Review of the economic governance framework: stocktaking and challenges

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The European Parliament adopted by 317 votes to 254, with 9 abstentions, a resolution on the review of the economic governance framework: stocktaking and challenges.

An alternative motion for a resolution was rejected in plenary by 79 votes to 515, with 31 abstentions.

Parliament welcomed the Commission Communication of 28 November 2014 on the economic governance review. However, it insisted that the current framework is complex and it suffers from a **lack of ownership at national level** and limited attention to the international economic perspective and **appropriate democratic accountability mechanism**. It underlined the importance of **simple and transparent procedures** for economic governance.

The current economic governance framework needs to be **implemented and where necessary improved to**:

- deliver fiscal stability;
- improve economic convergence perspective of the euro area;
- address on an equal footing Member States' different economic and fiscal situations.

Members believe that the current economic situation with its fragile growth and high unemployment calls for urgent, comprehensive and decisive measures in an holistic approach based on **growth-friendly fiscal consolidation**, **structural reforms** and boosting investment in order to restore sustainable growth and competitiveness, to foster innovation and to fight unemployment.

Parliament agreed with Commissioner Thyssen's statement that countries that provide high-quality jobs and better social protection and invest in human capital are **more resilient to economic crises**. It called on the Commission to reflect this position as it moves forward in all of its European semester policy and country-specific recommendations.

Best application of flexibility within the existing rules: Parliament welcomed the interpretative communication on flexibility within the existing rules of the Stability and Growth Pact (SGP). It supported:

- all the **incentives** proposed by the European Commission to finance the new European Fund for Strategic Investments (EFSI), mainly by **making national contributions to the fund fiscally neutral** as regards to the attainment of the MTO and to the required fiscal adjustment effort without modifying it in the preventive or the corrective arm of the Stability and Growth Pact;
- the Commission's intention to **refrain from launching an Excessive Deficit Procedure** (EDP) if, only because of the additional contribution to the EFSI, a Member State deficit goes slightly and temporarily beyond the 3% deficit limit;
- that the Commission communication aims at **clarifying the scope of the investment clause**, allowing for a certain degree of temporary flexibility in the preventive arm of the SGP, in the form of a temporary deviation from the Medium Term Objective (MTO), provided the deviation does not lead to an excess over the 3% deficit reference value and an appropriate safety margin, to accommodate investment programmes by the Member States.

Parliament called for: (i) **enhanced dialogue between the Commission and the Member States** on the content and types of structural reforms most appropriate and effective to be proposed by the Commission in the Country specific recommendations; (ii) **greater economic and social cohesion** to be provided by strengthening the European Social Fund and the Cohesion Fund in order to preserve and create jobs with rights by supporting measures to combat unemployment and poverty; (iii) the fight against long-term unemployment to be reflected in its policies and country-specific recommendations.

Closer coordination, economic convergence and streamlining of the European Semester: Parliament urged the Commission to fully apply the SGP and ensure its fair implementation.

It made the following recommendations:

- **streamline and reinforce the European Semester** within the current legislative framework;
- the Commission and the Council should **better articulate the fiscal and macroeconomic frameworks** to allow for earlier and more consistent debate among all stakeholders taking into account: (i) the European interests served by these frameworks, (ii) the need to increase convergence between euro area Member States, (iii) deliberation by national parliaments and the role of social partners or of local authorities regarding the ownership of sustainable and socially balanced structural reforms;
- **the Annual Growth Survey (AGS) as well as the country-specific recommendations (CSR) must be better implemented** and take into account the assessment of the budgetary situation and prospects both in the euro area as a whole and in the individual Member States;
- the Country Specific Recommendations (CSRs) should be, where relevant, **better coordinated** with the Excessive Deficit Procedure (EDP) recommendations so as to ensure consistency;
- the **elaboration**, follow-up, support and monitoring of Country Specific Recommendations should be enhanced;
- the Commission should **take account, in its analyses all important factors**, including real growth, inflation, long term public investment and unemployment rates when evaluating the economic and fiscal situations of Member States.

Democratic accountability and challenges ahead: Members stressed that **a major role must be played by institutions subject to democratic accountability**. They recalled the European Parliament's resolutions specifying that the creation of the European Stability Mechanism (ESM) and of the Treaty on Stability, Coordination and Governance ('Fiscal Compact') outside of the structure of the institutions of the Union represents a **setback** to the political integration of the Union.

The stakeholders are invited to take into account the foreseeable future enlargement of the euro area and to explore all options to **deepen and strengthen the EMU**, such as:

- **enhanced democratic accountability mechanisms** at both the EU and national levels, whereby responsibilities must be assumed at the level where decisions are taken and **based on the adoption of convergence guidelines under co-decision**;
- formalising the **scrutiny role of the European Parliament** in the European Semester in an Inter-Institutional Agreement;
- ensuring that all euro area **National Parliaments** follow each step of the European Semester process;
- a **social dimension** aimed at preserving Europe's social market economy, respecting the right to collective bargaining;
- a **euro area fiscal capacity** based on specific own-resources which should, in the framework of the Union budget with European parliamentary control, assist Member States in the implementation of the agreed structural reforms;

- increasing the **resilience of the EMU** to face economic shocks and emergencies directly connected to the monetary union;
- completing the **Banking Union** step by step;
- the **inclusion of the European Stability Mechanism** and the Treaty on Stability, Coordination and Governance (TSCG) in Union law.

Parliament also recalled their request to develop options for a new legal framework for future macroeconomic adjustment programmes, **replacing the Troika**, in order to increase the transparency and ownership of these programmes and ensure that all EU decisions are, where possible, taken under the Community method.