

Improving the economic governance and stability framework of the Union, in particular in the euro area

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The Committee on Economic and Monetary Affairs adopted an own-initiative report by Diogo Feio (EPP, PT) with recommendations to the Commission on improving the economic governance and stability framework of the Union, in particular in the euro area, based on Rule 42 of Parliament's Rules of Procedure. The committee notes that recent economic developments have shown clearly that economic policy coordination within the Union, and in particular in the euro area, has not worked sufficiently well and that, despite their obligations under the Treaty on the Functioning of the European Union (TFEU), Member States have failed to regard their economic policies as a matter of common concern. Accordingly, it wants the Commission to submit to Parliament legislative proposals in order to improve the economic governance framework of the Union, in particular within the euro area, and following the detailed recommendations set out in the report.

The main issues in the report are developed under eight recommendations which aim at establishing the broad ideas of what economic governance and stability in the EU.

The key points are as follows:

Recommendation 1: establishing a coherent and transparent framework for multilateral surveillance of macro-economic developments in the Union and in the Member States and strengthening fiscal surveillance. Members state that a legislative act should take the form of regulation (s) on multilateral surveillance of economic policies and developments based on Article 121 (6) TFEU amending Regulation (EC) No 1466/97 on the preventive arm of the Stability and Growth Pact. It should be complemented with a new regulation aiming at establishing a rule-based and transparent surveillance framework for excessive macroeconomic imbalances, spill-over effects and competitiveness developments: Among the recommendations, the committee calls for in-depth country specific surveillance. Member States will have the responsibility of deciding on national policies which aim to tackle (prevent and correct) macroeconomic imbalances, alongside the need to take into account the Commission specific recommendations and Union dimension of those national policies, particularly for those States in the euro area. **Adjustment must be directed to both excessive-deficit and excessive-surplus States**, taking account of each country's specific circumstances, such as demographics, the level of private debt, trends in wages compared to labour productivity, employment – especially youth employment – and current-account balances.

The recommendations also discuss the establishment of a "European semester" for a comparison and assessment of Member States' draft budgets, following discussion by national parliaments. The **European Parliament may, for its part, establish a systematic way to support a public debate** and increase the awareness, visibility and accountability of these procedures and how the EU institutions have implemented the agreed rules.

In all budgetary assessments, **structural reforms** undertaken by Member States must be explicitly taken into account, in particular pension, health care and social protection reforms aimed at addressing demographic developments, as well as those concerning assistance, education and research, equal weight being given to sustainability and adequacy.

Recommendation 2: strengthening the rules of the Stability and Growth Pact (SGP). A legislative act should aim to strengthen the preventive arm of the SGP and include economically and politically more sensible **sanctions and incentives**, while taking due account of the structure of the national deficit and debt (including implicit liabilities), the "economic cycle", in order to avoid pro-cyclical budgetary policy, as well as the nature of the public revenues and expenditures needed for growth-enhancing structural reforms. All Member States should aim to make progress but those with larger gaps should generally contribute more towards meeting targets in respect of debt stock and deficits. Demographic evolution should also be taken into account when assessing current account imbalances. The committee recommends, inter alia, the establishment of a **monitoring mechanism including possible public warnings and incremental sanctions** and incentives for Member States that have not reached their country specific Medium Term Fiscal Objective or are not approaching it at the agreed pace, as well as possible economic stimulus for countries that have reached their MTFO faster than expected.

Members also recommend a country-specific differentiated time frame for the process of fiscal consolidation that will occur no later than 2015, in view of realigning all public deficit levels with the requirements set out in the SGP.

Recommendation 3: enhancing economic governance in the euro area by the Euro Group as well as the European Union as a whole. Recognising how important it is that all Member States take part in achieving economic convergence, but also recognising that euro area countries are in a different situation from other Member States, as they do not have the exchange rate mechanism at their disposal if they need to adjust relative prices and that they share responsibility for the functioning of the European Monetary Union as a whole, the new rules aim to establish a euro-area-specific framework for reinforced monitoring, focusing on excessive macro-economic divergences, economic growth, unemployment levels, price competitiveness, real exchange rates, credit growth and the current account developments of the Member States concerned. They also aim to strengthen the Euro Group.

Recommendation 4: establish a robust and credible excessive debt prevention and resolution mechanism for the euro area. An impact assessment and feasibility study, should be undertaken aiming to establish a **permanent mechanism or body (a European Monetary Fund)** to be an overseer of sovereign debt developments and to complement the SGP as a mechanism of last resort for cases in which market financing is no longer available for a government and/or Member State exposed to balance of payments problems. The study must be completed in one year. The fund would make permanent the current European Financial Stability Facility, which was established for three years.

Recommendation 5: review the EU budgetary, financial and fiscal instruments. A legislative act /feasibility study is to be adopted within twelve months aiming to establish in the long run a system under which Member States may participate in the issuance of **common European bonds**. The assessment should spell out different the legal alternatives and objectives, such as financing long-term European infrastructure and strategic projects by project bonds.

Members also want to establish a **high-level policy group chaired by the Commission with a mandate to study potential institutional changes** within the ongoing economic governance reforms, including the **possibility of creating of a European Common Treasury (ECT)**, with the objective of endowing the European Union with its own financing resources in accordance with the Treaty of Lisbon in order to reduce its dependence on the national transfers.

Recommendation 6: financial market regulation and supervision with a clear macro-economic dimension. A legislative act to be adopted should aim to ensure that any legislative initiatives regarding financial services are in line with the macro-economic policies in order to guarantee the necessary transparency and market stability, and consequently to boost confidence in the markets and economic development.

Recommendation 7: improve the reliability of EU statistics. A legislative act should aim to enhance the investigative powers by the Commission (Eurostat), including on-site inspections without prior warning and access to all accounting and budgetary information, and establish financial and non-financial sanctions for providing statistics that do not comply with the statistical principles set out in Regulation (EC) No 223/09.

Recommendation 8: improve the external representation of the Union in the area of Economic and Monetary Affairs. A legislative act should aim to agree on a euro area/EU representation in the IMF and other relevant financial institutions, where appropriate, and include a procedure to fully inform and involve the European Parliament before adopting a decision under Article 138 of the TFEU.

Lastly, and together with the measures which must be taken as swiftly as possible under the existing institutional framework, members recommend the initiation of a process of reflection, with the aim of identifying the limits of this framework and developing ideas for a reform of the Treaties which will enable the mechanisms and structures which are indispensable for coherent, effective economic governance to be put in place and for real macroeconomic convergence between the Member States both inside and outside the euro area.