

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) - 24/05/2012 - Committee report tabled for plenary, 1st reading/single reading

The Committee on Economic and Monetary Affairs adopted the report by Jean-Paul GAUZÈS (EPP, FR) on the proposal for a regulation of the European Parliament and of the Council on the 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.

The committee recommends that the position of the European Parliament in first reading following the ordinary legislative procedure should be to amend the Commission proposal. The main amendments are as follows:

Strengthening budgetary rules and economic coordination: Members feel that the Regulation should contain provisions for enhanced national budgetary rules and economic policy coordination. With a view to coordinating better the planning of their national debt issuance, Member States shall report in advance on their public debt issuance plans to the Commission and to the Council. They must also ensure that all major economic policy reforms that they plan to undertake are discussed in advance and, where appropriate, shall coordinate those reforms with the other Member States; ensure that the budgetary position of the general government is balanced or in surplus over the medium term.

Members specify that the recommendations adopted under the Regulation shall respect national practices and institutions for wage formation. The Regulation does not affect the right to negotiate, conclude and enforce collective agreements and to take collective action in accordance with national law and practices.

Member States under enhanced surveillance: before deciding to make a Member State subject to enhanced surveillance, the Commission must take account of the latest in-depth review in accordance with [Regulation \(EU\) No 1176/2011](#), and take into account additional objective criteria, including warnings by the European Systemic Risk Board (ESRB). The Council may, within 10 days of such a decision, repeal it by qualified majority. The Member State concerned shall be given the possibility to express its views before the decision is taken.

Where the Commission decides to put a Member State under enhanced surveillance it shall duly notify the ESRB and, where relevant, inform them of the results of the enhanced surveillance.

Enhanced surveillance: when preparing the **macro-economic adjustment programme**, the committee states that all recommendations addressed to the Member State in the course of an excessive deficit procedure or an excessive macroeconomic imbalance procedure should be taken into account. Moreover, the Commission shall examine potential negative spill-over effects generated by other Member States including in the field of taxation. Where the Commission has identified such negative spill-over effects, the Council, on a recommendation from the Commission, shall address the necessary recommendations to the Member States generating the negative spill-over effects.

On a request from the Commission, a Member State under enhanced surveillance shall:

- communicate to the Commission, the ECB, and the relevant ESAs, disaggregated information on developments in its financial system;
- carry out, under the supervision of the relevant ESAs, stress test exercises or sensitivity analyses as necessary to assess the resilience of the financial sector to various macroeconomic and financial shocks, as specified by the Commission and the ECB in liaison with the relevant ESAs and the ESRB;
- be subject to regular assessments of its supervisory capacities over the financial sector in the framework of a specific peer review carried out by the relevant ESAs;
- communicate any information needed for the monitoring of macroeconomic imbalances .

Member States receiving **financial support for the recapitalisation of their financial institutions** shall, in addition, report on the conditions imposed on those financial institutions, including as regards executive remuneration and credit conditions applicable in the real economy.

The Commission shall conduct, in liaison with the ECB and the relevant ESAs and, where appropriate, the IMF, regular review missions in the Member State under enhanced surveillance to verify the progress made. It shall communicate every quarter its findings to the EFC and to the **competent committee of the European Parliament**.

Where a Member State seeks financial assistance from the ESM, the other Member States shall use their best efforts to ensure that the ESM provide assistance to that Member State, and that it do so in a timely manner.

During the whole process, the competent committee of the European Parliament and the parliament of the Member State concerned may invite representatives of the IMF, the ECB and the Commission to participate in an economic dialogue on significant in relation to the proper functioning of the economy.

Assessment of the sustainability of the government debt: the amended text states that where financial assistance is sought from the EFSF, the EFSM or the ESM, the Commission shall prepare – in liaison with the ECB and wherever possible and appropriate, with the IMF - **an analysis of the sustainability of the government debt and the actual or potential financing needs of the Member State concerned**, including the impact of any macro-prudential adjustment programme on the Member State's ability to repay the envisaged financial assistance, and send it to the Economic and Financial Committee.

The assessment of the sustainability of the government debt shall be based on prudent macroeconomic and budgetary forecasts using the most up-to-date information. The forecasts shall assess the impact of macroeconomic and financial shocks and adverse developments on the sustainability of government debt.

Macro-economic adjustment programme: an amendment stipulates that the draft macroeconomic adjustment programme shall address the specific risks emanating from that Member State for the financial stability of the euro area and shall aim at rapidly re-establishing a **sound and sustainable economic and financial situation** and restoring its capacity to finance itself fully on the financial markets. The draft macroeconomic adjustment programme shall respect the practices and institutions for wage formation and industrial relations in the Union and shall, where possible, take into account the national reform programme of the Member State concerned in the context of the Union strategy for growth and jobs.

- A Member State preparing a draft macroeconomic adjustment programme shall establish, in agreement with the Commission, **an updated partnership programme** aiming at creating the necessary conditions for achieving sustainable public finances. The Commission shall assess the draft macroeconomic adjustment programme within one week of submission of that programme. If the Commission considers the draft macroeconomic adjustment programme to be sufficient, it shall approve it. The Council may, within 10 days of that decision, repeal it by qualified majority.
- The Commission and the Council shall **monitor the implementation of the adjustment programme** and the annual budgetary plans consistent with it. In the case of insufficient cooperation, the Council, on a proposal from the Commission, may address a public recommendation to the Member State concerned laying down the action to be taken by that Member State.
- If the monitoring highlights **significant deviations** from the macroeconomic adjustment programme. The Commission may decide that the Member State concerned does not comply with the policy requirements contained in the adjustment programme. In its decision, the Commission shall explicitly take account of whether significant deviation is due to reasons that are not within the control of the Member State concerned. The Council may, within 10 days of adoption of such a decision, repeal it by qualified majority.
- The macroeconomic adjustment programme shall, in particular, outline **precautionary measures and contingency plans** to be adopted in case of unforeseen developments such as exogenous shocks.
- The fiscal consolidation efforts set out in the macroeconomic adjustment programme shall take into account the needs to ensure sufficient means for **fundamental policies** such as education and health care.
- Members state that a Member State subject to a macroeconomic adjustment programme shall carry out a comprehensive audit of its outstanding stock of debt in order to inter alia carry out an assessment of the reasons having led to the building up of excessive levels of debt as well as any irregularity involved in the debt issuance process.

Involvement of social partners and civil society: the committee inserted a new clause stating that organisations representing the economic and the social partners as well as civil society organisations shall be given the opportunity to express their views on the Commission public recommendations and opinions provided for in the Regulation and on Member States reports and draft reports. These views shall be made public.

Measures to safeguard tax revenue: the Member State concerned shall, in close cooperation with the Commission and in liaison with the ECB, take measures aimed at preventing infringements of national law and regulations in particular in the field of taxation. The Member State concerned shall request the Commission to make a proposal to the Council, in accordance with Article 66 TFEU, to take safeguard measures regarding movements of capital to or from third countries causing, or threatening to cause, serious difficulties for the operation of the economic and monetary union.

Placement of a Member State under legal protection: members propose the creation of a system of legal protection where the measures provided for do not restore the financial situation of the Member State and where that Member State is at risk of enduring state of default or suspension of payments. The Commission may, after consulting the Council, adopt a decision placing the Member State under legal protection whereby 'close-out netting' or 'credit event' provisions become inoperative.

The aim is to allow the Member State concerned to stabilise its economic situation and to be able to honour its debt. These provisions would apply from 2017.