres (EIC) to facilitate access to Community information</u>

  Widely available information is vital to the proper functioning of the internal market. To this end, the aim is to adapt the EIC network so that it can fulfil the role of providing information and practical assistance to enterprises wishing directly to exploit the opportunities offered by Community programmes and increasingly open markets.

- <u>The development of non-confidential and confidential partner-search networks: the Business Cooperation Centre (BRE) and the Business Cooperation Network (BC-Net)</u>

  The common development strategy for the two partner-search instruments (BRE and BC-Net) will include improving the qualitative approach, which sets out to encourage the ongoing process of seeking alliances between enterprises in different industrial and services sectors relating to all types of cooperation, bearing in mind the complexity of the economic structure and the novelty of this type of activity.

- <u>Stepping up activities to put businessmen in direct contact with one another under the Europartenariat and Interprise programmes and promoting cross-border subcontracting</u>

  Activities to put businessmen in direct contact with one another - which have already had some success - will be stepped up, with greater emphasis on seeking a structural impact by organizing a

1 "The enterprise dimension essential to European growth" (COM(92) 470 final).

methodical follow-up over time so that any potential identified is consolidated and is turned into a durable contribution to European growth. In this context, European and international alliances are a means of developing economic complementarity and of stimulating and coordinating cross-border relations via intermediate support bodies, in particular employer and trade organizations, chambers of commerce etc.

The promotion of cross-border subcontracting should also be an important element in the modernization of enterprises, the aim being to establish new inter-industrial relationships based on flexibility and total quality not only in products and services but also in firms' organization.

- <u>Improving the administrative and legal environment of enterprises</u>

  Turning the internal market to account also requires an increased effort to create a more favourable business environment in terms of both administrative simplification and assessing the impact of proposed measures. A special effort to coordinate activities and establish a partnership between the Community, the Member States and trade bodies should enable significant results to be achieved.

- <u>Promoting Community instruments</u>

  The increased communication and promotion effort should make for the widest possible participation by SMEs in the various programmes and measures which exist to support enterprises wishing to take advantage of the opportunities resulting from the size and diversity of the internal market. One priority will be to strengthen SMEs' technological potential, in particular as regards their wider and more rapid exploitation of the results of research.

The proposal for a Council Decision on the 1993-96 programme is currently under discussion at the various institutional levels. It should be adopted at the Council meeting on industry on 4 May 1994. Adoption will make the SME contribution to growth more immediately visible across the various measures. These measures should also, in the medium term, make it easier for PMES to adjust to developments in interindustrial relations resulting from the internal market, thus helping them to be competitive.

II. SPIN-OFF EFFECTS

All the Commission's activities in the area of enterprise policy are based primarily on the network effect, with the Commission relying on a variety of intermediate bodies to provide most of the funding. Community measures are thus a crucial stimulant, generating major investment by partners in the public and private sectors.

For example, the total cost of the Euro Info Centres is estimated at between ECU 40 and 50 million a year, of which the Community contributes only some 25%. The EICs form part of a whole range of services within the host structures, services which also benefit from the Europeanizing effect of the EICs' activities. Consequently, if account is also taken of the costs of these related services, the Community's contribution is reduced still further.

Likewise, charging for the services provided by BC-Net will also enable the cost of this instrument to be significantly reduced while at the same time enhancing the homogeneity and efficiency of this network of 600 consultants located throughout the Community and beyond.

The same applies to the Europartenariat programme, which aims specifically to develop cooperation between enterprises situated in Objective 1, 2 and 5b regions and enterprises in other Community regions. Given that the Member State concerned pays a third of the budget and that participating enterprises meet travelling and subsistence expenses themselves, the multiplier effect can be estimated at 300%.

To this should be added the exchanges of experience and know-how within the networks between financial bodies, chambers of commerce and industry, chambers of trade, private consultants and employer and trade organizations. Greater spin-off will be obtained by encouraging convergence between activities and cooperation between instruments and programmes and between the various partners anxious to increase the efficiency of SMEs' contribution to the functioning of the internal market.

III. FINANCIAL ASPECTS

For the period 1993-96 the cost of the "growth" element of Community activities has been estimated at ECU 85 million, with the following breakdown:

- Development of Euro Info Centres (EICs) to facilitate access to Community information	ECU 34 million
- Development of the partner-search networks BRE and BC-Net	ECU 4 million
- Stepping up activities to put businessmen in direct contact with each other under the Europartenariat and Interprise programmes and promoting cross-border subcontracting	ECU 30 million
- Improving the administrative and legal environment of enterprises	ECU 5 million
- Promoting Community instruments - strengthening SMEs' technological potential	ECU 12 million

These activities will be developed under measures to ensure the continuity of enterprise policy with the aim of facilitating the adjustment of enterprises to the induced effects of the internal market, for which a total amount of only ECU 28 million has been allocated over four years (1994-97). It is obvious that they can only stimulate and innovate and will not achieve critical mass unless the SME aspect is incorporated into other Community programmes and Community activity is dovetailed with national policies.

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THE CONTRIBUTION OF COMMUNITY RESEARCH

As part of the Community research programme and flanking and follow-up measures to promote research a series of measures is being proposed to respond to the growth initiative decided on in Edinburgh.

These proposals take advantage of the additional ECU 900 million allocated to the framework programme in 1993 and 1994.

These projects were selected with the aim of achieving an immediate positive effect on growth and employment. However, as is generally recognized, research activities also have major economic spin-off in the medium and long term.

Having regard to the contribution of the additional funds and the 3rd framework programme, the proposals from the competent Commission departments would make it possible to assist

4 000	doctoral or post-doctoral research grants at a cost of	ECU 200 million
200	grant-holders	ECU 12 million
600	technicians	ECU 20 million
3 000	established researchers	ECU 600 million

and give rise to the medium-term economic effects an estimate of which is presented in point III.

I. CREATION OF JOBS FOR AND THROUGH RESEARCH

The objective is to improve the quality of scientific and technical staff in the Community and increase employment opportunities in this area.

As regards the Human Capital and Mobility Programme, the additional funds make it possible to achieve and maintain a level of 2 000 doctoral and post-doctoral grants in 1993 and 1994 at a cost of ECU 200 million, an amount which includes part of the associated research expenditure. This programme, which was adopted only in 1992, has expanded rapidly. It now accounts for more than 60% of the research grants awarded every year under the framework programme. The additional funds will allow specific research programmes to provide 100 grants in 1993 and 1994 for an estimated amount of ECU 12 million.

The Industrial and Materials Technology Programme will take on the employment and retraining of 300 unemployed technicians each year for a period of two months to two years at an estimated cost of ECU 20 million. These persons will be trained on the actual research

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projects administered by the programme. Low-impact technologies and flexible production are regarded as the most promising areas.

In general terms, and based on the evaluation of the possibilities of direct employment provided by shared-cost actions supported by the additional funds and administered by the concerned Commission services, the estimate is of some 3 000 established researchers' posts over two years. This is in addition to the 2 500 grant-holders mentioned above.

In conjunction with the programmes of the Human Resources Task Force, particularly COMETT, the enterprises involved in Community research programmes in the area of generic technologies will be eligible for assistance to improve training and technical employment and speed up technological developments in line with the conclusions of the European Council, thus helping to create jobs as a result of an expansion in research and the development of capacities.

II. MARKET IMPACT

The Industrial and Materials Technologies Programme (TIM) is planning to launch a series of targeted research projects guaranteeing close links between researchers and users to speed up the adoption of generic technologies by the industries involved. Projects have been identified in the areas of clean technologies and flexible production including light, low-emission vehicles, machine tools and new-generation prototypes. So far, 41 projects have been selected at a cost of ECU 147 million.

The results obtained may be offered to other European programmes to improve both the dissemination of results and consideration of the needs of "upstream" Community research. As a general point, the Commission is proposing that some of the additional funds should be set aside for Eureka projects, which on the question of generic research are of a very high quality. This approach should guarantee a more immediate transfer of technologies.

The additional ECU 43.6 million granted to the agro-industry research programme (biomass) will be allocated by way of priority to non-food uses of agricultural products. The creation of markets outside the traditional sector of agriculture and agro-industry is a fundamental aspect of this programme. Research will concern both the development of new crops, new species and the non-food use of conventional agricultural varieties. Around thirty proposals of a high standard could be assisted.

In an associated area, the use of biomass for energy production, it is estimated that 25 to 35 000 jobs could be created on a million hectares, or 7% of the land in the Community which is currently not in use. The actual economic effects depend on a number of factors, of which market conditions are one. Research work in this sector, as in the development of new and renewable energies, which are receiving additional funds, will increase the chances of gaining access to these new markets; much is at stake here, and the aim is to reduce by at least 20% the production cost differential compared with other energy sources.

As regards aeronautical technology, studies by the concerned Commission services show that research funded under the TIM programme in areas such as composite materials and the reduction of engine emissions could improve the competitiveness of the European aircraft industry and as a consequence its market share.

III. MEDIUM-TERM BENEFITS

The recent evaluation by the BETA team at the University of Strasbourg of a wide range of research projects with industry involvement concludes that the share of the additional funds granted to the projects presented in the introduction alone will generate, in terms of direct economic effects (sale of new products or processes, cost reductions), around ECU 2 500 million and in terms of indirect economic effects (transfer of know-how) around ECU 800 million over a period of five years.

THE CONTRIBUTION OF STRUCTURAL MEASURES

Bearing in mind that the Structural Funds are intended to finance measures to resolve structural rather than cyclical problems and that their impact is over the medium to long term, they will contribute to the growth initiative in the following way:

I. 1993: NEW FINANCIAL INSTRUMENT FOR COHESION

From 1 April 1993 and for the rest of the year, the Commission will have a total of ECU 1.5 billion available under the new Financial Instrument for Cohesion to finance major schemes relating to transport and the environment proposed by the four cohesion countries. Investments in transport infrastructures, where masterplans for the trans-European networks are being developed, and in environmental projects will have a particular impact on growth in the four countries. The new EIB loan instrument may also be applied in this field.

II. LAUNCHING OF THE NEW GENERATION OF STRUCTURAL FUNDS

Since the reform in 1988, the Structural Funds have been operating through the Community Support Frameworks, 1993 being the last year of implementation of the first phase. This year, some ECU 20 billion will be committed. The Commission is endeavouring to develop synergies between the growth initiative and the structural measures already planned, and to speed up their application on the ground, while in conformity with budgetary limits.

The considerable increase in the resources of the Structural Funds for 1994-99 decided at Edinburgh brings the total budget to ECU 27.4 billion for 1999 and ECU 141 billion for the six years. In addition, there is the Cohesion Fund with ECU 2.6 billion in 1999 and ECU 13.65 billion for 1994-99. These instruments will allow additional investments to be made in such key sectors as infrastructures (notably transport, energy and telecommunications), human resources, rural development, improvement of agricultural and fisheries structures, chiefly but not only in the less-developed areas of the Community. It is worth noting here that there will also be a positive effect on the economies of the more prosperous regions which, although not direct recipients of the aid, will benefit from an increase in the demand for exports.

Following the conclusions reached at Edinburgh, the Commission has proposed amendments to the existing regulations on the Structural Funds with a view to the next generation of CSFs, due to start on

1 January 1994. The proposals are aimed, among other things, at simplifying, improving and speeding up not only the procedures for planning new programmes, and having them approved by the Commission, but also their implementation. One of the aims of the amendments is to stimulate a rapid acceleration of public investments by Member States. As regards the social field, especially the need to combat unemployment in the Community, the Commission has proposed a new Objective 4 intended to help the workforce adapt to industrial changes and developments in production systems.

It is essential to avoid a hiatus in financing at the beginning of 1994 and to reduce to a minimum delays in starting the new projects that will be included in the new Community Support Frameworks (1994-99). To that end, the Commission will endeavour, with the assistance of the other institutions, to secure the adoption of the regulations before the summer and has encouraged the Member States to submit proposals for the financing of major projects forthwith.

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THE SINGLE MARKET HARNESSED TO THE CAUSE OF GROWTH

The single market is now in place. It constitutes the basis for achieving the new objectives of economic and monetary union and European citizenship set out in the Treaty on European Union.

In eight years, the Community has established a new economic environment for firms. This environment is based on:

- freedom of movement,
- the easing of regulatory constraints.

Firms have supported this major drive and have in part anticipated its effects. They must now be given a chance to benefit fully. Starting from what has been achieved, steps must be taken to improve the operation of the single market and inject renewed vigour into its development in order to restore a climate of economic confidence. The further development and deepening of the single market will also contribute to the economic and political integration of the Community as a whole.

The creation of this climate of confidence will depend in particular on the Community's capacity to press ahead with its resolve to reinforce economic integration and to create public awareness of all that is being done to implement that resolve. These moves constitute a coherent whole: supplementing them with these measures can produce the expected effects, just as the measured introduced by the White Paper programme produced an anticipatory effect. Those moves must therefore be built into an overall strategic programme. The main components of this programme are as follows:

1. a drive to promote transparency: firms must be given easier access to Community rules and regulations and in particular to the procedures for implementing them in the Member States. This is especially necessary in connection with the free movement of goods;

2. implementation of Community legislation: in addition to the transposition of directives into national law, economic agents must have the assurance that the rules are properly applied. This means arranging on-the-spot controls that are tailored to the specific circumstances obtaining in each of the fields in question and that are consistent with the spirit of partnership. Application of the rules must be coupled with monitoring of their effects so as to ensure that they do in fact meet the needs of economic agents;

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3. implementation of mutual recognition: mutual recognition promotes simplification and deregulation, but its implementation is being impeded by a lack of political will, legal certainty and trust between authorities of the Member States;

4. speeding-up the work on standardization: standardization does not only serve the interests of the functioning of the single market but also meets an industrial need. Additional measures will have to be taken to ensure that the standardization process in Europe is effective by reinforcing the role of the standardization bodies. This speeding-up hinges on the commitment of firms, which is itself linked to the drive to promote transparency. In order to contribute to this speeding-up process, the Commission intends to allocate to this action the necessary budgetary resources;

5. an ever more favourable business environment: the adoption of the European Company Statute and the elimination of double taxation will contribute to the simplification of cross-border cooperation. Similarly, improved protection for intellectual and industrial property will contribute to research and creativity and will ensure maximum legal certainty for cooperation between firms. Furthermore, the resumption of discussions on the elimination of tax distortions would help to provide firms with a level playing field;

6. partnership as a means of assisting firms: the adjustment effort required of the great majority of firms (standardization for example,) must not be underestimated; before yielding benefits, this effort carries a cost which is particularly difficult to accept at a time of contracting activity and financial problems. If firms, and in particular SMEs, whose significant contribution to the European economy is widely recognized, are left to make this adjustment effort alone without receiving the necessary guidance and support, the Community and the Member States might have difficulties in pursuading economic agents that the current upheavals are worthwhile.

   A concerted effort is therefore needed to support firms through specifically targeted measures and improved access to financial markets, thereby making them aware of the European dimension of the market in which they are operating. This stimulatory effort can be made only by coordinating Community and national initiatives and "Europenizing" policies and measures to assist SMEs, in parallel with the efforts to administer the regulations connected with the single market;

7. infrastructure benefiting individuals and firms: the trans-European networks are a key component of the functioning of the single market, of the cohesion of the Community and especially of economic growth because of the increased efficiency they bring for firms in particular. Adoption of the strategic plans and major guidelines envisaged in the Maastricht Treaty should guarantee consistency in the use of the Community funds, the European Investment Fund and the EIB lending facility by placing individual projects in a trans-European context that enhances their economic effectiveness. The interoperability of networks and cooperation between firms should ensure that the networks do in fact function across frontiers.

The Commission is in the process of reassessing the progress made in the above-mentioned fields and will present appropriate proposals if necessary.

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PROMOTING ECONOMIC RECOVERY IN EUROPE
(The Edinburgh Growth Initiative)

ANNEX B

Actions and measures decided or announced at national level

(Contributions presented by Member States)

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PROMOTING ECONOMIC RECOVERY IN EUROPE
(The Edinburgh Growth Initiative)

ANNEX B

Actions and measures decided or announced at national level

(Contributions presented by Member States)

PROMOTING ECONOMIC RECOVERY IN EUROPE
(The Edinburgh Growth Initiative)

BELGIUM

I. PUBLIC INVESTMENT

1. At national level, the main areas of public investment are the railways and telecommunications.

   The SNCB's ten-year plan for 1991-2000, which includes the Star 21 programme and the TGV, provides for investment of BFR 175 billion, of which BFR 91 billion are for infrastructure and BFR 80 billion for rolling stock. Investment for 1993 is expected to total BFR 18 billion. The central government's share of the financing will be BFR 144 billion, of which BFR 15 billion in 1993.

   In addition, the Belgacom programme will probably amount to BFR 25 billion in 1993. Belgacom has applied for an EIB loan, including use of the Edinburgh lending facility.

2. At regional level, the Flemish Community budget provides for an increase in investment of some BFR 15 billion in 1993 compared with 1992, bringing the total to BFR 106 billion. Of this increase, BFR 6 billion will be spent in infrastructure (mainly ports and roads).

   In the case of the Walloon Region, investment will increase by about BFR 3 billion in 1993 (to some BFR 21 billion). Nearly 65 % of the investment programme will be allocated to public works, natural resources and the environment.

   As regards the Brussels Region, the increase in the investment programme in 1993 will be BFR 206 million (from BFR 8.014 billion to BFR 8.220 billion).

II. LABOUR MARKET

1. Belgium attaches great importance to the labour market study carried out by the Commission within the framework of the Economic Policy Committee and would point out that the OECD is also examining this question.

   A substantive discussion is thus called for at Council level.

2. Domestically, the Conference on Employment brings together the Federal Government, the Regions and the two sides of industry.

   The Conference focuses on :

   - job creation : at national level no margin for manoeuvre seems available;
   - organization of work : adjustments can be implemented as the rules in this area are legally set at national level;
   - labour costs.

3. A plan for re-entry work ("plan d'accompagnement) has been introduced whereby young unemployed persons will receive intensive training with a view to finding a job.

The plan addresses the following concerns :

- better balance between supply and demand;
- penalties for refusing to take part in the scheme;
- incentive in the form of a reduction in employers' social security contributions for firms taking on unemployed persons.

Some 100 000 unemployed persons are affected.

The plan mainly concerns SMEs and the non-market sector, but large firms will probably be added.

The plan will probably be financed by contributions from employers.

Under the inter-trade agreement, firms will devote 0.25 % of gross wages and salaries in 1993 and 0.3 % in 1994 to promoting employment as follows :

a) in 1993 and 1994, a contribution of 0.1 % to the financing of the plan for re-entry work.

b) in 1994, a contribution of 0.05 % to the financing of initiatives relating to child-care facilities;

c) in 1993 and 1994, a contribution of 0.15 % (details to be specified in an industry-level or company-level employment agreement).

4. Following the agreements on constitutional reform (the Saint-Michel Agreements), the Flemish Government intends to allocate BFR 8.5 billion to employment for the three-year period 1993-95 : BFR 0.5 billion in 1993, BFR 4.5 billion in 1994 and BFR 3.5 billion in 1995.

The final decision, however, depends on the conclusions of the Conference on Employment.

The Walloon Region recently decided to mobilize BFR 2 billion to support directly productive employment through selective recovery.

An initial amount of BFR 1 billion will be released in consultation with the managers of companies in which the Region has a majority holding and will be earmarked for labour-intensive sectors.

The remaining BFR 1 billion will be prefinanced by inter-municipal economic development associations in order to speed up the rate of activity.

III. WAGE MODERATION

1. The Law Safeguarding Competitiveness of 6 January 1989 is a key feature of the Belgian system.

It empowers the King to take a series of temporary measures where the legislature finds that the competitiveness of Belgian firms is threatened.

This power has never been exercised since the Law acts essentially as a safety net.

The Law should be regarded as providing internal flexibility and as a counterpart to Belgian exchange-rate policy, which is anchored to the German mark.

Notably as a result of the major adjustments in exchange rates, the Belgian economy has become less competitive. This was noted by the Central Economic Council in its opinion of 12 March 1993, submitted in accordance with the procedure laid down in the Law Safeguarding Competitiveness. Government, employers and unions will have to discuss any measures to be taken.

2. The inter-trade agreement of December 1992 specifically mentions the desire that competitiveness should be preserved as a condition for expanding economic activity and employment.

IV. SMALL AND MEDIUM ENTERPRISES

1. A plan for SMEs was approved by the Council of Ministers at the end of January.

   Its principal objectives are : to improve monitoring of SMES activity, coordination at national/regional level, relations with the authorities (ombudsman) and the business situation of the self-employed; to ensure the continuity of small family businesses; to find appropriate solutions to the problems associated with the social status of SMEs and their social security position.

   The plan provides in particular for a set of new institutional arrangements, improved information for SMEs, and the adaptation of legislation and regulations on business activity.

2. Belgium considers that the new European Investment Fund should take due account of the role of SMEs in creating employment and should, therefore, devote an appropriate share of its resources to them.

V. PRIVATIZATION

The Privatization Commission is currently focusing its work on public credit institutions. The privatization target for 1993 is BFR 25 billion. The total privatization target is BFR 60 billion, and this will mean widening the net to cover more than just public credit institutions.

VI. COMPETITION

The Law Safeguarding Competition was amended in August 1991. It prohibits practices which limit competition, i.e. any agreements between firms and any concerted practices whose object or effect is to prevent, restrict or significantly distort competition on the market. A Competition Council will be set up and empowered to issue opinions on matters to do with compliance with the Law.

VII. HOUSING

The Regions apply a housing subsidies policy. In the Flemish Region, Domus Flandria, a partly publicly owned company, was set up in September 1992 to achieve various housing objectives.

PROMOTING ECONOMIC RECOVERY IN EUROPE
(The Edinburgh Growth Initiative)

DENMARK

The Danish economy is closely intertwined with the economies of the EC and the Nordic countries and is therefore highly influenced by economic developments in foreign markets.

Danish economic policy is based on the membership of the ERM and an open and liberal trade regime. Denmark will continue to base policies on these two pillars.

The Danish Government attaches a great priority to a reduction in unemployment and is convinced that there is room for maneuvre to increase employment.

The reorientation of Danish economic policy was initiated by the agreement on the Budget for 1993, giving high priority to the improvement of growth perspectives for the Danish economy. The Budget for 1993 is expected to contribute to a lasting improvement of the employment situation.

At present the Government is preparing some further initiatives designed to increase employment and decrease unemployment. The initiatives will be launched before summer.

Focus is primarily on actions that will strengthen long term growth and supply capacity of the economy. In the short run high priority is given to instruments that will reverse the trend of increasing unemployment. The initiatives are guided by the risk that the job qualifications of unemployed persons may deteriorate - within a relatively short period - leading to an increase in the structural unemployment. At the same time, it is a primary objective for the Government that the Danish international competitiveness should be improved.

The main fields of initiatives are the following:

- Increase in public investment
- Incentives for small and medium sized enterprises
- Incentives to increase activity in the residential sector
- Structural reforms in labour market and taxation

Actions already taken will be strengthened by the Government this spring. Below is given a survey of the initiatives included in the Budget for 1993 and an indication of the initiatives to be implemented by the Government.

I. INCREASE IN PUBLIC INVESTMENT

The 1993 Budget will increase public investment by about 4 billion DKK originally planned for the years after 1993. Both central government and local government activities will be affected.

The extra investment will cover a broad range. Investment in infrastructure (traffic; approximately 1 1/2 billion DKK), environment and energy (sewer and energy saving measures; aproximately 1 billion DKK), culture and education (i.e. before Copenhagen Cultural Capital 1996; total aproximately ¼ billion DKK), building maintenance (aproximately ½ billion DKK) and public investments in facilities for children and old age (aproximately ¼ billion DKK) are prioritated.

Public investments of this kind will give a positive effect on private investments.

The Government plans a further speeding up of investment in both 1993 and 1994. The following elements are under consideration:

1. Increased public investment at the local level.

2. Speeding up of the investment in landfacilities of the bridge project across the Sound (to Sweden).

3. Infrastructure investments and building projects in Copenhagen.

II. INCENTIVES FOR SMALL AND MEDIUM SIZED ENTERPRISES

The Government gives high priority to small and medium sized firms and it is recognized that there are important barriers to growth for these firms. To increase the flow of risk capital to small and medium sized firms an arrangement for guarantees for loans is included in the budget for 1993, as well as efforts to strengthen the know-how and quality in these small firms and means to increase their potential for exports. Total expenditure of approximately ½ billion DKK is foreseen.

The Government plans to add a favourable loan scheme for small and medium sized enterprises.

In addition to this the Government is considering the possibility of establishing a venture fund with a mix of private and public guarantees.

Specific structural initiatives were taken in the Budget for 1993 with respect to agriculture and fishery.

Further initiatives aiming at alleviating the interest burden and debt ratio in industry, agriculture and fishery are being put forward by the Government.

III. INITIATIVES TO INCREASE ACTIVITY IN THE RESIDENTIAL SECTOR

The activity in the Danish building sector has been depressed for several years. The Budget for 1993 provided for an increase in the subsidy for private maintenance expenditure, increased public and private urban renewal and a more flexible mortgage system, both in terms of borrowing limits and schedule of amortization. Private pension funds were given better opportunities for investment in urban renewal. The Budget will allocate more than 1 billion DKK for this purpose.

In order to improve the housing market the Government plans a further liberalisation of the mortgage system. It is expected that this initiative will decrease first year cost for house buyers significantly. Stamp duties will be lowered.

Stimulus is also given to the maintenance and renewal of rental appartments. Tenants will be given stronger incentives to improve their flats.

IV. STRUCTURAL REFORMS IN THE LABOUR MARKET

Several activation schemes for unemployed have been implemented in 1992, including a package of training schemes for young people. Early in 1993 the activation schemes were expanded with better possibility for leave of absence.

The Government has set up a committee of ministers to prepare initiatives to combat unemployment. One of the major issues is structural labour market reforms.

It is planned to change the system of active labour market measures completely to a decentralised and more flexible system adapted to the individual needs of the unemployed. The ambition is that the system shall contribute to a major improvement of the skills of the unemployed.

An improvement of the possibilities for leave of absence to (among others) educational activities is also planned.

The measures require a restructuring and widening of the capacity in the education and training systems.

V. OTHER STRUCTURAL REFORMS

A main objective of the new Government is a restructuring of the income tax system, aiming at lower marginal tax-rates on personal income. This restructuring will be partly financed by increased environmental duties and labour market contributions.

An objective of the Government is further to reduce the structural barriers to growth in the service sector, due to unfair competition from black labour and do-it-yourself activities. This is regarded as important for the employment outlook in the longer run.

VI. THE EFFECT OF AUTOMATIC STABILIZERS

As a supplement to the specific measures taken, economic activity in Denmark will continue to be supported by automatic stabilizers. The effect is expected to be slightly positive in 1993, but less than in 1992.

VII. THE WAGE AGREEMENT IN SPRING 1993

The preliminary experience from the wage negotiation round early this year indicates very moderate wage increases for the coming years. For the public sector annual wage increases in 1993 and 1994 are expected to be approximately 2 per cent.

PROMOTING ECONOMIC RECOVERY IN EUROPE
(The Edinburgh Growth Initiative)

GERMANY

The most important German contribution to the Edinburgh Initiative is the solidarity pact which invites all major economic agents to contribute to an improved growth performance. Within this context, the Federal Government has initiated the Federal Consolidation Programme (hereafter refered to as FKP). It is designed to provide a sound financial basis for an upswing in East Germany, to continue the fiscal consolidation, to settle the issues of allocating debts emanating from German unification and of adjusting the fiscal relationship between all layers of government. In the short-run, efforts will be made to stabilize the economy, e.g. by doubling the volume available for the building modernization programme to DM 60 bn. Also, instead of raising taxes, the Federal Government will let automatic stabilizers work and accept an increase in government borrowing this year.

Recently, the Federal Government, all the heads of the Länder governments and the leaders of the major political parties agreed upon the major elements of the FKP. The agreement, the clear framework thus provided and the decision not to raise direct taxes before 1995 are expected to have a positive impact on private sector confidence and growth. In the draft of the 1993 supplement budget the short-run stabilizing elements have already been put in place.

Within this overall framework, a great many of more specific budgetary, structural and other measures have already been decided upon or are pending. The list below provides an overview.

I. BUDGETARY MEASURES

1. Public investment

Continuing emphasis on overhauling the eastern capital stock (1992 east/west investment ratio almost 30%), *but also substantial investment in west Germany, e.g.:*

- *federal capital spending of DM 13bn on transportation infrastructure,*
- *Telekom investment amounting to more than DM 15bn on western communication infrastructure (digitalization, broadband cabling and mobile telephones) this year.*

Furthermore, there are various projects which appear suitable for EIB financing (temporary lending facility decided on in Edinburgh; list available).

2. Promotion of private investment, also through SME

Programmes in favour of eastern investment, partially upgraded as of 1993.

Support for SME is focussing on east Germany:

- *investment supplement (up to 20%),*
- *special depreciation allowances (up to 50%),*
- *investment grants (up to 23%),*
- *capital assistance,*
- *credits at preferential rates administered via the ERP - credit programme (additional DM 1.8bn in commitment appropriations to reduce the interest burden of SME in the eastern Länder).*

Besides this, the Treuhand activities of deconcentration and privatization are highly conducive to the emergence of SME.

In addition, measures to consolidate public finances, with e.g. the FKP as the most important endeavour, contribute to growth via their impact on interest rates and (business and consumer) confidence.

3. <u>Tax facilities for enterprises (including SME)</u>

Some reductions in various taxes as of 1993 (reduction and simplification of corporate wealth tax, higher allowances and other reductions with respect to a special corporate tax (Gewerbesteuer)).

The law to improve the investment environment (Standartsicherungsgesetz) can be viewed as stage two of the reform of corporate taxation. In this context it is planned to reduce corporate profit tax to 44% as of 1994. Given budgetary problems the targetted net impact on the budget is zero (tax depreciation allowances to be stretched out). In addition, the Standartsicherungsgesetz includes measures in favour of SME:

- *further reductions of inheritance tax facilitate the transition from one generation of owner-entrepreneurs to the next,*

- *the introduction of a combined depreciation/savings mechanism is particularly helpful for SME to overcome their specific problems with raising funds.*

In 1995, the solidarity surcharge on income/corporate profit tax will be re-introduced, at a rate of 7.5% (to help finance the unification related debts).

4. <u>Measures in favour of housing</u>

After their extension in 1992, there are now plans to reduce some tax allowances in order to foster consolidation (FKP-proposal). *However, mainly within the recent FKP-decisions, extensive housing support to initiate growth was agreed upon:*

- *the programme to modernise housing, administered by the specialised banking institute Kreditanstalt für Wiederaufbau (KfW), is now being boosted by a further DM 30 bn to DM 60 bn (after being increased DM 5bn in the 1992 supplementary budget and DM 10 bn in the 1993 budget).*

- *the entitlement to a 50% special depreciation allowance for investors in eastern housing will be extended by another two years (until 1996),*
- *an additional sum of DM 250 mln has been committed for the construction of social housing,*
- *privatization of eastern housing is being supported massively by interest subsidies and debt relief (DM 31 bn out of DM 51 bn).*

II. STRUCTURAL MEASURES

1. Labour market

Structural adjustments (spending cuts) on various training programmes as of 1993.

Issue of escape clauses for wage contracts pending.

Easier access to liberal professions planned.

Employer's initiative "training" in eastern states.

Another DM 2 bn will be spent on active labour market policies in 1993.

2. Privatization

Ongoing sales by Treuhand.

Continuing western privatization, including railways, telecom and motorways. The privatization of the railways (Bahnreform) has already been launched.

3. Competition policy

Various deregulation measures are pending.

III. WAGE MODERATION

1. General government and private sector

There has been wage moderation compared to 1992 settlements in west Germany.

A re-orientation in wage settlements is emerging: the settlement in the public sector (west) of 3% (based on an annual average, civil servants get only 2% more) after 5 to 6% in the years before is signalling this.

Appendix: Solidarity pact agreement

Appendix

Results of the Federal Chancellor's closed meeting with the Länder heads of government and the party and parliamentary group chairmen held in Bonn from 11 to 13 March 1993

The financing of Germany unity in a generally difficult economic situation necessitates great efforts from the Federal Government, the Länder and the municipalities, partly in order to give the private sector a reliable framework. This requires an effort of solidarity on the part of all Germans. The participants agree on the long-term financing of German unity from 1995.

The main points of this agreement are:

1. The fiscal allocation of the new Länder and their municipalities is guaranteed by transfers of DM 55.8 billion in 1995. In addition the division of tax revenues between the Federal Government and the Länder is rebalanced.

2. Additional efforts are to be undertaken to eliminate old ecological debts and to safeguard and renew the core industries. With this objective in view, the Treuhand's credit limit is increased.

3. The suitability of the relevant instruments and the scale of financial resources necessary to promote sales of products from the new Länder is to be examined.

4. Basic agreement exists on the need for reform of the railways.

5. To increase residential construction in the new Länder the following is agreed:

   - The solution of the question of old residential construction debt could be achieved:

     Capping at DM 150 per square metre; the sum of DM 31 billion produced from capping is added to the inherited debt fund. The proceeds from housing privatization are used to cover corresponding burdens in the inherited debt fund.

     The corresponding interest rate subsidies amount to DM 4.7 billion for 1994 and DM 2.35 billion for 1995 and are borne by Federal Government and new Länder in equal amounts.

   - So long as housing enterprises can not be entered as owners on the Land Register, transitional guarantees are granted.

   - The Federal Government's Reconstruction Loan Corporation programme will be boosted by DM 30 billion to DM 60 billion. DM 10 billion of this will be used to improve systems-built dwellings with an interest subsidy of 3 percentage points; for the remaining DM 20 billion an interest subsidy of 2 percentage points applies.

   - As part of the promotion of urban building in eastern Germany, improvement of the living environment is continued.

- The Assisted Area Law is extended by two years for investment in the building of privately-owned housing (50% special depreciation allowance in the first five years).

6. The Federal Government will make an extra DM 2 billion available to keep an active labour market policy in operation in 1993.

7. Standard social benefits are not reduced.
Strenuous efforts will be made to combat abuse in the area of social and economic services.

8. It is agreed that expenditure cuts and the reduction of tax subsidies must yield savings of over DM 9 billion. The additional savings necessary will be decided in the working party of the four Länder Finance Ministers with the Federal Minister of Finance which will consult representatives of the parliamentary groups in the Bundestag and will have full negotiating authority.

9. In introducing a 7.5% solidarity surcharge from 1 January 1995 there is agreement that a social component which exceeds the basic allowance is provided for. The private wealth tax is increased and the allowance adjusted from DM 70 000.00 to DM 120 000.00. It is agreed that the result will be an extra DM 28 billion available to the Federal Government in 1995.

10 It is agreed that for 1993 the Federal Government and the old Länder will make available their additional revenue from the withholding tax on interest income (Zinsabschlagsteuer) (DM 855 million and DM 1.3 billion respectively) to cover the fiscal need of the new Länder. In addition to this, the Federal Government and the old Länder will make a further DM 1.55 billion available, to be shared equally between them. As a result, the German Unity Fund is provided with an extra DM 3.7 billion altogether in 1993.

The Federal Government and the old Länder wish to provide additional amounts to stabilize the yield from the German Unity Fund for 1994 as well. The working party of Finance Ministers is to discuss this with the object of producing a decision for the Federal Chancellor and the Länder heads of government. The Federal Government will contribute a sum of DM 5.35 billion to these discussions. The old Länder are studying whether they will make additional amounts available for this over and above a promised sum of DM 3.5 billion.

PROMOTING ECONOMIC RECOVERY IN EUROPE
(The Edinburgh Growth Initiative)

GREECE

I. COMPETITION POLICY

Priority has been given to the lifting of administrative and legal barriers to market entry and competition (including those applying to professional associations). According to Law 2065/92, this was to be done by Presidential Decrees. A Decree opening up the profession of auditors was issued and restrictions on the baking and the sale of bread were lifted in July 1992. Another Decree liberalising shopping hours was issued in September 1992. On the basis of Law 2065/92 barriers to entry and restrictive practices in a number of other professions and industries are being examined, with a view to eliminate those that are considered to be unjustified. These added to earlier measures to liberalise the labour market with the introduction of part-time work and of restrictions to trade-union activity (Law 1915/90) and the gradual lifting of rent controls since 1991.

In the area of liberalisation and deregulation a major step has been the establishment of a regulatory framework for telecommunications (Law 2075/92), following the abolition of the state monopoly. Furthermore the banking system has been strengthened by the provisions of the Banking Law which incorporated the second banking directive, and by a major restructuring in the asset position of state banks. Moreover, all current transactions are now free of exchange controls and long-term capital movements have been liberalized. Finally, all price controls were lifted in May 1992, with the exception of pharmaceuticals, following the liberalisation of the oil market earlier.

II. WAGE MODERATION

Law 2026, voted in April 1992, empowered the Minister of National Economy to impose limits on the wage bills of all public enterprises and entities in 1992. Under the tax bill voted in July 1992 the Law was extended to 1993 and 1994. For 1992 a wage-freeze applied in the public sector, while in 1993 a 4 % increase has been granted. The cumulative decline in real wages in the public sector in 1991-93 has been more than 14 %.

III. TAX REFORM

1. Law 2065/92 introduced a favorable tax treatment of depreciation allowances for firms :

   - As from 1/1/93 regular depreciation becomes optional, implying that new firms may postpone depreciation until they become profitable.

   - For assets exceeding Drs 200,000 an accelerated depreciation system applies. Machinery and equipment may be depreciated within a period of no more than four years thus enabling firms to replace and modernize their machinery more frequently.

- Exceptionally, all industrial, handicraft, mining and quarrying enterprises, may in the two fiscal years following 30/12/92, carry our depreciation of their machinery and equipment acquired before 30/12/92 using any depreciation rate, provided that the overall depreciation rate of their fixed assets is not higher than 20 % of the industry's aggregate net profits in any fiscal year.

2. The same Law simplified the system of direct taxation, reduced marginal income tax rates (the highest rate declined to 40 %) and introduced a significantly reduced flat rate of 35 % for corporate profits. Also, it provided for a number of penalties, incentives and other measures to help combat tax evasion, broaden the tax base and speed up the payment of tax arrears.

3. In the area of indirect taxation, the Special Tax on Banking Turnover, which adds about three percentage points to the borrowing costs, will be abolished as of 1/1/94, thus reducing borrowing costs by about three percentage points.

4. From 1/1/94 specific consumption taxes will be indexed for expected inflation. Moreover, an increase in revenue from the reduction of VAT evasion is expected, following the implementation of a series of structural and organisational measures in the process of assessment, control, cross-checking and collection of taxes. This is expected to yield one extra percentage point of GDP annually in 1993 and in 1994, thus offsetting the revenue loss from the abolition of the special tax on bank turnover.

IV. PRIVATISATION

Two cement companies and two shipyards have already been sold, another shipyard and a textiles company are in the process of being sold or liquidated, while several other smaller companies have been disposed of. This year, the two state refineries will also be privatized.

Regarding public enterprises, the sale of shares of the OTE has been assigned to a major international investment bank and the transaction is expected to be completed in 1993, through a sale to a strategic partner and an IPO. The award of two licences for mobile telephony was completed in August 1992 for a record fee.

The 1993 Budget envisages privatisation proceeds of Drs 330 billion, while a further Drs 200 billion is expected in 1994.

V. INFRASTRUCTURE INVESTMENT

There has been a major shift in priority from public consumption towards public investment projects. A major effort concerns the 100 % absorption of the Community Structural Funds. Consequently :

1. In 1993, expenditure of the Public Investment Budget is projected to increase to 5.6 % of GDP, from 4.8 % in 1992, while for 1994 and 1995 the annual rates are projected to be 6 % of GDP. These rates are expected to be achieved via the thorough absorption of the Funds of the

Delors II package, and their rational allocation to a wide range of large infrastructure projects, such as :

- The Metro of Athens (already under construction),
- The Metro of Thessalonica,
- The Athens Airport at Spata,
- The Rio-Antirio bridge,
- The Ancheloos River irrigation project,
- The modernisation and electrification of the existing railways,
- The dams of Rivers Evinos and Smocovos,
- The Mount Hymmetus tunnel,
- The Thessalonica water system,
- The Patras sewage system,
- The new Higoumenitsa harbor, and
- The modernisation of the Patras harbour.

The total cost of these projects has been budgeted at Drs 1,278 billion. There are also ten more projects concerning construction and completion of road transport networks whose total cost has been budgeted at Drs 1,292 billion.

In addition, a large number of smaller road transport networks are already under construction, while a series of other small projects are expected to start as from 1/1/94.

It should be noted, however, that in the cases of the Athens Airport, the Metro of Thessalonica and the Hymmetus tunnel the participation of public funding is quite small as they will be constructed on a BOT basis.

GREECE
Major Infrastructure Projects [1993-1998]

ROADS AND SECTIONS OF ROADS	Length in KM	Expenditure in DRA billion
Modernisation of the National Road to turn it into a mortorway in the section Yliki to Katerini	350	460
Construction of Egnatia Road in the section Igoumenitsa to Kavala	403	400
National Road in the section Antirio-Igomenitsa	190	120
Completion of the Northern road axis of Crete	90	50
Outer Ring Road of Thessaloniki	20	26
Rong Road of Patras	20	25
Motorway between Tripolis and Kalamata	90	46
Improvements in the motorway between Corinth and Patras	15	
Eleusis - Stauros - Spata and the peripheral road of Hymettus (completion of Athens Ring Road) [expenditure additional to self-financing]	35	
Tunnel under Mr Hymettus [expenditure additional to self-financing]	15	

OTHERS

Athens Metro stages A and B	500
Thessaloniki Metro [expenditure additional to self-financing]	40
Diversion of the river Acheloos	120
Modernisation and electrification of the railways	370
Rion-Antirrion junction [expenditure additional to self-financing]	40
New Athens airport [expenditure additional to self-financing]	25
Dam on the river Evinos	40
Modernisation works in the Kopais basin	25
Thessaloniki water works	15
Patras sewage works	10
Smokovo dam	30
New port of Igoumenitsa	10
Modernisation of the port of Patras	23
Western Attica Hospital	30

PROMOTING ECONOMIC RECOVERY IN EUROPE
(The Edinburgh Growth Initiative)

SPAIN

I. GENERAL APPROACH

Spain's economic growth has recently suffered a significant deceleration, as has been the case in other European countries. The growth rate recorded in 1992 (1.0% according to the latest data) is clearly lower than our growth potential; however, structural inefficiencies in our labour market and the evolution of real wages in the last three years have destroyed employment and pushed our unemployment rate well above that of other countries.

During the last months, there have been some considerable improvements in some of our macroeconomic disequilibria, mainly in the fields of inflation, external deficit, and public sector borrowing requirements. Moreover, a great part of the structural reforms contained in the Convergence Programme have already been presented to Parliament. Nevertheless, the Government believes that a new package of economic measures could help to improve activity and employment creation, if it is embedded in the European initiative and does not affect the Convergence Programme targets.

The measures adopted by the Spanish Government can be grouped in three areas:

1. **Measures favouring the financing and investment capacity of small and medium sized enterprises, in order to enhance economic growth and employment creation.**

2. **Measures directed to increase infrastructure investment without putting in jeopardy fiscal consolidation.**

3. **Labour market measures.**

The next section includes a detailed description of the measures. Nevertheless, it is important to stress that the Spanish contribution to the initiative is not going to entail any kind of deviation from the convergence path described in our Convergence Programme.

First, because the measures are but a deepening in the structural reforms described in the Programme as being necessary for increasing the Spanish potential growth.

Second, because the budgetary impact of the tax reduction and the additional financing for private enterprises will not alter significantly the results otherwise obtained, because the measures are restricted to new enterprises and new investments, and because they will help to counteract the effects on budget deficit otherwise derived from the automatic stabilizers.

Third, because the financing of the additional public investment will come from EC funds and resources, and EIB loans will be devoted to those projects with capacity to generate enough returns for repayment.

Finally, because the restoration of agents' confidence may have favourable effects on the rate of growth, reinforcing the intensity of economic recovery.

II. DESCRIPTION OF THE MEASURES

1. Financial measures in support of Small and Medium Sized Enterprises (SMEs)

These companies suffer from the difficulty to find adequate financing. Lack of access to capital markets, insufficient guarantees provided to credit institutions and scarce information and advice facilities, render SMEs financing much more difficult. They have to rely on bank financing which is usually more costly.

Therefore, some mechanisms to facilitate their financing capacity are needed, by promoting self-financing or making their access to other sources easier. To this purpose, the Government proposes the following measures:

a) Credit Lines to SMEs

i) Preferential credit from the Official Credit Institute (ICO)

ii) A line of 100.000 million PTA for SMEs is committed, to be disbursed in the course of 1993-94. It is meant to finance long-term productive investment with the intermediation of Banks and Savings Institutions.

iii) ICO will obtain the funds from its profits and bond issues.

b) Interest rate subsidies

The government will set up a 10.000 million PTA credit line in concessional conditions for SMEs high-technology equipment.

c) EIB loans

i) The EIB will provide funds through "global loans" channelled by credit institutions amounting to 50.000 million PTA in 1993-94.

ii) In order to increase the percentage of "Global loans" in the total number of EIB loans to Spain, and to reduce their cost, the Government will undertake the following measures:

- Favour any procedure enabling to make more flexible the concession of EIB Global loans, and their channelling to SMEs.

- Create risk reduction mechanisms in coordination with the EIB to reduce financial institutions margins.

- Foster the role of Regional Governments and Commercial Chambers, because their proximity to companies allow better knowledge of their needs. They may, on the one hand, provide information on EIB financing possibilities, and on the other hand, act as intermediaries in project selection.

2. Reinforcement of Reciprocal Guarantee Companies

The role of Reciprocal Guarantee Companies (RGC) is very much related to the strategy of increasing resources to SMEs. These companies provide guarantees allowing SME's access to bank finance, make their access to concessional financing easier, negotiate better credit conditions with financial institutions and offer them information and advice.

The government also believes that these companies can play an important role in improving SMEs access to financial resources from the EIB.

a) RGC legal framework

The Council of Minister approved on the 23rd of December 1992 the new Law on RGC regime.

The Law is now being considered in Parliament. It provides SME with better financing possibilities through mutual guarantees enhancing their negotiation capacities with financial institutions, reducing credit costs and opening their access to a wide range of financial services.

b) Establishment of a new Reinsurance Company

In order to provide RGC with enough liquidity and solvency, we need to create a mechanism for reinsuring RGC guaranteed Credits.

This new company will result from the merger of two existing companies: the mixed Company for Second Guarantees and SOGASA. Its equity will then be enlarged to 3.000 million PTA.

c) New Joint-venture fund in the ICO

The ICO will create a 10.000 million PTA fund earmarked for taking minority stakes in newly created enterprises and providing participative loans.

d) SMEs access to Stock Exchange Markets

The Government, after a previous report by the Stock Exchange National Commission, may create special stock negotiating areas for variable or fixed assets launched by SMEs.

3. Fiscal measures to support investment and enterprises

The fiscal measures that the Government includes in the context of the European Initiative for Growth are mainly focused on promoting creation of new enterprises and investment in the existing ones by means of reduction of their tax burden.

Four different types of proceedings are proposed :

a) In the field of **fiscal incentives to investment**, the measures are meant to facilitate an accelerated process of depreciation of equipment.

   i) A Ministerial Order will be immediately published, which increases official coefficients.

ii) A 50% increase in the new maximum repayment coefficients will be allowed for investment carried out during the next two years.

b) In the field of **new managerial activities** :

i) The present five year limit for loss compensation in the Corporate Tax will be abolished for all those enterprises created during 1993 and 1994. The managerial activities launched under the initiative will benefit from an unlimited horizon to compensate losses in their tax payments.

ii) Three year 20% allowance of the net revenues of the "objective estimation system" for those enterprises created during the life of the Initiative for Growth.

c) In the field of **small individual enterprises**, 10% general reduction of the 1993 net revenues of the "objective estimation system" will be applied. This measure is introduced in order to consider the specific situation of small individual enterprises, and to correct the 1993 net revenues in the light of the characteristics of the current situation.

d) In the field of **enterprise financing**, in order to finance the cost of the special lines of credit established in the "Official Credit Institute" for small and medium enterprises, this Institute will be exempt from the Corporate Income Tax for the next four years.

4. Measures to enhance investment in infrastructure and environment.

The Government proposes that the financing from the EIB additional line be used to carry out **100.000 million PTA** of additional investment for 1993 and 1994. These investments will be focused on those organizations, entities and public enterprises capable of generating enough revenue to cover the service of the indebtedness.

The following investment programs have been selected : Airports, Ports, Motorways, Confederaciones Hidrográficas, Postal Service, Electric Energy and Pipelines.

In addition to this package of investments, financed with the credits obtained by the organizations and public companies, the public investment pipeline will be increased with regard to previous scenarios for 1993 and 1994, by **200.000 million PTA**, mainly financed by Cohesion Fund resources.

Spain will probably receive from Cohesion Fund, 250.000 million PTA in 1993 and 1994. Spain has presented a 350.000 million PTA project pipeline detailed in Table 1. In the Table, the 20% Spanish cofinancing requested by the Community has already been taken into account. The important volume of the pipeline and its adequacy to the Fund objectives, allow to foresee that it will be possible to obtain the volume of resources mentioned above.

The main characteristics of the projects Spain is proposing to finance with the Cohesion Fund are the following :

a) Proceedings in the field of transport represent 70% of total projected investment, and those in environment represent 30%.

b) **Environment.** The investment effort in environment this year will amount to 50.000 million PTA. Investment to improve water cycle management, investment in National Parks and aid to promote clean technology use in the industrial sector are the main domains taken into account.

c) **Transport infrastructure.** The projects in the field of transport will use up to 114.000 million PTA in 1993. The projects are focused on the improvement of the road network, railways, and airport and port infrastructure in the islands.

5. Labour market measures

The strong worsening of the Spanish Labour Market urgently requires a comprehensive and deep review of the legal framework, that has proved incompatible with the requirements of the European project.

The measures here proposed obviously do not suffice to undertake the reform required. However, the Government's main target for the moment is to cushion the negative effect on employment of the current situation. Therefore, these measures have to be understood as a means to avoid a further worsening of the labour market conditions.

The measures are the following :

a) Possibility of extension to 1 year of the temporary contracts that expired during 1993. Employers may receive a 250.000 PTA subsidy if temporary contracts are transformed into indefinite.

b) Part-time contracts signed after the implementation of the measures and until December 1993 will benefit from subsidies under the indefinite contract promotion scheme; working hours minimum requirements are between 1/2 and 2/3 of the ordinary time-table. Subsidies will be determined according to timetable length.

c) Changes will be introduced in apprenticeship and training programmes to finish their reform process.

d) Temporary Work Companies will be allowed to actively participate in labour market intermediation.

SPAIN

INVESTMENT IN INFRASTRUCTURE AND ENVIRONMENT PROGRAMME

(Million PTA)

PROJECTS	1993	1994
A) TOTAL TRANSPORT	**113.997**	**129.255**
1. ROADS	91.697	107.120
Main Roads	56.228	89.300
Conditioning	6.867	8.000
City access	29.102	11.197
2. RAILWAYS	14.900	10.500
Railway infrastructure	14.900	10.500
3. PORTS	400	1.500
4. AIRPORTS	7.000	10.135
Infrastructure	6.600	9.335
Air Navigation	400	800
B) ENVIRONMENT	**50.450**	**56.150**
Water quality	4.000	11.000
Sea Shores	6.950	7.000
Hidrology - forestry	2.500	2.500
Hidrologic works	21.000	5.000
National parks	3.000	3.000
P.I.T.M.A.	3.000	10.000
Reforestation	10.000	14.650
TOTAL TRANSPORTS + ENVIRONMENT	**164.447**	**185.405**

PROMOTING ECONOMIC RECOVERY IN EUROPE
(The Edinburgh Growth Initiative)

FRANCE

Since last autumn, France's international environment has worsened : the OECD, which in June 1992 was predicting 3 % growth for its members in 1993, has revised its forecast down to 1.9 %; the deterioration in the economic climate is a particularly sensitive matter for Community Member States. The OECD is now predicting growth of 1.2 % for the EEC in 1993. The Commission is even more pessimistic (0.8 %).

This highly unfavourable international context will inevitably affect the economic situation in France where growth in 1991 and 1992 was export-driven to a significant extent. In 1992 the French external trade balance showed a surplus of FF 30.5 billion, i.e. an improvement of FF 60 billion over the previous year.

Growth in France cannot therefore be expected to be driven by external trade in 1993. However, the progress made by France over many years in improving its competitiveness will mean that its external accounts will remain in surplus in 1993.

Growth in 1993 will also be underpinned by the sustained level of private consumption (increase of approximately 1.5 % per year) which will in part be stimulated by the purchasing-power gains made by wage and salary earners as a result of the success which has been achieved on the inflation front (consumer prices rose by 2 % over 12 months in 1992) and which should be sustained in 1993 and reinforce the economy's competitive potential.

France should see growth and domestic demand levels above the average for Community countries, and this will make a positive contribution to activity in the Community.

Despite the successes achieved on the inflation, competitiveness and external trade fronts, growth will still not be sufficient to prevent unemployment from rising unless resolute and sustained action is taken. This disturbing phenomenon justifies the Government's efforts to combat long-term unemployment through the examination of the 900 000 individual cases recorded last year and the recent measures to encourage firms to increase the number of part-time jobs.

However, quite apart from the necessary efforts to secure a better distribution of working time and more flexibility in the labour market, the Government is convinced that only increased and non-inflationary growth is capable of curbing the rise in unemployment by creating lasting jobs.

Having been aware, since the spring of 1992, of the seriousness of the deterioration in the world economic situation, the Government has adopted a two-pronged strategy :

- on the revenue side, the "automatic stabilizers" must be allowed to function to the extent compatible with the Government's medium-term objectives, and in particular the criteria laid down in the Maastricht Treaty;

- without engineering an overall boost to the economy, specifically targeted measures must be adopted to assist certain sectors.

I. OPERATION OF THE "AUTOMATIC STABILIZERS"

Public finance provides powerful support for economic activity. The free play of the automatic stabilizers will limit the deterioration in firms' cash positions and in household incomes. The positive contribution made by public finance to growth in 1992 can be put at more than half a percentage point. In 1993 the impact is likely to be less but should still be positive.

The rise in non-debt public spending remains moderate, and its structure is not being unfavourably affected : government current expenditure as a proportion of GDP has remained stable for a long time; France's public investment effort has been maintained over a long period and exceeds that made by most of its trading partners.

France's medium-term objective is to maintain a public finance situation that is healthy and compatible simply with balanced economic growth.

II. SPECIFICALLY TARGETED MEASURES

The support being given to the economy is selective :

- it is directed primarily at firms which are affected by the contraction in international demand and whose cash positions are impaired by the level of short-term interest rates. Households have benefited from the highly positive impact of lower than expected inflation, which secured them substantial purchasing-power gains in 1992; the purchasing power of the hourly wage rate rose by more than 1.5 % between the end of 1991 and the end of 1992;

- government action is designed to promote investment since this will reinforce the country's long-term supply and growth capacity.

In the light of these objectives, the French Government, being aware of the cyclical slowdown and having drawn the attention of its European partners to that fact, has concentrated its action in three directions since the autumn of 1992 :

- assistance for small and medium-sized enterprises, including those in industry;
- the development of infrastructure networks;
- support for the property sector, which has been particularly affected by the crisis.

1. Assistance for small and medium-sized enterprises, including those in industry

In addition to general measures for alleviating the burdens on small and medium-sized enterprises - the most recent of which was the partial reduction in the one-month time-lag between the payment of VAT and the refunding of the tax on input (cost : FF 11 billion) - France has adopted specific measures designed to promote investment by such enterprises.

In October 1992 France set up a guarantee fund for investment by small and medium-sized firms, the aim of which is to provide a 50 % guarantee for FF 20 billion of loans to such enterprises which have a turnover of less than FF 2 billion and which implement industrial investment programmes.

This guarantee fund has been allocated FF 500 million by the Government. It is administered by SOFARIS, a private-law company a majority of whose shares are held by credit institutions and which underwrites with its own capital the risk of the guarantee fund being exhausted. The experience of this company should therefore ensure control of the risks incurred.

Guarantee applications are submitted by the credit institutions and processed by SOFARIS.

The basis for calculating the guarantee is the amount of funding provided for the tangible or intangible investment programme and the increase in working capital resulting from that investment.

The credit institution must pay a guarantee commission, which ensures that use of the guarantee fund is targeted on business investment projects carrying above-average risks and therefore covers the marginal areas of industrial investment at reduced cost.

This fund should make it possible to :

- **boost the level of lending to firms** by relieving banks of some of the financing risk and so contributing effectively - but without direct subsidy or aid - to the taking-on of greater risks by private operators;

- **stimulate industrial investment** and therefore promote non-inflationary growth. By guaranteeing FF 20 billion of loans out of a total of some FF 150 billion of annual industrial investment by small and medium-sized enterprises, this stimulatory measure is truly macroeconomic in scale.

The guarantee fund technique presents two main advantages :

- it is **inexpensive** because it exerts a substantial leverage effect, and only those firms which ultimately fail, which are still small in number, represent a real financial cost;

- it is a **differential procedure**, i.e. it is targeted on investment projects which would have had the least chance of being carried out without it. The payment of a guarantee commission causes the banks not to apply for guarantees on investment projects which they are prepared to finance alone.

  Although these arrangements have only just begun, the initial results reflect the real interest being shown in them by credit institutions.

2. Infrastructure measures

Infrastructure investment has a particularly favourable impact on completion of the single market and promotes long-term growth.

At the same time, it bolsters activity in the construction and public works sectors.

The public enterprises in the transport and energy sectors and the water companies have been encouraged to invest FF 165.1 billion in 1993.

This volume of investment is at a historically high level, having grown by 7.3 % compared with 1992.

Of that total, FF 80 billion will have a direct impact on the construction and public works sectors and will help to maintain or create jobs.

This investment programme will improve motorway infrastructures and add to the TGV network, both of which are of European importance. The studies on the launching of the Mediterranean TGV project will in particular be financed in 1993 (estimated cost : FF 27 billion).

In the same spirit, the Government decided on 10 February to launch the TGV East project, which will involve an investment of FF 20 billion.

Finally, investment by the water companies is to increase by almost 17 % in 1993, which represents a major effort in the environmental field.

3. Investment in the property sector

a) In the autumn of 1992 measures were taken to boost investment in property for letting purposes in order to satisfy the needs of households and to bolster the construction industry :

- the Quilès-Méhaignerie arrangements under which natural persons investing in new housing intended for letting are eligible for tax relief have been extended in the case of housing where rents do not exceed a given level;

- the legal status of the "sociétés civiles de placement immobilier" (SCPIs, collectively administered property investment organizations benefiting from tax transparency) has been radically altered. Loans granted under housing-linked savings plans can now also be used to finance the purchase of shares of SCPIs specializing in housing. The development of the SCPIs, which have channelled some FF 10 billion of savings per year to property investment in recent years, will be boosted considerably by these two measures;

- special attention has been paid to subsidized rented housing. This is reflected in the increase in the appropriations allocated to such housing : 90 000 HLM housing units (financed through subsidized loans for rented property) will be built in 1993, as against 80 000 in 1992. These measures will bolster activity in the building industry.

b) Similarly, the Government has sought to promote home ownership :

  - a new home-ownership assistance system is to be set up at the beginning of 1993 : the "Fonds de Garantie de l'accession sociale" (FGAS - assisted home-ownership guarantee fund). This will enable some 150 000 people aspiring to own their own homes to be granted loans at moderate rates, with the Government partially underwriting the risk incurred in respect of such loans;

- legislative and administrative measures have been taken to speed up, during the first part of 1993, the introduction of the subsidized ownership loans ("prêts aidés à la propriété" or PAP) which will provide funding for 35 000 dwellings for households with modest incomes in 1993 : 24 000 loans should be granted during the first half of the year. Similar measures have been taken with regard to the subsidized loans for rented property ("prêts locatifs aidés" or PLA). The aim of this measure is to concentrate assistance at the time when growth is likely to be weakest and thus to provide a boost for the construction sector;

- the top rate of duty on transfers for valuable consideration is to be cut in the case of housing by 0.5 % per year up to 1995.

c) Finally, measures have been taken to enable those working in the property sector to adapt to the crisis affecting the property market, particularly in Ile de France, and to pave the way for a soundly based recovery in that market :

- the maximum period during which property dealers may hold buildings free of duty on transfers for valuable consideration has been increased. This measure will enable such dealers to spread their property selling programmes out smoothly over the next few years. Property market prices will be less affected as a result, which should benefit all those active in the sector and their creditors;

- the SICOMIs, companies specializing in property leasing, will be granted tax relief over a wider field of operations. These companies have the capacity to carry out a large number of operations, and this measure will thus bolster the market;

- the administrative approval procedure for the establishment of office tenants in Ile de France has been suspended. This measure will provide support for the Parisian property market by boosting the attractiveness of Paris as a location, particularly among large foreign companies.

The French Government has thus adopted a series of measures which form part of a coherent strategy and which should provide short- and medium-term support for activity in those sectors most sensitive to cyclical changes in the economy.

Taken together, these measures should lessen the negative impact of the worldwide economic slowdown on the French economy and contribute to growth in Europe.

PROMOTING ECONOMIC RECOVERY IN EUROPE
(The Edinburgh Growth Initiative)

IRELAND

Despite the weakness of the international economy, Ireland achieved GDP growth of almost 3% in 1992. This is estimated to have been the highest growth rate in the European Community.

Consumer spending grew by some 3,5% in 1992, helped by strong growth in real disposable incomes. Consumer prices rose by 3%, well below the EC average. Total investment remained unchanged, being adversely affected by weak international conditions and high real interest rates. Ireland's trade surplus rose substantially and was equivalent to over 12% of GNP.

Employment held up well relative to the general international performance, with a modest increase in numbers at work outside agriculture. Employment performance was nevertheless far short of what is necessary for our exceptional employment needs. Unemployment rose substantially as a result of the numbers of returning emigrants and the large natural increase in the labour force.

Ireland appreciates the desirability of providing a stimulus to the economies of the Community and particularly of improving the employment situation in the Community. Accordingly, we welcome the European Council's initiative for economic recovery and in support of it we are taking the actions described in the following paragraphs.

I. BUDGETARY MEASURES: PUBLIC INVESTMENT

1. <u>Growth Expectations for 1993</u>

Ireland's expectation is for GDP growth of 2,5% in 1993. This will again be well above the Community average.

2. <u>Overall Budgetary policy</u>

Severe difficulties surrounded the framing of the 1993 Budget. These arose from the international recessionary conditions, necessary Single Market tax changes, currency turbulence and the related high interest rates. Nevertheless, Ireland is maintaining firm budgetary discipline, demonstrating our determination to adhere to the Maastricht criterion for the General Government Deficit and to secure early resumption of the trend decline in the overall debt-to-GDP ratio which was adversely affected by the devaluation of the IRL at end-January 1993. This policy is aimed at easing interest rate pressures and producing a positive effect in the markets, thereby assisting growth through improved investment and consumer confidence.

Accordingly, the General Governemnt Deficit target for 1993 is 3,4%. This compares with an outturn of 2,5% for 1992. The increase reflects higher unemployment-related spending and the use for employment purposes of the available budgetary room for manoeuvre, through increased Public Capital Programme expenditure. The GGD figure remains well in line with the average level in other Member States in the narrow band of the Exchange Rate Mechanism.

3. Public Capital Programme

A key feature of the Edinburgh Council's initiative is the call to switch public expenditure priorities towards infrastructure and other capital investment expenditures. Ireland has responded to this call by increasing our Public Capital Programme by nearly IR£ 500m to IR£ 2340m, or 27% more than 1992, helped by significant aid from the EC Structural and Cohesion Funds. This extra IR£ 500m will be spent mainly on roads, public water and sanitary services, and local authority housing (IR£ 149m); provision of a gas interconnector and improvement of gas network (IR£ 143m); refurbishment of electricity generation plant and improvement of transmission networks (IR£ 73m); improvement of rail lines and bus transport (IR£ 64m); and improvement of telecommunications networks (IR£ 41m).

4. Construction Content of Capital Expenditure

A total of IR£ 1367m out of the Public Capital Programme expenditure of IR£ 2340m relates to the construction sector. This represents an increase of IR£ 251m, or over 22%, on 1992. This increased expenditure is expected to generate up to 3500 direct and indirect jobs in construction in 1993.

5. Housing

Expenditure on local authority and social housing will increase by IR£ 31m, or over 40%, to IR£ 107m. This will provide for 3500 local authority housing starts, compared with 1500 in 1992.

Two taxation measures announced in the Budget will also help housing. First, the ceilings on mortgage interest relief are being increased by 25%, and the percentage limit applying to the relief is being increased from 80% to 90% for the 1993/94 tax year; this figure will be 100% for first-time buyers in the first three years of their mortgage. Secondly, the level of stamp duty on larger new houses is being reduced. Taken together, these measures will cost over IR£ 18m in 1993, and should provide a further significant boost for the housing sector.

6. EC Cohesion Fund

The extra IR£ 500m capital expenditure includes IR£ 148m in projects proposed for aid under the EC Cohesion Fund. About IR£ 126m of the IR£ 148m total is expected to be reimbursed from the Cohesion Fund. The concrete investments to be financed by the Cohesion Fund will result from the negotiations with the Community. A full breakdown of how the Irish authorities are proposing to spend IR£ 148m is attached.

7. County Enterprise Partnership Boards

The 1993 Budget provides IR£ 25m for these proposed Boards. Their mandate will be to support local initiatives through small business start-ups.

8. Jobs Fund

The Programme for a Partnership Government contains a commitment to promote recovery and job creation through the creation of a Jobs Fund. This commitment is being met by the Cohesion Fund-related expenditure, the expenditure on the proposed County Enterprise Partnership Boards and the increase in the Exchequer element of the Public Capital Programme in 1993.

9. National Development Plan

A National Development Plan is being prepared which will set out the Government's proposals for the use of EC Structural Fund and Cohesion Fund aid for Ireland 1994-1999. The central objective of the Plan will be to increase the sustainable growth rate of the economy and expand self-sustaining employment within the context of respecting the economic and financial criteria for participation in moves towards EMU.

BUDGETARY MEASURES: PROMOTION OF PRIVATE FUND

10. Financial Institutions' Enterprise Fund

The Government has been seeking a greater contribution from financial firms to economic development in the State. Already the banks and life assurers have agreed to establish a fund of IR£ 100m to promote enterprise in the State.

11. Development Capital from Pension Funds

The 1993 Budget announced that urgent discussions will be opened with the pension funds in the State to seek a corresponding initiative by them in this area.

BUDGETARY MEASURES: TAX FACILITIES FOR ENTERPRISES

12. Business Expansion Scheme

The BES, due to expire in April 1993, is being extended to 1996. The lifetime cap of IR£ 75,000 on individual investors is being abolished. The annual investment generated by the BES is estimated at up to IR£ 30m.

13. Special Investment Accounts

These accounts, introduced from 1 February 1993, are designed to encourage collective investment in Irish companies and direct personal investment in quoted companies. They are taxed at 10% on all income and capital gains. A small but increasing percentage must be held in smaller companies. There is an extra incentive, of complete exemption from income tax and CGT, for investment in venture capital companies.

14. VAT on certain labour-intensive Services

The Budget reduced the rate on these (garage services, repair and maintenance services and various personal services) from 16% to 12,5%.

15. Car-hire

A scheme of partial repayment of Vehicle Registration Tax is being introduced for cars in the short-term car hire sector, to underpin capacity for growth in tourism.

II. STRUCTURAL MEASURES : LABOUR MARKET

1. Tax Reform in recent years

Taxation of income has been significantly reformed in recent years, essentially by widening the tax base, reducing tax rates and extending the standard band. Budgetary constraints meant that the process of income tax reform had to be interrupted this year. However, despite the severe financial pressures and the necessity to maintain fiscal discipline, the Government in framing the 1993 Budget were careful to limit the taxation of income and instead mainly concentrated on taxation of expenditure, while making special provision for the low-paid via the income tax exemption limits.

2. Taxation of Disability Benefit (DB)

DB, a short-term Social Welfare benefit not taxed up to now, will be treated as income for tax purposes from the 1993-94 tax year. This will improve work incentives, broaden the tax base and improve equity of treatment as between different sources of income.

3. Family Income Supplement

This scheme will be further improved in order to secure its effectiveness in maintaining the incentive to work, at a cost of over IR£ 5 million in a full year.

4. Occupational Pension Schemes

New regulations, effective from 1 January 1993, improve the provisions relating to preservation and transfer of pension entitlements when employment is terminated or interrupted.

5. Work Incentives

Improvements in Replacement Ratios over a wide range of incomes and family circumstances, arising from the 1993 Budget changes in Tax and Social Welfare, have improved the incentives for the takeup of employment.

6. "Standards Reached" Apprenticeship Scheme

The details of and funding for a new "Standards Reached" apprenticeship scheme are being put in place. The new scheme will replace the existing "Time Served" scheme. It will require apprentices to complete set curricula and attend "off the job" training for up to 40 weeks over the apprenticeship period. The training will lead to a national craft certificate, internationally recognised.

7. National Training Scheme

A "National Training Scheme" is also proposed, under which structured training will be provided which will incorporate work experience on employer's premises and will lead to national certification.

These two schemes are intended to bring about a more structured and employment-linked training framework.

STRUCTURAL MEASURES: ASSET SALES

8. Asset Sales

The 1993 Budget arithmetic includes receipts of IR£ 150 million in respect of proposed sales of State assets. In carrying through these sales, the Government will be guided by the principles set out in the recently concluded Programme for a Partnership Government.

STRUCTURAL MEASURES: COMPETITION POLICY

9. Competition Act, 1991

The Competition Act, 1991 applies competition rules to the domestic market on the lines of Articles 85 and 86 of the EC Treaty. It covers all sectors of the economy.

The coming into operation of the Act is expected to yield significant benefits in the drive to produce a more competitive and efficient economy.

10. Competition in the Financial Services Area

A stream of legislation in the past five years has opened up the banking and financial markets to new forms of competition. In addition, 1 January 1993 saw the implementation of the EC Second Banking Directive.

Further, the regulation of financial services has been streamlined by making the Central Bank the principal regulator for all financial services, except insurance.

This approach of liberalisation and efficient regulation will be continued in forthcoming legislation on the Stock Exchange, Investment Services and Financial Intermediaries.

11. Third Banking Force

The Programme for Government envisages the creation of a third banking force by merging the State Banks to give them the critical mass to compete with the four main retail banks which dominate the Irish market. In this proposed merger, the Government does not rule out the involvement of a major international banking group to add strength and expertise to the new structure.

OTHER STRUCTURAL MEASURES

12. Taxation

Recent years have seen very substantial reforms of taxation in Ireland, with the objective of improving the structure of the tax system while contributing to the overriding task of budgetary correction, supporting the achievement of wage moderation and facilitating Ireland's full participation in the Single Market. These reforms will continue to underpin Ireland's economic and budgetary performance over the years to come.

13. Tax Reform for the Future

Tax reform - including widening the standard tax band, removing the low-paid from the tax net altogether and making the tax system more supportive of enterprise and employment - will continue to be a priority for the Government. Integration of the tax and Social Welfare systems will be studied.

14. Exchange Controls

A phased programme of reducing reliance on exchange controls over recent years culminated in the complete abolition of exchange controls at end-1992.

15. Industrial Policy Review Group Report

A major Report on Industrial Policy was published in 1992. It set out a wide range of recommendations for reform of industrial policy and for reforms in other areas affecting Ireland's economic performance. The Government will be following up vigorously the recommendations of the Report of the Industrial Policy Review Group and the Task Force Report on its implementation. A special committee of Ministers has commenced work on the timetable and priorities for implementation of the many recommendations in the Report.

16. Regional Authorities

New regional authorities are planned to be established in 1993.

17. Food Industry

A development programme for the food industry will be implemented following consideration early in 1993 of a report from a Expert Group on the industry.

III. WAGE MODERATION

1. Public Sector

No provision is being made for improvements in pay or conditions - apart from those already fully committed - of public servants this year. In addition, the Government intend to discuss with the public sector trade unions 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.

2. Private Sector

Wage developments in the private sector in 1993 will be determined by the provisions of the three-year Programme for Economic and Social Progress which expires this year. The Programme provides for a basic increase in 1993 of 3,75% which is in line with expected inflation. It also allows for the possibility of local bargaining, subject to defined limits. Both the basic increase and the local bargaining element are subject under the Agreement to employers' ability to pay.

IRELAND
Proposed Cohesion Fund Expenditure 1993

Measures	Exchequer	Non Exchequer		Total
	£ m	£ m Internal	External	£
<u>National Roads</u> Improvements to include Northern Cross, Co Dublin; Sligo/Collooney, Co Sligo; Lucan/Kilcock, Co Kildare; and Drumsna/Jamestown, Co Leitrim	40.000	-	-	40.000
<u>Public Water Supply and Sanitary Services</u> Improvements to include Cork City, Dublin and Galway main drainage	42.400	-	-	42.400
<u>Environmental Services</u> Mainly for waste management facility in the Dublin area	-	-	7.000	7.000
<u>Investment in Key Commercial Ports</u> including developments at Cork, Dublin and Waterford	-	1.514	11.586	13.100
Improvement works at Rosslare Harbour	-	-	4.800	4.800
<u>Railways</u> Main line Rail Track Renewal	-	-	29.300	29.300
<u>Aer Rianta</u> Airport investment in freight related facilities at Dublin Airport	-	-	2.900	2.900
<u>Bord Gais Eireann</u> Environmental improvement related spending in respect of decontamination developments at certain Bord Gais sites	-	-	5.800	5.800
<u>ESB</u> additional allocation for Energy related Cohesion funded projects	-	-	2.300	2.300
<u>OPW Heritage Projects</u> Additional IR£ 0.400 million allocation in respect of National Parks and Wildlife Service environment protection developments.	0.400	-	-	0.400
TOTAL	82.800	1.514	63.686	148.000 *

* About IR£ 126m of this IR£ 148m is expected to be reimbursed from the Cohesion Fund.

PROMOTING ECONOMIC RECOVERY IN EUROPE
(The Edinburgh Growth Initiative)

ITALY

The international economic outlook has progressively become less optimistic with respect to the expectations prevailing in the first months of last year.

Growth estimates have been revised downwards, specially in Europe, where structural problems affect to a greater extent the prospects of recovery. These negative trends have been accompanied by increased uncertainties about the working of the ERM and the difficulties of the Uruguay round.

The economic policy response to the weak cycle has been characterized by insufficient coordination among member countries and inward looking measures, aiming at the solution of the most important national problems.

In Italy, the crucial area of the government actions has been the public finance. Following the currency turmoil of last September, which made the economic picture even more difficult, the Government adopted a programme to correct the major disequilibria of the economy, in particular the persisting imbalances in public sector finances. Beside the fiscal adjustment, the policy package included structural measures affecting the main areas of expenditures and revenues, that is pensions, health care, public sector wages and local finances.

Since the first months of the current year have confirmed the weak trend of output and internal demand, the Government is now trying to deal with the mounting concern about rising unemployment. The enterprises have coped with these difficulties by reducing the employment levels. For the first time since 1988 there has been a substantial reduction in employment figures, in particular in major enterprises, which have cut their personnel by 6 per cent in the last twelve months.

Taking into account the constraints in public finances, the Government policy to promote employment has been based on the following main lines of action.

I. BUDGETARY MEASURES

In February the Government decided by decree to broaden the category of workers who are eligible for the wage supplementation fund (cassa integrazione guadagni). The budgetary impact of this measure in 1993 will be very limited.

Since the Government is committed to respect the public finance targets indicated in the consolidation program connected with the Council decision granting the loan to Italy, any stimulus to growth through public investment expenditure is submitted to precise limits. The most significant measure adopted by the Government in this field is the speeding up of arrear payments to enterprises and of budgeted investment in the public sector, including ENEL and Ferrovie dello Stato.

The new procedure which will speed up the investment expenditure requires: a) identification of "risk areas"; b) programs specifying the objectives, the modalities and the timing of investments; c) financing by the budget of the public institutions concerned and by structural funds of the European Community.

Moreover the Italian authorities are making all the steps necessary to speed up the access to the Edinburgh facility for the following investment projects in the fields of transports, energy, telecommunications:

- Enlargement of Caselle - Torino airport and strengthening of related services.
- Construction of the section Mazara del Vallo-Oricola of the Algeria - Italy gas pipeline.
- Extension and improvement of SIP telephone network, specially for the major urban areas.
- Installation of automatic toll machines on the Italian motorways.

II. STRUCTURAL MEASURES

The second line of action is related to structural measures concerning the labour market, privatisation and reforms of pensions, health care, local finances and public employment in order to rationalize the working of these sectors and to reduce public expenditure in the medium term.

As concerns the labour market, the Government is negotiating with the Unions and Confindustria a package of measures to increase the flexibility of the market and stimulate the enterprises to hire young workers. The aim is to achieve an "overall social pact" consistent with last summer's labour cost agreement, that is the permanent end of wage indexation. So far the agreement abolishing the "scala mobile", signed last July, has been implemented, notwithstanding the subsequent sizeable depreciation of the exchange rate of the lira.

In the public sector wages have been frozen for 1993 and in the private sector the rate of increase of contractual wages has continued to decelerate in the course of 1992 and is now below the CPI inflation rate.

III. PUBLIC EXPENDITURE

As concerns the reforms of public expenditure, the Government has already adopted all the decrees implementing the enabling law approved by Parliament last year.

The pension system has been reformed in the following direction:

a) the retirement age for the standard old age pension will be gradually raised to 65 years for men and 60 for women;

b) the minimum contribution period requirement (old age pension) will be gradually raised from 15 to 20 years;

c) the reference period for pensionable salary will be gradually lengthened from 5 to 10 years.

The Parliament is also examining a recent government decree on the setting up of pensions funds. This reform is to be considered as long term contribution to alleviate the public financial burden for pensions.

The health system has been reformed according to the following guidelines.

a) local health units and major hospitals will be converted into public corporations;

b) local authorities responsible for health services (Regions) will take full responsibility for funding any expenditure above a minimum level.

In order to make local authorities more responsible for their public finances, a municipal tax on buildings has been introduced at rates that the municipalities will be allowed to set in the range from 4 to 6 per thousands.

Finally, public employment has been reformed in order to make the control of spending on staff more effective and to improve efficiency. The key provisions are the application of private law to public sector employment relationship and a larger role for the mobility procedure for filling vacancies.

IV. PRIVATISATION

The privatisation program is an essential element of the structural policy. The legal framework has already been completed with the setting up by decree law of a new Ministry for Privatisation. The ratification of the decree by the Senate is under way.

Before the end of the month a program will be approved by the Council of Ministers for the quotation on the stock exchange of some ENI related companies. Negotiations are under way to conclude as soon as possible the privatisation of Credito Italiano, S.M.E., Nuovo Pignone, Istituto National Assicurazioni, ENEL (Ente Nazionale Energia Elettrica).

PROMOTING ECONOMIC RECOVERY IN EUROPE
(The Edinburgh Growth Initiative)

LUXEMBURG

I. PUBLIC FINANCES (1993 BUDGET)

- automatic stabilizers to be allowed free play, except in the case of indirect taxation influenced by Community obligations (motor fuel excise-duty level higher than the Luxembourg minimum);
- maintenance of the high level of public investment.

II. LABOUR MARKET FLEXIBILITY

- tripartite assessment of competitiveness, including the wage-adjustment mechanism (February/March 1993);
- measures to assist the occupational rehabilitation of handicapped people (aid for firms) and to speed up the integration of migrant workers;
- further steps to combat illegal employment (March 1993).

III. STRUCTURAL MEASURES

- reform of the sickness funds: limitation of the Government's financial contribution (January);
- adjustment of the early retirement arrangements;
- setting-up of a high-level finance council on general government funding needs (first half of 1993).

IV. HOUSING

- extension of the duration of the selective interest-rate subsidies (social aspect), the general interest-rate subsidies (family aspect) and the increased tax deductions (January 1993).

V. SMEs

1. <u>1993 budget: extension of the duration of:</u>

   - the early reinvestment of capital gains on fixed assets;
   - the increased relief for parent companies and subsidiaries;
   - the reduction in the general tax rate to 33%;
   - the abolition of the additions to the municipal trade tax in respect of third-party funds;
   - the abolition of the subscription tax.

2. New measures: first half of 1993

- increase in the operational resources of the Société Nationale de Crédits et d'Investissements;
- extension of the favourable venture capital tax arrangements to new technologies;
- increased interest-rate subsidy for new investment;
- elimination of the economic double taxation of investment income (dividends).

PROMOTING ECONOMIC RECOVERY IN EUROPE
(The Edinburgh Growth Initiative)

THE NETHERLANDS

Cyclical conditions in Europe, and notably in Germany, have worsened considerably in the second half of 1992. This of course has not left unaffected the very open economy of the Netherlands.

Dutch economic growth is projected to decelerate, from 1 3/4% in 1992 to approximately 1/2% in 1993, with adverse consequences for employment perspectives and the development of unemployment. In view of the rather low rate of labour participation this outlook for the labour market is all the more worrying.

Public finances also are negatively affected by the current weak stage of the business cycle, putting further deficit reduction under severe pressure and raising questions as to the budgetary objectives for 1993 and 1994, set out in the 1989 coalition accord.

Moreover, there is a risk that the process of strengthening the structure of the Dutch economy comes to a (temporary) halt in times of weak economic growth. Conditions for private and public investment should be further improved so that employment opportunities can increase in the short and medium term.

It is necessary to continue to break down structural impediments, hampering a good performance of i.a. the labour market, and to improve the dynamics and functioning of (product-)markets through more competition.

I. GOVERNMENT POLICY 1993-1994 UNDER CONSIDERATION

It is against this background that the government is currently engaged in a decision making process concerning economic and budgetary policies for 1993 and 1994, in a medium-term framework.

The focus is primarily on policies to reverse the worrying trend - also in the medium term, given the substantial growth of labour supply - of increasing unemployment. A crucial element here is a moderate development of wage costs in order to prevent further erosion of profits, promote investment and employment opportunities, and to protect and enhance international competitiveness of the Dutch economy.

To support a moderation of inflation and wage claims in 1993 the general VAT-rate was lowered in October 1992. In addition employers, trade unions and the Government agreed in November 1992 to a wage pause until March 1993. During that period no wage bargaining has taken place in order to give social partners more time to consider their positions in view of the deteriorated economic and employment outlook. To support wage moderation the Government adopted, in addition, a policy of income moderation for civil servants and social benefits recipients.

Additional support of wage moderation through reduction of income-tax rates and/or social security contributions may be considered in the period ahead.

As to funding of tax relief measures a very important question relates to the availability of room for manoeuvre given the need for further deficit reduction. Within the limits of the budgetary constraints a lowering of tax-rates and a shift in the structure of taxes in favour of a reduction of taxes on labour may be considered.

Necessary expenditure cuts in the social security area could provide for another source of financing a reduction, or at least preventing a rise, in social premiums.

Infrastructural investment is crucial to employment growth as well, both on the short and medium term. Infrastructural expenditure in the budget will therefore be protected as much as possible. In addition, the scope of accelerating projects in 1993 and 1994 is currently being investigated. This may be supplemented by investment programmes for the years 1994-1998 - totalling up to at least 7 to 10 bn gld (1 1/2% to 2% GDP) -, to be financed by extra natural gas revenues and the sales of government assets. Even though the allocation of funds has not yet been decided upon, procedures have already been started to select investment projects. Once finances will be made available, the implementation of projects can start immediately.

As to budgetary objectives for 1993 and 1994, the budget deficit will continue to be a downward track. Current insights indicate that the deficit target for 1993 - as set out in the 1989 coalition accord : 3 3/4% of Net National Income (NNI) - will be met, provided that additional deficit reduction measures will be taken. Though the government will maintain its policy of budget deficit reduction, some relaxation of the target for 1994 (3 1/4% NNI) may be proposed. The budget proposals for 1994 will likely result in a deficit level of 3 1/2% NNI, which complies with the relevant EMU-criterion of 3% GDP for general government net borrowing.

Furthermore, last November a policy approach has been adopted to take account of the fragile cyclical situation, also in the design of adjustment measures needed to keep public finances within the above-mentioned budgetary constraints. This approach - in addition to the above mentioned special emphasis on investment - consists of the general line of taking, in the immediate future, half of the necessary measures in the form of "incidental measures" (e.g. asset sales) rather than structural expenditure cuts. As a consequence, in the medium term structural expenditure cut backs will gradually have to increase.

With the policy approach as described above a further reduction of the deficit can be achieved in 1994, to a level of 3% GDP. This approach aims - even in the current, cyclically weak period - at reinforcing the basis for more employment and a strengthening of the economic structure, by i.a. allocating a substantial part of additional revenue resources to a significant multi-annual investment impulse. A solid budgetary policy can thus go hand in hand with a 1994 budget aimed at employment and economic vitality in the future.

II. MEASURES AND INITIATIVES ALREADY DECIDED UPON

Below a number of measures and initiatives are listed, on which decision-making has already taken place.

1. <u>Promotion of private investment</u>

A public/private partnership fund (named "industrial facility") is foreseen to be operational by the end of 1993. This revolving fund, which will raise resources to an amount of 0,9 bn gld, will provide loans on market terms to basically viable firms (including medium-sized firms).

2. <u>Increase of public investment</u>

A so called natural gas fund has been established in January 1993. The fund will contribute to infrastructural projects with significant impact on Dutch economic performance. The fund's finances will be raised by an increasingly large share of natural gas revenues and some other sources of revenues. This fund will become effective from 1995.

3. <u>Structural measures in the labour market</u>

Recently the sickness and disability system has been reformed with a view to better containing volumes and costs in the sickness and disability area. A bonus/malus incentive system for firms has been implemented. The disability scheme has been adjusted resulting in significantly lower levels of benefits and more restrictive entitlement rules for new entrants.

Legislation is considered which should relax to some degree the strict regulation concerning lay-offs; in particular abolition of the preventive check on firing requests by employers is contemplated.

4. <u>Privatization</u>

Decisions have been made to sell government shares of PTT.

5. <u>Competition policy</u>

Competition policy (and its enforcement) has recently been significantly upgraded. Streamlining of the business establishment law is currently being prepared.

PROMOTING ECONOMIC RECOVERY IN EUROPE
(The Edinburgh Growth Initiative)

PORTUGAL

The current bleak outlook for the Community economy strengthens the need for effective coordination of national economic policies, and particularly structural policies. The difficulties in giving these policies concrete expression require to show greater determination and persistence.

The deterioration in the world economy is also having adverse effects on Portugal. To minimize these adverse repercussions and with a view to speeding up recovery and restoring confidence in European integration, the Portuguese Government is taking an approach of: (i) speeding up structural reforms; while, (ii) safeguarding the other two objectives, namely macroeconomic stability and social consensus.

The political stability that Portugal has enjoyed since 1986 has enabled it to pursue a strategy of gradual adjustment that will make possible the timely achievement of convergence with the best European standards of performance. ***This strategy is underpinned by: (i) macroeconomic stability; (ii) structural reforms; and (iii) social consensus.***

For the case of Portugal, it would be inappropriate to adopt counter-cyclical policies. Yielding to the temptation of pursuing such policies would run counter to the objective of convergence and would quickly give rise to persistent imbalances in the economy.

As far as structural reforms are concerned, two lines of action should be highlighted:

(i) implementation at national level of measures in the framework of the Edinburgh growth initiative: this Community initiative will hasten structural reforms which, by improving efficiency, will help minimize the adverse effects of current economic conditions;

(ii) continuation of the structural reforms already under way: the many structural reforms in progress - privatizations, measures to make the labour market more flexible and financial liberalization - will be continued and intensified.

On April, 5th, the measures aiming at structural reform have been presented to and debated with social partners in the Economic and Social Council.

I. STRUCTURAL MEASURES FOR 1993

These comprise the following:

- Infrastructure (physical infrastructure and human capital);

- Support for the restructuring and internationalization of enterprises;

- Housing sector initiatives;

- Tax incentives to promote investment;
- Support for conversion of the agricultural sector;
- Incentives for industry and foreign trade;
- New credit lines for tourism industry.

These structural measures will imply additional spending in 1993 amounting to almost 1 % of GDP. The Cohesion Fund is the principal source of financing for the new spending.

1. Infrastructure development

   - Physical infrastructure

     The 1993 budget includes a considerable increase in investment in large-scale projects to modernize the rail and telecommunications networks and the main harbour installations.

     Investment in the modernization of the rail network and rolling stock will be some 50% higher than last year, while investment in harbour facilities should increase by about 70%.

     This investment effort will in large part be funded from the Cohesion Fund.

     The preliminary list of projects that could qualify for assistance from the Cohesion Fund will cost around ESC 537 billion for the period 1993-98. For 1993, planned expenditure on these projects amounts to ESC 78.5 billion, or 0.6% of GDP, a 14.7% increase in budgeted public investment. Of this year's total, it is proposed that some 85% be allocated to road and other communications improvements and the remainder to environmental projects.

   - Human capital: support for in-service vocational training and investment in research and development.

     Vocational training support measures entered in the 1993 budget involve expenditure of ESC 106 billion, with assistance from the European Social Fund, representing an increase of around 18% on last year and around 45% on 1991.

2. Funds for the Restructuring and Internationalization of Enterprises (FRIEs)

   The FRIEs are a new financial instrument whose main aim is to support companies or their foreign subsidiaries wishing to implement restructuring or internationalization plans by acquiring holdings in their capital.

   The Government has launched two FRIEs, with initial capital of ESC 11 billion, of which 50% is subscribed directly by the Government and the remainder by the different creditor banks of the enterprises being restructured. One is to be managed by Norpedip and the other by Sulpedip.

   A third FRIE, endowed with ESC 9 billion, has already been set up by the Banco de Fomento Exterior, and a fourth one is about to be launched on the initiative of the Grupo Caixa Geral de Depósitos/Banco Nacional Ultramarino.

A number of private financial institutions have also expressed an interest in participating in these Funds.

3. Financial and tax incentives for investment in housing

a) Incentives have been created to help people buy or rent residential property. Measures relate to financing (subsidized loans geared to the gross annual income of the family unit) and taxation (tax concessions).

   As regards the rules on helping families to buy their own homes, the eligibility conditions have been updated and the level of assistance to young people buying their first home has been raised. The main legislative measures adopted in 1992 and to be maintained in force in 1993 have introduced financial incentives for rentting accommodation to the young and have made it easier for housing cooperatives to finance property for rental to the same age group.

b) On 9 March 1993 the Government announced a package of measures to support the housing construction aimed at clearing slum housing in the metropolitan areas of Lisbon and Oporto and supporting private schemes for housing low-income families.

   Under the slum clearance part of this programme, 25 000 housing units are to be built between now and 1999, involving total investment of some ESC 150 billion, at 1993 prices. The programme of low-cost housing and housing development contracts envisages total investment of some ESC 120 billion over the next six years.

   The whole package will generate total investment in housing of some ESC 270 billion, which, on an annual average basis, is equivalent to around 1.5% of gross fixed capital formation.

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

The tax incentives are targeted at enterprises located 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, will be established on a contractual basis according to the merits of each project. Following a decision by the Council of Ministers designating the textile and clothing industries as sectors undergoing restructuring, enterprises in these two sectors are eligible for the tax incentives.

5. Programme of support for the marketing and processing of agricultural produce

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.

The seven measures that make up this programme include a venture capital fund, a subsidized line of credit for marketing, a fund for promotional activities, and finance to support the setting-up and operation of producer groups, as well as measures to promote quality control and more professional management of cooperatives.

The package of measures involves total investment of some ESC 220 billion over a five-year period (1993-97), of which ESC 20 billion is to be spent on the immediate launching of the programme.

6. Promotion of foreign trade and the internationalization of Portuguese industry

Announced on 24 March 1993, 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.

With a view to helping firms boost their exports to non-traditional markets, financial packages totalling some ESC 220 billion and backed by Government guarantees have been put together to assist exports to 13 new markets.

Support for trade missions and the development of business cooperation is also available; a credit scheme has been set up for investment projects, and tax and financial incentives have been created, including through participatory bonds, for investment in internationalization projects. Lastly, the finance earmarked for promotional campaigns in the main traditional export markets has been increased.

It is estimated that these support measures, in the form of non-repayable aid, will cost over ESC 5 billion in 1993.

7. Tourism industry

A programme including several new credit lines totalling ESC 5 billion for the tourism industry has been announced on April, 5th. The financial measures are intended to stimulate investment in the following areas: i) energy savings; ii) computer systems; iii) common networks; and iv) security systems.

II. CONTINUATION OF STRUCTURAL REFORMS

The continuation of structural reforms already under way, will complement the measures at the national level in the framework of the Community growth initiative.

The extension of structural reforms has the following scope:

1. Improvement of market efficiency

a) Privatization: the weight of the public enterprise sector ahs declined from 16 p.c. of GDP in 1991, to 12 p.c. in 1992.

In the next three years, it is projected to decrease further to 9 p.c.

b) New bankrupcy law.

2. Financial liberalization

a) Elimination of all remaining restrictions on capital flows - 16 December 1992.

b) New banking law - 31 December 1992.

c) Cancelation of the overdraft facility of the Treasury at the Banco de Portugal - 31 December 1992.

d) New legal framework for the insurance sector - in preparation.

3. Improvement of labour market flexibility

a) Legislation aimed at fostering mobility in the public sector.

b) Professional training.

c) Lay offs: harmonization with EC legislation.

d) New legislation on cancelation and interruption of individual labour contracts.

e) Improvement of the monitoring of absenteeism.

4. Improvement of the efficiency in the public sector

a) Measures to strengthen expenditure control.

b) Participation of the private sector in the National Health Service.

c) Reduction of over staffing in the public sector.

d) Reform of the Public Accounting system.

e) Centralization of debt management.

5. Wage and financial moderation

a) Wage increases of 5-5 1/2 p.c. for civil servants, approximately half the increase given in 1992.

b) Guidelines on similar wage moderation for public enterprises.

c) PSBR (including revenue from privatization) reduced to the equivalent to 3.3 p.c. of GDP, as compared with 4.8 p.c. in 1992.

d) Issuance of long term fixed rate public debt instruments.

e) Resumption of access to external financing.

f) Legislation aimed at improving transparency in banking competition.

PORTUGAL

PRELIMINARY LIST OF PROJECTS WHICH COULD BE ELIGIBLE FOR THE COHESION FUND IN 1993

(Escudos billion, 1993 prices)

	COMPLETION TERM	EXPECTED EXPENDITURE 1993	TOTAL COST
TRANSPORT INFRASTRUCTURES		67.1	442.2
HIGHWAYS		56.7	387.4
Lisboa-Porto-Valença-Vigo		17.1	
IP1/Cruz-Braga	1993/95	8.9	10.8
IP1/3rd track Alverca-V.F. Xira	1993/95	4.0	7.0
IP1/3rd track V.F. Xira-Carregado	1993/95	0.4	1.8
IP1/3rd track Vila Feira-Carvalhos	1993/95	0.1	7.4
IP1/3rd track Carvalhos Stº Ovídio	1993/95	0.5	1.7
IP1/Braga-Valença	1993/98	1.0	32.8
IC23/Internal Ring-Porto	1993/94	1.0	2.0
IP1/Freixo Bridge	1993/95	0.7	4.9
IP1/Freixo Bridge approaches	1993/96	0.5	15.0
Figueira da Foz-Chaves-Verin		3.8	
IP3/Figueira da Foz-Sta. Eulália	1993/94	2.1	2.4
IP3/Vila Real-Lamego	1993/97	0.4	6.0
IP3/Fail-Tondela	1993/95	0.7	1.5
IP3/Tondela-Gestosa	1993/96	0.2	1.5
IP3/Raiva-Gestosa	1993/97	0.2	3.0
IP3/Fail/IP5	1993/97	0.2	3.0
Porto-Bragança-Benavente-Zamora		7.2	
IP4/Penafiel-Amarante	1993/97	1.2	10.7
IP4/EN4-Águas Santas	1993/96	1.2	3.3
IP4/Golfeiras-Pontão de Lamas	1993/93	2.0	2.0
IP4/Franco-Golfeiras	1993/95	0.8	2.5
IP4/Vila Real-Vila Verde	1993/95	0.8	3.5
IP4/Vila Verde-Franco	1993/95	0.5	3.5
IP4/Corgo River Bridge	1993/94	0.4	0.5
IP4/Tinhela River Bridge	1993/94	0.3	0.9
Aveiro-Vilar Formoso-Salamanca		0.3	
IP5/Pirâmides-Barra cross-roads	1993/94	0.3	1.0
Torres Novas-Castelo Branco -Segura-Plazéncia		3.9	
IP6/Alcanena-Atalaia	1993/94	2.3	2.9
IP6/Atalaia-Abrantes	1993/95	1.0	3.0
IP6/Atalaia Stream Bridge	1993/95	0.3	1.2
IP6/Abrantes-Mouriscas	1993/95	0.3	2.5
Lisboa-Elvas-Mérida		9.7	
IP7/Palmela-Marateca	1993/95	5.8	7.3
IP7/Marateca-Montemor	1993/96	2.7	19.6
IP7/3rd track Almada-Fogueteiro	1993/95	1.1	3.9
IP7/Elvas-Caia	1993/96	0.1	2.4
Lisboa-V.R.S. António-Huelva		6.7	
IP1/Marateca-Grândola	1993/97	0.7	26.4
IP1/V. Guia-Faro	1993/93	6.0	6.0
IP1/New Tagus Bridge	1994/97	0.0	160.0

Famalicão (IP1)-V.P. Aguiar -Chaves-Verin		6.6	
IC5/Famalicão-Rio Ave	1993/96	6.4	6.9
IC5/Fafe branch	1993/96	0.2	3.4
Guarda (IP5)-C. Branco (IP6)		0.9	
IP2/Alpedrinha-Castelo Branco	1993/96	0.4	3.5
IP2/Fundão-Alpedrinha	1993/96	0.1	4.0
IP2/Gardunha Tunnel	1993/96	0.4	4.0
Estremoz (IP7)-Faro (IP1)		0.5	
IP2/Albernoa-Castro Verde	1993/95	0.5	1.7
RAILWAYS		8.5	38.7
North Line - Modernization	1993/96	5.8	21.6
Beira Line - Modernization	1993/96	1.6	10.1
Lisboa/Algarve Line - Cargo Itin.	1993/97	1.1	7.0
PORTS		1.2	12.3
Leixões - Recovery of south wharf	1993/96	0.1	2.0
Leixões - Equipement for contain.	1993/96	0.5	4.0
Leixões - Embankment recovery	1993/96	0.1	1.7
Aveiro - Terminal	1993/94	0.2	4.0
Sines - Coal Terminal	1993/94	0.3	0.6
AIRPORTS		0.7	3.8
Ponta Delgada	1993/96	0.7	3.8
ENVIRONMENT		11.4	94.5
WATER-ENVIRONMENTAL DIMENSION		3.2	10.0
Sabugal Dam	1993/97	0.7	3.5
Minutos Dam	1993/96	0.5	17.0
Odelouca Dam	1993/97	1.0	8.0
Water supply to Barlavento	1993/98	1.0	
WATER-QUALITY		5.2	42.0
Water supply to Oporto Region	1993/98	2.5	20.0
Dispollution of Trancão River	1993/97	1.2	17.0
Western pipeline to Sotavento	1993/94	1.5	5.0
SOLID WASTE		3.0	14.0
Incineration station in Oporto	1993/96	3.0	14.0
TOTAL (TRANSPORT INFR. + ENVIRONMENT)		78.5	536.7

PROMOTING ECONOMIC RECOVERY IN EUROPE
(The Edinburgh Growth Initiative)

UNITED KINGDOM

Measures taken in the UK consistent with the Edinburgh European Council Declaration on economic recovery are set out below corresponding to each of the objectives agreed for action by Member States. These measures include principally those of the Autumn Statement of 12 November 1992 and the Budget of 16 March 1993 (*).

I. OBJECTIVE 1

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

1. The Autumn Statement sets out the Government's expenditure plans for 1993-94 to 1995-96. The Chancellor took action to reaffirm the Government's control over public spending, in order to maintain sound public finances. Changes to the system of public expenditure control were introduced, to ensure that the Government meets its medium-term objective of reducing, over time, the share of national income taken by public spending. Despite the constraints imposed by the budgetary position, the Chancellor was nevertheless able to announce some specific and time-limited measures to boost confidence, growth and jobs. These are described further below.

2. The Budget set out a programme for raising revenue over the medium term, to reduce the budget deficit and thereby help to ensure that the recovery is sustainable. Little net change is proposed in 1993-94 in taxes as the priority is to cement recovery. The Budget measures provide further help for business and the unemployed in the early stages of recovery, building on the substantial reduction in interest rates and the measures announced in the Autumn Statement.

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.

1. The Government altered the rules governing the use of capital receipts by local authorities, so that all new receipts obtained between 13 November 1992 and December 1993 could be used to fund capital expenditure (previously, local authorities were required to set aside a substantial proportion of the receipts from asset sales for debt

(*) The Autumn Statement 1992 document and the Financial Statement and Budget Report 1993-94 give further details.

redemption). This change is expected to increase local authorities' capital expenditure by about £ 1.75 billion.

2. The Government believes that these measures will have given a boost to increase general government (central government plus local authorities) asset creation in 1992-93 and 1993-94.

3. The Government also made important changes to the arrangements for privately raised finance, in order to find new ways of mobilising the private sector to meet needs which have traditionally been met by the public sector.

4. The changes in the arrangements for privately raised finance announced in the Autumn Statement led to announcements in the Budget that :

(a) the Channel Tunnel Rail Link would proceed as a joint venture between the public and private sectors, an increase in infrastructure investment of £ 2.3 billion;

(b) a joint venture had been agreed between British Rail and BAA plc to construct an express rail link between Heathrow Airport and central London;

(c) a review would be conducted of Crossrail, a new rail link across London, so that the private sector can become involved to the greatest possible extent.

Other infrastructure measures

5. On 4 February the Government announced the 41 new national road schemes that will start in 1993-94 and a feasibility study into a privately financed second Forth road bridge. Following the Budget, Lord James Douglas Hamilton announced the appointment of advisers on involving the private sector in a package of measures around the Firth of Forth, including the new road bridge, and also in the Central Scotland Fastlink, which will connect the north east of Scotland to main routes to the south.

III. OBJECTIVE 3

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

1. The Budget set in hand a programme of tax reform, simplification and deregulation to stimulate business activity, particularly among small and medium-sized enterprises. This includes : a new entrepreneurs' relief from capital gains tax where the gains from the sale of a person's own business are reinvested in other unquoted trading companies; changes to the Loan Guarantees Scheme to cut the cost and improve the availability of bank finance for small business; a substantial easing in the penalty regime of VAT; and consultation on easing audit requirements for very small firms.

2. The President of the Board of Trade announced on 3 December a trial of 15 "One Stop Shops". The aim is to bring together organisations which support small firms, so as to improve access by SMEs to high quality business advisory services. The Government has implemented several

measures announced in the 1992 Budget to deal with the problem of late payment of bills. Changes have been announced to the Small Firms Loan Guarantee Scheme to enhance its operations in inner city areas and (in the Budget) to make the scheme more attractive to SMEs outside inner city areas, especially established businesses seeking to expand.

IV. 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.

Labour market flexibility

1. The Autumn Statement provided for an increase in the proportion of school leavers in youth training programmes; the introduction of a new adult training and work experience programme; and a substantial increase in measures to help the unemployed find jobs.

2. The Budget contained a further major package worth £ 230 million to improve the labour market, particularly focused on the needs of the long-term unemployed. Taken together these measures will provide 100,000 new opportunities for work in the Community, vocational education, and business start-up. New Employment Service measures had previously been announced to help an extra 500,000 people presently unemployed find and prepare for work, mainly through the new Job Plan Workshops to provide individually centred assessment and guidance for those reaching 12 months unemployment. Taken together, the Budget and Autumn Statement plans mean that there have been 600,000 new opportunities announced for 1993-94, bringing the total to 1.6 million - over 50 per cent of the total - being helped.

3. The Government has launched a substantial programme of structural reform which will affect labour market flexibility. Measures include :

   - The Investors in People standard will be developed to encourage larger employers to invest in developing their training strategies so that the skills of the workforce are improved. The aim is to have 9,000 companies committed to the Investors in People standard by 1995-96.

   - The Citizen's Charter encourages action in greater pay delegation in the public sector. The Citizen's Charter has also encouraged delivery of services more efficiently and effectively by encouraging a regular and direct link between pay and performance.

   - A new, more flexible adult training and work experience programme, Training for Work", will provide places for more than 300,000 entrants in 1993-94. Priority is to be given to those more than 12 months unemployed. Training and Enterprise Councils will be able to decide the balance of training/work experience required in the light of local labour market needs.

   - A new Childcare Initiative to provide out-of-school and holiday childcare.

   - A Government guaranteed training place to all 16 and 17 year olds not in work or full time education.

- Career Development Loans available to trainees who want to invest in their own training. The scheme encourages individuals to take responsibility for their training.

- A two-year pilot programme of Assessment Credits. Individuals can use vouchers to "buy" assessment and guidance services.

- National Vocational Qualifications - a national framework of standards-based vocational qualifications.

- The Business Start-up programme provides an allowance and introductory briefing for unemployed people who wish to become self-employed or start up a business.

- The number of employees covered by Profit Related Pay (PRP) schemes eligible for tax relief has risen to nearly 1 million. The scheme facilitates relating part of pay to profits of the business in which the employee works.

- The "Rent a Room" scheme introduced in April 1992 provides tax exemption for the first £ 3,250 of rental income from lodgers. It encourages the supply of flexible low-cost accommodation to facilitate geographical labour mobility.

4. In addition, the measures designed to assist the housing market would also be expected to have a beneficial effect on labour market flexibility.

<u>Tax reform</u>

5. In addition to the tax reform measures to benefit small businesses, referred to in paragraph 9, the Government has announced a number of further reforms to simplify and broaden the base of the tax system, to remove subsidies, and to improve both the environment and the allocation of resources within the economy. Principal measures include :

- from April 1994 tax relief on mortgage interest will be limited to 20 per cent instead of 25% and tax relief given by the married couple's allowance, and other linked allowances, will also be limited to 20 per cent instead of applying at the taxpayer's marginal rate;

- the rate of petroleum revenue tax rate will be reduced from 75 per cent to 50 per cent from July 1993, and abolished altogether for new fields;

- VAT will be charged on domestic fuel and power at 8 per cent from 1 April 1994 and 17 1/2 per cent from 1 April 1995;

- the Chancellor announced that duty on petrol and other road fuels will be raised on average by at least 3 per cent in real terms in future Budgets following the rise of 10 per cent proposed in this Budget.

6. In the Autumn Statement, first year capital allowances for investment in plant and machinery were increased from 25 per cent to 40 per cent from 1 November 1992 until the end of October 1993. This and other measures will provide additional reliefs of £ 200m in 1993-94 and £ 500m in 1994-95. The 5 per cent special tax on cars was abolished on 12 November

1992. The cost is to be recovered from other motoring taxes in 1993-94 and future years. This measure is expected to increase activity in the car market, and hence investment by manufacturers.

7. In addition, further progress was made in cutting the marginal rate of income tax, to improve work incentives. The 20p band for income tax is widened by £ 500 to £ 2,500, cutting the marginal rate of tax for 1 million people by 5 per cent; it will be widened by a further £ 500 in 1994-95.

8. The Government has also introduced the following measures to improve the housing market, help business and promote recovery :

- The Autumn Statement made an extra £ 750 million available in 1992-93 to promote activity in the housing market. This was expected to encourage investment by the private sector. In the Budget, the stamp duty threshold for houses, land and property will be doubled to £ 60,000. This should give a boost of £ 220m to promote activity in the housing market and as a result improve labour mobility;

- the Budget contained further business rate relief for the UK worth £ 370 million. In 1993-94 no business will see a real increase in rates;

- the Budget contained a number of measures to ease the problem of surplus advance corporation tax (ACT). The rate of ACT will be reduced from 25 per cent by 1994-95 in two steps. This will give dividend-paying companies a £ 2 billion cash flow boost over the next two years. A scheme is also proposed for companies to reclaim surplus ACT arising from dividends paid out of foreign income.

OTHER STRUCTURAL REFORM MEASURES

Competition and deregulation

9. The Government's Green Paper on competition law, especially regarding abuse of market power, was published at the end of November 1992. This canvasses among other options a prohibition on abuse of market power by companies in the United Kingdom, along the lines of equivalent provisions in the Treaty of Rome.

10. The Government is committed to a reinforced deregulation initiative. Legislation should not be put forward to Parliament without providing at the same time an assessment of the compliance cost for businesses. The aim is to encourage cost-effective regulation.

Trade

11. The DTI will launch "Business in Europe", pulling together work on promoting the Single Market with previously separate provision of export services to the European market. This is to ensure that the internal market works to the benefit of all Community citizens and enterprises, an objective endorsed at Edinburgh. The initiative will include pursuit of complaints by business against competitors (and their governments) within the Single Market.

Privatisation

12. In the Citizen's Charter, the Government committed itself to reduce the level of the letters monopoly from £ 1 to a level closer to the price of a 1st class stamp. The Post Office's parcel service is to be privatized. Further progress is in hand on BR privatisation to transfer BR's freight and passenger services to the private sector, and to create a new right of access for independent operations on the rail network. The Government is committed to the privatisation of British Coal. The Financial Secretary has announced that he will be examining the scope for privatisation of central government functions.

V. OBJECTIVE 5

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

1. In the Autumn Statement, the Chancellor announced that public sector pay settlements in the year from 12 November 1992 would be restricted to between 0 and 1 1/2 per cent. Thereafter, public sector pay policy will be designed to avoid catching up settlements, and the Government will pursue its long-term objective of increasing flexibility of the public sector pay systems and strengthening the link between performance and pay.