



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

EUROPEAN PARLIAMENT

Second Contribution

Deepening the Economic and Monetary Union

During the midst of the crisis, the European Union has substantially reformed the rules, instruments and policy procedures at its disposal to strengthen and improve the EMU governance framework.

This process towards the completion of EMU now needs to be sustained, as the Euro area continues to face significant social and economic challenges. There is no room for complacency or for reform fatigue. The existing governance system is not yet strong enough to tackle all potential future crises and shocks as it should, nor is it yet sufficiently good at generating higher competitiveness, structural convergence among its members, sustainable growth and social cohesion. Furthermore, its democratic legitimacy remains too weak. The risk of a lasting stagnation is at our doorstep and we have to preserve the integrity of the Euro area.

Ongoing difficulties within the Eurozone show that an effective implementation of the Banking Union is necessary, but may not be sufficient for a well-functioning and a legitimate EMU. Furthermore, there is room for improving the democratic accountability of the decision-making with regard to the economic governance of the Eurozone.

Against this background, a common vision and principles, which would form a road map on how to strengthen the fundamentals of the EMU, is necessary.

The European Parliament calls on the European Council meeting in June on this matter, to unequivocally express the need for further EMU reform in order to provide the EMU with an effective and democratic economic government (for areas where the Commission can act as the executive, and where Parliament and Council act as co-legislators).

Any further development of the EMU should be fully based and further build on the revised legislation in place (like the Six/Two Pack and the Banking Union). To be effective and legitimate such a government should be fully placed within the institutional framework of the Union, and it should improve its capacities at least in seven policy areas (see below) based on a consistent road-map with clear objectives (vision) concrete milestones. The most pressing improvements under the current legal framework, would be implemented first, while a second phase of more far-reaching reforms would be foreseen.

1) A new legal framework for economic policy coordination:

- ✓ Convergence Guidelines enshrined within a Convergence Code, adopted under the ordinary legislative procedure, creating more binding framework for economic policy coordination (key economic, competitiveness and social targets), open to all 28 Member States.
- ✓ Laying down a limited number of crucial areas for structural reforms increasing competitiveness, growth potential, real economy convergence and social cohesion over a period of 5 years to strengthen the European Social Market Economy (as outlined in Article 3 (3) TEU).
- ✓ Clear division of competences between the EU level and Member States, increasing Member States ownership and National Parliaments role in implementation programmes.

2) Simplified and more focussed Semester process:

- ✓ Few and more targeted Country Specific Recommendations, based on the policy framework set out in the Convergence Code, the AGS and the assessment of national reform programmes and stability or convergence programmes presented by each Member State. They will need to define key reform objectives from a broad range of structural reforms, fostering competitiveness, real economy convergence and social cohesion.
- ✓ A good balance needs to be made in the design of the Country Specific Recommendations in order to both safeguard national ownership of reforms and the effectiveness of the recommendations.
- ✓ A result-oriented mechanism to evaluate and monitor the process, definition and implementation of the Country Specific Recommendations.
- ✓ The current framework and procedures should be simplified and made more transparent (EU institutions involved should act in a more transparent way).
- ✓ An overall assessment of budgetary situations and prospects in the euro area as a whole and the individual Member States ahead of the spring Council and properly implemented.
- ✓ Some key concepts in the current framework, such as “structural balance” and “fiscal effort” need to be codified in EU law, as they have major impact on the levels of fiscal adjustments.

3) An increased EU investment capacity:

- ✓ Innovative approaches like the European Fund for Strategic Investments should be fully exploited and further built on, as more needs to be done to mobilise needed investments in Europe.
- ✓ Full implementation of existing “six pack” and “two pack” framework. Address especially macroeconomic imbalances and secure long term control over deficit and still extremely high levels of debt by improving spending efficiency, prioritising productive investments, providing incentive to structural reform and taking into account business cycle conditions.

4) Establish a fiscal capacity within the euro area:

- ✓ Provided that sound fiscal policies are in place, the establishment of a conditional financial instrument within the EU budget to support re-balancing, adjustment and thereby growth of the economies of the EMU would serve as the initial phase towards the establishment of a stronger fiscal capacity alongside more deeply integrated policy coordination mechanisms.¹
- ✓ To assist Member States in the implementation of agreed structural reforms based on certain conditions, including the effective implementation of that national reform program agreed within the Semester. Such an incentive based instrument will have to prevent any moral hazard.
- ✓ Further budgetary coordination (including a possibility to require a revision of a national budget in line with the obligations of the Stability and Growth Pact and the Treaty on Stability, Coordination and Governance in the EMU), the extension of deeper policy coordination in the field of taxation and employment, and the creation of a proper fiscal capacity for the EMU to support the implementation of the policy choices resulting from the deeper coordination should be established.²
- ✓ Any new instrument should be placed within the EU budget but outside the agreed multiannual financial framework ceilings and based on *own resources*, following the EU's budgetary procedure. Existing structural funds should be better used to foster competitiveness and cohesion.
- ✓ The EMU should increase its resilience when facing economic shocks while any forms of permanent fiscal transfers should be prevented. Underlines the importance of preserving strong automatic stabilisers in the Member States in view of their role in maintaining social cohesion as well as in stimulating internal demand and economic growth over the economic cycle.
- ✓ We reiterate the idea made in the EP's report on multi-tier governance (of 2013) that in the long term the Commissioner for Economic and Financial Affairs would become a Treasury Minister.
- ✓ Concerning the constitution of a Redemption Fund, the main findings of the Expert Group created by the Commission and led by Mrs Tumpel-Gugerell should be duly considered.

5) Single Market and financial integration:

- ✓ Full exploitation of the growth potential of the Single Market, in particular the Digital Single Market.
- ✓ Better control of the correct application and better enforcement of the existing *acquis*.
- ✓ Completion of the Banking Union.
- ✓ Options for a single European deposit guarantee fund with functioning deposit guarantee schemes backed by appropriate levels of funding, should be explored,

¹ "A blueprint for a deep and genuine EMU", Communication from the European Commission, November 2012

² "A blueprint for a deep and genuine EMU", Communication from the European Commission, November 2012

once an effective resolution scheme and an effective single supervisory mechanism are fully operational.

- ✓ EU has to guarantee a proper link between risk-taking and liability in the financial sector to prevent any “socialisation” of losses due to “too big to fail” institutions. Regulation should ensure financial safeguards against financial crises e.g. via appropriate minimum capital requirements.
- ✓ Establishment of a true capital markets union.
- ✓ Significant progress on taxation, including combatting tax fraud, evasion and avoidance, aggressive tax planning internally and internationally, as well as a Common Consolidated Corporate Tax Basis directive with a minimum rate. If such progress cannot be achieved in the framework of 28 Member States, enhanced cooperation should be implemented.

6) New social pact:

- ✓ A social pact aimed at preserving Europe’s social market economy, respecting the right to collective bargaining, under which the coordination of the social policies of the Member States would be enhanced.

7) A more democratic institutional set-up

- ✓ Proper democratic legitimacy and accountability must be ensured at the level at which decisions are taken and implemented with national parliaments scrutinising national governments and with an enhanced role for the European Parliament at the European level. As a matter of fact, the European Parliament would adopt the Convergence Code (together with Council), while national Parliaments would decide on the specific way of implementation in the Member States.
- ✓ The European Parliament is the Parliament of the euro, as the EMU is established by the Union, whose citizens are directly represented at Union level by the EP. Any formal differentiation of parliamentary participation along national lines (‘euro area committee’) is incompatible with the Treaties. Any interparliamentary cooperation should not be seen as establishing a new joint parliamentary body.
- ✓ The European Commission to be endowed with the implementation and enforcement of any future or existing instruments.
- ✓ Formalise the EP’s scrutiny role in the Semester, including a formal involvement of the EP in the adoption of the AGS, as well as the democratic scrutiny of the Eurogroup as a whole on the European level by means of an Inter-institutional Agreement.
- ✓ A genuine dialogue with all interested social partners should be established. Address weakness in the system that enables certain parts of the Treaty to be overseen by the Court while others are excluded.
- ✓ Single external representation of the Euro area.
- ✓ Stresses the need to strengthen the democratic accountability of the European Parliament and that of the national parliaments as regards essential elements of the euro area’s operation, such as the European Stability Mechanism, Eurogroup decisions and the monitoring and evaluation of financial assistance programmes;

asks the Commission to conduct and publish internal ex-post evaluations of its recommendations and its participation in the Troika.

- ✓ The ESM should be incorporated into the Union legal framework, be transformed into a European Monetary Fund, and be made accountable to the European Parliament.
- ✓ The substance of the Fiscal Compact needs to be integrated into the EU legal community framework by 1 January 2018 on the basis of an assessment of the experience with its implementation, as stipulated in Article 16 of the TSCG.
- ✓ National parliaments need to be engaged in the process of preparing their governments' fiscal and reform plans before their submission to the Union; intends to propose to add this explicit responsibility to the functions enjoyed by national parliaments under the provisions of Article 12 TEU
- ✓ As a matter of principle differentiated integration should remain open to non-euro Member states, namely countries with derogation, wishing to participate.
- ✓ Priority should be given to ordinary legislative and budgetary procedures at EU level, by making use when necessary of derogations and safeguard clauses and establishment of dedicated budget lines. Ordinary provisions specific to Member states whose currency is the euro or enhanced cooperation provisions can be used when the above mentioned procedures are not legally or politically possible, in combination where necessary with art. 352 TFEU.
- ✓ The bridging clause of art. 48(7) TEU should be used to strengthen the democratic legitimacy and the effectiveness of the EU governance.
- ✓ "Passerelle" should be used to strengthen the democratic legitimacy and the effectiveness of the EU governance.
- ✓ Flexibility clause can be used, also in combination with enhanced cooperation, when EU additional powers are required. Simplified and ordinary treaty change procedures shall be put at the end of the cycle of EMU reform. Simplified and ordinary treaty change procedures shall be put at the end of the cycle of EMU reform.