



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

SLOVAKIA

First Contribution

Analytical Note

Questions & Answers

SK INPUT

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

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

- We need to **re-emphasise the need for the respect of existing rules** and ensure equal treatment of all Member States. This requires a **maximum level of transparency in the implementation of the rules** and limited discretion in their enforcement, including the imposition of penalties in cases of non-compliance.
- At the same time, we believe that **incentivization of investments and structural reforms** within the SGP and taking into account **cyclical developments** were also important steps that could lead to sounder fiscal policies by incorporating more economic sense into SGP. Unfortunately, these changes were made in a way that moved the SGP framework from rules based to discretion based system and this could undermine predictability and credibility of the rules. Therefore, full transparency is crucial.
- We find that the current system seems tilted towards stricter treatment of those Member States located in the preventive arm instead of the corrective arm, whereas in our view, it should be the other way around – that is **more flexibility for countries in compliance with the Maastricht criteria** that for those breaching them.

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

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

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

- The currently agreed **governance framework**, once fully implemented, will have **improved the resilience of the euro area**;
- It is certainly true that smart rules are not sufficient – **what we also need is strong institutions to enforce these rules**. For us, strong institutions means institutions that are not susceptible to political influence of selected Member States but instead serve as an impartial enforcer of the commonly agreed framework.

- **Still, important institutional gaps within the architecture of the EMU** exist and these will also have to be addressed if we want the eurozone to survive in the long term.

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

- The steps that have been already agreed on to complete the **banking union** are **sufficient** to deal with negative feedback loops between banks and sovereign debt. We should **focus on the implementation of the agreed measures**.
- With regard to proposals for **further mutualisation or risk sharing** among the national banking sectors, we believe such steps **would be unfair and counterproductive** for stabilization of the EU financial system as well as for reviving the financing of the real economy.

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

- **Slovakia fully supports the capital markets union** project, which we believe to be of great importance for many reasons, including for balancing the bank based EU financial system, to revive private financing of investments, as well as to complete the single market.
- Unfortunately, we are **sceptical about the potential of the CMU as a shock absorbing mechanism**, given the low levels of development of capital markets in several Member States, including Slovakia.
- We are currently working on the development of capital markets in Slovakia and would therefore **welcome very much for the CMU to reflect on the needs of those economies, in which these types of markets exist only in a limited form**.

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

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

- **Slovakia is supportive of further integration** among the euro area Member States in the fiscal realm;
- It is our view that the **economic and monetary union cannot continue to exist in the long term unless fiscal instruments** to address asymmetric and pan-European shocks become part of the EMU framework;

- In particular, a **common unemployment insurance scheme** to address asymmetric shocks by absorbing cyclical unemployment fluctuations as well as a **common investment mechanism** to address pan-EU shocks could serve this very purpose;
- We believe that such new **instruments should also be linked to compliance** with the existing fiscal rules by EU Member States;
- In this way, an important gap in the architecture of the EMU as well as a long standing problem of insufficient compliance with the SGP could be addressed.

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

- We agree that the **eurozone needs structural reforms** that would address the impediments to economic growth and employment as well as obstacles to an economic convergence deserve our strong attention;
- The most viable policy instruments that could help us arrive at this goal are naturally the **European Semester** including the country specific recommendations and the Macroeconomic Imbalance Procedure, as well as the **EU2020** strategy.

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

- **Accountability and legitimacy** can be best achieved with an emphasis on **transparency** of the existing procedures and decision making in the fiscal area.
- To a large extent, though, **legitimacy also depends on results**. If we can **deliver on economic growth, improving employment prospects and enhancing the prosperity** of our citizens, they will be much more likely to grant us their support.