Procedure file

Basic information

INI - Own-initiative procedure 2005/2166(INI)	Procedure completed
Public finances in the Economic and Monetary Union EMU Subject 5.10 Economic union	

Key players

European Parliament	Committee responsible	Rapporteur	Appointed
	ECON Economic and Monetary Affairs		04/07/2005
		PSE ROSATI Dariusz	
	Committee for opinion	Rapporteur for opinion	Appointed
	BUDG Budgets	The committee decided not to give an opinion.	
Council of the European Union	Council configuration	Meeting	Date
	Economic and Financial Affairs ECOFIN	2741	11/07/2006
	Economic and Financial Affairs ECOFIN	2704	24/01/2006
European Commission	Commission DG	Commissioner	
	Economic and Financial Affairs		

Key events

01/06/2005	Non-legislative basic document published	COM(2005)0231	Summary
29/09/2005	Committee referral announced in Parliament		
24/01/2006	Resolution/conclusions adopted by Council		Summary
25/04/2006	Vote in committee		Summary
04/05/2006	Committee report tabled for plenary	A6-0162/2006	
16/05/2006	Debate in Parliament		
17/05/2006	Results of vote in Parliament		
17/05/2006	Decision by Parliament	T6-0214/2006	Summary
17/05/2006	End of procedure in Parliament		
11/07/2006	Resolution/conclusions adopted by Council		Summary

Technical information

Procedure reference	2005/2166(INI)
Procedure type	INI - Own-initiative procedure
Procedure subtype	Annual report
Legal basis	Rules of Procedure EP 54
Stage reached in procedure	Procedure completed
Committee dossier	ECON/6/29597

Documentation gateway

Non-legislative basic document		COM(2005)0231	01/06/2005	EC	Summary
Committee draft report		PE370.227	16/03/2006	EP	
Amendments tabled in committee		PE372.091	06/04/2006	EP	
Committee report tabled for plenary, single reading		A6-0162/2006	04/05/2006	EP	
Text adopted by Parliament, single reading		T6-0214/2006	17/05/2006	EP	Summary
Commission response to text adopted in plenary		SP(2006)2902	22/06/2006	EC	

Public finances in the Economic and Monetary Union EMU

PURPOSE : Communication on Public finances in EMU 2005.

CONTENT : This Communication draws the main policy messages from the Public Finances in EMU-

2005 report prepared by the Commission services. The report is published yearly since 2000.

It presents an overview of recent budgetary developments in the EU, tracks the evolution in EU fiscal surveillance, and carries out analysis on fiscal policy issues of relevance for the EU wide policy debate. The following are the main points in the report:

-Large budgetary imbalances persist in some countries. After deteriorating for three consecutive years, reflecting to a large extent the economic slowdown, the euro-area general government deficit improved marginally in 2004 (from 2.8% of GDP in 2003 to 2.7% in 2004). The deficit of the EU-25 aggregate also fell (from 2.9 to 2.6% of GDP), largely as a consequence of the considerable improvement of deficits in a number of recently acceded Member States. Aggregate deficit figures mask noteworthy differences between countries. In 2004, six EU countries, including three euro-area countries, exhibited budget positions in balance or in surplus. In contrast, in four euro-area Member States (Greece, Germany, France, Italy) and seven non-euro-area countries (Czech Republic, Cyprus, Hungary, Malta, Poland, Slovakia and the UK) deficits were above the 3% of GDP reference value. While the deficit is projected to be reduced in 2005 or 2006 in a number of countries that are currently subject to the excessive deficit procedure (Germany, France, Cyprus, Malta), Italy and Portugal are expected to have deficits above the 3 % of GDP ceiling in 2005 on the basis of their current policies.

-Further action under the excessive deficit procedure: Since the summer of 2004, ten EU countries have been subject to the excessive deficit procedure (EDP). In December 2004, the Commission and the Council clarified their position regarding the EDP for Germany and France, following the Court of Justice ruling of July. Since both countries had taken measures which could plausibly result in the excessive deficit being corrected in 2005, it was decided that at that stage no further action under the

EDP was necessary. For the first time, on February 2005, the Council decided to issue a notice under Article 104(9), the last step before sanctions. This notice was addressed to Greece and contained a deadline for correcting the excessive deficit postponed by one year, i.e. until 2006, as a result of substantial revisions in deficit figures. At the occasion of the fiscal notifications of September 2004 and March 2005, the fiscal data of Greece underwent a revision of unprecedented large magnitude: deficit ratios dating back to 1997 were revised upward and the 2003 and 2004 deficits jumped, respectively, to 5.2% and 6.1% of GDP. The exceptionally large revision in the Greek government accounts came at a time when increasing emphasis was being put on improving statistical governance in the budgetary field. The Communication describes the steps taken.

-The 2005 Stability and Growth Pact reform: On 20 March 2005, the Council adopted the report

?Improving the implementation of the Stability and Growth Pact? with a view to improving the EU fiscal framework. The report updates and complements the existing legal framework of the SGP. The

report entails changes to both the preventive and corrective arms of the Pact and contains recommendations for improving fiscal and statistical governance at both the EU and the national level.

The preventive arm of the Pacthas been strengthened by ensuring that due attention is given to the fundamentals of fiscal sustainability when setting medium-term budgetary objectives. The main modifications to the corrective arm of the Pactconcern the definition of ?excessive deficits? and the modalities for their correction. In particular, the new rules allow the one-year deadline for the correction of an excessive deficit to be extended by an additional year (on economic grounds) and certain steps in the EDP to be repeated (if unexpected adverse economic events occur and provided that effective action has been taken by the Member State concerned in full compliance with recommendations). The Communication goes on to detail the new agreement, discussing the ?relevant factors? that the Commission and the Council can take into account when taking decisions on the EDP.

Overall, the way ahead with the implementation of SGP will be characterized by more room for economic judgement in the fiscal surveillance procedure and in the assessment of individual country cases.

-Developments in EU budgetary surveillance: The Public Finances in EMU report regularly provides analytical work aimed at improving the understanding of public finance issues in the EU and upgrading budgetary surveillance. This year the report presents, among other topics, analysis on the discrepancy between budgetary plans presented in stability and convergence programmes and results, on the determinants of debt dynamics, and on the long-term sustainability of public finances.

The Public Finance in EMU-2005 report indicates that without a medium-term budgetary consolidation a sustainable position will not be reached for most Member States. Sustainability risks are identified in ten Member States (Belgium, Czech Republic, Germany, Greece, France, Italy, Cyprus, Hungary, Malta and Slovenia).

-Structural reforms and budgetary objectives: The analysis contained in the Public Finances in EMU report considers labour and product market and pension reforms and focuses on two issues. First, which impact do reforms have on budgets in the short term? Second, is there evidence that fiscal consolidations prevent reforms? The analysis provides interesting results. The expectation that reforms are less frequent in years where a budgetary consolidation takes place does not seem to be strongly supported by the data. However, in the aftermath of reforms there is in general a slight deterioration in budget balances.

-Fiscal challenges during convergence in the recently acceded Member States: The report states that in the short run some of the new Member States may need to make choices: higher spending on infrastructure, training or R&D can make it harder to contain budget deficits, and tax and pension reforms introducing funded pillars recorded outside the government sector may also involve up-front budgetary costs. Part IV of the Public Finance in EMU ? 2005 report discusses the main challenges for the conduct of fiscal policy the new Member States may face in the coming years. While acknowledging the differences among them, there is some scope for policy-makers in the new Member States to achieve synergies in pursuing growth and stability objectives. First, there is room to restructure existing expenditure programmes and enhance tax bases in ways that both strengthen their public finances and improve the incentives for growth, possibly already in the short term. Second, fiscal institutions could be improved upon, including through enhanced transparency of budgetary procedures and effective frameworks for multiannual budgetary planning and expenditure control. Third, well-conceived supervisory policies would improve risk management in the private sector, thereby containing government contingent liabilities, and well-designed monetary policies would steer market expectations towards stability.

Public finances in the Economic and Monetary Union EMU

The Council held an exchange of views on the quality of public finances, on the basis of a report

from the economic policy committee, and adopted the following conclusions:

-Improving the quality of public finances can contribute to increasing growth and employment in line with the Lisbon strategy, as also recognised by the reformed Stability and Growth Pact. The Council (ECOFIN) welcomes the Report prepared by the Economic Policy Committee on challenges and progress made in improving the quality of public expenditure. While underlining that the composition of public finances, budgetary laws, fiscal frameworks and institutions are issues of national responsibility, the Council acknowledges the increasing importance of the quality of public finances in national and EU economic policy making.

- The Council emphasises the role played by national fiscal rules and institutions on final budgetary outcomes as a key element for improving the composition of public finances. Member States that have maintained fiscal discipline have been able to put a stronger focus on efficient resource allocation. National expenditure rules and performance budgeting schemes within a medium-term framework appear to help Member States direct spending towards their priorities. The analysis of these issues along with an exchange of best practices among EU Member States can contribute to the improvement of fiscal governance. The Council therefore invites the Commission in joint cooperation with the EPC to conduct a comprehensive analysis of the fiscal rules and institutions in the EU.

- The Council also underlines that some spending trends call for increased attention in order to avoid the squeezing out of growth-enhancing expenditure items or the resurgence of unsustainable fiscal deficits. It invites Eurostat and the National Statistical Offices, in cooperation with the EPC, to step up efforts on data availability in order to facilitate the analysis of trends in public expenditure composition. This will help the implementation of both the Lisbon strategy and the guidelines on the format and content of Stability and Convergence Programmes.

- The Council stresses the importance of further improving efficiency and effectiveness of public spending in order to enhance the quality of public finances. It invites the EPC to further develop the measurement of public expenditure efficiency, by assisting Member States in improving the information content of budgets, and the exchange of best practices in the evaluation of public spending.

- The Council agrees to come back to these issues in the autumn of 2006.

Public finances in the Economic and Monetary Union EMU

The committee adopted the own-initiative report drawn up by Dariusz ROSATI (PES, PL) in response to the Commission communication on public finances in Economic and Monetary Union (EMU).

MEPs expressed their concern about the persistently slow growth in Europe since 2002, substantially below long-term potential, constrained by structural rigidities, weak internal demand, and a lack of proper balance in the macroeconomic policy mix. They warned of the risks of rapid adjustments to global imbalances which might lead to a drop in US demand, with lower exports and weakening growth in the EU.

The report said that stable, outward-looking and competitive macro-economic policy-setting was a necessary precondition for sustainable public finances. It called for the reorientation of public expenditure towards physical and human capital accumulation and public-private partnerships for innovation and education.

The committee also said that the incorrect application of the Stability and Growth Pact meant that there had been no significant improvement in the Member States? fiscal positions since last year. It stressed that it was vital to correct public deficits, which were impeding economic recovery and making the cycle more acute. MEPs called for a reduction in public deficits in 2006 "which is much more ambitious than a mere economic adjustment made in anticipation of higher European growth".

They warned that the lack of political will to contain spending, over-optimistic revenue projections, creative accounting and fiscal consolidation based mainly on one-off measures had largely contributed to budgetary slippage. Calling for improved statistical governance, they also wanted greater transparency regarding implicit liabilities such as public sector pension commitments.

The committee deplored the lack of policy coordination in the euro zone, notably the divergence of fiscal policies, and was concerned at the possible antagonistic effects of the lack of coordination. It called on the Eurogroup chairman to propose a detailed plan for the duration of his term in office, with regular reports on the level of implementation achieved. Finally, MEPs called on the Member States to meet their obligations under Article 99 of the Treaty to regard their economic policies as a matter of common concern and to coordinate these policies.

Public finances in the Economic and Monetary Union EMU

The European Parliament adopted a resolution based on the own-initiative report drafted by Dariusz ROSATI (PES, PL) in response to the Commission communication on public finances in Economic and Monetary Union (EMU). It expressed its concern about:

- the persistently slow growth in Europe since 2002, accelerating, in the euro zone, only gradually from 0.6% in 2003 to 1.3% in 2005, in contrast with the US growth rate of 3.5% in 2005 and the rebound of Japan's economy driven by private final domestic demand;

- the persistently high unemployment of 9% in EU-25 and 8.1% in EU-15;

- the output gap, currently at -1% of GDP, demonstrating that EU economic growth remains substantially below long-term potential, constrained by structural rigidities, weak internal demand, and a lack of proper balance in the macroeconomic policy mix.

The potential for growth remains excessively low, at about 2%, which is much lower than that registered elsewhere in the world.

Parliament stressed the risk of rapid adjustments to global imbalances, which could lead to a decrease in demand in the US thus resulting in lower exports and weaker growth in the EU, and noted the adverse implications of oil-price volatility and increases on internal demand and growth in the EU and the threat of its secondary effects. It was concerned about weak private consumption, especially in certain Member States, which had contributed to low growth rates in the EU. It supported the reorientation of public policies and expenditure towards innovation, renewable energies, education and training, research, information technologies, telecommunication, and transportation networks etc. The EU Financial Framework for 2007-2013 did not, however, reflect sufficiently the priority given to the expenditures in the objectives of the Lisbon Strategy.

Parliament noted that owing to the incorrect application of the Stability and Growth Pact in spite of the fiscal framework, no significant improvement regarding the Member States' fiscal positions had been achieved since last year. Eleven Member States had deficits exceeding 3% of their GDP, among which are the four largest EU economies, namely, France, Germany, Italy, and the UK. Since summer 2004, ten Member States had been subject to the excessive deficit procedure.

In the context of an EU with low consumer and investor confidence, it was vital to correct public deficits. Parliament was disappointed by the recent trends in public finances, noting that the Member States' deficits remained much higher than required by the European economy. Governments were using the low growth argument to justify the deficits, despite the fact that the deficits are impeding economic recovery and making the cycle more acute. Parliament called for a more ambitious reduction in public deficits in 2006 than a mere economic adjustment made in anticipation of higher European growth.

It recalled its demand to avoid pro-cyclical policies, and stressed the importance of undertaking structural and tax reforms and simultaneously underlined that due attention should be paid to their proper timing. Parliament stated that the lack of political will to contain public spending, overoptimistic revenue projections, creative accounting, and fiscal consolidation based mainly on one-off measures, had largely contributed to budgetary slippage and the weakness of the fiscal framework.

Parliament underlined the importance of the efforts of the Commission and the Council to improve statistical governance improving the reporting of fiscal data and recommended that the Commission prepare a study on best practices concerning the statistical governance of fiscal data reporting and the accounting of public assets and liabilities in Member States. It also considered that there was room for improvement in the accounting of public assets and implicit liabilities in order to increase transparency and comparability and to provide a sounder basis for taking decisions.

Parliament deplored the lack of policy coordination in the euro zone and drew attention to the divergence in fiscal policies of the Member States in the euro zone. It reminded the Member States that better coordinated policies and a better policy mix could improve the aggregate result of their policies. There should be more awareness of the impact of national economic policy at the EU level and an obligation to consider economic policy of common interest and to coordinate such policy.

Public finances in the Economic and Monetary Union EMU

One year after the reform of the Stability and Growth Pact (SGP), the Council discussed the implementation of the revised SGP. In addition, Ministers exchanged views on the execution of the 2006 budgets and preparations of budgetary plans for 2007.

Based on these discussions, the Ministers reached the following conclusions:

- Experience for the first year of the revised SGP has been positive. While remaining a rules-based system, the reformed SGP has stimulated a constructive and transparent economic policy dialogue at the EU level on individual country cases. This has allowed the

Council to reach unanimous agreement on all recommendations put forward by the Commission under the revised rules of the Pact.

- The budgetary position, in structural terms, has improved in 2005 by 0,8% of GDP ? both in the EU and in the euro area. Medium-term budgetary objectives (MTO) have been differentiated for individual Member States in line with the agreed principles. In some cases, MTOs go beyond what is required by the SGP. Nevertheless, there are some Member States who must pursue and step up efforts to reach their medium-term budgetary objectives. In many cases the adjustment needs to be more frontloaded and underpinned by concrete measures.

- The economic situation for 2006 is improving. The Council wishes to take advantage of this to pursue and step up fiscal consolidation. The long-term fiscal sustainability challenges stemming from ageing populations should be at the heart of policy making. The Member States should, therefore, implement their 2006 budgets with vigour. Indeed, when preparing their 2007 budgets, they should maintain or speed up the pace of deficit and debt reduction and try to avoid pro-cyclical fiscal polices. Member States in excessive deficit are committed to putting an end to the excessive deficit in full compliance with Council recommendations.

- Lastly, those Member States of the euro area and within the ERM II, that are yet to reach their MTOs, have reaffirmed their commitment to achieve, as a benchmark, an annual structural adjustment of 0,5% GDP net of one-off measures.