Stability and Growth Pact

Letter (March 2005)

The Monetary Panel of the European League for Economic Cooperation, meeting in Geneva on 11 March 2005, wishes to express its concern with respect to recent developments in the discussions surrounding the revision of the Stability and Growth Pact.

The Panel first points out that fiscal discipline, based on rules and on the monitoring of compliance with these rules, is an essential element of monetary union for so long as budgetary policies remain highly decentralised. The Treaty sets out the limits within which public finances are deemed to display a degree of convergence consistent with the stability of the euro, and the Stability and Growth Pact defines the conditions under which budgetary policies can preserve margins for manoeuvre, throughout the economic cycle, while operating within the limits provided for.

The Panel also notes that many Member States have made strenuous efforts, under unfavourable cyclical conditions, to make their budgetary situation compatible with the launch of economic and monetary union in accordance with the timetable set out in the Treaty. It is of utmost importance today that the proposed adaptation of the Pact does not lead to its weakening in a manner that would damage the credibility of monetary union and the confidence of markets.

The Panel is aware of the difficulties experienced by some Member States in the management of their public finances, given the sluggish pace of their economies. These difficulties would, however, be even greater were it not for monetary union, or if the euro were to lose the stability which allows for interest rates that are historically low and can thus support sustainable growth.

The Panel would welcome a move by Member States to entrust the Union with the task of setting priorities among categories of public spending, but such a co-ordinated approach to the management of public finances should not be introduced at the expense of fiscal discipline, as reflected in the public sector borrowing requirements or the level of public debt. In particular, too broad an interpretation of the "circumstances" under which Member States may exceed the authorized limit, for example by disregarding certain categories of expenditure when computing whether this limit has been met, would deprive it of its initial logic. On the other hand, greater emphasis on prevention, as a way to build reserves when the economy is booming, is obviously a welcome development.

The Panel takes this opportunity to note that the Cahier Comte Boël n°11, published by ELEC in June 2004 and entitled "European Economic Governance Revisited", establishes a link between a significant strengthening of economic governance in Europe and a fundamental review of the Stability and growth Pact, which would imply considering the added dimension of the consolidated fiscal balance of the Member States of the eurozone, replacing financial sanctions by the possibility to suspend the voting rights in the Council of the infringing Member State, and enhancing the European Commission's powers in this area. These proposals admittedly go beyond the provisions of the Constitutional Treaty; they belong to a forward looking approach to the European dynamics.

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sent to:
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