



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

FINLAND

Second Contribution

15.5.2015

Report on Economic Governance in the Euro Area

Finland's considerations

Streamlining the European Semester

In order to streamline and simplify the European Semester we should concentrate on policy areas with the most direct link to Euro Area stability. In other policy areas regular peer reviews and, when justified, naming and shaming could be sufficient in supporting progress and linking national reform agendas to the greater EU level framework.

In concrete terms, the EDP would provide the necessary emergency break, strictly implemented and, when needed, leading to sanctions. In the other procedures – namely the preventive arm of the SGP and MIP – where indicators are often unobservable and open to interpretation, any formal steps of escalation have proven difficult in practice. Therefore in these procedures we should put emphasis on the original idea of economic policy coordination.

Strengthening of structural reforms

To strengthen the implementation of structural reforms, we should first fully operationalise the instruments developed in the Commission flexibility Communication, specifically the Structural Reform Clause and see how it improves the implementation of reforms and country-specific recommendations. Further measures could then be considered based on these experiences.

Thematic discussions in the Eurogroup, sharing best practices and experiences and naming-and-shaming have proven to be useful in promoting reform agendas in Member States and should be further developed.

Completing the banking union and a capital markets union

The banking union contributes to the objective of a more stable EMU by weakening the connections between a state and its banking sector and by increasing market discipline. The completion of the banking union should focus on two strands of work. First, the resolution framework should be finalized in a manner that minimizes the use of public funds in bank resolution. Second, remaining structures that maintain bank-sovereign linkages, including the various preferential regulatory treatments of sovereign exposures, should be eliminated. At the same time, legislation on capital requirements should be further harmonized, e.g. weeding out national options that unlevel the playing field, in particular in respect of the quality of capital.

Strengthening the role of financial markets alongside bank financing within the framework of the objectives of a capital markets union would diversify the currently bank-based financial markets and thus also contribute to a more stable EMU.

Ensuring full respect of the no bail-out rule

In the medium and longer term, we should return to the full respect of the no bail-out rule. The aim should be an EMU where market pressure works in a predictable manner to support fiscal discipline and structural reform. Such a framework should ensure that there is always a realistic alternative to sovereign bail-outs.

Idea of a fiscal capacity for the Euro Area

As long as the Member States are as heterogeneous as they are today, creation of a possible fiscal capacity would in effect entail a transfer union and expand joint liability. Therefore considering a fiscal capacity is not realistic before a much closer economic convergence among the Member States has been achieved, including of debt levels.

Even in a long-term there is no need to create a financial mechanism compensating for structural reforms which are beneficial as such. Moreover, a well-functioning banking union would be much more effective in buffering asymmetric shocks than a Euro Area fiscal capacity.

Political legitimacy and accountability

Since responsibility for economic policy is with the Member States, political legitimacy and accountability of economic policy-making is best secured at national level through national parliaments. This would also contribute to a greater ownership.