

Public finances in EMU 2006

2007/2004(INI) - 26/04/2007 - Text adopted by Parliament, single reading

The European Parliament adopted a resolution based on the own-initiative report by Kurt Joachim **Lauk** (EPP-ED, DE) on public finances in EMU in 2006. The report was adopted by 277 votes in favour to 142 against with 130 amendments. Parliament felt that the rule regarding budget deficits below 3% had been regularly flouted. The average debt ratio for the euro area was 70.6% in 2005 and around 69.4% in 2006 and is projected to fall to 68% in 2007. These figures are still much higher than the reference value of 60% for the debt-GDP ratio, one of the two pillars of the stability and Growth Pact (SGP).

Experiences with the revised SGP: Parliament welcomed the fact that many Member States had made a considerable effort in trying to meet their obligations with regard to the SGP, but pointed out that it was still too early to evaluate the results obtained following the coming into force of the revised SGP. It shared the Commission's concerns regarding the implementation of the preventive arm of the SGP, especially with regard to those Member States which had not yet managed to balance their public finances. The revised SGP, in particular its corrective arm, entails a risk of high public debt if enforced leniently. Parliament stressed that the attitude of the Member States towards the revised SGP would ultimately decide the success or failure of the SGP.

It was concerned that the different spreads among the Member States in the fields of deficit, debt and growth might widen, which could have the effect of undermining the single currency, stifling economic growth and reducing employment prospects. Parliament was also concerned about the slow pace of public debt reduction in some Member States. It opposed never-ending and inconclusive deficit procedures and urged the Council and the Commission to act in a swift and decisive manner. The credibility of the excessive deficit procedure should be maintained and Member States should continue to be judged according to the same single standard.

Violations of the SGP could ultimately undermine the common monetary policy and add to the pressure to increase interest rates. Accordingly, there was an urgent need for the Member States to adapt their fiscal policies to the requirements of the common Economic and Monetary Policy. Parliament welcomed the fact that the revised SGP allowed for reform programmes to be developed that have realistic deadlines and medium-term budgetary targets, and agreed that tailor-made reform programmes adapted to Member States' needs should allow for better implementation of the preventive arm of the SGP.

Challenges ahead: Parliament was alarmed by the Commission's projections showing a dramatic increase in age-related expenditure whilst long-term growth prospects showed a future decline. This will inevitably put enormous pressure on the sustainability of the Member States' public finances. It was concerned that six Member States were considered to be exposed to a high risk as regards the long-term sustainability of their public finances as a result of the budgetary impact of ageing populations, while ten other Member States were regarded to be facing a medium risk, and only nine Member States a low risk.

Parliament urged that such a major EU budgetary challenge be addressed. The reduction of public debt should be accelerated during periods of economic upturn whilst avoiding pro-cyclical measures. Structural and tax reforms must be implemented to improve the economic performance of Member States. Member States must use the current upswing in the economy to conduct necessary reforms in the labour market, services sector and reduce administrative burdens on business.

Parliament went on to urge Member States to avoid unsubstantiated budgetary projections and to refrain from one-off measures and creative accounting. The Council should ensure that Member States running an unsustainable public debt render new public debt either unconstitutional or unlawful by 2015, thus

drawing on the best practices of certain Member States and regions in the EU. Welcoming the recent agreements of the Eurogroup to discuss budgetary projections in order to determine ex ante the appropriate fiscal strategy for the respective following year, Parliament was convinced that a public debate on those projections should take place in the European Parliament together with representatives of national parliaments.

Parliament warned Member States to report statistics that were of a high standard to the Commission in order to ensure that public deficit and debt could be compared. The Commission should check vigorously the quality of statistics reported by Member States.

Lastly, 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 expressed concern about possible antagonistic effects of such a lack of coordination. Parliament encouraged further research into the different kinds of structural and macroeconomic reform and their interaction and mutual impact at different phases of the economic cycle in order to identify the best possible means of strengthening public finances while at the same time achieving the Lisbon Strategy.