Public finances in EMU 2007 and 2008

2008/2244(INI) - 13/06/2007 - Document attached to the procedure

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

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- ***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.