



COMMISSION OF THE EUROPEAN COMMUNITIES

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**Commission Communication on strengthening
economic policy co-ordination within the euro area**

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1. In December 1999 the Helsinki European Council adopted the conclusions of an Ecofin Council Report on economic policy co-ordination during Stage Three of Economic and Monetary Union (EMU). While noting in the light of the first year of operation of EMU the promising start made as regards co-ordination, the report nevertheless underscored the need to press ahead with strengthening certain co-ordination arrangements.

2. Economic policy co-ordination within the euro area is based on consensus. It does not aim to impose a decision on a particular Member State but to convince it to apply the policy deemed to be desirable.

It comprises three main elements:

- a common assessment of the economic situation;
- agreement on appropriate economic policy responses;
- acceptance of peer pressure and, where necessary, adjustment of policies being pursued.

3. The general framework for implementing these three elements of economic policy co-ordination has proved to be useful. In particular, the meetings of the Eurogroup since June 1998 have been a forum for discussions between economic policymakers in the euro area that would not otherwise have taken place. Similarly, the improvements made since the summer of 2000 to the way in which this forum operates (wider range of topics discussed, better organisation of meetings and higher visibility) have undoubtedly helped to enhance its operational nature.

Lastly, the reinforced procedure for the Broad Economic Policy Guidelines (report on their implementation, extension of their scope to cover structural policies, their application on a country-by-country basis and clearer formulation), the smooth functioning of the stability programmes procedure and the innovations introduced by the Lisbon European Council (annual production of a synthesis report covering, in particular, the interactions between macroeconomic policy and structural policies) bear witness to the gradual and continuing strengthening of the substance of economic policy co-ordination since the beginning of 1999.

4. The growing interdependence of the euro-area economies, notably in the monetary and financial fields, nevertheless calls for a regular review of the methods and procedures for organising economic policy co-ordination. In spite of the improvements made since Helsinki, it appears that the reliability and rapidity of the common assessment of the economic situation in the euro area could be further strengthened, that the principles that must guide the possible economic policy responses would benefit from being better defined and that the visibility of such co-ordination should be enhanced.

5. It is with this aim in mind that practical proposals are presented in this Communication: after setting out the reasons for reinforced co-ordination, it identifies the ways in which its content and procedures can be improved and proposes that they be made more transparent.

I – A reinforced content

6. The propositions which follow aim to achieve both a finer and a more readily understandable overall view of the economic situation in the euro area and to reach in an easier and more predictable manner an agreement on the appropriate economic policy responses.

Improving the common assessment

7. It would first be necessary *to improve the statistical information* available on the euro area and to increase its visibility. In addition to the progress being made by Eurostat and the ECB with regard to the rapid availability and uniformity of statistics, this would involve constructing activity indicators that give a synthetic view of the euro area. The Commission has launched several studies in this connection and has undertaken to finalise them at the earliest possible opportunity (statistical programme, indicator on common business climate, leading indicator, establishment of a network of forecasting institutes).

8. The availability of a more robust assessment of the economic situation in the euro area also involves undertaking *as exact an evaluation as possible of the stance of the policy-mix in the euro area*. In this connection, the principal area is the monitoring of budgetary policies and of their impact on the policy mix of the euro area. The Commission therefore intends to present on a twice-yearly basis an appraisal of the policy mix of the euro area – before and after the presentations of the stability programmes – in order to improve their preparation and evaluation.

9. If the assessment of the economic situation in the euro area is to be improved, it needs to be not only more precise but also more readily understandable. With this aim in mind, it would be useful to have a reference document that would provide in composite fashion and at appropriate intervals all the information necessary to make such an assessment. The Commission also undertakes to publish a *regular report*, presenting an analysis of the general situation and notes on economic policy issues; analytical notes on current economic trends, prospects and risks; as well as articles of a more analytical nature dealing with particular aspects of multilateral surveillance.¹

Common rules of conduct

10. In Stage Two of Economic and Monetary Union, the nominal convergence process and the numerical criteria for multilateral surveillance produced striking results. As regards budgetary policy, the Stability and Growth Pact and its associated programmes are still today functioning on the basis of this convergence "model".

Now, this model has two shortcomings. Firstly, it implicitly assumes that the externalities between Member States' economic policies and between those policies and the single monetary policy are weak and tend to balance out and that, therefore, there is no major need for co-ordination. In the light of the first two years of operation of EMU, this seems questionable. Secondly, this model is based essentially on numerical thresholds that, generally speaking, represent upper limits that do not vary in line with the cyclical situation and that do not, therefore, take account of the need to adjust policies according to the phase of the cycle.

11. In this context, a *set of rules of conduct* could be elaborated by the Commission after consultation with the ECB, and be discussed and endorsed by the Eurogroup. These rules of conduct would lay down the principles on the basis of which the different economic policy instruments could be activated to increase the area's economic growth potential and to cope with shocks affecting the area or some of its Member States. They would deal with the general principles that should govern the conduct of economic policies; the policy responses to a particular shock; and, finally, the instruments necessary for implementing these behavioural rules by the Member States.

¹ It would be an abridged version of the regular reports presented by the Commission to the Economic and Financial Committee on particular aspects of the economic situation in the euro area, such as the regular reports on inflation, exchange-rate surveillance, competitiveness, public finances and cyclical differences within the area.

This collection of rules of conduct would take into account the diversity of economic policies within the euro area while at the same time making the area's economic policy more predictable and hence more credible. They would be addressed in the first place to budgetary policies, but should also be developed in the domain of structural policies. These rules of conduct will be updated when manifestly needed, without the updating necessary being linked to an annual periodicity. They should become the reference framework that would inspire the Broad Economic Policy Guidelines that the Council adopts each year.

II – More effective co-ordination instruments

12. Apart from the obligations laid down in the Treaty and in secondary legislation, economic policy co-ordination within the euro area is, for the moment, centred on the search for consensus within an informal body, the Eurogroup. Procedural improvements should make it easier to achieve an agreement on the appropriate response of economic policy and its implementation. Such arrangements would have to remain compatible with the role assigned by the Treaty to the Council (Ecofin) in the field of economic policy co-ordination.

13. The Treaty assigns to the Commission a central role in economic policy co-ordination (preparation of the Broad Economic Policy Guidelines, recommendations, multilateral surveillance, ...). But above all, by virtue of its analytical capacity, it is well suited to proposing the common assessment of the economic situation in the euro area and to suggesting appropriate responses. As guardian of the Treaty and in accordance with the principle of equality of treatment for Member States, it has a duty of neutrality. Lastly, as the body for gathering and compiling the information necessary to exercise multilateral surveillance (cf. Article 99(3)), it fulfils the role of synthesising common economic developments. The contribution of the Commission to the work of the Eurogroup is, and will continue to be, based on this threefold capacity of analysis, neutrality and synopsis.

14. Thus, the Commission intends to present systematically to the Eurogroup not only an assessment of the economic situation but also, where necessary, suggestions for economic policy. Similarly, it wishes to be associated with the *preparation of the six-monthly work programme* of this forum in order, in particular, to contribute to focusing these programmes on the issues of direct concern to the euro area as a whole.

A strengthening of transparency and ex-ante co-ordination

15. The idea that national policies should be analysed in the light of the economic situation of the euro area as a whole should be better established. Thus, the *principle of informing beforehand* other members of the euro area and the Commission, before adopting an economic policy measure should form part of the rules of conduct outlined above.

This pre-informing should take place at the Eurogroup (in a meeting or by videoconference) or at the Eurogroup working party of the Economic and Financial Committee, and should provide the authorities of the Member State concerned with the reactions or the messages even before the finalisation of the measure at hand.

Similarly, the main points of the stability programmes should be transmitted to the Commission before their adoption by the Member States. The Eurogroup, which would then be notified of the Commission's observations, would thus be in a position to communicate any suggestions to the country concerned, which could take them into account in the final version of its programme.

Subsequently, the stability programmes could be submitted well ahead of the finalisation of the national budget laws in order that the Eurogroup could, applying the same procedure, suggest possible amendments to a particular aspect of that country's budgetary policy and in order that the country concerned could take them into account in its budget law.

16. Finally, the establishment of guidelines and priorities in the EU budget should be embedded in a global vision encompassing both the guidelines and priorities in the budgets of the Member States and the criteria established in the Broad Economic Policy Guidelines in order to enable Member States to take them into account in their budget laws.

Adequate co-ordination instruments

17. When the circumstances allow, the strengthening of co-ordination implies the effective use of available co-ordination instruments. For example, as indicated by the Helsinki European Council and as just done by the Commission, the recommendation procedure provided for in Article 99(4) of the Treaty will have to be applied where there is manifest inconsistency between a Member State's economic policies and the Broad Economic Policy Guidelines.

18. Lastly, other co-ordination instruments could be put into place, in particular on the basis of Article 99(5) of the Treaty, for the Member States of the euro area. If the case arises, they could be introduced by way of the reinforced co-operation procedures laid down in Articles 43, 44 and 45 of the Treaty of the Union and Article 11 of the EC Treaty.

More efficient functioning of the Eurogroup

19. The strengthening of co-ordination, and in particular the effective increase in peer pressure, requires firstly that economic policies are analysed in terms of the overall situation of the euro area. Such an adjustment of the vision of economic policies requires a certain formalisation of the functioning of the Eurogroup, which could be done in several stages.

20. Firstly, *within the Economic and Financial Committee a Eurogroup working party* could be set up. The working party's composition would take account of the need to formulate economic policies from a more euro-area viewpoint. The working party would have to meet at short notice in order to respond to any emergencies. This arrangement would also mean that the sensitivities of all the euro-area participants could be taken into consideration and optimum use made of the Commission's preparatory work.

21. In addition, as with meetings of the ECB Council, the *frequency of the Eurogroup's meetings* could be stepped up. The availability of a videoconference facility would also permit rapid consultations in case of emergency.

Institutionalising the dialogue between different actors

22. Effective co-ordination within the euro area calls for the setting up of as frequent a dialogue as possible between the various actors of the policy mix.

To this end, *regular meetings* would be held *between the ECB President, the President of the Eurogroup and the representative of the Commission in the Council of Governors of the ECB*. Within a framework of strict confidentiality and with respect for the independence of each of the parties, these meetings would have the advantage of organising more efficiently and making more visible the dialogue between those responsible for the monetary and budgetary policies of the euro area. Together with the aforementioned assessment of the overall orientation of the policy mix, such a dialogue would also help to strengthen the European view of the assessment of national policies. This reinforced dialogue at political level would be assisted by more in-depth discussions at technical level.

23. The quality and effectiveness of co-ordination also depend on the organization of its external expression. In this respect, the current situation is clearly insufficient. The Commission recalls the proposition which it has already advanced in November 1997, according to which the common position on issues of particular relevance to EMU would have to be presented by a triumvirate made up of the President of the Eurogroup, the ECB President and a representative of the Commission. This arrangement would be valid not only for the formal bodies (International Monetary and Financial Committee of the IMF) but also for the more informal bodies (G7).

III – Increasing transparency

24. In order to strengthen co-ordination, the right balance needs to be struck between the publicity given to a particular view on a particular policy, which tends to strengthen peer pressure, and the confidentiality of discussions, which ensures maximum candidness. This need to strike a balance concerns both internal communication, i.e. between the economic policy actors, and external communication, i.e. vis-à-vis public opinion, the other Member States and the markets.

25. Some of the criticisms regarding the inadequacy of the economic assessment of the euro area stem from a lack of visibility of the analytical work already undertaken by the Commission and also from a failure to view this work in its proper perspective. In this connection, three improvements could be made:

- the *regular report* on the euro area would be *published* in order to improve the quality of the public debate surrounding the area's economic policy;
- similarly, the *press conference* following Eurogroup meetings would deal with issues raised in the regular report and any reactions to them;
- finally, when the Eurogroup wishes to express an opinion or give an orientation to economic policy, the publication of a *communiqué* would enhance the visibility of its message and reinforce its impact.

IV – Institutional and organisational observations

26. These detailed organisational rules for multilateral surveillance could be formalised in a decision by the Council (Article 99(5) of the Treaty), or if the case arises by way of the reinforced co-operation procedures laid down in Articles 43, 44 and 45 of the Treaty of the Union and Article 11 of the EC Treaty.