Economic governance framework: stocktaking and challenges

The European Union's economic governance framework aims to detect, prevent, and correct problematic economic trends such as excessive government deficits or public debt levels, which can stunt growth and put economies at risk. As part of the review of the framework, the European Parliament (EP) is calling for closer economic coordination between the EU and its Member States in order to improve fiscal capacity and assistance mechanisms. The EP also underlines the importance of democratic accountability, transparency and the participation of the social partners.

Implications of the financial crisis

Seven years after the beginning of the international financial crisis, many Member States are still hit by the threat of recession, low inflation and high unemployment. According to Eurostat, the unemployment rate for the euro area is 11.1% in June 2015 (EU28: 9.7%). The inflation rate for the euro area was 0.3% in May 2015. Even though the European Commission's forecast is positive, the economic recovery is still fragile.

Economic governance framework: application and implementation

In order to better face the economic challenges, the EU has established an economic governance framework – its main elements are set out in a three-pillar strategy (monitoring, prevention and correction). 'Monitoring' describes the analysis of macroeconomic data, the assessment of national budgets and reform programmes, and comprises the Annual Growth Survey and the Alert Mechanism Report. The 'Prevention' pillar includes the Stability and Growth Pact (SGP), the Member States' budgetary targets defined as Medium-Term Objectives (MTO), recommendations and the intergovernmental agreement known as the Fiscal Compact. Under the third aspect, 'Correction', Member States with excessive budget deficits have to follow a set of rules in order to decrease their debts (Excessive Deficit Procedure). For EU countries with excessive imbalances, e.g. in the field of foreign trade, a corrective action plan including concessions to other Member States (Excessive Imbalance Procedure) can be put in place. Implementation of the economic governance framework is divided into the European Semester and the National Semester.

European Parliament report on the review

The initiative report, drafted by rapporteur Pervenche Berès (S&D, France), includes important proposals on the reform of the Economic and Monetary Union (EMU). It calls for simple and transparent procedures for economic governance and warns that the current complexity of the framework, as well as the lack of implementation and ownership, is detrimental to its effectiveness. The report suggests, among other things, closer economic coordination between the EU and its Member States in order to improve statistical comparability and assistance mechanisms. The improvements concern the assessment of macroeconomic imbalances, the fiscal capacity of Member States and the spill-over effects between them.

The Committee report also emphasises the importance of investments and structural reforms for economic growth and calls, in this context, on the Commission to use the flexibility built into the existing rules, in line with its interpretative Communication. It also underlines the importance of democratic accountability and transparency, inter alia, by encouraging the finance committees of the national parliaments to systematically invite the European Commissioners responsible for economic governance to public debates in their chambers prior to the adoption of the draft budgets of Member States. In addition, the Committee is demanding the incorporation of the European Stability Mechanism (ESM) in EU law. It also calls for greater involvement of the European Parliament in the future economic governance framework.

EPRS | European Parliamentary Research Service

Author: Cemal Karakas, **Members' Research Service**

PE 559.515