



BULLETIN

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Proposals for Strengthening Economic Coordination in the EU

by Marcin Koczor

Proposals to strengthen the coordination of economic policy within the EU (especially in the eurozone) presented on 12 May by the European Commission are designed to reinforce mechanisms that would effectively protect the EU from fiscal crises. They complement measures that have recently been taken to protect the stability of the eurozone. The present situation could speed up the process of reforming economic management in the common currency area.

Measures Taken in Reaction to the Situation in the Eurozone. The Commission's proposals to strengthen the coordination of economic policy—in particular within the eurozone—were presented soon after the decision of the ECOFIN Council (9–10 May) to establish a European financial stability mechanism. This mechanism has a hybrid structure, both in terms of its legal basis (Art. 122.2 of the Treaty on the Functioning of the European Union and inter-governmental agreement between eurozone states) and of its sources of financing. Its principal part is made of funds which are granted by the EU as loans or lines of credit (up to €60 billion) and which originate from loans drawn by the Commission on financial markets (the margin available in the EU budget's own funds as a collateral). Another part is a system of guarantees (up to €440 billion over three years) which can be granted through the Special Purpose Vehicle by eurozone countries (proportionately to their contribution to the ECB capital) and—on a voluntary basis—by other EU countries. In addition, support in the amount of half of the European contribution (up to €250 billion) is to be provided by the IMF.

In parallel to the measures of the ECOFIN Council, the ECB Governing Council decided to buy eurozone treasury bonds on the secondary market (until now, the Bank has bought bonds for €16.5 billion). It has also initiated additional liquidity operations, including the provision of funds in U.S. dollars (on the basis of a swap agreement with the U.S. Federal Reserve).

Direction of Proposed Changes. The proposals presented on 12 May by the European Commission are to strengthen surveillance mechanisms at the EU level in order to minimize the risk of serious fiscal and structural problems in member countries, especially those that share the common currency. An important role in the process of formulating specific solutions to strengthen economic coordination within the EU will be played by a special task force headed by Herman Van Rompuy which is to be made of representatives of EU member countries, the European Commission and the European Central Bank. Its first meeting will take place on 21 May and in October the group is to present its conclusions to the European Council.

Strengthening of fiscal surveillance. As proposed by the Commission, compliance by all EU countries with the Stability and Growth Pact should be strengthened. The Pact's "deterrent" function should be enhanced through swifter implementation of successive stages of the Excessive Deficit Procedure (EDP); this would additionally stimulate the countries undergoing this procedure to embark on the required consolidation measures. The criterion of public debt is to gain greater weight as part of the EDF—a rather obvious postulate considering the present problems with rising debt in the EU and insufficient attention given to this issue in the budgetary discipline supervision process so far. The Commission proposes to make a more rigorous use of sanctions, such as suspension of payments from the Cohesion Fund in the absence of effective deficit reduction measures. Those are the only sanctions that can also be imposed on non-eurozone counties (sanctions defined in Art. 126.11 TFEU only apply to eurozone states) if they are eligible for funds from the Cohesion Fund (GNI per capita under 90% of the EU average); during the 2007-2013 period, this means the 12 new EU-member states plus Greece and Portugal (Spain is additionally eligible for provisional support). Compliance with the regulations of the Pact would in the end be a condition for the transfer of EU

budgetary funds. The introduction of a similar clause (as part of the new EU financial framework) would also make it possible to increase payments from structural and agricultural funds if deficit reduction measures prove ineffective.

The European semester. One of the European Commission's most far-reaching proposals is to submit national budget drafts to assessment at the EU level. At the same time, the quality of budgetary data would be the object of an audit conducted by Eurostat. In the case of eurozone countries, such an assessment would be deeper, while the Eurogroup would be able to issue recommendations on corrections to the draft provided it had serious flaws. At present, there is no clarity as to the form in which the draft budget would be sent to the Commission and as to the criteria by which it would be assessed. The budgetary draft assessment process would be part of the so-called European Semester, which would encompass the entire cycle of synchronized programming and monitoring of economic (fiscal and structural) policy at the EU level, with greater coincidence in time with the national budget preparation cycle. Within its framework, stability and convergence programs as well as national reform programs would be submitted to the Commission for assessment in the first half of each year. The European Semester (scheduled to begin in 2011) would thus mark the yearly cycle for the functioning of the Europe 2020 economic strategy.

Closer surveillance and coordination of economic policy in the eurozone. The European Commission proposes—only for eurozone countries—to strengthen surveillance and coordination in economic policy so as to avoid macroeconomic imbalances and a drop in competitiveness. Reducing macroeconomic imbalances in the eurozone is one of the ten Integrated Guidelines that will form the framework for the programming of the Europe 2020 strategy at the national level. The European Commission proposes to create a in depth monitoring macroeconomic imbalances (both at the eurozone and national levels) and to use toward this end the instruments under Art. 121.4 TFEU, i.e. warnings issued by the Commission or Council recommendations (which are only decided by eurozone countries). It is also postulating the introduction of a special scoreboard embracing a number of indicators, such as current accounts, productivity, labor costs, interest rates or indebtedness; all this could be used to strengthen the “naming and shaming” approach.

The framework of crisis management in the eurozone. The establishment of a European financial stability mechanism fills a void in the area of instruments serving to mitigate the effects of the crisis in the eurozone, but only temporarily. The Commission is proposing to establish a permanent mechanism that will be largely based on the principles guiding the operation of the instrument approved by ECOFIN on 9–10 May (assistance—subject to numerous conditions—extended in the form of a loan granted by the EU from funds previously obtained from financial market). From the point of view of the Commission, an important challenge in this context will be to create a legal framework establishing uniform decision-making on the use of assistance funds. The present construction of the European financial stability mechanism leads to some dualism in this respect: in the case of funds from the €60 billion pool, the decision is made in the EU Council by a qualified majority, whereas in the case of guarantees, the decision is to adopted unanimously but only by eurozone countries.

Conclusions. The Commission's proposals constitute the most in-depth reform of the governance of the eurozone ever attempted, with the reform to be conducted using means introduced by the Lisbon Treaty (Art. 136 TFEU concerning the strengthening of surveillance and coordination of economic policy within the eurozone). Between the countries of this group there is political agreement about the general direction of these measures, and this agreement has been confirmed at the summit of eurozone leaders on 7 May. Differences of opinion are emerging, however, over the scope of changes, especially in connection with fiscal surveillance. The most far-reaching proposals are formulated by Germany. Some countries in turn (including France, the Netherlands, Austria and, beyond the eurozone, Sweden and the United Kingdom), have doubts about the proposal to appraise national budgets, but this should not exert an adverse effect on the success of the entire reform. Considering the scale of fiscal problems in the eurozone, proposals for the future crisis management framework should be complemented by solutions on debt restructuring in the case of excessively indebted countries receiving assistance.