



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

CZECH REPUBLIC



Deepening the Economic and Monetary Union – Preparation of the Four Presidents Report

Czech Answers to Questions for Sherpas

15 May 2015

General Position:

The Czech Republic supports efforts to stabilise the EMU as well as the EU debate on essential reforms for growth and employment. The Czech Republic has an interest in supporting those actions that lead to stabilisation and better functioning of the eurozone. This interest is not based only on economic terms, as we are closely linked to the euro-area economy, but mainly on the perspective of a country committed to the future membership in the monetary union. It is crucial to discuss all steps leading to the eventual deepening of EMU in the format of all EU Member States as these might be affected either indirectly by potential consequences or directly as future members of the eurozone.

A fully stable and prosperous eurozone is a long-term objective, but current problems have to be addressed primarily by proper implementation of the existing rules. We do not propose creating additional rules until the current ones are properly tested and fully utilised in practice. Therefore the Four Presidents Report should focus most thoroughly on current issues, especially implementation of measures that aim to simplify and streamline policy coordination. Furthermore, related social issues should be accentuated in the paper. The social dimension of EMU must become an integral part of the debate and must be taken into account should any adjustments to the current system of economic governance be undertaken.

1. Many contributions call for a streamlined, simplified and better-focused European semester. How could this be achieved concretely?

The Czech Republic supports the emphasis on streamlining and simplifying the European Semester. We appreciate especially the already completed review of its schedule (earlier publication of Country Reports and CSRs), which enables better involvement of national parliaments, social partners and other stakeholders.

The Czech Republic supports the current approach of the European Commission that recommendations are focused only on priority areas to promote growth and substantial economic challenges. Recommendations should enable the Member States to respond to them by measures that correspond to their specific conditions and needs. Recommendations should provide the Member States with sufficient space to choose the most appropriate instruments and measures to achieve the objectives, especially for states, which are not subject to macroeconomic problems.

According to the Czech Republic, the Member States should be involved more closely in drafting recommendations through bilateral consultations at technical and political level so that national specificities (current economic situation and program priorities of the government) are better taken into account. Therefore we welcome the increased involvement of Commissioners who come to the Member States to discuss economic challenges and subsequent draft recommendations, which contributes to greater transparency of the process.



The Member States should also have the opportunity and enough time to engage their political, economic, social and other professional stakeholders, including the national parliament, in discussions on the European Semester in all its stages. It might enhance better acceptance at the national level. Furthermore, there should also be horizontal communication between national authorities and institutions and their European and other member states' counterparts. Other Council formations besides the ECOFIN and the EPSCO and their preparatory bodies should be also engaged in the discussions.

The Czech Republic would also welcome some simplification of procedures, which would reduce the administrative burden on the part of Member States (e.g. reporting the same data only once).

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?

The Czech Republic welcomes that most Member States mentioned structural reforms as an element of economic stabilisation of the EU. The key areas for reform that would ensure real convergence and reduce macroeconomic imbalances and thus ensure more effective functioning of EMU are mainly increasing the productivity and effectiveness of labour, product and service markets. However, reforms should not be primarily focused to increase price competitiveness, but to support acceleration of economic growth through research and innovation, increasing labour and total-factor productivity, effective management of public resources (including the strengthening of the revenue side of public budgets by combating tax evasion Europe-wide) and a stable situation on currency markets. Market flexibility should also not come at the cost of reducing social rights or increasing precariousness of individuals or small businesses. To stabilise convergence it is particularly necessary to deepen the rules of the internal market, to remove administrative barriers, to emphasise the development of economic sectors with high added value and to increase the overall level of competition between businesses in Europe.

Structural reforms should contribute to greater efficiency in the labour market, but with the primary aim and effect of simplifying the existing legislation, not reducing the protection of employees. It is crucial to timely respond to changes in the economic environment and consumer preferences and ensure availability of skilled workforce through education reforms and promotion of lifelong learning. Measures to promote growth of median household income are key elements to reduce the risk of decline in aggregate demand and prevent further rise in income inequality. Emphasis should also be put on measures aimed at increasing the quality of public administration and its functioning. In this context there is a considerable scope for improving the management of government investments and public procurement where clear competition rules must be duly applied. The general objective of structural measures should be to strengthen potential growth as it plays an important role for investments in research and development of new technologies as well as in increasing labour productivity.

In terms of macroeconomic stabilisation we also consider as important to obtain a sufficient level of diversification of economic output and to improve its position within the global product chains. EU competitiveness can be also enhanced through reforms on the energy market, which is important for a considerable part of the European economy.



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?

The Czech Republic understands there are certain limits of the current institutional framework of the Economic and Monetary Union, including the lack of fiscal capacity for the eurozone. It also recognises the need for a long-term vision for a fully functioning euro area. However, with respect to the executive part of the Four Presidents Report we would like to emphasise the need to focus on the short-term priorities with long-term plans only in prospective part, as it was the case in former reports, including the Commission Blueprint towards the genuine EMU.

A common fiscal capacity for the eurozone can be executively considered after the current coordination mechanism obtains proper credibility or demonstrates itself to be ineffective. More effort should be devoted to the evaluation of the current mechanisms and to the level-playing field between member states.

Respecting the need for the use of current rules, if fiscal capacity is to be considered in the Report, it should ensure a level playing field for the pre-in member states. Apart from reasonable conditionality, it must be neutral over the business cycle and should not create new long-term unidirectional flows within the EU. It should serve as a deterrent to speculative development or contagion, reduce market failure (e.g. perceived country-specific risk). Further, it should function anti-cyclically and eventually reduce excessive economic and social costs (e.g. obsolescing material and human capital, unemployment) of self-perpetuating economic downturns. Fiscal capacity cannot serve as a macroeconomic adjustment tool, but must be a preventive part of macroeconomic imbalances, not their resolution tool (especially not repetitive). It should be used so as to increase the aggregate potential output of the EU economy and ensure its robustness in the global economy by reducing susceptibility of being victim to global contagion.

4. Several contributions refer to the need to take better account of the social dimension of EMU. How could this be done in practice?

Social dimension of the EMU and monitoring of the social impacts of the coordination and governance should be taken into account. Structural reforms with a potential impact on social cohesion, if part of EU coordination or adjustment mechanisms, should be explicitly assessed and justified through this angle. In order to increase legitimacy, social partners and parliaments, especially their social affairs committees, could be involved in this evaluation. The social dimension of the EMU could also have a form of increasing the effectiveness of the European Social Fund and social chapters of other structural and cohesion funds, as well as enlarging their application base and visibility to the public. Moreover, the functioning of the GAF could be streamlined so to make the role of EU in mitigating the costs of globalisation adjustment more visible.

However, it should not lead to duplication of processes, such as social indicators monitoring through the so-called social scoreboard and their parallel evaluation within the macroeconomic imbalances procedure. Appropriate cooperation among relevant DGs and Council formations should therefore be deepened.

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?



The Czech Republic supports the current framework of the economic governance in the EU and the euro area. In order to maintain this framework fully functional, it is important to focus more on its proper use over its further expansion. In the long run, and only after the current framework is fully implemented, we can follow with next steps.

If long-term institutional change is considered in the Report, the position of the pre-in countries should be respected on an even footing with eurozone countries. Moreover, all measures involving risk sharing or other forms of mutual pooling should respect neutrality over the business cycle and be conditional on a reasonable degree of conditionality.

The Czech Republic considers intergovernmental agreements as crisis instruments that are able to respond flexibly, but they lack long-term vision and firm establishment in the framework defining the functioning of the euro area and the EU. For this reason, in the long term we encourage more community approach, including possible future changes to the Treaties.

6. Many contributions also make reference to the Capital Markets Union and banking union. What elements would be necessary to complete the banking union?

As for the Banking Union, we cannot exclude eventual future need for further discussion on the organisation and completion of its mechanisms, particularly in the case of the so-called backstop. However, these issues cannot be clarified before the Banking Union is fully functioning and the robustness of the entire system is tested in practice over a sufficient period of time. At the moment, it is necessary to focus particularly on proper implementation of the already agreed rules. At the same time, an agreement on the mechanism of transitional funding of the Single Resolution Fund (SRF) should be urgently reached. It should be available from the very start of the SRF (1st January 2016). Its implementation in the Member States of the Banking Union will require some time, even after eventual agreement is reached.

7. The call for stronger political legitimacy and accountability is omnipresent in Sherpas' contributions. How to achieve this concretely?

The Czech Republic fully supports steps towards strengthening the democratic legitimacy of the EMU, because public support is essential for the integration project. The Czech Republic would particularly appreciate greater involvement of national parliaments, which should be based on and respond to the division of competences among Member States and the EU in specific areas and when deciding on individual measures. For a long time already, the Czech Republic has been drawing attention to the ongoing debate on more effective and efficient involvement of national parliaments in the democratic control within the existing Treaties, for example through pre-legislative consultations and the so called Green Card. Democratic control should not be based only on ex post approval by democratic bodies, but increasingly on input legitimacy where parliaments could feel to have a real voice.

On the contrary, the Czech Republic as a country still in preparation for the accession to the euro area does not support establishment of separate institutions for the eurozone should the pre-in countries be excluded. For the Czech Republic it is essential to ensure transparency in the debate on possible changes in the functioning of the EMU. Discussion on specific proposals should be preceded by a clear definition of the changes under consideration, their objectives and the consequences for both the eurozone and the EU as a whole.