Public finances in the Economic and Monetary Union EMU

2005/2166(INI) - 17/05/2006 - Text adopted by Parliament, single reading

The European Parliament adopted a resolution based on the own-initiative report drafted by Dariusz **ROSATI** (PES, PL) in response to the Commission communication on public finances in Economic and Monetary Union (EMU). It expressed its concern about:

- the persistently slow growth in Europe since 2002, accelerating, in the euro zone, only gradually from 0.6% in 2003 to 1.3% in 2005, in contrast with the US growth rate of 3.5% in 2005 and the rebound of Japan's economy driven by private final domestic demand;

- the persistently high unemployment of 9% in EU-25 and 8.1% in EU-15;

- the output gap, currently at -1% of GDP, demonstrating that EU economic growth remains substantially below long-term potential, constrained by structural rigidities, weak internal demand, and a lack of proper balance in the macroeconomic policy mix.

The potential for growth remains excessively low, at about 2%, which is much lower than that registered elsewhere in the world.

Parliament stressed the risk of rapid adjustments to global imbalances, which could lead to a decrease in demand in the US thus resulting in lower exports and weaker growth in the EU, and noted the adverse implications of oil-price volatility and increases on internal demand and growth in the EU and the threat of its secondary effects. It was concerned about weak private consumption, especially in certain Member States, which had contributed to low growth rates in the EU. It supported the reorientation of public policies and expenditure towards innovation, renewable energies, education and training, research, information technologies, telecommunication, and transportation networks etc. The EU Financial Framework for 2007-2013 did not, however, reflect sufficiently the priority given to the expenditures in the objectives of the Lisbon Strategy.

Parliament noted that owing to the incorrect application of the Stability and Growth Pact in spite of the fiscal framework, no significant improvement regarding the Member States' fiscal positions had been achieved since last year. Eleven Member States had deficits exceeding 3% of their GDP, among which are the four largest EU economies, namely, France, Germany, Italy, and the UK. Since summer 2004, ten Member States had been subject to the excessive deficit procedure.

In the context of an EU with low consumer and investor confidence, it was vital to correct public deficits. Parliament was disappointed by the recent trends in public finances, noting that the Member States' deficits remained much higher than required by the European economy. Governments were using the low growth argument to justify the deficits, despite the fact that the deficits are impeding economic recovery and making the cycle more acute. Parliament called for a more ambitious reduction in public deficits in 2006 than a mere economic adjustment made in anticipation of higher European growth.

It recalled its demand to avoid pro-cyclical policies, and stressed the importance of undertaking structural and tax reforms and simultaneously underlined that due attention should be paid to their proper timing. Parliament stated that the lack of political will to contain public spending, overoptimistic revenue projections, creative accounting, and fiscal consolidation based mainly on one-off measures, had largely contributed to budgetary slippage and the weakness of the fiscal framework.

Parliament underlined the importance of the efforts of the Commission and the Council to improve statistical governance improving the reporting of fiscal data and recommended that the Commission prepare a study on best practices concerning the statistical governance of fiscal data reporting and the accounting of public assets and liabilities in Member States. It also considered that there was room for improvement in the accounting of public assets and implicit liabilities in order to increase transparency and comparability and to provide a sounder basis for taking decisions.

Parliament deplored the lack of policy coordination in the euro zone and drew attention to the divergence in fiscal policies of the Member States in the euro zone. It reminded the Member States that better coordinated policies and a better policy mix could improve the aggregate result of their policies. There should be more awareness of the impact of national economic policy at the EU level and an obligation to consider economic policy of common interest and to coordinate such policy.