Contributions from the Sherpas of the Member States to the Five Presidents' Report

SLOVAKIA

Second Contribution

Written contribution by Slovakia (SK) to the Report of the 4 Presidents

1. ***European Semester***

- The changes announced by the European Commission in the latest Annual Growth Survey are already a welcome development, in particular the earlier release of the Staff Working Paper.
- The European Semester could be further enhanced by focusing on fewer country-specific recommendations (CSRs) that are better connected to the Europe 2020 Strategy and in particular focusing on promoting economic growth.
- Structurally, a less frequent than annual issuance of CSRs would allow the Member States to focus on a single set of CSRs longer and give a chance for first results to manifest themselves before new recommendations are issued.

2. ***Structural Reforms***

- The need to strengthen the implementation of structural reforms is indeed present. The most viable policy instruments that could help us arrive at this goal the European Semester, including the Country Specific Recommendations, and the Macroeconomic Imbalance Procedure (MIP), as well as the EU2020 strategy. Greater and more automatic enforcement of existing rules, as well as the full application of the MIP, including sanctions for non-compliance, would be needed in this regard.
- EU-level concern with structural reforms needs to be better focused on specifically those reforms, which have significant cross-border spill-over effects. In this context, we would like to highlight labour-market reforms and reforms with significant fiscal impacts, such as pension reforms.
- Structural reforms could also be motivated by taking into account the cost of their implementation under the Stability and Growth Pact (SGP). This would, however, require that the exact rules for the application of this 'structural reform clause' be spelled out in detail, which is currently not the case. It is important that the SGP framework remains credible and rule-based, rather than a discretion-based system. Therefore, full transparency, as well as equal application of the rules, is crucial. [1]
- Lastly, a better integration of the thematic discussions on structural reforms, such as in the Eurogroup, into the economic and fiscal governance of the EU could also be an effective way forward. More specifically, when the Member States implement concrete reforms, which were encouraged in previous ECOFIN conclusions, Eurogroup statements or CSRs, these should be properly recognized within the SGP and MIP frameworks.

3. ***Fiscal Capacity***

[1] The 2014 country specific recommendations for the euro area as well as the Eurogroup statements from 8th July 2014 and 12th September 2014 encouraged Member States to implement structural reforms to reduce tax wedge on labour. Slovakia implemented such a reform in the end of 2014, yet according to preliminary discussions with the Commission, this will not be recognized under the structural reform clause. This goes against the very spirit of the flexibility in SGP – that is to incentivize implementation of important structural reforms that have negative short term fiscal impact.

- Response to macroeconomic and asymmetric shocks should be the primary function of a fiscal capacity[2] – not a secondary characteristic attached to a budget designed for something else.
- Secondary functions of a fiscal capacity could include supporting social cohesion and European identity through the provision of direct benefits to our citizens. A common unemployment insurance scheme is particularly well-suited for these secondary issues.
- While some Member States may want to support the initiative for fiscal capacity for the Euro Area, in other countries opposition towards the deepening of the EMU is to be expected. An acceptable compromise may take the form of linking the participation in the fiscal instruments proposed with the observance of the common fiscal rules.
- From the point of view of Slovakia, fiscal and economic discipline, including equal and transparent application of SGP and MIP, is a necessary condition for the further deepening of fiscal integration. Consequently, adherence to existing rules, applied in a transparent and equal manner to all Member States, could be a criterion for entry into a fiscal union.
- A critical point needs to be made that any instrument acting as a fiscal capacity must be totally separate from the EU budget. The two serve entirely different purposes. The EU budget is concerned with long-term growth and investment, whereas the fiscal capacity must be designed to simulate a countercyclical fiscal stance. Financing of the fiscal capacity could be inspired by the results of the work on own resources of the HLGOR led by Mario Monti.

4. ***Social Dimension***

- There is certainly scope for taking better account of the social dimension in the EMU. Shifting some of the fiscal burden of social support from the Member States subject to a negative economic shock onto the European level, such as via common unemployment insurance, would certainly enhance the social dimension of the EMU.
- Nonetheless, the crisis has shown that the social situation in the Member States greatly depends on the underlying economic conditions. Consequently, crisis prevention and economic convergence are likely to have the greatest impact on the social conditions in individual Member States and the EU as a whole.
- Policies designed to address specific social issues, therefore, must not undermine economic convergence, which is ultimately the underlying force of social convergence. Consequently, policies such as a common minimum wage or binding social indicators could undermine social goals in the long-term.

5. ***Time Horizon, Process and Treaty Issues***

- As we have already mentioned, the creation of fiscal instruments, such as the common unemployment insurance and investment fund, to deal with economic shocks is essential for ensuring the long-term stability of the Euro Area.
- Strict adherence to existing and future rules is also essential.

[2] Slovakia's views on the issue of fiscal capacity are described in more detail in the non-paper which constitutes an annex to this written contribution.

- An intergovernmental approach could provide interim solutions, but Slovakia believes it is essential, in the long run, to avoid creating parallel legal bases and institutions with exceptional regimes outside EU structures.
- In the end, the building blocks need to a part of the standard EU framework, subject to the community method, or to be brought into this framework after an interim period.

6. *Capital Markets Union and Banking Union*

Capital Markets Union

- Proposals for a Capital Markets Union should take into account the specific situation of Member States with underdeveloped capital markets and facilitate their future development and integration into a European capital network.
- Therefore, making access to capital cheaper and easier for firms should be our fundamental goal and this can be achieved by lifting the existing barriers to the free flow of capital across Member States. It is important not to replicate the institutional approach as was the case with the banking union, which would have the opposite effect in case of the CMU project.
- Capital Markets Union and associated private risk-sharing is insufficient for dealing with the problem of asymmetric shocks in our currency union. Such a risk-sharing mechanism effectively excludes those Member States that have underdeveloped capital markets. Furthermore, experience from the recent financial crisis has shown that capital markets fragment under crisis conditions, which further reduces their risk-sharing function. Other mechanisms, such as a fiscal capacity, are thus needed to address the issue of asymmetric shocks.

Banking Union

- Concerning the banking union, we need to focus on the implementation of the agreed measures. Any fine-tuning of the banking union can only take place after we gain experience with the functioning of the mechanisms, as they are currently designed.
- Attempts at further mutualisation threaten to unravel the delicate compromise reached during the difficult negotiations on the banking union and are not acceptable to us.

7. *Legitimacy and Accountability*

- To a large extent, legitimacy depends on results. If we can deliver on economic growth, improving employment prospects and enhancing the prosperity of our citizens, they will be much more likely to give us their support.
- A key principle Slovakia has been articulating with respect to EU and EMU integration is inclusiveness. We should strive to minimise the divisions it creates between members and non-members. Consequently, we do not favour the creation of additional euro-area formats, either within the Council formations or the European parliament: all EU Member States should have the chance to shape EMU policies.
- We are cautious about further strengthening the involvement of the European Parliament as it could come at the expense of the Council or the national parliaments. Instead, legitimacy could be enhanced by strengthening ownership in the Member States. This could be based on restructuring processes, such as the European Semester, to enable a greater involvement of national stakeholders. To a large extent, existing rules already allow this, but the timelines of the processes make this impracticable.