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President of the Assemblée nationale
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Dear President,

The Commission would like to thank the Assemblée nationale for its Opinion on the governance of the euro area, which refers inter alia to the Five Presidents' Report. As announced in President Juncker's speech on the State of the Union in September 2016, on 1 March 2017, the Commission adopted the White Paper on the Future of Europe "Reflections and scenarios for the EU27 by 2025"¹. This is the Commission's contribution to the debate on the future of our Union that started with the celebration of the 60th anniversary of the Treaties of Rome and the Rome Declaration.

The White Paper will also trigger a sequence of further reflection papers on the social dimension (April 2017), the means to harness globalisation (mid-May 2017), the deepening of the Economic and Monetary Union (end of May 2017), the future of European Defence (June 2017) and the future of European Union finances (end of June 2017).

In 2016, the Commission has already had an opportunity to welcome the Assemblée nationale's constructive participation in the debate on the completion of the Economic and Monetary Union². In this context, the Commission has emphasised the important role national Parliaments play in the process of deepening the European and Monetary Union. More recently, in December 2016, the Commissioner for Economic and Financial Affairs, Taxation and Customs, Pierre Moscovici, participated in a hearing on the Economic and Monetary Union at the Assemblée nationale. . The Assemblée nationale's Opinion on the governance of the euro area is very timely and contributes to a rich democratic dialogue.

¹ COM(2017)2025.

² Commission reply C(2016) 7446 final of 21 November 2016 to an Opinion of the Assemblée nationale on the future of the European Union, received on 13 September 2016.

The Commission agrees on the need to re-launch the convergence process and to reinforce the cooperation between euro area Member States. The co-ordination of economic policies within the euro area has been a priority of the first stage of the Economic and Monetary Union deepening, notably through the earlier release of the recommendations for the euro area and their increased role in the European Semester. The Five Presidents' Report argued that in the second stage of the Economic and Monetary Union deepening the convergence process would be made more binding through a set of commonly agreed standards for convergence which could be given a legal nature. Key areas where convergence is important from the perspective of the functioning of the Economic and Monetary Union are labour markets, competitiveness, the business environment and public administrations, as well as certain aspects of tax policy (for example the corporate tax base).

Concerning taxation, the Commission has already delivered significant changes at European level, which have moved the European Union closer to a fairer and more effective system of taxation in the European Union. The anti-tax avoidance package³ contains concrete measures to prevent aggressive tax planning, boost tax transparency and create a level playing field for all businesses in the European Union. The Common Consolidated Corporate Tax Base has been re-launched⁴ to create a corporate tax system fit for the 21st century, one in which corporate taxation is - by design - fair, competitive and growth-friendly. Member States are already encouraged to reform their tax systems along the dual objectives of fairness and economic growth in the framework of the European semester.

The Pillar of Social Rights fully feeds into the stepwise integrated approach towards upward convergence outlined in the Five Presidents' Report. It should be seen in conjunction with the White Paper on the future of Europe and the Economic and Monetary Union deepening, as both are means to boost competitiveness, job creation and well-being across and beyond the euro area. During the crisis, divergence in employment and social performance reached unprecedented levels, in particular in the euro area. Countries without accumulated imbalances and with broad and well-designed labour market institutions and social policies were able to minimise the social implications of the crisis. In contrast, the effect of the crisis was exacerbated in countries with insufficient capacity to smoothly adjust and absorb economic shocks. Institutional features, such as well-functioning labour markets, efficiently designed welfare systems and enabling policies, contribute to responding more readily to economic shocks in the short term, and pave the way for durable convergence towards higher living standards and productivity growth.

The Five Presidents' Report reiterated the importance of a euro area-wide fiscal stabilisation function. The Assemblée nationale's points on the setting up and forms of such mechanisms are pertinent and useful, in view of the deepening of the Economic and Monetary Union.

³ COM(2016) 23 final, COM(2016) 24 final, COM(2016) 25 final, COM(2016) 26 final and Commission recommendation C(2016) 271 final of 28 January 2016.

⁴ COM(2016) 683 final and COM(2016) 685 final of 25 October 2016.

The Commission also takes note of the recommendations expressed by the Assemblée nationale on the multilateral surveillance framework. Over the past two years, the Commission and the Council have made use of the existing flexibility in the Stability and Growth Pact while delivering on both its spirit and letter. Additional incentives for structural reforms and public investment have been developed. Flexibility is being used for extra security-related spending, which is directly linked to the terrorist threat, and for additional refugee-related costs. In addition, the required fiscal effort for individual Member States is modulated depending on public debt and the business cycle.

Together with the Member States, we have also made progress in improving the predictability and transparency of the Stability and Growth Pact. The most critical step in this process is to increase reliance on a net expenditure rule to guide and assess the necessary fiscal effort. Such an indicator, which was endorsed on 6 December 2016 by the Economic and Financial Affairs Council, is easier to monitor for Member States and more stable in light of economic uncertainty.

The Assemblée nationale highlights the need for Member States to respect their obligations under the Stability and Growth Pact. The Commission fully agrees. This would be supported by a stronger national ownership of the spirit and the letter of the Stability and Growth Pact, which is facilitated by recent work on increasing flexibility and transparency of the rules as well as reducing their complexity.

The Commission takes note of the constructive and ambitious institutional proposals put forward by Assemblée nationale to reinforce the euro area governance. The Five Presidents' Report indeed mentions different ideas to reinforce coordination and coherence of economic policies in the euro area, including a full-time presidency of the Eurogroup or the creation of a euro area treasury. The Commission will provide its views on these matters in its forthcoming reflection paper on the Economic and Monetary Union.

As a final remark, the Commission fully shares the Assemblée nationale's view that national Parliaments should be more closely involved in the governance of the euro area. The streamlining of the European Semester since 2015 has enabled improved parliamentary oversight from both the European Parliament and national Parliaments. The Commission continues to encourage national Parliaments' close involvement in the European Semester, in line with national practices, for instance in the adoption of National Reform Programmes. National Parliaments are also encouraged to make better use of the right enshrined in the 'Two-Pack' legislation to invite the Commission to present its opinion on a Member State's draft budgetary plan. Moreover, inter-parliamentary cooperation has been established to bring together European and national actors. The Parliamentary Week is a key opportunity in the economic governance cycle to take stock, listen to national experiences and discuss ideas on how to go forward.

The Commission hopes that the clarifications provided in this reply address the issues raised by Assemblée nationale and looks forward to continuing our political dialogue in the future.

Yours faithfully,

*Frans Timmermans
First Vice-President*

*Valdis Dombrovskis
Vice-President*