Public finances in EMU - 2011 and 2012

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The Committee on Economic and Monetary Affairs adopted an own-initiative report by Alfredo PALLONE (EPP, IT) on Public Finances in EMU – 2011 and 2012.

The report states that the recent reforms of the economic and budgetary governance framework of the European Union cannot alone solve the crisis. It stresses the need for **comprehensive action** to address excessive macro-financial imbalances in a symmetric manner and to **increase the level of overall socio-economic convergence and solidarity** within the Economic and Monetary Union (EMU).

Budgetary consolidation: the Commission foresees negative GDP growth for the EMU overall in 2013 and deteriorating fiscal balances in seven EMU Member States in 2013 or 2014. In this regard, Members consider that **credible long-term strategies for budgetary consolidation** remain a necessity, given the high level of public and private debt, and the budget deficits, in some Member States. Given that the Member States are not all in the same situation, Members call for the implementation of sustainable growth-friendly strategies that are **differentiated** in line with the country-specific recommendations adopted by the Council.

Member States are encouraged to focus consolidation efforts on a **context-dependent and appropriate mix of expenditure- and revenue-side measures** and, at the same time, safeguard EU 2020-related and sustainable growth-enhancing items such as investment in R&D, education, health and energy efficiency.

Members stress that consolidations based on cutting unproductive expenditure rather than on increasing revenue tend to be more lasting and more growth-enhancing in the medium term, but more recessive in the short term. They are of the opinion that consolidation strategies need to **mitigate short-term recessive impact while aiming at being growth-enhancing in the medium term**. Consolidation measures on the revenue side should be focused on decreasing tax expenditures that create unproductive niches or inefficient rent-seeking behaviours, on decreasing environmentally harmful subsidies, as well as on creating environmental taxes targeting the source of negative externalities and which can bring double dividends in so far as they improve the budgetary situation.

Encourage growth: Members believe that the continued need for **intense fiscal adjustment needs to be balanced between strengthening sustainable growth, economic development as well as social protection**. The report invites the Member States to put in place growth-oriented policies and reforms, having regard to social protection, social inclusion and public investment. It recalls Parliament's demands on:

- the need for **making the labour market more flexible**, in particular by: reducing labour taxation;
- optimising **training** schemes to stimulate older workers to stay in employment longer;
- **reducing youth unemployment** by better matching the qualifications of young people to labour demand; (i) ensuring that wages keep in line with productivity; and (ii) shifting taxation away from labour, in particular regarding low income categories of workers, to environmentally harmful activities.

Member States are invited to:

- put in place **innovation policies** through investments aimed at improving productivity and aligning it with wage developments;

- create a more **competitive business environment** by: liberalising certain industries; removing unjustified restrictions on regulated trades and professions; facilitating credit access; and facilitating the setting-up of new businesses;
- **reform the public administration sector** by eliminating red tape, cutting costs and removing unnecessary layers of government;
- implement consolidation procedures on the revenue side focusing on improving **tax compliance** and equity among citizens, in particular with respect to the fight against tax fraud and tax evasion;
- clarify the responsibility, role, fiscal transfers and revenue source of **different levels of government (national, regional and local)** in ensuring a sound and sustainable public finance framework.

Members also support the **pursuit of the reform and modernisation of pension systems**, while fully respecting the autonomy and the role of social partners and the specificity of national contexts, and while ensuring the long-term financial sustainability and adequacy of pensions.

The Commission is encouraged to:

- give both negative and positive feedback to Member States through explicit and detailed country-specific recommendations, and to acknowledge noteworthy efforts and best practices;
- continue in its efforts to supplement its traditional sustainability analysis with alternative methodologies;
- publish its methodology underpinning the assessment of the structural balances of the Member States, as well as the changes introduced in this methodology since 2008 and the impact of those changes in the assessment of the structural balances of the Member States.

Lastly, the report encourages **economic dialogue and cooperation** between regional parliaments with legislative powers, national parliaments and the European Parliament, particularly in the context of the European Semester, to discuss the economic orientations presented in the Annual Growth Survey and the country-specific recommendations.