Basic information

2007/2004(INI) INI - Own-initiative procedure	Procedure completed
Public finances in EMU 2006 **Subject** 5.20.01 Coordination of monetary policies, European Monetary Institute (EMI), Economic and Monetary Union (EMU)	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
ECON Economic and Monetary Affairs	LAUK Kurt Joachim (PPE-DE)	04/07/2006

Committee for opinion	Rapporteur for opinion	Appointed
BUDG Budgets	The committee decided not to give an opinion.	

Council of the European Union

Council configuration	Meetings	Date
Economic and Financial Affairs ECOFIN	2804	2007-06-05
Economic and Financial Affairs ECOFIN	2813	2007-07-10

European Commission

Commission DG	Commissioner
Economic and Financial Affairs	ALMUNIA Joaquín

Key events

Date	Event	Reference	Summary
13/06/2006	Non-legislative basic document published	COM(2006)0304	Summary
18/01/2007	Committee referral announced in Parliament		
21/03/2007	Vote in committee		
26/03/2007	Committee report tabled for plenary	A6-0076/2007	
25/04/2007	Debate in Parliament		
26/04/2007	Decision by Parliament	T6-0168/2007	Summary

26/04/2007	Results of vote in Parliament		
26/04/2007	End of procedure in Parliament		
05/06/2007	Resolution/conclusions adopted by Council		
10/07/2007	Debate in Council		Summary

Technical information	
Procedure reference	2007/2004(INI)
Procedure type	INI - Own-initiative procedure
Procedure subtype	Annual report
Legal basis	Rules of Procedure EP 55
Stage reached in procedure	Procedure completed
Committee dossier	ECON/6/42503

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Committee draft report		PE382.460	06/02/2007	
Amendments tabled in committee		PE384.510	05/03/2007	
Committee report tabled for plenary, single reading		A6-0076/2007	26/03/2007	
Text adopted by Parliament, single reading		T6-0168/2007	26/04/2007	Summary

European Commission

Document type	Reference	Date	Summary
Non-legislative basic document	COM(2006)0304	13/06/2006	Summary

Public finances in EMU 2006

2007/2004(INI) - 10/07/2007

The Council took note of the presentation by the Commission of an annual report on developments in Member State public finances within the framework set by the EU's stability and growth pact. It held an exchange of views, focused on the means for improving the effectiveness of the pact's preventive arm.

The Commission formulates proposals aimed at strengthening the functioning of the preventive arm of the stability and growth pact. The Council recognised the need to improve the effectiveness of the preventive arm. It called on the economic and financial committee to examine the Commission's proposals and to prepare draft conclusions for adoption by the Council at its meeting on 9 October 2007.

Public finances in EMU 2006

2007/2004(INI) - 13/06/2006 - Non-legislative basic document

PURPOSE: to review implementation of the revised Stability and Growth Pact.

BACKGROUND: in 2005, the EU Heads of Government endorsed a revised Stability and Growth Pact (SGP) by approving:

- Council Regulation 1055/2005/EC *amending Regulation 1466/97/EC on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies* (for a summary see SYN/2005/0064) and

- Council Regulation 1056/2005/EC *on amending Regulation 1467/97/EC* (see CNS/2005/0061)

The 2005 SGP reform confirmed the fundamental rules and principles of the Treaty and re-established the consensus for sound fiscal policies. The 3% and 60% ceilings for government deficit and debt remain the same. The changes that have been made, however, are as follows:

- the early identification, and prompt correction of, excessive deficits;

- increased flexibility;

- the implementation of structural policies that enhance growth potential and the long-term sustainability of government finances in line with the Lisbon strategy for growth and jobs;

- the strengthening of budgetary consolidation efforts in times of economic growth;

- setting a clearer link to country-specific situations;

- making decisions in relation to the “excessive deficit procedure” based on an **overall** economic analysis; and

- increasing focus on structural fiscal consolidation rather than on short-term national results.

This new framework entered into force in summer 2005. One year on and the Commission has prepared this Communication in order to review the implementation of the revised SGP.

CONTENT: in its report, the Commission finds that experience, thus far, is positive. Overall, the budgetary adjustments have resumed and there has been a smooth and consistent implementation of the SGP procedures. Some concerns are emerging regarding the implementation of the preventative arm of the Pact and it remains unclear whether fiscal consolidation needs to be stepped up in line with upbeat growth prospects. Success will be measured on Member States’ ability to achieve fiscal adjustment in the years ahead.

Since March 2005 the Commission has had to prepare only three reports on Member States whose deficit exceeds 3% of GDP. Further, co-operation between the Commission and the Council has improved. Experience shows that by introducing more room for economic judgement in the fiscal surveillance process, the reform has stimulated a constructive and transparent economic policy dialogue at an EU level on the individual country cases. As a result peer support has been strengthened.

However, in spite of clear improvements, the Commission notes that questions remain vis-à-vis the credibility of the medium-term budgetary adjustments planned by the Member States. Experience with the original SGP highlighted, that to be credible, medium-term budgetary plans needed to be based on realistic and cautious macroeconomic forecasts and underpinned by permanent measures and structural reforms. On this point, the Commission’s assessment is mixed.

An encouraging feature of the last round of Stability and Convergence Programmes is that medium-term budgetary projections are, in almost all cases, based on realistic macroeconomic assumptions. This constitutes a major improvement on previous years when budgetary forecasts were typically based on overly optimistic macroeconomic forecasts.

A further positive departure is that recourse to one-off and other temporary measures within a medium-term planning has vanished. Such measures represent less than 0.1% of the EU GDP in 2006 and are negligible in 2007 and 2008. In a number of cases, however, the measures underlying the envisaged consolidation are not sufficiently specified. The combination, in some programmes, of a back-loaded fiscal adjustment with a lack of specification of measures underlying the projected consolidation is a source of concern.

The future challenges identified by the Commission, in the years ahead, include:

- ensuring that the spirit of the reforms are followed through during good times;

- focusing on the sustainability of government finances;

- improving statistical governance;

- offering improved synergies between fiscal policy and growth; and

- supporting fiscal rules and institutions at national level.

To conclude, the one year experience with the revised SGP indicates that the EU’s fiscal framework is gaining in credibility. It has permitted an enhanced economic rationale of the rules; it has increased Member State involvement in the framework; and it has introduced a more co-operative relationship amongst the participants. These developments warrant some optimism regarding future implementation plans.

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.