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

MALTA

First Contribution

MINISTRY FOR EUROPEAN AFFAIRS AND IMPLEMENTATION OF THE ELECTORAL MANIFESTO
MINISTRY OF FINANCE

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Malta's replies to the questions contained in the Analytical note

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

Our point of departure must be to firstly instil mutual trust and this can only be regained by implementing feasible and pragmatic measures that require no treaty change. We do not believe that engaging in what will surely be a very difficult Treaty change debate spanning over a number of years at this stage will only increase uncertainty – legal and overall – which will undermine current efforts aimed at stability and increasing investment and growth.

We all want a prosperous Europe, and times of crisis have shown that solidarity is an important tool in getting there, however solidarity goes hand in hand with responsibility. Member States have a responsibility to own and carry out Structural reforms in a timely manner. This, inherently also means that Member States have a responsibility to adhere to the rules and procedures currently in place that seek to secure sound economic and fiscal positions.

Flexibility contemplated in the current rules should be exploited to the full when the need arises in order to ensure that these very rules, intended to ensure sound fiscal and economic positions, do not stifle growth when it is most needed.

Finally we need to acknowledge the key role played by the ECB in its capacity as the only European Institution which can act immediately during a euro area crisis.

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

It important to not only acknowledge that a lot of work has been done but also that many of the measures we have implemented have not even had enough of a life cycle to unleash their full impact, let alone for this impact to be evaluated.

At this juncture therefore, we do not see the need for the introduction of new rules on economic and fiscal governance and certainly not of rules that would be prescriptive in nature and ignore the inherent differences in Member States which cannot be converged – this would surely not be conducive to mutual trust and Competitiveness. Competitiveness necessitates the right degree of latitude and flexibility in the use of various economic and fiscal policy instruments. Moreover, dialogue and mutual agreement can go a long way in reinforcing trust.

Neither does Malta believe in the need to create a fully-fledged fiscal union with an independent EU revenue stream or common debt issuance mechanisms. However, Malta does support the view that the current rules need to be implemented as effectively as possible and that the Member States are to adhere to the frameworks as closely as their country-specific economic and financial situation allows.

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

We should not shy away from taking full account of all the work that has been achieved which, in our opinion, already addresses most of the real risks.

The current governance framework, if fully and well implemented, does, in our view, contribute substantially towards making the euro area more shock-resistant and prosperous in the long run. However, the implementation of this framework requires responsibility and national ownership and in the absence of this, the reforms will not be implemented fully and in a timely manner. The positive results brought about by structural reforms should themselves act as an incentive for Member States to carry them out. (e.g.: competitiveness goes along with productivity.)

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

We believe that what is needed now is for work to continue within the existing institutional and legal framework with enough leeway for Member States to exercise good economic judgement to tailor economic policies to the benefit of each Member State, taking into account spill-over effects on the rest of the members, particularly within the Euro Area.

It is important to safeguard the role of national parliament and social partners. The recent reforms have empowered national institutions (such as Parliaments and National Fiscal Councils) to act as a watchdog on government policies in order to improve accountability and transparency and increase national ownership.

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

We believe the instruments are already in place to ensure that Member States rectify any serious deviations. However, the EU should also be more open to the possibility that programs can be derailed if the programs themselves are ill-devised, particularly if we are being too prescriptive and/or short-term costs are underestimated. The EU should be ready to adjust programs particularly in crisis hit economies before economic conditions deteriorate and the situation gets out of hand. Lastly, it is in the interest of euro area Member States to follow sustainable economic, fiscal and financial paths so as to secure the credibility of the euro area while also securing a sustainable economic environment in their countries for the benefit of their citizens – this in itself should act as an incentive.

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

We acknowledge that the reforms which were introduced as a result of the sovereign debt should contribute significantly towards preventing the repetition of negative feedback loops between banks and sovereign debt and should go a long way in preventing another crisis. With respect to the financial stance, through the creation of the Banking Union, financial institutions are now in a better position to sustain future shocks given they have higher capital adequacy ratios and more conservative provisioning for unexpected losses.

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

One cannot think of a way to ensure better absorption of shocks without fully acknowledging the key role of the ECB. While actions by the ECB on their own are not enough, one needs to emphasise the need for the ECB – as the only European institution which can act immediately during a Euro area crisis by means of its powers as a lender of last resort and its abilities to prevent a liquidity crisis or confidence crisis from becoming a solvency crisis.

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

Trust can only be regained by implementing feasible and pragmatic measures that require NO treaty change and which respect the attribution of competences established in the Treaties, particularly, in terms of taxation issues, national insurance and issues relating to social security and social protection systems. The same applies to the use of the EU budget and its better utilisation to address asymmetric shocks and spill-over effects as was indeed done at the height of the Euro crisis and as is currently contemplated in the European Investment Plan. A clear message that should come out of the four Presidents' Report is that structural changes are not the only solution.

Three examples come to mind:

(a) the single market, a basic component of European integration which is still subject to numerous barriers;
(b) the Capital Markets Union which can be an opportunity to cater for the financing needs of SMEs;[1]
(c) further integration could also take place in additional spheres of financial policy coordination aimed to help further improve positive effects for the financial sector as well as for the real economy.

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

We are open to explore further possibilities in the future as long as it is not a fully fledged fiscal union. In the shorter term then, we believe that we should fully utilise all the work that has been carried out.

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

Solidarity goes hand in hand with responsibility. The solidarity that we have expressed has not always allayed trust issues. Member States have a responsibility to own and carry out structural reforms in a timely manner.

Provided that structural reforms are undertaken gradually and not in times of distress, the negative impact of structural reforms can be withstood without the need for compensation/solidarity mechanisms. The benefits of structural reforms in this case would be an incentive in itself.

As our past commitment with respect to programme countries demonstates, we are open to debating mutually agreed solidarity mechanisms in extreme cases but feel that it is too early to discuss solidarity mechanisms or possibly incentives financed from EU resources to undertake structural reforms in normal times and under normal circumstances.

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

Two necessary criteria for closer coordination of economic policies and sustained economic convergence are national ownership and democratic accountability. In this regard we should safeguard the role of the national parliament and the social partners. The power to raise revenue and authorisation of debt issuance currently reside exclusively with national parliaments. Moreover, one should not dismiss the key role of social partners particularly when it comes to ensuring ownership of reforms.

In this regard, building a strong working relationship between national parliaments and the European Parliament is essential. Ownership of reforms could also better be fostered through a more streamlined process in order to increase political ownership, accountability and acceptance of the process, to strengthen credibility and comparability across Member States. In particular, the various stages and outputs within the process could be simplified through improving the dialogue with Member States, limiting the reporting requirements, enhancing the multilateral nature of the exercise and strengthening ownership at all levels.

12 Concluding remark

In terms of **ambition and timeframes**, the focus should be on a limited number of actions that are in fact politically, economically and socially achievable and feasible within the current institutional cycle.

[1] Account for approximately 70% of all jobs in Europe