



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

LITHUANIA

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

- Significant measures and reforms to improve economic performance have been implemented in the past few years. Yet it is important to take further constructive steps to ensure stability and growth in the euro area and the EU.
- In order to ensure sound fiscal and economic position it is important to implement consistent strategy of structural reforms, investment and fiscal responsibility. We need reforms which would improve adjustment capacity of member states economies. We have to advance our common European projects such as Energy Union, Capital Markets Union, Digital Market, Investment plan and deepening of the Single Market.

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

- There is a clear need to streamline European Semester, to ensure better monitoring of the process and to ensure more political ownership of the implementing structural reforms. More binding implementation of the Country specific recommendations is warranted. Initiatives regarding stronger economic policy coordination could be also considered.
- There are strong mechanisms within EU legislation (fiscal rules, monitoring system, penalties) aiming to achieve sound fiscal positions across the euro area. But we have to make full use of existing toolbox, which has to be applied properly and timely. Stronger role of EU institutions might be useful in this regard.

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

- The current fiscal framework is properly designed – if Member State implements sound fiscal policy, they should seek for budget surplus, not to be highly in debt, in good times they should cumulate fiscal buffers, which could help to cope with economic shocks. But there is a lack of political will to implement them.
- Bigger attention should also be devoted to key areas that are essential for the smooth functioning of EMU as currency union. It should be examined whether in such key policy areas (labour market and etc.) current coordination mechanisms are sufficient or whether more intensive monitoring for the implementation of the agreed principles, e.g. by the Eurogroup, is needed. .

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

- As we had experienced in practice, the policy measures are implemented at its best, when we have strong rules and strong involvement of EU institutions. However the right balance between centralized decision making procedures and national ownership has to be ensured.
- We have evidences that in some cases the stronger involvement of common institutions is fully justifiable. However this is also a question of the shifting of national sovereignty to the EU level. At the current juncture we would advocate for the strengthening of EU institutions in the framework of the existing Treaties.

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

- Euro area surveillance should be regularly discussed at high level (Council, European Council) and on key economic developments or selected Member States policies that are

harmful for the effective functioning of EMU, the high level political instructions should be discussed to remedy the situation.

- The first practical measure to deter harmful national policies should be the option to impose sanctions.
- Overall, strong and effective institutions are needed to deal with such situations.

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

- Banking Union was established with the intention to contribute to the reduction of sovereign-bank nexus. The Single Supervisory Mechanism with the ECB as direct supervisor of all significant banks in the euro area has just started functioning since 1 November 2014. The other important pillar of the Banking Union - Single Resolution Mechanism - will become effective soon. Harmonised depositor protection schemes will be transposed into national law in mid-2015; banks are required to hold more capital, bank recovery and resolution frameworks are being put in place. Thus, the Banking Union is just gathering the pace with prerequisites for prevention and more effective resolution of any potential problems in the financial sector, including with less reliance on any public intervention. Therefore, primary focus now should be on final implementation of the Banking Union. Only then it will be possible to make final evaluation of the effectiveness of the reform and its input in reducing the fiscal-financial nexus.

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

- Currently, private sector is more involved in the burden-sharing via mechanisms created under the Banking Union (BRRD, SRM, etc.) than before the crises.
- However, the upcoming initiative of Capital Markets Union should complement Banking Union and diversify sources of financing of the European economy. The attempts should focus on deepening the integration of financial sector in order to address remaining barriers to investment and the free movement of capital. To our view, financial market integration via CMU would contribute to the resilience of monetary union to shocks, changes to economic cycles by providing an element of private risk-sharing, better diversification of financing sources. It would also contribute to generating jobs, growth and investment.

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

- The extent of the sovereignty sharing is diverse in the monetary, economic and fiscal areas, but it was determined by the EU Treaties. Current situation showed that if Member States are not implementing structural reforms and sound fiscal policy at national level, monetary policy alone is not sufficient for reviving the EA economy.
- We have limited shared sovereignty in fiscal framework, but first we need take full advantage of Internal market, where we have more space to explore shared sovereignty opportunities. Deeper internal market integration, free movement of services, capital and employees are key areas. It is important to remove barriers for services providers, capital movement and create a more liberalized labour market in the whole EU.

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

- First of all, we should ensure implementation of existing rules/legal acts and after some time it would be seen the loopholes of the fiscal framework and needed actions.

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

- Stronger common governance could be envisaged in the structural reform areas that are key for the smooth functioning of EMU.
- Yet, we have reservations whether this could be best achieved e.g. by common fiscal capacity; also we have to take into account that tax policies belong to national competence.
- Besides that, we should acknowledge that reforms are beneficial for Member States themselves while mutually fostering those reforms that have positive spillover effects and help the euro area to function effectively as a currency union.

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

- In the Six-pack and Two-pack were included provisions for Economic Dialogue and exchange of views between EU institutions (EP and COM, Council, Eurogroup), this allows for EP to be more involved in the EMU issues. At national level, Parliaments are involved in the EMU issues via processes related to the adoption of the National Budgets as well as approval of National Reform Programmes and Stability Programmes, but there should be more engagement from the EU institutions working with national parliaments in order to increase understanding and visibility of EMU policies.
- More transparent procedures (without compromising their quality), better explanation and stronger communication on these rules and procedures at national level (including by EU officials) and more clear appliance of the rules will increase effectiveness of the decision making process. Equal treatment of Member States would increase confidence of EU institutions as well.