



EUROPEAN PARLIAMENT

2009 - 2014

Plenary sitting

A7-0425/2012

20.12.2012

REPORT

on Public Finances in EMU – 2011 and 2012
(2011/2274(INI))

Committee on Economic and Monetary Affairs

Rapporteur: Alfredo Pallone

CONTENTS

	Page
MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION.....	3
RESULT OF FINAL VOTE IN COMMITTEE.....	10

MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on Public Finances in EMU – 2011 and 2012 (2011/2274(INI))

The European Parliament,

- having regard to the Commission’s 2011 report on public finances in EMU¹,
- having regard to the Commission’s 2012 report on public finances in EMU²,
- having regard to the Treaty on the Functioning of the European Union, and in particular Article 136 in combination with Article 121(2) thereof,
- having regard to Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies³,
- having regard to Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States⁴,
- having regard to Regulation (EU) No 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area⁵,
- having regard to Council Regulation (EU) No 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure⁶,
- having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances⁷,
- having regard to Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area⁸,
- having regard to Annex I to the European Council Conclusions of 24-25 March 2011 entitled ‘The Euro Plus Pact: Stronger economic policy coordination for competitiveness

¹ http://ec.europa.eu/economy_finance/publications/european_economy/2011/pdf/ee-2011-3_en.pdf

² http://ec.europa.eu/economy_finance/publications/european_economy/2012/pdf/ee-2012-4.pdf

³ OJ L 306, 23.11.2011, p. 12.

⁴ OJ L 306, 23.11.2011, p. 41.

⁵ OJ L 306, 23.11.2011, p. 8.

⁶ OJ L 306, 23.11.2011, p. 33.

⁷ OJ L 306, 23.11.2011, p. 25.

⁸ OJ L 306, 23.11.2011, p. 1.

and convergence'¹,

- having regards to the Conclusions of the European Council of 28-29 June 2012, and in particular its annex “Compact for growth and jobs”,
 - having regard to the Communication from the Commission of 23 November 2011 on the Annual Growth Survey 2012 (COM(2011)0815),
 - having regard to its resolution of 15 December 2011 on the Scoreboard for the surveillance of macroeconomic imbalances: envisaged initial design²,
 - having regard to its resolution of 15 February 2012 on the contribution to the Annual Growth Survey 2012³,
 - having regard to the IMF ‘World Economic Outlook’ of October 2012,
 - having regard to Rule 48 of its Rules of Procedure,
 - having regard to the report of the Committee on Economic and Monetary Affairs (A7-0425/2012),
- A. whereas the economic, financial and banking crisis has not abated and has demonstrated that public finances issues negatively affect socio-economic development and political stability;
- B. whereas the government debt-to-GDP ratio in the eurozone rose from 86.2 % in the first quarter of 2011 to 88.2 % in the first quarter of 2012;
- C. whereas the recent reforms of the economic and budgetary governance framework of the European Union cannot alone solve the crisis; whereas a comprehensive action is required for addressing excessive macro-financial imbalances in a symmetric manner and for increasing the level of overall socio-economic convergence and solidarity within the Economic and Monetary Union (EMU);
- D. whereas credible commitments to growth-friendly consolidation measures are a prerequisite for any sustainable solution of the excessive debt and deficit situation of most of the eurozone Member States;
- E. whereas significant steps have been taken in EU countries to consolidate public finances, but many challenges still remain when it comes to improving the situation; whereas the current severe economic downturn is a matter of concern as it threatens the substantial efforts made by the Member States regarding their budgetary consolidation strategies;
- F. whereas the Member States are not all in the same situation, and it is therefore necessary to implement sustainable growth-friendly strategies that are differentiated in line with the country-specific recommendations adopted by the Council and that reflect the country-

¹ http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/120296.pdf

² Texts adopted, P7_TA(2011)0583.

³ Texts adopted, P7_TA(2012)0048.

specific fiscal and macro-financial risks as well as economic and social conditions;

- G. whereas the latest country specific recommendations focused disproportionately on the need to reduce wages and social security expenditure and to reform public pension frameworks; whereas their specific recommendations regarding other domains such as taxes on capital gains, consumption, real estate and polluting activities are, for the most part, given far too little weight;
- H. whereas, in particular, Member States benefiting from financial assistance programmes and those under close market scrutiny should implement credible long-term budgetary consolidation strategies; whereas negative spill-over effects across the EMU need urgently to be addressed so as to rebalance and calibrate the efforts required by all Member States to overcome the crisis;
- I. whereas democracies require intensive public scrutiny of all layers of decision-making bodies in charge of the economy and the relevant policies, as well as accountability and legitimacy mechanisms;
1. Welcomes the projected improvement of the fiscal positions of EU Member States and the efforts they have made to reach their fiscal targets; deplores the foreseen protraction of the cyclical slow-down underway; points out that the current severe economic downturn is a matter of concern as it threatens the substantial efforts made by the Member States to consolidate their budgets;
 2. Considers that credible long-term strategies for budgetary consolidation remain a necessity, given the high level of public and private debt, and the budget deficits, in some Member States, and the difficulty they face in returning their public finances to a sustainable path, provoking strong pressures from financial markets; recalls that overall public deficits have hitherto been reduced thanks to strong consolidation efforts; notes that the Commission now foresees negative GDP growth for the EMU overall in 2013 and deteriorating fiscal balances in seven EMU Member States in 2013 or 2014; believes, therefore, that the continued need for intense fiscal adjustment needs to be balanced between strengthening sustainable growth, economic development as well as social protection;
 3. Is deeply concerned that, despite the reform and consolidation efforts of Member States, eurozone sovereign bond markets remain in distress, as reflected in high spreads and interest rate volatility; notes that the immediate trigger and root cause were the financial markets' concerns about the solidity of public and private sector finances in some eurozone countries;
 4. Believes that the efforts towards improved coordination and fiscal consolidation will not bring the expected results if macroeconomic imbalances between Member States, and their consequences for the recovery process, are not addressed;
 5. Underlines that the long-term sustainability of public and private finances is an essential condition for growth and for maintaining appropriate levels of public expenditure, including investments; stresses that a high level of debt generates adverse effects – on health care, pensions, employment and equity among generations – as well as weak

growth;

6. Stresses that the high level of youth unemployment will damage economic growth in future too, and that Member States should therefore already now adopt concrete measures to reduce it;
7. Encourages the Member States to follow the recommendations adopted by the Council on a recommendation by the Commission in line with the rules set by the Stability and Growth Pact, as modified by the ‘six-pack’ on economic governance’ in order to implement fiscal consolidation in a stronger, credible, timely and differentiated manner, taking into account country-specific circumstances; encourages the Council to revise these recommendations as necessary to take due account the macroeconomic environment;
8. Invites the Member States to facilitate an agreement with Parliament with a view to adopting the “two-pack” as soon as possible and no later than by the end of the year;
9. Encourages the Commission to give both negative and positive feedback to Member States through explicit and detailed country-specific recommendations, and to acknowledge noteworthy efforts and best practices;
10. Encourages the Commission to continue in its efforts to supplement its traditional sustainability analysis with alternative methodologies; invites the Commission to publish regularly indicators reflecting this sustainability analysis in the future releases of the ‘Public Finances in EMU’ reports and to release the assumptions on which their models are based when assessing the multiplier effect of public expenditure levels on GDP growth;
11. Highlights the important role the Union budget must play in order successfully to reduce macroeconomic and social imbalances throughout the Union, and thereby restore the conditions for a sustainable monetary union;
12. Welcomes the new focus on fiscal decentralisation in the Commission’s 2012 report on public finances in EMU, and suggests that a chapter on local and regional public finances be always included in future releases;
13. Considers that budgetary consolidation can be implemented effectively, and can bring long-lasting positive effects, provided that the measures backing it are growth-friendly, so that they promote growth and job perspectives, and that they respect equity among citizens;
14. Invites the Member States to put in place growth-oriented policies and reforms in line with the EU 2020 Strategy, having regard to social protection, social inclusion and public investment; recalls its demands on the need for making the labour market more flexible, in particular by: reducing labour taxation; optimising training schemes to stimulate older workers to stay in employment longer; reducing youth unemployment by better matching the qualifications of young people to labour demand; ensuring that wages keep in line with productivity; and shifting taxation away from labour, in particular regarding low income categories of workers, to environmentally harmful activities; invites the Member States to put in place innovation policies through investments aimed at improving

productivity and aligning it with wage developments, and to create a more competitive business environment by: liberalising certain industries; removing unjustified restrictions on regulated trades and professions; facilitating credit access; and facilitating the setting-up of new businesses; encourages, lastly, the reform of the public administration sector by eliminating red tape, cutting costs and removing unnecessary layers of government;

15. Recalls that the key element in the relationship between growth and consolidation is the composition of consolidation; stresses that the appropriate mix of expenditure- and revenue-side measures is context-dependent and should be thoroughly assessed; points out in this regard, however, that consolidations based on cutting unproductive expenditure rather than on increasing revenue tend to be more lasting and more growth-enhancing in the medium term, but more recessive in the short term; is of the opinion that consolidation strategies need to mitigate short-term recessive impact while aiming at being growth-enhancing in the medium term; believes that the possible negative impact of consolidations in the short run can be mitigated, in particular provided that the measures taken are credible, lasting and avoid a reduction in public investment in productive sectors of the economy;
16. Encourages the Member States to focus consolidation efforts on a context-dependent and appropriate mix of expenditure- and revenue-side measures and, at the same time, safeguard EU 2020-related and sustainable growth-enhancing items such as investment in R&D, education, health and energy efficiency; considers that particular attention should also be paid to maintaining or reinforcing the coverage and effectiveness of employment services and active labour market policies such as training and further schemes for job-seekers, including a European Job Youth Guarantee for unemployed people and new entrepreneurs;
17. Encourages the Commission to assess the consolidated fiscal stance in the eurozone as a whole, combining the budgetary measures decided at the national level and its projected impact through spill-over effects in each Member State in the eurozone;
18. Invites the Commission to publish its methodology underpinning the assessment of the structural balances of the Member States, as well as the changes introduced in this methodology since 2008 and the impact of those changes in the assessment of the structural balances of the Member States;
19. Underlines that the consolidation strategy should also target the revenue side of the budgets of the Member States; stresses, in particular, that consolidation measures on the revenue side should be focused on decreasing tax expenditures that create unproductive niches or inefficient rent-seeking behaviours, on decreasing environmentally harmful subsidies, as well as on creating environmental taxes targeting the source of negative externalities and which can bring double dividends in so far as they improve the budgetary situation and help fulfilling the objectives set in the EU2020 strategy;
20. Supports the pursuit of the reform and modernisation of pension systems, while fully respecting the autonomy and the role of social partners and the specificity of national contexts, and while ensuring the long-term financial sustainability and adequacy of pensions; points out that such reforms serve as well as to maintain the contribution as automatic stabilisers and as terms of instruments of social cohesion and solidarity;

encourages, in particular, measures to raise effective retirement ages; supports policies aimed at increasing the number of people that decide to continue in the labour market in the first years after reaching their retirement age;

21. Encourages the Member States to implement consolidation procedures on the revenue side focusing on improving tax compliance and equity among citizens, in particular with respect to the fight against tax fraud and tax evasion; considers that, if this is not sufficient, a broadening of the tax base should be considered, also in view of the reduction of economic and social distortions; believes that greater efforts must be made to fight tax evasion and tax fraud;
22. Considers that in order to attain balanced public finances for the medium and long term, it is important to apply cost-benefit analyses to all infrastructure projects with significant budgetary weight;
23. Recalls that the Member States have committed themselves to engage in reforming fiscal policy within the Euro Plus Pact, and to hold discussions on a regular basis on the adoption of best practices;
24. Underlines the role of local and regional public authorities in supporting public and private investments; stresses the importance of growth-oriented investments for a swift economic recovery;
25. Invites the Member States to clarify the responsibility, role, fiscal transfers and revenue source of different levels of government (national, regional and local) in ensuring a sound and sustainable public finance framework, in particular by taking into account the impact on local and regional fiscal autonomy of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union;
26. Is concerned by the risk that the set-up of the relationship between central and sub-national governments can harm the implementation of fiscal consolidation, particularly when decentralisation is financed predominantly through transfers from the central government and is not matched by sub-national responsibility on the revenue side;
27. Is concerned that in some Member States, sub-sectors of government and ministries may exist without concrete powers and tasks; these sub-sectors of government make the general administration more inefficient and profligate and should therefore be eliminated as part of fiscal consolidation efforts;
28. Notes that fiscal consolidation efforts should be shared between the different administrations in a fair way, taking into account the services they provide;
29. Recognises that some Member States with high levels of debt are still increasing the net quantity of public workers despite their public commitment to freeze or decrease the share of public workers in the labour market;
30. Calls on Member States with budgetary problems to give priority to fiscal consolidation measures aimed at reducing unnecessary defence expenditures such as purchases of new and expensive military equipment;

31. Welcomes the various crisis resolution efforts, including sustainable and growth-enhancing structural reforms; underlines the new reinforced EU governance framework adopted recently; considers that, while those reforms cannot suddenly solve the crisis, they should aim at enhancing the credibility of the fiscal adjustment, reducing its negative short-term impact on growth and setting up the framework for better policy-making in the years when growth has returned;
32. Encourages economic dialogue and cooperation between regional parliaments with legislative powers, national parliaments and the European Parliament, particularly in the context of the European Semester, to discuss the economic orientations presented in the Annual Growth Survey and the country-specific recommendations;
33. Instructs its President to forward this resolution to the Council and the Commission, the European Central Bank and the governments and parliaments of the Member States.

RESULT OF FINAL VOTE IN COMMITTEE

Date adopted	6.12.2012
Result of final vote	+ : 34 - : 1 0 : 4
Members present for the final vote	Pilar Ayuso, Burkhard Balz, Elena Băsescu, Sharon Bowles, Leonardo Domenici, Derk Jan Eppink, Ismail Ertug, Diogo Feio, Markus Ferber, Elisa Ferreira, Jean-Paul Gauzès, Sven Giegold, Liem Hoang Ngoc, Gunnar Hökmark, Syed Kamall, Philippe Lamberts, Werner Langen, Astrid Lulling, Hans-Peter Martin, Sławomir Nitrás, Ivari Padar, Alfredo Pallone, Anni Podimata, Antolín Sánchez Presedo, Olle Schmidt, Edward Scicluna, Peter Simon, Ivo Strejček, Kay Swinburne, Marianne Thyssen, Ramon Tremosa i Balcells, Corien Wortmann-Kool
Substitute(s) present for the final vote	Herbert Dorfmann, Robert Goebbels, Sophia in 't Veld, Olle Ludvigsson, Thomas Mann, Claudio Morganti, Nils Torvalds