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RECOVERY SHOULD BE USED TO REDUCE PUBLIC DEFICITS

Today's release of the European Commission's 2006 EU Public Finances Report does not give much ground for celebration, a year after the revision of the Stability and Growth Pact.

While the more flexible rules of the pact decided in June 2005 have not led to the much feared slippage in fiscal deficits, they have failed on two crucial objectives: (i) strengthen the commitment to fiscal discipline during good times and (ii) ensure ambitious medium-term objectives commensurate with the challenge of demographic ageing.

Available forecasts show that fiscal deficits are expected to remain broadly unchanged in most member states in 2006 and 2007, in spite of the ongoing upturn in economic activity. Past experience shows that the failure to use better economic conditions to significantly reduce budget deficits is detrimental for confidence and medium-term growth, and weakens the central bank's capacity to deliver an adequate monetary policy response.

In addition, UNICE remains deeply concerned by the long-term sustainability of public finances and social systems. A rapidly ageing population is posing immense and pressing policy challenges, for which most EU countries appear inadequately prepared. At present, fiscal consolidation measures remain largely insufficient to put public debt on a sustainable downward trend.

Ernest-Antoine Seillière, President of UNICE: *"Governments underestimate the negative impact of poor public finances on business and consumer confidence. With demographic pressures building up, loose fiscal policies only raise negative expectations, leading businesses to invest less and households to save more. I strongly hope that, backed by effective Community surveillance, governments will make the most of the current recovery to put their fiscal house in order."*

NOTE TO THE EDITOR

UNICE is the voice of more than 20 million small, medium and large companies. Active in European affairs since 1958, UNICE's members are 39 central industrial and employers' federations from 33 countries, working together to achieve growth and competitiveness in Europe.

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