



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

AUSTRIA

AT Input

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Report on Preparing for Next Steps on Better Economic Governance in the Euro Area

Questions for Sherpas ahead of the meeting on 27 April 2015

1. Many contributions call for a streamlined, simplified and better focused European semester. How could this be achieved concretely?
 - **In principle, Austria welcomes the recent adaptations to the process of the European Semester and the debate on further, more substantial adaptations.**
 - **The country-specific recommendations should concentrate on the priority areas without being overly prescriptive as regards policy implementation. Member States are ultimately responsible for deciding on concrete policy measures and instruments within their national sphere of responsibility. However, regular debates in the relevant committees and in particular on political level in the various Council formations as well as intensified dialogue on structural reforms are essential in the overall process. Improving the political dialogue with the Commission in the Member States could be considered.**
 - **There has to be a close link between the European Semester and the broad and well balanced Europe 2020 strategy.**
2. The need to strengthen the momentum for structural reforms, particularly in the Euro Area Member States, is underlined in most contributions. What instruments should be employed to foster implementation of reforms? In particular, how to launch a process of real convergence in the areas that are considered key for the smooth functioning of EMU? Which areas would be concerned?
 - **Since the onset of the crisis, much of the progress achieved so far in terms of convergence has been reversed. Since then a number of instruments and processes have been put in place (especially MIP, European Semester), which now have to be implemented thoroughly. The Europe 2020 strategy and its targets in various policy areas (employment, education, R&D, fighting poverty and social exclusion, climate and energy) is the relevant framework for achieving more convergence.**
 - **As regards the implementation of structural reforms, in our view no new instruments are needed. We share the opinion that emphasis should be on the full implementation of the current framework and rules. Structural reforms that enhance growth and improve fiscal sustainability should be given particular attention.**

- **This also requires making best use of the flexibility that is built into the existing Stability and Growth Pact rules. The methods of assessing the appropriate fiscal stance, especially in times of cyclical downturns have to be improved.**
 - **We should continue to fight tax evasion and aggressive tax planning since this is essential for securing a fairer taxation and economic efficiency. It is important to focus on the issues where the European Commission has already presented proposals, e.g. the Interest and Royalties Directive and the automatic exchange of information on tax rulings. Furthermore Austria supports the introduction of a FTT with a broad tax base.**
3. Regarding a prospective fiscal capacity for the Euro Area, should it be linked to progress on structural reforms, and if so in what form? What other functions should such a fiscal capacity serve (e.g. investment, asymmetric shock absorption)? How could it be phased in?
- **As regards the debate on the fiscal capacity, we should differentiate between the short and long-term perspective.**
 - **For the short-term, Austria reiterates the necessity for full implementation of the current framework in the coming years both by Member States and EU-Institutions. Thorough evaluation should follow at a given time.**
 - **In the medium to long-term, any proposals on further risk sharing on the Eurozone / EU-level (i.e. a fiscal capacity as a shock absorption mechanism) would have to go hand in hand with better enforcement of national budgetary policies in order to avoid the problem of moral-hazard. Further sharing of sovereignty, however, would pose far reaching constitutional questions.**
4. Several contributions refer to the need to take better account of the social dimension of EMU. How could this be done in practice?
- **One of the fundamental goals according to the Treaty is to achieve economic and social progress simultaneously. Social divergence undermines the credibility and acceptance of the European project. The social dimension of EMU is one of the topics that has been neglected in the past years and needs much more in-depth discussion.**
 - **For the short term we consider the following elements important:**
 - **The social impact of reforms has to be monitored. The relevant indicators and instruments should be further developed at EU and national level. Trade-offs between different CSRs should be addressed and discussed with relevant stakeholders.**

- In general the European Council should play an active role within the European Semester. Traditionally the Spring Council dealt in particular with economic, employment and social questions. We consider regular debates on these issues at the highest political level of unchanged importance. On the basis of the existing reporting on the social developments in the EU and the Eurozone, the European Council should explicitly address the social situation at each Spring Meeting.
5. Many contributions focus on the shorter term, but many also mention the need for a medium and long-term dimension. What should be the essential building blocks for the longer term? Pending further Treaty changes, could further steps of economic integration be envisaged on an intergovernmental basis?
- If, in spite of the recent reforms and after their thorough evaluation, further reaching measures should turn out to be necessary in the medium or long-term, discussions should take place at a given time.
 - At any rate, a balanced and fair economic development and smart, sustainable and inclusive growth must be in the center of our efforts.
 - Democratic legitimacy and accountability have to be ensured at the level at which decisions are taken and implemented.
 - Clearly, far reaching treaty changes require a convention.
 - In principle, the traditional, treaties-based approach, which ensures the application of the community method, should be applied.
6. Many contributions also make reference to the Capital Markets Union and banking union. What elements would be necessary to complete the banking union?
- When establishing the banking union, major steps of integration have been taken. However, it is too early to assess the functioning of SSM and SRM.
 - In order to meet the envisaged objectives, the SSM and the SRB must gain credibility, otherwise the vicious circle between banking sector and sovereign cannot be broken. In this regard, it is especially essential to avoid any reference to the sovereign when dealing with aspects of financing the resolution. The establishment of the Single Resolution Fund can only partly reach that target as long as the question of providing additional financial means in case of need involves the sovereign in one way or the other. Therefore the ESM should be established as a common backstop as quickly as possible, credit lines from the ESM to the SRF could solve the problem in the transitional phase. Furthermore,

institutional independence will generally strengthen the credibility as well, which requires changes in the legal framework in the long run.

- **In addition, the current framework for macroprudential supervision should be improved, i.a. along the lines of the ESRB review of last year. In this regard the competences for the macroprudential supervision should also be reconsidered.**
7. **The call for stronger political legitimacy and accountability is omnipresent in Sherpas' contributions. How to achieve this concretely?**
- **Democratic legitimacy and accountability are common fundamentals of all political action in the EU and its Member States. These principles have to be ensured at the level at which decisions are taken and implemented.**
 - **Therefore modalities of adequate involvement of national parliaments and of the social partners in the European Semester have to be dealt with in each Member State. In this context, the full potential of the Interparliamentary Conference on Economic and Financial Governance of the European Union should be exploited.**
 - **Moreover, better dialogue between the national parliaments and the European Parliament would be desirable.**