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REPORT

on the annual assessment of implementation of stability and convergence programmes (Article 99(4) EC)
(2002/2016(INI))

Committee on Economic and Monetary Affairs

Rapporteur: Ioannis Marinos

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PROCEDURAL PAGE

At the sitting of 17 January 2002 the President of Parliament announced that the Committee on Economic and Monetary Affairs had been authorised to draw up an own-initiative report, pursuant to Rule 163 of the Rules of Procedure, on the annual assessment of implementation of stability and convergence programmes (Article 99(4) EC).

The Committee on Economic and Monetary Affairs had appointed Ioannis Marinos rapporteur at its meeting of 21 November 2001.

The committee considered the draft report at its meetings of 19 March 2002, 27 March 2002 and 23 April 2002.

At the latter meeting it adopted the motion for a resolution unanimously.

The following were present for the vote: Christa Randzio-Plath, chair; José Manuel García-Margallo y Marfil, Philippe A.R. Herzog and John Purvis, vice-chairmen; Ioannis Marinos, rapporteur; Generoso Andria, Hans Udo Bullmann, Harald Ettl (for Pervenche Berès), Robert Goebbels, Lutz Goepel (for Astrid Lulling), Lisbeth Grönfeldt Bergman, Mary Honeyball, Christopher Huhne, Giorgos Katiforis, Othmar Karas, Piia-Noora Kauppi, Christoph Werner Konrad, Wilfried Kuckelkorn (for Helena Torres Marques), Werner Langen (for Ingo Friedrich), Alain Lipietz, David W. Martin, Helmuth Markov (for Ioannis Patakis), Hans-Peter Mayer, Miquel Mayol i Raynal, Fernando Pérez Royo, Mikko Pesälä (for Karin Riis-Jørgensen), José Javier Pomés Ruiz (for Brice Hortefeux), Alexander Radwan, Bernhard Rapkay, Peter Olle Schmidt, William Skinner, Charles Tannock (for Jonathan Evans), Bruno Trentin and Theresa Villiers.

The report was tabled on 25 April 2002.

The deadline for tabling amendments will be indicated in the draft agenda for the relevant part-session.

MOTION FOR A RESOLUTION

European Parliament resolution on the annual assessment of implementation of stability and convergence programmes (Article 99(4) EC) (2002/2016(INI))

The European Parliament,

- having regard to the annual updates of the stability and convergence programmes drawn up by the Member States between October 2001 and February 2002 as well as the opinions of the ECOFIN Councils of 22 January 2002, 12 February 2002, and 5 March 2002 on these programmes,

- having regard to the recommendation adopted by the ECOFIN Council on 6 November 2001 further to its recommendation of 12 February 2001 which had been addressed, in accordance with Article 99(4) of the EC Treaty, to Ireland and concerned the inconsistency of its stability programme with the Broad Economic Policy Guidelines of 19 June 2000,

- having regard to the European Council resolution of 17 June 1997 on the Stability and Growth Pact, and to Council Regulation No 1466/97 of 7 July 1997, and to the code of conduct on the content and format of the stability and convergence programmes adopted by the ECOFIN Council of 10 July 2001,

- having regard to the Presidency Conclusions of the European Council adopted in Lisbon on 24 March 2000 and in Stockholm on 23 and 24 March 2001, with particular reference to the quality of public finances and the addressing of the demographic challenge of an ageing population,

- having regard to the Presidency Conclusions of the European Council adopted in Göteborg on 15 and 16 June 2001, with particular reference to the strategy agreed on for sustainable development,

- having regard to its resolution of 4 October 2001 on the Stability and Growth Pact and the outcome of the informal ECOFIN meeting of 22 and 23 September 2001 in Liège[1],

- having regard to the Presidency Conclusions of the extraordinary informal meeting of the European Council in Brussels on 21 September 2001,

- having regard to the Presidency Conclusions of the European Council adopted in Laeken on 14 and 15 December 2001,

- having regard to the Presidency Conclusions of the Barcelona European Council on 15 and 16 March 2002, with particular reference to the stability and growth pact and the budgetary challenges related to the demographic development,

- having regard to its resolution of 14 March 2002 on the Commission recommendation on

[1] Adopted Texts, 4.10.2001, item 5. Stability and Growth Pact - Informal ECOFIN meeting, B5-0602 and 0603/2001, pages 12-14.

the broad economic policy guidelines of the Member States and the Community[1],

- having regard to Rule 163 of its Rules of Procedure,

- having regard to the report of the Committee on Economic and Monetary Affairs (A5-0145/2002),

A. whereas the rate of growth achieved in the European Union in the year 2001 fell to 1.6% (1.5% in the euro area) compared with 3.3% in 2000 (3.3% for the euro area); whereas, however, a reversal in the climate and a recovery, albeit limited, is anticipated during the current year, as business confidence appears to be increasing in the euro area and the signals from the USA seem more positive than expected; whereas although the unemployment rate in the European Union in December 2001 and January 2002 was 7.7% (8.4% in the euro area), with no real change as compared with December 2000 (7.9% in EU-15 and 8.4% in the euro area), employment forecasts have worsened, and particular features have been continuing large-scale redundancies, particularly at large companies, and significant variations in the unemployment rate in different Member States (ranging from 2.6% in Luxembourg to 12.8% in Spain); whereas annual inflation in the euro area rose to 2.5% in January 2002 from 2.1% in December 2001, with some marked variations between different countries, and inflation figures far exceeding the average (e.g. for 2001 under the stability programmes 4.4% in Portugal, 4% in Ireland and 3.1% in Greece),

B. whereas the European Council in Lisbon on 24 March 2000 set the strategic goal of Europe acquiring the most competitive and dynamic knowledge-based economy capable of sustainable economic growth with better jobs, full employment and greater social cohesion,

C. whereas an average rate of growth of 3% sustained over most of the decade has been set as an intermediate target in order to achieve the Lisbon strategic goal; whereas the actual share of investment in European GDP is still considerably below the levels estimated as necessary for such a sustained growth path,

D. noting with concern the current situation in the Middle East and the parallel rise in oil prices, as well as the impact this may have on price stability, production and interest rates,

E. whereas the creation of the conditions for monetary and economic stability is a prerequisite for achieving strong and viable economic development and a medium-term rise in employment; whereas when steps are taken in this direction the goal of sustainable development must be borne in mind,

F. whereas the stability and convergence programmes are the central plank of the Stability and Growth Pact, forming part of the procedure of surveillance and coordination of economic policies, in order to achieve and maintain, as a medium-term objective, a budgetary position of close to balance or, better yet, in surplus,

G. whereas encouraging investment lies at the root of all successful growth efforts, whereas

[1] Adopted Texts, 14.03.2002, item P5 TAPROV(2002)0124, Broad economic policy guidelines, pages 142-147.

public finances, structural reforms and a balanced process of liberalisation are capable of making a decisive contribution to all aspects of the development effort proclaimed by the Lisbon European Council,

H. whereas the achievement of a knowledge-based economy presupposes the development of highly-efficient high-speed networks of information and increases in Research and Development and lifelong education and training, and whereas such efforts require the mobilisation of both public and private investment,

I. whereas in some cases the recommendations contained in the opinions issued by the Council assessing the programmes for the previous year have not been fully followed, nor have the recommendations by the Member States contained in the broad economic policy guidelines for the previous year,

J. whereas Ireland recognised the value of the recommendation of 12 February 2001, particularly in abandoning its economic policy of aiming to maintain high surpluses,

1. Points out that the instrument "Stability and Growth Pact" is not a goal as such but clarifies and confirms the preventive and recommendable nature of the provisions of the Treaty concerning the surveillance and coordination of the Member States' economic policies;

2. Notes that in examining the stability and convergence programmes the Council did not strictly apply the provisions of the Pact in the case of Germany and Portugal; expresses its concern over the fact that this approach has, on the one hand, cast doubts on its credibility and, on the other hand, might lead to inequalities in its application;considers that there is also a risk that it will be considerably weakened through election campaigns and pledges made by national governments;

3. Reiterates, consequently, its commitment to the Stability and Growth Pact; draws attention to the declaration made by the Heads of State and Government of the European Union and the President of the Commission on 19 October 2001 in Ghent;

4. Considers, however, that the disparities mentioned in recital A are not being reduced as quickly as was hoped and that efforts are needed to improve the ability of some Union regions to make up ground, since other factors relating to genuine stability and convergence must be taken into account when assessing convergence programmes (unemployment, level of economic development, demographic structure and sustainability of pension schemes, per capita public expenditure), which should be included among the priorities;

5. Notes with regret that Eurostat has been unable to publish definitive budget and debt data for all Member States without qualifying footnotes, and calls on the Commission to estimate for each Member State, as a memorandum item, off budget spending that gives rise to on-going liabilities such as those undertaken under the Private Finance Initiative or in Public Private Partnerships as a means of improving the transparency of public finances; also calls on the Commission to state in each case whether it has had the full cooperation of the Member State concerned, and whether the estimate is agreed with the Member State;

6. Asks the Commission to propose, and the Council of Ministers to agree, cyclically adjusted budget balances as an additional operational target for each Member State to reinforce the disciplines of the Stability and Growth Pact and the convergence programmes. These targets should help Member States to avoid the pro-cyclical relaxation of fiscal policy during economic upturns, and therefore to avert subsequent problems during any downturn in respecting the 3% deficit limit.

7. Considers that the tragic events of 11 September have exacerbated the negative effects of the slow-down in economic activity and the fall in demand; considers that nevertheless, thanks to prompt international mobilisation and decisiveness and to an awareness of the need for international cooperation, it will prove possible to tackle and/or restrict their long-term negative consequences provided, of course, that there are no new terrorist acts as feared, in particular, by the USA; believes, additionally, that in view of the negative consequences on specific sectors, it is essential also to boost actions in the cultural sector to promote the creation of jobs, as well as to reinvigorate the demand for these activities, some of which are of vital economic importance in certain Union regions;

8. Notes that in the majority of cases, the programmes submitted are in accordance with the requirements of the Stability and Growth Pact for budgetary positions close to balance or in surplus or with provision for it to be attained within a reasonable period;

9. Notes that the important role played by automatic stabilisers cannot be quantified accurately and that as a result it is more difficult to make an objective assessment of the structural budget situation of a Member State; requests that a clear method be established for carrying out these assessments, so that fluctuations in the economic cycle can be accurately quantified and thus taken into account;

10. Observes that there are, in some cases, uncertainties regarding developments in coming years, particularly with regard to the rate of economic growth, triggering doubt as to whether the medium-term objective can be maintained;

11. Believes that the attempt to reduce the budget deficit primarily through increasing revenues does not guarantee that results can be maintained and emphasises the need to take measures to achieve greater rationalisation of expenditure; underlines the risk of an excessive increase of the tax burden and stresses the need for a decrease of current expenditure in certain Member-States; recommends that tax cuts should be looked at how they decrease the tax burden on labour and how they contribute to the creation of jobs, maintaining moderate wage policy and harmony between the social partners;

12. Expresses its concern at the fact that the rate of reduction of public debt, in some countries, is slower than anticipated in their programmes;

13. Draws attention to the ‘code of conduct’ on the content and format of the stability and convergence programmes adopted by the ECOFIN Council on 10 July 2001, which differs from the 1998 ‘code of conduct’ , *inter alia*, in requiring equal treatment for the Member States, something which the Council itself seems to have ignored completely recently;

14. Observes that the revision of targets and forecasts as a result of the economic slow-down is, fundamentally, an indication that the programmes are being drafted on a realistic basis

and are taking into account changes in their underlying assumptions; therefore calls on the Member States to continue to pursue this strategy more energetically; emphasises, however, that in some cases the programmes have been prepared in an over-optimistic manner and that therefore there is a danger that in the short term the forecasts of a real increase in GDP and a reduction in the budget deficit will not be realised;

15. Reiterates its exhortation to the Member States not to resort to one-off measures, which artificially reduce the budget deficit and distort the real financial picture; calls in addition for greater transparency and for 'creative accounting' practices, even if indirect, to be avoided, as they cast doubt on the credibility and quality of economic adjustment in certain countries; this will lead to a loss of confidence and the instability of the euro, which will be prejudicial to all euro-zone countries;

16. Underlines again the need towards increased public and private investment in order to achieve the strategic goal of Europe becoming home to the most competitive and dynamic knowledge-based economy in the first decade of the 21st Century, especially in such areas as education and training, life-long learning, research, information and frontier technologies, telecommunication and transportation networks etc., where there has been past neglect and where there is potential for investment in human resources;

17. Notes that the delay in adapting the pensions systems in several Member States, the ever-increasing number of old people, as well as the large number of economic refugees entering the European Union and their families who have joined them who frequently engage in illegal work, undermine the capacities of the insurance organisations to deal with the ever-increasing financial costs stemming from the above factors, especially in the health care and welfare sectors; considers nevertheless that the legal influx of immigrants with a relatively young average age and therefore with relatively limited recourse to social benefits may help in the short and medium term to alleviate the adverse effects on public funding of an ageing population; insists furthermore that the demographic challenges be assessed and recognised in the stability and convergence programmes as demanded in the Presidency Conclusions of the Barcelona European Council;

18. Considers that the reform of the pensions systems which has repeatedly been announced must be carried out, taking into account social aspects and maintaining the universal character of these systems;(

19. Calls on the Member States, in order to increase competitiveness and attain the Lisbon objectives, and along the lines established by the Barcelona European Council, to speed up and extend - among other measures - the implementation of structural reforms in sectors of the economy, particularly in the products and capital markets, including the pension sector, as well as in the transport, energy, communication and labour markets; notes that with regard to the creation of a single market in transferable securities, a significant step has been take in this direction with its resolution on the implementation of financial services legislation; welcomes in this context the Presidency Conclusions of the European Barcelona Summit which underlines that structural reforms should take full account of the importance of quality of and universal access to public services with respect to the territorial and social cohesion of the European Union;

20. Welcomes the agreements reached in Barcelona to the effect that worker mobility should

also be boosted at the EU level; on this point, welcomes the priority objectives and the action plan on qualification and mobility approved by the European Council in Barcelona in March 2002, for the removal of barriers to professional and geographical mobility for workers in the European Union by 2005; with this in view it will be necessary to extend and support decentralised contractual arrangements;

21. Believes that the transition to the euro era, which was achieved successfully and without any appreciable disturbance to monetary equilibrium thanks to the successfully coordinated cooperation between the institutional bodies of the European Union, the national governments of the EMU countries, the European Central Bank and the central banks and banks and savings banks of the Member States, should be followed by greater integration of the markets for the benefit of the Union's citizens and businesses;

22. Instructs its President to forward this resolution to the Council and Commission and the governments and parliaments of the Member States.

EXPLANATORY STATEMENT

1. The operation of the Stability and Growth Pact during the annual period under examination was shaped primarily (a) by the influence of the continuing decline in growth rates, particularly in the USA, which also had a direct impact on the functioning of the economy in the European Union, (b) by additional serious problems caused by the terrorist attack on 11 September, which worsened recessionary trends in general, and in particular in vulnerable sectors such as air transport, tourism and the private insurance sector, (c) by the failure to meet financial expectations with regard to economic growth, inflation and unemployment and (d) by recessionary problems which developed and are continuing, mainly in the largest economic power in the European Union, i.e. Germany, with the impending elections constituting an additional factor militating against the rectification of the problems, since they certain to curb initiatives to improve matters, as such initiatives have a short-term political cost. In making his evaluation and proposals, it was both necessary and useful for the rapporteur of this report to keep the above factors and others in mind, together with the hopes for an upturn in the economic climate in the current year. In doing so he has made a sincere and, as far as possible, impartial effort to draft his text with particular care in order, without concealing the reality, to avoid arousing national sensitivities, and to avoid concealing the varying political approaches which unavoidably arise in the multi-faceted democracy which characterises the European Union’s journey towards convergence and integration.

2. The Stability and Growth Pact is, first and foremost, a political agreement which entails a commitment to sound financial management; from a legal viewpoint, it confirms and clarifies the preventive and repressive nature of the relevant provisions of the Treaty.

3. To date the experience of the application of the Stability and Growth Pact has been positive. Appreciable progress has been made in improving the quality and viability of public finances, the conditions for monetary stability and lower interest rates have prevailed and in general the preconditions which allowed the economy of the Union to display remarkable resilience amidst an environment of unusual uncertainty and a slow-down in economic growth in all the main geographical regions of the world were secured. Certain insufficiencies, however, were revealed (see European Economy, No 73/2001, published by the Commission) with regard to coordination and the inability of the Member States to react promptly and in a cohesive manner to common economic challenges and disturbances. One example is the pursuit of retrospective coordination, i.e. once the financial decisions have already been taken nationally. Interplay with the broad economic policy guidelines became clearer. The need for improvements should be noted, although this does not mean that the current legal arrangements should be changed.

4. The rapporteur believes that any change to the current wording of the Stability and Growth Pact would create doubt and undermine political will and commitment and its broad acceptance, which constitute the fundamental preconditions for its successful implementation. The opinion of the Economic and Financial Committee takes a similar view, as does the ‘code of conduct’ annexed to it, adopted by the ECOFIN Council on 10 July 2001.

5. The economic conjuncture under which the stability and convergence programmes referred to in this report were prepared and submitted led, in the case of many Member

States, both to a divergence from the targets of the previously updated programmes and to less optimistic forecasts and consequently to a readjustment of the underlying economic figures, even though over-optimistic assessments were also seen; these run the risk of not being achieved, at least in the short term, because of the particularly high level of uncertainty which was present when they were being worked out, or in view of crucial elections in some countries. This situation was confirmed in large part by the assessment of the Commission and the opinions of the Council. In fact, for the first time since the implementation of the Stability and Growth Pact, the Commission judged it necessary to use the early warning procedure, in order to secure the requisite reduction in the financial deficit and to create a safety margin to avoid the ceiling of 3% of GDP being exceeded, and suggested to the Council that it should address a recommendation on this point to two Member States, Germany and Portugal.

6. Unfortunately, these suggestions by the Commission were not followed. In fact, the ECOFIN Council, following a political agreement between the euro area ECOFIN Council and the Commission, decided not to put the Commission's recommendation to the vote and to close the procedure. This decision was accompanied by an undertaking by the two countries involved to adopt a strict economic policy and to achieve budgetary balance by 2004, in accordance with their earlier commitments. It should also be noted that there is concern over public debt which, in the case of Germany, is not expected in the current year to fall below 60% of its GDP, while Portugal's debt, although lower than 60% of its GDP, is expected in 2004 to be approximately 6% higher than in the previous programme. It is clear that there is also a risk of a deterioration in the medium-term targets for public debt.

7. The rapporteur is worried about this development. During a period when doubts have been expressed concerning the Stability and Growth Pact, there has been a reluctance to apply it strictly, even in one large country responsible for the birth of the concept of the Pact and its promotion. The compromise reached has avoided putting the country in question, which does not seem able to curb its public deficit, into a difficult position, but the Commission has been exposed, 'forced' to give way to avoid its proposal being rejected during voting by a blocking minority. In reality, of course, we can conjecture from the publicity generated by the procedure that there was an unofficial warning and that the strict undertakings given by the 'offending' countries were a response to the Commission's recommendations. However, contrary to the reassuring statements by Commissioner Sobes after the compromise had been reached, the rapporteur believes that the credibility of the Stability and Growth Pact has been endangered and that the Parliament should express its concern over this.

8. The Stability and Growth Pact has emerged from this affair weakened, because from now on the relevant provision of the regulation will tend in practice to remain inoperative, insofar as it will probably not be applied, in the event of need, to the larger Member States and any application to the small countries will be interpreted as discriminatory and unequal treatment. It should be noted that the Council, in its opinion of 12 February 2001, declared that the Irish economic policy for 2001 was inconsistent with the broad economic policy guidelines and decided to address a recommendation on the subject to it. However, in the case of Germany (and subsequently Portugal) it did not manage to address an early warning recommendation. However, it could be considered that the Commission has emerged weakened from this affair, since it set the procedure in motion and publicised its

intentions, and in spite of the fact that it had been given the open backing of the European Central Bank and several small Member States, was held to an 'honourable compromise'. What is also directly at stake in this case is the balance of power between the institutional bodies, which Parliament has always advocated.

9. With regard to the conclusions of the assessment of the programmes of all the Member States, the rapporteur notes that in the majority of cases, the programmes submitted comply with the requirements of the Stability and Growth Pact for budgetary positions close to balance or in surplus. Nevertheless, in some cases there are uncertainties regarding developments in coming years which create doubt as to the fulfilment of the medium-term objective. It can be observed that deficit reduction is not always due to a reduction in expenditure, but to an increase in revenue. Additionally, the rate of reduction of public debt for those countries which have a high debt to GDP ratio is not what was anticipated in their previous programmes (Greece, Italy).

10. The rapporteur also draws attention to two cases (Greece and Portugal), as stated in the Commission's report, where financial transactions are not recorded in the budget and the resulting lack of transparency casts doubt on the quality of budgetary implementation. In view of the confidence and acceptance which the Stability and Growth Pact must enjoy, such practices, which permit the use, albeit indirect, of creative accounting, even though formally legitimate, must be avoided because, apart from the general negative impact on the European economy as a whole, they will have painful consequences for future financial years and also for future generations. The rapporteur agrees that the provision of more detailed information on these transactions would enable a better assessment to be made of public debt trends. He also notes that in other cases, the attempt at budgetary adjustment is based on one-off measures (e.g. Italy: sale of fixed assets) and on revenue from the sale of licences for third-generation mobile phones (e.g. Germany), even though this revenue did not improve performance in any way.

11. With regard to the countries outside the euro area, it is also worth noting that Sweden does not fulfil the criterion of exchange stability. The krona does not participate in ERM2 and it has recently recorded considerable fluctuations against the euro. In the case of the United Kingdom, there is some doubt as to the achievement of the exchange criterion at a viable level.

12. Additionally, it seems that there are delays in making or successfully implementing structural adjustments in important sectors, such as the labour market and the pensions systems of many Member States. With regard to this last point, any further delay will undermine the capacity of the Member States' insurance bodies to tackle the increasing financial burden generated by the ageing of the population and the large-scale immigration to the European Union, stemming from the justifiable inclusion of millions of economic refugees and their families into the social security systems, notwithstanding the fact that the legalisation of refugees in part boosts the revenue of insurance bodies since it curtails the black labour market.

13. The rapporteur would like to refer briefly to the euro and its probable effects. With regard to inflation, it seems that in the short term it had a certain negative influence, which was however, not very pronounced. In January 2002 the annual inflation rate in the euro area had already risen to 2.5% as compared with 2.1% in December 2001. Nevertheless, this

effect is not permanent and is due mainly to exceptional factors (e.g. the unusual bad weather and the speculation opportunities created by the introduction of the euro). This rise will be replaced, in all probability, by a reduction in prices in the medium term, as a result of the favourable impact on competition of the introduction of the single currency. Otherwise, the inflation trend in the medium term will depend chiefly on the movement of wages. A controlled wage policy is also needed to boost competitiveness and to strengthen production and increased employment, which currently seems to be falling, after some satisfactory years. As to the influence of the euro on the coordination of economic policy, the rapporteur would just like to note that the Stability and Growth Pact is not an end in itself, but was formulated and put into operation precisely with a view to currency union. He once more emphasises, therefore, its usefulness as a basic factor in monetary stability, both in the EMU area and more widely. As for the rest, the successful implementation of the pact will create a positive climate of monetary and economic stability, with low interest rates, which will enable us to benefit from the main potential advantages of monetary union, despite the fact that our continuing lagging behind in comparison with the USA, which is always at the forefront, particularly in technological terms, does not seem at present to fulfil the expectations of the Lisbon summit for a Europe in the vanguard in terms of dynamism and competitiveness, particularly in the fields of knowledge and international information.

14. The rapporteur would finally like to stress that the institutional role of Parliament within the framework of the surveillance and coordination of economic policies has unfortunately not been strengthened by the Stability and Growth Pact. Thus, according to Article 99(4), in the second chapter of the Treaty, it merely continues to receive the reports of the President of the Council and the Commission on the results of multilateral surveillance. As a result, the drafting of own-initiative reports such as this one by Parliament, although being no substitute for the lack of real participation, can at least, one hopes, contribute to increased transparency and broader acceptance of the whole procedure.