Public finances: contribution to growth and employment

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This communication dedicated to 'Public Finances in EMU' reviews Member States' budgetary performance in 2000 and assesses the short and medium-term prospects. It also contains an in-depth examination of some of the most important questions in the fast evolving debate on budgetary policy at EU level. This debate is being shaped by several factors, not least a growing understanding of the challenges and constraints facing Member States in running budgetary policies in EMU. Four issues dominate the discussion son EU budgetary policy as follows: - the Stability and Growth Pact (SGP) target of budget positions that are "close to balance or in surplus", an important goal not yet reached in several Member States: having achieved impressive budgetary consolidation in the run up to EMU, Member States committed themeselves in the Broad Economic Guidelines (BEPGs) to reach the SGP target of budget positions that are "close to balance in surplus", as a rule, by the end of 2001. Respect of the SGP target is vital for the smooth functioning of EMU as it would safeguard the 3% GDP deficit ceiling and allow the automatic stabilisers to operate fully in the event of an economic slowdown; - the importance of budgetary policy delivering an appropriate policy mix both at the euro area and Member State level: the EMU is a unique policy framework in having a centralised monetary policy but decentralised budgetary policies. Member States' budgetary policy must therefore ensure an appropriate policy mix at national level, while at the same time contributing to an appropriate fiscal stance for the euro area as a whole. There is a growing need to satisfy both these objectives; - broadening the debate on budgetary policy to include the quality and sustainablity of public finances: new priorities are coming to the fore now that most Member States have reduced their budgetary imbalances; - better co-ordination on budgetary questions is needed: recent event have highlighted inadequate co-ordination on budgetary questions in EMU, and consequently a failure on the shocks/challenges.