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No escape clause for Member States: they must maintain their commitment to the Stability and Growth Pact

In the last six months UNICE has seen worrying signs in some Member States of ambivalence about strict implementation of the Stability and Growth Pact. Portugal, France, Germany and lately Italy are all off course in their efforts to achieve a balanced budget by 2004. In preceding years countries failed to take advantage of a more buoyant economy to put their house in order and have therefore become more vulnerable as the economy has deteriorated.

The Commission is considering extending the deadline given to Member States to balance their budgets from 2004 to 2006. UNICE urges the Members States to maintain a strong commitment to the Stability and Growth Pact and the European Commission to be firm and rigorous in its interpretation of the rules.

It is true that the Stability and Growth Pact carries only nominal targets to be achieved by the fifteen countries and does not spell out national structural deficits, which are difficult to identify and harder to remove. Yet UNICE believes that, instead of not respecting the rules of the Pact (breaching the nominal targets), Member States must focus on refining analyses of the structural deficits that prevent them from making the necessary progress towards a balanced budget.

The Stability and Growth Pact is key to achieve a sound EU economy through improved public finances. It is the right tool for equipping the Member States with the leeway they need. Actually, the Member States that have performed following the Stability and Growth Pact have enough room of manoeuvre in the current situation. Those countries are actually the majority and their efforts must not be undermined. The Pact also has a central function in identifying national difficulties and remedying them in an EU context.

<u>Balanced budgets</u> are a central element of the Stability and Growth Pact. Why?

- They enable countries to take care of the increasing costs of the ageing population
- They create enough room to allow automatic stabilisers to work
- They help monetary policy to play its role in the policy mix
- They build up EMU credibility inside and outside our borders
- They improve the credibility of the euro.

The consequences of allowing Member States to escape their obligations under the Stability and Growth Pact will be severe: 1) it will damage the EU's credibility and could have consequences for the EURO, 2) it will narrow the economic safety net for unexpected natural, economic or political events. In other words, we reduce the EU's room for manoeuvre in the event of negative political and/or economic developments.

<u>Note to the editor:</u>

UNICE is the official voice of more than 16 million small, medium and large companies active in Europe, employing over 106 million people. Active in European affairs since 1958, UNICE's members are 34 central industrial and employers federations from 27 countries, working together to achieve growth and competitiveness in Europe.

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