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Evaluating EU Economic Governance

Elements for the debate on the "Six-Pack" and "Two-Pack"

This Briefing aims to present the main aspects of the EU economic governance legislative framework in light of the recent evaluation issued by the European Commission. The regulatory mapping is accompanied by an overview on the main issues that have been discussed so far in the debate on the Six-Pack and Two-Pack. It has been produced by the Policy Performance Appraisal Unit of the European Parliamentary Research Service (EPRS), as part of its analytical work on the implementation and operation of existing EU legislation, programmes and policies in practice.

A) Background

The "Two-Pack" and "Six-Pack" mark the latest stage of the legislative framework for Economic and Monetary Union (EMU)[1]. The process of fiscal integration has gone through a dramatic quickening of the pace in recent years, driven by the threat of the recent financial and sovereign debt crisis. Recent developments have highlighted again the challenges created by the asymmetry between a fully-fledged monetary policy and an economic governance which is in the hands of the Member States. The strengthening of economic governance is conceived, along with the Banking Union, as a project designed to preserve the stability of the euro. The "Two-Pack" and "Six-Pack" have gone to the limits of EU competence in the field of economic policy. Any further deepening of the Economic or Monetary Union might, therefore, either require Treaty change or recourse to the intergovernmental method – both options which would raise the issue of parliamentary control. The sensitivity of the issue is also reflected in the involvement of national constitutional courts.[2]

The establishment of the EMU required a regulatory framework which could ensure good coordination among Member States as well as sound fiscal discipline to prevent the deterioration of public budgets. The introduction of the **Stability and Growth Pact (SGP)** in 1997 implemented the requirements on budgetary control of the Treaty on European Union. An important aim was to monitor Member States' budgets in order to prevent and limit spill-overs originating from a financial crisis in the single currency area[3].

The SGP comprises two "arms", preventive and corrective. The preventive arm is based on Regulation 1466/97, while the corrective one is built upon Regulation 1467/97. Both Regulations are accompanied by a Solemn Declaration including, among others, a commitment by all Member States to respect the **Medium-term Budgetary Objectives[4] (MTOs)**. The Declaration moreover affirmed the right of initiative and surveillance of the European Commission and the right of the Council to impose sanctions and recommendations. Notably, the Pact contains two thresholds which, if not respected, trigger the **Excessive Deficit Procedure (EDP)**[5]: the nominal deficit[6] must not exceed 3% of GDP while public debt[7] must not exceed 60% of GDP.
The SGP was reformed in 2005: Member States became more involved in the process of reporting the MTOs while more flexibility and an early warning system were introduced (see Table 1 for more details on EU economic governance legislation before 2011). The ECB study "The Reform and Implementation of the Stability and Growth Pact" (June 2006) presents an assessment of its implementation one year after the SGP entered into force. It states that the reform did not bring about substantial changes with respect to Member States' low compliance with recommendations. The paper

[1] The EMU involves the coordination of economic and fiscal policies, a common monetary policy, and a common currency. The EMU refers to all the Countries of the European Union and they all (with the exception of Denmark and UK) are committed to ultimately adopt the euro as national currency.
[2] See for example Bundesverfassungsgericht judgments of 18 March 2014 on the European Stability Mechanism and on the OMT decision of the ECB Governing Council .
[3] European Commission, European Economy Occasional papers 147, May 2013
[4] The MTOs, expressed in structural budget balance, must be in the boundary between -1% GDP and balance/surplus for non-euro countries, while -0.5% GDP and balance/surplus for Eurozone members.
[5] As of November 2014, 11 countries are under EDP: Ireland, Greece, Spain, France, Cyprus, Malta, Portugal, Slovenia, Hungary, Poland, UK.
[6] Public budget balance is a measure of the difference between government spending and income. A budget deficit occurs when a government's spending is greater than its revenues.
[7] Government debt is the sum of external obligations (debts) of the government and public sector agencies.

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argues that "*...the proliferation of escape clauses and the shift in emphasis towards conditional as opposed to unconditional compliance implies that the rules are now less well-defined and less simple. The new framework is also less transparent insofar as it is now harder for outsiders to assess whether or not decisions taken by the Council are consistent with a rigorous application of the rule*" *(p. 22).*

The recent financial sovereign and debt crisis proved that the fiscal framework was too weak to prevent deterioration of public finances and imbalances and incapable of preventing spill-overs. The **European Financial Stability Mechanism Regulation (EFSM)**, which entered into force in 2010, was an attempt to provide financial assistance in line with Article 143 of the TFEU without breaking the "no bail-out clause" of Article 122. Similarly, the **EU Financial Stability Facility (EFSF)** (euro-area Members), the **European Stability Mechanism (ESM)** (euro-area Members) and the **Balance-of-Payments assistance (BoP)** (non-euro-area Members) were established to prevent and assist countries that were not able to finance themselves efficiently.

The financial assistance mechanism was accompanied by an overhauled surveillance and corrective fiscal system. The Six-Pack, entered into force in 2011, aimed at strengthening the SGP to address the financial vulnerabilities of Member States, and to ensure better coordination among the States and higher effectiveness with the existing rules. Moreover, the Six-Pack aimed to create a tool to prevent excessive macroeconomic imbalances, the **Macroeconomic Imbalance Procedure (MIP)**, with the intention that one country's situation should not affect other Member States[8]. In 2013, the introduction of two Regulations , the "Two-Pack", aimed to make the surveillance system more rigid and the EDP more structured.

Articles 121, 122, 126, 136 and 143 of the Treaty on the Functioning of the European Union (TFEU) and Protocol 12 on Excessive Deficit Procedure (EDP) form the basis for the current legislation, which comprises three areas, namely SGP**,** Macroeconomic Surveillance and Financial Assistance (see Table 2 for a comprehensive mapping of the current EU economic governance legislation). Articles 3, 119-144, 219 and 282-284 complete the legal basis of the fiscal framework[9].

B) The Stability and Growth Pact

Contents and aims

The preventive arm seeks to ensure that fiscal policy is conducted in a sustainable manner. Member States both within and outside the euro-area must submit a **Stability or Convergence Programme (SCP)** indicating their Medium-Term Budgetary Objectives (MTOs). If these MTOs are not achieved, the Council adopts an opinion that, in case of non-compliance, is followed by a recommendation. Non-compliance with the recommendation is followed by further measures in the form of Council decisions[10]. Only Eurozone[11] countries can be subject to sanctions. Deviations from the MTOs might be justified in case of i) major structural reforms, ii) an unexpected adverse economic event and iii) a severe economic downturn in the Union[12].

The "corrective arm" sets out the framework for countries to take corrective action. It is triggered if one of the two criteria (deficit or debt[13]) is not respected. An opinion is issued by the Commission, followed by a Council recommendation and the possible decision to put the Member States under the Excessive Deficit Procedure. Non-compliance may lead to sanctions based on Council's decision.

These two arms are further strengthened by the "Two-Pack", applicable to Eurozone countries only. The Two-Pack consists of two regulations with stricter rules, entailing higher surveillance, stricter budgetary requirements, clear and simplified rules for enhanced surveillance for Member States facing severe difficulties with regard to their financial stability, those receiving financial assistance, and those exiting a financial assistance programme.[14] The Two-Pack also incorporates some of the elements of the Treaty on Stability, Coordination and Government (Fiscal Compact), which makes the requirements for MTOs more stringent[15]. It was signed by all Member States except Croatia, the UK and the Czech Republic. The whole system is embedded into the timeframe of the European Semester[16].

[8] COM(2012)777 A blueprint for a deep and genuine economic and monetary union (p. 2-3).
[9] "A new framework for fiscal policies", European Parliament, Fact Sheets on the European Union, April 2014.
[10] A more detailed overview of the Stability and Growth Pact can be found in the Briefing "Stability and Growth Pact - An Overview", Economic Governance Support Unit (EGOV), DG IPOL.
[11] The 18 (19 as of 1 January 2015 with Lithuania) out of 28 countries that have adopted the euro are part of the Eurozone.
[12] Comprehensive guidelines on the clarification of these aspects are the object of the recent European Commission communication COM(2015)12.
[13] Deficit must not exceed 3% of GDP while public debt must not exceed 60% of GDP. If debt is higher than 60%, countries are assessed on the basis of 0.5% debt reduction in the past three years.
[14] An overview of the Two-Pack can be found on the European Parliament website.
[15] If the debt-to-GDP ratio is higher than 60%, the MTO must be in the band between the structural deficit of 0.5% and balance/surplus. A more in depth view of the Fiscal Compact is provided in the ECB Article of May 2012.
[16] Please refer to "The European Semester: Main steps at the EU level", EGOV At A Glance, December 2013.

Main issues related to the SGP

The Working Document of 17 October 2014 on the review of the economic governance framework, with rapporteur Pervenche Berès (S&D, FR), presented at the European Parliament's Economic and Monetary Affairs Committee's (ECON), points out some aspects of the SGP. The document and other studies emphasize, inter alia, the issues of i) ***structural deficit*** and ***fiscal effort***, *ii)* ***democratic accountability***, *iii)* ***Member States' compliance with Country Specific Recommendations***, *iv)* ***coordination in the European Semester*** and *v)* ***flexibility*** and ***investment***,

i. In the SGP, a deficit is described as either nominal or structural. The structural budget balance represents what government revenues and expenditure would be if output were at its potential level (OECD). While the EDP is triggered by a nominal deficit above 3%, any improvement (fiscal effort) towards the MTO is expressed in structural terms[17]. The ECB article "The Assessment of Fiscal Effort" (October 2014), raises awareness on the measurement of such fiscal effort, since it can be conceptually elaborated in many different ways. The CEPS commentary "The Case of the Disappearing Fiscal Compact" (November 2014) argues that the reason why only five countries[18] in the euro zone have a fiscal balance in line with the Fiscal Compact is due to the fact that there is no common consensus around the concept of "structural budget"[19]. It thus creates divergent interpretations of the Pact.

ii. **Democratic Accountability** has been scrutinized at the request of the Economic and Monetary Affairs committee by the study "Enhancing the Legitimacy of EMU Governance" (December 2014). The study analyses the low input legitimacy of the EMU caused by the weak involvement of the European Parliament and national parliaments in the European Semester. The complexity of the current system is such that there has been an abrupt shift of discretion towards European Commission and Council, leading to a system that so far has been justified by output legitimacy (i.e. the capacity to deliver effective results). In their main findings the authors explain, inter alia, that the intrusion of the EU on national discretion is higher when the risk of spill-overs is higher, while lower input legitimacy does not necessarily lead to higher output legitimacy. The study argues that "*it is (therefore) essential to strengthen the involvement of the European Parliament in EMU governance*".

iii. **The Member States' compliance with Country Specific Recommendations (CSRs)** is subject to a regularly updated analysis by the European Council Oversight Unit of DG EPRS[20], which shows that only 12% of CSRs were fully addressed in 2013, while 50% had no implementation. Moreover, the implementation worsened compared to 2011-2012, where an average of 18% of CSRs were implemented and 43% were not. During the Economic dialogue[21] of 4 September 2014 held by the ECON Committee, three analyses were presented on "*Fiscal and macro-structural challenges and policy recommendations for the Euro Area and its Member States under the 2014 Semester Cycle*". Academia has provided for recommendations[22] that the CSRs are not transparent, lack a systematic framework for policy coordination and provide few indications on how to achieve policy goals.

iv. Low compliance with rules is often linked to a **low level of coordination** of economic policies in the European Semester frame. Indeed, in the its Communication of 30 November 2012 "A blueprint for a deep and genuine economic and monetary union, Launching a European Debate" , the European Commission claims that "...*all major economic and fiscal policy choices of its Member States should be subject to deeper coordination, endorsement and surveillance at the European level*". Similar aspects are underlined in the Committee of the Regions' (CoR)[23] opinion and European Economic and Social Committee's (EESC) ones[24].

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[17] Member States which have not yet reached their MTO shall improve their structural deficit by 0.5% of GDP per year.

[18] Germany, Greece, Luxembourg, Cyprus and the Netherlands.

[19] The methodology adopted by the European Commission is explained in the Economic Papers 536, November 2014.

[20] "Country-Specific Recommendations: Scorecard for 2013; How far are EU Member States meeting their European Council commitments?", European Council Oversight Unit Study, October 2014.

[21] The European Parliament regularly invites Commissioners, the President of the Eurogroup as well as the president of ECOFIN to discuss about some issues or critical aspects along the European Semester, for instance, on Country Specific Recommendations, Draft Budgetary Plans and Annual Growth Survey. An overview of all the economic dialogues can be found in the EGOV Briefing "Economic Dialogue and Exchange of Views with EU Institutions under the European Semester Cycles".

[22] "Policy Recommendations for the Euro Area and its Member States under the 2014 European Semester", EGOV At a Glance, October 2014.

[23] The opinion of the (CoR) of 26 April 2014 on "The social dimension of the Economic and Monetary Union", calls for the need for national, regional and local authorities to be more closely involved in the policy coordination process (point 15).

[24] The EESC's opinion of 9 July 2014 on "Completing EMU", underlines how a better application of the European Semester should imply a more transparent and duly communicated mechanism with a better involvement of National Parliaments (point 3.1). In particular, the EESC proposes that "*The rebalancing and proper implementation of existing instruments, Six-pack, Two-pack and the European semester, should be ensured*"(point 1). Similarly, the opinion of 22 May 2013 on "A blueprint for a deep and genuine EMU" suggests that the European Commission's main concern shall be to ensure coordination of the member countries' economic policies (point 2.4).

v. Finally, the Stability and Growth Pact has two more critical aspects: **investment** and **flexibility**. The preventive arm of the SGP sets a limit for public expenses, whose growth should be at a rate equal or lower than the medium-term potential GDP growth. The European Commission issued on 13 January 2015 a Communication[25] on "making the best use of the flexibility within the existing rules of the stability and growth pact" with the aim to set guidelines on how to interpret the flexibility clauses of the Pact without modifying existing legislation. The communication covers three areas: investments, structural reforms and cyclical conditions. Regarding investments, the European Commission clarifies that national contributions to the European Fund for Strategic Investments (EFSI) will not be taken into account when defining the fiscal adjustment under both the preventive and the corrective arms. The EDP cannot be triggered if the excessive deficit is due to this contribution, while the excess over the debt reference value due to this particular investment will not be considered. The communication also clarifies the kind of non-EFSI-investments that determine a temporary deviation from the MTOs[26]. The second section of the document is on the MTO deviation due to structural reforms, which must be major, have direct long-term positive budgetary effects and be fully implemented[27]. Finally, the European Commission clarifies the flexibility clauses on cyclical conditions: the European Commission uses a "matrix" (annex 2 of the communication) based on the cyclical situation of the single Member State, to determine the appropriate fiscal adjustment under the preventive arm.

C) Macroeconomic Surveillance

Contents and aims

The Six-Pack introduced the MIP (Regulation 1174/2011 and Regulation 1176/2011) in line with article 121 of the TFEU "*...to ensure closer coordination of economic policies and sustained convergence of the economic performances of the Member States...*". Following the structure of the SGP, it has a preventive arm and a corrective arm. While the Excessive Deficit Procedure only refers to two financial government indicators (deficit and debt), the scoreboard covers eleven macroeconomic indicators with respective thresholds. The main objective of macroeconomic surveillance is to prevent the generation of excessive imbalances that might lead to financial bubbles and crises. The importance of these indicators rely on the fact that they are used as crisis predictors. At the beginning of every European Semester, the European Commission publishes, alongside the **Annual Growth Survey (AGS)**, the **Alert Mechanism Report (AMR)** with a scoreboard of indicators and thresholds for each Member State[28].

Main issues related to Macroeconomic Surveillance[29]

The ECB paper "The identification of fiscal and macroeconomic imbalances, unexploited synergies under the strengthened EU governance framework" (November 2014), argues that although the main indicators have limitations (such as the use of absolute terms), if this macroeconomic scoreboard indicator had been used before the crisis then it would have indicated strong imbalances in Spain, Greece and Cyprus as early as in 2003-2004, providing proof of the reliability of the early warning mechanism.

D) Financial Assistance

Articles 122, 136 and 143 of the TFEU constitute the primary legislation of financial assistance for EU Member States not contradicting Article 125 on no-bail-out clause[30]. In 2010, the EU set up the **European Financial Stability Mechanism (EFSM)** and the **European Financial Stability Facility (EFSF)**. In the EFSM, the European Commission acts as borrower on behalf of the European Union with a limit fixed to €60 billion under an implicit EU budget guarantee. So far, the EFSM has been activated for Portugal and Ireland for a total up to €48.5 billion. By contrast, the EFSF is limited to Eurozone countries, while the **Balance of Payments Assistance (BoP)** concerns non-euro countries[31].

[25] COM(2015) 12 final provisional
[26] The "investment clause" lists the following conditions to be fulfilled:
i) Member State's GDP growth is below its potential;
ii) The deviation from the MTO does not lead to a deficit higher than 3% of GDP;
iii) The deviation is linked to expenditure on projects co-funded by the EU under the Structural and Cohesion policy;
iv) Co-financed expenditure should not substitute for nationally financed investments;
v) The Member States must compensate for any temporary deviations.
[27] In the corrective arm, the existence of such reforms determines the decision to be taken under the EDP.
[28] Please refer to "Macroeconomic Imbalance Procedure", EGOV At A Glance , March 2014 for all the steps of the Macroeconomic Imbalance Procedure.
[29] The CoR Draft Opinion of 3 December 2014 points out that the indicators are exclusively economic, not bearing the importance of social, environmental or territorial indicators.
[30] Refer to Articles 125(1), 122(2) and 143(1).
[31] Beneficiaries: Hungary, Latvia and Romania. The total amount was fixed to €50 billion, but it exceeded it as the loans provided were €50 billion in 2008 and €25 billion in 2009.

The EFSF works differently, as it is a temporary company based in Luxembourg which issues bonds to raise funds. It has operated since 2010 and it does not issue loans anymore[32]. The EFSF has been substituted by the **European Stability Mechanism (ESM)**[33]. It covers Euro area Countries by providing loans, purchasing bonds of an ESM Member States and providing precautionary financial assistance with a lending capacity of €500 billion. So far, two countries have used this mechanism (Cyprus and Spain).

E) European Parliament Position

The Parliament non-legislative resolution of 22 October 2014 on "The European Semester for economic policy coordination: implementation of 2014 priorities" fully supports the completion of the EMU as described in the Commission's Blueprint on the EMU. However, the Parliament underlines how the current system has many limits, which are mainly reflected in the poor implementation of the CSRs by Member States. In particular, the European Semester process should be strengthened in the following aspects:

- Sufficient time and resources should be allocated to the design and follow-up to the recommendations, thereby making the recommendations as relevant as possible for EU and national level economic policy-making;
- The European Parliament should be involved at an early stage of the process;
- The ownership of the CSR by national parliament needs to be strengthened;
- Member States should explain the reasons for non-compliance with the CSRs in Parliament's competent committee;
- A number of CSRs are based on EU legal acts and the failure to act upon EU legal acts may result in legal procedures.

The lack of democratic accountability and transfer of sovereignty is brought up in other resolutions. In particular, in the resolution of 23 May 2013 on "Future legislative proposals on EMU", the Parliament "*reaffirms the governance in the EU must not infringe on the prerogatives of the European Parliament and the national parliaments, especially whenever any transfer of sovereignty is envisaged; stresses that proper legitimacy and accountability require democratic decisions and must be ensured at national and EU level be national parliaments and the European Parliament respectively*".

F) National Parliaments' Position

The Conference of Parliamentary Committees for Union Affairs of Parliaments of the European Union (COSAC) conclusions[34] point out the need to encourage interparliamentary debate on the process of EMU in order to empower the democratic legitimacy of EMU and to increase the involvement of National Parliaments in the European Semester[35]. Furthermore, during the European Parliamentary Week held in Brussels on 20-22 January 2014, Jose -Manuel Barroso, the then European Commission president, claimed that Member States should coordinate their reforms since one decision affects the others. Finally, he added that it is the national parliaments' role to ensure correct implementation and legitimation of reforms.

G) European Commission Evaluation Report

In accordance with the evaluation clauses of the seven Regulations[36] of the Six and Two-Pack, the European Commission issued a report[37]on 28 November 2014 to evaluate the application and effectiveness of the reform. The evaluation is drawn on the acknowledgement of the economic crisis and of the short period of time on which the Regulations have been implemented.

The overall outcome produced by the Six and Two-Pack is considered positive. Fiscal surveillance, according to the report, has been strengthened, especially in light of the lower budget deficit that dropped from 4.5% of GDP in December 2011 to around 3% of GDP in 2014[38]. Countries under the excessive deficit procedure have also lowered in number, from 23 (out of 27) in 2011 to 11 (out of 28) in August 2014. Based on these numbers, although causality between rules and results is far from being tested, Member States have adopted a more rigid fiscal discipline. The recommendations issued with respect to the Draft Budgetary Plans and the EDP are assessed as effective in improving the ex-post assessment and the ex-ante guidance to Member States' policies. Moreover, higher flexibility has been crucial to effectively deal with the economic crisis while the European Semester has ensured closer coordination of policies and lower macroeconomic imbalances.

[32] Beneficiaries: Ireland, Portugal and Greece
[33] For further detail see "European Stability Mechanism, Main Features, Oversight and Accountability", EGOV Briefing, November 2014.
[34] COSAC conclusions of 15-17 June 2014 in Athens and COSAC conclusions of 23-25 June 2013 in Dublin.
[35] Further suggestions can be found in the 21st Bi-annual report.
[36] Each Regulation has an evaluation clause on reporting the application of the Regulation by 14 December 2014. Directive 2011/85/EU has a review deadline by 14 December 2012 (Article 15) and on 14 December 2018 (Article 16).
[37] COM(2014)905 final.
[38] Forecast, Eurostat.

The scoreboard of the macroeconomic imbalances is described as a "*...useful tool to provide a first assessment of risks and of the correction of imbalances*". Furthermore, through time, the Macroeconomic Imbalance Procedure has increased the number of in-depth reviews as well as the number of imbalances identified. The Commission considers the MIP as a powerful tool for increasing the understanding of countries' policy challenges and response. Regarding financial stability and assistance (Regulation 472/2013), "*the integrated set of rules indeed increases the transparency, predictability, practicality and efficiency of country surveillance and monitoring of Member States that are experiencing or is threatened with serious financial difficulties*". The assessment, however, is limited in time since the Regulation entered into force in May 2013. In addition, Greece, Ireland, Portugal and Cyprus were already in the financial assistance procedure when the Two-Pack entered into force, so the enhanced surveillance mechanism has never been tested. As the time span has been very short, some of the aspects of economic governance cannot be assessed in terms of effectiveness. No sanctions have been imposed under SGP, and the Excessive Imbalance Procedure has never been implemented.

The evaluation singles out a number of aspects to be improved in the current framework:

- The relationships between the different instruments of economic surveillance are complex and reduce the transparency of policy making, which in turn poses challenges for its implementation, for communication with stakeholders and the general public and consequently for ownership, democratic legitimacy and accountability;
- the need to boost the involvement of national Parliaments;
- the need to improve the implementation of the relevant policy recommendations and increase the incentives for Member States to adopt these policies in the framework of the MIP.

Besides the review, the European Commission included an annex on Streamlining and Reinforcing the European Semester in the [Annual Growth Survey 2015] issued on 28 November 2014. The reason for the annex is that "*while the European Semester has reinforced economic policy coordination at EU level, the limited and sometimes lack of implementation of key country-specific recommendations has put its effectiveness into question*." This reflection is borne out in the European Parliament's own analysis of the effectiveness of the Country-specific Recommendations[39]. The European Commission puts forward four recommendations:

- Simplifying Commission outputs and allowing for more feedback on Commission analysis through a comprehensive single economic assessment per Member State;
- Streamlining reporting requirements of Member States with National Reform Programmes whose formulation involves more National Parliaments and social partners;
- Enhancing the multilateral nature of the process by enhancing the ownership of the European Semester by Member States at both national and European level;
- Opening up the process and increasing engagement with other actors in order to increase the democratic legitimacy of the European Semester.

H) Conclusion

The European Commission evaluation report is the first step in building a deeper and fairer Economic and Monetary Union. Articles and studies have highlighted the need to further address those issues which result in a misalignment of economic governance with its original goals. Democratic accountability, Member States' compliance with country specific recommendations, coordination in the European Semester and macroeconomic surveillance are some of the issues which require further attention.

[39] "Country-Specific Recommendations: Scorecard for 2013; How far are EU Member States meeting their European Council commitments?", European Council Oversight Unit Study, October 2014.

Other sources for reference

European Parliament resolution of 13 March 2014 on Employment and social aspects of the role and operations of the Troika (ECB, Commission and IMF), Rapporteur Cercas Alejandro (S&D, Spain)

European Parliament resolution of 25 February 2014 on the European Semester for economic policy coordination: Employment and Social Aspects in the Annual Growth Survey 2014, Rapporteur Gutierrez Prieto Sergio (S&D, Spain)

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Table 1- Mapping EU Economic Governance Legislation Before 2011

Initial EU instruments for Economic Governance	
Stability and Growth Pact (SGP) and Economic Policy Coordination	
Resolution of the European Council of 17 June 1997, on the Stability and Growth Pact. Resolution of the European Council of 13 December 1997, on economic policy coordination in the final stage of economic and monetary union	Regulation 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and co-ordination of economic policies constituting the preventive arm of the SGP Regulation 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure constituting the correcting arm of the SGP
SGP Reformed in 2005	
Regulations	**Main changes in the preventive and corrective arm**
Regulation 1055/2005 amending Regulation 1467/97 Regulation 1056/2005 amending Regulation 1466/97	• Introducing country specific Medium Term budgetary Objectives (MTOs) measured in seasonally adjusted terms • Early warning system • Revised excessive deficit procedure (EDP) • Improvement of 0.5% GDP to align with MTOs • More flexibility in the EDP
New Financial Assistance Programme for Eurozone Members set up in 2010. **---** **SGP reformed in 2011 and 2013 - Six-Pack and Two-Pack**	

Table 2 - Mapping the Current EU Economic Governance Legislation[40]

Treaty on the Functioning of the European Union (TFEU)

Art 121 - Multilateral Surveillance
Art 126 - Excessive Deficit Procedure (EDP)
Art 122 and 143- Financial Assistance

Art 136 - Strengthened coordination and surveillance of budgetary discipline in the euro area
Protocol No 12 on EDP

Stability and Growth Pact (SGP)

Preventive Arm

Six Pack: Regulation 1175/2011 amending Regulation 1466/97

> **Review/Evaluation clause: Article 12a**
> -Report on the application of the Regulation by 14 December 2014: effectiveness, closer coordination and convergence of MSs' economic performances
> -Where appropriate, proposal for amendments.

Corrective Arm

Six Pack: Regulation 1177/2011 amending Regulation 1467/97

> **Review/Evaluation clause: Article 17a**
> -Report on the application of the Regulation by 14 December 2014: effectiveness, closer coordination and convergence of MSs' economic performances
> -Where appropriate, proposal for amendments.

Regulation 479/2009 on the application of the Protocol on the excessive deficit procedure as amended by Regulation 679/2010

Six Pack: Directive 2011/85/EU on requirements for budgetary frameworks of the Member States

> **Review/Evaluation clause: Article 15 and Article 16**
> Review of the suitability of the Directive by 14 December 2018.

Six Pack: Regulation 1173/2011 on the effective enforcement of budgetary surveillance in the euro area

> **Review/Evaluation clause: Article 13**
> -Report on the application of the Regulation by 14 December 2014: effectiveness (especially related to risk), closer coordination and convergence of MSs' economic performances
> - Where appropriate, proposal for amendments

Two Pack: Regulation 472/2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability

> **Review/Evaluation clause: Article 19**
> -Report on the application of the Regulation by 14 December 2014: effectiveness, closer coordination, convergence of MSs' economic performances and contribution to the Union's strategy for growth and jobs.
> - Where appropriate, proposal for amendments

Two Pack: Regulation 473/2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area

> **Review/Evaluation clause: Article 16**
> -Report on the application of the Regulation by 14 December 2014: effectiveness, closer coordination, convergence of MSs' economic performances and contribution to the Union's strategy for growth and jobs.
> -Where appropriate, proposal for amendments

Treaty on Stability, Coordination and Governance ("Fiscal Compact")*

Macroeconomic Surveillance

Six Pack: Regulation 1176/2011 on the prevention and correction of macroeconomic imbalances

> **Review/Evaluation clause: Article 16**
> -Report on the application of the Regulation by 14 December 2014: effectiveness, closer coordination and convergence of MSs' economic performances
> -Where appropriate, proposal for amendments.

Six Pack: Regulation 1174/2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area

> **Review/Evaluation clause: Article 7**
> -Report on the application of the Regulation by 14 December 2014: effectiveness, closer coordination and convergence of MSs' economic performances
> -Where appropriate, proposal for amendments.

Euro-Plus Pact on common policies in the area of competitiveness, employment, financial stability and sustainable public finances

Financial Assistance

Regulation 407/2010 of the Council of 11 May 2010 establishing a European financial stabilisation mechanism (EFSM)

> **Review/Evaluation clause: Article 9**
> -Report on the implementation and on the continuation of the exceptional occurrences that justify the adoption of this Regulation within six months following the entry into force of this Regulation and where appropriate every six months thereafter
> -Where appropriate, proposal for amendments.
>
> Last review: 2010
> COM(2010)713

Regulation 332/2002 establishing a facility providing medium-term financial assistance for Member States' balances of payments (BoP)

> **Review/Evaluation clause: Article 10**
> Every three years the Council shall examine, on the basis of a report from the Commission and after the Economic and Financial Committee has delivered an opinion, whether the facility established still meets, in its principle, arrangements and ceiling, the need which led to its creation.

EFSF Framework Agreement *

Treaty establishing the European Stability Mechanism (ESM)*[41]

Secondary Framework on SGP

Code of Conduct "Specification on the implementation of the Stability and Growth Pact and Guidelines on the format and content of Stability and Convergence Programmes"
Two Pack Code of Conduct "Specifications on the implementation of the Two Pack and Guidelines on the format and content of draft budgetary plans, economic partnership programmes and debt issuance reports"
COM(2012)777 final/2 A blueprint for a deep and genuine economic and monetary union Launching a European Debate
EP Resolution of 20 November 2012 (Thyssen report)
Commission, European Council, ECB and Eurogroup Presidents' Report on EMU "Towards a Genuine Economic and Monetary Union"
European Council Conclusion "Roadmap for the completion of EMU"

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[40] This table has further elaborated the diagram of the study EU Mapping: Systematic Overview on Economic and Financial Legislation (p.16), EP, Policy Department A, May 2014.
[41] *intergovernmental agreement