

Economic governance: strengthening of economic and budgetary surveillance of Member States experiencing or threatened with serious difficulties with respect to their financial stability in the euro area. 'Two pack'

2011/0385(COD) - 23/11/2011 - Legislative proposal

PURPOSE: to strengthen economic and budgetary surveillance of Member States experiencing or threatened with serious difficulties with respect to their financial stability in the euro area.

PROPOSED ACT: Regulation of the European Parliament and of the Council.

BACKGROUND: the unprecedented global crisis that has hit the world over the last three years has seriously damaged economic growth and financial stability and provoked a strong deterioration in the government deficit and debt position of the Member States, leading a number of them to seek financial assistance outside the framework of the Union.

The full consistency between the Union multilateral surveillance framework established by the Treaty and the possible policy conditions attached to this financial assistance should be enshrined in Union law. **The economic and financial integration of the Member States whose currency is the euro calls for a reinforced surveillance** to prevent a contagion from a Member State experiencing difficulties with respect to its financial stability to the rest of the euro area.

The intensity of the economic and fiscal surveillance should be commensurate to the severity of the financial difficulties encountered and should take due account of the nature of the financial assistance received, which may range from a mere precautionary support based on eligibility conditions up to a full macro-economic adjustment programme involving strict policy conditionality

IMPACT ASSESSMENT: no impact assessment was carried out.

LEGAL BASIS: Article 136, in combination with Article 121(6) of the Treaty on the Functioning of the European Union (TFEU).

CONTENT: the proposed Regulation on strengthened surveillance for the euro area builds on what has already been agreed in the 'Six Pack' set of legislative measures which will enter into force in mid-December. It sets out provisions for strengthening the economic and budgetary surveillance of Member States experiencing or threatened with serious difficulties with respect to their financial stability and/or that receive or may receive financial assistance from one or several other States, the European Financial Stability Facility (EFSF), the European Financial Stability Mechanism (EFSM), the European Stability Mechanism (ESM) or other International Financial Institutions (IFI), such as the International Monetary Fund (IMF).

Enhanced surveillance: the proposed Regulation strengthening economic and fiscal surveillance of euro area countries facing or threatened with serious financial instability would ensure that the surveillance of these Member States under a financial assistance programme, or facing a serious threat of financial instability, is robust, follows clear procedures and is embedded in EU law. The Commission would be

able to decide whether a Member State experiencing severe difficulties with regard to its financial stability should be subject to enhanced surveillance. The Council would be able to issue a recommendation to such Member States to request financial assistance. A Member State under enhanced surveillance shall, in consultation and cooperation with the Commission, acting in liaison with the European Central Bank (ECB), adopt measures aimed at **addressing the sources or potential sources of difficulties**. The Commission shall conduct, in liaison with the ECB, regular review missions in the Member State under surveillance to verify the progresses made in the implementation of the measures.

Where it is concluded that further measures are needed and the financial situation of the Member State concerned has significant adverse effects on the financial stability of the euro area, the **Council, acting by qualified majority on a proposal from the Commission**, may recommend to the Member State concerned to seek financial assistance and to prepare a macro-economic adjustment programme. The Council may decide to make this recommendation public.

Where a recommendation is made public: (a) the **relevant Committee of the European Parliament** may invite representatives of the Member State concerned to participate to an exchange of views; (b) representatives of the Commission may be invited by the parliament of the Member State concerned to participate to an exchange of views.

Macro-economic adjustment programme: a Member State receiving financial assistance from one or several other States, the IMF, the EFSF or the ESM shall prepare in agreement with the Commission - acting

in liaison with the ECB - a draft adjustment programme aimed at re-establishing a sound and sustainable economic and financial situation and restoring its capacity to finance itself fully on the financial markets. The Council, acting by qualified majority on a proposal from the Commission, shall approve the adjustment programme.

The Commission, in liaison with the ECB, shall monitor the progress made in the implementation of the adjustment programme. It shall - in liaison with the ECB - examine with the Member State concerned the changes that may be needed to its adjustment programme. The Council, acting by a qualified majority on a proposal from the Commission, shall decide on any change to be made to the adjustment programme.

Post-programme surveillance: a Member State shall be under post-programme surveillance as long as a minimum of 75% of the financial assistance received from one or several other Member State(s), the EFSM, the EFSF or the ESM has not been repaid. The Council, acting on a qualified majority on a proposal from the Commission, may extend the duration of the post programme surveillance.

BUDGETARY IMPLICATION: there are no budgetary implications.