



FEDERAL PARLIAMENT OF BELGIUM

Conference of the Speakers of the Parliaments of the EU Brussels, 4 – 5 April 2011

Topic: The financial crisis and the “European Semester”

During the Conference of the Speakers of the EU Parliaments, a debate will be held on the financial crisis in Europe and its consequences for national budgets and the stability of the Euro: role of the parliaments and inter-parliamentary cooperation in the field of European economic governance and the European semester. This note can be a basis for discussion.

The mortgage-bubble in the United States was the trigger to a world-wide financial crisis. Banks got into cash flow problems which were followed by falling stock-markets throughout the world. The banking crisis rapidly spread from the United States to Europe.

Cross-border government intervention became unavoidable in Europe. The European Central Bank lent to banks not able to obtain a loan on market based capital markets. It became clear that a more co-ordinated approach on a higher –political- level was needed.

In October 2008, the European Finance Ministers agreed in principle to raise the deposit guarantee to €50.000. Some European countries found it difficult to ensure these guarantees. Iceland for example had to ask for financial aid.

In the mean time, the financial crisis had become an important economic crisis. In order to deal with this new evolution, the European Economic Recovery Plan was presented in December 2008. The EU member states and the European Commission agreed to make €200 billion available for aids in for example the car industry. They also wanted to obtain an increase in demand. Every country was free in deciding how to achieve these goals, on the condition that at least 1.5% of the national GDP was invested in incentive measures.

During 2009, different international conferences and meetings were organised in order to enhance bank control, to increase the resources of the International Monetary Fund and to create a system of supervision over the morals and ethics of banks.

As a result, two new organisations were set up at the European level: the European System of Financial Supervisors (ESFS) and the European Systemic Risk Board (ESRB), created to strengthen the control and to avoid a repetition of the crisis.

However, at the end of 2009, a new problem arose that would threaten the credibility of the European currency itself. Cause lay in the discovery that Greece hadn't been providing the correct data concerning their budget deficit and public debt, making a proper assessment of its accordance with the European Stability and Growth Pact (SGP) impossible. The case of Greece showed that the control according to the SGP was not sufficient.

The principle of Economic governance was introduced to strengthen this control, involving effective management of national fiscal policies, the monitoring and correction of (negative) macroeconomic developments and a permanent crisis mechanism. A taskforce, led by Mr Herman Van Rompuy, President of the European Council, was appointed to discuss the implementation of these principles.

In the meantime, Greece had lost its trustworthiness on the international financial markets and experienced great difficulties finding credit. This affected the credibility of the Euro itself, resulting in 2010 in the formation of the European Financial Stability Facility as a temporary emergency fund.

When new and similar problems as in Greece arose in other EU member states such as Ireland and Portugal, it was decided in order to prevent repetition in the future, to make this facility permanent. This necessitates a revision in the Lisbon Treaty. The financial, economic and now also budgetary crisis had shown the need for improving the financial control and structures within the Eurozone.

The European Semester

The European Commission¹ added another tool in the fight, when it decided to introduce the so-called European Semester. Here, the focus lies mainly on the ex-ante integrated fiscal policy co-ordination, based on the following characteristics:

- the synchronisation of the fiscal and structural policies assessment of EU Member States. The European Systemic Risk Board, which provides a macro – economical oversight in the Eurozone, needs to be taken into account when judging the risk of imbalances.
- the rule that prevention is more effective than correction, is recognised as general principle;
- a system of early peer-review of national budgets is installed that detects inconsistencies and emerging imbalances;

In this respect, Eurostat's mandate to audit national statistics will be strengthened. This will improve the quality of their data and help macroeconomic stability and fiscal sustainability.

Furthermore, Stability and Convergence Programs (SCP) will need to be organised in the first half of every year in order to achieve better national budgets.

- a horizontal assessment of fiscal stance for the Euro area should be carried out. It will be possible to ask that poorly drafted budgets be reconsidered;

¹ COM(2010) 250 final

- a European Semester that encapsulates the surveillance cycle of budgetary and structural policies is introduced, following 3 general principles:
 1. The European Council defines the main economic challenges of the European Union in the beginning of the year.
 2. Member states take these into account when preparing their SCP and National Reform Programs (NRP). Member states need to involve the national parliaments in the deliberations.
 3. The Council and Commission revise these budgets, with the participation of the European Parliament in the exercise.

In order to implement the European Semester properly, national parliaments should keep in mind the following:

- Discussions about the national budget will have to start much earlier than they did in the past.
- The budget should not only take into account the national concerns but will need to fit into the macroeconomic strategy of Europe.
- New structures will have to be created in order to meet these goals.
- The traditional role of national parliaments and their budgetary powers within their constitutional system may be subject to change.
- The establishment of independent fora is necessary in order to prepare independent analyses, evaluations and forecasts related to the economic policy of the member states.
- Multi-annual budgets and economic policies will need to be developed.