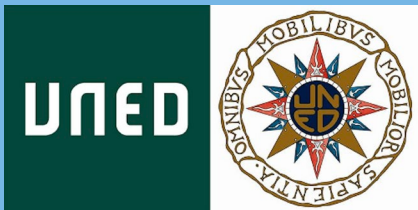


Jean Monnet Module

“Economic Policy in the European Union”

Session 5.4. European economic governance: the future of the EU

Dr M^a Ángeles Rodríguez Santos



SCHEME

- Context
- Events that put the Economic Union in evidence
- How is Economic Governance reinforced?
- Potential Solutions
- budget insufficiency
- Safeguard clause of the SGP.
- Future plans
- Bibliography



EVENTS THAT EXPOSE THE ECONOMIC UNION

Economic and Monetary Union, 1999



Internal Market, 1993



Customs Union, 1968



Free Trade Area, 1958



Monetary Union necessary

- Total and irreversible convertibility of currencies
- Liberalization of capital movements and integration of financial markets
- Irrevocable fixation of exchange rates

Economic Union necessary

- Single market
- Coordination of macroeconomic policies
- Common policies aimed at structural change and regional development

SOVEREIGN DEBT CRISIS IN THE EUROZONE

➤ International financial crisis, summer 2007 → liquidity crisis → Eurozone sovereign debt crisis

- Risk premiums skyrocketing peripheral countries

➤ False data from Greece → mistrust

- Withdrawal of deposits
- Exponential increase in debt
- Bankruptcy or bailout?
- Contagion effect

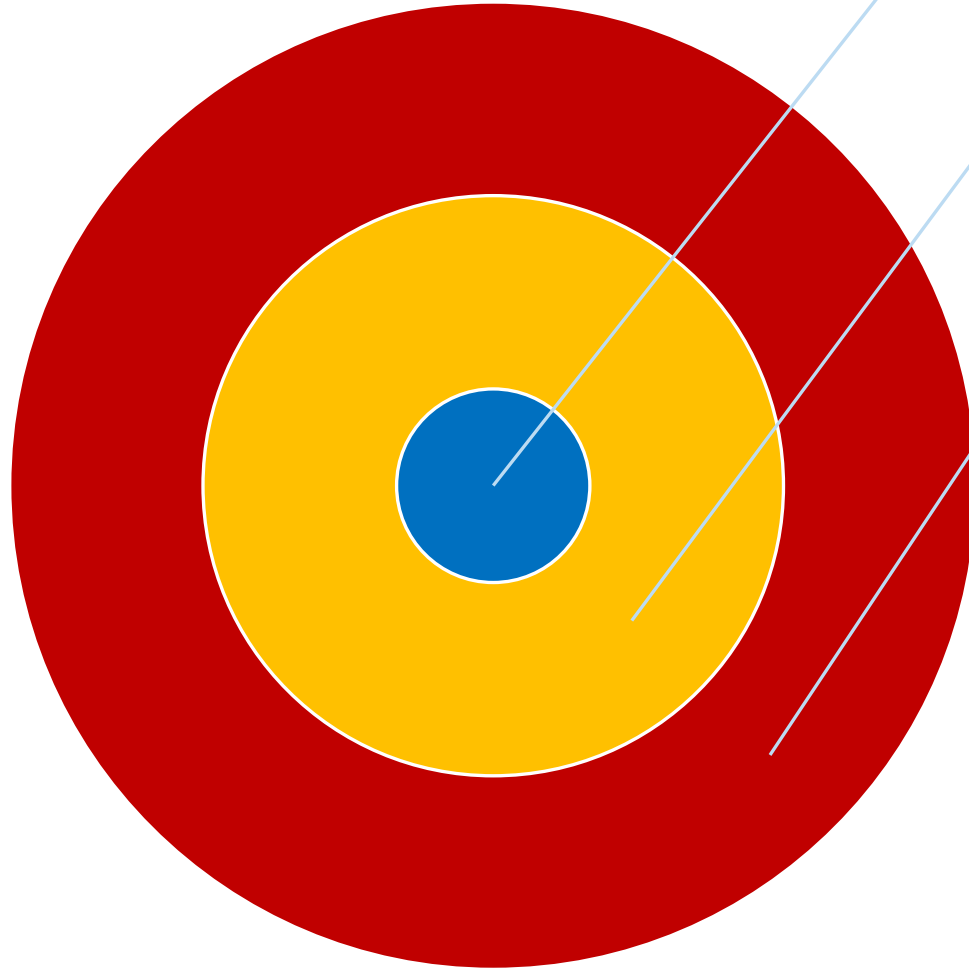
RESCUES. FINANCIAL INSTRUMENTS AGAINST THE CRISIS

- **2010. European Financial Stability Mechanism**
- **2010. European Financial Stability Fund**
- **2012. European Stability Mechanism (ESM)**
 - Reformed in 2021 (signed in January, still in ratification)
 - Support to the FUR
 - Simplified access to lines of credit to prevent minor crises from triggering

Single Monetary Policy

Independent **national budget policies . SGP**
(fiscal discipline and excessive deficit procedure)

Tradition of **public deficit** and **unemployment**



EVIDENCE AND POTENTIAL SOLUTIONS

Insufficient coordination of national economic policies



Avoid accumulation of imbalances. Ensure convergence and stability



Strengthen economic governance

ECONOMIC GOVERNANCE

System of institutions and procedures established to achieve the objectives of the EU in the economic field, that is, the coordination of economic policies to promote economic and social progress for the EU and its citizens.

HOW DO YOU TRY TO STRENGTHEN ECONOMIC GOVERNANCE?

Economic Union

Complete the Single Market

Macroeconomic policy coordination

Common policies aimed at structural change and regional development



COMPLETE THE SINGLE MARKET

COMPLETE THE SINGLE MARKET

- European Economic Recovery Plan (2008)
- End Lisbon Strategy 2010  Europe 2020
- Strategic Agenda 2019-2024
- European System of Financial Supervision (2010)
 - European Banking Authority
 - European Securities and Markets Authority
 - European Insurance and Occupational Pensions Authority

COMPLETE THE SINGLE MARKET

➤ Single Capital Market

- Banking Union:

- MUS, 2011

- SRM, 2013

- EDIS (European Deposit Insurance Scheme), in progress

➤ Digital Single Market (in conditions of competitiveness, protection of personal data, independence of place of residence,...)

COMPLETE THE SINGLE MARKET

2011. Single Market Act. Stimulate growth and regain confidence

Access of SMEs to financing. Avoid fragmentation

Mobility of citizens: Recognition of qualifications

Intellectual Property Rights. European market for patents and licenses

Consumers. Legislation on dispute resolution

Services. Legislation on the European standardization system

Networks. Energy and transport infrastructures

Digital Single Market. Mutual recognition of electronic identification and authentication.

Social companies. Solidarity Investment Funds.

Taxation

Social cohesion

Regulatory environment of Companies. Simplification of accounting standards

Public contracts. Review and modernization of the regulatory framework

COMPLETE THE SINGLE MARKET

2012. Single Market Act II

transport infrastructure

Cross-border mobility of citizens and companies

Digital Single Market

Social entrepreneurship, cohesion and consumer confidence

COMPLETE THE SINGLE MARKET. STRATEGY (2015)

- **Modern and innovative** (help companies, micro-enterprises and emerging companies by facilitating innovation and job creation)
- **Deeper** (coordination and cooperation)
- **Fairer** (protection and benefits for citizens, consumers and companies)



COORDINATION OF MACROECONOMIC POLICIES



Until 2011



Since 2011

GENERAL GUIDELINES FOR ECONOMIC POLICY

Stability
Programs/
Convergence



National
Reform
Programs



- Coordinate national economic policies and meet EU objectives
- European Commission and Council of the EU: they assess whether the budgetary objectives (PEC) are achieved

Legislative package of six, 2011
(Six -Pack)

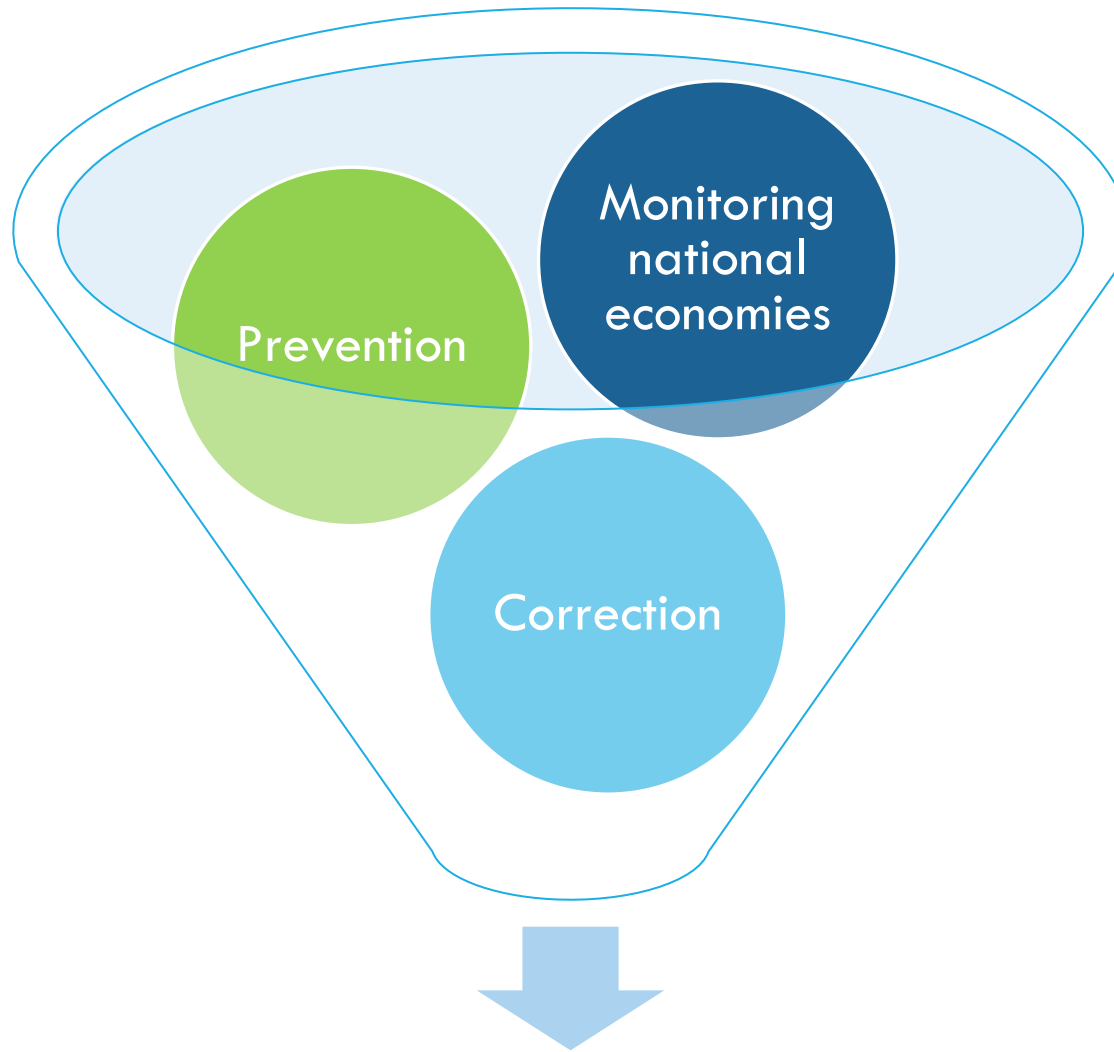
Legislative package on budget surveillance, 2013
(Two -pack)

**Improve
Economic
Governance**

Fiscal Pact. Budget balance rule

- Deficit/GDP of 0.5% without taking action

Semester , 2011



EU Economic Governance



MONITORING OF NATIONAL ECONOMIES

EUROPEAN SEMESTER, 2011

Stability and convergence in the EU

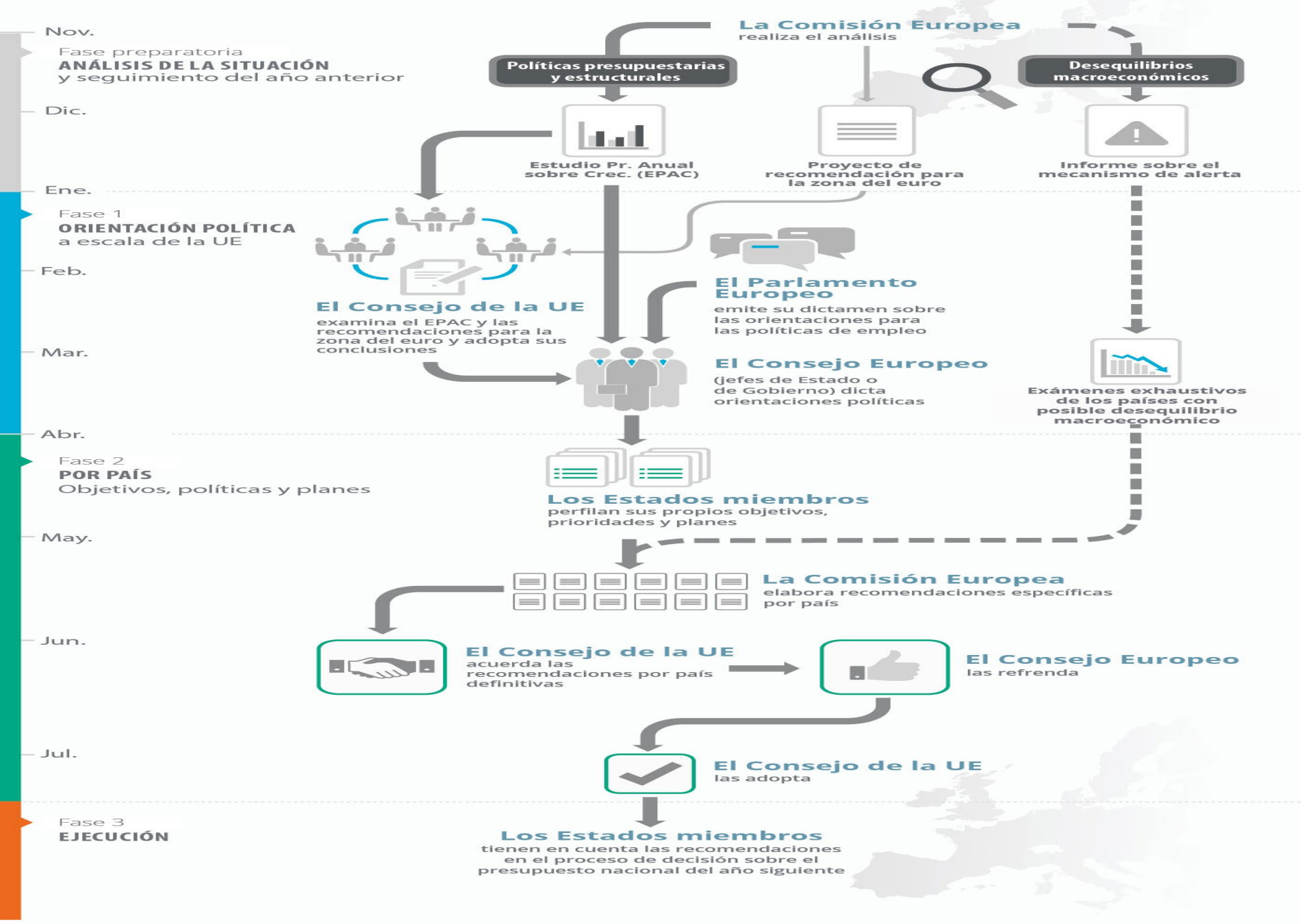
Sound public finances

Promote economic growth

Prevent excessive macroeconomic imbalances

Apply EU strategies (Europe 2020, Strategic Agenda 2019-2024)

EUROPEAN SEMESTER



A finales de año se inicia un nuevo ciclo cuando la Comisión ofrece una visión general de la situación económica en su Estudio Prospectivo Anual sobre el Crecimiento para el año siguiente.

EUROPEAN SEMESTER BY COUNTRY

LEGISLATIVE PACKAGE OF SIX, 2011

Directive 2011/85/EU on requirements applicable to the budgetary frameworks of the Member States. **Fiscal policy is decentralized: SGP reflected in national budgets.**

Regulation (EU) n°1173/2011 on the effective application of the budget in the euro zone.
Regulation of sanctions.

Regulation (EU) n°1174/2011 of November 16, 2011 on observation measures to correct excessive macroeconomic imbalances in the eurozone.

Regulation (EU) n°1175/2011 of November 16, 2011 that modifies Regulation (CE) n° 1466/97 relative to the reinforcement of the supervision of budgetary situations and the supervision and coordination of economic policies.

Regulation (EU) No. 1176/2011 of November 16, 2011 on the prevention and correction of macroeconomic imbalances.

Regulation (EU) No. 1177/2011 of the Council of November 8, 2011, which modifies Regulation (EC) No. 1467/97 on the acceleration and clarification of the excessive deficit procedure.

LEGISLATIVE PACKAGE ON BUDGET SURVEILLANCE, 2013

Regulation (EU) No. 473/2013 of May 21, 2013 on common provisions for the monitoring and evaluation of draft budget plans and for the correction of the excessive deficit of the Member States of the euro area

Regulation (EU) No. 472/2013 of the European Parliament and of the Council of May 21, 2013 on the strengthening of economic and budgetary surveillance of the Member States of the euro zone that experience or threaten serious difficulties with respect to their financial stability.



PREVENTION

PREVENTION. SIX -PACK

- PEC. Reformed in 2005 and 2011. Prudent fiscal policies (public deficit and public debt).
- Medium- **Term Budget Objective (TBO) budgetary objectives**)
 - The countries of the Eurozone reflect their Medium-Term Objectives (MTO) in the Stability Programs (Convergence). It is evaluated if the objective is feasible in itself or in its way of achieving it.
 - It is updated every three years (or sooner if necessary)
 - Economic cycles are taken into account.
 - If deviation from the MTO, the Commission recommends the Council opening of:
 - Significant deviation procedure (countries): possibility of correcting MTO deviations by returning to a prudent fiscal policy and avoiding the opening of an excessive deficit procedure
- **Spending Benchmark** . Complements the TBOs. It places the growth of net spending at a sustainable point, helping to meet the TBOs.

PREVENTION. TWO -PACK

- Budget Calendar and Common Budget Rules: **Identifying, Preventing, and Addressing Macroeconomic Imbalances** . Indicators
 - Applicable in the eurozone. Special rules for states included in the excessive deficit procedure.
- The Commission publishes a comprehensive assessment of the budgetary outlook in the Eurozone.
- The Commission examines and issues an opinion on each draft national budget.
 - If the project fails to comply with the PEC, the affected State must submit a revised project: Economic Association Program.
- This monitoring takes place in the autumn, between two European semesters: it completes economic governance and ensures consistency between budgetary policy and other economic policy decisions.
- Incorporates elements of the Stability Treaty or Fiscal Pact

TREATY OF STABILITY, COORDINATION AND GOVERNANCE OF THE EMU. FISCAL PACT

- In force since 2013
- Fiscal provisions stricter than the Stability and Growth Pact

Structural Deficit: component related to structural situations and not subject to cyclical factors or extraordinary expenses

- Budget balance rule: annual structural deficit capped at 0.5%
- A maximum structural deficit of 1% is allowed as long as the Public Debt/GDP ratio is less than 60%.



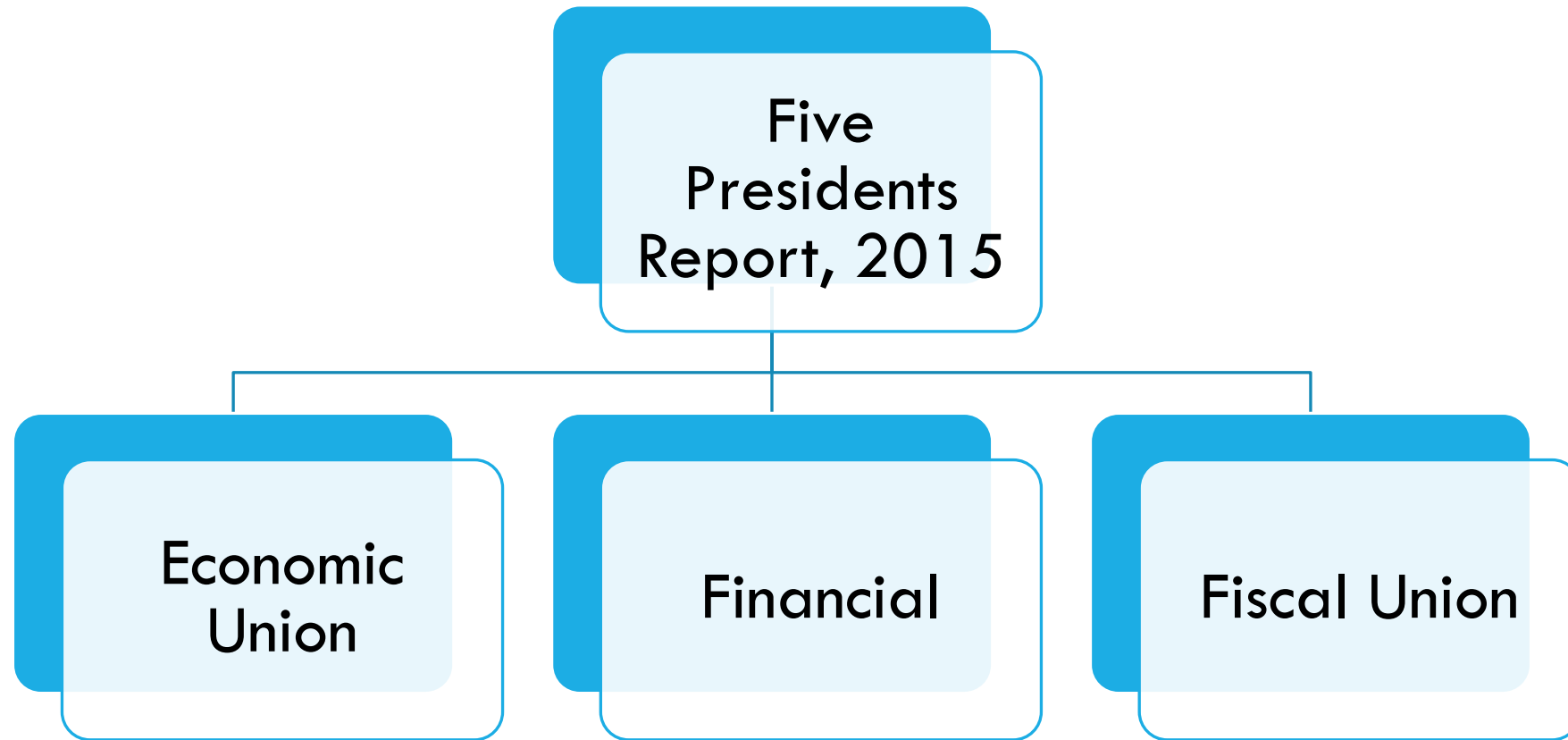
CORRECTION

CORRECTION. EXCESSIVE DEFICIT PROCEDURE

- When it starts?
 - Public deficit above 3% of GDP.
 - The gap between the country's debt level and the 60% reference is breached. It must be reduced by 0.05% per year on average for three years.
- Status of excessive deficit procedures
 - If preventive and corrective measures are not complied with: sanctions
 - Deviations from a prudent fiscal policy: Deposit that earns interest
 - Corrective arm deviations (recommendations): Non-interest bearing deposit equivalent to 0.2% of GDP
 - The proposal for sanctions is presented by the Commission. It is adopted unless the Council rejects it by a qualified majority (reverse qualified majority).
 - If exceptional events occur and are beyond your control: extension of the correction period and review of the recommendations.

CORRECTION. EXCESSIVE IMBALANCE PROCEDURE

- macroeconomic imbalance
- Under this procedure, the Commission can ask the Council for the affected country to submit a corrective action plan. It is approved in the Council.
 - Supervision that could put an end to the procedure.
 - Insufficient corrective plans → sanctions: fine equivalent to 0.1% of its GDP (the fine can be suspended by a qualified majority voting the members of the eurozone)



POLITICAL UNION
(Democratic legitimacy)
Integration of social, financial and economic aspects

FIVE SCENARIOS FOR THE FUTURE (WHITE PAPER ON THE FUTURE OF EUROPE, MARCH 2017)

Stay the same

Single market only

Those who want to do more, do more

Do less but efficiently

Do much more together

STRENGTHEN THE EMU. THREE STAGES (2015-2025)

Stage 1. Deepening (07/15- 06/17)

- Promote competitiveness and structural convergence. System of competitiveness authorities in the eurozone.
- Complete the financial union. **Banking Union**
- Improve democratic accountability: greater parliamentary participation and control (country recommendations, PNR, Annual Growth Survey), strengthen the Eurogroup
- Responsible fiscal policies at national and eurozone level. Fiscal Union (European Fiscal **Council** , consultative status)

Stage 2. Complete EMU

- More far-reaching actions to make convergence effective (binding nature: establishment of high-level common standards defined in EU legislation). **European Fund for Strategic Investments**
- Possibility of creating a treasure in the eurozone

Final phase (until 2025, at the latest)

- Deep and genuine EMU

EUROPEAN FISCAL COUNCIL, 2015

Assess budgetary framework application (national-eurozone)

Assess and suggest the future budgetary policy for the eurozone

Cooperate with Independent National Fiscal Councils

- **Origin** : Report of five presidents “Realizing the European EMU”
- **Objective** : strengthen economic governance
- Independent body that advises the European Commission

EU STRATEGIC AGENDA 2019-2024



ROLE OF INSTITUTIONS

European Council

- Coordinated national political priorities. Orientations.
- It adopts the recommendations and decisions proposed by the Commission.

European Commission

- Prepares draft recommendations and decisions. Evaluate the app.

member states

- They implement the recommendations and decisions adopted by the Council.

Eurogroup

- Debate on issues related to the EMU. Manage the ESM.

ECB

- Participates in Eurogroup discussions on monetary policy issues.

European Parliament

- Issues opinion on the Annual Strategy for Sustainable Growth and on the cycle of the European Semester

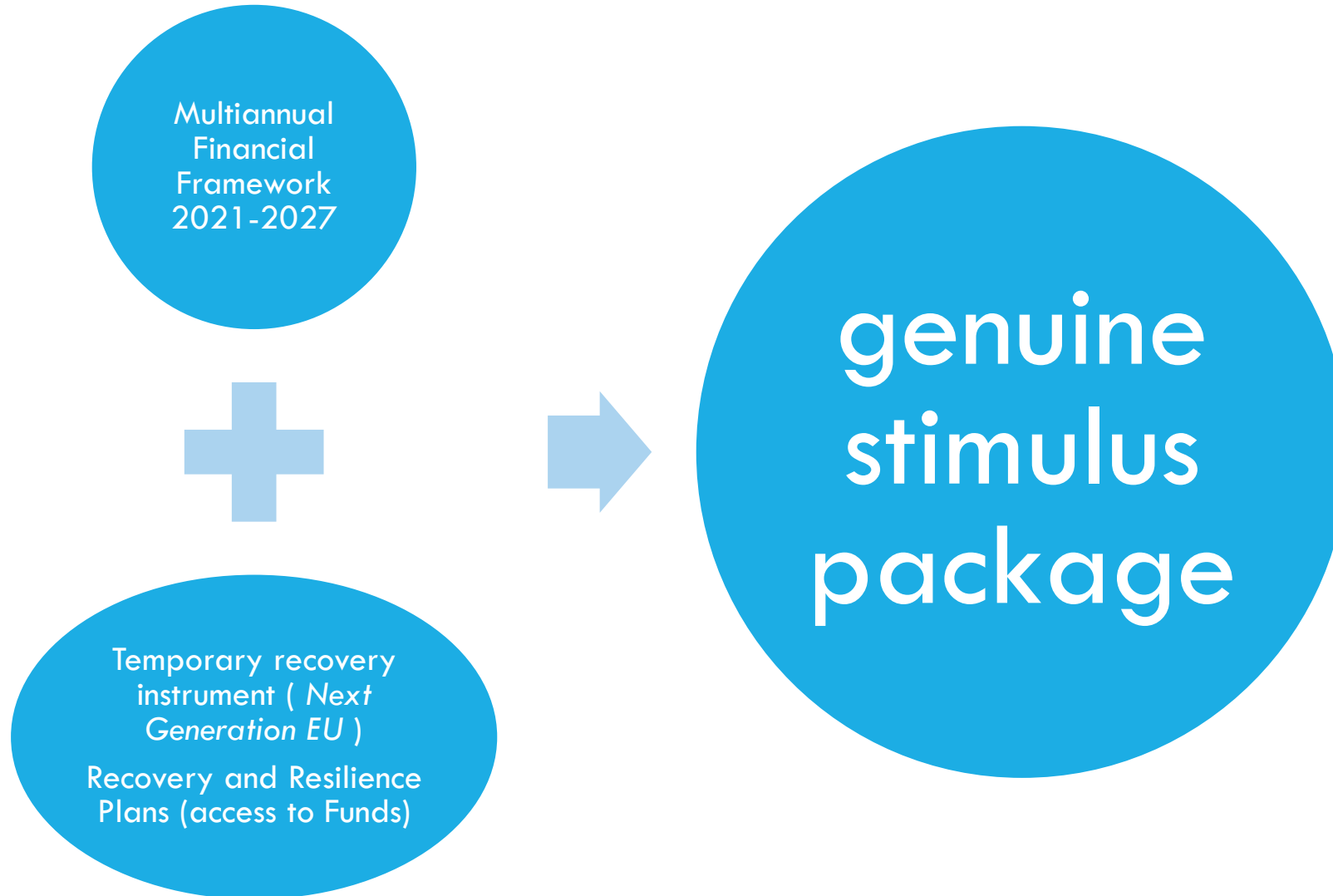
GOVERNANCE REVIEW

- February 2020. European Commission launches governance review: public debate to assess whether the tools introduced in 2011 and 2013 have been effective in terms of :
 - Sustainability of public finances and growth
 - No macroeconomic imbalances
 - Closer coordination of national economic policies
 - Convergence of the economies of the Member States



BUDGET INSUFFICIENCY

RECOVERY PLAN FOR EUROPE



MFF, 2021-2027 (ALLOCATIONS BY RUBRIC)

	<i>MFP</i>	<i>NextGenerationEU</i>	<i>TOTAL</i>
1. Mercado único, innovación y economía digital	132 800 millones de euros	10 600 millones de euros	143 400 millones de euros
2. Cohesión, resiliencia y valores	377 800 millones de euros	721 900 millones de euros	1 099 700 millones de euros
3. Recursos naturales y medio ambiente	356 400 millones de euros	17 500 millones de euros	373 900 millones de euros
4. Migración y gestión de las fronteras	22 700 millones de euros	-	22 700 millones de euros
5. Seguridad y defensa	13 200 millones de euros	-	13 200 millones de euros
6. Vecindad y el mundo	98 400 millones de euros	-	98 400 millones de euros
7. Administración pública europea	73 100 millones de euros	-	73 100 millones de euros
TOTAL MFP	1 074 300 millones de euros	750 000 millones de euros	1 824 300 millones de euros

Todos los importes en miles de millones de euros a precios constantes de 2018. Fuente: Comisión Europea

** Los importes incluyen el refuerzo selectivo de diez programas por un total de 15 000 millones de euros, en comparación con el acuerdo de 21 de julio de 2020. Los programas son Horizonte Europa, Erasmus+, EU4Health, Fondo para la Gestión Integrada de las Fronteras, Derechos y Valores, Europa Creativa, InvestEU, Agencia Europea de la Guardia de Fronteras y Costas y Ayuda Humanitaria.*

NEW SOURCES OF INCOME

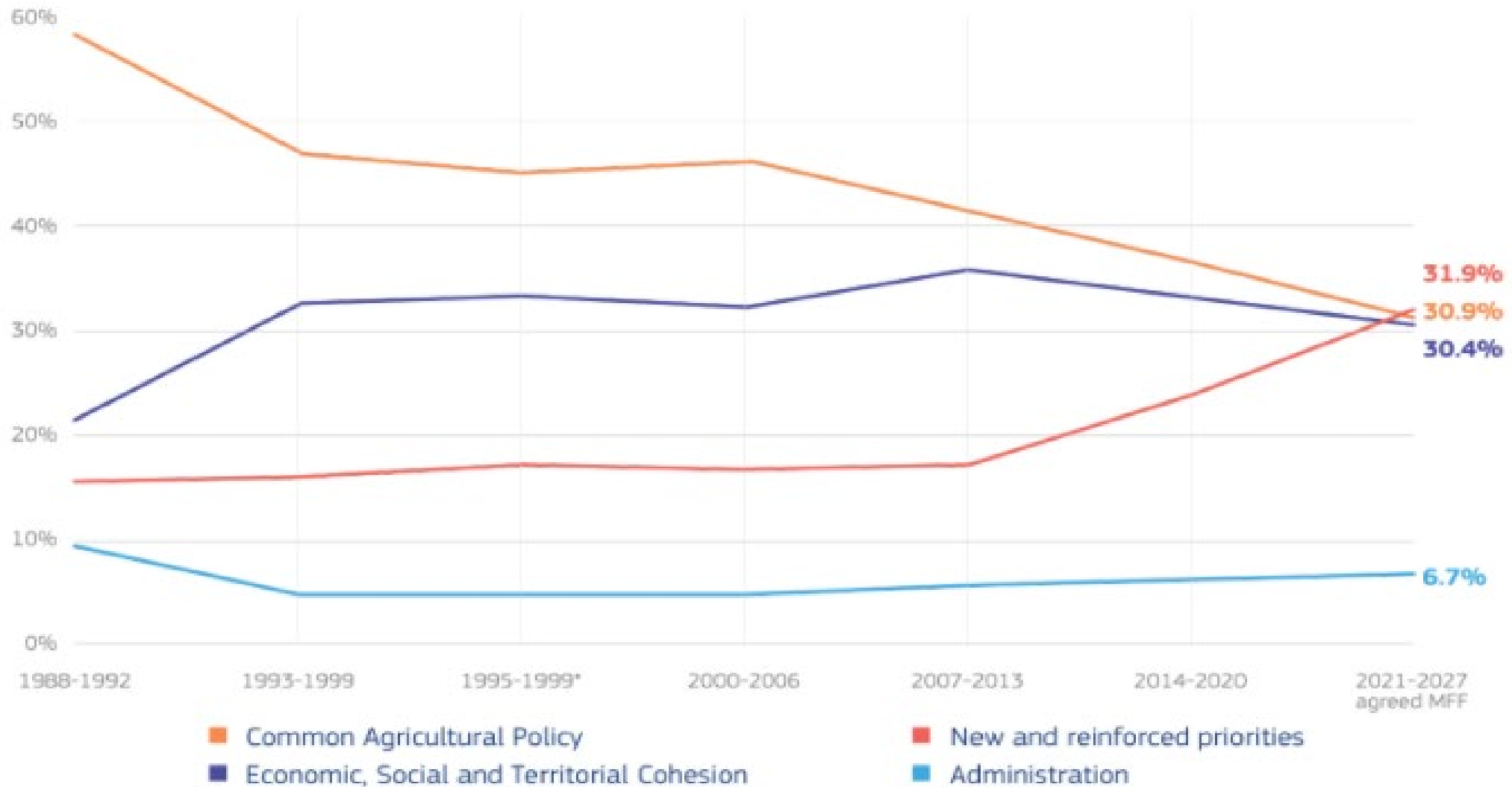
The European Commission will present, at the latest in June 2021, proposals for sources of income linked to:

- A border adjustment mechanism for carbon emissions
- a digital tax
- An emissions trading scheme

At no later than June 2024:

- A tax on financial transactions
- A contribution linked to the business sector
- A new common corporate tax base

DISTRIBUTION, BY AREAS, IN THE MFPS (SOURCE: EUROPEAN COMMISSION)



NextGenerationEU (€750,000k)

European Resilience and Recovery Facility (€672.5bn)

Recovery Aid for Europe's Cohesion and Territories, REACT-EU (€47.5bn)

Additional funds to European programs or funds

Loans 360,000 mill. €

Subsidies 312.5 billion €

Horizon Europe (€5 billion)

InvestEU (€5.6bn)

Rural Development (€7.5bn)

Just Transition Funds (€10 billion)

Resc EU (€1.9bn)

SAFEGUARD CLAUSE SGP (MARCH 2020-END 2022?)

- Review of economic governance was suspended in 2020 due to the pandemic.
- Objective: to allow national governments to implement stimulus measures for economic recovery due to the pandemic.
- European Commission (March 2021): «The decision to deactivate or maintain the general escape clause for 2022 must be taken as a global assessment of the situation of the economy based on quantitative criteria. The main quantitative criterion would be the level of production in the EU or in the euro area compared to pre-crisis levels. Current preliminary indications suggest continuing to apply the general safeguard clause in 2022 and deactivating it from 2023.

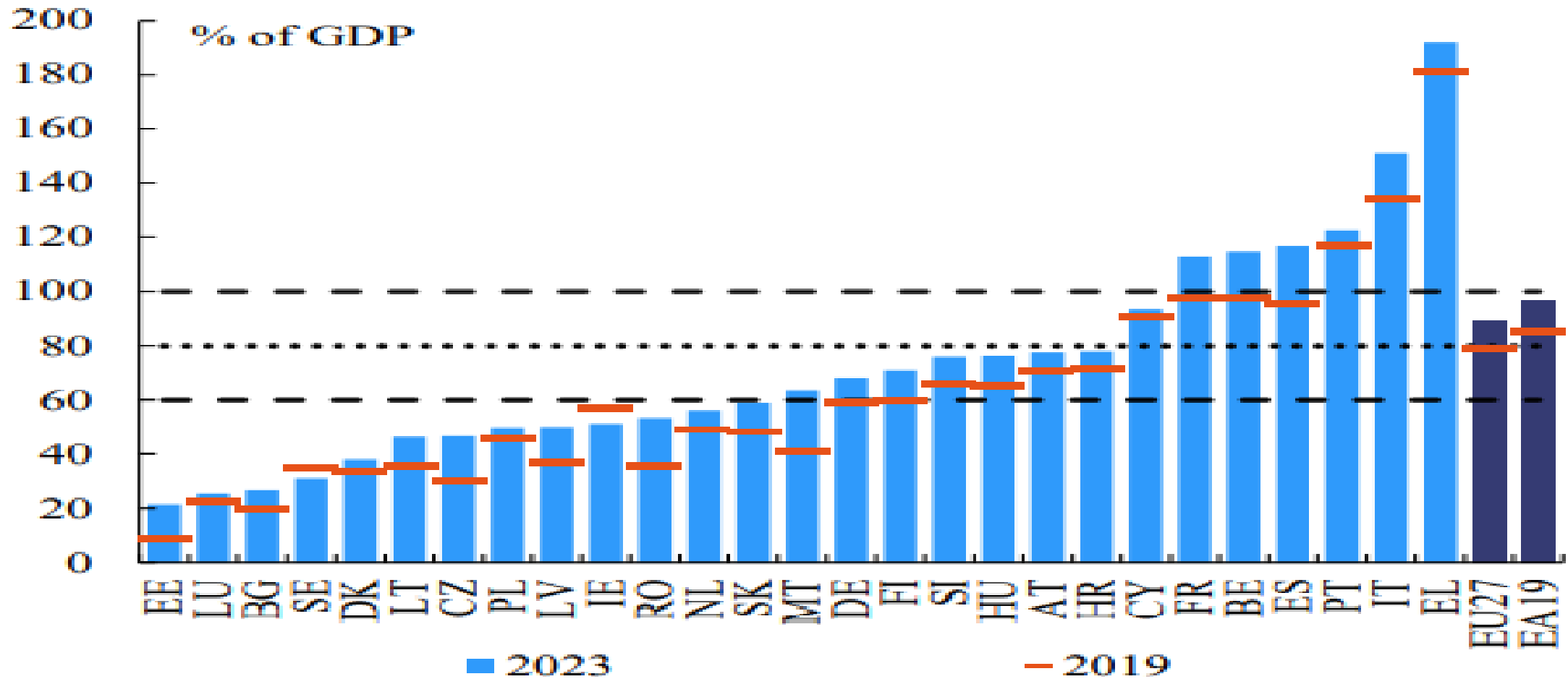
SAFEGUARD CLAUSE SGP (MARCH 2020-END 2022?)

- Debate on the reform of fiscal rules (PEC)
- Different positions of the Member States: frugal (Netherlands, Austria, Sweden, Denmark and Finland)/rest.
 - Germany: Pd is a problem in itself.
 - Italy:..
 - M. Draghi has presented budgets with a deficit of over 3% but with high growth forecasts. ***Economic growth is the most effective way to reduce debt.***
 - A highly indebted country, such as Italy, would have to reduce D_p / GDP levels by 5% per year, negatively affecting economic growth.

PUBLIC DEBT (% GDP)

SOURCE: EUROSTAT (2022)

NOTE: 2023 FORECASTS



SAFEGUARD CLAUSE SPG (MARCH 2020-END 2022?)

- The debate fundamentally revolves around the maximum D_p / GDP levels allowed by the PEC.

Which measures promote growth, and are feasible, and which endanger debt sustainability?

AVOID WASTE SPENDING

SAFEGUARD CLAUSE SPG (MARCH 2020 - END 2022?)

- ESM economists: the level of public debt /GDP should go from 60% to 100%, keeping the deficit at 3%.
- More investments in green economy.
- Replacement of the Golden Rule (non-observable variables and complex systems) by a spending rule (it would limit spending in the Member States).

The **golden rule**

Limit the ability of a government to spend more than it **collects** . Public debt growth is limited .

The EU sets a structural deficit limit of 0.5% of potential GDP.

If public debt /GDP is less than 60%, the structural deficit is set at 1%.

SAFEGUARD CLAUSE SPG (MARCH 2020 - END 2022?)

- When the recovery takes hold, the Commission intends to relaunch a debate on the economic governance framework.
- A priori, three scenarios could be considered:
 - Keep the PEC
 - Adaptation within the current framework
 - full review



FUTURE PLANS

CONFERENCE ON THE FUTURE OF EUROPE

- Tripartite Social Summit (2003): forum for dialogue between EU institutions and European social partners. Co-chaired by: President of the European Council and President of the European Commission.
- Official start of work on the Conference on the future of Europe:
 - ✓ March 24, 2021: 1st constitutive meeting of the Executive Committee (representatives of the EP, Council of the EU and Commission).
 - ✓ Basis: Strategic Agenda of the European Council, Strategic Agenda 2019-2024 of the European Commission, challenges of the pandemic
 - ✓ Executive Committee: will make decisions by consensus on the work of the conference and will supervise the work of the conference

CONFERENCE ON THE FUTURE OF EUROPE

- Background: Joint Declaration on the future of Europe (President of Parliament, Council of the EU and European Commission).
 - ✓ Response to concerns and ambitions of citizens.
 - ✓ Ecological and digital transition.
 - ✓ Resilience, social contract and competitiveness.
 - ✓ Equitable, sustainable, innovative and competitive economy.
 - ✓ Space for discussion.
- Basic issues to be covered:
 - ✓ Participation of citizens in the Conference (Multilingual Digital platform).
 - ✓ Launch an agenda on the future of the EU involving citizens.
- Final Result of the Conference: report addressed to the joint presidency and follow-up.
- Completion forecast: spring 2022.

EUROPE DIGITAL COMPASS, MARCH 2021

- Proposals for digital transformation until 2030.
- Pillars:
 - I. Citizens with digital capabilities and highly qualified professionals in the digital sector
 - II. Safe, efficient and sustainable digital infrastructures
 - III. Digital transformation of companies
 - IV. Digitization of public services

CONCLUSIONS

- Incomplete economic union.
- Reinforcement in emergency situations. Insufficient MFP.
- Economic governance under review.
- Growing interest in citizen involvement
- Towards a greater democratic content

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