EUROPEAN PARLIAMENT

COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS
COMMITTE ON BUDGETS
COMMITTE ON EMPLOYMENT AND SOCIAL AFFAIRS

Interparliamentary Committee Meeting on the European Semester for Economic Policy Coordination

Brussels

Meetings

- Monday, 27 February 2012 - 15:15 - 16:50: Hemicycle
- Monday, 27 February 2012 - 17:00 - 18:45: JAN 4Q2 (session 1), PHS 3C50 (session 2)
- Tuesday, 28 February 2012 - 09:00 - 12:30: Hemicycle

AN ORIENTATION TO THE DEBATE

This meeting will be the second interparliamentary committee debate in the European Parliament on the European Semester. It will focus on the economic priorities of the European Semester for 2012 on the one hand, and on the role of the national Parliaments (NPs) and the European Parliament (EP) in the Semester, on the other. This interparliamentary meeting is organised just in advance of the spring European Council at a time when reshaping economic governance within the European Union, in particular the Euro area, is of major importance.

The interparliamentary committee debate will begin with an opening plenary session on 27 February, concentrating on the ways of **coordinating national policies within the European Semester.** The session will be opened by Vice-President of the European Parliament and will involve interventions from the Presidents the European Council and the European Commission.

After this plenary session, two parallel sessions will follow and participants will be able to choose in advance whether they would like to join the discussion on **"Fiscal discipline and sustainability of public finances"** or the one entitled **"Beyond budgetary discipline: How to achieve sustainable growth in adverse economic circumstances".**

On 28 February, a plenary session will give the opportunity to the representatives of national Parliaments to have a **debate with the European Parliament's representatives in the negotiations on the international agreement on a reinforced union** and to wrap up the conclusions of the debate.

The following background information is aimed as a guidance and orientation to the debate. In all sessions high-level speakers will address the floor in the beginning. Subsequently, the role of rapporteurs from the European or national Parliaments in the sessions will be to briefly give their views (max. 5 min per intervention) on the subject in order to stimulate a debate before the general discussion among all members in the room.

Outline of the sessions

1. Fiscal discipline and sustainability of public finances

In the current juncture, with the sovereign debt crisis taking a toll on economic recovery in Europe, growth-friendly fiscal consolidation allowing public finances to be brought on a sustainable path is a prerequisite for restoring confidence, particularly in Member States under financial stress. Fiscal discipline is enshrined in the Stability and Growth Pact (SGP), which is one of the pillars of the EMU. The SGP was strengthened in autumn last year with the adoption of the package on economic governance. Within the European Semester, fiscal coordination based on the rules provided by the SGP is sought.

On 23 November 2011, the Commission proposed two draft Regulations of the EP and of the Council:

1. On a common provisions for monitoring and assessing the draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area; (EP Rapporteur: Elisa Ferreira)
2. On the strengthening of economic and budgetary surveillance of Member States experiencing or threatened with serious difficulties with respect to their financial stability in the euro area (EP Rapporteur: Jean Paul Gauzès).

The two proposals further reinforce the Stability and Growth Pact (SGP), and complete the enhanced economic governance framework introduced with the "Six-pack".

More specifically, the first draft regulation on **budgetary plans and EDP**:

- sets up a common budgetary timeline and additional monitoring requirements: each MS shall make public and submit to the Commission and the Eurogroup the annual draft budgetary plan by 15 October, together with the independent forecast on which it is based, and include information on expenditures and revenues, and their main components;
- gives the Commission the possibility to request a revised plan in case of serious non-compliance with budgetary policy obligations laid down in the SGP, and to adopt a public opinion on the budgetary plan (the concerned national Parliament may require the Commission to present the opinion to the national Parliament);
- reinforces the monitoring of MSs subject to an excessive deficit procedure (currently all except Estonia, Finland, Luxembourg and Sweden, which has not adopted the euro): on request, the MS shall provide regular infra-annual reports on the developments of the fiscal situation, as well as a comprehensive audit of the general government accounts.

The second draft proposal on budgetary surveillance for **countries facing or threatened with serious financial instability**:

- introduces the status of countries under "enhanced surveillance": Commission may (for a MS experiencing severe difficulties with regards to its financial stability) or shall (if MS receives financial assistance) put a MS under "enhanced surveillance", irrespective of being in EDP;
- allows the Commission to assess the content and the direction of fiscal policy of countries under enhanced surveillance, and introduce provisions which, depending on the severity of the situation, become progressively more strong and intrusive;

- foresees that the Council, acting by qualified majority on a proposal from the Commission, may recommend to a Member State to seek for financial assistance and to prepare a macro-economic adjustment programme.

This session will give participants the opportunity to discuss fiscal coordination within the framework of the European Semester together with the new draft Regulations presented by the Commission. Some possible questions for discussion could look at the guidelines provided by the European Commission in terms of fiscal policy orientation and their implementation at the national level, but could also be related to the more specific new features proposed by the two draft Regulations.

2 Beyond budgetary discipline: How to achieve sustainable growth, job creation and social progress in adverse economic circumstances

The EU aims to raise the employment rate for men and women to 75 % and to reduce the number of people at risk of poverty by 20 million by 2020. Yet, after a decade of economic and employment growth, the crisis has moved Europe away from its path. Employment has decreased, whilst unemployment has substantially increased, and is still rising. The number of people at risk of poverty and social exclusion is also persistently growing. Those hit mostly by unemployment and economic inactivity risk losing their skills, leaving the labour market and facing poverty and social exclusion. Over the past three years, youth unemployment has risen from 15% to 21%.

These developments require a determined and coordinated action. The European Union has to give a **convincing response to the crisis** since social cohesion and the European social model are at stake. However, fiscal consolidation though necessary is not sufficient to deliver growth, jobs and social progress. **Coordinated efforts** should go **beyond fiscal discipline** and should include structural reforms in a balanced manner, taking due account of their social impact. The EU needs to improve its growth potential and the overall efficiency of the economy, both in the short- and longer-term perspectives. Job creation and restored confidence are necessary for a strong and sustainable recovery, the sustainability of our social models and the stability of public finances. The key challenge is therefore to make long-term investment in **sustainable growth, jobs and social progress** and short-term **fiscal consolidation mutually supportive** at both the EU level and in the Member States.

Efforts by Member States in response to these challenges should be supported by EU action, wherever possible, including better use of the existing EU budget and targeting available structural funds, in particular the European Social Fund and the European Regional Development Fund, towards growth and jobs.

Moreover, in the current context of economic and financial difficulty and scarcity of financial resources, there is a strong need for both growth-friendly fiscal consolidation, which is a prerequisite for restoring confidence in Member States under financial stress, but also **coordination between European and national policy objectives** in many areas. Such coordination can lead to greater synergy between European and national level spending, while respecting and strengthening subsidiarity, additionality, European added value and advantages of economies of scale. Even though the EU budget is co-decided by the European Parliament and the Council according to the Treaties and national budgetary procedures are governed by the constitutional system of each Member State, a stronger budgetary coordination does not violate the subsidiarity principle and would contribute to a more streamlined expenditure for the achievement of Europe 2020 goals. The framework of the

European Semester could provide a good opportunity to develop greater synergy between EU and Member States budgets.

An exchange of views in this session would give participants the opportunity to address, among others, the difficult situation of young people who are facing extraordinary proportions of unemployment, especially in some countries, the risk of long-term unemployment which poses significant risks of both loosing the human capital and social exclusion, and the negative impact of the crisis on vulnerable groups, for example children and workers with low wages. Participants could also exchange views on the ways national Parliaments and the European Parliament can contribute to reinforcing the efforts of Member States with regard to the achievement of the agreed Europe 2020 targets in the employment, poverty reduction and education areas, as well as to ensuring that commitments made by Member States in their National Reform Programmes are implemented. In addition, the session will explore ways to improve budgetary synergy between national and European levels with the aim of strengthening budgetary discipline and ensuring that the targets of "Europe 2020" are met. The session could also consider ways to improve the connection of budgetary procedures in the Member States and those at EU level (alignment of categories of expenditure, creation of an aggregate analysis of European public finance). Finally it could discuss the possibility of including an overview of financial commitments and the efforts to realise the EU objectives and strategies in national budgets and achieve better budgetary coordination at national and European levels.

3. The international agreement on a reinforced economic Union

The main outcome of the European summit held on 8-9 December 2011 was an agreement on stricter budgetary discipline. This has taken the form of a Treaty among the 17 Eurozone countries, which is also open to others.

In conformity with the new "fiscal compact" which underpins the agreement, sanctions would apply automatically to countries exceeding the 3% deficit ceiling unless blocked by a qualified majority – or three-quarters of the Eurozone Member States. Moreover, according to the agreement, the annual structural deficit should "not exceed 0.5% of nominal GDP". Countries also committed to enshrine a "golden rule" to run budgets which are balanced or in surplus into their national Constitutions. The new procedure will also oblige the Euro area countries to submit their draft budgetary plans to the European Commission before they are adopted by their national Parliaments, although the Commission will not have the power to annul them.

The parties to the agreement also took a long-term commitment to work towards deeper fiscal integration, with more detailed plans to be presented by the European Council President Herman Van Rompuy during the March 2012 summit.

The 26 EU leaders also sought to launch a process of deepening economic integration among the Eurozone countries. According to the summit statement, this new process "will rest on an enhanced governance to foster fiscal discipline and deeper integration in the internal market as well as stronger growth, enhanced competitiveness and social cohesion." So long as the crisis continues, summits will be held every month to reduce disparities between the Member States on issues such as pension reform, labour and taxation policy. In a letter sent to EU leaders before the summit, France and Germany stated that policies under the Eurozone's economic pillar would encompass proposals such as the coordination of labour market policies as well as financial regulation. Heads of State who signed up to the new "fiscal compact" acknowledged that a majority would be difficult to find on such topics and agreed to "make more active use" of the enhanced cooperation mechanism, which allows smaller groups of countries within the European Union to move ahead on areas of common interest.

This plenary meeting would give the participants the opportunity to exchange views with the European Parliament's negotiating team regarding the new rules proposed under the international agreement. This discussion takes place at a crucial moment, as the international agreement is expected to be finalised for the March European Council.

Concluding plenary session

The concluding plenary session would give the opportunity to the Chairs of the 3 sessions to wrap up the conclusions of the debates and summarise the overall outcome of their deliberations. Afterwards, an exchange of views with the Vice-President of the European Commission Olli Rehn, the President of the ECOFIN Council Margrethe Vestager and Commissioner for Employment, Social Affairs and Inclusion László Andor will follow.