Procedure file

Basic information

INI - Own-initiative procedure	2008/2244(INI)	Procedure completed
Public finances in EMU 2007 and 2008 Subject 5.10.01 Convergence of economic policies, public deficit, interest rates 5.20.01 Coordination of monetary policies, European Monetary Institute (EMI), Economic and Monetary Union (EMU)		

Key players

European Parliament	Committee responsible	Rapporteur	Appointed
	ECON Economic and Monetary Affairs		10/07/2007
		PSE GOTTARDI Donata	
	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	ALMUNIA Joaquín	

Key events

24/06/2008	Non-legislative basic document published	COM(2008)0387	Summary
23/09/2008	Committee referral announced in Parliament		
11/12/2008	Vote in committee		Summary
16/12/2008	Committee report tabled for plenary	A6-0507/2008	
12/01/2009	Debate in Parliament		
13/01/2009	Results of vote in Parliament		
13/01/2009	Decision by Parliament	T6-0013/2009	Summary
13/01/2009	End of procedure in Parliament		

Technical information

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Procedure type	INI - Own-initiative procedure
Procedure subtype	Annual report
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Stage reached in procedure	Procedure completed
Committee dossier	ECON/6/64295

Documentation gateway

Document attached to the procedure		COM(2007)0316	13/06/2007	EC	Summary
Document attached to the procedure		SEC(2007)0776	13/06/2007	EC	
Non-legislative basic document		COM(2008)0387	24/06/2008	EC	Summary
Document attached to the procedure		SEC(2008)2092	24/06/2008	EC	
Committee draft report		PE412.281	18/09/2008	EP	
Amendments tabled in committee		PE415.195	06/11/2008	EP	
Committee report tabled for plenary, single reading		A6-0507/2008	16/12/2008	EP	
Text adopted by Parliament, single reading		T6-0013/2009	13/01/2009	EP	Summary
Commission response to text adopted in plenary		SP(2009)693	11/02/2009	EC	

Public finances in EMU 2007 and 2008

This Communication reviews the recent budgetary developments and functioning of the EU fiscal framework. It underlines the smooth implementation of excessive deficit procedures in the recent period but also notes some deviations from the policy rules of the preventive arm of the pact. Now that most EU countries have just corrected or are about to correct their excessive deficit, the challenge is to use the opportunity offered by the current favourable cyclical conditions to move swiftly towards the medium term objectives. The provisions of the revised SGP therefore need to be applied effectively and some aspects of the 2005 SGP reform need to be further developed.

This Communication formulates concrete proposals to this end, on the basis of best practice in the EU countries. These proposals are fully in line with the spirit of the political agreement of the 2005 SGP reform, and can all be applied under the current legislation.

They are articulated around four main themes:

1) Putting fiscal policy issues in a broader economic perspective

- Proposal 1:to ensure the rapid achievement of sustainable budgetary positions while enhancing the contribution of budgetary policies to growth and employment, emphasis on the quality and efficiency of government finances could be strengthened in the stability convergence programmes (SCPs) as well as in the Commission?s assessments thereof;
- Proposal 2:Member States and the Commission could take greater account of the overall macroeconomic situation of the country concerned in the assessment of national fiscal policies. Particular attention could be devoted to developments in external imbalances, inflation and competitiveness.

2) Enhancing the national ownership of the medium-term budgetary targets set in the Stability and Convergence Programmes

- Proposal 3:Member States would benefit in their capacity to adhere to their medium-term budgetary plans from ensuring a stronger commitment of all national actors taking part in the conduct of fiscal policy to conduct policies consistent with the medium-term budgetary targets set in SCPs;
- Proposal 4:with a view to strengthening the national ownership of the medium-term budgetary targets formulated in the SCPs and the consistency between SCPs and subsequent annual budgets, Member States could consider supplementing their domestic budgetary frameworks with national multiannual fiscal rules consistent with the SCPs targets.

3) Strengthening the reliability and credibility of the medium-term budgetary plans included in the SCPs

- Proposal 5:to enhance the reliability and credibility of their medium-term budgetary targets, Member States could make clearer in their SCPs whether the medium-term budgetary targets are attainable under unchanged policies, or whether they will require the implementation of additional policy measures.

4) Moving towards sustainable fiscal positions in the medium term

- Proposal 6:as agreed in the context of the SGP reform, the Commission and the Member States will step up efforts to further develop the links between medium-term fiscal policies and long-term budgetary dynamics. Country-specific medium-term budgetary objectives (MTOs) will better take into account sustainability challenges of government finances;
- Proposal 7:when assessing SCPs, the Commission will strengthen its analysis of the track record in respecting the budgetary targets of the previous SCPs, focusing on developments in government expenditure.

These proposals will be discussed with Member States in the coming months. Recent country experience and empirical work have shown that implementing these proposals would effectively support Member States' efforts to converge towards sustainable fiscal positions whilst also delivering more growth and jobs.

Public finances in EMU 2007 and 2008

PURPOSE: to improve the role of quality of public finances in the EU governance framework.

CONTENT: this Communication builds on the 2005 SGP reform to suggest avenues for strengthening the focus on the quality of public finances in the surveillance of national budgetary policies. They concern the way governments formulate, implement, and assess their budgetary strategies over the medium term, and how the preventive arm of the SGP can be more effective in supporting the achievement of sustainable budgetary policies while contributing to higher growth and employment, and to a better functioning of EMU.

On the back of favourable economic conditions as well as consolidation and reform efforts, public finances have improved significantly in the EU and the euro area. Although differences remain large across countries, in 2007 the government deficit in the euro area and in the EU as a whole reached the lowest level since the early 1970s, respectively 0.6% and 0.9% of GDP. Reflecting the improvement of fiscal balances, the level of outstanding debt stayed on a clear downward path. In the EU as a whole it has already fallen to below 60% of GDP, while in the euro area it is approaching this reference value.

On the whole, the experience accumulated after the 2005 reform of the Pact is, on balance, positive. The dissuasive arm of the stability and growth pact, which deals with the correction of excessive deficits, has clearly delivered in spite of the concerns voiced by some that the 2005 reform of the Pact would lead to a relaxation of the rules. Violations of the 3% of GDP deficit threshold continued to result in countries being subject to the excessive deficit procedure. The implementation of the preventive arm of the stability and growth pact, which requires Member States to adjust their budgets until sustainable fiscal positions are achieved, has also improved.

Despite this progress, EU Member States are still facing a number of major challenges that leave little room for complacency on fiscal policies:

- potential GDP growth is still constrained in many Member States, reflecting an inefficient use of resources, including by the public sector;
- the current economic juncture with strong inflationary pressures is reducing the room for manoeuvre in the conduct of policies;
- the ongoing process of demographic ageing will weigh on the sustainability of public finances unless the consolidation process is continued and accompanied by structural reforms that reduce its budgetary cost;
- increasing exposure to global competition puts pressure on EU governments to lower the, on average, relatively high tax, administrative and regulatory burden in Europe and to improve provision of public services and goods, so as to deliver much-requested better value for money.

Considering the need for ensuring sustainability of public finances, fostering long-term economic growth and the smooth functioning of EMU, four areas for action can be identified to improve the focus on the quality of public finances in the EU fiscal surveillance framework and thereby also create a stronger link with the Strategy for Growth and Jobs. These draw on the broad principles laid out in the ?EMU@10? Communication of May 2008.

1) Gauging the quality of public finances (more systematic reporting by Member States and building up a set of indicators): gauging the quality of public finance will benefit from:

- a more systematic and comprehensive reporting, in the context of the SCPs, on issues related to the quality of public finances and provision of regular information about structural reforms, with special reference to restructuring of public spending and tax reforms;
- the build-up of an inventory of indicators, in the context of the joint work programme of the Commission and the Economic Policy Committee, covering the different dimensions of quality of public finances across Member States and the development of a systematic approach aimed at assessing the efficiency of specific categories of public spending and gaining a better understanding of the determinants of efficiency.

2) Greater attention to efficiency and effectiveness of public spending: one promising way to enhance the efficiency and effectiveness of spending is to set up or improve institutional mechanisms aimed at establishing a stronger link between policy priorities and the allocation of resources and between resources and outcomes. Conducting budget reviews on a regular basis, including efficiency analysis, is instrumental for expenditure prioritisation. More generally, it is important that Member States move from purely input-based procedures towards procedures that take into account performance information.

3) More efficient government revenue systems: tax reforms should continue to be designed so as to foster growth and minimise distortions, while playing also their role in addressing distributional concerns. This could be achieved through simple rules and broad tax bases, avoiding loopholes, inefficient tax expenditures, special tax regimes and unnecessary exemptions.

Easing the high tax burden on labour by shifting to other tax bases, including consumption, can be an element in this strategy, but it is a limited instrument for governments to react to short-run country-specific shocks or to achieve long-run improvement of the structural conditions for increasing employment and growth in Europe.

A comprehensive strategy to revitalise European economies, including by modernising the social models, needs to rely on a comprehensive approach, using a wide set of policy instruments and a resolute implementation of structural reforms as indicated by the Strategy for Growth and Jobs.

4) Regular review of the quality of public finances: the review would draw on the information provided in the SCPs and the inventory of quality of public finances indicators. Country-specific analyses could be further included in the review, in particular on selected thematic issues. Building on a tested method of collaboration, the review could be conducted jointly by the Economic Policy Committee and the Commission.

Public finances in EMU 2007 and 2008

The Committee on Economic and Monetary Affairs adopted an own initiative report by Donata GOTTARDI (PES, IT) on public finances in the EMU 2007-2008.

The report tackles the following main aspects:

Changes in economic trends during 2007 to 2008 - the economic and financial crisis and outlook: the Committee on Economic and Monetary Affairs expresses its concern at the difficult economic and financial situation currently affecting Europe and the world, which is creating an unprecedented level of instability. The report notes that, in the face of market failures and a lack of rules and supervision, public sector intervention is reassuming a pivotal role, sometimes taking the form of outright nationalisation.

MEPs call on the Commission and the Member States to provide for an appropriate assessment of the repercussions for public finances of public sector support and participation in major industries and the financial and credit sector. They highlight the need to ensure that every intervention and use of public funds for rescuing financial organisations is accompanied by appropriate supervision, concrete improvements in the governance and business conduct of the enterprise or institution, precise limits on the amounts paid to executives and clear accountability vis à vis the public authorities. They also recall the importance of a coordinated approach at European level to combat tax evasion and tax havens.

Given that the wholesale public sector intervention in several Member States to rescue and support the banking and finance industry will have clear repercussions for public finances and personal incomes, MEPs consider it necessary for the tax burden to be equitably spread among all taxpayers. This entails, on the one hand, the imposition of an appropriate level of taxation on all financial players and on the other, provision for a gradual and sharp reduction in the tax burden on mid to low level salaries and pensions, in such a way as to reduce poverty and to promote consumption and a growth in demand, thereby responding to the current economic crisis which presages a recession.

MEPs stress that European macro economic policies must provide a swift and coordinated response to the risks of recession and financial instability, and urge the Commission and the Member States ? and particularly those of the Euro area - to make intelligent and unidirectional use of the flexibility in the Stability Pact and suitable counter cyclical mechanisms aimed at structural change, efficient allocation of public funds, restructuring of public expenditure and investments for growth, devoting special attention to the role of small and medium-sized enterprises. In this context, MEPs emphasise the need for a common approach on wage policies, which provides for wage increases in line with actual inflation and productivity.

MEPs emphasise that the revised Stability Pact already allows for action to be taken in response to particularly serious situations and that financial consolidation and the objectives set in the stability and convergence plans remain fundamental to the prospects for recovery and growth. They also consider that it would be useful to establish a compulsory mechanism for consultation and coordination between the Commission and the Member States ?particularly members of the Euro Group ? prior to the adoption of major economic measures, in particular as regards measures addressing the volatility of prices for energy, raw materials and foodstuffs.

The sustainability of public finances and the effectiveness of the preventive arm of the Stability and Growth Pact (SGP): MEPs express their deep concern over the direct consequences of the current international financial crisis on the sustainability and quality of public finances in the Member States. They point out that deficit and public debt are having a negative impact on growth.

MEPs note that the revised SGP is functioning properly. They consider that the corrective arm has been applied in a satisfactory manner in previous years and stress the importance of the preventive arm as a vital instrument in respect of the sustainability and convergence of the financial policies of Member States, in particular those in the Euro area. Moreover, they stress the importance of the medium-term objective (MTO) as a specific budgetary target hitched to economic, fiscal and incomes policies, which should be achieved through macro economic dialogue, geared to the specific situation in each Member State and determined on a multiannual basis. Member States are urged to strengthen the credibility and legitimacy of the MTO both at national and local level, by establishing regional SGPs and MTOs.

The report stresses the importance of designing macroeconomic plans for tackling external shocks (such as the subprime financial crisis) that take into account not only the situation in the Euro area, but also that in the catching-up economies of the European Union.

Public finances - a key feature of a broader and more comprehensive economic approach: the report stresses that public finance objectives, established on the basis of the integrated guidelines in the new Lisbon cycle, should link up stability and convergence plans with national reform plans in a coherent and organic manner. MEPs believe that the added value of healthy and growth-oriented European public finances should be reflected ? in particular in the Euro area - in a European public infrastructure investments policy, formulated and coordinated on the basis of shared objectives, that can be funded not only from national budgets and (partially) the EU budget, but also from new European financial instruments (e.g. Eurobond or the European Investment Fund) aimed at sustaining the growth, productivity and competitiveness of the European Union and the Euro area in the international context.

MEPs considers that it would be useful: (i) to establish a compulsory mechanism for consultation of the national parliaments, alongside the European Parliament, with an eye on the coordinated development of stability and convergence programmes, and of national reform programmes, in such a way that these are linked and presented together, possibly in the autumn of each year; (ii) to adopt a new approach to public finances which is systematic and coordinated among the Member States, and in particular those of the Euro area, and which aims to support long term economic growth.

The quality of public finances: revenue and expenditure: MEPs consider it essential that the Member States seek to implement QPF policies that are convergent and based on a method of assessment that includes indicators and objectives, the formulation and definition of which should involve the European Parliament and the national parliaments. They urge the Member States to adopt QPF policies together with a system for assessing budgetary policies ? such as performance based budgeting (PBB) (based on the OECD model) ? aimed at improving the quality of public spending by strengthening the link between the allocation of resources and results.

The report advocates a system for assessing budgetary policies that focuses on specific aspects such as composition, efficiency and effectiveness of public expenditure, the structure and effectiveness of revenue systems, the efficiency and quality of public administration, sound budgetary management and a method for coordinating quality public finance policies among Member States. It calls for a greater comparability of national budgets in order to meet the above objectives.

While MEPs acknowledge the difficulty of devising a homogeneous reform of taxation leading to greater growth, they stress, however, that a number of common tax reform measures could significantly improve the efficiency of the tax system and tax revenue, increase employment, reduce distortions and increase growth at European level, notably, inter alia: (i) introducing a broader tax base (and lower rates) in order to reduce distortions and increase revenues; (ii) reducing tax pressure on work through a fairer allocation of the tax burden among the various categories of taxpayers; (iii) a reorganisation of incentive and tax relief schemes.

The report draws attention to the core issue of the composition of public expenditure aimed at sustainable growth and stresses that public expenditure should be reorganised by reallocating budget items to growth-enhancing sectors, using public resources more effectively and efficiently and providing for an appropriate integrated public-private network. They also point to the need to reform and modernise public administrations, to ensure that they meet criteria relating to effectiveness. In the light of the above, the Commission and the Member States are called upon to set up a coordination mechanism to monitor and assess the quality of Member States' budgetary policies, based on systematic quality reporting, QPF assessment through a PBB system and periodic reviews of QPF.

Public finances in EMU 2007 and 2008

The European Parliament adopted by 521 votes to 47 with 55 abstentions, a resolution on public finances in the EMU 2007-2008 in response to the Commission Communication on Public Finances in EMU - 2007 ? Ensuring the effectiveness of the preventive arm of the Stability and Growth Pact (SGP).

The own-initiative report had been tabled for consideration in plenary by Donata GOTTARDI (PES, IT) on behalf of the Committee on Economic and Monetary Affairs.

The resolution tackles the following main aspects:

Consequences of the economic and financial crisis: Parliament expresses its concern at the difficult economic and financial situation currently affecting Europe and the world, which is creating an unprecedented level of instability. In the face of market failures and a lack of rules and supervision, public sector intervention is reassuming a pivotal role, sometimes taking the form of outright nationalisation.

MEPs invite the Commission and the Member States to provide for an appropriate assessment of the repercussions for public finances of public sector support and participation in major industries and the financial and credit sector. They highlight the need to ensure that every intervention and use of public funds for rescuing financial organisations is accompanied by appropriate supervision, concrete improvements in the governance and business conduct of the enterprise or institution, precise limits on the amounts paid to executives and clear accountability vis à vis the public authorities. The Commission should promote the introduction of guidelines to ensure a consistent and coordinated implementation of the various national action plans.

Tax burdens, tax havens: given that the wholesale public sector intervention in several Member States to rescue and support the banking and finance industry will have clear repercussions for public finances and personal incomes, MEPs consider it necessary for the tax burden to be equitably spread among all taxpayers. This entails, on the one hand, the imposition of an appropriate level of taxation on all financial players and on the other, provision for a gradual and sharp reduction in the tax burden on mid to low level salaries and pensions, in such a way as to reduce poverty and to promote consumption and a growth in demand, thereby responding to the current economic crisis which presages a recession. The resolution points to the importance of a coordinated approach at Community level to combat tax evasion and tax havens.

Exploit the flexibility offered by the SGP: MEPs stress that European macro economic policies must provide a swift and coordinated response to the risks of recession and financial instability, and urge the Commission and the Member States ? and particularly those of the Euro area - to make intelligent and unidirectional use of the flexibility in the Stability Pact and suitable counter cyclical mechanisms aimed at structural change, efficient allocation of public funds, restructuring of public expenditure and investments for growth, devoting special attention to the role of small and medium-sized enterprises. In this context, MEPs emphasise the need for a common approach on wage policies, which provides for wage increases in line with actual inflation and productivity.

Compulsory mechanism for consultation and coordination: MEPs emphasise that the revised Stability Pact already allows for action to be taken in response to particularly serious situations and that financial consolidation and the objectives set in the stability and convergence plans remain fundamental to the prospects for recovery and growth. They also consider that it would be useful to establish a compulsory mechanism for consultation and coordination between the Commission and the Member States ?particularly members of the Euro Group ? prior to the adoption of major economic measures, in particular as regards measures addressing the volatility of prices for energy, raw materials and foodstuffs.

Sustainability of public finances: MEPs considers the sustainability of public finances to be a pre-condition and priority not only for stability and growth and the formulation of each Member State's macro-economic employment, social and environmental policies, but also for the future of the economy and the European social model intrinsic to the development of the European Union. They express their deep concern over the direct consequences of the current international financial crisis on the sustainability and quality of public finances in the Member States. They point out that deficit and public debt are having a negative impact on growth.

More targeted use of the SGP: MEPs consider that the corrective arm has been applied in a satisfactory manner in previous years and stress the importance of the preventive arm as a vital instrument in respect of the sustainability and convergence of the financial policies of Member States, in particular those in the Euro area. Member States are urged to make greater efforts to consolidate their budgets and reduce the public debt during periods of growth as a pre-condition for achieving a healthy, competitive and sustainable European economy.

In the light of new international circumstances due to the present financial crisis and the economic slump which has already begun to affect employment and growth in the euro area, MEPs state that rising deficits are difficult to avoid. They suggest, therefore, that Member States make more targeted use of the flexibility provided by the SGP in order to encourage economic recovery and growth. The Commission is called upon to examine the effects of the SGP criteria in the current context.

The resolution stresses the importance of designing macroeconomic plans for tackling external shocks (such as the subprime financial crisis) that take into account not only the situation in the Euro area, but also that in the catching-up economies of the European Union.

Public finance objectives: Parliament stresses that public finance objectives should link up stability and convergence plans with national reform plans in a coherent and organic manner. MEPs believe that the added value of healthy and growth-oriented European public finances should be reflected ? in particular in the Euro area - in a European public infrastructure investments policy, formulated and coordinated on the basis of shared objectives, that can be funded not only from national budgets and (partially) the EU budget, but also from new European financial instruments (e.g. Eurobond or the European Investment Fund) aimed at sustaining the growth, productivity and competitiveness of the European Union and the Euro area in the international context. The importance of employment and social inclusion policies are also highlighted.

MEPs considers that it would be useful: (i) to establish a compulsory mechanism for consultation of the national parliaments, alongside the European Parliament, with an eye on the coordinated development of stability and convergence programmes, and of national reform programmes, in such a way that these are linked and presented together, possibly in the autumn of each year; (ii) to adopt a new approach to public finances which is systematic and coordinated among the Member States, and in particular those of the Euro area, and which aims to support long term economic growth.

The quality of public finances (QPF): MEPs consider it essential that the Member States seek to implement QPF policies that are convergent and based on a method of assessment that includes indicators and objectives, the formulation and definition of which should involve the European Parliament and the national parliaments. They urge the Member States to adopt QPF policies together with a system for assessing budgetary policies ? such as performance based budgeting (PBB) (based on the OECD model) ? aimed at improving the quality of public spending by strengthening the link between the allocation of resources and results.

The report advocates a system for assessing budgetary policies that focuses on specific aspects such as composition, efficiency and effectiveness of public expenditure, the structure and effectiveness of revenue systems, the efficiency and quality of public administration, sound budgetary management and a method for coordinating quality public finance policies among Member States. It calls for a greater comparability of national budgets in order to meet the above objectives.

The resolution draws attention to the core issue of the composition of public expenditure aimed at sustainable growth and stresses that public expenditure should be reorganised by reallocating budget items to growth-enhancing sectors, using public resources more effectively and efficiently and providing for an appropriate integrated public-private network. It also points to the need to reform and modernise public administrations, to ensure that they meet criteria relating to effectiveness.

Tax reform measures: while MEPs acknowledge the difficulty of devising a homogeneous reform of taxation leading to greater growth, they stress, however, that a number of common tax reform measures could significantly improve the efficiency of the tax system and tax revenue, increase employment, reduce distortions and increase growth at European level, notably, inter alia: (i) introducing a broader tax base (and lower rates) in order to reduce distortions and increase revenues; (ii) reducing tax pressure on work through a fairer allocation of the tax burden among the various categories of taxpayers; (iii) a reorganisation of incentive and tax relief schemes. In the light of the above, the Commission and the Member States are called upon to set up a coordination mechanism to monitor and assess the quality of Member States' budgetary policies, based on systematic quality reporting, QPF assessment through a PBB system and periodic reviews of QPF.