Committee on Budgets
Committee on Economic and Monetary Affairs

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DRAFT REPORT

on budgetary capacity for the Eurozone
(2015/2344(INI))

Committee on Budgets
Committee on Economic and Monetary Affairs

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CONTENTS

Page

MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

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The European Parliament,

– having regard to the Treaty on European Union (TEU), especially Article 3 thereof, which establishes the creation of the single market, whose currency is the euro,

– having regard to the Treaty on the Functioning of the European Union (TFEU), in particular Articles 122, 136, 310, 311, 329 and 352 thereof,

– having regard to the Werner report (1970),

– having regard to the McDougall report (1977),

– having regard to its resolution of 23 March 2011 on the draft European Council decision on amending Article 136 of the Treaty on the Functioning of the European Union with regard to a stability mechanism for Member States whose currency is the euro[1],

– having regard to its resolution of 6 July 2011 on the financial, economic and social crisis: recommendations concerning the measures and initiatives to be taken[2],

– having regard to Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies,

– having regard to the judgment of the European Court of Justice in Case C-370/12 *Pringle* v *Ireland* [2012],

– having regard to Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 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,

– having regard to its resolution of 23 May 2013 on future legislative proposals on EMU: response to the Commission communications[3],

– having regard to its resolution of 10 June 2013 on strengthening European democracy in the future[4],

– having regard to the Five Presidents' Report 'Completing Europe's Economic and Monetary Union' of 22 June 2015,

[1] OJ C 247E, 17.8.2012, p.22.
[2] OJ C 33E, 5.2.2013, p. 140.
[3] OJ C 55, 12.2.2016, p. 79.
[4] OJ C 65, 19.2.2016, p. 96.

– having regard to its resolution of 24 June 2015 on the review of the economic governance framework: stocktaking and challenges[1],

– having regard to the proposal for a regulation of the European Parliament and of the Council on the establishment of the Structural Reform Support Programme for the period 2017 to 2029 and amending Regulations (EU) No 1303/2013 and (EU) No 1305/2013 (COM(2015)0701) of 26 November 2015,

– having regard to its resolution of 17 December 2015 on completing Europe's Economic and Monetary Union[2],

– having regard to Rule 52 of its Rules of Procedure,

– having regard to the joint deliberations of the Committee on Budgets and the Committee on Economic and Monetary Affairs under Rule 55 of the Rules of Procedure,

– having regard to the report of the Committee on Budgets and the Committee on Economic and Monetary Affairs and the opinions of the Committee on Budgetary Control, the Committee on Employment and Social Affairs and the Committee on Constitutional Affairs (A8-0000/2016),

A. whereas the Treaty on European Union establishes the creation of the single market, whose currency is the euro; whereas the European Monetary Union currently consists of 19 members, two of whom have opt-out clauses, the remaining seven EU Member States having yet to join; whereas no financial liability will be incurred by the two countries with opt-outs from EMU in the framework of any fiscal capacity for the euro area;

B. whereas the European Monetary Union established under the Maastricht Treaty was not complemented by a genuine European Economic Union;

C. whereas contrary to the budgetary arrangements in all other federations, the EU budget is dependent on contributions from Member State level to EU level;

D. whereas keeping the Balance of Payments Facility for non-euro Member States while depriving euro area Member States of this instrument as a consequence of the no-bail-out clause reflects one of the original flaws of EMU;

E. whereas it became apparent during the sovereign debt crisis that the European Treaties do not provide the euro area with the instruments to deal effectively with shocks;

F. whereas, following real convergence in the run-up to the introduction of the common currency, the euro area witnessed structural divergence between 1999 and 2009, which made the euro area as a whole less resilient to shocks; whereas regulatory adjustments and structural reforms aimed at reducing risks and improving convergence have been introduced since 2009 at both European and national level, but some euro area Member States still require solidarity and sustainable reforms in their catching-up process;

[1] Texts adopted, P8_TA(2015)0238.
[2] Texts adopted, P8_TA(2015)0469.

G. whereas progress has been achieved in addressing the flaws of EMU through legislation such as the Six-Pack and the Two-Pack regulations, as well as through the introduction of the European Semester and the creation of new instruments such as the ESM;

H. whereas the Community method was abandoned in favour of intergovernmental agreements in order to allow for rapid responses in the crisis; whereas this has made the European Council the leading actor in the crisis, while the European Parliament and its national counterparts have been sidelined;

I. whereas a great deal of trust has been lost in the process, both between Member States and on the part of citizens and the markets in the EU institutions and the Union as a whole;

J. whereas the ECJ ruled in the Pringle case that the ESM is consistent with the TFEU and opened the door to a possible integration of that mechanism into the *acquis communautaire* within the current limits of the Treaties;

Historical background and shortcomings of EMU

1. Recalls that the Werner Report in 1970 highlighted the fact that a monetary union would require all the essential features of national public budgets to be decided at Community level;

2. Recalls that the McDougall Report in1977 stressed that the establishment of a monetary union would require a significant Community budget amounting to 5-7 % of GDP in order to absorb economic shocks and provide a minimum degree of income convergence;

3. Considers, against this background, that shortcomings have existed in the Economic and Monetary Union (EMU) since its inception under the Maastricht Treaty with the attribution of monetary policy to the European level, while budgetary policy remains within the competencies of the Member States and is only framed by provisions on light coordination of national policies;

4. Stresses that the introduction of the euro as a common currency has eliminated tried and tested policy options for counterbalancing asymmetric shocks such as exchange rate fluctuation; reiterates that the relinquishing of autonomy over monetary policy therefore requires alternative adjustment mechanisms to cope with asymmetric macroeconomic shocks in order to make the euro zone an optimal currency area able, inter alia, to implement a proper policy mix;

5. Considers that EMU exposed its vulnerability in the context of the global financial and economic crisis when unsustainable imbalances, triggered by capital flows from core euro area nations to the periphery and a rising public spending ratio in some Member States, aggravated and led to a sovereign debt crisis, in which government borrowing costs dramatically increased in some Member States, jeopardising, in the absence of a proper fiscal backstop, the mere existence of the euro area;

6. Points out that the crisis has proved that a common monetary policy without a common fiscal policy cannot address asymmetric shocks to the euro area; reiterates that mere

coordination of national fiscal policies without credible enforcement mechanisms has not prevented an investment gap, has proved insufficient to trigger growth-enhancing, sustainable and socially balanced structural reforms and has not enhanced the national capacity to absorb economic shocks;

7. Observes that the stabilisation of the economic cycle since the beginning of the crisis has relied almost exclusively on the ECB, and that the reduced options available for monetary policy in a context of zero lower bound rates have led the ECB to implement unconventional monetary policy measures; recalls that the President of the ECB has called for integrated institutions, for a stronger and proactive fiscal policy on the euro area scale and for euro area Member States to deliver on structural reform;

8. Acknowledges the results achieved since the crisis broke in terms of risk reduction and better coordination; points in particular to the many measures taken by the EU institutions to address the shortcomings revealed by the crisis by strengthening coordination of national fiscal policies, in particular via the adoption of the Six-Pack and the Two-Pack Regulations; welcomes further the fact that the EU institutions have set up frameworks for action in current and future crises, namely by creating the European Financial Stability Mechanism (EFSM), the temporary European Financial Stabilisation Facility (EFSF) and its permanent successor, the European Stability Mechanism (ESM); underlines, however, that these mechanisms dramatically lack democratic oversight and parliamentary control, and hence ownership;

9. Recalls that in 2012 the Commission introduced in its ‘Blueprint for a deep and genuine EMU’ the idea of a Convergence and Competitiveness instrument for euro area Member States, whereby euro area Member States could get financial support for ‘reform packages that are agreed and important both for the Member States and for the good functioning of the euro area’, and that this financial support ‘could be set up in principle as part of the EU budget’ and be established by secondary law on the basis of Article 352 TFEU and financed by either a commitment on the part of the euro area Member States or a legal obligation to that effect enshrined in the EU’s own resources legislation as ‘assigned revenues’; considers the review by the Commission of the European Semester, including the Structural Reform Support Programme (SRSP), as a follow-up to this approach;

10. Recalls the four pillars set out in the Five Presidents’ Report: completing the economic, financial and fiscal Union and strengthening democratic accountability, legitimacy and the institutional setting; emphasises that this report reiterates the view set out in the Blueprint of the Commission and the Four Presidents’ Report, coordinated by then President of the European Council Mr Herman van Rompuy, that a shock absorption capacity at euro area level is needed to complement automatic stabilisers at national level, whose functioning is limited, as was shown during the crisis;

11. Makes it clear that rapid action is needed to ensure the sustainability of the euro; stresses that this requires strong joint efforts on the part of the EU and its Member States to complete the EMU and to restore the trust of citizens and markets;

12. Believes that in order to regain trust, the euro must deliver on its promise of stability, convergence, growth and jobs; regards a fiscal capacity as a vital element in this enterprise, which can be successful only if solidarity is closely linked to responsibility,

meaning that financial support is provided on the basis of clear criteria;

General principles

13. Argues that convergence, good governance and conditionality enforced through institutions being held democratically accountable at the euro-area and national level are key, notably to preventing permanent transfers and moral hazard;

14. Takes the view that incentives for sound fiscal policymaking and for addressing structural weaknesses at national level, taking into account the aggregate euro area fiscal stance, are core elements for the functioning of the euro area; considers that a fiscal capacity should, moreover, address specific concerns for the euro area in the case of absorbing shocks;

15. Stresses that a fiscal capacity must be created on top of existing EU funding instruments, within its legal framework, in order to ensure consistent development between euro and non-euro Member States;

16. Points out that effective stabilisation of large euro area Member States or a group of closely economically intertwined countries requires sufficient resources;

Three pillars of the fiscal capacity

17. Considers that three different functions have to be fulfilled; argues, first, that in order to foster economic and social convergence within the euro area and to improve the economic competitiveness and resilience of the euro area, Member States' structural reforms should be incentivised in good economic times; argues, secondly, that differences in the business cycles of euro area Member States stemming from structural differences create the need for an instrument to address asymmetric shocks; considers, thirdly, that symmetric shocks should be addressed so as to increase the resilience of the euro area as a whole;

18. Argues in consequence that three pillars of a fiscal capacity should be distinguished, wherein action should be undertaken in the framework of a common toolbox to address the different functions, i.e. incentivising convergence and sustainable structural reforms, absorbing asymmetric shocks, and absorbing symmetric shocks; takes note of the various proposals regarding designs put forward on this matter by politicians and academia;

19. Demands that the ESM be integrated into the Union's legal framework and evolve towards a Community mechanism, as provided for in the ESM Treaty and as constantly requested by the European Parliament and foreseen in the Five Presidents' report; underlines that the ECJ Pringle case-law and jurisprudence open up the possibility of bringing the ESM within the Union's framework, within the existing Treaties, on the basis of Article 352 TFEU; calls, therefore, on the Commission to bring forward as a matter of urgency a legislative proposal to that end; demands that the ESM be made fully accountable to the European Parliament;

20. Calls for the ESM, whilst fulfilling its ongoing tasks, to be further developed and turned into a European Monetary Fund (EMF) with adequate lending and borrowing capacities

and a clearly defined mandate, including its contribution to a euro area fiscal capacity; stresses that an EMF should be managed by the Commission and held democratically accountable by the European Parliament; emphasises that national parliaments would be involved in the process, given that their constitutional prerogatives regarding financial resources could be affected;

21. Insists that once it is integrated into Community law, the fiscal capacity for the euro area should be integrated into the EU budget, but over and above the ceilings of the Multiannual Financial Framework (MFF);

22. Considers that the EFSM and the balance of payment facility should be integrated into the same budgetary chapter as the ESM once the latter is integrated into Community law, thereby providing resources for financial assistance to countries outside the euro area but committed to joining on the basis of the agreed rules;

23. Believes that compliance with a convergence code should be the condition for access to funding from the ESM/EMF; reiterates its call on the Commission to put forward a legislative proposal to this end;

Pillar 1: A convergence code to promote convergence and incentivise the implementation of structural reforms

24. Stresses that significant progress in convergence and sustainable structural reforms is needed in order to reconcile fiscal consolidation, growth, jobs, productivity, competitiveness and the European social model so as to effectively prevent asymmetric shock; considers that financial support from the European level for the implementation of agreed structural reforms in the Member States, while keeping the responsibility for implementation at the national level, is therefore indispensable;

25. Reiterates its call for the adoption of a 'convergence code', as a legal act resulting from the ordinary legislative procedure, to streamline the existing coordination of economic policies into a more effective convergence of economic policies within the European Semester;

26. Suggests that the convergence code define criteria to be reached within five years, building on the merits of the Maastricht criteria and focusing for the first period on convergence requirements regarding:

– taxation: base and rate of corporate tax,

– labour market, including minimum wages,

– investment, notably in research and development;

This five-year period should in exchange allow for a phasing-in of the new tasks attributed to the ESM/EMF;

27. Considers that a financial instrument is needed to work as an incentive-based mechanism for convergence and sustainable structural reforms with clear conditionality; believes that the Structural Reform Support Programme (SRSP), which is designed to

provide technical support to national authorities for measures aimed at reforming institutions, governance, administration, and economic and social sectors with a view to enhancing growth and jobs, can be further developed as a contribution to this function of the fiscal capacity;

Pillar 2: Absorption of asymmetric shocks

28. Is convinced that increased convergence within the euro area will significantly increase the capacity of its Member States to absorb asymmetric shocks; believes, however, that no matter how great the efforts regarding convergence and sustainable structural reforms, asymmetric shocks with an impact on the stability of the euro area as a whole cannot be ruled out completely, given the strong integration of the euro area Member States; stresses, therefore, the need to have an instrument available for this emergency which provides an immediate stabilisation effect;

29. Notes that the two models for the shock absorption function are featured most prominently in the academic literature: a Rainy Day Fund and a European Unemployment Benefit Scheme;

30. Points out that the Rainy Day Fund should be funded by all the Member States on the basis of a cyclically sensitive economic indicator and used for payments to all Member States suffering from economic downturns;

31. Acknowledges that the model of a European Unemployment Benefit Scheme would foster convergence of labour markets in the medium term;

32. Considers that the EMF should provide the financial resources for either of these models, which could require increasing the amount of capital; points out that the fund should avoid long-term redistribution effects by ensuring Member States' contributions are balanced over the cycle;

Pillar 3: Absorption of symmetric shocks

33. Warns that future symmetric shocks could destabilise the euro area as a whole since the currency area is not endowed with the instruments to cope with another crisis of the extent of the previous one; is convinced that the right instrument to deal with symmetric shocks depends on the nature of the shock; recalls that the EMF should be used as an appropriate financial resource;

34. Considers that in the case of symmetric shocks brought about by a lack of internal demand, monetary policy alone cannot reignite the economy, particularly in a context of zero lower bounds; is therefore convinced that public and private investment must be increased, the administrative burden reduced and a proper regulatory framework developed, with a view to stimulating potential growth;

35. Considers that symmetric shocks that are caused by a lack of supply must be diminished by improving the competitiveness of the euro area via appropriate financial incentives, including via the financing of professional training or financial incentives for R&D spending;

36. Considers that instability in the financial sector could also pose severe challenges for the euro area as a whole; urges completion of the Banking Union in order to lessen these challenges; calls for the fiscal capacity to operate as a fiscal backstop for the Banking Union, as agreed in the SRM;

37. Points out that the fiscal capacity has to be of significant size in order to be able to address these euro-area-wide shocks and to finance its functions; insists that in order to provide sufficient financial resources, the euro area fiscal capacity, including the EMF, should be able to increase the issuance of equities via a rise in guarantees; considers that these common issued equities should have the highest credit rate;

Democratic accountability and control

38. Stresses that the Community method should prevail in the development of economic governance for the euro area; urges that no reinforcement of intergovernmental structures should take place in parallel with existing structures;

39. Calls urgently for the European Parliament and national parliaments to be given a strengthened role in the renewed economic governance framework in order to reinforce democratic accountability; calls for increased national ownership in the European Semester in order to improve compliance with the CSRs;

40. Argues that national ownership could be improved by including national parliaments in the procedures; insists, however, that the competences of the EP and the national parliaments conferred upon these institutions by the Treaties should be respected and that mixing of these competences be avoided;

41. Considers that in order to provide for a genuine EMU, a euro area treasury should be created for collective decision-making, supervision and management of the budgetary capacity for the euro area; calls for the inclusion of this treasury within the European Commission with full macroeconomic, fiscal and financial competences; calls for a vice-president of the European Commission to head the treasury and simultaneously to act as president of the Eurogroup; urges full accountability of this treasury to the European Parliament;

42. Considers that those non-euro countries that do not have an opt-out will eventually become part of the EMU and therefore may join the governance framework on a voluntary basis with a special status;

43. Acknowledges that the current political climate characterised by deep inequality, mistrust and uncertainty is not conducive to proper reforms to achieve and complete EMU; believes, therefore, that a comprehensive roadmap, including clear milestones within an agreed timetable and taking into account the political situation, should be urgently adopted with a clear commitment by euro area Heads of State and Government to achieving a genuine and complete EMU;

44. Instructs its President to forward this resolution to the President of the Council, the Commission, the Eurogroup and the ECB, and the national parliaments.