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RESOLUTION ADPOTED BY THE SENATE BUDGET COMMITTEE ON 24 JANUARY 2018 ON EU PROPOSALS (COM (2017) 825 FINAL) AND (COM (2017) 827 FINAL) SUBJECT TO A REASONED OPINION ON SUBSIDIARITY AND ON EUROPEAN DOCUMENTS NOS. 539, 540, 541 AND 542

(RAPPORTEUR: PAOLO GUERRIERI PALEOTTI)

The Committee,

considering the aforesaid documents, pursuant to Senate Rule 144(1);

considering also:

the Communication from the Commission – Further steps towards completing Europe's economic and monetary union: a roadmap (COM (2017) 821 final);

the Communication from the Commission – New budgetary instruments for a stable Euro area within the Union framework (COM (2017) 822 final);

the Communication from the Commission to the European Parliament, the European Council, the Council and the European Central Bank on a European Minister of Economy and Finance (COM (2017) 823 final);

the Proposal for a Council Directive laying down provisions for strengthening fiscal responsibility and the medium-term budgetary orientation in the Member States (COM (2017) 824 final);

considering:

the European Parliament resolution of 16 February 2017 on the budgetary capacity for the Euro area;

the European Parliament resolution of 26 October 2017 on the economic policies of the Euro area;

whereas:

the aforesaid documents fall within the package of legislative proposals and communications submitted by the European Commission on 6 December 2017 on several aspects concerning the completion and strengthening of the Economic and Monetary Union (EMU), based on the approach outlined in the Reflection Paper on the deepening of the Economic and Monetary Union of 31 May 2017 and under the Reflection Paper on the future of EU finances of 28 June 2017;

article 16 of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union envisages the adoption of the necessary measures for incorporating the substance of the Treaty into the legal framework of the European Union within five years of the date of the entry into force of the Treaty, on the basis of "*an assessment of the experience gathered with the implementation*" of the agreement;

the proposal for transforming the European Stability Mechanism (ESM) into a European Monetary Fund (EMF) envisages that such instrument be incorporated into the legal and institutional framework of the Treaties and be included in the assets, rights and duties of the ESM;

the development of new budgetary instruments for a stable Euro area within the Union framework is subject to the approval of proposals to be formalised by the Commission in May 2018 as part of the initiatives concerning the multi-annual financial framework post 2020;

the establishment of a European Minister of Economy and Finance office seems to be subject to a common agreement on such officer's functions, to be reached by the first half of 2019, and it can come into force only once the new European Commission has taken office;

noting that:

the proposal concerning the European Monetary Fund – just like the proposal for a Council Directive that lays down the provisions for strengthening fiscal responsibility and medium-term budget policies in Member States, while transferring the extra-EU mechanisms and agreements drawn up during the crisis to the Union's legal and institutional framework– helps consolidate the Union's legislative consolidation, improving the consistency, transparency and effectiveness of its decision-making process, as well as strengthening the Economic and Monetary Union's democratic and judicial oversight;

to this end, a reappraisal of the Treaties seems to be unnecessary, since articles 136(3), and 352 jointly with article 126(14)(2) of the TFEU provide adequate judicial ground for the proposal concerning the establishment of the European Monetary Fund and for the proposal for a Council Directive that lays down the provisions for strengthening fiscal responsibility and medium-term budgetary orientation in the Member States, respectively;

the European Monetary Fund shall retain the financial and institutional structure of the European Stability Mechanism, which it would replace while holding the same function to support the financial stability of Member States in difficulty, collecting funds by issuing capital market instruments and operating on the monetary market. According to the proposal, such functions would be accompanied by actions to support the Single Resolution Fund for failing banks ("*backstop*"), by a more direct involvement in running financial assistance programmes and by the possibility of developing new financial instruments in the future. In terms of governance, the proposal envisages a quicker decision-making process in particularly urgent situations and a reinforced qualified majority vote – rather than a unanimous vote – for specific decisions concerning stability support, disbursements and the deployment of the backstop;

the creation of a European Minister of Economy and Finance aims to blend the functions of Vice-President of the European Commission and President of the Eurogroup in one single figure, to help consolidate coordination and implementation of Euro area economic policies; in order for such institution to become operational, a specific initiative – to be taken in 2019, in conjunction with the new European Commission taking office – is required;

the integration into EU law of the substance of article 3 of the TSCG (*Fiscal Compact*), particularly compliance with the goal of achieving a structural budget balance and the use of an automatic correction mechanism in the event of significant deviations, envisages the due exceptions, under the Proposal for a Council Directive. In particular, temporary deviations from the medium-term objective or from the adjustment path are allowed in the event of important structural reforms aimed at promoting long-term budget sustainability or in exceptional circumstances, such as severe economic downturns in the Euro area or the entire Union, or unusual events, not under the control of the relevant State, that seriously affect the budget;

the creation, in the Union's budget, of new instruments specifically designed to support structural reforms, the convergence of Euro area candidate States and a macroeconomic stabilisation in the event of serious asymmetric shocks, offers an array of important and innovative functions that can help strengthen the Euro area and the entire Union;

considering that:

the subsidiarity and proportionality principles appear to be complied with, since the objectives pursued with the proposals under consideration – particularly enhancing support for the implementation of structural reforms, ensuring more EU budget financial instruments specifically designed for such purpose, and the preservation of financial stability in the Euro area and its Member States – cannot be sufficiently fulfilled by the States individually and do not exceed what is necessary for ensuring stability in the Euro area on the whole and for rationalising the legal framework of current governance of the Economic and Monetary Union;

expresses a favourable opinion and makes with the following qualifications relating to the merits of the proposals:

Generally speaking, the proposal of integrating agreements and mechanisms instituted outside the EU into EU law is to be deemed positive, for it simplifies and rationalises EU law and increases the operational efficiency of its institutions. That is the case with the proposal of converting the ESM Treaty into the European Monetary Fund. On the contrary, the proposal of incorporating some contents of the *Fiscal Compact* into

EU law is not as justified and useful, since most of the norms and rules it sets forth are already included in EU Law (*Six Pack and Two Pack*).

It should also be pointed out that such a contrived integration into existing EU law might generate confusion and duplication. In order to ward off these negative aspects, such an opportunity could be seized to implement something that many countries want and that, for the time being, the Commission has only generically envisaged; namely, a review of the current rules regulating budgets, so as to make such rules more effective, simple and transparent. The approach to be followed could be that of retaining margins of institutional discretion in interpreting and enforcing the common budgetary rules whilst strengthening the responsibility of the single countries in adopting such rules and complying with them.

To this end, the proposal for the integration of the substance of the Treaty on Stability, Coordination and Governance into EU law does take into account the due flexibility set forth under the Stability and Growth Pact, defined by the European Commission back in January 2015, and clearly states the possibility of temporary deviations from the medium-term objective or from the adjustment path in the event of important structural reforms aimed at promoting long-term budget sustainability or in exceptional circumstances, such as severe economic downturns in the Euro area or in the entire Union, or unusual events, not under the control of the relevant State, that seriously affect its budget. There is no explicit mention of the so-called investment clause, included in the Communication from the Commission on “Making the best use of flexibility within the existing rules of the Stability and Growth Pact” of 13 January 2015, which was subsequently implemented in the so-called ‘preventive arm’ of the Stability and Growth Pact, as was done for our country, for example. By no means does such an omission appear to be justified and hopefully it can be amended, in light of the explicit safeguard put in place for the investments of single countries when enforcing, as proposed by the Commission, the new budgetary instruments.

The aforesaid enforcement, by the Commission, of budgetary measures aimed at promoting innovative mechanisms on an EU level in terms of macroeconomic stabilisation, support to structural reforms and stimulation of convergence programmes, is positive, but it should be supported by a proposal for the creation of a specific mechanism for the funding of major European investment projects. As many have been saying for quite a while, support to growth in the Euro area and in the Union requires a substantial increase in investments in Europe, both public and private, to top the modest figures stemming from the so-called ‘Juncker Plan’. Such a proposal is currently not included in the package of measures submitted by the European Commission. Hopefully, this gap shall be filled over the next few months, when the Commission submits a new operational proposal.