

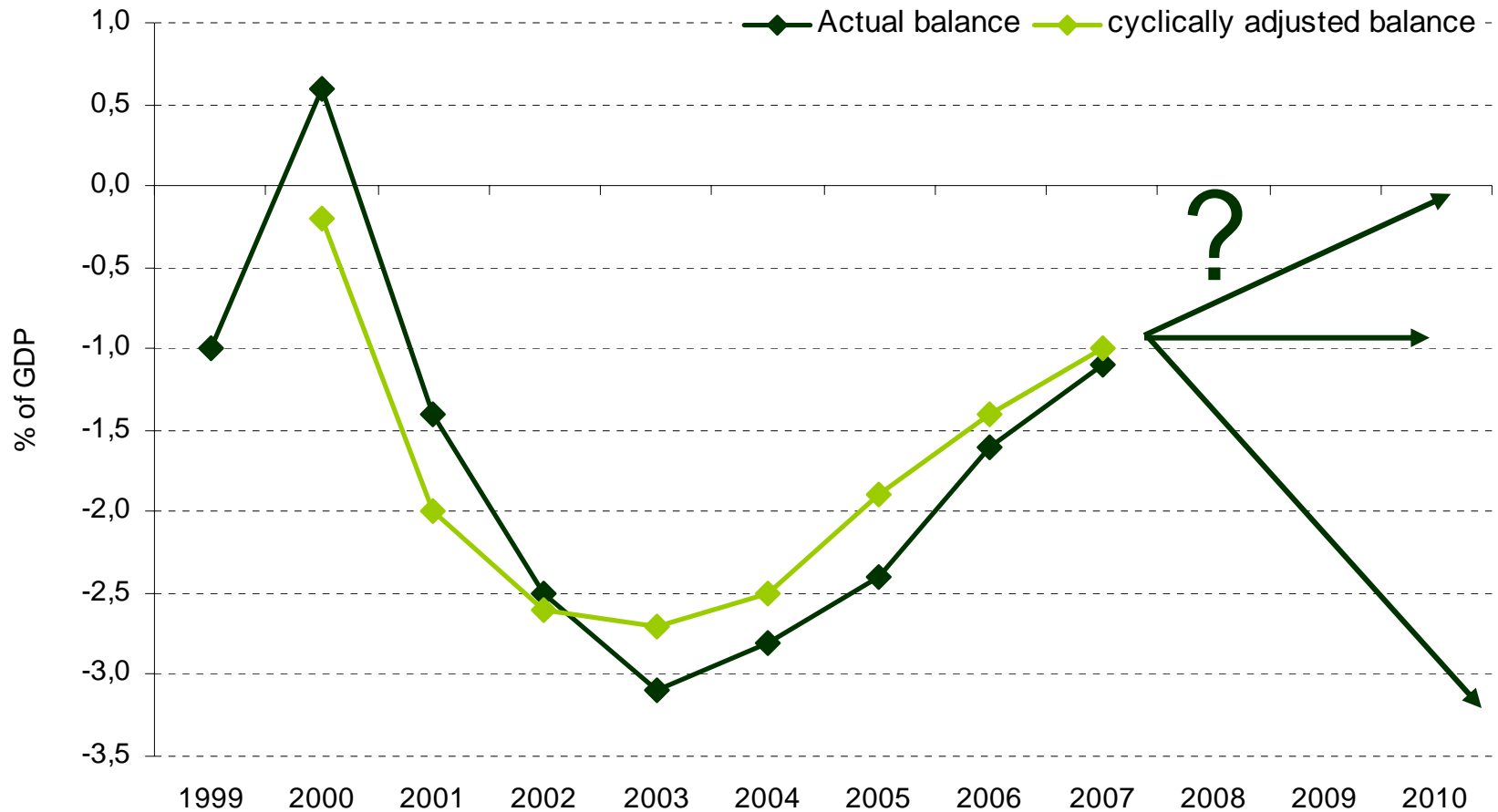


## **Fighting budgetary indiscipline**

Marc Stocker  
Director of Economics Department  
BUSINESSEUROPE

# Budget positions have improved, but remain on average far from balance

## Aggregate budget balance in EU27: actual vs. cyclically adjusted

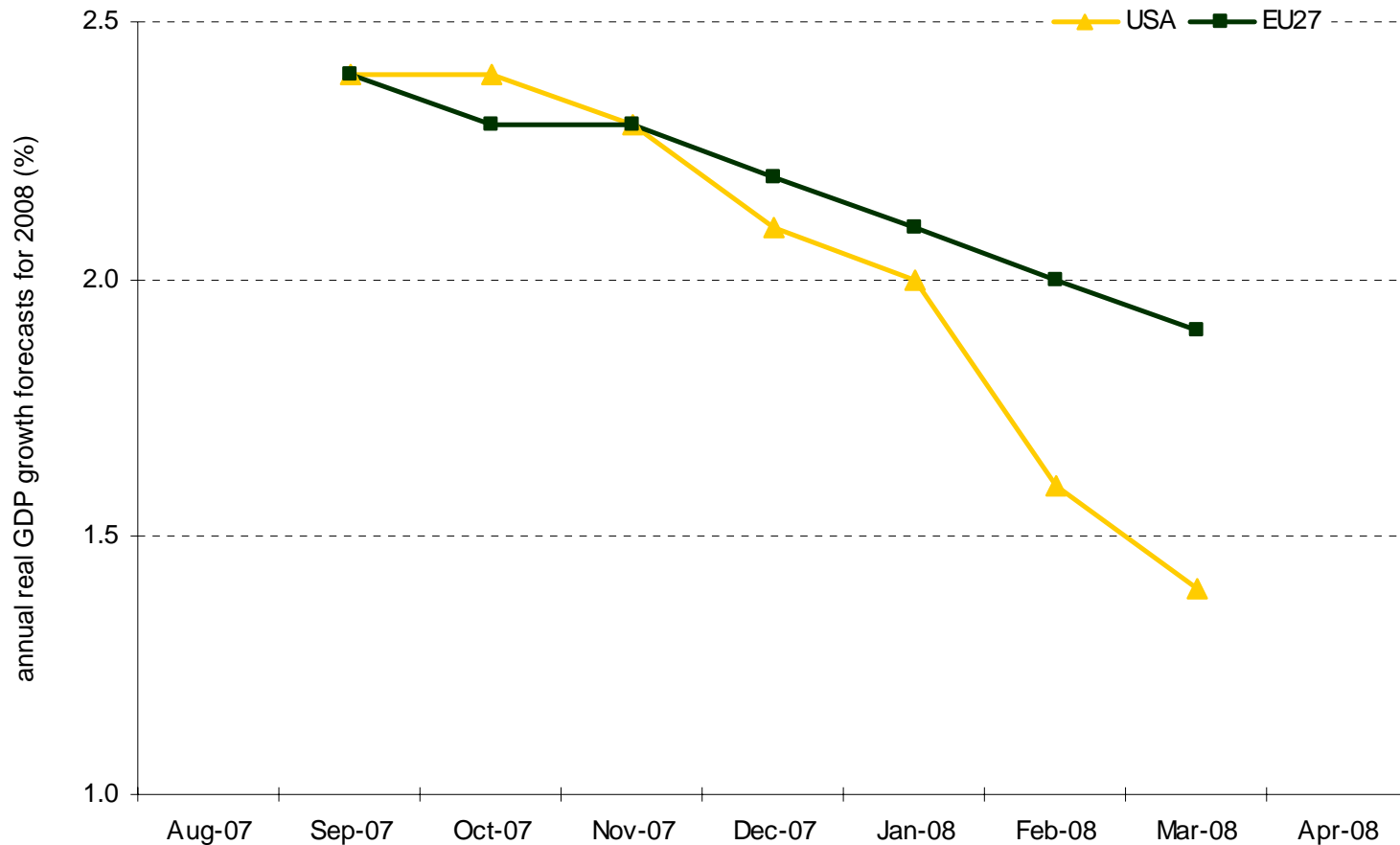


Source: *BUSINESSEUROPE, AMECO*



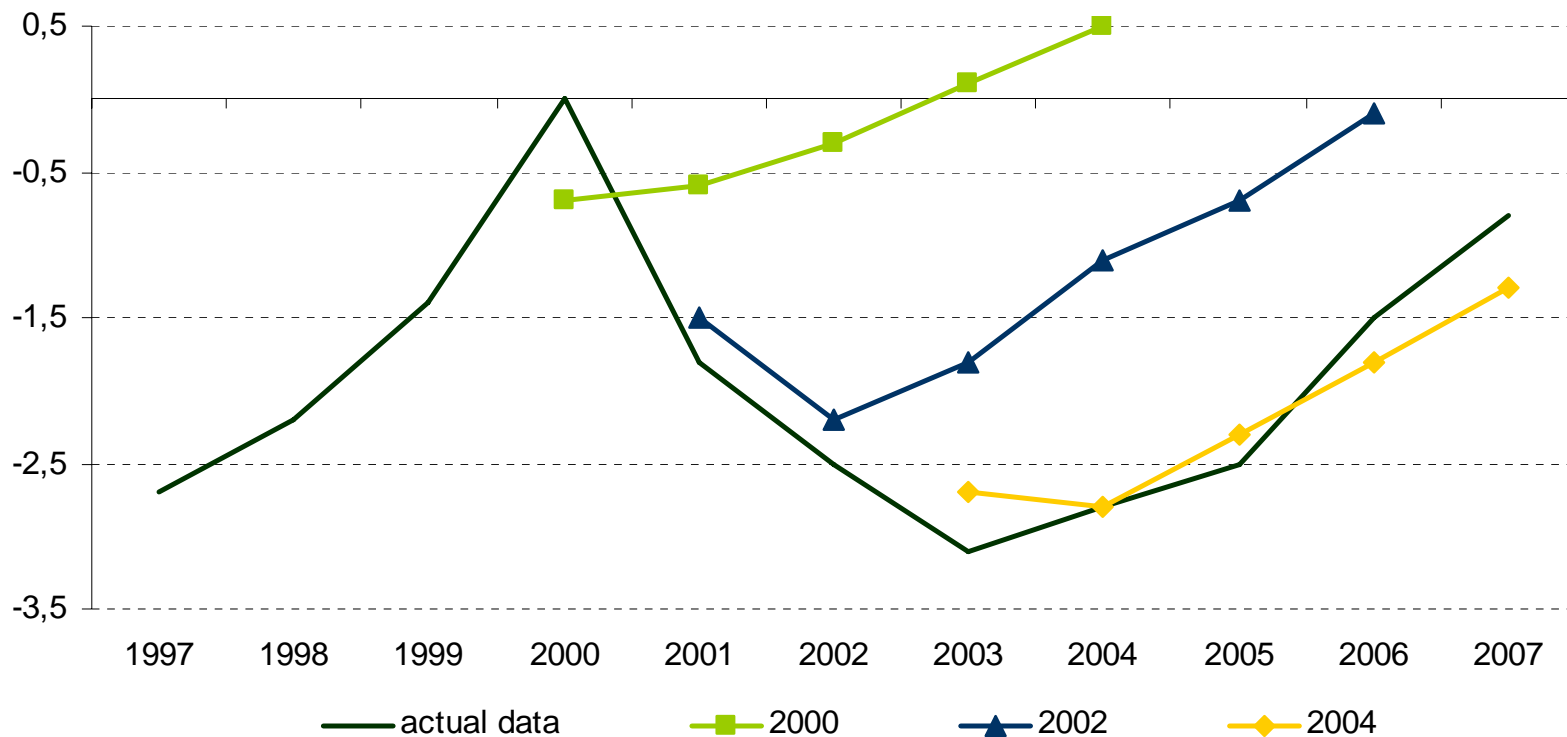
# Cycle has peaked and growth estimates are gradually being revised down

## 2008 growth estimates: evolution of consensus forecasts for EU and US



# This generally announces a string of consolidation delays

Government deficit in the euro area: projections in the successive updates to Stability Programmes (% of GDP)

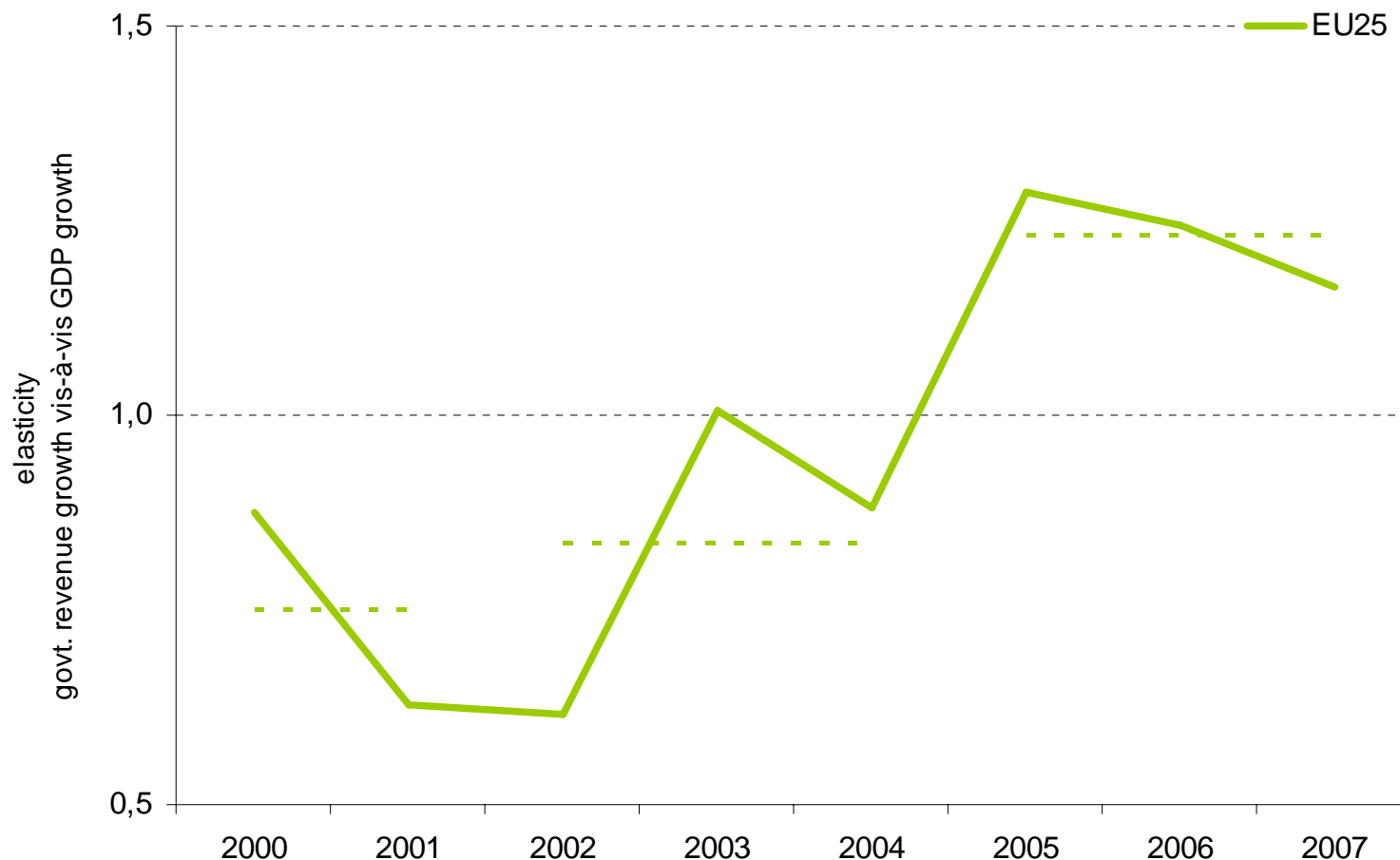


Source: BUSINESSEUROPE, Commission



# Governments have relied on exceptional tax revenues to reduce deficits

## Growth in tax revenues vs. nominal GDP growth



Source: BUSINESSEUROPE, Eurostat



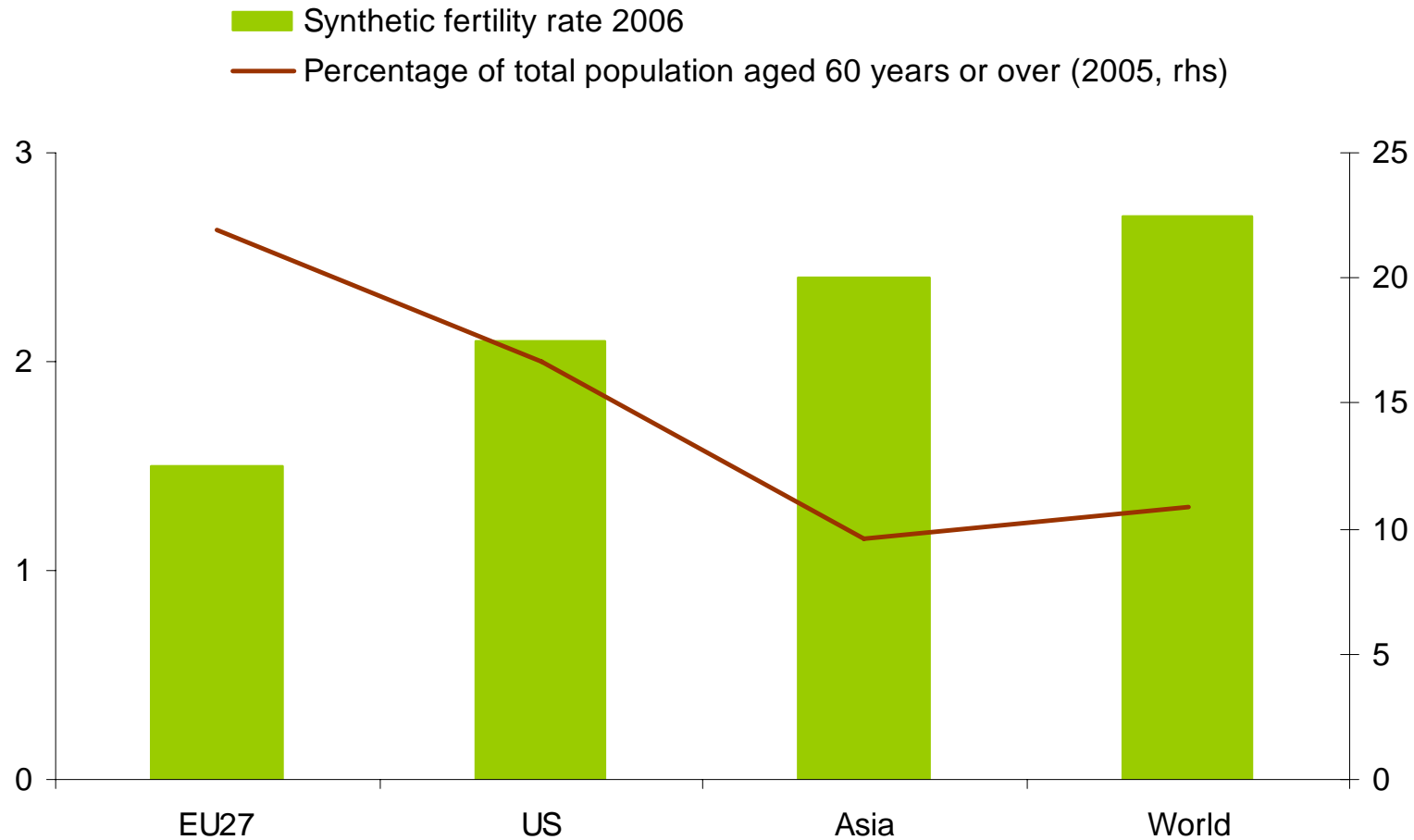
# Keep the compass pointing towards fiscal discipline

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- Member states and eurogroup must continue to reaffirm commitments to balance budgets by 2010
- Discussion of large support packages are out of place in Europe
  - EU economy / household balance sheets in better shape
  - Automatic stabilisers are larger in Europe
  - Exceptional tax windfalls will disappear
  - Political temptation for laxity will be encouraged again
  - Demographic pressures are particularly daunting in the EU



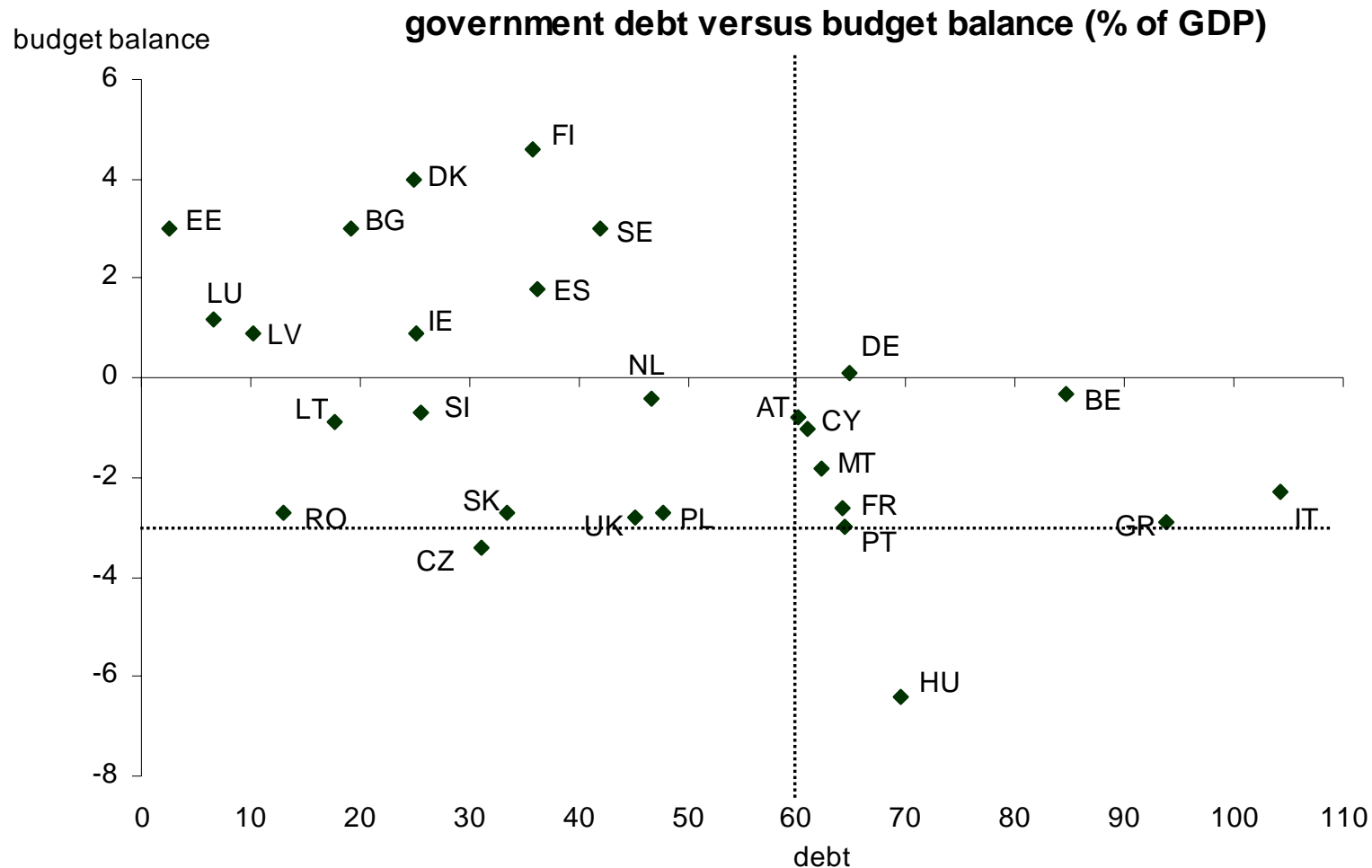
# Demographic ageing: Europe at a disadvantage



Source: *BUSINESSEUROPE, Ined and World Population Data Sheet 2007; UN, World Economic and Social Survey 2007*



# A widely diverse picture at the national level

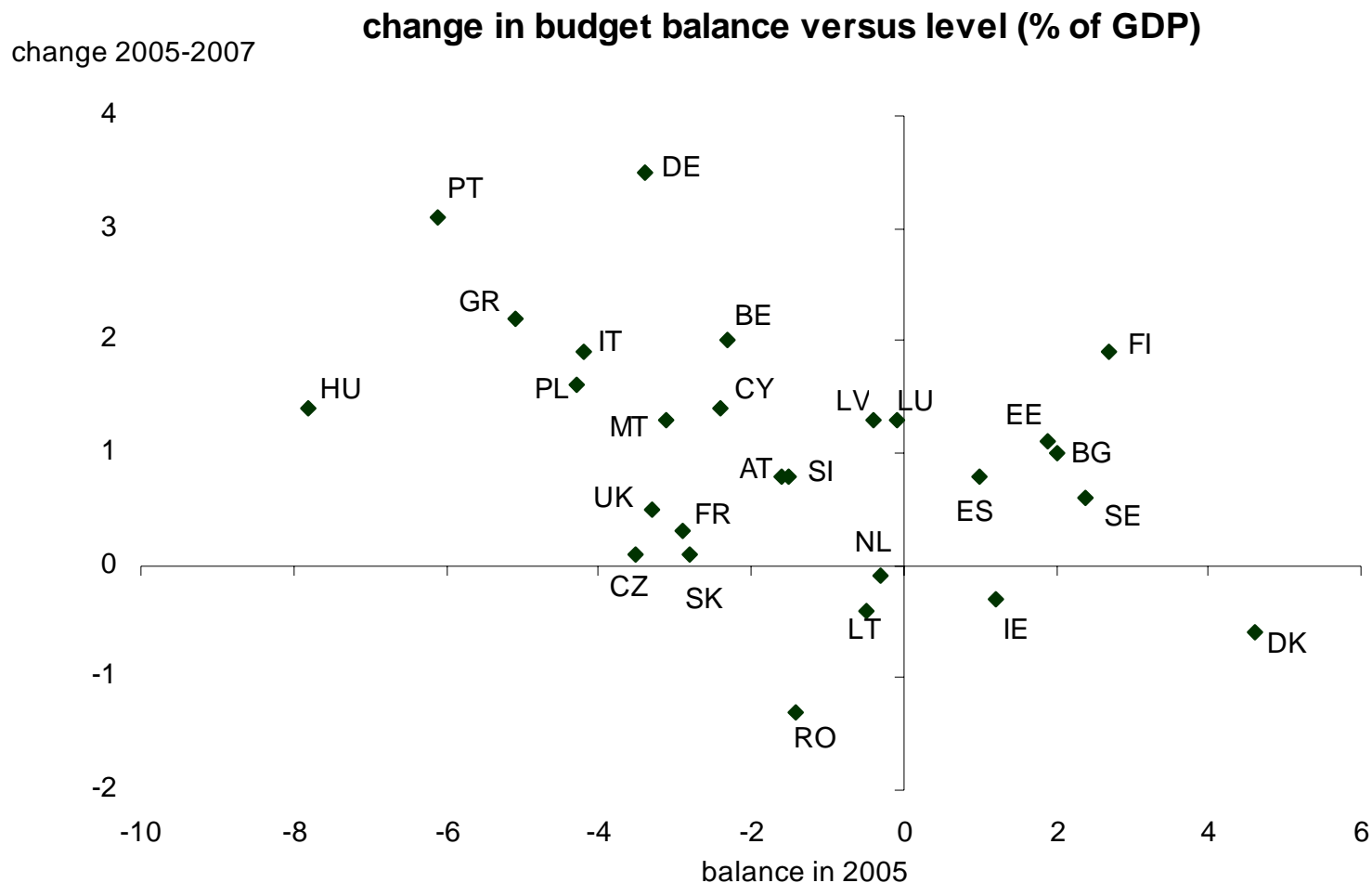


Source: *BUSINESSEUROPE, AMECO*





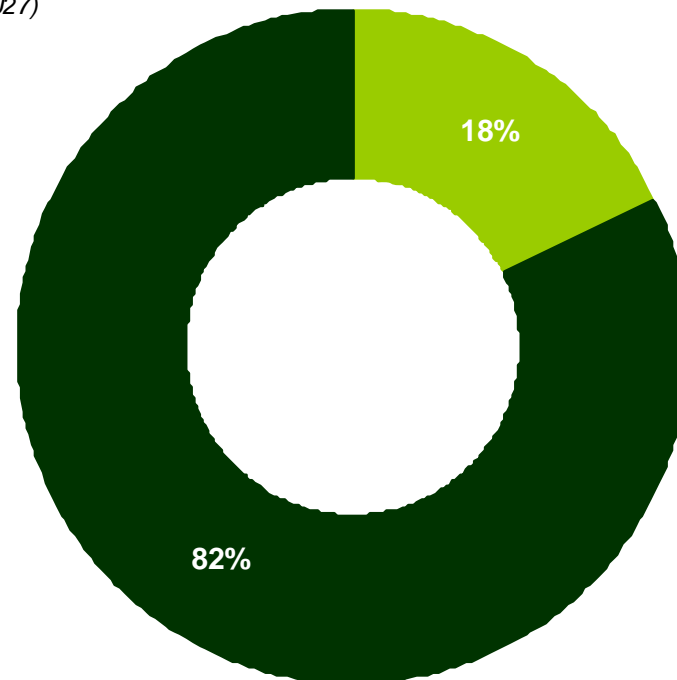
# A majority of laggards on the right track since the SGP reform in 2005...



# But efforts remain insufficient in most parts of the EU

How do BUSINESSEUROPE members assess fiscal consolidation efforts?

*weighted replies  
across countries  
(% of EU27)*



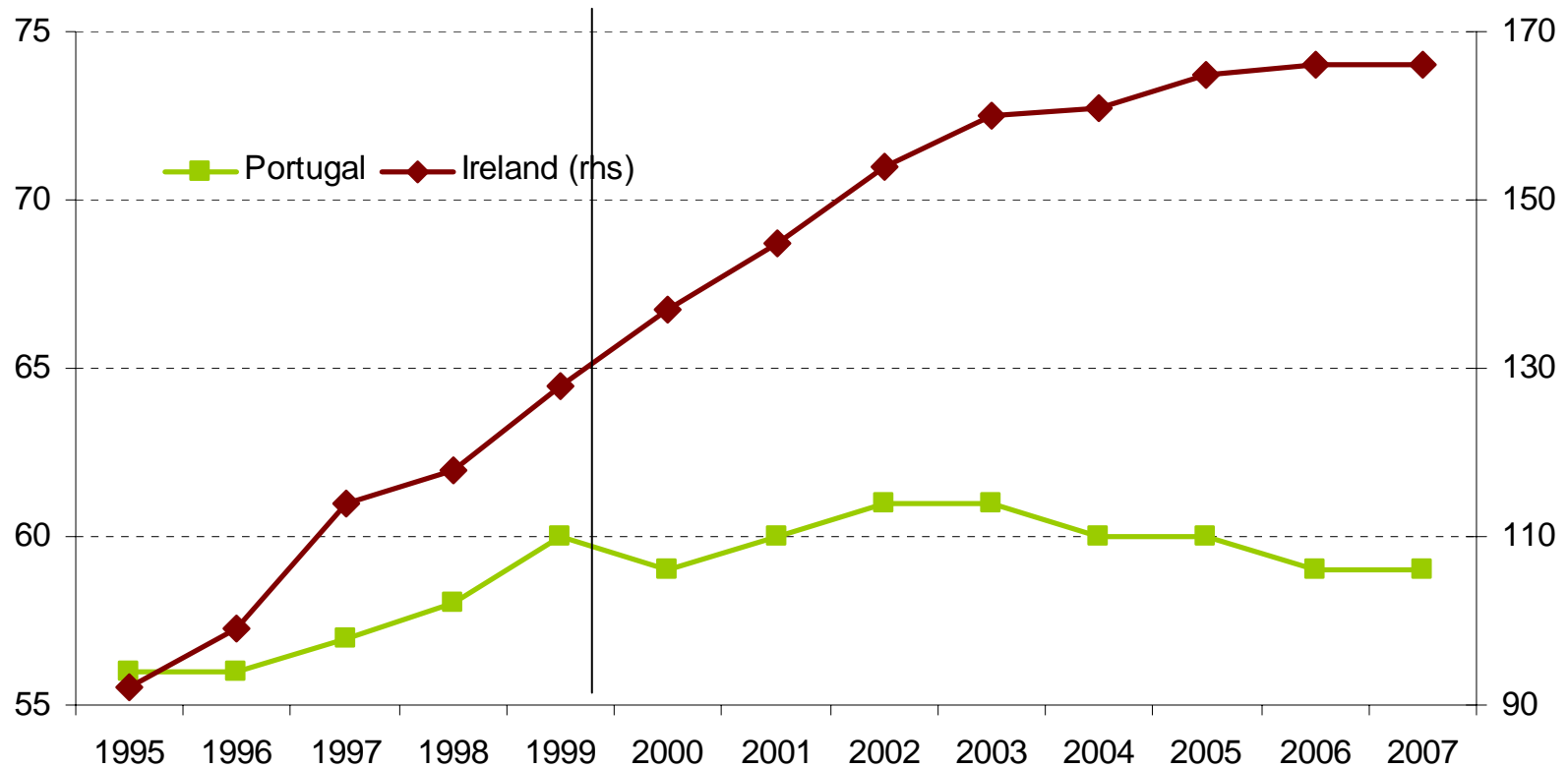
■ satisfactory ■ less than satisfactory

Source: *BUSINESSEUROPE Economic Outlook Spring 2008*  
(CONFIDENTIAL- released on 24 April 2008)



# Managing good times / fast growth: Ireland vs. Portugal

GDP per capita (EU25 = 100)

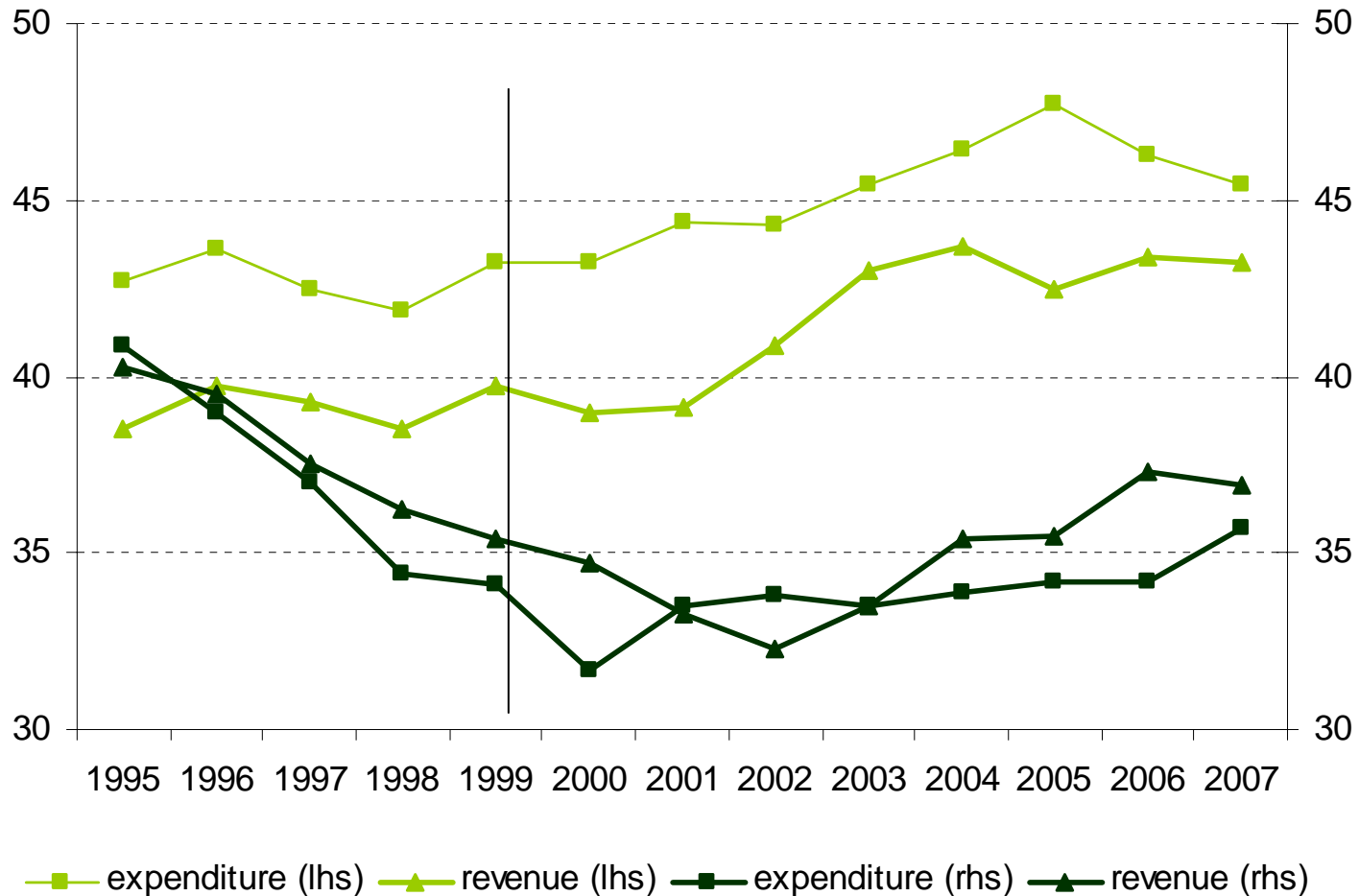


Source: *BUSINESSEUROPE, AMECO*



# Managing good times / fast growth: Ireland vs. Portugal

Government revenue and expenditure (% of potential GDP)

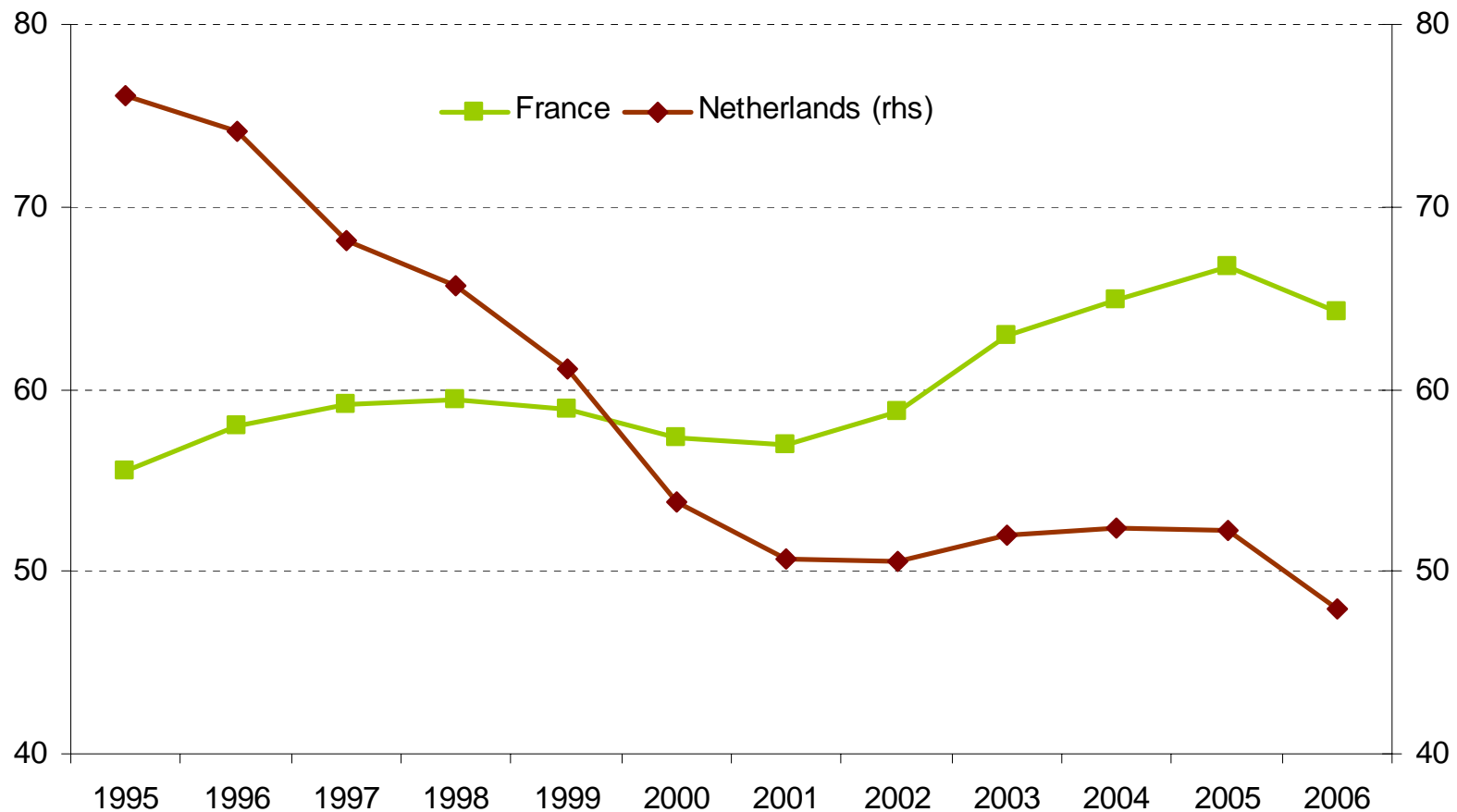


Source: *BUSINESSEUROPE, AMECO*



# Reducing public debt : The Netherlands vs. France

Evolution of government debt (% of GDP)

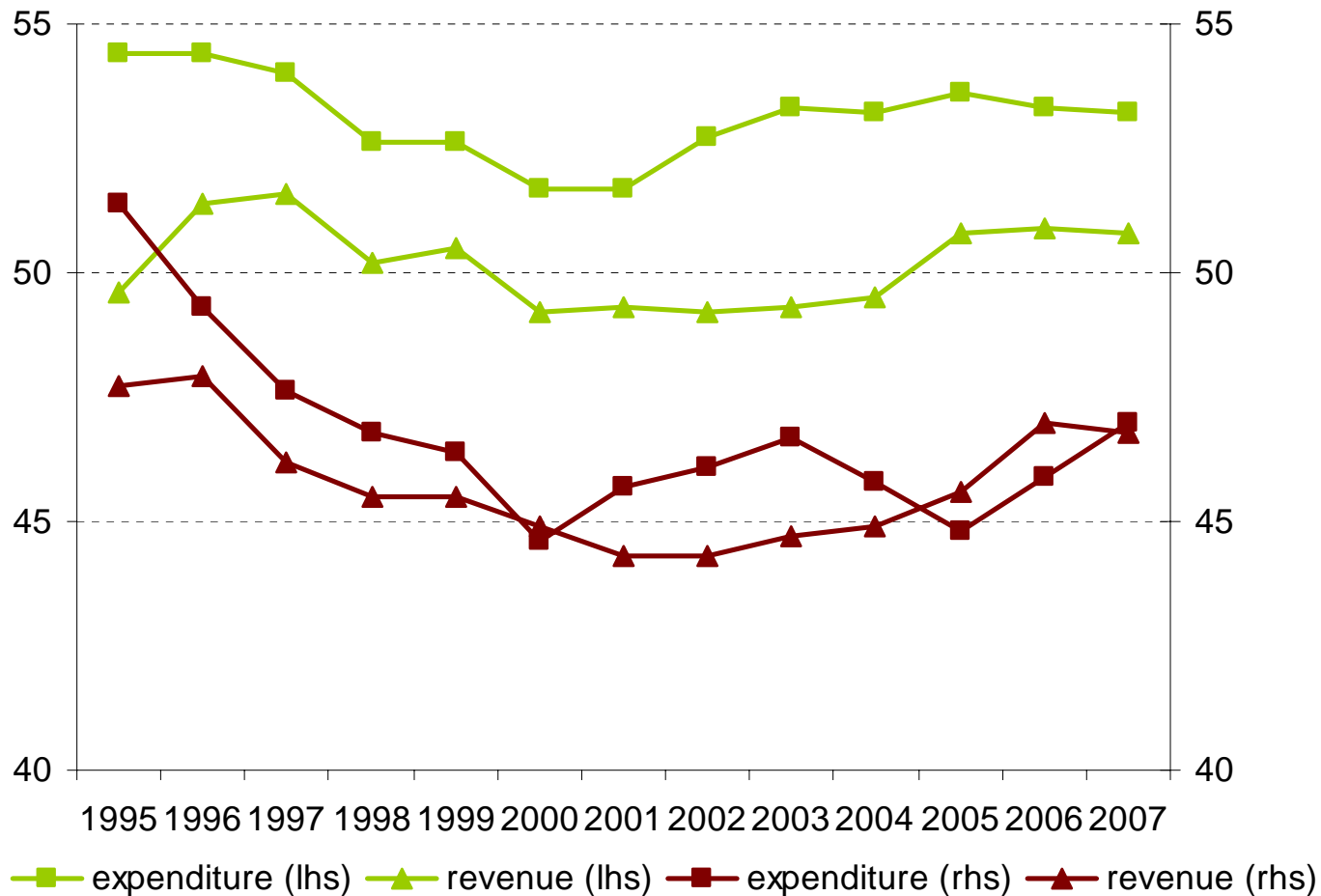


Source: *BUSINESSEUROPE, AMECO*



# Reducing public debt : The Netherlands vs. France

Government revenue and expenditure (% of potential GDP)



Source: *BUSINESSEUROPE, AMECO*



# Improving the effectiveness of budgetary rules and institutions

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Three simple objectives raising difficult issues:

- Keep public debt under control (what debt concept?)
- Consolidate more in good times (how to evaluate?)
- Focus on the quality of public finances (long-term impact?)

The tool box:

- The preventive arm of the SGP must be better enforced
- More focus on sustainability criteria and better evaluation methods
- Review of fiscal institutions at national level

