# Procedure file

## Basic information

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| INI - Own-initiative procedure | 2002/2016(INI) | Procedure completed |
| Annual assessment of the implementation of stability and convergence programmes<br><br>Subject<br>5.10.01 Convergence of economic policies, public deficit, interest rates | | |

## Key players

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| European Parliament | Committee responsible | Rapporteur | Appointed |
| | ECON Economic and Monetary Affairs | | 21/11/2001 |
| | | PPE-DE MARINOS Ioannis | |
| Council of the European Union | Council configuration | Meeting | Date |
| | Economic and Financial Affairs ECOFIN | 2407 | 12/02/2002 |

## Key events

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|---|---|---|---|
| 17/01/2002 | Committee referral announced in Parliament | | |
| 12/02/2002 | Debate in Council | 2407 | |
| 23/04/2002 | Vote in committee | | Summary |
| 23/04/2002 | Committee report tabled for plenary | A5-0145/2002 | |
| 14/05/2002 | Debate in Parliament | | |
| 15/05/2002 | Decision by Parliament | T5-0241/2002 | Summary |
| 15/05/2002 | End of procedure in Parliament | | |
| 31/07/2003 | Final act published in Official Journal | | |

## Technical information

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| Procedure reference | 2002/2016(INI) |
| Procedure type | INI - Own-initiative procedure |
| Procedure subtype | Initiative |
| Legal basis | Rules of Procedure EP P.F. |
| Stage reached in procedure | Procedure completed |
| Committee dossier | ECON/5/15684 |

| Documentation gateway | | | | | |
|---|---|---|---|---|---|
| Document attached to the procedure | | N5-0006/2002<br>OJ C 033 06.02.2002, p. 0006 | 22/01/2002 | CSL | Summary |
| Document attached to the procedure | | N5-0020/2002<br>OJ C 051 26.02.2002, p. 0001-0010 | 12/02/2002 | CSL | Summary |
| Document attached to the procedure | | N5-0018/2002<br>OJ C 064 13.03.2002, p. 0001-0002 | 05/03/2002 | CSL | Summary |
| Committee report tabled for plenary, single reading | | A5-0145/2002 | 23/04/2002 | EP | |
| Text adopted by Parliament, single reading | | T5-0241/2002<br>OJ C 180 31.07.2003, p. 0162-0385 E | 15/05/2002 | EP | Summary |

## Annual assessment of the implementation of stability and convergence programmes

PURPOSE : to present the Council's opinion on the updated stability programme of Luxembourg 2000-2004. CONTENT : the Council notes that the sound management of public finances continues to be the guiding principle of the 2001 update. The budget strategy of the updated programme is based on continued net lending position of general government, a balanced budgetary position of central government and rise in ordinary expenditures lower than the overall budget. In 2000, real GDP growth was particularly strong, at 8.5% driven by dynamic domestic demand and buoyant exports; in 2001, despite the general economic slowdown entailed by external factors, economic growth in Luxembourg remained relatively robust at around 4%. Real GDP growth is projected to accelerate in 2002 and remain strong in the following two years covered by the programme. General governmental surplus reached 6.2% of GDP in 2000, clearly above that projected in the 2000 update, resulting in buoyant tax revenues which more than compensated significant increases in expenditure decelerating activity and the effects of the tax reform are expected to lower the government surplus in 2001. The current expenditures of central government continued to grow rapidly in 2001 and are expected to accelerate to 10.5% in 2002, faster than the total budget expenditure; although the situation of public finance in Luxembourg is extremely sound, the rigidity of current expenditure acknowledged by the update itself might become a factor of risk should growth slow significantly in the medium term. The Council commends the continued orientation of government expenditure towards investment spending aimed at improving the infrastructure, the technological level of activities and human capital. It welcomes the reduction of the tax burden through the implementation of tax reform while maintaining sound budgetary position. Lastly, the Council notes that Luxembourg is in a good position to meet the budgetary consequences of ageing population. However, readiness to adapt policy in case of adverse developing is required. The Council notes the very low level of government debt ratio in Luxembourg, resulting from healthy public finances and budgetary surpluses over a number of years.?

## Annual assessment of the implementation of stability and convergence programmes

PURPOSE : to present the Stability Programme for Germany which covers the period 2001-2005. CONTENT : on the 12 February 2002, the Council examined the updated stability programme for Germany which covers the period 2001-2005. The Council notes that the new update broadly complies with the requirements of the revised "code of conduct on the content and format of stability an converge programmes", although there are some need for improvement, notably regarding the use of rounding. The Council notes that the estimated deficit outcome for 2001 (2.6% of GDP) is clearly higher than projected in the October 2000 update (1.5% of GDP). It acknowledges that this important nominal divergence can be explained by the weakening in growth, with 2001 GDP growth more than two points below the projections of the October 2000 update of the programme. While the federal government implemented the budget as planned, the Council notes that the deficit outcome of other levels of government, including social security, is higher than estimated. The baseline macroeconomic scenario of the updated programme expect annual output growth of 1.25% in 2002; for the period 2003-2005 annual average output growth is estimated to accelerate to some 2.5%; the federal government finances are expected to improve from a deficit of 2.5% of GDP in 2001 to a a balanced position in 2004 and 2005. The Council notes that with the presentation of the annual economic report on 30/01/2002, the German authorities now consider the alternative scenario contained in the programme to be realistic. It is in line with the Commission Autumn Forecast for 2001 and 2002. For the years 2003 to 2005 it assumes an annual growth rate of 2.25% on average. The Council concurs that this lower-growth scenario is plausible. Even this scenario is conditioned on a favourable external and internal environment, notably the expected pick-up of world economic growth, continued wage moderation and enhanced stuctural reform efforts, especially in the labour market. The Council considers that, if growth turns out lower than expected, there is a risk that the general government deficit in 2002 comes even closer to the 3% of GDP reference value than in 2001. Therefore, the Council welcomes the German government's determination to ensure that the 3% of GDP reference value will not be breached. To this end, the government intends to closely monitor budgetary developments at all levels of government in 2002, including the States (Länder) and the social security system; and to implement the budgetary plans for this year carefully in order to avoid any further deterioration in the deficit. In addition, the German government has confirmed its intention to take all appropriate measures to reach a close balance budget position by 2004. It should be noted that the the 2001 update does not contain projections on the long-term sustainability of public finances in line with the revised Code of Conduct. The programme provides detail on the recent pension reform. While these reforms are a step in the right direction, further reforms may be needed in the future. Raising employment rates, especially among women and older workers, will form a key part of any overall strategy to prepare for ageing populations. The key challenge facing Germany is to achieve a position of budget balance and thereafter tosustain it over the very long-run.?

## Annual assessment of the implementation of stability and convergence programmes

PURPOSE : to evaluate the Convergence Programme (non-euro zone) of Denmark for the period 2001-2005. CONTENT : the Council notes with satisfaction that Denmark has continued to fulfil the convergence criteria on inflation, long term interest rate and on the exchange rate. Regarding public finances, it is noted that while the outcome for the government surplus for 2001 was below expectations, mainly due to shortfall in revenue linked to the downturn in the stock market, a comfortable surplus was still achieved. The maintenance of the objective of keeping surpluses between 1.5%-2.5% of GDP over the programme period, during which the general government debt is expected to be reduced to 35% of GDP by 2005, has been welcomed. As a result, Denmark continues to fulfil, comfortably, the requirement of the Stability and Growth Pact of a budgetary position of "close to balance or in surplus" over the entire period covered by the Programme. Denmark is also expected to be able to withstand a normal cyclical downturn without breaching the 3% of GDP deficit reference value. The budgetary consolidation strategy including a declining primary expenditure to GDP ratio and tax burden over the programme period outlined in the previous update of the Programme is upheld. The strategy has been further strengthened by the government's commitment to freeze all taxes and excise duties in order to put a halt to the upward drift in the tax burden. Moreover, expenditure control has had a rather mixed record in recent years as the target of restraining real public consumption growth to 1% has frequently been overstepped. The need for expenditure control, especially in local government and counties is even more important now that the decision to freeze taxes has been taken, if high general government surpluses are to be assured. Therefore, all levels of general government are called upon to make efforts to control expenditure such that the real increase in public consumption fulfils the target of an average annual growth of 1%. The Danish government is invited to strengthen the institutional framework to avoid further slippage in the future. The focus on longer-term sustainability issues in the programme is welcomed. The Council notes with satisfaction that the objective to substantially lower the ratio of gross debt to GDP enhances the sustainability of public finances, thereby rendering the Danish economy in a good position to handle the projected expenditure rises due to the ageing of the population and still continue to be in compliance with the Stability and Growth Pact. It notes that these results are conditional on the continued realisation of the high surpluses. The projections also assume a continued high tax ratio to GDP between 2005 and 2050. The Council notes that such a high tax ratio to GDP may be difficult to achieve in a framework of increased mobility of certain tax bases as a result of the globalisation. Increase in labour force participation rates in Denmark is an important assumption of the projections in the programme. A large part of this increase is likely to come from reforms already undertaken, where the full effect has not yet set in. Further structural reforms are needed on the functioning of the labour market, including reductions in taxes on labour which might help increase the labour supply.?

## Annual assessment of the implementation of stability and convergence programmes

The committee adopted the own-initiative report by Ioannis MARINOS (EPP-ED, GR) on the annual assessment of implementation of stability and convergence programmes. Against a background of low growth of 1.5% and persistent high unemployment at 8.4% in the euro area during 2001, the committee said that there was a need for some regions in the EU to make up lost ground and that poor economic performance should be taken into account when assessing convergence. At the same time, it reaffirmed its commitment to the Stability and Growth Pact but warned, with the cases of Germany and Portugal in mind, that there were dangers of the Pact being undermined if no action was taken against national governments loosening spending controls during election campaigns. The committee also wanted to see public expenditure cuts in high spending states, with tax cuts focusing on reducing labour costs. There was also a need to boost investment and push ahead with reforms of the labour market if the EU was to increase competitiveness. Lastly, the committee felt that pension reform was another priority.?

## Annual assessment of the implementation of stability and convergence programmes

The European Parliament adopted its resolution, drafted by Ioannis MARINOS (EPP-ED, Greece) on the stability and convergence programmes. (Please refer to the document dated 23/04/02.) The growth rate in the EU in 2001 fell to 1.6% (1.5% in the euro area) compared with 3.3% in 2000 (3.3% for the euro area. A limited recovery is expected, but employment forecasts have worsened. 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 exceeding the average in Portugal, Ireland and Greece. The Council did not strictly apply the provisions of the Stability and Growth Pact to Germany and Portugal. This approach has cast doubts on its credibility and might lead to inequalities in its application. There is also a risk that it will be considerably weakened through election campaigns and pledges made by national governments. In the majority of cases the programmes submitted are in accordance with the requirements of the Pact for budgetary positions close to balance or in surplus, or with provision for this to be attained within a reasonable period. The important role played by automatic stabilisers cannot be quantified accurately. Consequently, it is more difficult to make an objective assessment of the structural budget situation of a Member State. There needs to be a clear method for carrying out these assessments, so that fluctuations in the economic cycle can be accurately quantified and taken into account. The attempt to reduce the budget deficit primarily through increasing revenues does not guarantee that results can be maintained. There needs to be measures for greater rationalisation of expenditure. Parliament underlined the risk of an excessive increase of the tax burden. An examination should be made of the ways in which tax cuts decrease the tax burden on labour, and how they contribute to the creation of regular jobs, maintaining a moderate wage policy and harmony between the social partners, and ensuring that these cuts are properly financed without further undermining social and health benefits for the low-income section of the population. Member States should not resort to one-off measures, which artificially reduce the budget deficit and distort the real financial picture. Members emphasised the need for increased public and private investment to achieve Europe's goal of becoming the most dynamic knowledge-based economy. Member States must speed up structural reforms, particularly in the products and capital markets, including the pension sector, as well as transport, energy, communication and labour markets. Parliament welcomed the presidency Conclusions of the Barcelona European Council which underline that structural reforms should take full account of the importance of the quality of, and universal access to, public services with respect to the territorial and social cohesion of the EU.?