



Linking the Europe 2020 strategy to budget consolidation

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Structure of presentation

1. Economic context
2. Europe 2020 strategy, EU semester and budgetary surveillance
3. New legislative proposals to strengthen economic governance in the EU





1. Economic context





Macro-economic impact of the crisis

Macro-economic performance indicators before and after the crisis (period averages)

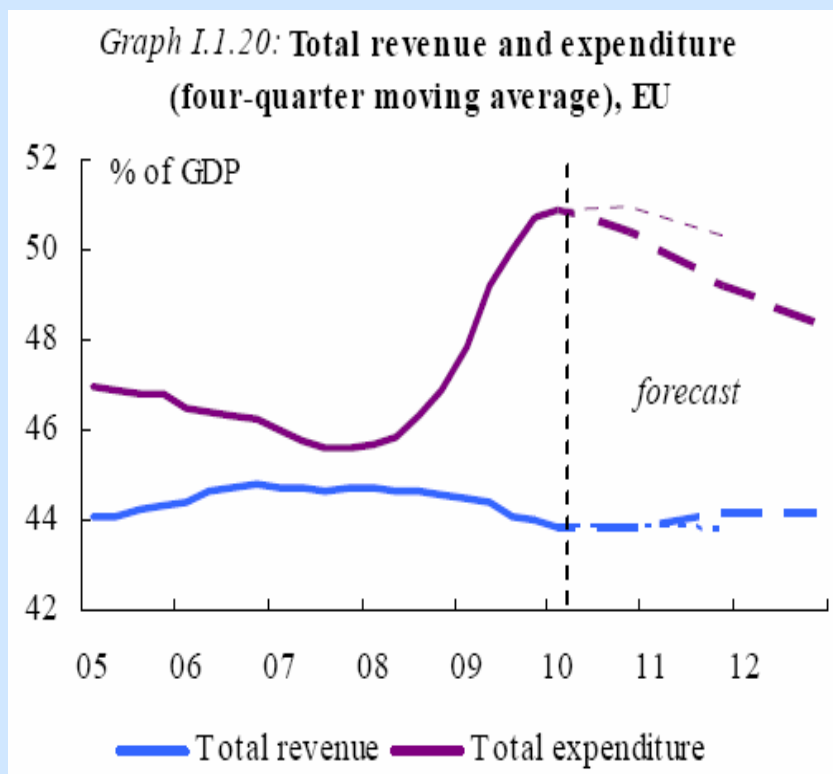
	2003-2007	2010-2015
GDP per capita growth	1.9	0.9
Employment growth	1.1	0.2
Unemployment rate	8.5	9.6
Government debt (% of GDP)	61.3	87.7

Source: European Commission. 2009-2020 scenario is based on assumption of consolidation with no structural reforms.

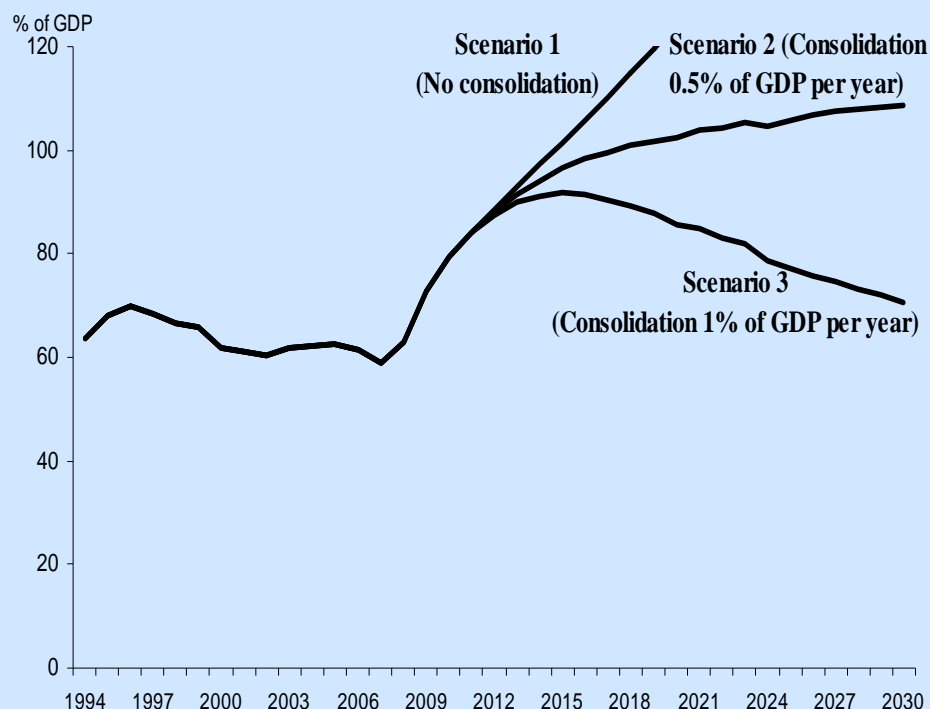


Crisis taking an unparalleled toll on public finances

Total revenue and expenditure

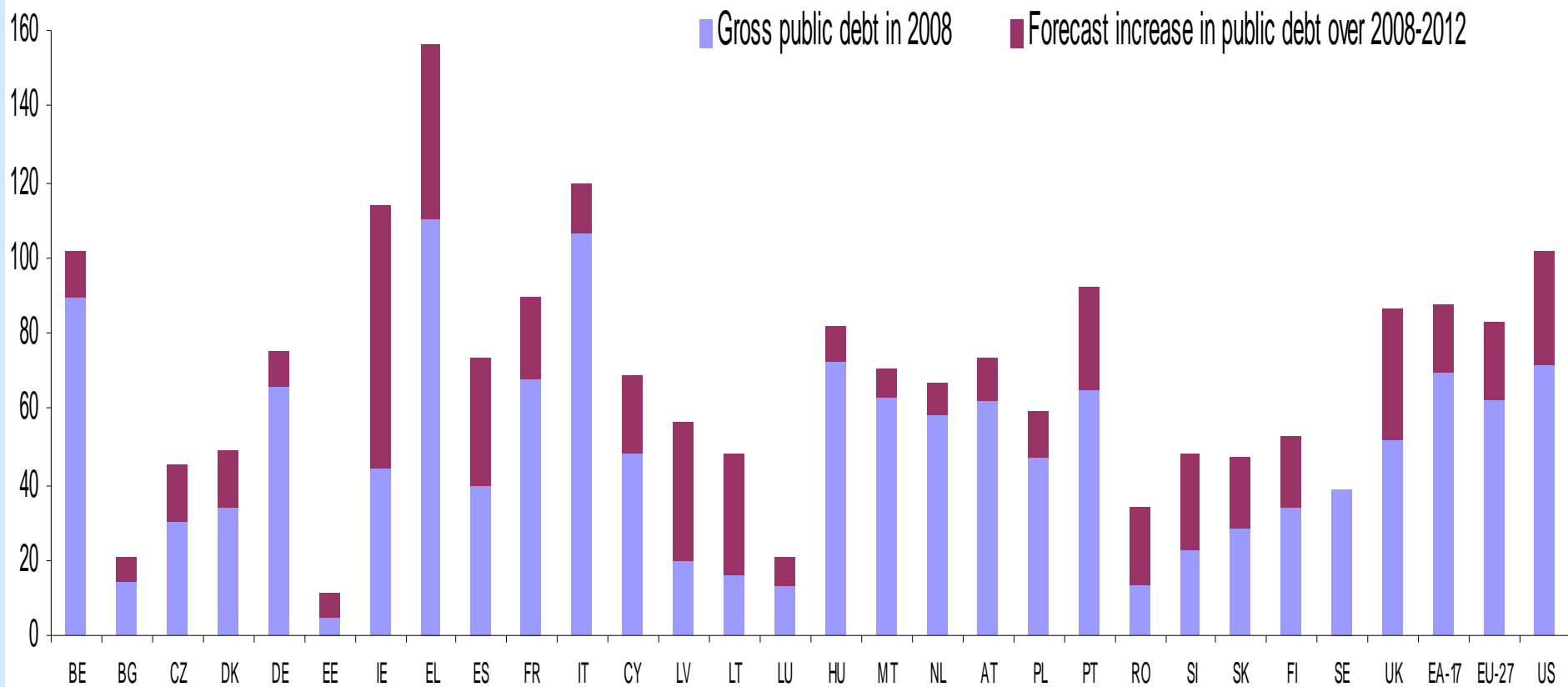


Public debt level and medium term projections





Public debt-to-GDP ratios increased sharply during the crisis.
Government debt in EU-27 is expected to rise to 79% of GDP by the end of
2010 – some 20 percentage points above the 2007 levels.





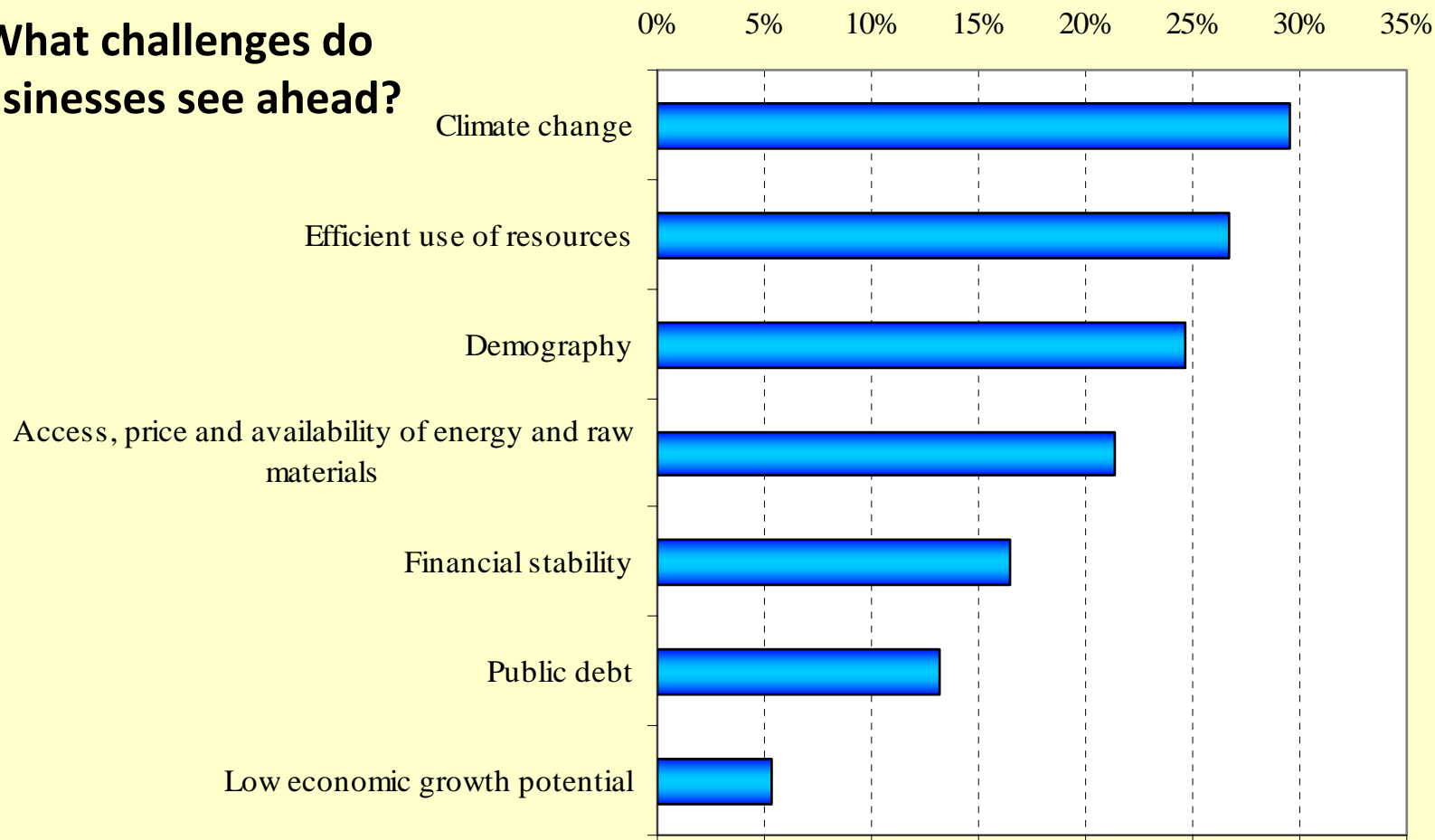
Major challenges

- Large macroeconomic and fiscal challenges in coming years, especially, but not only, in ‘vulnerable’ countries
- In the next years all policies will be subject to a binding “macro-fiscal” constraint
- Need credible and effective fiscal consolidation, while protecting output and employment





What challenges do businesses see ahead?



Source: Commission analysis of the contributions to the public consultation on Europe 2020, November 2009-February 2010. Nearly 300 business stakeholders replied.



2. Europe 2020 strategy, EU semester and budgetary surveillance





Europe 2020: Seven Flagship Initiatives

Smart Growth	Sustainable Growth	Inclusive Growth
Innovation « <i>Innovation Union</i> »	Climate, energy and mobility « <i>Resource efficient Europe</i> »	Employment and skills « <i>An agenda for new skills and jobs</i> »
Education « <i>Youth on the move</i> »	Competitiveness « <i>An industrial policy for the globalisation era</i> »	Fighting poverty « <i>European platform against poverty</i> »
Digital society « <i>A digital agenda for Europe</i> »		



Enhanced Monitoring, in a “EU semester”

- Stronger **country surveillance**, covering:
 - Macro-economic imbalances (Europe 2020)
 - Fiscal policy (SGP)
 - Growth-enhancing structural reforms (Europe 2020)
- Monitoring by **policy theme**:
 - 5 headline targets
 - Implementation of flagship initiatives at EU level and in Member States



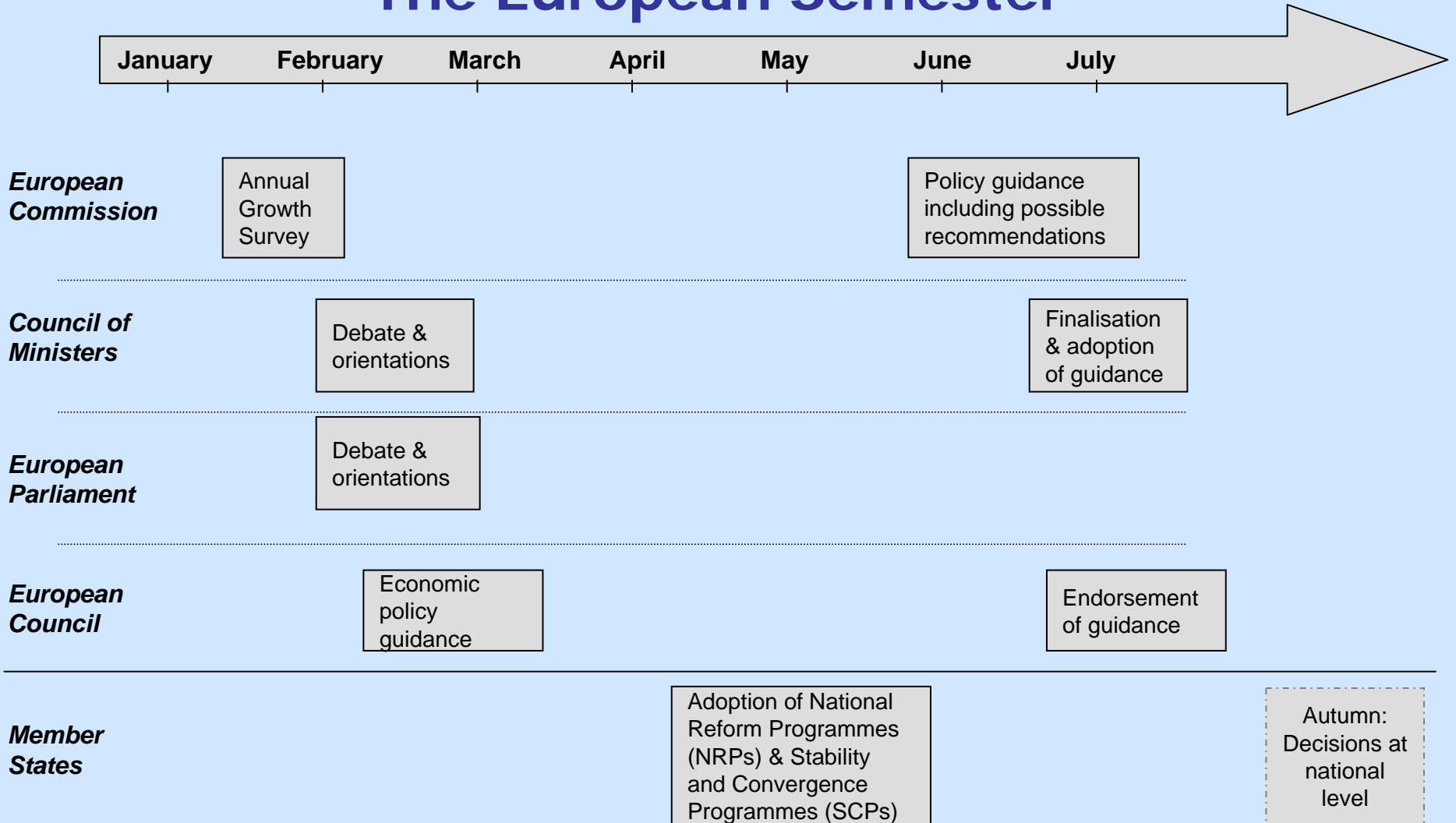
“European Semester”

- Aligned submission and assessment of Stability and Convergence Programmes and Europe 2020 National Reform Programmes
- Ex ante guidance at EU level before national budgets are adopted
- More strategic role for the European Council in outlining economic policy priorities for the EU





The European Semester





3. Legislative proposals to strengthen economic governance in the EU





Crisis as 'eye opener'

- Global financial and economic crisis demonstrated the need for enhanced economic surveillance in the EU.
- Existing instruments and methods enabled the EU to avert the risk of depression.
- However, the crisis also revealed remaining gaps in the current system of coordination:
 - weaknesses in fiscal policy
 - need for broader surveillance, including macro imbalances.



Weaknesses in fiscal surveillance

- Revenue windfalls of good economic times not sufficiently used to create fiscal space for bad times.
- Assessment of budgetary policies in cyclically-adjusted terms surrounded by large degree of uncertainty.
- Existing sanctions for non compliance come late in surveillance process, when degree of deterrence is weak or lost.
- Surveillance of government deficits not sufficient to ensure declining debt ratio.



Stronger instruments for economic surveillance: Commission's legislative proposals (Sept. 2010)

Fiscal surveillance

- Prudent fiscal policy
- Debt criterion
- Minimum standards for fiscal frameworks

Enforcement

New regulation on effective enforcement of budgetary surveillance

Stronger incentives & sanctions

Macroeconomic surveillance

New regulation on prevention and correction of macroeconomic imbalances

Enforcement

New regulation on effective enforcement of macroeconomic surveillance

Sanctions in case of persistent inaction / insufficient action



Weblinks

http://ec.europa.eu/economy_finance/index_en.htm

Europe 2020:

http://ec.europa.eu/europe2020/index_en.htm

Legislative package on economic governance reform:

http://ec.europa.eu/economy_finance/articles/eu_economic_situation/2010-09-eu_economic_governance_proposals_en.htm

