ECONOMIC GOVERNANCE

Economic governance refers to the system of institutions and procedures established to achieve Union objectives in the economic field, namely the coordination of economic policies to promote economic and social progress for the EU and its citizens. The financial, fiscal and economic crises that began in 2008 showed that the EU needed a more effective model of economic governance than the economic and fiscal coordination in force until then. Developments in economic governance, still ongoing, include reinforced coordination and surveillance of both fiscal and macroeconomic policies and the setting-up of a framework for the management of financial crises.

LEGAL BASIS

— Article 3 of the Treaty on European Union (TEU);
— Articles 2-5, 119-144 and 282-284 of the Treaty on the Functioning of the European Union (TFEU);

OBJECTIVES

A. Treaty provisions

The preamble to the TEU states that Member States are ‘resolved to achieve the strengthening and the convergence of their economies and to establish an economic and monetary union’.

Article 3 of the TEU states that ‘[the Union] shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress [...]’.

Articles 2, 5 and 119 of the TFEU constitute the basis for economic coordination: they require the Member States to view their economic policies as a matter of common concern and to coordinate them closely. The areas and forms of coordination are specified in Article 121, which lays down the procedure related to the policy recommendations, both general (Broad Economic Policy Guidelines) and country-specific, and in Article 126, which establishes the procedure to be followed in case of excessive government deficits (2.6.6).
Articles 136 to 138 lay down specific provisions for those Member States whose currency is the euro, requiring them to strengthen their coordination and surveillance of budgetary discipline and economic policies.

Furthermore, Title IX on employment requires that employment policies be coordinated and consistent with the economic policies as defined in the broad guidelines (Article 146) (2.3.3).

B. Areas subject to economic governance

The financial, fiscal and economic crisis that originated in 2008 showed that financial, fiscal and macroeconomic imbalances are strictly interrelated, not only within national boundaries, but also at EU level, and even more so for countries in the euro area. Therefore, the reinforced economic governance system, which was set up in 2011 and is still under further development, refers to several economic areas, including fiscal policies, macroeconomic issues, crisis management, macro-financial supervision and investments.

ACHIEVEMENTS

A. Economic coordination until 2011

Until 2011, economic policy coordination was mainly based on consensus, without legally enforceable rules, except in the fiscal policy framework defined under the Stability and Growth Pact (SGP) (2.6.6). The scope of economic coordination was wide, and different forms of cooperation could be implemented, depending on the extent to which the cooperation agreement involved was binding. Two examples of such coordination are:

— Coordination as a crisis management tool, e.g. the setting-up of the European Financial Stability Mechanism in May 2010;

— Delegation of a policy, whereby the entire authority over a policy could be delegated to a single institution (examples include monetary policy (2.6.3) and competition policy (2.6.12), delegated to the European Central Bank (ECB) and the Commission respectively).

B. Economic governance since 2011

The financial and economic crisis of 2008-2012 exposed fundamental problems and unsustainable trends in many European countries, and made it clear that the EU's economies are strictly interdependent. Greater economic policy coordination across the EU was considered necessary in order to address problems and boost growth and job creation in future. To this end, the system of bodies and procedures for economic coordination in place in the EU was revised and reinforced: since 2011, a number of legislative acts have been adopted and new institutions established.

1. Reinforced economic and fiscal surveillance, and coordination thereof under the European Semester

Reinforced governance includes: a new synchronised working model – the European Semester – to discuss and coordinate economic and budgetary priorities; tighter EU surveillance of fiscal policies as part of the Stability and Growth Pact (2.6.6); new tools
to tackle macroeconomic imbalances (2.6.7) and new instruments to deal with Member States in financial distress (2.6.8).

The European Semester is an annual cycle during which the Member States' budgetary, macroeconomic and structural policies are coordinated so as to allow Member States to take EU considerations into account at an early stage of their national budgetary processes and in other aspects of economic policymaking. The aim is to ensure that all policies are analysed and assessed together, and that policy areas, which were previously not systematically covered by economic surveillance – such as macroeconomic imbalance and financial issues – are included. The key stages in the European Semester are as follows:

— In late autumn, the Commission presents the Annual Sustainable Growth Strategy (ASGS), which sets out the EU's priorities for the upcoming year in terms of economic, budgetary and labour policies, and of other reforms needed to boost growth and employment. The Commission proposes specific recommendations for the euro area as a whole, which are then discussed by the Council and endorsed by the spring European Council. The Commission also publishes the Alert Mechanism Report (AMR), which identifies those Member States with potential macroeconomic imbalances;

— In April, the Member States submit their plans for sound public finances (Stability or Convergence Programmes (SCPs)) and for reforms and measures to make progress towards smart, sustainable and inclusive growth (National Reform Programmes (NRPs)). This joint submission allows account to be taken of complementarities and spillover effects between fiscal and structural policies;

— In May, the Commission assesses the NRPs and SCPs, including the correction of possible macroeconomic imbalances. On the basis of those assessments, the Commission proposes country-specific recommendations (CSRs), which are then discussed by different formations of the Council;

— In June/July, the European Council endorses the CSRs, which are officially adopted by the Council in July, closing the annual cycle of the European Semester at the EU level.

The first European Semester was put into practice in 2011. EU-level discussions on fiscal policy, macroeconomic imbalances, financial sector issues and growth-enhancing structural reforms take place jointly during the European Semester, before governments draw up their draft budgetary plans (DBPs) for the upcoming year and submit them for national parliamentary debate. Before finalising the budgets, euro area Member States submit their DBPs to the Commission, which provides its opinion, and to the Eurogroup, which assesses them.

2. By way of action to repair the financial sector, the EU has promoted banking union (2.6.5), with new rules and new institutions, including the Single Supervisory Mechanism, the Single Resolution Mechanism and the European supervisory
authorities (ESAs), to prevent crises and make sure that financial players are properly regulated and supervised.

3. As a consequence of the economic and financial crises, several Member States faced serious difficulties in terms of their financial stability or the sustainability of their public finances, and therefore sought financial assistance (2.6.8). The Union reacted by setting up various mechanisms, including the European Financial Stability Mechanism (EFSM), the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM), as well as adopting legislation that lays down provisions for the macroeconomic conditionality attached to the loans provided to the Member States concerned (Regulation (EU) No 472/2013). The EFSF and the ESM were established by ad hoc Treaties outside the European Union Treaties, and are governed by a Board composed of the Ministers of Finance of Euro Area Member States.

C. Possible further evolution of the Economic and Monetary Union

Once the economic and financial crisis was overcome, the EU established a process aimed at reinforcing the architecture of EMU. The process is based on the Five Presidents’ Report on Completing Europe’s Economic and Monetary Union of 2015, which focused on four main issues:

— A genuine economic union;
— A financial union;
— A fiscal union;
— A political union.

These four unions are strictly interrelated and would develop in parallel. The report was followed by a series of communications, proposals and measures, and the discussion is still ongoing.

In accordance with the relevant legislation, the Commission launched a review of the current governance framework in February 2020, including a public debate on the extent to which the different surveillance elements introduced or amended by the 2011 and 2013 reforms have been effective in achieving their key objectives, namely:

— Ensuring sustainable government finances and growth, as well as avoiding macroeconomic imbalances;
— Providing an integrated surveillance framework that enables the closer coordination of economic policies, in particular in the euro area; and
— Promoting the convergence of economic performance among Member States.

The timeline of the review exercise has been affected by the need to focus on the challenges of the coronavirus crisis. The Commission is expected to return to the review exercise in 2021, and Parliament is debating its own position.

D. Actors

The European Council sets coordinated political priorities and issues guidelines at the highest level. The Council adopts recommendations and decisions, on proposals by the Commission. The Commission is in charge of drafting recommendations and decisions,
and of assessing their implementation. The Member States are in charge of national reporting, information exchanges and the implementation of the recommendations and decisions adopted by the Council. The Eurogroup (comprising the finance ministers of the Member States that have introduced the euro) discusses matters concerning EMU and governs the ESM. The ECB participates in the Eurogroup’s deliberations in matters pertaining to monetary or exchange rate policy. The Economic and Financial Committee (EFC) delivers opinions and prepares the work of the Council, as do the Economic Policy Committee (EPC) and the Eurogroup Working Group.

**ROLE OF THE EUROPEAN PARLIAMENT**

With the entry into force of the Lisbon Treaty, Parliament is now a co-legislator as regards the setting of rules for multilateral surveillance (Article 121(6) of the TFEU).

The legislative acts related to economic governance established the Economic Dialogue. In order to enhance the dialogue between the Union institutions, in particular Parliament, the Council and the Commission, and ensure greater transparency and accountability, Parliament’s competent committees may invite the President of the Council, the Commission, the President of the European Council or the President of the Eurogroup, to discuss their respective decisions or present their activities in the context of the European Semester. In the framework of this dialogue, Parliament may also offer a Member State that is subject to a Council decision under the excessive deficit procedure or excessive imbalance procedure the opportunity to participate in an exchange of views.

Under the European Semester, Parliament expresses its opinion on the ASGS in specific resolutions, also taking into account the contributions gathered during a Parliamentary Week meeting on the European Semester with national parliaments, held at the beginning of the year. In late autumn, Parliament expresses its opinion on the ongoing European Semester cycle (including the CSRs as adopted by the Council).

Parliament promotes the involvement of national parliaments through annual meetings with members of their relevant committees. Furthermore, and in line with the legal and political arrangements of each Member State, national parliaments should be duly involved in the European Semester and in the preparation of Stability or Convergence Programmes and National Reform Programmes, in order to increase transparency and ownership of, and accountability for, the decisions taken.

Parliament has expressed its opinion on the possible evolution of the EMU in several resolutions, namely its resolution on budgetary capacity for the euro area; its resolution on possible evolutions of and adjustments to the current institutional set-up of the European Union, and its resolution on improving the functioning of the European Union building on the potential of the Lisbon Treaty.

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