



FAQ on the economic governance "six pack"

Background

EP negotiators reached a deal with the Polish Presidency on the economic governance "six pack". The deal overcomes the qualms between the Council and the European Parliament about introducing procedures that will allow the Commission to take action when dealing with Member States with unsustainable budgetary and macro-economic policies.

The package also delivers a system enabling certain distinctions to be drawn between "healthy" and "unhealthy" expenditure, which should be able to contribute to competitiveness and economic growth. Finally the package will make a break with the past in that it will considerably improve transparency and accountability in Eurozone decision making.

Over the year long process approaches differed between political groups in the EP and although rapporteurs attempted to bridge the gap, differences remain. Left-of-centre groups fear that the package is too closely focused on fiscal correction, to the detriment of growth and employment. The majority however believes that restoring trust is in any case necessary in order to create growth, through other instruments.

The deal will be taken to the EP's economics committee and subsequently a vote in plenary is expected for the second session of September.

The following FAQ provides answers to some of the most common questions as a result of the deal. Questions 2 - 6 tackle the issues which were settled in the closing stages and which therefore require most explanation. Questions 1 and 7 deal with the package in its entirety, providing a holistic view of the goals and the overall achievements of Parliament.

A link to a video with statements by the rapporteurs can be found below (after question 7).

Contact :

John SCHRANZ

BXL: (+32) 2 28 44264

STR: (+33) 3 881 74076

PORT: (+32) 498 98 14 02

EMAIL: econ-press@europarl.europa.eu

Background

What are the goals of the "six pack"?

The package has four broad goals:

- Toughening the rules of the Stability and Growth Pact (SGP) which was designed to limit budget deficits and government debts, by a much stronger surveillance already in an early stage and making it easier to initiate the procedure. The rules will also give a greater importance to debt (and not only deficit) reduction and sustainable growth,
- Introducing new controls on macro-economic imbalances across the EU, such as housing bubbles and growing divergences in competitiveness between Member States,
- Setting standards to ensure the correct and independent compilation of statistics as this data is crucial to sound budgetary policy-making and monitoring of budgets, and
- Beefing up the transparency of the decision-making processes and the accountability of decision-makers.

Apart from these broad goals, MEPs also pushed to include the EU semester into the package, make the rules more intuitive so that any necessary budgetary tightening required would not excessively hamper economic growth or the investments that such growth demands. Thus, for example, the Commission will be required to consider different types of spending in different ways when judging Member States.

Background

What is the agreement on the contested issue of semi-automaticity?*

The Council will no longer be able simply to ignore a warning by the European Commission that it needs to get its budgetary policy in order.

If the Commission issues such a decision that no effective action has been taken, it can be disregarded only if a majority of Eurozone countries (i.e. 9 out of 17) agree to this. This hard-fought compromise means that the Stability and Growth Pact (laying down the limits on budget deficits and government debt) will include an almost automatic procedure to reach a "final warning" decision, a decision which is necessary to trigger the first step in the sanctions procedure.

It was already included in the legislation that sanctions would be applied semi-automatically once it has been established that no or inadequate measures are being taken to correct the non-compliance with the stability and growth pact. However, that would happen later in the process and it was important to get the inescapability of a final warning by the Commission in at the beginning of the process.

The semi-automatic application of sanctions counters the "Deauville deal" struck between France and Germany, which intended to keep a firm grip by Member States on Commission assessments of non-compliance with the stability and growth pact rules.

In addition to the introduction of the reverse voting mechanism in specific steps of the procedure the EP achieved that for all other decision in the SGP both in the preventive and the corrective arm the council commits in the legislation to, as a rule, follow the recommendations and proposals of the commission; if not an explanation will be made in public in the EP. This explanation is part of the 'economic dialogue' process.

() 'Semi-automatic' always means that once the Commission has proposed that Council should take a certain decision, this decision is considered adopted unless Council votes to turn it down. Council also cannot use the tactic of omitting to place the proposal on its voting agenda in a bid to prevent a Commission proposal from taking effect.*

Background

How will the new procedure for more automaticity work?

In case the Council does not adopt a Commissions recommendation in first instance, or does not take a vote at all, the Commission shall, after a cooling off period of 1 month, again put forward the said decision. This recommendation is adopted automatically, unless within 10 days a majority of the Eurozone countries votes it down. The vote of the Member State concerned would not count.

The issuing of such a decision allows the Commission to require the Member State concerned to take additional measures and to impose sanctions, such as demanding an interest bearing deposit. The sanction can again only be overturned if the Council votes by QMV against such a sanction.

The exact procedure is schematically presented here. In bold and italic the elements emerging from this week's agreement:

Each year each Member State draws up its medium-term budgetary objective (MTBO) aimed at delivering a sound fiscal policy, particularly cutting over spending.

If the Commission considers that the MTBO of a Member State is not being respected it can address a warning to that Member State. Acting by QMV (excluding Member State concerned), Council shall address recommendations to the Member State to correct its policy within 5 months, or 3 for cases considered serious by the Commission.

If the Eurozone Member State does not sufficiently correct its policy within this period the Commission shall recommend that Council, adopts a decision, **by QMV**, that no effective action has been taken. In case the Council does not adopt a Commissions recommendation in first instance, or does not take a vote at all, the Commission shall, **after a cooling off period of 1 month, again put forward the said decision. This recommendation is adopted automatically, unless within 10 days a majority (nine) of the Eurozone countries votes it down.** The vote of the Eurozone Member State concerned would not count.

And, as a last resort, for Eurozone members

Once this decision is adopted, the Commission can impose an interest bearing deposit sanction of 0,2% of GDP. This sanction is imposed unless the Council, by QMV, votes to reject it.

Other sanctions, increasing in severity can be subsequently imposed for persistent lack of corrective action. All sanctions are considered imposed unless the Council, by QMV, votes down the Commission decision to impose a sanction.

Background

Member States had accepted from the very start that sanctions should be applied automatically once the stability and growth pact deficit and debt limits were exceeded. So why did the EP majority insist for automaticity at an earlier phase?

The simple answer is that prevention is better and easier than cure. Moreover the last ten years of the current SGP model have shown that politics often got in the way of correct application of the pact's rules. This led to a situation where it was not only impossible to ask that bad fiscal policy be corrected early but it was also never possible to impose sanctions on countries exceeding the Pact's limits due to a hijacking of the rules by politics.

The main goal of introducing automaticity at an early phase is to limit political horse trading in the Council and to commit Member States, especially those within the Eurozone, to develop sound budgetary policies. This will be further underscored by the fact that the likelihood of sanctions is much greater as the final warning, indispensable to applying sanctions, can be activated more easily.

Background

Why did the majority of the EP consider it worth drawing out negotiations given the need for fast answers in the Eurozone?

The "six pack" contains a considerable strengthening of the economic governance. It is an important signal to the financial markets that the European Union is determined to solve its problems. It is true that the Eurozone currently needs fire-fighting tools quickly to deal with the immediate problems, but measures are also badly needed to prevent a recurrence of the present dire situation at a later stage. To tackle the immediate problems the EU has established a bailout fund (the EFSF which will become the ESM as of 2013), the ECB participates actively to stabilise bond markets and provide funding to banks, and further measures, such as a financial transactions tax and Eurobonds are being studied.

Secondly, although sanctions themselves were to apply automatically, the indispensable trigger to impose them risked being permanently locked if no automatic procedures were put in place at an early stage, in "the preventive arm" of the SGP. This was because the Commission cannot impose any sanctions on a Member State unless a final warning of a persistent lack of corrective measures has been formally adopted by the Council. Until last week, the Council insisted that no automatic procedures should apply to the issuing of the final warning. And without that it would have been very easy for Member States to block the issuing of a final warning and to block any sanction.

Finally, any weak reform of the economic governance rules would have led to increased uncertainty in the markets.

Background

What were the other important issues settled last week?

Two other important issues were finalised this week:

- **Public hearings:** hearings of finance ministers by the EP. The agreed text would see the EP "offer the opportunity to the Member State concerned (...) to participate in an exchange of views".

This will increase the accountability of individual governments as well as the peer pressure between governments.

- **Surveillance of macroeconomic imbalances:** when evaluating the causes of a macroeconomic imbalance, surveillance will cover countries with both current account deficits and surpluses, with their appropriate treatment.
- **Scoreboard:** When addressing macroeconomic imbalances indicators shall have upper and lower alert thresholds, unless inappropriate.

Background

In what other ways has Parliament strengthened the "six pack"?

Apart from the issues settled this week it is also important to remember a whole host of other improvements which came about through pressure from MEPs.

Taken together, these improvements should make the "six pack" both a firmer body of rules in comparison to the current system but also enable a more intelligent application of the rules. Some of the most important improvements are:

- greater transparency, by requiring that texts and discussions, be made public, and involving the European Parliament and national parliaments in holding Member States to account,
- more refined indicators to be used for checking for macroeconomic imbalances, so as to ensure that the Commission does not look only at pure national macro-financial indicators but also at spillover effects of national policies across member States and at real economy and social indicators,
- increased use of automatic procedures, through reversed qualified majority voting (RQMV), to make warnings and sanctions more automatic, since Member States will need a qualified majority to block them,
- putting into law the European semester (annual national budget assessment procedure for economic policy coordination), through its codification in the legal texts. This will give the procedure much more weight and bite,
- establishing a legal framework for the surveillance of the national reform programmes
- increased powers for the Commission, which can ask for more information to be supplied to it than previously envisaged in the original proposals and through on the spot checks to Member States,
- A new fine (0.2% GDP) for Eurozone members, for fraudulent statistics with regard to data on deficits and debt,
- an interest bearing deposit sanction (0.1% GDP) for Eurozone members in cases where a Member State fails to act on recommendations to rectify a macroeconomic imbalance. The sanction will be applied for failure to comply and act, and not for the existence of a macroeconomic imbalance in itself,
- greater independence of statistical bodies and standards for the compilation of statistics,
- safeguarding social bargaining processes and wage setting agreements when delivering recommendations, and
- revision clause on Eurobonds (Eurosecurities). By the end of 2011, the Commission must prepare a report and possibly legislative proposals.