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BUSINESSEUROPE's REMARKS ON THE ECONOMIC GOVERNANCE LEGISLATIVE PACKAGE

1. REDUCING THE ROOM FOR POLITICAL BARGAINING IN THE COUNCIL

BUSINESSEUROPE agrees that the room for political discretion in the Council should be reduced and the role of the European Commission made more prominent.

Reverse majority voting should be the rule, including when deciding on pre-emptive sanctions for euro-area Member States. We are therefore aligned with the proposal from Ms Wortmann-Kool in this regard.

We also agree that deposits and fines collected should eventually be transferred to the EU crisis resolution system rather than redistributed among compliant euro-area Member States (proposal of Ms Goulard and Mr Feio).

Nevertheless, we are somewhat doubtful about the suggestion to grant "emergency intervention powers" to the Commission in last resort situation (Ms Goulard, amendment 52), without specifying what these powers should be or how they should be decided. This could create unnecessary political uncertainty and would not be in line with the EU Treaty.

2. PRUDENT FISCAL POLICIES, MACROECONOMIC IMBALANCES AND SANCTIONS

The concept of "prudent fiscal policy-making" will be central to the reinforcement of preventive measures under the Stability and Growth Pact rules.

We agree that it should be defined on a basis of a limit on public expenditure growth, as proposed by the Commission, but its definition should be further refined.

This expenditure rule must ensure that budgetary policies are sufficiently counter-cyclical and take due consideration of macroeconomic imbalances and their potential impact on fiscal sustainability.

This would imply a revision in the definition of "prudent fiscal policy-making" in the regulation, requiring government with identified imbalances to target a growth of public expenditure below what is considered a "prudent medium-term rate of GDP growth" (to be introduced in Ms Wortmann-Kool amendments for Article 5 of regulation No 1466/97). This would create additional incentives to "lean against the wind" of emerging imbalances and ensure more prudent fiscal policies until their root causes are addressed.

In this context, we would recommend that sanctions are applied only through the fiscal surveillance process, where political responsibility and control is the strongest. We count on the European Parliament to reflect carefully upon this proposal.

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3. Scoreboard of indicators and competitiveness

The development of performance scoreboards has been advocated by BUSINESSEUROPE for a long time in its yearly Reform Barometer survey and is therefore welcome.

Such a framework is vital to highlight emerging imbalances, monitor key competitiveness and sustainability factors and highlight growth bottlenecks in a more objective way.

In this context, we believe that wage and unit labour cost developments are among the important variables to be monitored.

However, we suggest leaving the initiative for a concrete list of indicators to the Commission, rather than including it in the secondary legislation. Sufficient flexibility is needed to adapt the scoreboard to changing economic circumstances without requiring complex legislative procedures.

4. Revise the satisfactory pace of debt reduction

We agree that an increased focus on public debt is needed when assessing fiscal sustainability and that the 60% of GDP limit remains a fundamental benchmark.

However, actual activation of an Excessive Deficit Procedure linked to this criterion should take into account a number of important factors including, among others, medium-term growth prospects, future implicit liabilities, the impact of pension and other structural reforms, and the accumulation of excessive private debt to the extent that it represents a contingent liability for the government. Some of these have been mentioned in the report from Mr Feio, but the list could be further extended.

Regarding the definition of a satisfactory pace of debt reduction, it should create proportionate incentives for all countries including those closer to the 60% limit. The formula proposed by the Commission – foreseeing an average reduction of $1/20^{th}$ of the gap with the 60% debt threshold per year – does not meet this criterion. It should be further reviewed and include for instance a minimum reduction applicable for countries above but close to the 60% reference value.

5. Ensure the quality of the national fiscal framework

The quality of the national fiscal framework is key to ensure proper and effective delivery. The ultimate goal must be to transpose ambitious debt and deficit rules into national law.

Tight fiscal rules must be set at the national and all sub-national levels to pre-empt government policies that shift the burden of consolidation to future generations. This should include ambitious and clear numerical targets, multiannual fiscal programming, prudent forecasting and high quality statistics. The Commission's proposed directive is a step in the right direction but is limited in scope, as it focuses only on minimum requirements.

Desirable features and best practices could also be highlighted and promoted more clearly, based on EU and international experiences. We are also in favour of independent fiscal councils as suggested in the draft report of Ms Ford.

6. NEED FOR FAST-TRACK ADOPTION AND REAL COMMITMENT TO REFORM

This is a time for political responsibility. We call on the European Parliament to be ambitious and hold its commitment to further strengthen this legislative package along the lines described above.

But the June deadline for adoption should be met. This is important to keep the political momentum in place and help restore confidence.

This legislative package needs to be complemented in the short term by the following key decisions:

1. Front-load growth-enhancing reforms in the context of the Europe 2020 agenda, using effectively the new coordination cycle of the European Semester. Most governments have so far failed to develop comprehensive growth strategies and time is running out before their submission of National Reform Programmes in April.
2. Strengthen crisis management and resolution instruments for the euro area, including a permanent scheme that would allow orderly debt restructuring in last-resort situations.
3. Pursue the reflection on the further integration of economic policies in the euro area. In this regard, we favour the concept of a Competitiveness Pact, based on sound policy principles and a credible method to translate political commitments into action.