Procedure file

Basic information

INL - Legislative initiative procedure	2010/2099(INL)	Procedure completed
Improving the economic governance and stability framework of the Union, in particular in the euro area Subject 5.10.01 Convergence of economic policies, public deficit, interest rates 5.20.02 Single currency, euro, euro area		

Key players

European Parliament	Committee responsible	Rapporteur	Appointed
	ECON Economic and Monetary Affairs	PPE FEIO Diogo	18/05/2010
	Committee for opinion	Rapporteur for opinion	Appointed
	BUDG Budgets	EFD ANDREASEN Marta	07/07/2010
	EMPL Employment and Social Affairs	PPE CASA David	17/06/2010
	ITRE Industry, Research and Energy	The committee decided not to give an opinion.	
	IMCO Internal Market and Consumer Protection	S&D CORREIA DE CAMPOS António Fernando	05/07/2010
	REGI Regional Development	The committee decided not to give an opinion.	
	AFCO Constitutional Affairs	S&D JÁUREGUI ATONDO Ramón	13/07/2010
European Commission	Commission DG	Commissioner	
	Economic and Financial Affairs Secretariat-General		

Key events

09/05/2010	Non-legislative basic document published	COM(2010)0250	Summary
08/07/2010	Committee referral announced in Parliament		

05/10/2010	Vote in committee		Summary
11/10/2010	Committee report tabled for plenary	A7-0282/2010	
20/10/2010	Results of vote in Parliament		
20/10/2010	Debate in Parliament		
20/10/2010	Decision by Parliament	T7-0377/2010	Summary
20/10/2010	End of procedure in Parliament		

Technical information

Procedure reference	2010/2099(INL)
Procedure type	INL - Legislative initiative procedure
Procedure subtype	Request for legislative proposal
Legal basis	Rules of Procedure EP 47
Stage reached in procedure	Procedure completed
Committee dossier	ECON/7/03072

Documentation gateway

Non-legislative basic document		COM(2010)0250	09/05/2010	EC	Summary
Committee draft report		PE443.145	25/06/2010	EP	
Committee opinion	AFCO	PE445.958	07/09/2010	EP	
Amendments tabled in committee		PE448.796	10/09/2010	EP	
Committee opinion	IMCO	PE445.978	29/09/2010	EP	
Committee opinion	BUDG	PE448.817	29/09/2010	EP	
Committee opinion	EMPL	PE445.981	30/09/2010	EP	
Committee report tabled for plenary, single reading		A7-0282/2010	11/10/2010	EP	
Text adopted by Parliament, single reading		T7-0377/2010	20/10/2010	EP	Summary
Commission response to text adopted in plenary		SP(2011)609	28/03/2011	EC	

Improving the economic governance and stability framework of the Union, in particular in the euro area

PURPOSE: Communication on reinforcing economic policy coordination.

CONTENT: the global economic crisis has challenged the current mechanisms of economic policy coordination in the EU and revealed weaknesses. The functioning of the Economic and Monetary Union has been under particular stress, due to earlier failures to comply with the underlying rules. The existing surveillance procedures have not been comprehensive enough. This Communication proposes measures that should be taken on the basis of the Treaty of the Functioning of the European Union (TFEU) to remedy the situation. It sets out a three pillar approach to reinforcing economic policy co-ordination.

The Communication stresses the case for making full use of the surveillance instruments available under the Treaty. Where necessary, existing instruments should be modified and complemented. The Communication calls for reinforcing compliance with the Stability and Growth Pact and extending surveillance to macro-economic imbalances. To do this, it proposes the establishment of a European Semester for economic policy coordination, so that Member States would benefit from early coordination at European level as they prepare their national stability and convergence programmes including their national budgets and national reform programmes. Lastly, it sets out the principles that should underpin a robust framework for crisis management for euro-area Member States.

Reinforcing compliance with the Stability and Growth Pact and deeper fiscal policy coordination: despite the Stability and Growth Pact, Member States failed to build up adequate buffers in good times. Reinforcing the preventive dimension of budgetary surveillance must be an integral part of closer coordination of fiscal policy. The preparation and assessment of Stability and Convergence Programmes forms the core of the preventive work under the Pact. Its effectiveness should be decisively strengthened by increasing the ex-ante dimension of the process, and by giving it teeth. The former is addressed through the introduction of a "European Semester". The latter could be done, for example, by including the possibility of imposing interest-bearing deposits in case of inadequate fiscal policies when Member States make insufficient progress towards their budgetary Medium-Term-Objectives in good economic times. Furthermore, national fiscal frameworks should better reflect the priorities of EU budgetary surveillance. To give concrete meaning to the complementarity between the EU and national fiscal frameworks, the obligation in Protocol Nr 12 TFEU for Member States to have in place budgetary procedures that ensure compliance with their Treaty obligations on budgetary discipline could be specified through legally binding instruments. The debt criterion of the excessive deficit procedure should effectively be implemented. Member States with debt ratios in excess of 60% of GDP should become subject to the EDP if the decline of debt in a given preceding period falls short of an appropriate benchmark.

The Commission proposes the following:

Improving the functioning of existing mechanisms under the Stability and Growth Pact:

- increase effectiveness of Stability and Convergence Programmes assessments through better ex-ante coordination;
- national fiscal frameworks to better reflect the priorities of EU budgetary surveillance.

Addressing high public debt and safeguarding long-term fiscal sustainability:

- ?give new prominence to the debt criterion of the Treaty;
- take better account of the interplay between debt and deficit.

Better incentives and sanctions to comply with the rules of the Stability and Growth Pact

- ?interest-bearing deposits in case of inadequate fiscal policies;
- more rigorous and conditional use of EU expenditure to ensure better compliance with the rules of the Stability and Growth Pact;
- recurrent breaches of the Pact to be subjected to more speedy treatment and more rigorous use of the Cohesion Fund Regulation.

Broader surveillance of intra-euro area macroeconomic and competitiveness developments: the accumulation of large macroeconomic imbalances among euro-area Member States has the potential to undermine the cohesiveness of the euro area and hamper the smooth functioning of EMU. To prevent the occurrence of severe imbalances within the euro area, it is therefore important to deepen the analysis and expand economic surveillance beyond the budgetary dimension to address other macroeconomic imbalances, including competitiveness developments and underlying structural challenges. It is proposed to upgrade the peer review of macroeconomic imbalances now carried out by the Eurogroup into a structured surveillance framework for euro-area Member States.

The Commission proposes the following:

- building on Europe 2020, develop a framework for enhanced and broader macroeconomic surveillance for euro area Member States in form of a regulation based on Article 136 TFEU;
- develop a scoreboard of indicators to identify alert thresholds for severe imbalances;
- formulate country-specific recommendations;
- recourse to formal Council acts, by the Council voting in euro-area configuration

Integrated economic policy coordination for the EU: a "European Semester": the current cycle of economic surveillance consists mainly of an ex-post assessment of the appropriateness of economic policies with the rules of the SGP and the broad economic policy guidelines. The currently missing ex-ante dimension of budgetary and economic surveillance would allow the formulation of genuine guidance. A system of early peer-review of national budgets would detect inconsistencies and emerging imbalances. For the euro area a horizontal assessment of fiscal stance should be carried out on the basis of the national Stability Programmes and the Commission forecasts.

A European Semester should encapsulate the surveillance cycle of budgetary and structural policies. It will:

- align submission and discussions of Stability and Convergence Programmes (SCPs) and National Reform Programmes (NRPs) to assess the overall economic situation and improve timing with national budgetary cycles;
- ensure effective and timely policy advice from the European Council and the Council based on the Commission assessment;
- more effective integrated surveillance, reaping the full benefits of peer review.

Framework for crisis management for euro area Member States: the unravelling of the Greek crisis showed that a robust framework for crisis management for euro area Member States is needed. On 9 May 2010, ECOFIN decided on the establishment of a temporary European stabilisation mechanism to deal with the immediate needs of the crisis. This mechanism was created to respond to the current exceptional circumstances and entails an overall financial support of up to EUR 500 billion. Financial assistance will be subject to strong conditionality, in the context of a joint EU/IMF support, and will be on terms and conditions similar to the IMF. This mechanism will be financed through two complementary sources. The first can mobilise up to EUR 60 billion. In addition, the euro-area Member States stand ready through an intergovernmental agreement to complement such resources through a Special Purpose Vehicle. This SPV would borrow using financial guarantees of the participating Member Sates up to EUR 440bn.

This mechanism largely respects the basic principles for a permanent robust crisis resolution mechanism. Therefore, the Commission considers that the first priority must now be to make this mechanism fully operational, and it intends to make a proposal for a permanent crisis resolution mechanism.

Improving the economic governance and stability framework of the Union, in particular in the euro area

The Committee on Economic and Monetary Affair adopted an own-initiative report by Diogo Feio (EPP, PT) with recommendations to the

Commission on improving the economic governance and stability framework of the Union, in particular in the euro area, based on Rule 42 of Parliament?s Rules of Procedure. The committee notes that recent economic developments have shown clearly that economic policy coordination within the Union, and in particular in the euro area, has not worked sufficiently well and that, despite their obligations under the Treaty on the Functioning of the European Union (TFEU), Member States have failed to regard their economic policies as a matter of common concern. Accordingly, it wants the Commission to submit to Parliament legislative proposals in order to improve the economic governance framework of the Union, in particular within the euro area, and following the detailed recommendations set out in the report.

The main issues in the report are developed under eight recommendations which aim at establishing the broad ideas of what economic governance and stability in the EU.

The key points are as follows:

Recommendation 1:establishing a coherent and transparent framework for multilateral surveillance of macro-economic developments in the Union and in the Member States and strengthening fiscal surveillance. Members state that a legislative act should take the form of regulation(s) on multilateral surveillance of economic policies and developments based on Article 121(6) TFEU amending Regulation (EC) No 1466/97 on the preventive arm of the Stability and Growth Pact. It should be complemented with a new regulation aiming at establishing a rule-based and transparent surveillance framework for excessive macroeconomic imbalances, spill-over effects and competitiveness developments: Among the recommendations, the committee calls for in-depth country specific surveillance. Member States will have the responsibility of deciding on national policies which aim to tackle (prevent and correct) macroeconomic imbalances, alongside the need to take into account the Commission specific recommendations and Union dimension of those national policies, particularly for those States in the euro area. Adjustment must be directed to both excessive-deficit and excessive-surplus States, taking account of each country?s specific circumstances, such as demographics, the level of private debt, trends in wages compared to labour productivity, employment ? especially youth employment ? and current-account balances.

The recommendations also discuss the establishment of a "European semester" for a comparison and assessment of Member States? draft budgets, following discussion by national parliaments. The European Parliament may, for its part, establish a systematic way to support a public debate and increase the awareness, visibility and accountability of these procedures and how the EU institutions have implemented the agreed rules.

In all budgetary assessments, structural reforms undertaken by Member States must be explicitly taken into account, in particular pension, health care and social protection reforms aimed at addressing demographic developments, as well as those concerning assistance, education and research, equal weight being given to sustainability and adequacy.

Recommendation 2: strengthening the rules of the Stability and Growth Pact (SGP). A legislative act should aim to strengthen the preventive arm of the SGP and include economically and politically more sensible sanctions and incentives, while taking due account of the structure of the national deficit and debt (including implicit liabilities), the "economic cycle", in order to avoid pro-cyclical budgetary policy, as well as the nature of the public revenues and expenditures needed for growth-enhancing structural reforms. All Member States should aim to make progress but those with larger gaps should generally contribute more towards meeting targets in respect of debt stock and deficits. Demographic evolution should also be taken into account when assessing current account imbalances. The committee recommends, inter alia, the establishment of a monitoring mechanism including possible public warnings and incremental sanctions and incentives for Member States that have not reached their country specific Medium Term Fiscal Objective or are not approaching it at the agreed pace, as well as possible economic stimulus for countries that have reached their MTFO faster than expected.

Members also recommend a country-specific differentiated time frame for the process of fiscal consolidation that will occur no later than 2015, in view of realigning all public deficit levels with the requirements set out in the SGP.

Recommendation 3: enhancing economic governance in the euro area by the Euro Group as well as the European Union as a whole. Recognising how important it is that all Member States take part in achieving economic convergence, but also recognising that euro area countries are in a different situation from other Member States, as they do not have the exchange rate mechanism at their disposal if they need to adjust relative prices and that they share responsibility for the functioning of the European Monetary Union as a whole, the new rules aim to establish a euro-area-specific framework for reinforced monitoring, focusing on excessive macro-economic divergences, economic growth, unemployment levels, price competitiveness, real exchange rates, credit growth and the current account developments of the Member States concerned. They also aim to strengthen the Euro Group.

Recommendation 4: establish a robust and credible excessive debt prevention and resolution mechanism for the euro area. An impact assessment and feasibility study, should be undertaken aiming to establish a permanent mechanism or body (a European Monetary Fund) to be an overseer of sovereign debt developments and to complement the SGP as a mechanism of last resort for cases in which market financing is no longer available for a government and/or Member State exposed to balance of payments problems. The study must be completed in one year. The fund would make permanent the current European Financial Stability Facility, which was established for three years.

Recommendation 5: review the EU budgetary, financial and fiscal instruments. A legislative act/feasibility study is to be adopted within twelve months aiming to establish in the long run a system under which Member States may participate in the issuance of common European bonds. The assessment should spell out different the legal alternatives and objectives, such as financing long-term European infrastructure and strategic projects by project bonds.

Members also want to establish a high-level policy group chaired by the Commission with a mandate to study potential institutional changes within the ongoing economic governance reforms, including the possibility of creating of a European Common Treasury (ECT), with the objective of endowing the European Union with its own financing resources in accordance with the Treaty of Lisbon in order to reduce its dependence on the national transfers.

Recommendation 6: financial market regulation and supervision with a clear macro-economic dimension. A legislative act to be adopted should aim to ensure that any legislative initiatives regarding financial services are in line with the macro-economic policies in order to guarantee the necessary transparency and market stability, and consequently to boost confidence in the markets and economic development.

Recommendation 7: improve the reliability of EU statistics. A legislative act should aim to enhance the investigative powers by the Commission (Eurostat), including on-site inspections without prior warning and access to all accounting and budgetary information, and establish financial and non-financial sanctions for providing statistics that do not comply with the statistical principles set out in Regulation (EC) No 223/09.

Recommendation 8: improve the external representation of the Union in the area of Economic and Monetary Affairs. A legislative act should aim to agree on a euro area/EU representation in the IMF and other relevant financial institutions, where appropriate, and include a procedure to fully inform and involve the European Parliament before adopting a decision under Article 138 of the TFEU.

Lastly, and together with the measures which must be taken as swiftly as possible under the existing institutional framework, members recommend the initiation of a process of reflection, with the aim of identifying the limits of this framework and developing ideas for a reform of the Treaties which will enable the mechanisms and structures which are indispensable for coherent, effective economic governance to be put in place and for real macroeconomic convergence between the Member States both inside and outside the euro area.

Improving the economic governance and stability framework of the Union, in particular in the euro area

The European Parliament adopted by 468 votes to 61, with 45 abstentions, a resolution with recommendations to the Commission on improving the economic governance and stability framework of the Union, in particular in the euro area, based on Rule 42 of Parliament?s Rules of Procedure.

The resolution notes that recent economic developments have shown clearly that economic policy coordination within the Union, and in particular in the euro area, has not worked sufficiently well. Member States have failed to regard their economic policies as a matter of common concern and to coordinate them within the Council in accordance with the relevant Treaty provisions, while respecting the key role of the Commission in the surveillance procedure.

Accordingly, it wants the Commission to submit to Parliament legislative proposals in order to improve the economic governance framework of the Union, in particular within the euro area, and following the detailed recommendations set out in the report.

The main issues in the resolution are developed under eight recommendations which aim at establishing the broad ideas as regards economic governance and stability in the EU.

The key points are as follows:

Recommendation 1: establishing a coherent and transparent framework for multilateral surveillance of macro-economic developments in the Union and in the Member States and strengthening fiscal surveillance.

Members state that a legislative act should take the form of regulation(s) on multilateral surveillance of economic policies and developments based on Article 121(6) TFEU amending Regulation (EC) No 1466/97 on the preventive arm of the Stability and Growth Pact.

It should be complemented with a new regulation aiming at establishing a rule-based and transparent surveillance framework for excessive macroeconomic imbalances, spill-over effects and competitiveness developments.

Among the recommendations, Parliament calls for in-depth country specific surveillance. Member States will have the responsibility of deciding on national policies which aim to tackle (prevent and correct) macroeconomic imbalances, alongside the need to take into account the Commission specific recommendations and Union dimension of those national policies, particularly for those States in the euro area. Adjustment must be directed to both excessive-deficit and excessive-surplus States, taking account of each country?s specific circumstances, such as demographics, the level of private debt, trends in wages compared to labour productivity, employment ? especially youth employment ? and current-account balances.

The recommendations also discuss the establishment of a "European semester" for a comparison and assessment of Member States? draft budgets, following discussion by national parliaments. The European Parliament may, for its part, establish a systematic way to support a public debate and increase the awareness, visibility and accountability of these procedures and how the EU institutions have implemented the agreed rules.

Other recommendations include establishing common rules for a more effective use of the Broad Economic Policy Guidelines; establishing procedures in order to allow the Commission to issue early warnings and give policy advice at an early stage directly to Member States; establishing a requirement for Member States to provide additional information to the Commission, if a substantial concern arises that the policies conducted may jeopardise growth throughout the Union or the proper functioning of the internal market. Parliament also recommends implementing in-depth country specific surveillance, if revealed to be necessary by the scoreboard and by the related qualitative assessment referred to above. Further to this in-depth country specific surveillance, Member States have responsibility for deciding on national policies which aim to tackle (prevent and correct) macroeconomic imbalances alongside the need to take into account the Commission specific recommendations and Union dimension of those national policies, particularly for those States in the euro area. Adjustment must be directed to both excessive-deficit and excessive-surplus States, taking account of each country's specific circumstances, such as demographics, the level of private debt, wage trends compared to labour productivity, employment ? especially youth employment ? and current-account balances.

Recommendation 2: strengthening the rules of the Stability and Growth Pact (SGP).

A legislative act should aim to strengthen the preventive arm of the SGP and include economically and politically more sensible sanctions and incentives, while taking due account of the structure of the national deficit and debt (including implicit liabilities), the "economic cycle", in order to avoid pro-cyclical budgetary policy, as well as the nature of the public revenues and expenditures needed for growth-enhancing structural reforms. All Member States should aim to make progress but those with larger gaps should generally contribute more towards meeting targets in respect of debt stock and deficits. Demographic evolution should also be taken into account when assessing current account imbalances. Parliament recommends, inter alia, the establishment of a monitoring mechanism including possible public warnings and incremental sanctions and incentives for Member States that have not reached their country specific Medium Term Fiscal Objective or are not approaching it at the agreed pace, as well as possible economic stimulus for countries that have reached their MTFO faster than expected.

Parliament also recommends a country-specific differentiated time frame for the process of fiscal consolidation that will occur no later than 2015, in view of realigning all public deficit levels with the requirements set out in the SGP.

Recommendation 3: enhancing economic governance in the euro area by the Euro Group as well as the European Union as a whole.

Recognising how important it is that all Member States take part in achieving economic convergence, but also recognising that euro area countries are in a different situation from other Member States, as they do not have the exchange rate mechanism at their disposal if they need to adjust relative prices and that they share responsibility for the functioning of the European Monetary Union as a whole, the new rules aim to establish a euro-area-specific framework for reinforced monitoring, focusing on excessive macro-economic divergences, economic growth, unemployment levels, price competitiveness, real exchange rates, credit growth and the current account developments of the Member States concerned. They also aim to strengthen the Euro Group.

Recommendation 4: establish a robust and credible excessive debt prevention and resolution mechanism for the euro area.

An impact assessment and feasibility study, should be undertaken aiming to establish a permanent mechanism or body (a European Monetary Fund) to be an overseer of sovereign debt developments and to complement the SGP as a mechanism of last resort for cases in which market financing is no longer available for a government and/or Member State exposed to balance of payments problems. The study must be completed in one year. The fund would make permanent the current European Financial Stability Facility, which was established for three years.

Recommendation 5: review the EU budgetary, financial and fiscal instruments.

A legislative act/feasibility study is to be adopted within twelve months aiming to establish in the long run a system under which Member States may participate in the issuance of common European bonds. The assessment should spell out different the legal alternatives and objectives, such as financing long-term European infrastructure and strategic projects by project bonds.

Parliament also recommends establishing a high-level policy group chaired by the Commission with a mandate to study potential institutional changes within the ongoing economic governance reforms, including the possibility of creating of a European Common Treasury (ECT), with the objective of endowing the European Union with its own financing resources. In addition, it reiterates the importance of the independence of the European Central Bank, which is essential for the stability of the financial and free-market economy of the European Union and urges the maintenance of a clear separation between fiscal and monetary policies in order not to jeopardize the independence of the ECB. Common budgetary principles should be developed as regards the quality of public spending (both for national and EU budgets) and a set of common policies and instruments to support the Europe 2020 strategy. Lastly, a high-level tax policy group should be set up, chaired by the Commission, with a mandate to produce, within one year, a roadmap for a strategic and pragmatic approach to tax policy issues, paying particular attention to combating tax fraud and tax havens.

Recommendation 6: financial market regulation and supervision with a clear macro-economic dimension.

A legislative act to be adopted should aim to ensure that any legislative initiatives regarding financial services are in line with the macro-economic policies in order to guarantee the necessary transparency and market stability, and consequently to boost confidence in the markets and economic development.

Recommendation 7: improve the reliability of EU statistics.

A legislative act should aim to enhance the investigative powers by the Commission (Eurostat), including on-site inspections without prior warning and access to all accounting and budgetary information, and establish financial and non-financial sanctions for providing statistics that do not comply with the statistical principles set out in Regulation (EC) No 223/09.

Recommendation 8: improve the external representation of the Union in the area of Economic and Monetary Affairs.

A legislative act should aim to agree on a euro area/EU representation in the IMF and other relevant financial institutions, where appropriate, and include a procedure to fully inform and involve the European Parliament before adopting a decision under Article 138 of the TFEU.

Lastly, and together with the measures which must be taken as swiftly as possible under the existing institutional framework, members recommend the initiation of a process of reflection, with the aim of identifying the limits of this framework and developing ideas for a reform of the Treaties which will enable the mechanisms and structures which are indispensable for coherent, effective economic governance to be put in place and for real macroeconomic convergence between the Member States both inside and outside the euro area.