



## PUBLIC FINANCES AND EURO-AREA GOVERNANCE

### KEY MESSAGES

- 1** Member states must take immediate actions to restore the long-term sustainability of public finances and implement far-reaching structural reforms to boost the euro area's growth potential and hence facilitate the process of fiscal consolidation.
- 2** Consolidation efforts must rest on well-targeted exit strategies on the one hand and entry strategies that boost growth rates on the other.
- 3** There is a clear need to reinforce coordination instruments to guarantee the stability of the euro and preserve the achievements of greater integration.
- 4** Policy coordination must be increased and monitoring mechanisms improved, expanding beyond fiscal policy. The Stability and Growth Pact remains the right instrument but needs to be upgraded. Contingency plans to deal with the risk of sovereign default must be developed.

### BACKGROUND

The challenge faced today due to the severe deterioration in public finances is immense and will require major adjustments. In order to bring public debt in the euro area back to the limit of 60% of GDP by 2025, governments will have to sustain from 2015 onwards average primary surpluses (budget balance excluding interest payments) of close to 3% of GDP annually (from minus 3.5% currently) and undertake major reforms to raise the euro area's growth potential back to 2% at least.

If nothing is done, interest payments on public debt alone will outweigh the combined national budgets for education and research by 2025. This represents a major policy challenge, both for individual countries and the EU as a whole, and can only be achieved through a clear reassignment of policy priorities. European business is seriously concerned about this situation.

The European Union needs to reinforce coordination instruments in order to guarantee the stability and long-term success of the euro and preserve the achievements of greater economic and financial integration. The crisis has clearly shown the limits of the current Stability and Growth Pact (SGP) for enforcing discipline, and it should therefore be upgraded.

BUSINESSEUROPE has published a position paper entitled "Improving euro-area governance, securing the long-term success of the euro" in June 2010. The paper revealed a large degree of convergence with two Commission communications on the topic and early conclusions from the special task force on economic governance chaired by President van Rompuy.