



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

DENMARK

EMU questions: DK comments

General points: Denmark strongly supports measures to ensure stability in the Euro area and the EU as such. The new fiscal and economic governance measures adopted in follow up to the crisis have helped build confidence and provide the necessary basis for a strong and well-functioning EMU. The main focus should be on effectively implementing and enforcing this framework.

Denmark appreciates an open and inclusive process for all Member States. It must remain a main ambition to maintain the cohesion of EU28. Denmark wishes to engage constructively in negotiations and consider from case to case where it would be relevant for Denmark to participate – as we participate in the Fiscal Compact and the Europlus Pact.

The Euro area Member States have made important commitments to manage crisis (ESM, loan programmes etc.) alongside key EU-wide initiatives. In parallel, the euro area has also considerably strengthened formal governance structures (euro-summits, a stronger role of the euro working group preparing eurogroup meetings etc.). Denmark clearly acknowledges the need for the euro area Member States to discuss matters strictly concerning the euro. This should, however, not challenge the integrity and transparency of EU28 decision making. Deliberations on sound fiscal policies, structural reforms and internal market regulation are relevant for all EU Member States.

Any new measures to strengthen the EMU should safeguard the integrity of the single market as well as the EU legislative procedures etc. in the financial area.

Please find below Danish comments on the questions posed in the Commission's analytical note on strengthening the EMU.

Q1. How can we ensure sound fiscal and economic positions in all euro area Member States?

***DK position:** The Euro area Member States and the EU as such have taken very important and necessary measures in follow up to the crisis. The new fiscal and economic governance rules adopted since 2010 (the six-pack, two-pack, fiscal compact etc.) are crucial in order to ensure sound fiscal and economic positions in all Euro area Member States as well as other EU Member States not participating in the third phase of EMU.*

The initiatives will only be effective if fully implemented by Member States and fully enforced by EU institutions. With the new governance structures, the Commission has been given an enhanced role in enforcement of the rules which should be fully exploited.

The fiscal rules, the macroeconomic imbalance procedure and the country-specific recommendations cover all policy areas and are well geared to reach the objectives of sound fiscal and economic positions, including supporting sustainable growth and job creation. Denmark strongly agrees with the analytical note that the important focus now is the implementation, enforcement and respect of the reformed rules. Possible further development of the EMU should focus on how to add value to what has already been done. Preferably, the

ambition should be incremental and realistic improvements in the short and medium term and fine-tuning of the framework already established.

Q2. How could a better implementation and enforcement of the economic and fiscal governance framework be ensured?

***DK position:** The Commission has a very important role in applying and enforcing the rules, and has been given improved possibilities for enforcement of the new rules (for instance through introduction of reverse qualified majority voting in the excessive deficit procedure and the macroeconomic imbalance procedure and the Commission's role in examining the draft budgetary plans of euro area Member States). Sanctions should be a credible threat and could be used actively. So could the provisions for suspending payments from the EU structural funds to EU Member States not complying with excessive deficit procedures and excessive macroeconomic imbalances procedures.*

The responsibility to comply with the strengthened governance rules ultimately lies with the EU Member States. Peer pressure at the level of the Council (and if necessary at the level of the European Council) remains important and could be strengthened through more political focus on EU Member States' implementation of and the Commission's compliance with the rules. Specifically, the European Semester as the overarching frame for economic policy coordination in EU28 could be further improved to ensure targeted political discussions at the highest political level of Member States' economic challenges. Furthermore, the Commission should provide a better justification and prioritisation of recommendations and of decisions taken under the various procedures that are part of the European Semester framework. Also follow-up could be improved by carrying out closer monitoring throughout the year of implementation of Country-Specific Recommendations to assess whether Member States are on track with the implementation of their reforms. Among others, the DE input on the European Semester (Oct 2014) and the DE/DK/NL input on the Europe 2020 strategy (Nov/Dec 2014) have previously addressed these priorities.

Q3. Is the current governance framework – if fully implemented – sufficient to make the euro area shock-resilient and prosperous in the long run?

***DK position:** It is the view of Denmark that the current governance framework, including the new rules – if fully implemented – is sufficient to address the challenges mentioned in the analytical note. The long run prosperity of the euro area and the EU depends on Member States' structural reforms that are in turn supported by the current governance framework.*

Q4. To what extent can the framework of EMU mainly rely on strong rules and to what extent are strong common institutions also required?

***DK position:** The EMU requires - and already has - both strong rules and institutions (i.e. the Commission and the Council). From a Danish point of view, they are sufficient if the rules are applied and enforced and the institutions exercise their mandates consistently.*

The existing enforcement tools already present in the new rules have not yet been fully used and explored which would be relevant before considering new institutional models. There is no guarantee that new institutional set-ups would ensure better rule compliance.

Regarding possible further euro governance measures, Denmark acknowledges the need for the euro area to discuss matters strictly concerning the euro. However, a balance is needed to ensure that this does not challenge integrity and transparency of EU28 decision making. Deliberations on sound fiscal policies, structural reforms and internal market regulation are relevant for all EU Member States. Further institutionalisation such as new euro-only formats in other council formations than ECOFIN could risk creating unnecessary divisions between Member States.

Q5. What instruments are needed in situations in which national policies continue – despite surveillance under the governance framework – to go harmfully astray?

***DK position:** Reforms begin and end in national governments and parliaments. However, the Commission has a very important role in applying and enforcing the rules, and has been given improved possibilities for enforcement of the new rules, cf. the answer to Q2. This should prevent such developments in national policies to a higher degree than before. The provisions on sanctions could be used actively as well as the provisions for suspending payments from the EU structural funds to EU Member States not complying with excessive deficit procedures and macroeconomic imbalances procedures.*

Q6. Has the fiscal-financial nexus been sufficiently dealt with in order to prevent the repetition of negative feedback loops between banks and sovereign debt?

***DK position:** A large step forward has been taken with the adoption of the banking recovery and resolution directive (BRRD) and the establishment of the Banking Union. Consistent implementation of the new regime is important.*

However, this does not remove or diminish the need for sound economic policy and reforms in individual Member States to underpin financial stability.

Q7. How could private risk-sharing through financial markets in the euro area be enhanced to ensure a better absorption of asymmetric shocks?

***DK position:** A better functioning capital market could help mitigate shocks across different Member States in the EU at large, so that financing sources are broadened and that risks are also shared on a broader scale.*

Therefore, Denmark welcomes the Commission's initiative of a capital markets union focusing on removing barriers to non-bank financing, and looks forward to discussing the specific initiatives in this respect.

Q8. To what extent is the present sharing of sovereignty adequate to meet the economic, financial and fiscal framework requirements of the common currency?

DK position: The EMU has been strengthened significantly by the stronger fiscal and economic rules, stronger common financial regulation and the Banking Union, as well as the ESM. It is the Danish point of view that the EMU will be able to function well within the framework of the new and improved rules, provided they are fully implemented and enforced.

Q9. Is a further risk-sharing in the fiscal realm desirable? What would be the preconditions?

DK position: It is the view of Denmark that rule compliance is key to address the challenges for the EMU. Common debt issuance (e.g. eurobonds) or a central spending capacity (e.g. a euro area budget for automatic stabilization or discretionary spending) does not address rule compliance and could risk diminishing incentives for structural policies as the relations between national spending, taxation, and debt financing are weakened.

Labour market and welfare institutions as well as the structure and level of taxation etc. differ significantly among Member States according to political preferences. This makes it difficult to achieve automatic stabilization across the euro area without introducing permanent transfers from Member States with for instance low structural unemployment to those with high structural unemployment etc.

National responsibility for economic policy remains crucial for national ownership and legitimacy. Respect of the fiscal rules, notably the medium-term objectives of structurally balanced budgets, would provide Member States with the necessary room for budgetary stabilization across the business cycle.

Should the Euro area Member States decide to move forward with initiatives on further risk-sharing, Denmark would underline the need for openness and transparency for all Member States as well as full compatibility with the Single Market.

Q10. Under which conditions and in which form could a stronger common governance over structural reforms be envisaged? How could it foster real convergence?

DK position: A key ingredient could be stronger peer pressure at the level of the Council and the European Council, within the existing procedures, rules and frameworks.

New institutions or governance will not be effective in achieving the desired policy outcomes for a well-functioning EMU, if there is not sufficient common or individual commitment to and ownership of the rules among Member States, and if the rules are not properly enforced.

Q11. How can accountability and legitimacy be best achieved in a multilevel setup such as EMU?

***DK position:** Since economic policy is the responsibility of Member States and should remain so, accountability is first and foremost anchored at national level and in the national parliamentary and political structures. Reforms begin and end in national governments and parliaments*

National commitment and ownership is crucial to sound economic policy and effectiveness of economic reforms. This requires an appropriate balance between mutual commitments and national ownership so that Member States are free to choose the instruments in order to achieve the recommended objectives. New initiatives should not alter the balance in the European Semester in this respect.

The European Parliament has already been given a supplementary role to that of national parliaments, but should not replace or supersede the role of national parliaments.