Background

Economic governance "two pack" background note

The "two pack" is the latest piece of the EU's economic governance revamp. It joins other instruments such as the European Semester, the "six pack" and the Fiscal Compact in ensuring that the EU's economic and monetary union is less fragmented and that its component countries run fiscally sound policies.

This background note gives an overview of the basic components of the 'two pack', highlights how legislators changed the rules as originally proposed by the European Commission and explains the main hurdles that had to be cleared before a deal could be reached.

What is the "two pack" about?

The two regulations build on what has already been agreed in the "Six Pack" legislative measures. They strengthen the legal basis of the "European Semester" economic coordination process and enable the European Commission to get a clearer view of how Eurozone countries are working to meet the fiscal targets set by the EU Stability and Growth Pact. They also lay down much clearer procedures for dealing with countries that are in severe difficulties or are receiving an EU bailout.

The first regulation will apply to all Eurozone countries. Countries will need to present their draft budgets to the Commission at the same time each year (by 15 October) and the Commission will have the right to assess and, if necessary, issue an opinion on them. The Commission may also ask that these drafts be revised. The draft regulation also proposes closer monitoring and reporting requirements for Eurozone countries in the Excessive Deficit Procedure.

This will strengthen the "European Semester" process by providing clearer rules for acting on the reform recommendations made to each country in the spring.

The second regulation sets out explicit rules and procedures for enhanced surveillance of any Eurozone country in distress. It will be apply in three cases, to:

- countries facing severe difficulties with regard to their financial stability (high debt/ deficit levels, market speculation etc),
- those in receipt of financial assistance on either a precautionary basis or as part of a full-scale assistance programme, and
- those that are winding down such assistance.

This regulation will provide a much more predictable way to deal with countries in severe difficulty, improve transparency, and establish mechanisms to ensure that austerity measures accompanying financial assistance do not kill off potential for recovery.

How does the "two pack" fit into the EU's economic governance system?

The EU's economic governance structure is now composed of three basic elements:

- the European Semester for Economic Policy Coordination, which aims to allow the EU's economies to run in synch with each other (no wide macro-economic disparities, deficits below 3% GDP etc),
- the "six-pack" legislaton and the Fiscal Compact, which essentially strengthen the Stability and Growth Pact (SGP) and introduce macro-economic surveillance, and
- the "two-pack" regulations, which will kick in both before the six-pack rules, so as to reveal potential fiscal trouble earlier, and also after them, so as to provide a legal framework with which to accompany countries in severe difficulties.

What were the key dates for this legislation?

- Commission proposal: end-November 2011
- Council common position: mid-February 2012
- Rapporteurs presents draft texts in committee: end-February 2012
- EP Economic and Monetary Affairs Committee vote: end-May 2012
- EP plenary votes to cement committee position: July 2012
- EP - member states negotiations start: mid-July 2012
- EP - member states negotiations suspended: mid-December 2012
- Commission declaration on redemption fund and growth: mid-February 2013
- EP - member states negotiations conclude with a deal: 20 February 2013

Why the delay in approving the legislation?

The "two pack" regulations took 15 months to finalise, i.e. above the 9-10 month average for economic governance and financial services legislation over the past 3 years. This delay was primarily due to a shift in the political climate from the date the rules were first proposed to when they were ultimately adopted. This change saw the left of centre become increasingly critical of the 'austerity only' approach to deal with the Eurozone crisis. .

In the European Parliament, this change led to a centre-left/liberals rift with centre-right proponents of austerity. The main bone of contention was over whether the "two pack" should be restricted to rules for preventing excessive deficits and enforcing reforms in "programme countries" or whether it should also include mechanisms for solidarity among countries and public investment leading to their economic convergence. The configuration of coalitions provided no clear majority either way and much work was needed to achieve a compromise acceptable to all.

In negotiations, some member states then proved particularly reluctant to include any reference to setting up a "debt redemption fund" and the Commission was not prepared to present a proposal for one by the end of 2013. Other issues to do with using the "two pack" to promote growth and investment were also contested by member states. In mid-December talks were suspended, particularly at the request of Socialist, Liberal and Green MEPs.

In mid-February, the Commission promised to set up a group of wise men to draw up recommendations for establishing a debt redemption fund and introducing Eurobills (debt of maturities of less than a year). It also made other commitments, inter alia to allocate financial resources to help countries carry out their structural reforms. These commitments allowed negotiations to resume and a deal was struck some days later.

When will the "two pack" rules enter into force?

The two regulations will enter into force quite quickly, as they will apply directly, and hence do not need to be transposed into national laws. They are therefore likely to apply to the Eurozone countries' national budgets of 2014 (i.e. first draft budgets submitted to Commission by 15 October 2013).

How did Parliament change the Commission's original proposal?

The overarching structure of the rules, which gives the European Commission more powers to oversee a country's budget and provides more legal clarity on how to deal with countries in severe financial difficulties, was preserved both by MEPs and by member states.

However, Parliament did insert amendments to improve the transparency and accountability of the processes and ensure that fiscal consolidation does not undermine a country's medium-term growth and employment prospects. They also inserted some "social dimension" provisions, e.g. to ensure that structural reforms and cost cutting do not unduly undermine access to education or health care..

Changes to the proposed regulation on member states in severe financial difficulties (Rapporteur Jean-Paul Gauzès (EPP, FR))

More transparency:

- Information to the member state subject to enhanced surveillance regarding the findings of this surveillance and publication of reasons for such surveillance (Art. 2, paras 1a and 2)
- The Commission must make public the macroeconomic scenario used to assess the sustainability of the government debt (Art. 5, indents 2 and 3)
- The macroeconomic adjustment programme must be made public (Art. 6, para 6)
- Discussion between the Commission and the national parliament of the member state concerned on post-programme surveillance (Art. 11, para 4a)

Protecting the "social dimension"despite cuts:

- Recognizing the role of social partners at EU level (Art. 1, para 2a, Art. 6a)
- Reinforcing the efficiency of tax collection and fighting against tax fraud (Art. 6b)
- Taking account of the financial requirements to continue undertaking "fundamental policies", such as education and health care in adjustment programmes (see Art. 6 para 5)

Less political bargaining:

- Introducing reversed Qualified Majority Voting on matters concerning the adoption of corrective measures during post-programme surveillance (Art. 11 para 4)

Informing the EP:

- The EP may invite the Council and the Commission for a debate on the application of the Regulation (Art 13b)
- Invitation to the member state under enhanced surveillance for a discussion (Art. 3 par 6)
- Invitation to IMF, Commission and ECB to an Economic Dialogue meeting (Art. 3, para 6a)
- Council must provide information to the EP when it issues a recommendation to a member state to prepare an adjustment programme (new Art. 3a)
- Information by the Commission (behind closed doors) on the preparation of the draft macroeconomic adjustment programme (Art. 6, paras 1 and 3 point (b))
- Discussion with the Commission and the member state concerned related to the implementation of the adjustment programme (Art. 6, para 7)

Changes to the proposed regulation on monitoring and assessing draft budgetary plans (Rapporteur Elisa Ferreira (S&D, PT))

Better consistency with European Semester and EU2020 goals:

- Ensuring that national budgets reflect the economic policy recommendations given in the European Semester, including the macro-economic imbalance procedure (Art .1 para 1 and new Art. 2a, Art. 3, and Art. 5)

- Indications on how the medium-term fiscal plans and National Reform Programmes may contribute to the EU2020 targets (Art. 3 para 1)

- Economic Partnership programmes must identify priorities for enhancing competitiveness and long-term sustainable growth in line with EU2020 objectives (Art. 7)

- Indications of reforms, including public investments, to achieve EU2020 targets (Art. 5, para 3)

Greater transparency and stronger role for parliaments:

- Commission must present its opinion to national parliament and EP upon request (Art. 6, para 2)

- The methodology (including economic models) and assumptions of the Commission forecasts must be made public (Art. 6, para 3)

- Report by the Commission on public investments made by countries when in the preventive arm of the Stability and Growth Pact (Art. 11).

Respect for social and labour rights:

- Reference to the need to respect national practices and institutions for wage formation and fundamental rights (Art. 1, para new 1a)

- Inclusion of information in the draft budgetary plans on government expenditure by function, including on education, healthcare and employment and indication on distributional impacts (Art. 5, para 3)

Where can I find more information on the original EP position?

For further details of EP Economic and Monetary Affairs Committee position, see Q&A at link below.