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Budgetary capacity for the Eurozone

European Parliament resolution of 16 February 2017 on budgetary capacity for the Eurozone (2015/2344(INI))

The European Parliament,

– having regard to Rule 52 of its Rules of Procedure,

– having regard to the joint deliberations of the Committee on Budgets and the Committee on Economic and Monetary Affairs under Rule 55 of the Rules of Procedure,

– having regard to the report of the Committee on Budgets and the Committee on Economic and Monetary Affairs and the opinions of the Committee on Constitutional Affairs and the Committee on Budgetary Control (A8-0038/2017),

A. whereas the current political climate and the existing economic and political challenges in a globalised world require consequent and determined decisions and actions from the EU in certain areas such as internal and external security, border protection and migrant policy, stabilisation of our neighbourhood, growth and jobs, in particular combating youth unemployment, and implementation of the agreements of the 2015 United Nations Climate Change Conference;

B. whereas, after a successful start for the euro, the euro area has showed a lack of convergence, political cooperation and ownership;

C. whereas the various crises and global challenges require the euro area to make, as soon as possible, a qualitative leap in integration;

D. whereas membership in a common currency area requires common tools and solidarity at European level and obligations and responsibilities on the part of each participating Member State;

E. whereas trust inside the euro area needs to be restored;

F. whereas a well-defined roadmap reflecting a comprehensive approach is needed to realise the full benefits of the common currency while ensuring its sustainability and achieving the goals of stability and full employment;

G. whereas this includes the agreed completion of the Banking Union, a strengthened fiscal framework with a capacity to absorb shocks and incentives for growth-friendly structural reforms to complement current monetary policy measures;

H. whereas a fiscal capacity and the related convergence code are vital elements in this enterprise, which can be successful only if responsibility and solidarity are closely linked;

I. whereas the settlement of a fiscal capacity for the euro area is only one piece of the puzzle, which needs to go hand in hand with a clear European spirit of refoundation among its members and the ones yet to join the euro area;

1. Adopts the following roadmap:

i. General principles

The transfer of sovereignty over monetary policy requires alternative adjustment mechanisms such as the implementation of growth-enhancing structural reforms, the single market, the Banking Union, the Capital Markets Union, to create a safer financial sector, and a fiscal capacity to cope with macroeconomic shocks and increase the competitiveness and stability of Member States' economies, in order to make the euro area an optimal currency area.

Convergence, good governance and conditionality enforced through institutions being held democratically accountable at euro-area and/or national level are key, notably in preventing permanent transfers, moral hazard and unsustainable public risk sharing.

As the magnitude and credibility of the fiscal capacity increase, it will contribute to restoring the trust of the financial market in the sustainability of public finances in the euro area, making it possible, in principle, to better protect tax payers and reduce public and private risk.

The fiscal capacity shall include the European Stability Mechanism (ESM) and a specific additional budgetary capacity for the euro area. The budgetary capacity shall be created in addition to and without any prejudice to the ESM.

As a first step, the specific euro-area budgetary capacity should be part of the Union budget, over and above the current ceilings of the multiannual financial framework, and should be financed by euro-area and other participating members via a source of revenue to be agreed between participating Member States and considered to be assigned revenue and guarantees; once in a steady state, the fiscal capacity could be financed through own resources, following the recommendations of the Monti report on the future financing of the EU.

The ESM, while fulfilling its ongoing tasks, should be further developed and turned into a European Monetary Fund (EMF) with adequate lending and borrowing capacities and a clearly defined mandate, to absorb asymmetric and symmetric shocks.

ii. Three pillars of the fiscal capacity for convergence and stabilisation of the euro area

The fiscal capacity should fulfil three different functions:

– first, economic and social convergence within the euro area should be incentivised to foster structural reforms, modernise economies and improve the competitiveness of each Member State and the resilience of the euro area, thereby also contributing to Member States' capacity to absorb asymmetric and symmetric shocks;

– second, differences in the business cycles of euro-area Member States stemming from structural differences or a general economic vulnerability create a need to address asymmetric shocks (situations whereby an economic event affects one economy more than another, for instance when demand collapses in one specific Member State and not in the others following an external shock beyond the influence of a Member State);

– third, symmetric shocks (situations whereby an economic event affects all the economies in the same way, for example variation in oil prices for euro-area countries) should be addressed to increase the resilience of the euro area as a whole.

In view of these objectives, it will be necessary to consider which functions can be achieved within the existing legal framework of the Union and which will require Treaty adjustment or change.

Pillar 1: the convergence code

The current economic situation requires an investment strategy in parallel to fiscal consolidation and responsibility through compliance with the economic governance framework.

Beside the Stability and Growth Pact, the convergence code, adopted under the ordinary legislative procedure and taking into account the country-specific recommendations, should focus for a five-year period on convergence criteria regarding taxation, labour market, investment, productivity, social cohesion, and public administrative and good governance capacities within the existing Treaties.

Within the economic governance framework, compliance with the convergence code should be a condition for full participation in the fiscal capacity, and each Member State should come forward with proposals on how to reach the criteria of the convergence code.

A euro-area fiscal capacity should be complemented by a long-term strategy for debt sustainability and debt reduction and enhancing growth and investment in euro-area countries, which would bring down overall refinancing costs and debt/GDP ratios.

Pillar 2: absorption of asymmetric shocks

Given the strong integration of the euro-area Member States, asymmetric shocks with an impact on the stability of the euro area as a whole cannot be ruled out completely, despite all efforts on Member-State policy coordination, convergence and sustainable structural reforms.

Stabilisation provided through the ESM/EMF should be complemented by automatic shock absorption mechanisms.

Stabilisation must incentivise good practices and avoid moral hazard.

Such a system must include clear rules on timeframe-possible payments and repayments, and must clearly be defined in terms of size and funding mechanisms, while being budgetary neutral over a longer cycle.

Pillar 3: absorption of symmetric shocks

Future symmetric shocks could destabilise the euro area as a whole since the currency area is not yet endowed with the instruments necessary to cope with another crisis of the same extent as the previous one.

In the case of symmetric shocks brought about by a lack of internal demand, monetary policy alone cannot reignite growth, particularly in a context of zero lower bound. The euro-area budget should be of sufficient size to address these symmetric shocks by funding investment aimed at aggregating demand and full employment in line with Article 3 TEU.

iii. Governance, democratic accountability and control

The Community method should prevail in economic governance for the euro area.

The European Parliament and national parliaments should exercise a strengthened role in the renewed economic governance framework in order to reinforce democratic accountability. This includes increased national ownership on the European semester and a reform of the interparliamentary conference provided for in Article 13 of the Fiscal Compact to give it more substance, in order to develop a stronger parliamentary and public opinion. To improve ownership, national parliaments should scrutinise national governments, just as the European Parliament should scrutinise the European executives.

The positions of President of the Eurogroup and Commissioner for Economic and Financial Affairs could be merged, and in such case the President of the Commission should appoint this Commissioner as Vice-President of the Commission.

A finance minister and treasury within the Commission should be fully democratically accountable and equipped with all necessary means and capacities to apply and enforce the existing economic governance framework and to optimise the development of the euro area in cooperation with the ministers of finance of the euro-area Member States.

The European Parliament should review its rules and organisation to ensure the full democratic accountability of the fiscal capacity to MEPs from participating Member States;

2. Calls on:

– the European Council to set guidelines, as described above, by no later than the EU meeting in Rome (March 2017), including a framework for the long-term sustainable stabilisation of the euro area;

– the Commission to come forward with a White Paper with an ambitious core chapter on the euro area and the respective legislative proposals in 2017 by using all means within the existing Treaties, including the convergence code, the euro-area budget and automatic stabilisers, and to set a precise timeframe for the implementation of these measures;

3. Declares its readiness to finalise all legislative measures that do not require Treaty changes by the end of the current mandate of the Commission and the European Parliament and to set the stage for the necessary Treaty changes required in the medium and long term to make a sustainable euro area possible;

4. Instructs its President to forward this resolution to the President of the European Council, the Commission, the Council, the Eurogroup, the European Central Bank, the Managing Director of the European Stability Mechanism and the parliaments of the Member States.