

# Public finances in economic and monetary Union

## EMU in 2004

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In this Communication on the state of public finances in EMU, the European Commission calls for growth-enhancing, sustainable budgets as a means to raise the growth potential in line with the Lisbon strategy. The Commission remarks that challenging developments have taken place in the last years, involving unwelcome tensions in the application of the EU framework for budgetary surveillance. While there is a need to reassess the functioning of the framework, the conduct of fiscal policies in Europe should benefit from past experience. Budgetary consolidations and re-orientation towards non-distorting, growth enhancing revenue and expenditure policies should be continued as economic conditions improve. The Communication summarizes and draws the political implications from the fifth Report on Public Finances in EMU prepared by the Directorate General for Economic and Financial Affairs.

The need for further and more decisive progress in the EU framework for economic governance has become apparent as a consequence of the difficulties in maintaining budgetary discipline. The persistently low growth resulting largely from the slow progress in the Lisbon strategy implementation demonstrates the need to strengthen governance on non-budgetary issues.

The Commission believes that the EU framework should be strengthened in order to: 1) better combine discipline with economic growth considerations; 2) focus more on the sustainability of the member states' public finances; and 3) improve implementation. The ideas to move forward include the rebalancing the role of the Broad Economic Policy Guidelines (BEPGs) with respect to the Stability and Growth Pact (SGP), bringing the budgetary policy coordination calendar more into line with our general coordination cycle and ensuring the implementation of the BEPGs through early warnings.

Regarding the strengthening of the SGP implementation called for by the European Council of 18 June 2004, experience to date shows that the way forward could be built around the following pillars: (i) more focus on debt and sustainability, (ii) more incentives for fiscal consolidation during periods of economic growth, (iii) taking into account country-specific circumstances when defining the medium term budgetary objectives, (iv) taking more into account economic developments when formulating recommendations for the correction of excessive deficit situations.

The Report on Public Finances includes a review of the consistency of the objective of fiscal discipline pursued with the objective of growth and how synergies can be improved by making the EU framework for budgetary surveillance and economic governance more effective.

By considering these issues, the Commission aims to lead the way on how to improve economic governance. In this respect, the Communication and the Report, while neither conclusive nor exhaustive, pave the way for the definition of more specific orientations for rejuvenating the framework and strengthening economic governance due to be tabled the Commission.