



# Reforming economic governance

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Views expressed are exclusively the authors'





**"...the Union has been at the heart of European integration, binding countries once in conflict and offering benefits well beyond its borders—as a key trading and investment partner across Europe and as a powerful catalyst for fundamental economic and governance reforms by many entrants and aspirants."**

IMF, F&D, February 2014



# The economic crisis: what lessons for economic governance?

## *Scope and nature of surveillance*

- **wider**, especially on macro-financial issues and competitiveness/imbbalances
- **deeper**, especially on debt sustainability and key growth-enhancing reforms
- **better integrated** – avoid partial and fragmented approaches

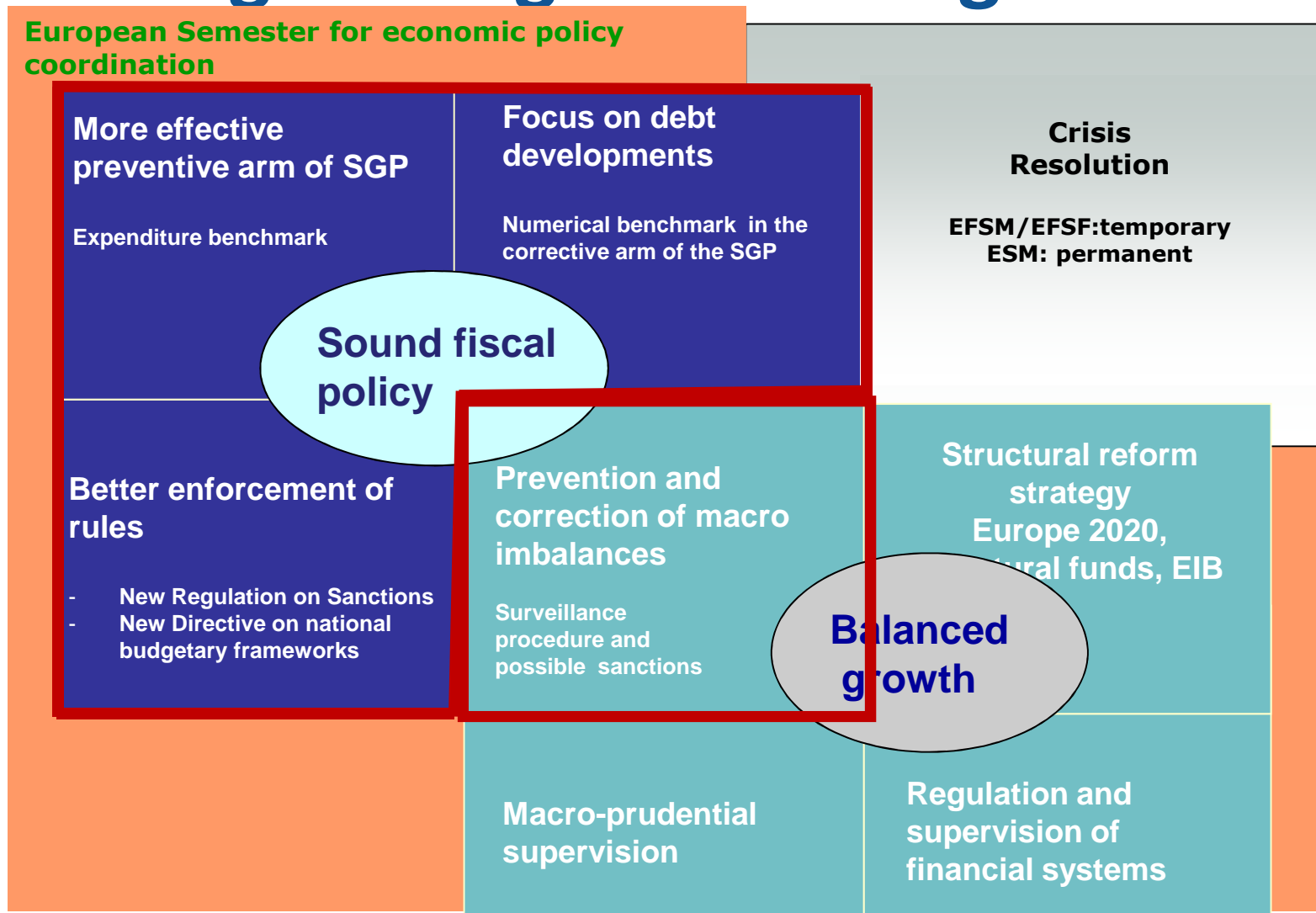
## *Follow-up and enforcement*

- stronger enforcement instruments
- influence economic policy debates at national level



# Strengthening economic governance

## European Semester for economic policy coordination





**Integrated surveillance:  
Public finances, imbalances, growth  
and jobs, financial sector.**

**Priority given to considering the  
specific situation of each country (as  
opposed to across-the-board  
comparisons)**

**Ex-ante guidance to Member States  
(before national decisions are taken)**

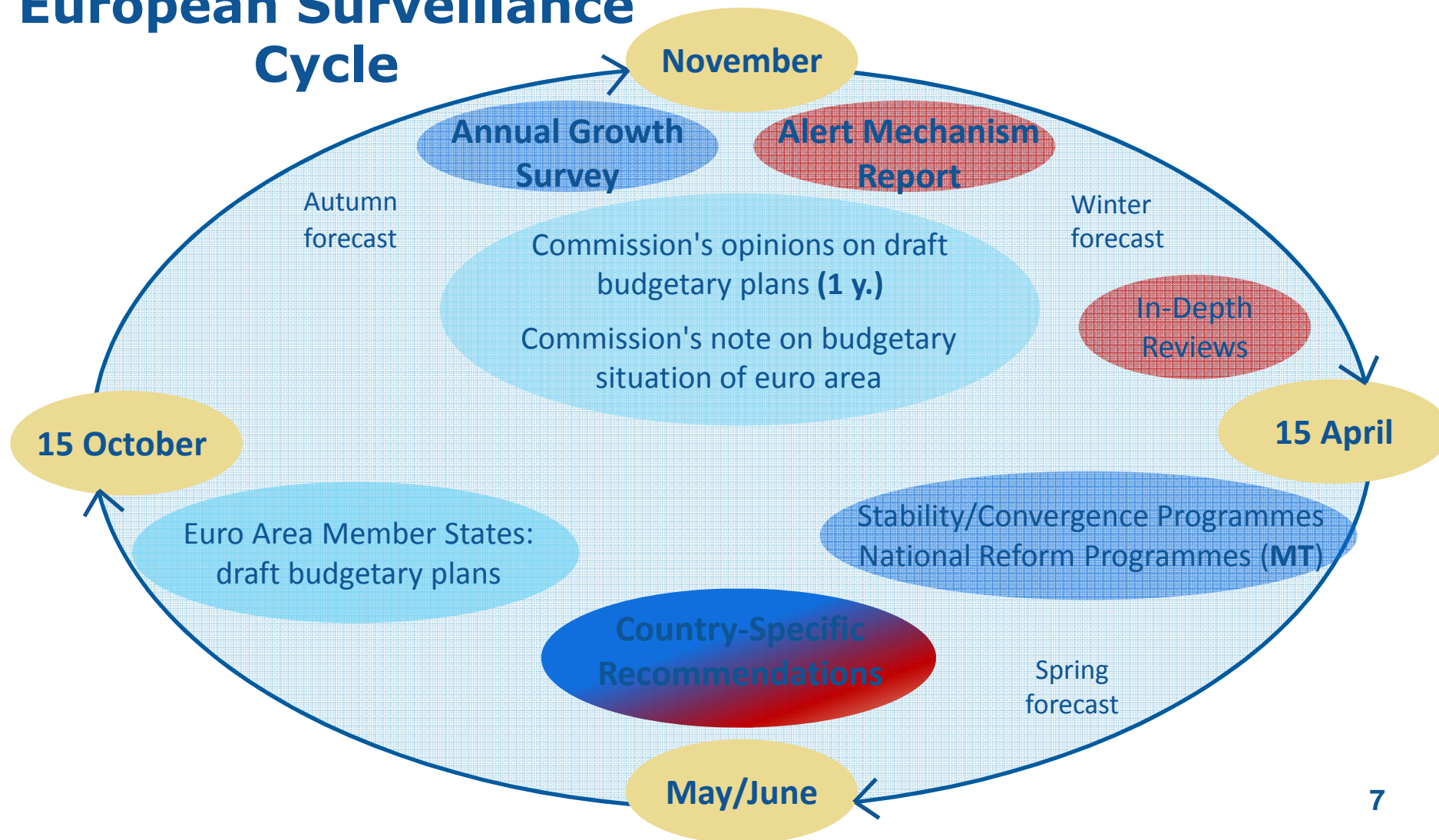


European  
Commission

# How? What steps?



# European Surveillance Cycle

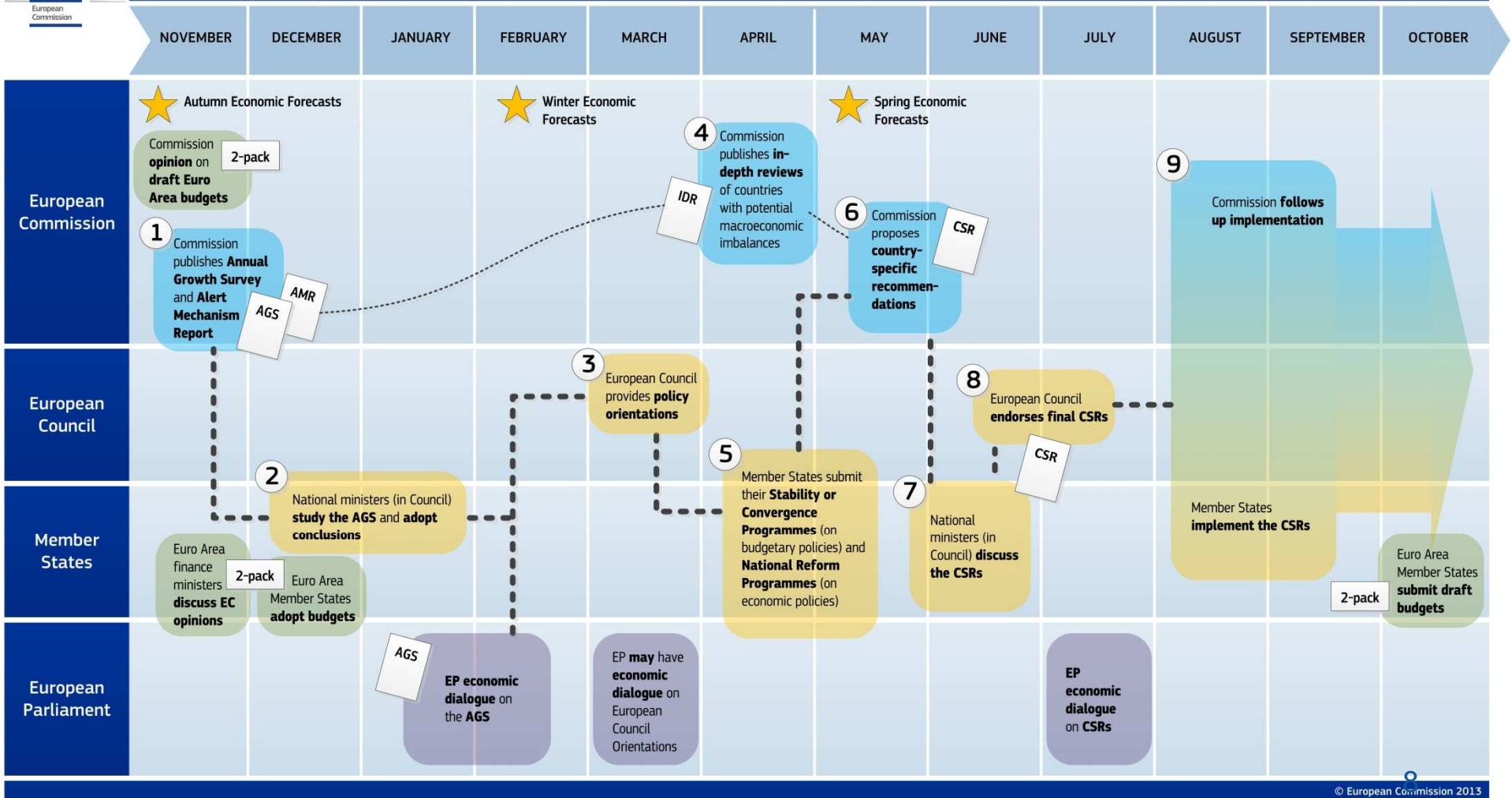




European Commission



# European Semester







# Principle of regular reporting:

**each Member State submits two reports, namely**

- the Stability (EA)/ Convergence (non-EA) Programme, which focuses on fiscal targets and policy**
- and the NRP (National Reform Programme), which focuses on recommendations for growth, country-specific targets and commitments.**



## **Country-specific recommendations:**

- cover broad range of policies: public finances, imbalances, growth and jobs and the financial sector**
- the number of recommendations may vary**
- based on analytical work: in-depth analysis, and regular bilateral meetings**



# **2 main aspects of reinforced monitoring**



## **Fiscal surveillance**

MTO central concept,  
plus:

- Expenditure benchmark
- Reference value for debt
- National fiscal frameworks

Enforcement

- Stronger guidance  
(numerical quantification)
- Sanctions
- Changed voting rules

## **Macro imbalances surveillance**

- Identifying
- Preventing
- Correcting
- 2 steps: AMR, IDR

Enforcement

- Sanctions in case of  
continued inaction or  
insufficient action
- Changed voting rules



## Scoping of surveillance under the MIP Alert Mechanism Report – Scoreboard (11 indicators)

**External  
imbalances**

***External positions*** (e.g. current accounts, net international investment positions)

***Competitiveness developments*** (e.g. REERs, ULCs)

***Export performance*** (e.g. export market shares)

**Internal  
imbalances**

***Private sector indebtedness*** (e.g. credit, debt)

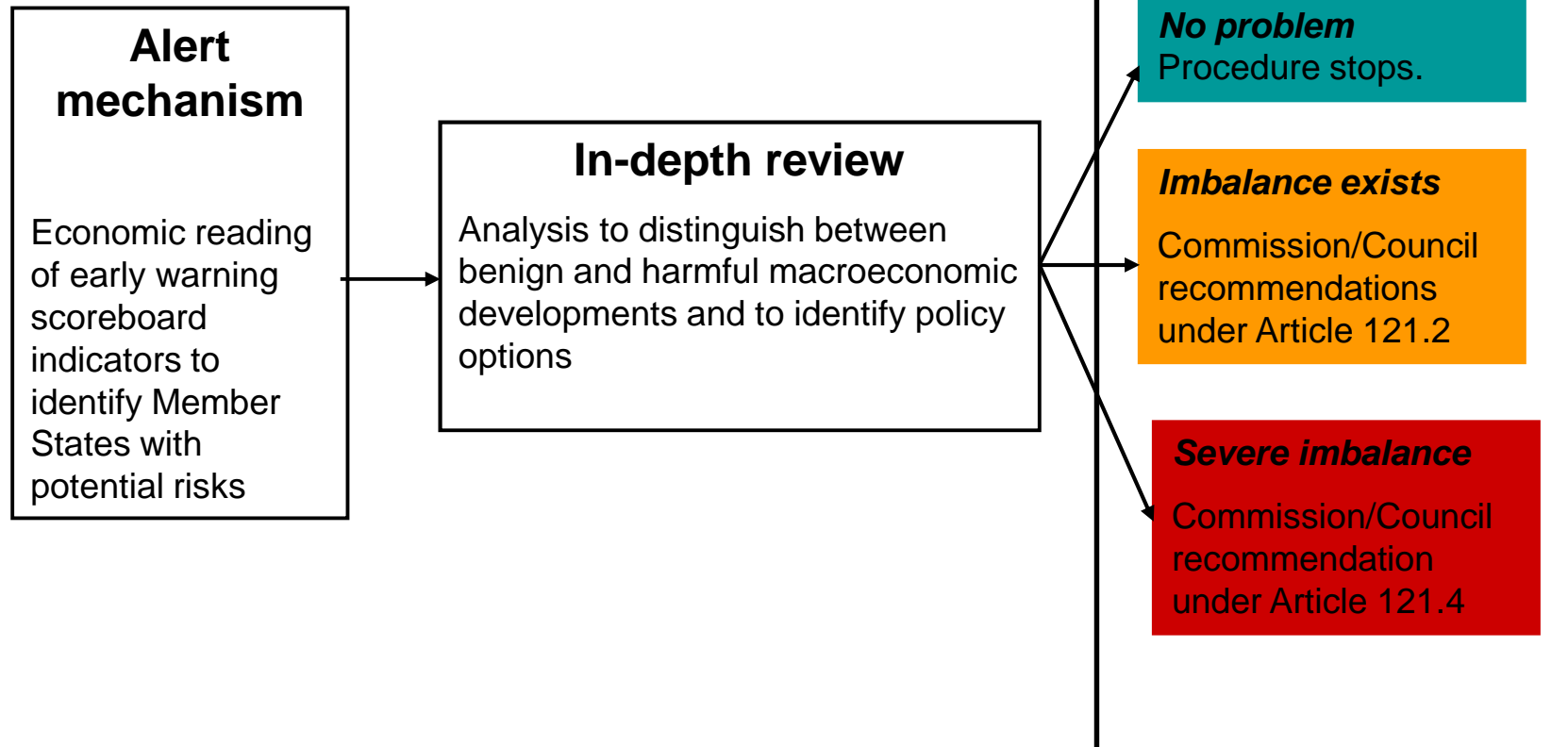
***Public sector indebtedness***

***Assets markets*** (e.g. housing)

***[Banking/financial sector]***

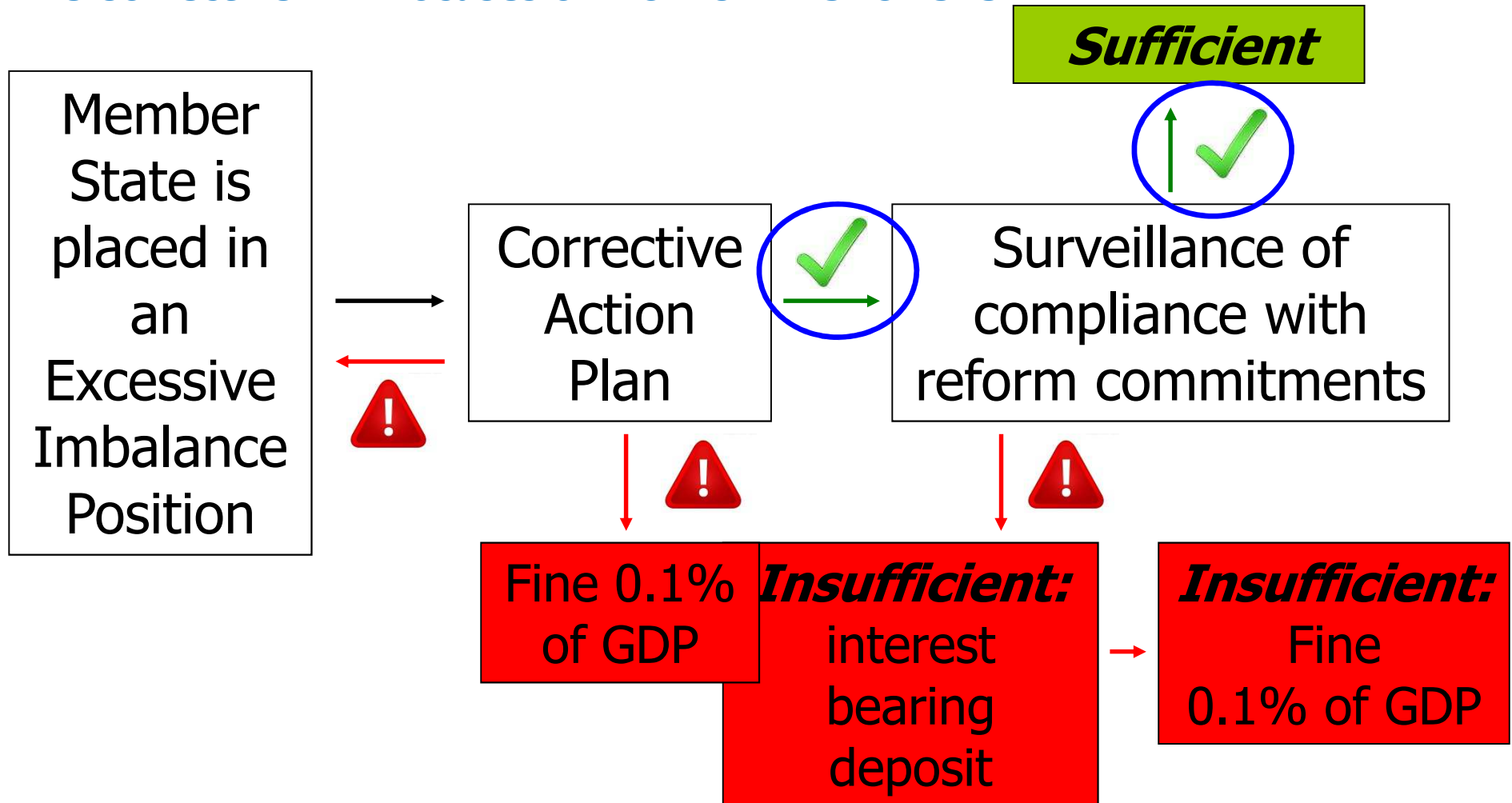
= early signalling, no policy conclusions drawn at this stage

## The preventive arm of the MIP





## The Corrective Arm focuses on **POLICY RESPONSES**





## **Some key changes in fiscal surveillance**

Medium-term objective (embedded into national law/constitution)

Adjustment path towards the MTO assessed in terms of respect of an expenditure rule. Deviations allowed if large downturns at Euro area level

Debt







## **Stronger institutions at national level**

*Requirement for independent fiscal authorities and independent macroeconomic forecasts*

*Minimum standards on accounting, statistics, transparency etc..*





## Enhanced monitoring for Euro Area Member States

**15 October**

**Not a budget BUT a draft budgetary plan:**

- Budgetary targets and underlying assumptions
- Main revenue and expenditure lines
- Measures with budgetary impact

**15 November**

**Commission's Opinion to each Member State and to Eurogroup:**

- Informs national debate(s) – national Parliaments can invite the Commission
- If serious breach of European rules: request for revision
- Communication with summary of all draft budgetary plans

**22 November**

**Feb/March**

- Winter forecast
- IDRs (possible recommendations)

**May/June**

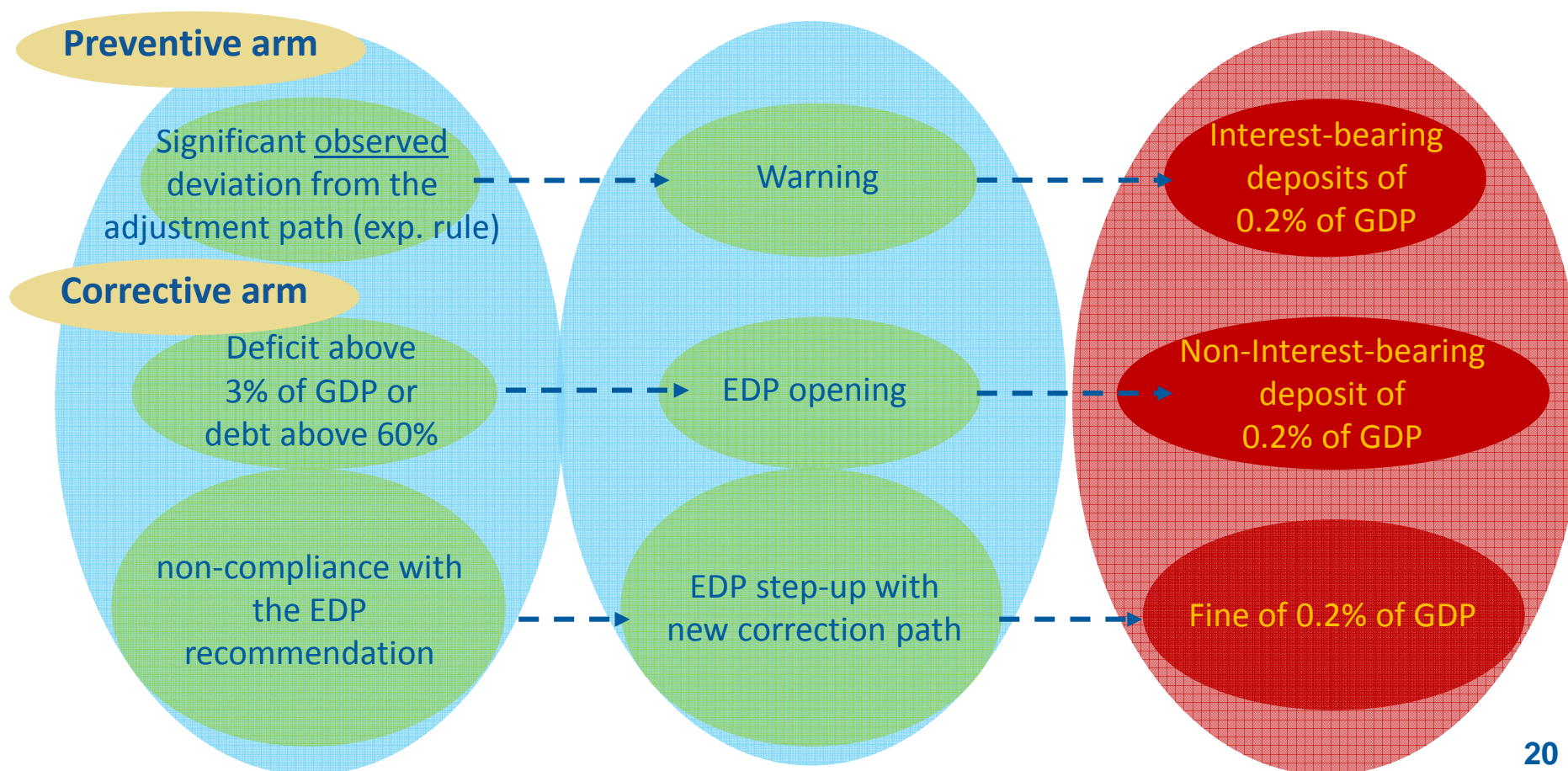
- Spring forecast
- EDP assessment
- Policy guidance and recommendation



## **For all EA member states:**

- closer monitoring of correction of excessive deficits**
- for financially fragile members of the EA, common practice of EU-IMF programmes, aligning programme surveillance with regular surveillance**

## What if a Euro Area Member State breaches the rules?





## 6-Pack, 2-Pack, etc...

**European semester:** 1<sup>st</sup> step in 2011 – for EU 28: a tool for ex ante policy coordination (goalposts)

**6-Pack:** since December 2011 – for EU 28: fiscal and macro-imbalance surveillance (2 pillars, fiscal and imbalances, major reform of governance)

**TSCG** (Treaty on Stability, Coordination and Governance , fiscal compact): since January 2013 – for EA and 8 more countries (preventive SGP at national level, mirrors the rules at the national level)

**2-Pack:** since May 2013 – for the EA (stronger monitoring in the case of EA members)



# Implementing these new rules





## **Economic environment in a nutshell**

- The recovery is gradually gaining ground
- Confidence is returning
- Financial market tensions have eased
- Bank lending to the real economy can still improve
- Unemployment remains high
- Rebalancing is under way
- Public finances improving since 2011



## **1<sup>st</sup> assessment 2013/2014**

Helps setting priorities:

- Pay more attention to the quality of fiscal consolidation (growth-friendly)
- Develop alternative sources of finance
- Implement policies to get people back to work





# 1<sup>st</sup> assessment 2013/2014

Draft budget plans:

- None of the plans put stability of EA at risk / nor significant gaps compared to the Council's recommendations and SGP
- But, the DBPs helped identify some cases where there was no margin for any slippage and/or implementation risks
- Helps make fiscal policy more predictable



# 1<sup>st</sup> assessment 2013/2014

Macro economic imbalances:

- IDRs launched in November 2013 for 16 Member States (+1 added early 2014)
- Results just released: specific monitoring in some countries, especially where decisive policy action is required.
- Stronger recovery should help unwind the imbalances.

# Overall assessment of EA



1. DBPs: credible, predictable fiscal policy of MS
2. Debt to GDP ratio stabilizing
3. Fiscal consolidation will slow down this year within a context of modest recovery (broadly neutral fiscal stance / EA; composition)
4. MIP: gradual correction of imbalances is the aim (coord. policies for growth; address fragmentation; reduce indebtedness)
5. Moving toward "continuous" monitoring





**What's next?  
...is open to debate**





# The Commission Blueprint for a deep and genuine EMU

## → Principles:

- **A comprehensive approach:** financial, fiscal, economic and political architecture. Economic, legal, and institutional aspects.
- **A gradual approach:**
  - short, medium and long term actions
- **A balanced approach:**
  - Discipline and solidarity
  - National and EA responsibilities
- **A Treaty-based approach:**
  - deepening of EMU to be based on Treaty framework
  - Euro area must be able to integrate quicker (Art. 136 TFEU)
  - Treaty changes to be resorted to when indispensable





Banking Union

"Growth" Union

Fiscal Union

Political Union

"More union", the European Union is gradually solidifying





**Thank you for your attention**

			A blueprint for a deep and genuine EMU Launching a European debate	Secondary law	Treaty change
ALL ALONG THE PROCESS	SHORT TERM	Within the next 18 months	1. Full implementation of <b>European Semester</b> and <b>six-pack</b> and quick agreement on and implementation of <b>two-pack</b>	✓	
			2. <b>Banking Union</b> : Financial regulation and supervision: quick agreement on proposals for a <b>Single Rulebook</b> and <b>Single Supervisory Mechanism</b>	✓	
			3. <b>Banking Union</b> : <b>Single Resolution Mechanism</b>	✓	
			4. Quick decision on the next <b>Multi-annual Financial Framework</b>	✓	
			5. <b>Ex-ante coordination of major reforms</b> and the creation of a <b>Convergence and Competitiveness Instrument (CCI)</b>	✓	
			6. Promoting <b>investment</b> in the <b>Euro Area</b> in line with the Stability and Growth Pact	✓	
			7. <b>External representation</b> of the <b>Euro Area</b>	✓	
	MEDIUM TERM	18 months to 5 years	1. <b>Further reinforcement of budgetary and economic integration</b>	✓	✓
			2. <b>Proper fiscal capacity</b> for the <b>Euro Area</b> building on the CCI	✓	✓
			3. <b>Redemption fund</b>		✓
			4. <b>Eurobills</b>		✓
	LONGER TERM	Beyond 5 years	1. <b>Full Banking Union</b>		✓
			2. <b>Full fiscal and economic union</b>		✓
			<b>Political union: Commensurate progress on democratic legitimacy and accountability</b>	✓	✓



	External Imbalances and Competitiveness									Internal Imbalances						
	Current Account Balance as % of GDP		Net International Investment Position as % of GDP	Real Effective Exchange Rate		Share of World Exports		Nominal Unit Labour Cost		House Price Developments % y-o-y change in deflated prices (2012/11)	Private Sector Credit Flow as % of GDP, consolidated	Private Sector Debt as % of GDP, consolidated	General Government Debt as % of GDP	Unemployment Rate		% y-o-y change in Total Financial Sector Liabilities (2012/11)
	3 year average (2010-12)	p.m.: 2012		% change (3 years) (2012/09)	p.m.: % y-o-y change	% change (5 years) (2012/07)	p.m.: % y-o-y change	% change (3 years) (2012/09)	p.m.: % y-o-y change					3 year average (2010-2012)	p.m.: 2012	
BE	-0.4	-2.0	48	-4.3	-2.3	-14.9	-5.2	6.6	4.1	-0.2	-1.5	146	100	7.7	7.6	-3.9
BG	-0.9	-1.3	-80	-4.0	-2.0	4.8	-5.5	7.4	-0.5	-5.3 <sup>p</sup>	2.5	132	19	11.3	12.3	10.1
CZ	-3.0	-2.4	-50	0.4	-2.8	-4.2	-4.6	3.9	3.8	-3.9	0.6	72	46	7.0	7.0	5.4
DK	5.9	6.0	38	-7.7	-2.8	-18.6	-4.8	1.0	1.6	-5.1	6.1	239	45	7.5	7.5	5.0
DE	6.5	7.0	42	-8.9	-3.2	-13.1	-4.6	3.0	3.1	1.8	1.5	107	81	6.2	5.5	4.4
EE	0.9	-1.8	-54	-3.4	-0.6	6.5	-4.1	-2.8	4.2	3.5	4.7	129	10	13.2	10.2	12.9
IE	2.3	4.4	-112	-12.2	-4.3	-16.3	-3.3	-10.4	0.0	-11.7	-1.6	306	117	14.4	14.7	-0.7
EL	-7.5	-2.4	-109	-4.5	-3.9	-26.7	-7.3	-8.1	-6.2	-12.4 <sup>**</sup>	-6.8	129	157	18.2	24.3	-3.4
ES	-3.1	-1.1	-93	-5.2	-2.3	-14.6	-4.9	-5.6	-3.0	-16.9	-10.5	194	86	22.3	25.0	3.3
FR	-1.8	-2.2	-21	-7.8	-3.2	-14.0	-6.8	4.1	2.1	-2.3	3.5	141	90	9.9	10.2	-0.1
HR	-0.5	0.0	-89	-8.3	-2.6	-24.7	-7.4	0.8	1.2	-2.4	-2.1	132	56	13.8	15.9	0.9
IT	-2.3	-0.4	-25	-6.2	-1.8	-23.8	-5.0	3.1	2.3	-5.4 <sup>p</sup>	-1.0	126	127	9.2	10.7	7.1
CY	-6.7	-6.9	-82	-5.8	-1.9	-26.6	-9.4	0.8	-2.7	-2.2	10.0	299	87	8.7	11.9	-1.9
LV	-0.6	-2.5	-67	-8.5	-1.4	12.3	5.4	-5.8	3.4	-0.6	-1.0 <sup>p</sup>	92 <sup>p</sup>	41	16.9	15.0	4.1 <sup>p</sup>
LT	-1.3	-0.2	-53	-6.7	-2.0	29.3	5.7	-4.6	1.9	-3.2	-0.3	63	41	15.6	13.4	-0.3
LU	7.0	6.6	169	-2.3	-1.4	-18.3	-4.0	9.8	4.7	2.5	-5.0	317	22	4.8	5.1	11.3
HU	0.6	1.0	-103	-1.2	-2.3	-17.8	-7.4	4.4	2.7	-9.2	-6.1	131	80	11.0	10.9	-8.3
MT	-1.6	1.6	25	-7.7	-2.1	4.5	-1.9	4.9	3.7	0.3	-1.6	155	71	6.6	6.4	4.1
NL	8.8	9.4	47	-6.0	-1.8	-12.0	-3.3	3.3	2.8	-8.7	0.2	219	71	4.7	5.3	4.9
AT	2.2	1.6	0	-4.7	-1.7	-21.2	-6.3	4.1	3.0	:*	2.7	147	74 <sup>***</sup>	4.3	4.3	-0.9
PL	-4.6	-3.7	-67	1.3	-2.3	1.3	-2.7	4.4	2.0	-5.9 <sup>e</sup>	3.4	75	56	9.8	10.1	9.6
PT	-6.5	-2.0	-115	-4.0	-1.5	-16.0	-5.3	-5.3	-3.1	-8.6 <sup>p</sup>	-5.4	224	124	13.6	15.9	-3.6
RO	-4.4	-4.4	-68	-1.9	-6.0	5.9	-7.1	4.8	6.5	-9.2	0.9	73	38	7.2	7.0	5.3
SI	1.2	3.3	-45	-4.5	-1.2	-19.9	-6.9	0.4	0.8	-8.4	-2.9	114	54	8.1	8.9	-0.8
SK	-1.7	2.2	-64	-3.2	0.0	4.2	1.5	0.9	1.0	-5.9	3.2	73	52	14.0	14.0	2.6
FI	-0.5	-1.7	18	-8.3	-2.7	-30.8	-7.1	4.8	4.4	-0.5 <sup>p</sup>	9.0	158	54	8.0	7.7	-0.2
SE	6.2	6.0	-10	10.1	-0.8	-18.8	-6.0	0.7	2.9	-0.2	1.8	212	38	8.1	8.0	4.4
UK	-2.8	-3.8	-9	5.8	4.3	-19.0	-1.7	6.1	3.0	-0.9	2.6	179	89	7.9	7.9	-4.3

Source: Eurostat