

Enhanced economic governance in the EU



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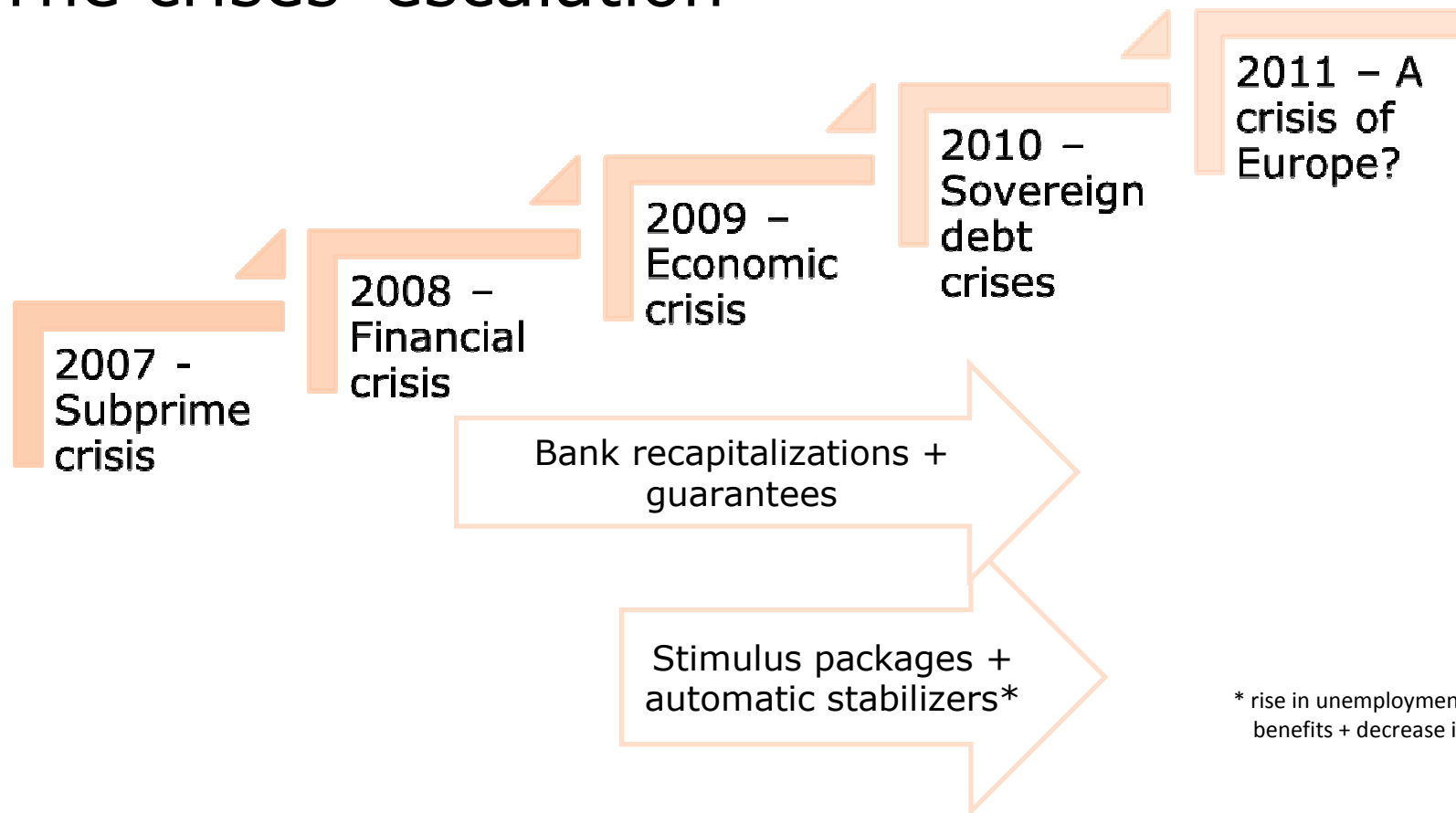
European Commission DG ECFIN



The crises as ‘eye-openers’

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The crises' escalation



The crises as 'eye-openers'

The other legacy: three euro area countries under assistance

	Greece	Ireland	Portugal
Timeline	May 2010 - June 2013	November 2010 - December 2013	May 2011 - June 2014
Economic Adjustment Programme Reviews	<p>Strong start with heavy reforms in 2010, but delays in the implementation and unresolved structural problems (tax collection, expenditure control, fragile financial sector). (5th review, October 2011)</p> <p>July 2011: decision to reinforce administrative capacity through the setting-up of a task force</p> <p>Current state of play: the disbursement of next tranche of financial aid is on hold.</p>	<p>Programme on-track. (2nd review, Summer 2011)</p>	<p>Programme on track (1st review, Summer 2011)</p>

21 July: Emergency meeting of euro area Heads of State and Government

ESM Treaty signed
Revamped EFSF
2nd program for Greece

26 October: Euro Summit

Further PSI in Greece
Further strengthening of surveillance in the euro area
Leveraging of the EFSF

+ Italy under monitoring by the Commission

The crises as ‘eye-openers’

Weaknesses in fiscal governance: public finances not in strong enough position despite overall positive performance of fiscal governance during the crisis.

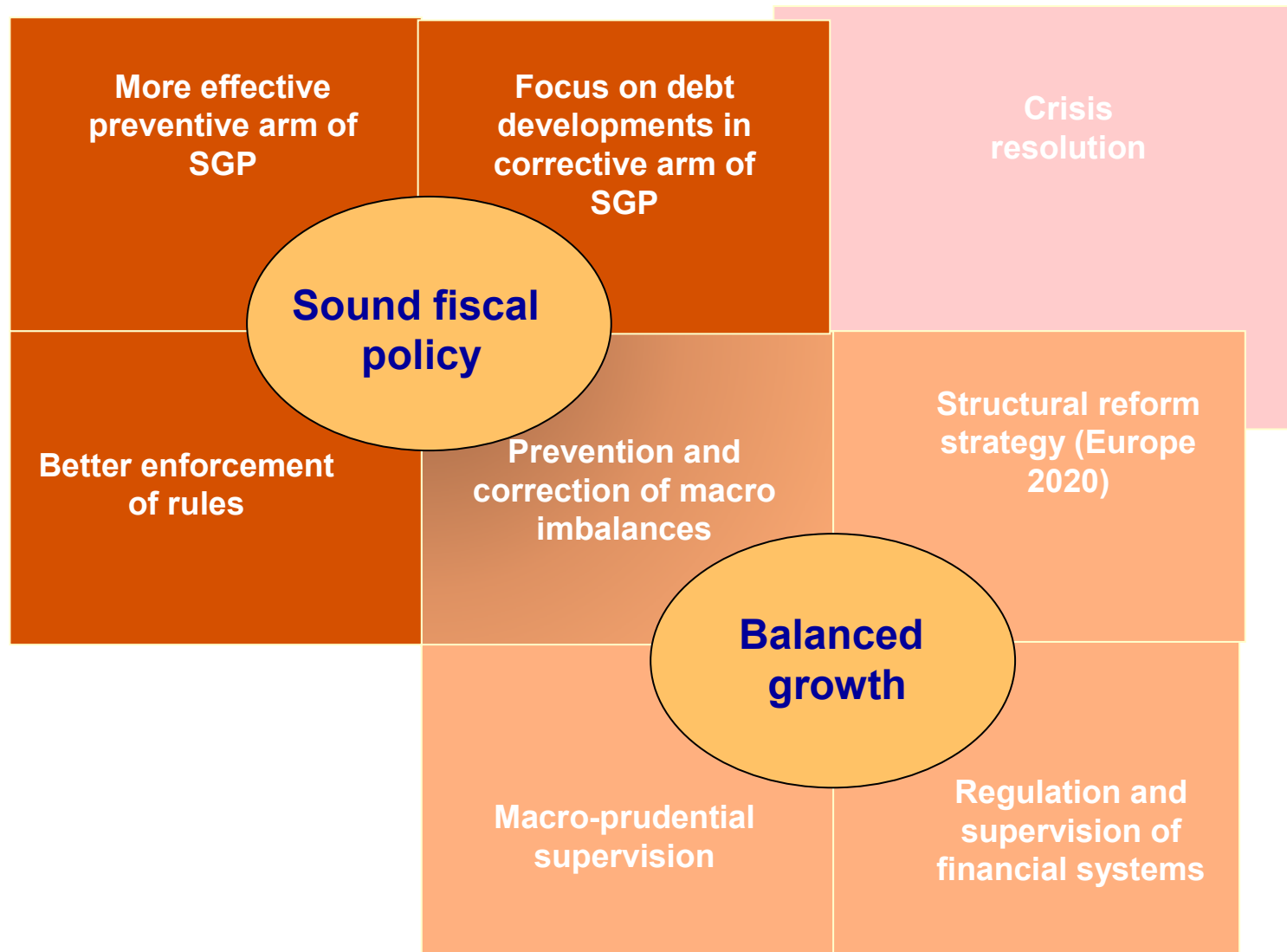
Narrow scope of the economic governance: insufficient focus on macro-fiscal imbalances, surveillance and coordination of macroeconomic policy.

No crisis resolution mechanisms: no tool for assistance in euro area.



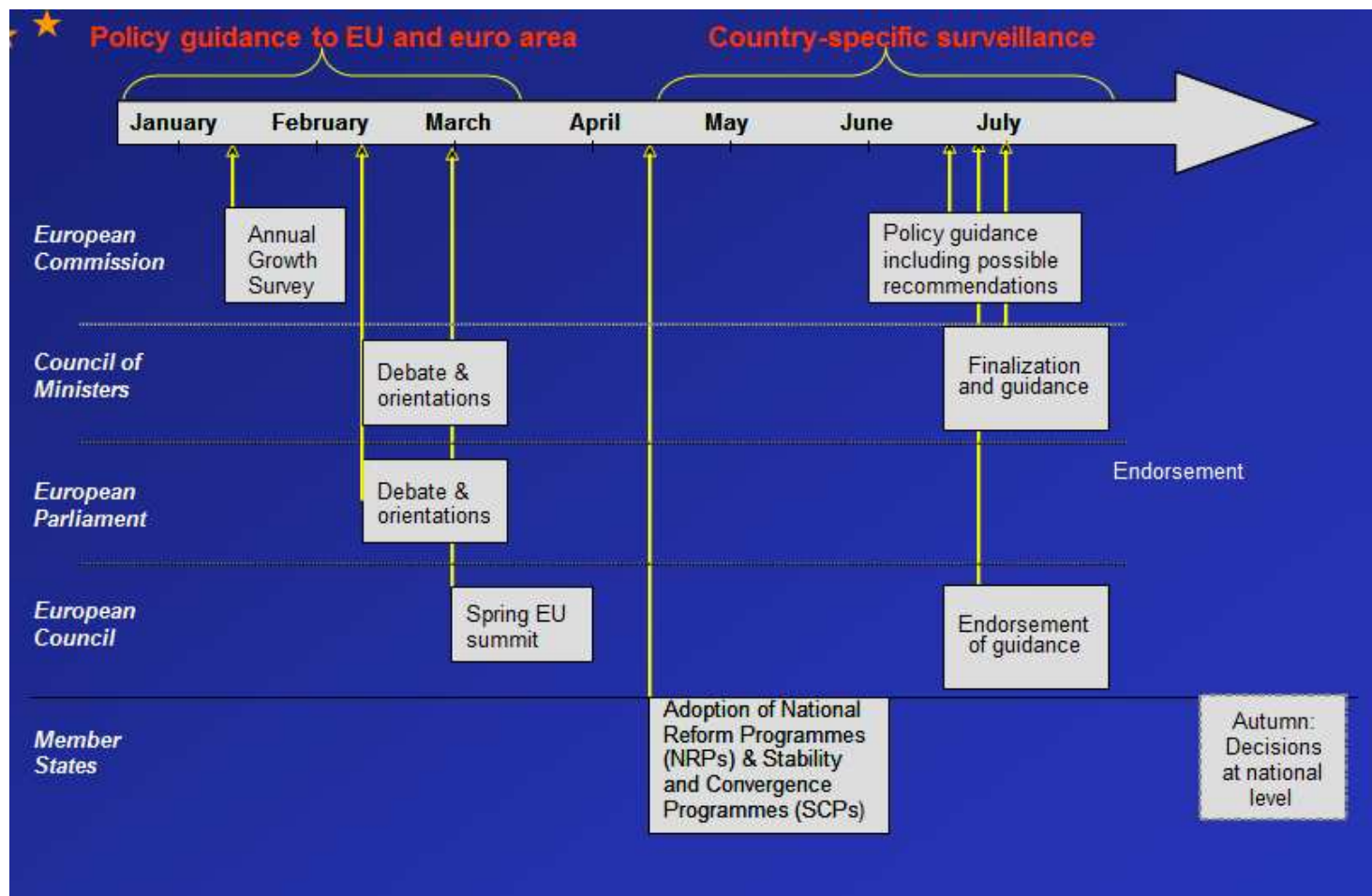
The ongoing economic governance reform

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The European Semester



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Fiscal surveillance

Preventive arm of SGP: introduce the concept of expenditure benchmark (amend. to Reg. 1466/97)

Corrective arm of SGP: explicit benchmark for a sufficiently diminishing debt ratio (amend. to Reg. 1467/97)

New Directive on requirements for budgetary frameworks of the MS, introducing minimum benchmarks

Macroeconomic surveillance

New Regulation on the prevention and correction of macroeconomic imbalances

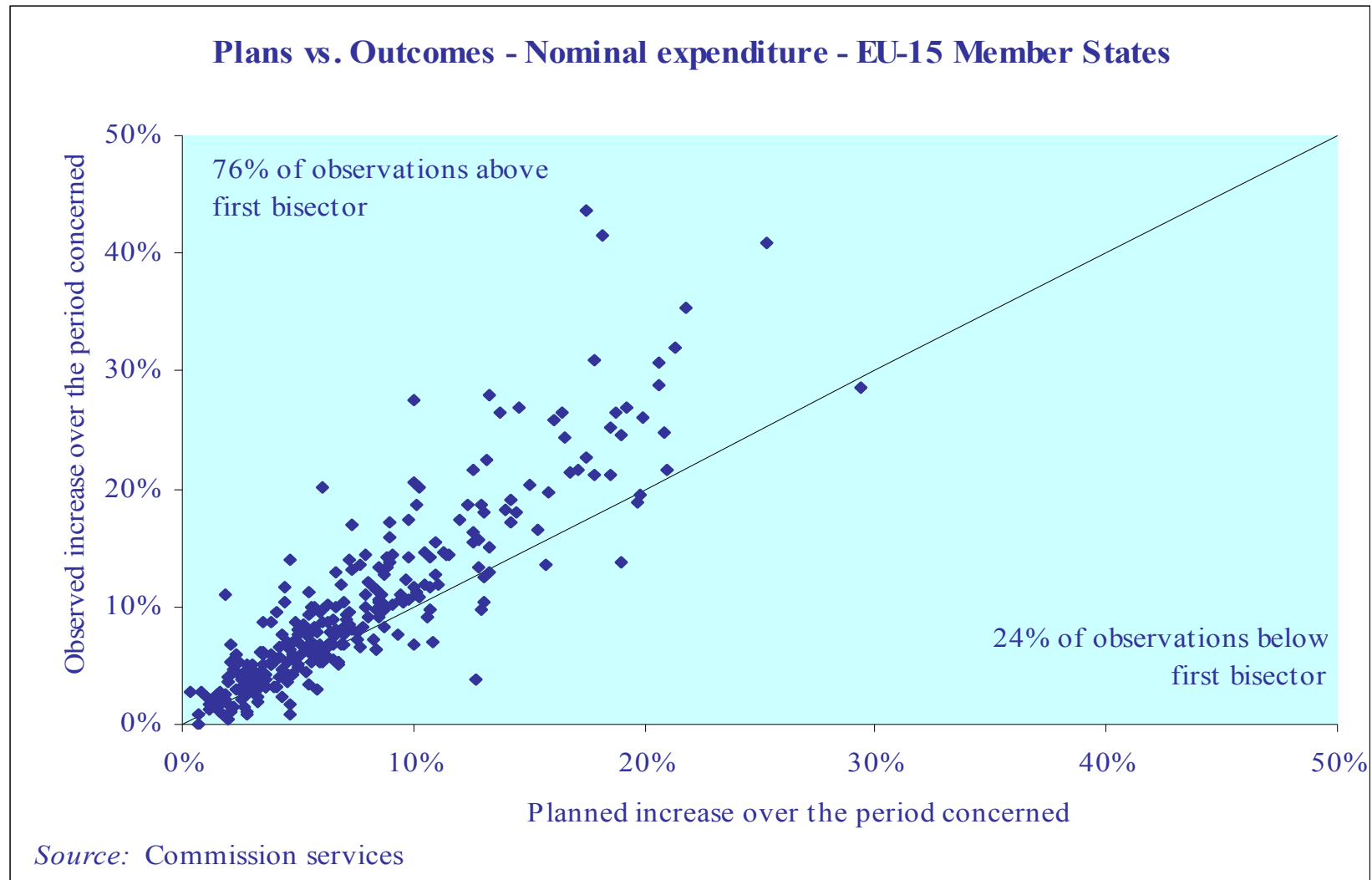
Enforcement

New Regulation on the effective enforcement of budgetary surveillance in the euro area

Enforcement

New Regulation on enforcement measures to correct excessive macroeconomic imbalances in the euro area

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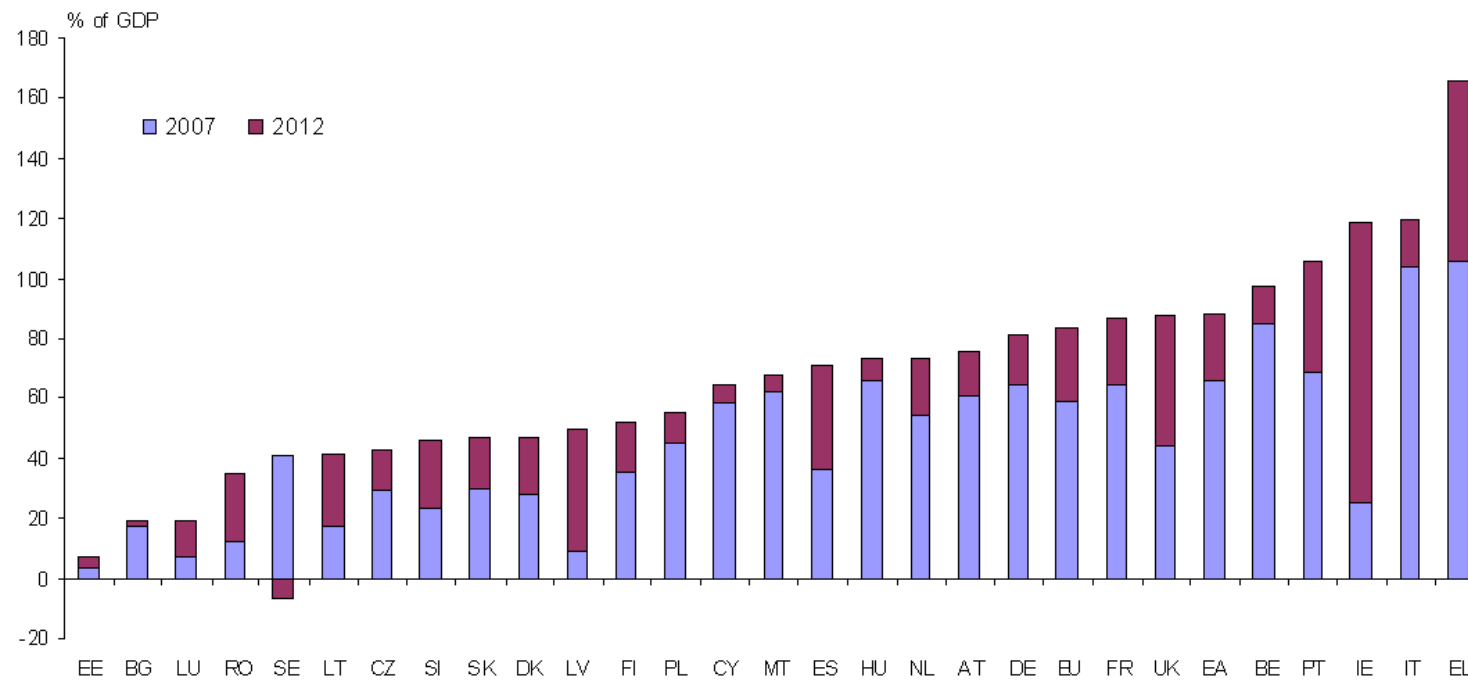
The key innovation in the SGP preventive arm

- To assess deviation, look at the annual growth rate of expenditure
 - If not at MTO, must be below a reference medium-term rate of potential GDP growth
 - If at MTO, must not exceed it
 - Unless excess of expenditure matched by discretionary revenue measures.

- Exceptions:
 - Major structural reforms with long-term + budgetary effects
 - Unusual event or severe economic downturn.

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A legacy of the crisis: an inflated government debt
+50% between 2007 and 2012 on average in the EU
with substantial cross-country heterogeneity



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The key innovation in the SGP corrective arm

- Deficit and debt criterion are on equal footing in Treaty.
 - Before 2000, ensuring a deficit < 3% was enough for the debt to decline
 - Economic environment has changed
- Need for a quantitative benchmark for debt reduction
- 'Sufficiently diminishing' debt = distance with respect to 60% declines over 3 preceding years at an average rate of 1/20th per year as a benchmark (if not, check with the 3 coming years)

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Key innovations for the SGP process

➤ Better defined sanctions for euro area member states (0.2% of GDP)

(i) As soon as the preventive arm, interest-bearing deposit

(ii) Non-interest-bearing once the EDP starts

(iii) Can be turned into a fine if non-compliance

Only euro area MS then participate in the vote.

➤ Easier decision-making: reversed qualified majority voting for Council decisions on sanctions

= decision recommended by the Commission deemed adopted within 10 days, UNLESS a qualified majority rejects it.

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The other three of the "6-Pack"

- Minimum requirements for budgetary frameworks
- Creation of a true macroeconomic surveillance process, with an "excessive imbalance procedure" (EIP)
- EIP enforcement mechanisms for euro area member states (up to a fine of 0.1% of GDP)

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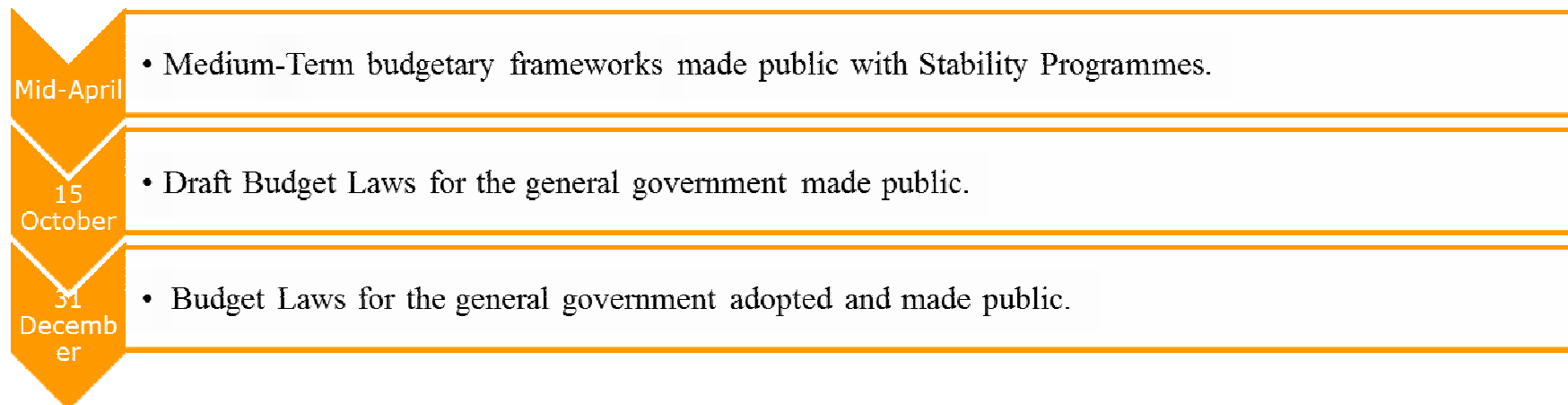
A new package to be adopted on 23 November

- Two Regulations based on Article 136
 - Closer monitoring of budgetary policies in the euro area
 - Enhanced surveillance to safeguard financial stability in the euro area

- A Green Paper on Stability Bonds in the EU

ANNEX: ENHANCED MONITORING OF BUDGETARY POLICIES IN THE EURO AREA

Rationale	Innovation	Articulation with existing framework
<i>Better synchronizing key steps in preparation of national budgets</i>	A common budgetary timeline	Complement to the European semester



ANNEX: ENHANCED MONITORING OF BUDGETARY POLICIES IN THE EURO AREA

Rationale	Innovations	Articulation with existing framework
<p><i>Ensuring an appropriate integration of EU policy recommendations in the national budgetary preparations</i></p>	<p>Additional monitoring requirements for all</p> <ul style="list-style-type: none"> - Numerical and binding fiscal rules on the budget balance -Draft budgetary plans for the forthcoming year before 15 October <ul style="list-style-type: none"> •to the COM => possible opinion •to the Eurogroup => discussion based on assessment by the COM 	<p>Complement to the preventive arm of the SGP (Reg 1466/97)</p>
<p><i>Securing a timely and durable correction of excessive deficits</i></p>	<p>Closer monitoring for Member States in EDP</p> <ul style="list-style-type: none"> -Initial stage: comprehensive report + audit of quality of statistics -Regular report: <ul style="list-style-type: none"> • If under 126(7) every 6 months • If under 126(9) every quarter -Any additional information on a request from the COM 	<p>Complement to the corrective arm of the SGP (Reg 1467/97)</p> <p>Compliance with COM opinion on draft budgetary plan taken into account</p> <ul style="list-style-type: none"> •in report under 126(3) •in recommendation on a non-interest-bearing deposit •in decision under 126(6). <p>Reports of the closer monitoring taken into account</p> <ul style="list-style-type: none"> •<i>anytime</i>, to assess whether correction by the deadline is at risk •can lead to a COM recommendation •compliance with such recommendation assessed when deciding on effective action (stepping up or abrogation).