



**COUNCIL OF
THE EUROPEAN UNION**



Council conclusions on quality and sustainability of public finances

*2940th ECONOMIC and FINANCIAL AFFAIRS
Brussels, 5 May 2009*

The Council adopted the following conclusions:

"The current economic and financial crisis has put a significant burden on public finances and has led to rising deficits and debt levels. Ensuring the long-term sustainability and quality of public finances is therefore particularly important at the current juncture. Therefore the Council STRESSES the urgency for further implementation of structural reforms in order to enhance the sustainability and quality of public finances. The improvement of the long-term sustainability and quality of public finances together with a strong governance framework is a crucial part of responding to the recession and underpinning a credible exit and fiscal consolidation strategy and of supporting long-term growth potential on which the current crisis may have a prolonged negative impact.

Long-term sustainability of public finances

Referring to its Conclusions of 14 February 2006 on the impact of ageing populations on public spending, the Council ENDORSES the 2009 Ageing Report: economic and budgetary projections for the EU-27 Member States (2008-2060) prepared by the Economic Policy Committee and the Commission on the basis of commonly agreed assumptions and SUPPORTS the core messages, which are annexed to these conclusions. The Council WELCOMES the publication of the Commission Communication on Dealing with the impact of an ageing population in the EU. It underlines that the economic crisis and the resulting worsening of starting budgetary positions could raise the long-term trend developments of age-related expenditures in relation to GDP. Therefore, the current adverse short- to medium-term economic prospects make this challenge even more demanding.

P R E S S

The Council HIGHLIGHTS the main findings of the 2009 Ageing Report:

- A considerable decline in the working-age population and downward trend in net migration inflow over the projection period will – on the basis of current policies - lead to a decrease in labour supply and employment with negative impacts on potential growth. **The implied negative impact of demographic developments on annual potential growth in the EU is projected to be more than 1 p.p. of GDP.**
- The fiscal impact of ageing will be substantial in almost all Member States, with effects becoming apparent already during the next decade. On the basis of current policies, **age-related public expenditures are projected to increase by 4.7 p.p. of GDP by 2060 in EU-27.** Most of the projected increase will be on pensions, followed by health care and long-term care.
- **Public pension expenditures is projected to increase by 2.4 p.p. of GDP over the period 2007-2060 in EU-27.** However, the diversity across Member States is very large, depending on differences in the degree and timing of ageing, specific features of national pension systems and countries' position in the reform process. In a number of countries, pension reforms have visible positive impacts on projected public expenditures. On the other hand, the scale of reforms in some countries is still insufficient.
- **Mainly due to demographic developments, public expenditure on health care is projected to increase by 1.5 p.p. of GDP and public expenditure on long-term care is projected to increase by 1.1 p.p. of GDP** over the period 2007-2060 in EU-27. Accounting for future developments in investments in technology may further increase health care spending.

The long-term projections provide an important indication of the timing and scale of economic changes that would result from the projected ageing of populations in a “no-policy change“-scenario. It becomes all the more important therefore, to devise policies that can bring about positive changes, also as far as their impact on potential growth is concerned. In this context, the removal of barriers to the full use of the labour force, and an ensuing decrease in the structural unemployment rate, would have positive effects on budgets as well as on economic activity.

In the light of the updated age-related expenditures and current economic situation the Council thus REAFFIRMS the commitment to the existing three-pronged strategy for meeting the economic and budgetary consequences of ageing (reducing debt at a faster pace, raising employment rates and productivity and reforming pension, health care and long-term care systems). Ensuring the long-term sustainability of public finances is a major challenge which should continue to be adequately reflected in all fields of economic policy coordination in the EU.

The Council furthermore RECONFIRMS the commitment to implementing further pension and health care reforms, structural reforms to strengthen productivity growth and labour market reforms aimed at increasing job creation and participation in the labour market, in particular to avoid early exit from the labour market and to raise the effective retirement age.

The Council INVITES the Commission to factor these findings into its analysis and proposals for the future of the Lisbon strategy post-2010, and to take account of its implications in all relevant EU policies, including on migration, financial services and the cross-border mobility of workers.

The Council INVITES the Commission to undertake its regular overall assessment of the sustainability of public finances by early autumn 2009 using the commonly agreed framework. The Economic Policy Committee should on the basis of the assessment report back to the Council before the end of 2009. The Council RECALLS that this round of long-term projections should be taken into account in the definition of the MTOs incorporating implicit government liabilities, and INVITES the EFC and the Commission to finalise their work as soon as possible. The Council INVITES the Economic Policy Committee to update, on the basis of a new population projection to be provided by Eurostat, its analysis of the economic and budgetary implications of ageing by the autumn of 2012, or earlier if deemed necessary.

On top of regular work described above, the Council INVITES the Commission in cooperation with the Economic Policy Committee to monitor the issue of sustainability in the meantime to reflect the impact of actual economic and fiscal development.

Quality of Public Finances

In times of limited budgetary room for manoeuvre, the quality of public finances plays an ever-more-significant role. It concerns notably the efficiency and effectiveness of public expenditure measures, the design of revenue systems and fiscal governance. In the present situation it is of particular importance to analyse the benefits of measures aimed at handling the short and medium-term challenges in the EU.

The Council STRESSES the importance of the quality of public finances in the context of the renewed Lisbon Strategy for Growth and Jobs. Thus, the Council INVITES the Economic Policy Committee and the Commission to continue to work on improving the measurement of the quality of public finances within the framework of the Lisbon Strategy post-2010. It is necessary to consider how a more systematic analysis of the efficiency and effectiveness of expenditure (including at the Community level), the efficiency and effectiveness of revenue systems and fiscal governance relevant to the development of better sector performance management, resource allocation and policy development could help to devise policies promoting growth and jobs.

The Council **UNDERLINES** the importance of consistent reporting on quality of public finance-related measures in the Stability and Convergence Programmes in accordance with the Code of Conduct, and when appropriate also in the National Reform Programmes. This notably includes: measures to improve expenditure control, tax reforms and value-for-money initiatives. Member States are also invited to annually update the Commission's questionnaires on changes in their fiscal governance framework. The Commission is invited to report back regularly on the outcome.

Referring to its Conclusions of 14 May 2008 on the efficiency and effectiveness of social spending, the Council **INVITES** the EPC to further evaluate the link between tax and benefit systems and the efficiency of social spending.

The Council **NOTES** the progress achieved since last May in the area of assessing the efficiency of public R&D spending. Taking into account the current economic crisis and limited space for budgetary measures the importance of the efficiency and effectiveness of public R&D spending rises. The Council **STRESSES** that there still exists significant room for further increasing the efficiency and effectiveness of R&D spending. The Council **INVITES** the Economic Policy Committee and the Commission to reflect on a more integrated policy approach for R&D, education in all stages and innovation and, in particular, to further develop analysis of the efficiency and effectiveness of public expenditures in these policy areas as part of a sector-based approach. In this context, exchange of experience and information between Member States remains highly beneficial.

The Council **APPRECIATES** the progress achieved in the provision of second level datasets on government expenditure by classification of functions of government (COFOG II) which is important for analysing the trends in the composition of public expenditures. The Council **INVITES** the Commission and Member States to continue to enhance the availability of such data, to stick to delivery plans, improve the quality of data and extend time series. Finally, the Council **RECOMMENDS** providing some selected COFOG level II data on a mandatory basis during the next revision of the ESA 95 transmission scheme."
