

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) - 12/03/2013 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted by 528 votes to 81, with 71 abstentions, a legislative resolution 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 ('Two-pack'). At the sitting of 13 June 2012, the report had been referred back to the committee responsible.

Parliament reached its position at first reading under the ordinary legislative procedure. The amendments adopted in plenary are the result of a compromise negotiated between Parliament and the Council. They amend the proposal as follows:

Subject matter and scope: it is clarified that the Regulation sets out provisions to **enhance economic policy coordination** as well as **strengthen the economic and budgetary surveillance** of Member States whose currency is the euro and which:

- experience or are threatened with serious difficulties with respect to their financial stability and/or the sustainability of their public finances, leading to potential negative spill-over effects on other Member States of the euro area; and/or;
- request or receive financial assistance from one or several other Member States, the European Financial Stability Mechanism (EFSM), the European Financial Stability Facility (EFSF), the European Stability Mechanism (ESM) or other international financial institutions such as the International Monetary Fund (IMF).

Member States under enhanced surveillance: under the amended Regulation, the Commission may decide to make a Member State **experiencing severe difficulties with regard to its financial stability likely to have adverse spill-over effects on other Member States of the euro area**, subject to enhanced surveillance.

When assessing whether a Member State is threatened with serious difficulties with respect to its financial stability, the Commission take notably into account : (i) the borrowing conditions of that Member State; (ii) the repayment profile of its debt obligations; (iii) the robustness of its budgetary framework, the long term sustainability of its public finances, the importance of the debt burden and the risk of contagion from severe tensions in its financial sector on its fiscal situation or on the financial sector of other Member States.

Where the Commission decides to make a Member State subject to enhanced surveillance, it shall **duly inform** the Member State concerned of all the results of the enhanced surveillance and notify the ESRB, the ECB in its capacity as supervisor and the relevant ESAs and the ESFS.

Enhanced surveillance: Member State subject to enhanced surveillance shall adopt measures aimed at addressing the sources or potential sources of difficulties. To this end, it shall take into account any recommendations addressed to them under Council Regulation (EC) No 1466/97 on speeding up and clarifying the implementation of the excessive deficit procedure.

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

- communicate to the Commission, the ECB, and where appropriate the relevant ESAs, at the requested frequency disaggregated information on **developments in its financial system**, including an analysis of the results of the stress test exercises and sensitivity analyses carried out under the Regulation;
- carry out, under the supervision of the ECB where entrusted in a supervisory capacity or where appropriate the relevant ESA(s), **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, and share the detailed results with them;
- 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**.

Where it is concluded that further measures are needed and the financial and economic situation of the Member State concerned has significant adverse effects on the financial stability of the euro area or of its Member States, the **Council, acting by a qualified majority on a proposal from the Commission, may recommend** to the Member State concerned to adopt precautionary corrective measures or prepare a draft macroeconomic adjustment programme. The Council may decide to make its recommendations public.

Where a recommendation is made public, the **competent committee of the European Parliament** may offer the opportunity to the Member State concerned and to the Commission to participate to an exchange of views.

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.

Recapitalisation of financial institutions: Member States under enhanced surveillance or macroeconomic adjustment programme receiving financial support for the recapitalisation of their financial institutions shall **report twice a year to the EFC on the conditions imposed on those financial institutions**, including as regards executive remuneration. Member States shall report on the credit conditions offered by the financial sector to the real economy.

Evaluation of the sustainability of the government debt: where financial assistance is sought from the EFSM, the EFSF or the ESM, the Commission shall assess – in liaison with the ECB and wherever possible, the IMF - the sustainability of the government debt and the actual or potential financing needs of the Member State concerned. The assessment of the sustainability of the government debt shall be based on the most likely macrofiscal scenario or a more prudent scenario and budgetary forecasts using the most up-to-date information.

Macroeconomic adjustment programme: 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 said Member State's capacity to finance itself fully on the financial markets.

The draft programme shall take into account the practices and institutions of wage formations and the national reform programme of the Member State concerned in the context of the Union strategy for **growth and jobs**.

The Commission, in liaison with the ECB and wherever relevant the IMF, shall **monitor the progress** made in the implementation of the macroeconomic adjustment programme and updates that may be needed to its adjustment programme in order to take proper account of inter alia any significant gap between macroeconomic forecasts and realised figures, including possible consequences resulting from the adjustment programme, negative spill-over effects as well as macroeconomic and financial shocks.

The Regulation stipulates that the macroeconomic adjustment programme shall be made **public**, including its objectives and the expected distribution of the adjustment effort. 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**.

Involvement of social partners and civil society: the Member State concerned shall seek the views of social partners as well as relevant civil society organisations when preparing a draft macroeconomic adjustment programme, with a view to contributing to building consensus over its content.

Measures to safeguard tax revenue: the Member State concerned shall, where needed, take measures in close cooperation with the Commission and in liaison with the ECB and where appropriate the IMF, aimed at reinforcing the efficiency and effectiveness of collection capacity and fighting tax fraud and evasion, with a view to increasing its fiscal revenues.

Report: by 1 January 2014 and every five years thereafter, the Commission shall publish a report on the application of this Regulation.

The European Parliament may invite representatives of the Council and of the Commission for a dialogue on the application of this Regulation.