

# **Economic and monetary union EMU: public finances, 2001 budgetary results, developments.**

## **3rd report**

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**PURPOSE** : to present the Communication from the European Commission on state of public finances in EMU - 2002. **CONTENT** : in its Communication on the state of public finances in EMU, the European Commission confirms that sound budgetary management is at the forefront of EU priorities, and an essential element in achieving the employment and growth objectives of the Lisbon strategy. The report identifies the most pressing budgetary policy challenges as follows: - sound budgetary policies must be run over the entire economic cycle, including during economic upturns. Major reforms such as tax reductions and expenditure increases must be financed on a sustainable footing, and one cannot simply rely on the automatic fruit of economic growth. - the four euro area Member States which still have large deficits need to resume the process of budgetary consolidation and achieve positions of 'close to balance or in surplus' in accordance with the timetable set down in the stability programmes and political commitments given to the Council. - ageing populations poses a substantial budgetary challenge in all Member States, and there is a risk of emerging imbalances in several countries. Ambitious and comprehensive reforms in several Member State contrast with piecemeal approaches in others that fail to grasp the scale of the challenge. The medium budgetary choices in coming years will largely determine the capacity of Member States to meet the future costs associated with ageing. - when incorporating the candidate countries into the EU budgetary surveillance, adequate account needs to be taken of major structural and institutional reform underway. In the run up to accession, the candidate countries need to comply with the Copenhagen criteria rather than the nominal Maastricht convergence criteria. However, this emphasis on structural and institutional reform should not hide the importance of running sound budgetary policies as they play a central role in providing a stable macroeconomic framework. It is also essential to broaden the debate on fiscal policy in EMU from its focus on stability towards the positive contribution which public finances can make to growth and employment. The effect of the economic slowdown has resulted in a rise in the deficit levels of most Member States and the euro area as a whole. Nonetheless, the framework for budgetary surveillance and in particular the Stability and Growth Pact (SGP) has worked reasonably well. Countries have had scope to allow the automatic stabilisers to operate and cushion the effects of the downturn, and past mistakes of unwarranted expansionary policies were avoided. However, it is vital that the process of budgetary consolidation resumes so that all countries reach the medium-term goal of the SGP of budget positions that are close to balance or in surplus.