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

ESTONIA

ESTONIAN NON-PAPER

The fundamentals of the European economic governance as reflected in the Treaties and the derivative secondary legislation are sound – Estonia strongly supports the stability providing elements of the EMU that form a basis for investment and growth.

Main elements of the EMU are in place. We support a gradual (and possibly benchmarked) approach to further fiscal, financial and economic integration of the euro area. It is important to focus on restoring confidence and to ensure that new measures are implemented. We could consider the integration of measures agreed in Fiscal Compact into the EU framework, and where appropriate into primary law. Estonia prefers the Community method and the involvement of all or as many Member States as possible into any set of measures.

Agreed rules and procedures should be implemented and strengthened. Most importantly the Commission should use its full powers to assess the budgetary plans and to make recommendations proportional to the imbalances and risks involved. Flexibility must stay firmly within the agreed framework of the Stability and Growth Pact. Only with timely and well implemented structural reforms can we achieve long lasting effects of the current supporting monetary policy measures. New initiatives must be accompanied by in-depth analysis. For example, aging and the related fiscal burden should lead to increased pace of government debt reduction in comparison with that envisaged in the Stability and Growth Pact and Fiscal Compact. Other measures could consist of strengthening of the fiscal surveillance by introducing a supervisory mechanism similar to infringement procedures or alternatively, introducing proportional mechanisms to address the debt criterion and more automatic mechanisms in case of non-performance of deficit target. Debt surveillance procedures could be considered en par with deficit procedure. Indicators that are used to analyse macro imbalances are relevant and we do not consider it necessary to supplement the list of key metrics. The depth and scope of further integration determine the need for the enhancement of democratic control mechanisms at the European level. However, such controls should also comply with the principle of separation and balance of powers.

Improving and streamlining the European Semester process. The different stages of the European Semester, i.e. the general and country specific guidelines, budgetary plans, and the monitoring and correction phase should be transparent, coherent and predictable. They should form a holistic process**.** The idea of reform/contractual agreements could lead to a new level of coordination with increased ownership and more precisely targeted recommendations focusing on the problems in a particular Member State. We remain sceptical of the potential that new solidarity instruments possess to fund reforms, especially if they are in form of a grant or transfer-type instrument. Measures of this type should be included in the Community budget and might be studied in the context of multiannual budget review and/or planning cycle, being particularly vigilant against the risk of moral hazard. At the EU level, public investments should be linked to and be supportive of the implementation of structural reforms and competitiveness.

Progress on further fiscal integration should be path-dependent. It should focus on delivering key reforms and meeting fiscal targets. In the long-term, Estonia does not exclude the idea of limited euro area budgetary capability. However, we would prefer a reserve fund type solutions at the national level. The focus should be on delivery of key reforms and meeting of the targets rather than generating mechanisms of transfer. Moral hazard must be avoided. Neither the current situation in the Member States nor the level of integration provide for a stable environment for common risk sharing, such as, but not limited to common bond issuance. Any future system should be supportive of fiscal targets and it should strengthen market signals.

There should be a firm commitment to delivering on the reform agenda at the level of the Union. This should be based *inter alia* on the Strategic Agenda of the European Council, in particular on the Single Market reforms and deepening of four freedoms. Particular focus should be set on high growth potential in key areas where the market is still fragmented (services, network industries and infrastructure, digital, energy, capital market). Capital market development can create additional momentum to diversify funding over and beyond the current bank-based model.