Fiscal policy in the EU
Towards quality and sustainability of public finances

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My intervention will focus on the European Union recent experience on the coordination of fiscal policies. I believe that at least some aspects of this experience can be useful for the exchange of views at this broader level, the G20.

The framework for coordination of fiscal policy in the EU is now based on the Stability and Growth Pact and on the multilateral surveillance of the Lisbon Agenda. Correspondingly, key moments of this coordination are the regular assessments at the EU Council level of the member-countries' Stability and Convergence Programmes and National Reform Programmes.

Current trends in fiscal policy design and orientation in the EU member countries can clearly be drawn from these assessments. These trends can be summarized in the improvement in quality and sustainability of public finances and implementation of structural reforms, which in the EU means pursuing the goals of Lisbon Agenda for economic growth and employment.

Let me first briefly characterize each of these three elements and then finish by stressing their virtuous interconnections.

First, the progress in the quality of public finances can be best described as the improvements in efficiency and effectiveness of public expenditure and revenue. The EU experience and examination of best practice cases show that efficiency and effectiveness depend significantly upon the quality of public institutions, the budgetary framework and the mechanisms for evaluation of public policies.

Regarding the quality of public institutions, it can be assessed on the basis of criteria of good governance, namely accountability and transparency of public policy decisions and implementation. Let me stress here that the modernization of Public Administrations is at the heart of improvements in the quality of public institutions.

Recent experiences of EU member countries confirm that improvements in the budgetary framework are in the frontline of the quality of public finances. Examples of best practices point to the move towards performance oriented budgetary processes, the establishment of credible expenditure rules for the various levels of government, together with mechanisms for multi-annual (or medium-term) fiscal commitments.

Mechanisms for properly evaluating public policies, both ex-ante and ex-post, in terms of efficiency and effectiveness, complement the instruments for quality of public finances. Current progress and engagement by national

and international institutions in measuring inputs, outputs and in monitoring results of public policies is, thus, most welcome.

Let me turn now to the second key aspect of current fiscal policy focus, the inter-temporal sustainability of public finances.

Given the commitment of modern Governments with their citizens concerning social protection, namely social security and health care, and in face of the rapidly progressing population ageing and health care costs throughout Europe, the sustainability of public finances is really a matter of sustainability of public policies in general, and social policies in particular.

Attention to sustainability cannot be restricted to the short-term commitments of public authorities. Medium and long-term commitments (which can be viewed as "implicit liabilities") cannot be ignored.

Many EU countries are currently going through structural reforms in their social security and health care systems. Some countries are starting to save current governments revenues specifically for future use in pension payments. This must be complemented with policies towards productivity and employment, including migration policies, and with incentives to increase birth rates.

In response to increasing public awareness, these developments in sustainability are now regularly monitored and assessed at the EU Council level, as part of the overall assessment of fiscal policies. Long-term, internationally comparable, projections of revenues and expenditures related

to ageing are now regularly produced, and the move towards explicit accounts for implicit liabilities is currently being prepared.

The third ingredient of fiscal policy coordination in the European Union is the Lisbon Strategy for Growth and Jobs. This is reflected in National Reform Programmes, which are increasingly becoming, in many member-countries, the framework for both national and EU policies. These programmes are assessed and monitored within an annual process of peer review conducted at the EU Council level.

These National Reform Programmes, in varying degrees from country to country, systematize the structural reforms under way, namely in financial, labour and goods markets, in social security and health care, in public administration and finances, etc..

These reforms are the framework of sustainable public policies to enhance economic growth, employment and to face the opportunities and challenges of globalization, population ageing and climate change.

Let me now conclude by highlighting the key interaction between these three elements of improvement in fiscal policies in Europe (quality and sustainability of public finances and the Lisbon strategy for growth and jobs).

Improving the quality, i.e., the efficiency and effectiveness, of public finances is the best way to promote more transparent choices of public policies towards economic growth, employment, and sustainable environment, without compromising (on the contrary, enhancing) the inter-temporal sustainability of committed social policies.

Sound fiscal positions are a crucial element for the robustness of macroeconomic fundamentals aiming at promoting growth. Hence the need to ensure efficiency in allocating budget resources and ensuring inter-temporal sound fiscal positions (sustainability) providing, at the same time, the adequate response to medium and long term challenges: globalisation/competitiveness, demographic changes/ageing and climate changes. This is why I believe how important it is this interaction between the need to improving quality and sustainable public finances and structural reforms.