Procedure file

Basic information

INI - Own-initiative procedure	2003/2151(INI)	Procedure completed
Public finances in economic and monetary Union EMU in 2003 Subject 5 Economic and monetary system 5.10.01 Convergence of economic policies, public deficit, interest rates		

Key players

European Parliament	Committee responsible	Rapporteur	Appointed
	ECON Economic and Monetary Affairs	UEN BIGLIARDO Roberto Felice	20/11/2002
	Committee for opinion	Rapporteur for opinion	Appointed
	BUDG Budgets	The committee decided not to give an opinion.	
European Commission	Commission DG	Commissioner	
	Economic and Financial Affairs		

Key events

21/05/2003	Non-legislative basic document published	COM(2003)0283	Summary
04/09/2003	Committee referral announced in Parliament		
27/01/2004	Vote in committee		Summary
27/01/2004	Committee report tabled for plenary	A5-0044/2004	
25/02/2004	Debate in Parliament		
26/02/2004	Decision by Parliament	T5-0117/2004	Summary
26/02/2004	End of procedure in Parliament		

Technical information

Procedure reference	2003/2151(INI)
Procedure type	INI - Own-initiative procedure
Procedure subtype	Initiative
Legal basis	Rules of Procedure EP 54

Stage reached in procedure	Procedure completed
Committee dossier	ECON/5/19836

Documentation gateway

Non-legislative basic document		COM(2003)0283	21/05/2003	EC	Summary
Document attached to the procedure		SEC(2003)0571	21/05/2003	EC	
Committee report tabled for plenary, single reading		A5-0044/2004	27/01/2004	EP	
Text adopted by Parliament, single reading		T5-0117/2004 OJ C 098 23.04.2004, p. 0021-0168 E	26/02/2004	EP	Summary

Public finances in economic and monetary Union EMU in 2003

PURPOSE : to present a Commission communication on Public Finances in EMU 2003. CONTENT : 2002 and the early part of 2003 has been a difficult period in terms of actual budgetary developments. The nominal deficit for the euro area increased from 1.6% of GDP in 2001 to 2.2% in 2002 and is forecast to rise to 2.5% of GDP in 2003. By the end of 2002, only six EU countries, including four euro area countries (accounting for under 18% of euro area output), had achieved budget positions in both nominal and cyclically-adjusted terms that respected the 'close to balance or in surplus' requirement of the Stability and growth Pact (SGP): in contrast, two euro area countries accounting for half of the euro area output had nominal deficits above 3% of GDP. The paper cites the deficits in Portugal, France, Germany and Italy. Deficits have also re-emerged in countries that already had reached balanced budget positions, notably Austria (0.6% of GDP in 2002), the Netherlands (1.1%) and also in the UK (1.3%). These three countries are forecast to record an important deterioration of the deficit in 2003. The Commission expresses concern that underlying budgetary trends indicate a discretionary loosening of the fiscal stance by some Member States, brought about by a combination of unfunded tax cuts, discretionary expenditure increases and slippages as regards budgetary execution. The deterioration has been particularly pronounced in Germany (where the CAB increased to 3.2% of GDP in 2002) and France (to 3.3%). In Italy it has improved but remained high (at 2.1%). The latest updates of the stability and convergence programmes contain a commitment to reach the target of 'close to balance or in surplus', but the medium-term targets of Member States are based on growth assumptions, which in light of developments in recent months now appear to be optimistic. For countries where large underlying deficits remain, the date for reaching the 'close to balance or in surplus' objective has been pushed back to 2006 or 2007, and even this deadline will only be met if additional consolidation measures are undertaken. It is vital therefore that all efforts are made to achieve these goals and maintain sound positions over the medium-term. EU budgetary surveillance, for the second time, includes a systematic assessment of the sustainability of public finances on the basis of the updated stability and convergence programmes submitted in late 2002. The analysis shows that there is a risk of unsustainable public finances in some half of EU countries, notably Belgium, Germany, Greece, Spain, France, Italy, Austria, and Portugal. With a fast closing window of opportunity prior to the budgetary impact of ageing populations taking hold, the risk of unsustainable public will finances will increase substantially higher if Member States with large deficits do not achieve and sustain the budgetary consolidation plans outlined in their stability and convergence programmes. In Spain and Greece, a substantial share of the risk of emerging budgetary imbalances is due to a very large projected increase in pension expenditure. In several Member States (notably Germany, France, Austria and Portugal) the risk of emerging budgetary imbalances is a combination of factors including projected increase in public spending on pensions and health care, a slow the pace of debt reduction and relatively low labour force participation rates ofolder workers. High debt countries (Belgium, Greece and Italy) face a particular set of challenges, because they must be able to sustain large primary surpluses over several decades. Several Member States appear to have sustainable public finances including Denmark, Luxembourg, the Netherlands, Finland, Sweden and the UK. They do, however, face budgetary challenges as a result of ageing populations. The framework for budgetary surveillance at EU level is being prepared for the accession of ten countries to the EU in May 2004. The aggregate general government deficit of these ten countries widened but is projected to improve in 2003 and 2004. Despite a significant acceleration in growth, however, the projected reduction in the aggregate deficit of the ten acceding countries is not sufficient to reverse the deterioration recorded in 2002. This suggests that structural, rather than cyclical, factors underlie current budgetary imbalances. Concerning the thirteen candidate countries as a whole, the aggregate budget position is influenced to a large extent by the exceptional advance recorded in 2002 and forecast for the coming years in Turkey. Nine countries plan to reduce their budget deficits by 2005, leading to a fall in the average deficit.?

Public finances in economic and monetary Union EMU in 2003

The committee adopted the own-initiative report drawn up by Roberto BIGLIARDO (UEN, I) in response to the Commission paper on public finances in EMU - 2003. The committee condemned the Ecofin Council's decision to suspend Stability Pact procedures against Germany and France and backed the Commission's move to ask the EU Court of Justice for a ruling to clarify the issue. It urged France and Germany to demonstrate their commitment to the Pact, while at the same time arguing that the Commission should present proposals for a "more intelligent application" of the Pact, including an early-warning mechanism when Member States do not achieve a budget surplus in periods of high growth. MEPs also supported the Commission's view that higher deficits were largely the result of discretionary loosening of fiscal policy by Member States. The accession countries were urged to speed up reform of their public finances and to focus in particular on modernising their pension and social benefits systems, in support of an effective employment policy. The committee also called for those countries to establish effective tax collection systems. Other points dealt with in the report included a call for the Commission to establish a precise definition of the concept of a structural deficit. Moreover, future presidencies of the EU were urged to pursue further initiatives for growth in Europe by working towards a genuine internal growth strategy for the European economy. In a close vote, the committee said that, to boost productivity and investment, EU public expenditure should rise above the current limit of 0.8% GDP. Lastly, the committee called for regions which have been beneficiaries of the Structural Funds to continue to be eligible following enlargement, on the basis of new parameters. ?

Public finances in economic and monetary Union EMU in 2003

The European Parliament adopted a resolution drafted by Roberto BIGLIARDO (UEN, I) on Commission's paper on public finances in EMU - 2003. (Please see the summary of 27/01/04.) Parliament noted that the French Government has taken a first step in implementing structural reforms (pensions reform, the implementation of social security reform), which should be highly beneficial to public finances in the long term but will not reduce the budget deficit in the immediate future. It emphasized the importance of introducing structural reform packages which in the medium and long term will prove crucial for financial sustainability, for the competitiveness of the European economy and for growth. Parliament urged the accession countries to reduce their deficit levels significantly to below 3% of GDP to ensure fiscal and price stability in an enlarged EU. Reform of their public finances should be effected by reallocating resources as a further move towards ensuring the genuine convergence of accession countries' economies by focusing on the modernisation of their pensions and social benefits systems in support of an effective employment policy. Parliament also emphasised that the best way for Europe to cope with the challenges of an innovation-based global economy is by investing in human resources through secondary and life-long learning. There must be more ambitious investment activities to increase the employment rate, improve education and life-long learning and help develop clean and environmentally-friendly technologies. It felt that, in the interests of boosting public and private investment, it is most important to exceed the current pan-European public spending limit of 0.8 % of GDP. There is room for manoeuvre in spending between 1% and 1.27% of GDP 2004-2006 in line with the present financial perspective 2000-2006 and the Lisbon objectives as well as with the promotion of private investment activities. Furthermore, public expenditure should be redirected in such a way as to ensure that the various budget headings at European and national level reflect the major political priorities set for 2010. Parliament indicated that a mid-term evaluation of the European Action for Growth initiative should be submitted to both the European Council and the European Parliament by 2006 so that the necessary conclusions can be drawn concerning the new Financial Perspective 2007-2011 and the new funding period of the EU Structural Funds. The European Parliament should be fully involved in the mid-term evaluation of the Action for Growth initiative. Parliament called on the European Investment Bank to report to the European Parliament on its preparatory work as soon as possible. It requested that regions which have to date been beneficiaries of the structural funds continue to be eligible following enlargement, on the basis of new parameters.?