



Brussels, 20.3.2013
COM(2013) 166 final

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT AND THE COUNCIL**

**Towards a Deep and Genuine Economic and Monetary Union
Ex ante coordination of plans for major economic policy reforms**

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1. INTRODUCTION

The lessons learned from the recent economic, financial and sovereign debt crisis have led to a major overhaul of the EU's and Economic and Monetary Union's (EMU) economic governance. The surveillance of economic, budgetary and structural policies that has been brought together into the European Semester has made EMU more robust than it was at the onset of the crisis and better equipped for the future. Its scope was broadened to include competitiveness and internal and external imbalances under the new Macroeconomic Imbalances Procedure (MIP).

The new governance framework is designed to help the Union to emerge stronger from the crisis by boosting competitiveness, productivity, growth potential, social cohesion and economic convergence. This will help the EU internally and also strengthen its international role as a key player in the global economy.

The new economic surveillance architecture in the EU, and in the Euro area in particular, provides for differentiation between Member States depending on their economic conditions. This is reflected in different policy instruments ranging from preventive surveillance through the European Semester¹ to corrective surveillance² to crisis surveillance of a Member State that seeks recourse to the backstops.

To complement this governance framework, the Commission considers it important that national plans for any major economic policy reforms are assessed and discussed at EU-level before final decisions are taken at the national level. This would also ensure that Member States internalise the EU-level dimension of key reforms in their national decision-making process. This is what is known as **ex ante coordination**, which also reflects the spirit of Article 121(1) of the Treaty³.

The concept of ex ante coordination of plans for major economic policy reforms was introduced by the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG)⁴. Article 11 of the TSCG includes a commitment to discuss ex ante

¹ Implemented through the Europe 2020 Strategy and the preventive arms of the Stability and Growth Pact and the Macroeconomic Imbalances Procedure

² under the corrective arms of the Stability and Growth Pact and the Macroeconomic Imbalances Procedure

³ "*Member States shall regard their economic policies as a matter of common concern*".

⁴ http://european-council.europa.eu/media/639235/st00tscg26_en12.pdf. The Treaty was signed by all EU Member States except for the Czech Republic and the United Kingdom. It came into force on 1 January 2013. By 20 March 2013 it had been ratified by all euro area Member States except for Belgium, Luxembourg, Malta and The Netherlands. Denmark and Romania have also ratified the Treaty and declared their intent to be bound by its fiscal and economic provisions (Titles III and IV) including Article 11. For the other non-euro area signatories these provisions will apply once they ratify the

and, where appropriate, coordinate all plans for major economic policy reforms. The TSCG foresees the incorporation of its substance into the legal framework of the European Union within five years, at most, of the date of its entry into force. Whereas the current EU economic surveillance framework includes a process for economic policy coordination, it does not provide for a structured ex ante discussion and coordination of major economic reform plans, as foreseen in Article 11 TSCG. A commitment to discuss major reforms with potential spill-over effects has also been confirmed in the 2012 Council Recommendation on the implementation of the broad guidelines for the economic policies whose currency is the Euro⁵.

The Commission already set out some reflections on ex ante coordination in its Blueprint for a Deep and Genuine Economic and Monetary Union in November 2012⁶. The European Council of 13 and 14 December 2012 requested the Presidents of the European Council and of the Commission for work to be taken forward in the areas of coordination of national reforms, the social dimension of EMU including social dialogue, the feasibility and modalities of mutually agreed contractual arrangements for competitiveness and growth, and solidarity mechanisms that can enhance the efforts made by Member States that enter into such arrangements⁷.

This Communication is a contribution to the debate which is now underway between key stakeholders on the next steps towards a deep and genuine EMU, in particular the European Parliament, the Member States, and the national parliaments. It concentrates on ways of implementing ex ante coordination of plans for major economic policy reforms under the existing Treaties

2. SELECTION OF REFORMS SUBJECT TO EX ANTE COORDINATION

The Commission considers that *ex ante* coordination should concern only major national economic reform plans and that it should take place at an early stage before the measures are adopted. The reason for having ex ante coordination is to ensure that possible spillover effects of major economic reforms in one Member State on other Member States and/or on the Euro area and wider EU are also taken into account in the national decision-making process. The way reforms are implemented may influence the smooth functioning of the EMU.

In order to maximise positive spillovers and minimise negative ones, the Commission is considering proposing that the reforms to be coordinated should be relevant taking into account the following filters:

- Trade and competitiveness are among the main channels through which spillovers are transmitted. Product, services and labour market reforms as well as certain tax reforms may affect employment and growth in the implementing Member State, and hence the demand for products and services from other Member States. This is because a reform may also have a positive or negative impact on the reforming Member State's price and non-price competitiveness.

Treaty and when the decision abrogating their derogation or exemption takes effect or when they provide a similar declaration.

⁵ OJ C 219, 24.7.2012, p. 95.

⁶ http://ec.europa.eu/commission_2010-2014/president/news/archives/2012/11/pdf/blueprint_en.pdf

⁷ http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/134353.pdf, par 12.

- Another channel through which spillovers are transmitted, are the financial markets. Some reforms may produce spillovers through financial markets when reforms increase the Member State's ability to withstand external shocks and limit the risk of contagion of risk premiums in case of concerns with regard to debt sustainability.
- Finally, there are also political economy considerations. While it is in each Member State's interest to foster reforms that improve competitiveness, successful implementation has to take into account possible domestic opposition to reform. Coordinated reforms across Member States can help communicate the broader welfare effects of structural reform. For example, Member States can learn from each other's policies. Benchmarking, mutual learning and the exchange of best practices – based on individual examples or a horizontal overview of implemented reforms – can be helpful as demonstrated already in the work of many Council Committees.

Questions for consultation:

- Do you agree that the formal ex ante coordination of major policy reforms at EU level should be limited to key reforms?
- Do you agree that such key reforms include competitiveness, employment, the functioning of product and services markets and network industries, tax systems, as well as financial stability and fiscal sustainability? Should any of these fields be excluded? Should any other fields be included?
- Are the filters identified above the correct ones or should any others be considered?

3. A FRAMEWORK FOR THE EX ANTE COORDINATION OF PLANS FOR MAJOR ECONOMIC POLICY REFORMS

3.1. Which Member States should be involved?

While there are potential spillovers between all EU Member States, such effects are magnified in the Euro area due to the stronger interdependence of Euro area Member States. For this reason the Commission is considering proposing that a binding framework to engage in the ex ante coordination of major economic reform plans should apply to all euro area Member States. At the same time, ways should be found to involving other Member States. This would also reflect the spirit of Article 121(1) of the TFEU that concerns all EU Member States.

While the Commission considers that Member States subject to a macroeconomic adjustment programme will be exempt from the reporting requirements and discussions in the context of ex ante coordination as they are already subject to strict reporting requirements and monitoring in the context of the programme⁸, it is considering providing for their participation on a voluntary basis.

⁸ Member States subject to a macroeconomic adjustment programme are already subject to strict reporting requirements and monitoring in the context of the programme - Proposal for a Regulation of the European Parliament and of the Council on the strengthening of economic and budgetary surveillance of Member States experiencing or threatened with serious difficulties with respect to their financial stability in the euro area - <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0819:FIN:EN:PDF>

Questions for consultation:

- Do you agree that all Euro area Member States should be obliged to coordinate major economic policy reforms ex ante at EU level?
- If not, why not? If not, which Member States should be covered?
- Do you agree that ways should be found to include non Euro area Member States?
- Do you agree that Member States participating in a macroeconomic adjustment programme should be exempted? Should they have the possibility to participate on a voluntary basis?

3.2. Process

The Commission is considering the following process of ex ante coordination:

- It will form an integral part of the European Semester.
- Participating Member States will submit to the Commission information about their major economic reform plans.
- Since Member States have different national decision-making practices for the adoption of reform proposals, the exact timing of transmission of this information is likely to vary across Member States. However, it should always be provided in a timely manner for assessment and discussion at euro area or EU level. Outside urgency situations, Member States should make use of existing tools, such as the **National Reform Programmes**, to submit the aforementioned information.
- Where the urgency of the economic situation requires immediate action, a particular urgency provision could be considered. For example, rapid endorsement could be given by the Commission for a certain limited period during which the normal process could take place.
- While Member States would be expected to submit information on their major economic reform plans on their own initiative, in the framework of the European Semester, the Commission or the Council could request or invite them to do so where necessary, for example when new policy measures are being prepared after a new government takes office. When reporting on a major economic policy reform plan, Member States should provide the Commission with a detailed qualitative description of the reform, including an identification of the main economic target(s) pursued, a time frame and an estimate of the expected gains from the reform, and its budgetary impact.
- The Commission would make an assessment of the plans received and adopt an opinion within a reasonably short period of receiving the information from a Member State. Sufficient time will be needed to allow a proper assessment of the plans while, at the same time, **the national decision-making process should be taken into account**. It is important to ensure that the assessment and the subsequent EU-level discussions can be appropriately integrated in the national decision-making process, involving the national parliament or relevant stakeholders such as social partners. The process should fully respect national decision-making powers, with the decision on the reform plan remaining with the Member State itself.
- The Commission assessment would include whether the proposed reform would be likely to meet its declared purpose and contribute to improving the competitiveness and adjustment capacity of that Member State. The Commission could suggest modifications in order to ensure that the proposed reforms meet their purpose. Given the potential social

impact of some economic reforms, the **social dimension**⁹ of the reform would be duly taken into account. The assessment would pay specific attention to the impact of the reform on the functioning of the euro area and possible spill-over effects on other Member States. The Commission's opinion would also consider any accompanying **flanking measures** in order to minimise the potential adverse social consequences of those reforms and other possible negative short-term effects.

- The Commission's assessment and opinion would be presented to the Council and the Eurogroup. Relevant Council formations could be involved in the process of discussing the plans. The Council could suggest modifications to the national reform plan in cases where modifications could be justified by the expected effects on other Member States and the functioning of the EMU. The Commission opinions and the outcomes of the discussions in the Council and the Eurogroup should thereafter be taken into account in the policy advice issued to a Member State **in the context of the European Semester**.
- Where relevant the Commission would highlight (elements of) reforms that it considers relevant for other Member States. Benchmarking and mutual learning would also be taking place by the work of the Council and its Committees in reviewing national policies in individual policy areas.

Questions for consultation:

- Do you agree that outside of the annual timetable for National Reform Programmes Member States should be able to inform the Commission ex ante of intended major national economic policy reforms?
- Do you agree that the Commission should be able to request information and to propose changes to proposed measures which could affect the interests of other Member States or the Euro area and EU as a whole?

3.3. Ensuring democratic legitimacy

A framework for ex ante coordination of the most important national reforms can encourage the implementation and improve the design of reforms, guarantee the efficiency-enhancing nature of the reform and ensure that spill-overs on other countries are considered in the national process.

The democratic legitimacy and accountability of the process must start with the national democratic institutions. The new process to be introduced respects national decision-making powers, with the decision on the reform plan remaining with the Member State itself. The process described in Section 3.2 above is one way of meeting this requirement. Ex ante coordination at the EU level should be organised to facilitate the reform process in the Member States and add value through better design of reforms. At EU level a process of economic dialogue could be envisaged, for example through invitations from the relevant committee of the European Parliament to the Commission, the President of the Council or the President of the Eurogroup to discuss the Commission opinion on a Member State's reform plans as well as the conclusions of the discussions in the Council. The relevant committee of the European Parliament could also invite Member States to participate in an exchange of views on planned, major economic policy reforms.

⁹ The Commission will make proposals for further strengthening the social dimension of the European Semester, without creating new procedures.

Questions for consultation:

- How can the national decision-making process be accommodated in the ex ante coordination?
- Do you agree that there should be a dialogue process at EU level involving the European Parliament, the Council and the Commission?

4. NEXT STEPS

Following this consultation and other discussions with the European Parliament and the Council, the Commission will make a formal legislative proposal, in the framework of existing Treaties, in the course of 2013.