

FOREWORD

Sound public finances are at the core of European Economic and Monetary Union. The Treaty of Maastricht and the Stability and Growth Pact have set fiscal rules and monitoring procedures. These are geared at restraining deficit and debt levels while allowing room for fiscal stabilisation.

The assessment of prospective compliance with the EMU fiscal rules is crucial to timely corrective intervention. The evaluation of the medium and long-term sustainability of current fiscal policies is all the more relevant in a context characterised by unfavourable demographic trends, large stocks of outstanding government liabilities and risks of tax competition and degradation.

This volume contributes to the debate on fiscal sustainability indicators with a set of studies presented at the second international workshop organised by the Bank of Italy on fiscal policy issues on 20-22 January 2000 in Perugia. The workshop allowed experts from the European System of Central Banks, ministries and economic institutions of several European countries, the main international economic organisations and the academic world to discuss alternative indicators and evaluate problems and solutions. We thank all the institutions which contributed to the success of the initiative and all the experts who provided research papers and who came to Perugia to take part in the discussion

The first workshop on fiscal policy issues, in November 1998, was devoted to the analysis of the cyclical adjustment of budgetary items. The papers presented at the workshop have been collected in the volume "Indicators of structural budget balances" (Banca d'Italia, 1999).

Our interest in fiscal policy is related to the severe problems experienced by the Italian public finances in past decades. They have taught us that fiscal imbalances have very high social and economic costs. High deficit and debt levels and the ensuing necessary fiscal consolidation hamper stabilisation policies. They determine

inefficiencies in the allocation of resources. They have undesirable effects on income distribution both within and across generations. The development of indicators of fiscal sustainability may contribute to avoiding similar problems in the future.

We hope that these meetings will increase the co-operation between European institutions in the public finance domain. The situation of public finances in European countries when EMU was launched was far from homogeneous. Convergence to sounder fiscal stances is progressing. Co-operation at the beginning was led by the urgency to ensure the fulfilment of Maastricht requirements. It is now important that co-operation continues also to deal with long-term issues.

Budgetary outcomes for the year 2000 provide positive indications. The progress towards balanced budgets has continued. Debt ratios are declining. These favourable trends should not prevent us from considering long-term challenges.

The success of EMU depends on the effectiveness of its fiscal framework. We must make sure that the Stability and Growth Pact is fully implemented. The gradual elimination of deficits and the reduction of debt levels will create a favourable environment for monetary policy. It will also allow our countries to combine fiscal discipline with fiscal flexibility. Stabilisers will be allowed to work. Monetary stability and sound public finances, together with the Single Market and structural reforms can create a favourable environment for economic growth in Europe. The development of analytical tools for assessing fiscal sustainability is surely one of the key components for the success of the EMU fiscal framework.

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