

EUROPEAN UNION



Committee of the Regions

ECON-VI/008

7th Commission meeting, 29 February 2016

DRAFT OPINION

Commission for Economic Policy

**FOLLOW-UP TO THE FIVE PRESIDENTS' REPORT: COMPLETING
EUROPE'S ECONOMIC AND MONETARY UNION**

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This document will be discussed at the meeting of the **Commission for Economic Policy** to be held **from 11 a.m. to 6 p.m. on 29 February 2016**. To allow time for translation, any amendments must be submitted through the online tool for tabling amendments (available on the Members' Portal: <http://cor.europa.eu/members>) by no later than 3 p.m. (Brussels time) on 16 February 2016. A user guide is available at <http://toad.cor.europa.eu/CORHelp.aspx>.

**Draft opinion of the European Committee of the Regions – Follow-up to the Five Presidents'
Report: Completing Europe's Economic and Monetary Union**

I. POLICY RECOMMENDATIONS

THE EUROPEAN COMMITTEE OF THE REGIONS

Introduction

1. welcomes the Five Presidents' Report as an important step towards making the monetary union more resilient to economic shocks;
2. feels that there should be a greater focus on addressing the core problems of monetary union, namely imbalances in capital flows between countries and regions, and on introducing mechanisms to provide feedback to countries and regions where politicians or economic operators are deviating from what is considered to be sound policy and sound risk-taking;
3. believes that the present economic situation, with fragile growth and high unemployment, justifies an integrated approach in order to consolidate public finances in the Member States, boost growth, implement structural reforms and stimulate investment, with a view to generating sustainable growth and making the EU even more competitive;
4. notes that migration and labour mobility offer the potential to boost growth in the Union, but for this to succeed issues surrounding access to housing, social commitments and labour market flexibility need to be tackled;
5. stresses the need to strengthen ownership and democratic legitimacy with regard to the solutions identified in the EU's economic governance framework, while at the same time strengthening the regional dimension so that the legal framework is implemented fairly and consistently throughout the Union;
6. sees a risk that the new organisational changes could become a way of hiding shortcomings in the follow-up to existing rules rather than of dealing with them;
7. welcomes the two-stage approach that first builds on existing instruments and treaties, in order to then implement more far-reaching changes in a second stage, so as to make the convergence process even more binding for euro-area Member States via commonly agreed convergence guidelines;

Towards economic union – convergence, welfare and social cohesion

8. stresses the need for greater convergence, both between Member States and within Member States, and is concerned about the disparities that, in some cases, are larger within Member States than between them;

9. reiterates its support for a process of economic and social convergence, but at the same time emphasises that social, economic and territorial disparities can only be reduced through a vision that is based on the 2020 strategy and includes a regional dimension and results-oriented cohesion policy;
10. warns that a "one size fits all" solution will not work, as the situation both within and between Member States requires flexibility, which means that the competitiveness authorities must respect national wage-setting mechanisms and not take over the role played by the social partners in this area;
11. considers that the competitiveness authorities should take account of all aspects of the business environment in the broadest sense, i.e. including factors such as productivity, skills, innovation, the business environment and red tape. The Committee therefore agrees that the concept of "competitiveness" cannot simply be reduced to a matter of wage levels;
12. agrees that there should be a greater focus on employment and welfare;
13. notes that an assessment of social indicators shows that unemployment, poverty and social exclusion are concentrated in less developed regions and clearly correlate with how effectively previous recommendations, for example under the 2020 strategy, have been implemented;
14. welcomes the fact that the Five Presidents' Report fundamentally acknowledges that the social dimension is economically necessary;
15. considers it necessary to address regional disparities in order to tackle social inequalities, boost growth and jobs, and improve competitiveness and cohesion within the EMU and the EU, and highlights the key role played by local and regional authorities as employers and in creating a business-friendly environment;
16. points out that local and regional authorities play an instrumental role in increasing competitiveness, via local and regional initiatives;
17. welcomes the fact that the Recommendation on the establishment of National Competitiveness Boards within the euro area (COM (2015) 601 final) makes it clear that these boards should simply provide support for decision-making, not present completed proposals;

On the European Semester

18. welcomes the fact that the European Semester is being streamlined and strengthened within the current legislative framework, and that the documents are being coordinated to improve focus and effectiveness and to clarify ownership, with the aim of achieving the EU's good governance goals;
19. acknowledges the value of the European Semester as a tool for delivering reforms at national and EU level by ensuring that the EU and its Member States coordinate their economic policies;

20. reiterates its call for the Commission and Parliament to adopt a code of conduct to guarantee that local and regional authorities are involved in a structured way in the European Semester, the intention being to present a specific proposal in 2016, and undertakes to engage in ongoing dialogue with the Commission on this issue;
21. stresses that country reports and country-specific recommendations should specifically address issues linked to regional disparities and systematically build on input from the local and regional levels;
22. finds it regrettable that the modified structure of the European Semester makes no mention of the CoR in the discussion on the euro area's priorities, and urges the Commission to address regional issues in the documents steering the European Semester, supported by systematic regional analyses of employment, social and other issues;

Towards financial union – integrated finance policy for an integrated economy

23. believes that, in the short term, completion of the banking union is the most effective instrument in efforts to prevent crises in the financial system, break the vicious circle between national banks and Member States and minimise the negative effects of economic shocks;
24. urges the Commission and the Member States to reduce the risks in the financial system and increase price flexibility before introducing risk-sharing mechanisms;
25. believes that, before a European Deposit Insurance Scheme (EDIS) can be created, the European resolution funds and national deposit insurance schemes must have been established and funded, and the link between them must have been clarified so as to minimise moral hazard;
26. calls on the European Central Bank (ECB) and the European Banking Authority (EBA) to conduct asset quality reviews and stress tests for the financial institutions affected by EDIS, in order to ensure a level playing-field for those institutions;
27. invites the Commission to explain the added value of the European Fiscal Board, whose secretariat is attached to the Commission's secretariat-general. It is particularly important to discuss how to ensure that such a board does not unnecessarily add to an already complex macroeconomic surveillance environment;
28. is keen to see the implementation of the Capital Markets Union, which will enable capital flows across borders without threatening the stability of different regions and countries, and help businesses to access a wide range of funding sources;
29. believes that a coherent and well-designed Capital Markets Union should encompass all 28 Member States and promote a level playing-field throughout the EU, and urges the Member States to ensure that the banking union remains accessible to those Member States that have not yet introduced the euro;

30. insists that the Stability and Growth Pact must be respected and stresses the importance of each Member State having a sound economy and stable public finances, as a prerequisite for the necessary short- and long-term public investment;¹
31. calls for the Member States to be required to demonstrate that they have a responsible economic policy in order to gain access to economic stabilisation instruments. Use of these instruments must go hand in hand with the full implementation of structural reforms, with a view to greater convergence, coordination and integration, and the aid must not under any circumstances result in permanent one-way flows between countries. The Stability Fund and other instruments should not aim to replace existing cohesion policy;
32. agrees with the Commission that the forthcoming review of the Six Pack and Two Pack should be taken as an opportunity to work to improve transparency within and legitimacy for the EU, which is particularly important at local and regional level, and therefore calls for the establishment of "economic dialogue" between the CoR and the Commission, in line with the existing dialogue between the Commission and Parliament;
33. notes that the conditions for financing investment in the real economy have been fundamentally changed by the current economic crisis, and highlights the importance of local and regional authorities in maximising effectiveness and identifying obstacles to productive investment;
34. reiterates its call for a golden rule keeping long-term investment separate from current expenditure, and advocates establishing a coherent European framework setting out criteria for identifying the social and infrastructure investment most needed to maintain long-term growth;
35. stresses the need to improve the quality of public spending, including by applying the OECD's principles on effective public investment across levels of government, and calls for a debate on how fiscal decentralisation in various areas of the public sector could improve the quality of public expenditure, thus generating growth-friendly fiscal consolidation;²
36. reiterates its call for the European Commission to publish a White Paper setting out an EU-level typology for the quality of public investment in public spending accounts on the basis of their long-term effects, and to include a chapter on quality of public investment, including at subnational level, in every annual report on Economic and Monetary Union (EMU) public finances;³

¹ Point 8 of the CoR's draft resolution on the European Commission's communication on the "Annual Growth Survey 2016 – Strengthening the recovery and fostering convergence" (not yet officially adopted)

² Ibid., point 10

³ Point 15 of the CoR opinion on "Making the best use of the flexibility within the existing rules of the Stability and Growth Pact" (rapporteur: Olga Zrihen (BE-PES)); COR-2015-01185.

Democratic legitimacy and stronger institutions

37. believes that a deeper and more resilient economic and monetary union would benefit from having less complicated structures, clearer ownership and greater transparency, rather than new layers of rules added on top of the existing ones, and therefore welcomes the Commission's desire to simplify, increase transparency and clarify ownership;
38. calls for a more realistic attitude to the practical implementation of administrative sanctions against countries that fail to comply with jointly defined rules, and for a discussion of how market mechanisms could form an alternative or adjunct;
39. stresses that there needs to be a particular focus on ensuring that economic governance is characterised by clear accountability at all levels, including local and regional, as the latter are often responsible for policy implementation in various fields such as employment, healthcare and education;

Final comments

40. urges the Commission to involve the CoR in the preparation of the White Paper on the transition between phase 1 and phase 2 of the reform of the EMU;
41. highlights the importance of ensuring that efforts to deepen monetary union also take account of the implications for relations with non-euro countries and that it is clear which proposals cover all Member States and which apply only to the euro area;
42. stresses that any measures regarding the completion of EMU must be implemented as transparently as possible, in order to avoid alienating those Member States that do not yet use the euro and creating a "two-speed Europe".

Brussels,

II. PROCEDURE

Title	Follow-up to the Five Presidents' Report: Completing Europe's Economic and Monetary Union
Reference(s)	Completing Europe's Economic and Monetary Union: Report by Jean-Claude Juncker in close cooperation with Donald Tusk, Jeroen Dijsselbloem, Mario Draghi and Martin Schulz
Legal basis	Article 307(4) TFEU
Procedural basis	Own-initiative opinion (Rule 41(b)(ii))
Date of Council/EP referral/Date of Commission letter	/
Date of Bureau/President's decision	29 September 2015
Commission responsible	ECON
Rapporteur	Paul Lindquist (SE/EPP)
Analysis	
Discussed in commission	10 December 2015
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Date adopted in plenary	7-8 April 2016 (tbc)
Previous Committee opinions	
Date of subsidiarity monitoring consultation	