

Procedure file

Basic information		
INI - Own-initiative procedure	2004/2268(INI)	Procedure completed
Public finances in economic and monetary Union EMU in 2004		
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		13/12/2004
		PPE-DE KARAS Othmar	
	Committee for opinion	Rapporteur for opinion	Appointed
	BUDG Budgets	The committee decided not to give an opinion.	

Key events			
24/06/2004	Non-legislative basic document published	COM(2004)0425	Summary
13/01/2005	Committee referral announced in Parliament		
02/02/2005	Vote in committee		Summary
07/02/2005	Committee report tabled for plenary	A6-0025/2005	
22/02/2005	Results of vote in Parliament		
22/02/2005	Decision by Parliament	T6-0035/2005	Summary
22/02/2005	End of procedure in Parliament		

Technical information	
Procedure reference	2004/2268(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/6/25471

Documentation gateway					
Non-legislative basic document		COM(2004)0425	24/06/2004	EC	Summary
Committee report tabled for plenary, single reading		A6-0025/2005	07/02/2005	EP	
Text adopted by Parliament, single reading		T6-0035/2005 OJ C 304 01.12.2005, p. 0021-0132 E	22/02/2005	EP	Summary
Commission response to text adopted in plenary		SP(2005)1076/2	31/03/2005	EC	

Public finances in economic and monetary Union EMU in 2004

In this Communication on the state of public finances in EMU, the European Commission calls for growth-enhancing, sustainable budgets as a means to raise the growth potential in line with the Lisbon strategy. The Commission remarks that challenging developments have taken place in the last years, involving unwelcome tensions in the application of the EU framework for budgetary surveillance. While there is a need to reassess the functioning of the framework, the conduct of fiscal policies in Europe should benefit from past experience. Budgetary consolidations and re-orientation towards non-distorting, growth enhancing revenue and expenditure policies should be continued as economic conditions improve. The Communication summarizes and draws the political implications from the fifth Report on Public Finances in EMU prepared by the Directorate General for Economic and Financial Affairs.

The need for further and more decisive progress in the EU framework for economic governance has become apparent as a consequence of the difficulties in maintaining budgetary discipline. The persistently low growth resulting largely from the slow progress in the Lisbon strategy implementation demonstrates the need to strengthen governance on non-budgetary issues.

The Commission believes that the EU framework should be strengthened in order to: 1) better combine discipline with economic growth considerations; 2) focus more on the sustainability of the member states' public finances; and 3) improve implementation. The ideas to move forward include the rebalancing the role of the Broad Economic Policy Guidelines (BEPGs) with respect to the Stability and Growth Pact (SGP), bringing the budgetary policy coordination calendar more into line with our general coordination cycle and ensuring the implementation of the BEPGs through early warnings.

Regarding the strengthening of the SGP implementation called for by the European Council of 18 June 2004, experience to date shows that the way forward could be built around the following pillars: (i) more focus on debt and sustainability, (ii) more incentives for fiscal consolidation during periods of economic growth, (iii) taking into account country-specific circumstances when defining the medium term budgetary objectives, (iv) taking more into account economic developments when formulating recommendations for the correction of excessive deficit situations.

The Report on Public Finances includes a review of the consistency of the objective of fiscal discipline pursued with the objective of growth and how synergies can be improved by making the EU framework for budgetary surveillance and economic governance more effective.

By considering these issues, the Commission aims to lead the way on how to improve economic governance. In this respect, the Communication and the Report, while neither conclusive nor exhaustive, pave the way for the definition of more specific orientations for rejuvenating the framework and strengthening economic governance due to be tabled the Commission.

Public finances in economic and monetary Union EMU in 2004

The committee adopted the own-initiative report drawn up by Othmar KARAS (EPP-ED, AT) on public finances in EMU - 2004. The report pointed out that higher deficits were "largely the result of a discretionary loosening of budgetary policy by some Member States." It noted that some governments had not taken sufficient measures to combat their deficits, and said that there were "sufficient grounds for concern regarding their prospects for bringing their deficits below 3% of GDP in the immediate future." It underlined that there should be no exception to the rules and procedures of the Stability Pact.

MEPs urged Member States to reduce their deficits to significantly less than 3% of GDP to allow for sufficient financial reserves to be built up to face up to difficult times without breaking the Pact's rules. They also recommended a greater emphasis in the Pact on economic developments and an increased focus on safeguarding the sustainability of public finances. They warned that excessive deficits put price stability, low interest rates and government investment levels at risk, and also reduced the capacity to face the challenge of demographic changes and ageing populations in the EU.

Lastly, the committee highlighted the need to improve budgetary statistics with more accurate and standardised definitions, and greater powers for Eurostat to coordinate, monitor and carry out on-the-spot control of the figures provided by Member States.

Public finances in economic and monetary Union EMU in 2004

The European Parliament adopted the own-initiative report drawn up by Othmar KARAS (EPP-ED, AT) on public finances in EMU - 2004. (Please refer to the summary dated 02/02/2005).

In addition the amendments adopted by the committee responsible, Parliament underlines the fact that there is no exception to the rules and procedures of the Stability and Growth Pact but calls on all EU institutions to accept their responsibility in the implementation and control of, and compliance with, the Stability and Growth Pact. Member States are called upon to receive equal treatment and to achieve that, the

Commission's role, particularly in launching the excessive deficit procedure, should be enhanced. Member States should successfully conclude the examination of the Stability and Growth Pact during the Luxembourg Presidency.

New Member States are urged to speed up reform of their public finances by re-allocating resources as a further move towards ensuring genuine convergence of their economies and to focus in particular on the modernisation of their pension and social benefits systems in support of an effective employment policy. Parliament stresses the need for continuous improvements in fiscal administration and the establishment of an effective tax collection system, in order to create favourable conditions for the activities of enterprises throughout the single market, promote a culture of entrepreneurship and encourage company start-ups.

Lastly, Parliament reiterates its call for a clear method, which includes a definition of 'high-quality public expenditure', of quantifying public budgetary positions and their contribution to growth and investment, with a view to making a positive contribution to the Lisbon goals. Furthermore, it calls for public expenditure to 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.