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on Public Finances in EMU 2006
(2007/2004(INI))

Committee on Economic and Monetary Affairs

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MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on Public Finances in EMU 2006
(2007/2004(INI))

The European Parliament,

– having regard to the Communication from the Commission on Public Finances in EMU 2006 - The first year of the revised Stability and Growth Pact (COM(2006)0304),

– having regard to the conclusions of the Stockholm European Council of 23 and 24 March 2001 calling for regular review of the long-term sustainability of public finances, including the expected strains caused by the demographic changes ahead,

– having regard to the Commission communication on the long-term sustainability of public finances in the EU (COM(2006)0574),

– having regard to Council Regulation (EC) No 1056/2005 of 27 June 2005 on speeding up and clarifying the implementation of the excessive deficit procedure[1],

– having regard to Rule 45 of its Rules of Procedure,

– having regard to the report of the Committee on Economic and Monetary Affairs (A6-0000/2007),

A. whereas Member States are expected to maintain their budget deficits below 3% of GDP in line with the rules underpinning the single currency and whereas that rule has been regularly flouted,

B. whereas the OECD's recent deficit warning calls on the Member States to focus on reforms to consolidate their economic progress by using the economic recovery to cut their budget deficits and by making labour markets more competitive,

C. whereas the average debt ratio for the euro area was 70,6% in 2005, around 69,4% in 2006 and is projected to fall to 68% in 2007; whereas the difference between the lowest and the highest debt ratio was in excess of 100 percentage points of GDP in both 2005 and 2006, and the same spread is expected to be maintained in 2007,

D. whereas the average deficit for the euro area was -2,6% of GDP in 2005, around - 2,0% in 2006 and is projected to fall to - 1.5% in 2007; whereas the spread in the deficit ratio was close to 9 percentage points in 2005 and 2006 and is projected to fall to around 7 percentage points in 2007,

E. whereas the average GDP growth rate for the euro area in 2005 was 1,4%, around 2,6% in 2006 and is projected to be 2,1% in 2007; whereas the spread in the growth rate in 2005 and 2006 was around 5 percentage points and is projected to remain at around 5 percentage points in 2007,

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[1] OJ L 174, 7.7.2005, p. 5.

F. whereas the unemployment rate in the euro area was 8,6% (12 600 000) in 2005 and went down to 8,1% (11 900 000) in 2006; whereas the unemployment rate is projected to fall to 7,7% (11 500 000) in 2007 and whereas the projected fall shows that deficit reduction enhances economic activity and reduces unemployment,

G. whereas age-related expenditure is projected to increase by 4% of GDP by 2050; whereas in a number of Member States, as a consequence, age-related public expenditure will increase by 5% to 13% of GDP, which will put enormous pressure on the sustainability of their public finances, while growth is projected to fall from 2,4% during the period 2004 to 2010 to 1,9% during the period 2011 to 2030 and to only 1,2% during the period 2031 to 2050; whereas declining growth and increased age related expenditure may jeopardise the economic well-being of European citizens and might put disintegration pressure on European Institutions and common policies,

Experiences with the revised Stability and Growth Pact

1. Recalls that the main objective of the Stability and Growth Pact (SGP) is to ensure a budget surplusor at least a balanced budget over the medium term, which is essential in view of the upcoming demographic challenges;

2. Welcomes the fact that Member States have reconciled themselves to the objective of the SGP and that many have made a considerable effort in trying to meet their obligations;

3. Shares the Commission's concerns regarding the implementation of the preventive arm of the SGP, especially with regard to those Member States which have not yet managed to balance their public finances;

4. Fears that the revised SGP, in particular its corrective arm, if enforced in a lenient way, entails a risk of high and persistent public debt, which could pose a serious threat to balanced public finances and employment opportunities;

5. Stresses that the attitude of the Member States towards the revised SGP will ultimately decide the success or failure of the SGP; warns that any further revision is unlikely to be accepted by the public or by economic actors;

6. Is concerned that the different spreads amongst the Member States in the fields of deficit, debt and growth might widen, which could have the effect of undermining the single currency, stifling economic growth and reducing employment prospects; encourages Member States to implement economic policies that narrow the identified spreads and lead to further convergence;

7. Is concerned about the slow pace of public debt reduction in some Member States; opposes never-ending and inconclusive deficit procedures and therefore urges the Commission and the Council to act in a swift and decisive manner;

8. Reminds Member States that increased growth and higher employment should lead to a substantial increase in tax revenue, thus reducing the risk of excessive deficits while allowing for substantial reductions in public debt;

9. Underlines that violations of the SGP could ultimately undermine the common monetary policy and add to the pressure to increase interest rates ; emphasises that an independent European Central Bank is essential to maintaining price stability, thereby creating a framework for economic policies that is conducive to high levels of growth and employment;

10. Sees, therefore, an urgent need for the Member States to adapt their fiscal policies to the requirements of the common Economic and Monetary Policy in order to further increase the welfare of European citizens and that a common budgetary timetable and framework should apply to all Member States;

11. Welcomes the fact that the revised SGP allows for reform programmes to be developed that have realistic deadlines and medium-term budgetary targets;

12. Agrees that tailormade reform programmes adapted to the needs of Member States should allow for better implementation of the preventive arm of the SGP;

13. Regrets that Member States do not sufficiently exploit their positive economic situation in order to implement significant structural reforms that in the longer term would ensure fiscal consolidation, economic growth and higher employment;

Challenges ahead

14. Recognises that the revision seems to have led to a stronger SGP; recalls that the SGP is the main and strongest instrument for the coordination of economic policies in the EU;: stresses that as long as the SGP is implemented consistently and vigorously the economic policies will continue to lead to higher growth and increased employment;

15. Is alarmed by the Commission's projections showing a dramatic increase in age-related expenditure whilst long-term growth prospects show a future decline , which, taken together, will inevitably put enormous pressure on the sustainability of the Member States' public finances;

16. Is concerned that six Member States are considered to be exposed to a high risk to the long-term sustainability of their public finances in as a result of the budgetary impact of an ageing population, while ten Member States are regarded to be facing a medium risk, and only nine Member States a low risk;

17. Urges that t such a major EU budgetary challenge be addressed. Recalls that the reduction of public debt should be accelerated during periods of economic upturn whilst avoiding procyclical measures and implementing structural and tax reforms to improve the economic performance of Member States;

18. Welcomes the fact that projections made by Member States for 2007 and 2008 have incorporated the 0,5% of GDP deficit reduction foreseen by the revised SGP; shares the Commission's concerns that the average annual structural adjustment for 2006 does not reach that target; is convinced that given the good economic prospects there is scope for structural adjustment going far beyond the recommended 0,5% in most Member States;

19. Urges Member States to avoid unsubstantiated budgetary projections and to refrain from one-off measures and creative accounting; advises the Council to ensure that Member States render public debt either unconstitutional or unlawful by 2015, thus drawing on the best practices of certain Member States and regions in the EU;

20. Warns Member States to report statistics that are of a high standard to the Commission in order to ensure that public deficit and debt can be compared; encourages the Commission to check vigorously the quality of statistics reported by Member States; urges the Commission to take every step necessary to ensure that Member States provide high quality, uniform and comparable statistics, incorporating all present and future liabilities (such as pensions and health care); invites the Commission to complete its work rapidly;

21. Agrees with the Commission that independent institutions and specific rules concerning budgetary balance have a very positive influence on Member States' medium-term objectives and on the long-term stability of balanced public finances;

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

EXPLANATORY STATEMENT

The Treaty makes clear that developments in the public finances in the EU Member States should be monitored very closely at the EU level, not least because long term viable public finances are a precondition for sustainable growth, for the creation of jobs and for macroeconomic stability. Moreover, sustainable public finances are crucial for the credibility of the common currency and therefore are a matter of common interest for all EU Member States. The Treaty provisions defining requirements for sound and sustainable public finances have been refined by a number of Council regulations. The key documents in this respect include, *inter alia*, the Stability and Growth Pact (SGP), with subsequent regulations amending the provisions of the SGP, solemn declarations by the Member States to abide by the Pact and Commission reports with assessments and recommendations addressed to individual Member States. The European Parliament evaluates these documents against the backdrop of macroeconomic and budgetary developments in the Member States, and adopts its own annual report on public finances in the EU.

The rapporteur would like to remind that the main objective of the revision of the SGP is to improve Member States' performance to avoiding excessive deficits and so helping to ensure medium to long term sustainable balanced stability of public finances, especially in view of the upcoming demographic challenges.

The rapporteur's findings are similar to the Commission assessment. The revised Stability and Growth Pact is functioning. It has been strengthened and its crucial role in coordination of economics policies and macroeconomic stability has been underlined.

However, the rapporteur is aware that his statement is based only on one year's experience with the revised pact. This was a year of positive economic development which saw a favourable impact on the Member States' fiscal performance. The real "stress-test" of the revised SGP will happen in the years to come - when Council and Commission will have to ensure that Member States actually implement the guidelines agreed in Council. Clearly this will depend to a large extent on the good will of the Member States, and it will be interesting to observe whether or not in the coming years Member States will actually pursue the objectives they have set themselves, including the avoidance of pro-cyclical measures.

In this context the rapporteur stresses that the following measures have to be taken by the Member States:

- Member States should consolidate their budgets in good-times - that is in the period of economic growth. It is a necessity to consequently use the economic upturn, including improved tax revenue, to substantially reduce public debt, to avoid creating excessive deficits and to aim at a budget which is in surplus. This can be done without affecting the service provided by the public sector and will underpin the stability of the Euro while also creating conditions conducive to economic growth and the generation of employment. At present only three of the Euro-Member States show a budget in surplus.

- Structural reforms have to be carried on and to be implemented vigorously. Labour market reforms, further opening of the market for services, energy, telecommunication (including a substantial reduction of the roaming charges) and improved condition for investments in

Research and Development, can release the potential for spurring on growth and should lead to higher demand and as a consequence to higher employment.

- The challenge of the budgetary impact of an ageing population is not sufficiently addressed by any of the Member States despite the fact that it has the most significant impact on the future well-fare of the EU-citizens. The most recent developments confirm that a consequent fiscal policy can foster economic growth and employment. As a consequence Member States have to set as a constitutional or legal requirement to have a budget which is not in deficit. This is fundamental for mastering the future challenge of high age-related expenditures in Europe.

Moreover, the reform of the SGP introduced new concepts, definitions and principles in the preventive arm of the SGP. In order to ensure a consistent application of the rules the methodology for setting the country specific medium-term budgetary objectives was clarified and, in parallel, the Commission has started work on how implicit liabilities could in future be taken into account in their determination. A number of issues related to the definition of the adjustment path towards the medium term budgetary objectives were also clarified, including the conditions for taking into account structural reforms in the preventive arm of the SGP.

The Commission's assessment of the functioning of the preventive arm of the SGP is mixed. On the positive side, differentiated medium-term budgetary objectives (MTO) reflecting country-specific economic fundamentals were set in the context of the 2005 updated Stability and Convergence Programmes. In addition, Member States lived up to their commitment to base their budgetary projections on realistic macroeconomic assumptions, and the recourse to one-off measures has clearly declined. The Commission assessment of the 2005 updated stability and Convergence Programmes also pointed to some deviations from the agreed principles. Notably, the structural fiscal adjustment planned for 2006 by Member States not yet at their MTO falls short of the 0.5 percent benchmark agreed at the moment of the reform. This provides evidence that the benign economic environment is not being exploited to progress towards the MTO. In addition, in some Member States, the projected adjustment is back-loaded and not underpinned by concrete measures. There is the need that Member States still improving their efforts.

Overall the experience with the implementation of the excessive deficit procedure is positive. The increased room for judgement has notably been applied to set realistic deadlines for Member States to correct their excessive deficits, while ensuring that significant fiscal efforts are made. The application of the provisions related to 'other relevant factors' in the steps leading to a decision on the existence of an excessive deficit confirmed that the SGP remains a rules-based framework: since the reform, all deficits in excess of 3 percent of GDP have been considered excessive. Nevertheless, the rapporteur is concerned about the slow pace of public debt decrease in some Member States. He is opposed to never-ending and inconclusive deficit procedures and therefore asks the Commission and the Council to act in a swift and decisive way. Finally, the SGP reform stimulated a constructive and transparent policy dialogue on the individual country cases at EU level, which contributed to a smooth and efficient operation of the SGP.