Economic governance in the Euro Area

Lecture at the Centre for Commercial Law Studies (CCLS)
Queen Mary, University of London
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Disclosure and disclaimer

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- Subject to professional secrecy obligations arising from my role with ABoR
- Anything said, or omitted to be said, may not be attributed to the ECB, the Single Supervisory Mechanism (SSM), or ABoR.
Outline lecture

1. Introduction (disclaimer, overview)
2. Brief overview of EMU (three stages, three elements, history of first 10 years)
3. Economic policy: definition (Pringle, Gauweiler)
4. Economic policy: TFEU, SGP
5. Economic governance reinforcement (Six-pack, Two-pack, Fiscal Compact, European Semester)
6. Other EMU developments (conditionality MoUs + EU legal acts)
7. Outlook and assessment (Five Presidents’ Report, follow-up, own perspective)
Brief overview of EMU: core elements

- Economic and Monetary Union: three stages, three elements
- 1999: introduction of single currency, replacing legacy currencies that have been abolished, so not a fixed exchange-rate system
- 2002: introduction of bank notes and coins (EA-wide legal tender status)
- Similarly upon subsequent adoption of single currency by other EU States
- Euro adoption a legal obligation, subject to meeting convergence criteria, except for United Kingdom and Denmark (Opt-out Protocols)
Three elements and three stages of EMU

Three elements:

- **Capital & Payments** (Articles 63-66 and 75 TFEU, Protocol DK)
- **Economic Union** (Articles 120-126, 136-137 TFEU, Protocols)
- **Monetary Union** (Articles 127-135, 138, 219 TFEU, Protocols)

NB Institutional (Articles 134-135; 282-284 TFEU) & transitional (Articles 139-144 TFEU) provisions

Three stages:

1) **Stage One** (1990-1993) EEC Treaty applied
2) **Stage 2** (1994-1999) EC Treaty amended in Maastricht applied
3) **Stage 3** (1999-now) EC Treaty as amended by Lisbon Treaty: TFEU
Brief overview of EMU: history

1999-2009 – first ten years of functioning


Convergence of interest rates

Divergence of economic developments

‘One size fits none’ monetary policy: too lax (negative real interest rates, creating housing bubbles [IRL, ESP] in ‘periphery’) or too strict

Then... Lehman and the Great Financial Crisis
Governments went back to old habits

Budget deficits (% GDP)

- Improvements in the run-up to EMU
- but relapse after admission


Greece Italy Portugal
From:

The Eurozone Crisis: Causes and Solutions

Klaas Knot
President, De Nederlandsche Bank

Asia Society, Hongkong
15 October 2012
Excessive deficits almost everywhere

Except for Estonia (accessed EU in 2004, adopted euro in 2011) and Sweden (the intentionally non-convergent State, accessed EU in 1995), all Member States have been subject to excessive deficit procedures, many several times:

- France 2003-2007; 2009–
- Germany 2002-2007; 2009-2012
- Italy 2004 (early warning); 2005-2008; 2009-2013
- UK 2005-2007; 2008–
- The Netherlands 2002-2005; 2010-2014
- Portugal 2005-2008; 2009–
- Greece 2004-2007; 2009–
- Cyprus 2004-2006; 2010–

Neither Spain nor Ireland had been subject to an EDP since adopting the euro until the crisis.
Economic policy: definition (*Pringle, Gauweiler*)

- TFEU does not define ‘monetary’ or ‘economic policy’
- ECJ in *Pringle* Case (ESM Treaty) does so by referring to the *objectives* of monetary policy (ECB) and distinguishing these from those of the ESM (economic policy), and then looking at monetary policy *instruments* (financial assistance is not a monetary policy instrument)
- Case C-370/12 (*Pringle*), judgment of 27 November 2012:
  
  “(...) the objective pursued by that [the ESM] (...) is to safeguard the stability of the euro area as a whole, that is clearly distinct from the objective of maintaining price stability, which is the primary objective of the Union’s monetary policy. Even though the stability of the euro area may have repercussions on the stability of the currency used within that area, an economic policy measure cannot be treated as equivalent to a monetary policy measure for the sole reason that it may have indirect effects on the stability of the euro.”

- Confirmed in *Gauweiler* judgment of 16 June 2015 in Case C-62/14 (OMT):
  
  “(...) *a monetary policy measure* cannot be treated as equivalent to an economic policy measure merely because it may have *indirect effects on the stability of the euro area* (...)”
‘E’ in the TFEU - 1

Article 119 (1) TFEU:

“(…) the activities of the Member States and the Union shall include, as provided in the Treaties, the adoption of an economic policy which is based on the close coordination of Member States’ economic policies, on the internal market and on the definition of common objectives, and conducted in accordance with the principle of an open market economy with free competition.”

Article 119 (3):

“These activities of the Member States and the Union shall entail compliance with the following guiding principles: stable prices, sound public finances and monetary conditions and a sustainable balance of payments.”
‘E’ in the TFEU - 2

Article 120 TFEU

Member States shall conduct their economic policies with a view to contributing to the achievement of the objectives of the Union, as defined in Article 3 of the Treaty on European Union, and in the context of the broad guidelines referred to in Article 121(2). The Member States and the Union shall act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources, and in compliance with the principles set out in Article 119.”
‘E’ in the TFEU - 3

Article 121 TFEU

- “Member States shall regard their economic policies as a matter of common concern and shall coordinate them within the Council, in accordance with the provisions of Article 120”
- BEPGs: draft by Ecofin Council – on Commission recommendation – to European Council
- European Council discusses draft – Ecofin adopts
- Commission monitors – Council recommends
Recommendation vs. proposal

Article 293 TFEU

1. “Where, pursuant to the Treaties, the Council acts on a proposal from the Commission, it may amend that proposal only by acting unanimously, except in (...)

2. “As long as the Council has not acted, the Commission may alter its proposal at any time during the procedures leading to the adoption of a Union act.”
Economic union: prohibitions

- Prohibition of monetary financing (Article 123 TFEU)
- Prohibition of privileged access (Article 124 TFEU)
- ‘No bail-out’ clause (Article 125 TFEU)
Coordination of economic policies

- **Multilateral surveillance procedure**
  - Broad Economic Policy Guidelines (BEPGs)
    (Article 121 TFEU)
    // Employment Guidelines (Art. 148 TFEU)

- **Excessive deficit procedure (EDP)**
  (Article 126 TFEU)

- **Specific coordination among € area States**
  (Article 136 TFEU - new since ‘Lisbon’)

- **Own economic policy measures of the EU**
  and EU financial assistance to MS
  (Article 122(1) TFEU: basis for strategic reserves of oil and gas)
  (Article 122(2) TFEU: basis for EFSF [2010], relinquished by Heads of State [2010], temporarily revived for Greek bridge loan [2015])
Article 126 TFEU – stages (1)

1. Avoidance of excessive government deficits
2. Material norms: qualitative with quantitative elements – reference to Protocol No. 12 on the EDP
3. Commission report
4. Economic and Financial Committee opinion
5. Commission Opinion to MS concerned
6. Council decision whether an excessive deficit exists
Article 126 TFEU – stages (2)

7. Council recommendation to MS
8. Decision to make recommendation public
9. MS persists in failing to put Council recommendation in practice? > ‘notice’
10. No recourse to ECJ on paragraphs 1-9 of Article 126
11. Sanctions
12. Abrogation of decisions, recommendations
13. Procedure
14. Further implementation in Protocol No. 12 on the EDP
Stability and Growth Pact

- Amsterdam European Council, 1997
- Narrowing down options under Art. 121 + 126 TFEU [then: Articles 99 + 104 EC]
- Medium-term budgetary objective (MTBO): positions close to balance or in surplus
- European Council Resolution (not binding)
- Regulation 1466/97: ‘preventive arm’
  stability and convergence programmes
- Regulation 1467/97: ‘corrective arm’
  definitions, speeding up procedure, abeyance, sanctions
SGP background

- Strengthening economic policy coordination – giving ‘teeth’ to multilateral surveillance and EDP instead of relying on peer group pressure
- Making budgets balance over time instead of ‘just’ avoiding excessive deficits
- Graying and balding of population: expected burdens on budget in future
- Maintenance of price stability requires sound budgets
2003: stand-off - Case C-27/04 - 2005 amendments

- France and Germany reject to be given ‘notice’, muster sufficient support in Council not to adopt Commission recommendations
- Council copy-pastes draft recommendations in conclusions, holds excessive deficit procedure in abeyance
- Commission challenges this before ECJ
  - ECJ: “Council cannot break free from the rules laid down by Article [126 TFEU] and those which it set for itself in Regulation No 1467/97”
  - Council cannot adopt recommendations other than those recommended by Commission
  - Excessive deficit procedure is de facto in abeyance if not sufficient Member States agree with recommended course of action
- More ‘national ownership’
- State-specific medium term budgetary objectives (MTBOs)
- An odd combination of strengthening and weakening of the 1997 SGP
Assessment of pre-2011 ‘E’

“(…) the Treaty, although flawed in the basic structure of EMU, based as it is on the misconception that enlightened self-interest will ensure coordination of economic policies and make the participating States put them on a stability-oriented footing, contains provisions which could be put to use to achieve more, and better, coordination. Even when I consider that a Treaty change in the area of economic union would best serve the long-term goals of monetary union, I submit that the present provisions’ potential has not been fully used. Publicly announced adherence to the principles of economic union, scrupulous adherence to the provisions and procedures prescribed by the Treaty and, additionally, imaginative use of the underused provision on Community economic policy measures [Article 122 TFEU] may greatly enhance the effectiveness of policy coordination and the credibility of the project of the single currency.”

Euro Plus Pact
(European Council conclusions, 24/25 March 2011)

- Euro Area plus:
  - Bulgaria, Denmark, Latvia, Lithuania, Poland, Romania
- Competitiveness central, and State competences
- Unit labour costs, wage negotiations, productivity
- “Flexicurity” – labour market reform
- Sustainable government deficits
- SGP budget rules transposed into domestic law
- Financial stability
- Coordinating tax policy
See Article 2-a Regulation 1466/97, as amended by Regulation 1175/2011

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<td>Autumn Economic Forecasts</td>
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<td>Commission publishes Annual Growth Survey and Alert Mechanism Report</td>
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<td>Winter Economic Forecasts</td>
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<td>Early Warning Commission publishes in-depth reviews of countries with potential economic risks</td>
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<td>Tailor-made Advice Commission proposes country-specific recommendations for budgetary, economic and social policies</td>
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<td><strong>February</strong></td>
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<td>Eurostat 1st debt/deficit data</td>
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**European Commission**

- General Priorities
  - Budgets: Commission opinion on draft budget plans

**European Council/Council**

- Eurogroup
  - Finance ministers discuss EC opinions on draft budget plans
- Council
  - National ministers study the AGS and adopt conclusions
  - European Council
    - EU leaders adopt economic priorities based on AGS

**Member States**

- Implementation
  - Member States adopt budgets
  - Economic dialogue on the AGS
  - Economic dialogue on European Council/AGS

**European Parliament**

- Economic dialogue on CSRs

**Glossary:**
- AGS: Annual Growth Survey (general economic priorities for the EU)
- AMR: Alert Mechanism Report (screening system for economic risks)
- CSRs: Country Specific Recommendations
- EDP: Excessive Deficit Procedure
- IDR: In-Depth Review
- EPP: Economic Partnership Programme (EDF countries)
‘Six-pack’: overview

1. Directive _ex_ 126 (4) TFEU on requirements for budgetary frameworks of MS
2. Regulation _ex_ 121 (6) TFEU on prevention and correction macro-economic imbalances
3. Regulation _ex_ 136 / 121 (6) TFEU on enforcement measures to correct macro-economic imbalances in euro area
4. Regulation amending Reg. 1467/97 (corrective arm of Stability & Growth Pact)
5. Regulation amending Reg. 1466/67 (preventive arm of Stability & Growth Pact)
6. Regulation on effective enforcement of budgetary surveillance in euro area
Lessons learned?

*Preamble to Regulations 1175 and 1177*

“Experience gained and mistakes made during the first decade of functioning of [EMU] show a need for improved economic governance in the Union, which should be built on a stronger national ownership of commonly agreed rules and policies and on a more robust framework at the level of the Union for the surveillance of national economic policies”
Main new elements:
- Revenue windfalls to go to debt reduction
- Government expenditure growth $\leq$ medium-term rate of potential GDP growth
- Emphasis on debt reduction: $> 0.5\%$ GDP annually
- Statistical authorities’ independence
Main elements that remained

- Medium-term objective of budgetary positions of close to balance or in surplus
- All Member States (‘MS’) committed thereto
- MS to submit annual stability (<ins>)/convergence (<outs>) programs to Council
- Commission to monitor; Council to assess and determine adherence to SP/CP
Economic dialogue (Article 2-ab Reg. 1466/97, as amended)

- Economic dialogue between Commission, European Council, Euro Group and Ecofin Council with committee of the European Parliament
- Paragraph 2: “The Council is expected to, as a rule, follow the recommendations and proposals of the Commission or explain its position publicly” – comply or explain principle
- MS subject of Council recommendations may be given opportunity to participate in an exchange of views
- Council and Commission “shall” regularly inform EP of application of Reg. 1466

NB Economic dialogue provisions also inserted in other ‘six-pack’ legal acts
Regulation amending Reg. 1466/97
(preventive arm of SGP) - 3

Articles 3-6: euro area MS // Articles 7-10: non-euro area MS

Significant observed deviation from adjustment path towards MTBO:
Council **shall** address warning **ex** Art. 121(4)

[‘may’ says the Treaty provision itself]

Within 1 month Council **shall** adopt recommendation **ex** 121(4) with deadline of ≤ 5 months (3 months if Commission’s early warning considered situation particularly serious and warranting early action) for addressing deviation
Regulation amending Reg. 1466/97 (preventive arm of SGP) - 4

**Articles 3-6: euro area MS // Articles 7-10: non-euro area MS**

Â“No action by MS? Commission to recommend immediately Council decision that no effective action has been taken

Â“If Council fails to act, second such recommendation within 1 month for a Council decision which is deemed adopted unless reversed by simple majority

Â“Only euro area MS vote if euro area MS is concerned (Article 139(2) and (4) TFEU; Points 4 and 6 UK Opt-out Protocol [No. 15]; point 1 Danish Opt-out Protocol [No.16] in conjunction with Article 139 TFEU)

Â“State concerned has no vote (Article 122(4) TFEU; Article 126(13) TFEU)
Preamble

- Stronger role for Commission
- Fine to be imposed for misrepresentation of government deficit and debt data
- Delegated powers for Commission for investigation of statistics

Preventive arm:
- Interest-bearing deposit for MS even with deficit below 3% reference value if insufficient progress towards MTBO

Corrective arm:
- Non-interest bearing deposit for MS in excessive deficit
Interest-bearing deposit of 0.2% of GDP of preceding year imposed quasi-automatically when Council adopts recommendation to address observed deviation from adjustment path towards MTBO

(Art. 6 (2), 2nd subparagraph, Reg. 1466/97; Art. 4 Reg. 1173/2011; Art. 121 (4) TFEU)

Commission recommendation within 20 days, Council decision deemed adopted unless rejection by QMV within 10 days
Regulation effective enforcement of EDP/SGP in euro area - 3

Non-interest-bearing deposit of 0.2% of GDP of preceding year if Council decides an excessive deficit exists and
either interest-bearing deposit already lodged
or particularly serious non-compliance identified
(Art. 5 Reg. 1173/2011; Art. 126 (6) TFEU)
Commission recommendation within 20 days, Council decision deemed adopted unless rejection by QMV within 10 days
Regulation effective enforcement of EDP/SGP in euro area - 4

• Fine of 0.2% of GDP of preceding year if Council decides that MS has not taken effective action to correct excessive deficit
  (Art. 126 (8) TFEU)
• Commission recommendation within 20 days, Council decision deemed adopted unless rejected by QMV within 10 days
• Note that fine is imposed before ‘notice’
  (Art. 126 (9) TFEU) - Treaty system reversed for € area MS!
Is this legally possible? Art. 136 gives carte blanche...
Regulation effective enforcement of EDP/SGP in euro area - 5

- Effective, dissuasive and proportionate fine $\leq 0.2\%$ GDP may be imposed on MS “that intentionally or by serious negligence, misrepresents [relevant] deficit and debt data” (Art. 8 Reg. 1173/2011)

- Investigations by Commission on manipulation of statistics:
  - requests for information, on-site inspections, access to all government entities (including social security)
  - If required by MS law, judicial authorisation of on-site inspections
  - MS to be heard – rights of defense of MS to be fully respected
  - Commission to adopt delegated acts: fining guidelines, procedures for investigation
  - Unlimited jurisdiction of the ECJ

PM All fines under this regulation “are of an administrative nature”
Regulation on prevention and correction of macro-economic imbalances - 1

_Preamble_

Â An alert mechanism for _early detection of emerging macro-economic imbalances_

Â _Scoreboard_ with limited set of economic, financial and structural _indicators_ with indicative _thresholds_

Â Economic judgment rather than immediate conclusions

(no ‘mechanical reading of the scoreboard indicators’)

Â Persistent large current-account deficits _and accumulation of large current-account surpluses_ (Germany!) targeted – different wording for deficit and surplus States (recital 17)
Regulation on prevention and correction of macro-economic imbalances - 2

‘Imbalance’: trend giving rise to macro-economic developments (potentially) adversely affecting proper functioning of MS economy, of EMU, or of EU as a whole

‘Excessive imbalance’: severe imbalances, including those that (potentially) jeopardise proper functioning of EMU

Commission: public scoreboard with indicators

Internal & external imbalances

Choice of indicators and thresholds to be conducive towards promoting competitiveness

ESRB’s work input for scoreboard
Scoreboard

- current account balance
- net international investment position
- export market shares
- nominal unit labour costs
- real effective exchange rates
- the evolution of unemployment
- private sector debt
- private sector credit flow
- house prices
- the general government sector debt
Regulation on prevention and correction of macro-economic imbalances

- Commission: in-depth review of each MS with imbalance – to be made public
- Council recommendations \textit{ex} Article 121 (2) possible
- Council recommendation declaring existence of an EI and recommending corrective action
- MS to submit corrective action plan
  - sufficient? > Council endorsement
  - insufficient? > Council recommendation for new corrective action plan (< 2 months)
- Commission monitors implementation
Regulation on prevention and correction of macro-economic imbalances - 4

Â Council to assess corrective action taken in accordance with its recommendation

Â If MS has not taken recommended corrective action, Council – on Commission recommendation – adopts decision declaring non-compliance and recommendation setting new deadlines

– deemed adopted unless rejected by QMV within 10 days of adoption of Commission recommendation

Â MS concerned does not vote in Council
Regulation on enforcement measures to correct macro-economic imbalances in euro area - 1

- Applicable to euro area MS only
- Sanctions: Interest-bearing deposit, yearly fine
- 0.1 of Member State’s GDP in preceding year
- Commission – on grounds of exceptional economic circumstances [same definition as in EDP (Article 126 TFEU and Reg. 1467/97)] or following timely (10 days after non-compliance!) request by MS – may ‘propose’ ['recommend'?] to reduce or cancel deposit or fine
Regulation on enforcement measures to correct macro-economic imbalances in euro area - 2

**Interest-bearing deposit**: Council concludes that MS has not taken recommended corrective action following recommendation

**Yearly fine**:
- Two successive Council recommendations in same EIP where Council considers MS has submitted insufficient corrective action plan
- Two successive Council recommendations in same EIP where Council declares non-compliance
  (interest-bearing deposit converted into yearly fine)
Allocation of fines

Interest received on deposits and fines constitute ‘other revenue’ and to be assigned to EFSF – or to another stability mechanism to provide financial assistance “created by Member States whose currency is the euro” (ESM).

Previously: interest and fines were supposed to be distributed among participating Member States without excessive deficit in proportion to their share in total GNP of eligible Member States.

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Fiscal compact (1) : budgetary rules

✓ Budgetary position in balance or surplus, i.e.:
annual structural balance is at State-specific MTBO, with lower limit of structural deficit of 0.5% of GDP [Reg. 1466: 1%]

✓ If debt ‘significantly below’ 60% of GDP and low risks for long-term sustainability of public finances: structural deficit ≤ 1% of GDP [instead of 0.5% GDP] is allowed

✓ Temporary deviation from (adjustment path towards) MTBO “only in exceptional circumstances” [defined as in SGP]

✓ Significant observed deviations from MTBO: automatic trigger of adjustment mechanism

✓ All of this to be translated into national (constitutional) law
Fiscal compact (2) : more rules

- Average annual debt reduction 1/20th if debt > 60% of GDP
- MS subject to EDP: budgetary and economic partnership programme with detailed structural reforms to ensure effective and durable correction of excessive deficit
- Commitment to support Commission proposals and recommendations in respect of MS considered in breach of deficit (not: debt) criterion – unless QM among MS (except MS concerned) is opposed to Commission proposal or recommendation
- Commission to go to ECJ if MS fails to translate rules on deficit and debt into national law // MS may also access ECJ // MS may request financial sanctions if other MS does not comply with ECJ judgment (criteria ex Art. 260 TFEU)
Fiscal compact (3): economic policy coordination and convergence

• “work jointly towards an economic policy fostering the smooth functioning of [EMU] and economic growth through enhanced convergence and competitiveness”
• Use of Article 136 TFEU or of ‘enhanced cooperation’ (Articles 20 TEU, 326-334 TFEU)
• All planned major economic policy reforms to be discussed *ex ante* and coordinated where appropriate, involving EU institutions
Fiscal compact (4): economic governance

- Euro Summit meetings: Heads of State or Government euro area + Commission President, with ECB President as observer
- President of Euro Summit appointed by simple majority at same time as European Council President
- Twice yearly at least
- <outs> that ratified TSCG invited subject-specific and once a year; other <outs> ‘closely informed’
Fiscal compact (5): legalities

- Euro Area MS only (<outs> may declare willingness to be bound in advance of the abrogation of a derogation or exemption)
- Interpretation in conformity with Treaties
- Applicability in so far as compatible with EU law
Regulation 473/2013 on monitoring and assessing draft budgets and ensuring correction of excessive deficits

**Common timeline**
- 15 April: publication of medium-term fiscal plans
- 15 October: publication of draft budget laws
- 30 November: Commission opinion on draft budget
- 31 December: adoption of publication of budget for next year

**Numerical fiscal rules on budgetary balance to be monitored by structurally independent or bodies endowed with functional autonomy vis-à-vis the budgetary authorities**

**‘Economic partnership programmes’ to be adopted, and additional reporting if MS has an excessive deficit (Art. 126(6) TFEU)**

**Commission to address public recommendation to MS in risk of non-compliance with the deadline to correct its excessive deficit**
Regulation 472/2013 on strengthening of economic and budgetary surveillance of States in difficulties

- Commission may place State under ‘enhanced surveillance’ MS “experiencing or threatened with serious difficulties with respect to its financial stability likely to have adverse spill-over effects on other MS” – recipients of EFSF/EFSM/ESM/IMF assistance on precautionary basis with policy conditionality: under ‘enhanced surveillance’
- MS under enhanced surveillance obliged to adopt measures aimed at addressing sources, or potential sources, of difficulties
- Cooperation with Commission, consultation with ECB, EBA
- Information about banks in distress, stress tests, assessment of financial supervision to be provided
- Review missions
Other EMU developments - 1

Â· Conditionality: strict and intrusive policy prescriptions for financial support
Â· Legal acts: EFSF, ESM agreements, MoUs, assessment of social impact, Council Implementing Decision 2015/1411 based on Regulation 472/2013 approving the programme and Council Decision 2015/1410 giving notice to Greece pursuant to Article 126(9) TFEU [EDP/SGP] summarising MoU
Extensive specific economic policy prescriptions

**Greece, 2010:**
- the abolition of the Easter, summer and Christmas bonuses paid to pensioners, though protecting those receiving low pensions, with the aim of saving EUR 1,900 million for a full year (EUR 1,500 million in 2010)
- a modification of the institutional framework of the Hellenic competition authority (HCC) with a view to increasing its independence, establishing reasonable deadlines for the investigation and issue of decisions and entrusting it with the power to reject complaints;

**Ireland, 2010:**
- a 10% pay reduction for new entrants to the public service
- Ireland shall adopt legislative changes to remove restrictions to trade and competition in sheltered sectors including the legal profession, medical services and the pharmacy profession.

**Portugal 2011:**
- Portugal shall take urgently action to foster competition and the economy’s adjustment capacity. This includes the abolition of special rights of the State in companies, a revision of competition law to make it more effective, lighter requirements for establishment and cross-border provision in services sectors
- measures aimed at strengthening labour market functioning by limiting severance payments and making working time arrangements more flexible
- Portugal shall introduce legislation to reform the unemployment insurance system, including a reduction of the maximum duration of unemployment insurance benefits to 18 months, a cap on unemployment benefits to 2,5 times the social support index, a reduction in benefits over the unemployment spell, a reduction of the minimum contributory period, and an extension to certain categories of self-employed
Other EMU developments - 2

• Flexibility of SGP, introduced by Commission (COM(2015) 12 final provisional)
• Interpretative Communication
• Investment clause, structural reform clause, economic cycle modulation

Interesting contribution by FT journalist Martin Sandbu in recent book: Europe’s Orphan, a pro-single currency study debunking popular myths on the euro crisis, yet attacking the policy response of bail-outs and avoidance of public default, sometimes breezing over legal issues, such as the boundaries of the ECB’s mandate.
Five Presidents’ Report: completing EMU

Follow-up by Commission:

- National Competitiveness Boards
- Revamped European Semester
- Completing Banking Union: a Single Deposit Insurance System – very modest proposals expected, Mario Draghi rightly pleading for fungability of money across Europe (ECB Forum on Banking Supervision)
- External representation of Euro Area: a 3 times flawed proposal (State-centered membership; representation by Euro Group instead of Commission, neglecting ECB independence)
Four areas of urgent action

1. Joint partial financing of national unemployment insurance
   (Glienecke Group proposals; Bruegel research).

2. Joint issue of Eurobonds, starting with short-term Treasury bills
   One step beyond joint financial market borrowing through EU and ESM – ideas formulated (blue bonds/red bonds proposal, German Council of Economic Experts, ELEC proposals “Euro T-Bill Fund”). Disclosure: I was a member of the group preparing the ELEC proposal.

3. A Euro Area Sovereign Debt Restructuring Mechanism
   An EU or EA SDRM is not in conflict with advancing strong federal fiscal powers. Failure to establish a global SDRM (IMF, 2001, Anne Krueger). Two-pack regulation already foresees wide-ranging powers overseeing a State in financial difficulties. One step further: statutory (instead of only contractual means currently used: CACs) mechanism established ex ante for orderly restructuring. May be combined with mechanism for joint debt issuance (part of the conditionality of debt issue).

4. Preparing joint Euro Area decision-making and a Euro Area Treasury
   Commission, Euro Group, COSAC [Conference of Parliamentary Committees for Union Affairs of Parliaments of the European Union] for Euro Area? A Euro Area Treasury, as counterpart for ECB, and organiser of joint market access, joint financing of insurance schemes. Called for consistently by former ECB President Jean-Claude Trichet.

10 November 2015

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Assessment and own perspective

ÅLaw [applicable to all] vs. practice [enforcement against debtor States only]
ÅRules vs. discretion in economic policy-making: balance?
ÅIssue of democracy, at European level (absent common language, single media space)
ÅMaking best use of crises: energy, financial, migrant ...

seeing the connected whole