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20 February 2003

## REPORT

on the annual assessment of implementation of stability and convergence  
programmes  
(2002/2288(INI))

Committee on Economic and Monetary Affairs

Rapporteur: Bruno Trentin



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## PROCEDURAL PAGE

At the sitting of 13 February 2003 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.

The Committee on Economic and Monetary Affairs had appointed Bruno Trentin rapporteur at its meeting of 27 November 2002.

The committee considered the draft report at its meetings of 20 January 2003, 28 January 2003, 18 and 19 February 2003.

At the latter it adopted the motion for a resolution by 35 votes to 5, with no abstentions.

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; Bruno Trentin, rapporteur; Richard A. Balfe (for Brice Hortefeux), Pervenche Berès, Hans Blokland, Armonia Bordes, Renato Brunetta, Hans Udo Bullmann, Bert Doorn (for Generoso Andria), Harald Ettl (for Giorgos Katiforis), Jonathan Evans, Hélène Flautre (for Alain Lipietz pursuant to Rule 153(2)), Ingo Friedrich, Carles-Alfred Gasòliba i Böhm, Robert Goebbels, Lisbeth Grönfeldt Bergman, Mary Honeyball, Christopher Huhne, Othmar Karas, Piia-Noora Kauppi, Christoph Werner Konrad, Wilfried Kuckelkorn (for Helena Torres Marques), Jean Lambert (for Miquel Mayol i Raynal pursuant to Rule 153(2)), Werner Langen (for Ioannis Marinos), Astrid Lulling, Thomas Mann (for Mónica Ridruejo), David W. Martin, Hans-Peter Mayer, Fernando Pérez Royo, Mikko Pesälä (for Karin Riis-Jørgensen), Alexander Radwan, Bernhard Rapkay, Herman Schmid (for Ioannis Patakis), Olle Schmidt, Peter William Skinner, Ieke van den Burg (for a full member to be nominated) and Theresa Villiers.

The report was tabled on 20 February 2003.

## MOTION FOR A RESOLUTION

### European Parliament resolution on the annual assessment of implementation of stability and convergence programmes

*The European Parliament,*

- having regard to the Commission's report on the implementation of the 2002 Broad economic Policy Guidelines (COM (2003) 4),
- having regard to the final report of 20 January 2003 submitted by the TEPSA panel of experts to the Committee on Economic and Monetary Affairs on the Broad Economic Policy Guidelines for 2003,
- having regard to the decisions of the Heads of State and Government at the Lisbon (2000), Göteborg (2001) and Barcelona (2002) Summits,
- having regard to its resolution on the Commission communication on Public finances in EMU - 2002<sup>1</sup>,
- having regard to the Commission's Communication on Strengthening the co-ordination of budgetary policies (COM (2002) 668),
- having regard to the Commission's Communication on the need and the means to upgrade the quality of budgetary statistics (COM (2002) 670),
- having regard to the Commission's report on "The EU Economy: 2002 Review", ECFIN/475/02-EN,
- having regard to the Commission's Communication on the autumn 2002 Economic Forecasts, European Economy n° 5/2002,
- having regard to the Commission's Communication on streamlining the annual economic and employment policy co-ordination (COM (2002) 487) and to its resolution thereon of 5 December 2002<sup>2</sup>,
- having regard to Article 99 of the EC Treaty, and to Rule 41 of the European Parliament's Rules of Procedure,
- having regard to the annual updates of the stability and convergence programs drawn up by the Member States between October 2002 and February 2003 as well as the opinions of the EcoFin Councils of 21 January 2003 on these programs,
- having regard to Article 163 of its Rules of Procedure,
- having regard to the report of the Commission on Economic and Monetary Affairs (A5-0047/2003),

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<sup>1</sup> A5-0018/2003 due to be adopted during the March 2003 session.

<sup>2</sup> P5\_TA-PROV(2002)0583.

- A. whereas there is considerable progress in assessing budgetary convergence in the framework for budgetary surveillance of the Member States in the context of the Stability and Growth Pact (SGP) and by the inclusion of the level and the evolution of the public debt into these evaluations and a qualified analysis, which could give more flexibility to the application of the SGP,
- B. whereas monetary policy is in any case homogeneous for all countries of the Euro zone, but due to different national inflation rates and different growth perspectives it is becoming increasingly necessary to introduce structural reforms allowing similar levels to be attained in the lowest nominal interest rates,
- C. whereas the economic and monetary forecasts for 2003 are strongly influenced by wrong estimates found in the forecasts for the years 2001 and 2002; and these mistakes derived from a passive policy of awaiting the American recovery, whereas Europe urgently needs structural reforms,
- D. whereas the appreciation of the Euro could penalise European exports of less competitive products, there is an increasing need to favour and stimulate innovation in such a manner that it also leads to growth in domestic demand supported by a coherent investment policy within the targets of the Lisbon strategy,
- E. whereas the SGP and the Stability and Convergence Programs are left out of the Spring Council and the newly introduced "streamlined policy co-ordination cycle" which has the intention of improving co-ordination of economic and employment policies and giving them clear and ambitious targets as defined in the Council of Lisbon 2000 and Göteborg 2001,
- F. whereas from a legal point of view, coordination of economic policies is not a right but an obligation of the Member States of the Union, Article 99(1) of the EC Treaty stipulating that the 'Member States shall regard their economic policies as a matter of common concern and shall coordinate them within the Council, in accordance with the provisions of Article 98' and specifying the objectives of such coordination which shall contribute to 'the achievement of the objectives of the Community, as defined in Article 2',
- G. whereas the economic policy guidelines to be considered at the Spring European Council must be more strongly geared to a medium-term oriented policy, however, a serious economic slowdown, such as at present, underlines the urgency to also re-think national economic policies in several Member States which, when implemented, will show positive results only in the medium and long term,
- H. whereas there is a strong economic interdependence in the internal market, an efficiently co-ordinated economic policy in order to boost investments and to carry out structural reforms as foreseen in the Lisbon process, implemented simultaneously throughout the EU, is the most effective way to overcome the growth crisis,
- I. whereas during the last years the Euro area labour market proved to be inflexible enough to become a major cause of unemployment, which should make this market a

priority for structural reforms in a number of Member States,

- L. whereas economic growth, which had been carried in the past by the internal market and the strength of exports, has slowed down, and the Commission has nevertheless continued to issue over-optimistic forecasts; whereas, moreover, major uncertainties continue to surround trends in oil prices, the euro-dollar exchange-rate, stock-market weakness and the economic consequences of the Iraq crisis,
- M. whereas in the past the EU growth strategies were always export-oriented but in recent years growth was driven by employment growth within the EU and whereas the Commission offers optimistic estimates of an increase in Euro area exports at about 5% in 2003, major uncertainties remain due to the volatility of the oil prices, the appreciation of the Euro, doubts about the EU's capacity to conceive and implement structural reforms, the persistent weakness of the stock markets and the economic consequences of a potential war in the Middle East,
  - 1. Points out that the aim of securing a balanced budget represents an important foundation for lasting economic development; points out, moreover, that financial policy mistakes by some states in an economic and monetary union can result in all participants being penalised in the financial markets;
  - 2. Welcomes the highly satisfactory implementation of the stability and convergence programmes in most of the Member States and encourages the others to follow this example; praises the Commission's Communication on Strengthening the coordination of budgetary policies as a useful step in clarifying and enforcing the underlying procedure;
  - 3. Considers that a multitude of indicators could allow the Commission and the Council to come out with recommendations and early warnings which take into account the most severe cases; there is a need for a clear choice in favour of investments over regular expenditures and for a general reduction of the fiscal pressure in favour of an increase of the active population and active ageing in the case of negative forecasts for the costs of the pension systems;
  - 4. Considers that recommendations and early warnings should henceforward be issued on the sole responsibility of the Commission, and that the Council should not have the right to vote on them;
  - 5. Stresses that although a multilateral surveillance of budgetary policies to reach convergence in the context of the SGP is easier to implement in phases of growth of national economies it should also be carried out strictly in accordance with the SGP in downturns, bearing in mind that in its present form the pact allows for a substantial flexibility for struggling economies; notes that those Member States which complied best with the SGP in good times tend to perform better in a general slump;
  - 6. Proposes to put the targets of the Lisbon and Göteborg strategy at the centre of the EU policy mix and of the co-ordination of economic policies of the Member States to strengthen growth in the coming 8 years and to avoid divergences and contradictions, in the different documents which will be assessed at the Spring Council in 2003;

7. Proposes that all instruments of economic and financial coordination (Broad Economic Policy Guidelines, coordination of budgetary policies, rationalisation of the annual cycles of economic and employment policy coordination, the Stability and Growth Pact) should incorporate in a coherent manner the objectives of the Lisbon strategy by defining intermediate stages (2005) with a view to making up for lost time and achieving substantial results from the implementation of this strategy by 2010;
8. Notes with concern that the streamlined policy co-ordination cycles have the intention of harmonising the implementation and guidelines packages for the various 'processes', but leave out the timetable for production and assessment of the stability/convergence programs and keep them apart from the guidelines;
9. Welcomes the fact that national stability programs are finalised before policy coordination sets in, so as to be in a better position when assessing the financial means available for any economic policy, and avoiding an ad hoc re-interpretation of SGP with a view to accommodating to wishes for greater expenditure emerging occasionally when coordinating policies;
10. Underlines in this context that these strategies should lead to the adoption of the priority target to guarantee a policy of public and private investments in sectors such as innovation, life-long learning, the creation of infrastructure, sustainable development within the European Union, in particular in the case where these are recognised by the Commission and where they are deemed to be of common interest;
11. Shares the opinion of the European Commission that the most adequate answer to the economic slowdown is the Lisbon strategy as well as structural reforms at the level of the Member States and calls upon the Member States to proceed to an immediate and simultaneous implementation of the priorities set down at the European Council in Lisbon (2000) and Göteborg (2001), in particular to substantially reduce disincentives to work in some Member States and to increase public and private investment in education and training, research and innovation for products and processes, and the development and application of new products and services, with emphasis on the application and interconnections made possible by new technologies, recommends to fund education, vocational training, life-long learning and research;
12. Recalls that the Lisbon strategy is aimed at increasing labour market participation, also to assure the sustainability of public finance in particular in view of Europe's ageing population and the financing of pensions; notes that the mid-term objectives which would allow the EU to become the most competitive economy by 2010 are not being met; calls on the Member States to pursue policies enabling the necessary reform path to be rejoined in order to reduce the lead which the US has over the EU in terms of productivity; calls on the Commission to put forward a plan of action to allow the candidate states to join the Lisbon strategy process.
13. Given major uncertainties about an eventual increase in Euro exports, calls for additional attention to be focused on endogenous growth, which still remains sluggish in the EU; recommends redirecting public spending from consumption to investment, proceeding to immediate and co-ordinated implementation of the Lisbon strategy



simultaneously in all Member States to obtain maximum benefit from the aggregated economic impacts of the policies, and allowing for an increase in competition between the national economic policies, so promoting the emergence of an efficient economy capable of sustaining the social needs of the citizens;

14. Calls for the Commission's evaluations and the recommendations on the stability and growth programmes to be forwarded to Parliament in good time in order to give Parliament an appropriate say in the economic coordination process in the context of the Stability and Growth Pact;
15. Calls for the Stability and Growth Pact to be scrupulously adhered to, and for all attempts to soften the Pact, thereby jeopardising the long-term stability of the European currency, to be resisted;
16. Calls on Heads of State and Government, at the forthcoming Spring Summit, so to step up efforts to push ahead with the necessary structural reforms on the basis of an unvarnished assessment, as to ensure that more comes out of the ambitious Lisbon objectives than a mere Utopian ideal;
17. Instructs its President to forward its position to the Council and Commission, to the governments and parliaments of the Member States and to the Social Partners.

## EXPLANATORY STATEMENT

Two years of disappointing economic performance have triggered a slack in the proactive policies pursued in reacting to the threat of recession and the upsurge in unemployment. That wait-and-see attitude was encouraged by forecasting errors by the European Institutions in 2001 and 2002, and by the illusion that a quick recovery in the American economy would well-nigh automatically have triggered a resumption of growth in Europe.

That goes to explain the long delay by a number of European economies in meeting the Lisbon Summit objectives, and with it the failure to include that fundamental reference-point in Commission documents dealing with such matters as the overall objectives of economic policy, financial-policy convergence in relation to the Stability and Growth Pact (SGP), or even the overall approach to streamlining, whereas a more consistent presentation of Commission proposals could have provided the basis for more effective coordination of economic, social and ecological policies by European governments.

It consequently seems right to consider whether the criteria and objectives adopted in the SGP ought to include certain indicators likely to make for more flexible 'governance' of the pact by adapting it to different national realities, while retaining the objectives of reducing budget deficits and public-sector debt. Consideration should, on the other hand, also be given to adopting binding indicators for a growth policy geared to full employment and implementing the worker-qualification and other Lisbon-Summit objectives for creating the world's most competitive knowledge-based society so as to guarantee consistency and continuity in the economic, social and ecological policy proposed by the Commission to national governments in the European Union.