



**PEM PAL Budget Community of Practice (BCoP)**  
**“The Role of Austria's Parliament in Budgeting”**

REPUBLIK ÖSTERREICH  
Parliament

**Economic and Fiscal Policy  
Coordination  
in the European Union  
The European Semester Cycle**

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**Andreas Friedrich  
Parliamentary Budget Office**

# AGENDA

- Introduction: New Governance Structures for the EU
- Pre-Crisis Coordination of Policies
- New Economic and Fiscal Governance
- The European Semester
- Possible Future Steps and Summary



# INTRODUCTION



# NEW GOVERNANCE STRUCTURES FOR THE EU

## The Financial- / Debt- Crisis made weaknesses in the design of policy coordination in the European Union obvious

- Starting from 2011 economic and budgetary coordination was successively redesigned and strengthened:
  - Introduction of new surveillance systems for budgetary and economic policies and a new budgetary timeline
  - New rules grounded in the European Semester, the EU's fiscal and economic policy making calendar
  - Integrated system ensures clearer rules, better coordination of national policies throughout the year
  - swifter sanctions for breaching the rules



# EUROPEAN INSTITUTIONS

- **European Parliament:** The only directly-elected body of the European Union. Elects the President of the European Commission.
- **EU Commission:** The executive body of the European Union. Proposes new legislation to the European Parliament and the Council of the EU.
- **Council of the EU:** Formed by Member States' government representatives. Composition varies because of formation by the Ministers of each Member State with responsibility for the issues dealt with.
- **Union legislator:** European Parliament and the Council of the EU (the two chambers holding legislative powers in the EU)
- **European Council:** Comprises the heads of state or government of the EU Member States. No legislative power but definition of the general political directions and priorities.



# PRE-CRISIS COORDINATION OF POLICIES



# PRE-CRISIS COORDINATION

**Before the crisis, budgetary and economic policy planning in the EU took place through different processes:**

- Establishment of a centralised monetary policy in the Euro Area through the Monetary Union
- Economic policy coordination basically restricted to non-committal targets in various policy areas
- Fiscal policy mainly confined to ex-post monitoring of compliance with fiscal rules

**No comprehensive view of the efforts made at national level**

**No opportunity for Member States for a joint discussion of a collective strategy for the EU economy**



# PRE-CRISIS MONETARY POLICY

**With centralised monetary policy mechanisms between Euro Area Member States changed**

- Introduction of the EURO (1999/2002), Eurozone today 18 Member States
- Within single currency winning of competitiveness through devaluation of currencies impossible:
  - Trade imbalances through differences in productivity and prices between countries
  - Economic imbalances did not adjust automatically through market (pressure)

**The Financial crisis made the necessity of coordination of fiscal and economic policies to complement centralised monetary policy obvious**





# PRE-CRISIS ECONOMIC POLICY

## 2000: Launch of the Lisbon strategy for growth and jobs

- Cooperation on reforms: Growth and more and better jobs by
  - Investing in people's skills, greening of the economy and innovation
- Targets in various policy areas set for the Member States:
  - An employment rate of 70 %
  - 3 % of GDP spent on research and development
- Positive impact of the Lisbon Strategy on the EU, even though main targets have not been reached
- No further coordination mechanism implemented
- Targets basically non-committal



# PRE-CRISIS FISCAL POLICY

**National budget outcomes are an area of common interest, however fiscal policy is not a shared competence**

Fiscal rules introduced with the Economic and Monetary Union in order to ensure sound public finances, e.g. convergence criteria for the adoption of the Euro (1993). E.g.:

- debt level of under 60 % of GDP
- annual deficit below 3 % of GDP

However, no prevention of serious fiscal imbalances in some Member States:

- No ex-ante coordination of fiscal policies implemented
- Compliance with fiscal rules evaluated only ex-post (sanctions)



# NEW ECONOMIC AND FISCAL GOVERNANCE



# NEW ECONOMIC POLICY COORDINATION (I)

To emerge from the crisis, in 2010 the “Europe 2020 Strategy” was launched as a follow-up to the Lisbon Strategy

Again targets were set:

- 75 % of the population aged 20-64 should be employed
- 3 % of the EU's GDP should be invested in R&D
- The "20/20/20" climate/energy targets should be met
  - 20 % less greenhouse gas emissions
  - 20 % of energy from renewables
  - 20 % increase in energy efficiency
- The share of early school leavers should be under 10 % and at least 40 % of the younger generation should have a tertiary degree or diploma
- 20 million less people should be at risk of poverty



# NEW ECONOMIC POLICY COORDINATION (II)

Europe 2020 targets	EU headline target	Estimated EU (Add. nat. targets)	Austria
Employment rate (in %)	75 %	73.70 - 74 %	77 - 78 %
R&D in % of GDP	3 %	2.65 - 2.72 %	3.76 %
CO2 emission reduction targets	-20 % (compared to 1990 levels)	-20%(compared to 1990 levels)	-16 %
Renewable energy	20 %	20 %	34 %
Energy efficiency – reduction of energy consumption	20 % increase in energy efficiency equalling 368 Mtoe	206.9 Mtoe	7.16
Early school leaving in %	10 %	10.30 - 10.50 %	9.5 %
Tertiary Education in %	40 %	37.50 - 38.0 %	38 %
Reduction of population at risk of poverty or social exclusion in number of persons	20,000,000	<i>n.a.</i>	235,000

source: European Commission



# NEW FISCAL POLICY COORDINATION

In December 2011 the “Sixpack” (six legislative acts) entered into force

- **reforming and enhancing fiscal policy coordination comprising:**
  - Definition of „Budgetary Framework“ with procedures („European Semester“), rules, etc.
  - Strengthened fiscal rules and stricter sanctions, e.g.:  
Deficit and debt limits,  
a stonger focus on debt,  
a new expenditure benchmark, ...

**2012** Introduction of reinforcing legislation:

“**Fiscal Compact**” and “**Euro+ Pact**”, again containing stricter rules and targets.

- **introducing a system of ex ante monitoring of economic policies:**
  - surveillance of macroeconomic trends based on scoreboard



# THE EUROPEAN SEMESTER



# THE EUROPEAN SEMESTER

**A yearly cycle of fiscal and economic policy coordination for EU – Member States, launched in 2011:**

- Framework for an integrated **coordination** of policies, **joint analysis** of economic and fiscal policies, and systematic **surveillance** of macroeconomic and financial sector issues
- EU-level economic policy guidance and country-specific surveillance through detailed analyses of Member State's programmes of economic and structural reforms
- EU-level discussions before e.g. drafting budgets in the „national semester“ – EU-dimension embedded in national policy-making
- Ensures Member States budgetary and economic policies in line with their EU – commitments at all times





# ANNUAL GROWTH SURVEY, NOVEMBER

**General economic priorities for the EU to boost growth and job creation, with broad guidance on priority actions to be taken at EU level and national level**

## **2014 Annual Growth Survey: Start of the 4. European Semester (Nov. 2013)**

- **Main Message:** „The biggest challenge now facing Europe’s economy is how to sustain the recovery that is now underway.“
- **Main Priorities, e.g.:**
  1. Pursuing differentiated, growth-friendly fiscal consolidation
  2. Restoring lending to the economy
  3. Promoting growth and competitiveness for today and tomorrow

...



# PROGRAMMES ON BUDGETARY AND ECONOMIC POLICIES

**Based on the Annual Growth Survey, to be submitted by Member States in April**

- **Stability or Convergence Programmes** on fiscal policy based on macro-economic forecasts
  - including national medium-term fiscal plans (Euro Area Member States)
- **National Reform Programmes** on policy priorities for growth and employment for the forthcoming year



# COUNTRY SPECIFIC RECOMMENDATIONS, MAY

Based on the documents submitted by the Member States

## Country-Specific Recommendations – Austria, 2013

1. Implement Budget 2013 according to plan, continue efforts to reach a balanced budget by 2016
2. Reduce widespread use of early retirement, increase retirement age
3. Take new measures to increase the labour market participation of women and reduce gender pay gap

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# THE „SECOND SEMESTER“

**The crisis has shown that extra surveillance is warranted in the Euro Area because of strong contagion effects between the Member States**

- Introduction of a new cycle of monitoring for the Euro Area with the **“Two Pack”** (two legislative acts) in **2013**:
  - Submission of Member States' draft budgetary plans every October
  - Publication of an opinion on these plans before adoption of national budgets
- Setup of independent **“Fiscal Bodies”** for Euro Area Member States (e.g. Austria: Fiscal Advisory Council, Nov. 2013)
- Enhancement of integration and convergence amongst Euro Area Member States



# EUROPEAN SEMESTER: DEMOCRATIC LEGITIMACY

## Introduction of the European Semester:

- „Sixpack“ – EU Legislation:  
Council and European Parliament
- Additional „Fiscal Compact“ as Intergovernmental Treaty

## Annual execution of the European Semester:

- Preparation of documents etc. by the European Commission and the Member States
  - European Parliament provides input during preparation of documents
  - National Parliaments involved depending on their strength (e.g. Austria: only ex-post deliberation of documents)
- EU-documents stress necessary strengthening of National Parliaments
  - E.g. „Fiscal Compact“: Conferences of European and National Parliaments to discuss budgetary policies



# POSSIBLE FUTURE STEPS AND SUMMARY



# POSSIBLE FUTURE STEPS IN EUROPEAN ECONOMIC GOVERNANCE

**European Commission presented in Nov. 2012 „A Blueprint for a deep and genuine Economic and Monetary Union“**

- Medium Term:
  - Strengthening of collective conduct of budgetary and economic policy – including tax and employment policy
  - Short term Eurobills; closer coordination of debt management; Economic and Monetary Union – Treasury within Commission
- Longer Term:
  - Full Banking, Fiscal and Economic Union; common issuance of public debt
  - Autonomous Euro Area budget to support Member States affected by economic shocks
  - Comprehensive overhaul of the Treaties would be necessary



# SUMMARY

## The lessons from the recent crisis led to successive reforms of European economic and fiscal governance

- New instruments for enhanced policy coordination have been implemented to resolve the problems causing instability of the Economic and Monetary Union:
  - Better coordination of economic policy and new common targets
  - New rules and better coordination of fiscal policy
  - Ex-ante monitoring and better enforcement (i.e. sanctions)
  - A coordination framework called the European Semester, the EU's policy-making calendar



Primary objective of new procedures and instruments:  
Making the Economic and Monetary Union more robust





# THANK YOU FOR YOUR ATTENTION

## Contacts:

Andreas Friedrich

Parliamentary Budget Office

Parliament, A-1017 Wien, Dr. Karl Renner-Ring 3

Tel. +0043 1 40 110-2923; +0043 676 8900-2923

E-mail: [andreas.friedrich@parlament.gv.at](mailto:andreas.friedrich@parlament.gv.at)

