

FINAL DOCUMENT APPROVED ON 10 DECEMBER 2010 BY THE BUDGET, TREASURY AND PLANNING COMMITTEE AND BY THE EUROPEAN UNION POLICIES COMMITTEE OF ITALY'S CHAMBER OF DEPUTIES ON THE EUROPEAN COMMISSION'S LEGISLATIVE PACKAGE ON THE NEW ECONOMIC GOVERNANCE FOR THE EU

The Budget, Treasury and Planning Committee and the European Union Policies Committee,

having examined the proposal for a Council Regulation amending Council Regulation (EC) No. 1467/1997 on speeding up and clarifying the implementation of the excessive deficit procedure (COM(2010) 522 final); the proposal for a Council Directive on requirements for budgetary frameworks of the Member States (COM(2010) 523 final); the proposal for a Regulation of the European Parliament and of the Council on the effective enforcement of budgetary surveillance in the euro area (COM(2010) 524 final); the Proposal for a Regulation of the European Parliament and of the Council on enforcement measures to correct excessive macroeconomic imbalances in the euro area (COM(2010) 525 final); the Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EC) No. 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (COM(2010) 526 final); and the proposal for a Regulation of the European Parliament and of the Council on the prevention and correction of macroeconomic imbalances (COM(2010) 527 final);

having regard to the final report of the economic governance task force chaired by the President of the European Council, Herman Van Rompuy, presented on 18 October 2010 and the conclusions of the European Council of 28-29 October 2010;

having regard to the decisions made on 7 September 2010 by the Ecofin Council approving the amendments to the Code of Conduct on implementing of the Stability and Growth Pact and establishing the launching of the "European Semester" as from January 2011, as well as the statement approved by the Eurogroup Ministers on 28 November 2010 on the permanent European Stability Mechanism;

taking note of the observations contained in the final document approved on 30 July 2010 by the Budget, Treasury and Planning Committee and the European Union Policies Committee of the Chamber of Deputies after an examination of the Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions on "Reinforcing economic policy coordination" (COM(2010) 250 final);

having regard to the commitments contained in the Pescante et al. Resolution (6-00043), adopted by the Chamber on 13 July 2010 following examination of the Commission's work programme for 2010 and the programme of the Spanish, Belgian and Hungarian Council Presidencies and the Toccafondi Resolution (8-00095), approved by the Budget, Treasury and Planning Committee of the Chamber on 12 November 2010, following examination of the draft National Reform Programme for implementing the strategy to achieve smart, sustainable and inclusive growth (Europe 2020);

having regard to the responses of the European Commission to the aforementioned policy-setting documents in the context of informal political dialogue;

considering the assessments and the information obtained during the pre-legislative scrutiny of the aforementioned proposals, with hearings of the European Commissioner for Economic and Monetary Affairs, Olli Rehn, the Minister for the Economy and Finance, Giulio Tremonti, MEPs Herbert Dorfman and Alfredo Pallone, members of the Committee on Economic and Monetary Affairs of the European Parliament, the Deputy Director General of the Bank of Italy, Ignazio Visco, as well as Professor Luigi Spaventa and Stefano Fantacone, director of the *Centro Europa Ricerche* (CER):

whereas:

the economic and financial crisis that has affected the world economy since 2008 was mainly caused by serious financial imbalances essentially stemming from unsustainable levels of private-sector debt, particularly in the Anglo-American banking systems, that later spread to the market for the sovereign debt securities of the European countries;

the level of public debt in the euro-area countries prior to the crisis appeared to be broadly stable as compared with the gradually rising debt in the private sector;

even during the most acute stage of the crisis, the euro-area countries registered increases in their public debt that were smaller than those of the United States and Japan, countries whose debt expanded by 35% and 45%, respectively, between 2007 and 2010;

the recent crises in the euro area have demonstrated the need for a comprehensive overhaul of the EU's economic governance mechanisms, particularly with regard to the need for an accurate and adequate representation of the actual economic and financial situation of each Member State;

more specifically, the specific features of the crisis in Greece, which is not fully representative of the situation in Europe, should be understood within the context of the unsustainable growth in public debt that began in the years before the global economic crisis. However, the European institutions were not able to

adequately assess this situation due to the lack of transparency in the accounting documents made available by the Greek government. By contrast, the recent crisis in Ireland was not caused by inadequate fiscal discipline or by the lack of transparency in the public finances, but rather by a very large increase in public borrowing due to the fact that the State had to assume a considerable portion of the debt contracted by Ireland's banking system;

the crisis in Ireland, as well as concerns over the financial situation of Spain, demonstrate that formal compliance with the parameters adopted thus far to evaluate the situation in the Member States is not enough to guarantee that the potential risks to the economic and financial stability of the various euro-area countries are effectively understood. In fact, both Ireland and Spain were in full compliance with the Stability Pact rules over the last decade and achieved primary surpluses during times of economic growth;

in any event, the Stability Pact did not provide appropriate incentives to cut public debt during periods of favourable economic conditions and, therefore, many countries found themselves facing the recent crisis with high debt levels and insufficiently sound public finances;

the new system of economic governance for the European Union proposed by the EU institutions was initially the subject of the European Commission Communication "Reinforcing economic policy coordination" (COM (2010) 250 final) of 12 May 2010, subsequently expanded by the Communication on "Enhancing economic policy coordination for stability, growth and jobs – Tools for stronger EU economic governance" (COM (2010) 367) of 30 June 2010;

in implementing the policies set out by the European Commission in the aforementioned communications and the recommendations put forth by the task force chaired by the President of the European Council, Herman Van Rompuy, one of the priorities of the new economic governance system is to achieve broader and deeper coordination of the economic policies of the Member States. This will be pursued first and foremost through the introduction of the so-called "European Semester" starting from 1 January 2011;

in this framework, special emphasis has been placed on the need to simultaneously evaluate both budgetary measures and structural reforms designed to spur growth and employment through joint examination of the Stability Programmes and the National Reform Programmes presented by the Member States;

to implement the European Semester in Italy, a bill (Chamber document no. 3921), sponsored by the Chairperson of the Budget Committee and by the representatives of all the parliamentary groups within the Committee, was submitted to amend the government accounting and public finance law. These changes would comprehensively reform the national economic and financial planning cycle, bringing it into line with the rules adopted by the European Union on the coordination of the economic policies of the Member States;

in order to reconcile the objectives set out in the EU 2020 Strategy with the stability of public accounts, proper weight must be given to measures aimed at sustaining European economic growth, a step that would make a crucial contribution to reducing the ratio of debt to GDP;

the new governance policy was basically crafted at the inter-governmental level, despite the fact that the importance and breadth of the issue called for extensive public debate and the effective involvement of the national parliaments;

during the 8-week period (which expires on 13 December 2010) established by Protocol No. 1 to give national parliaments the opportunity to express their policy positions to their governments before the Council decides on the proposals under examination, discussions were held within the Task Force and at the margins of the Ecofin and European Council meetings to identify points of agreement;

the proposals under examination can be grouped into three major policy areas:

a) the creation of a macroeconomic surveillance mechanism, given the fact that balanced growth in the EU cannot be achieved through mere compliance with the Stability and Growth Pact. This area is addressed, with regard to the preventive stage of the new surveillance system, by the proposed Regulation for the prevention and correction of macroeconomic imbalances (COM (2010)527) and, with regard to the corrective stage, by the proposed Regulation on enforcement measures to correct excessive macroeconomic imbalances in the euro area (COM (2010) 525);

b) more rigorous application of the Stability and Growth Pact (SGP), embodied, as regards the preventive arm, in the proposal to amend Regulation (EC) No. 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (COM (2010)526), and, as regards the corrective arm, the proposal for amending Regulation (EC) No. 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (COM(2010) 522), as well as, with regard to sanctions, to the proposed Regulation on the effective enforcement of budgetary surveillance in the euro area (COM(2010) 524);

c) the introduction of rules for identifying the instruments, methods and institutions that underlie budgetary policy decisions to guarantee the transparency of the budget process and optimal coordination between government sectors, associated with the proposal for a Directive on requirements for budgetary frameworks of the Member States (COM(2010) 523);

considering the need for this final document to be transmitted to the European Parliament, Council and European Commission as part of the political dialogue;

approve this document, with the following observations:

a) with regard to the European Union's economic governance reform:

the political weakness of the governance mechanisms is at the root of the virulence with which the market turbulence and speculative trading recently impacted the European Union, despite the fact that the fundamentals of the Member States' economies, especially those relating to the public finances, are sounder than those of other G-20 countries;

within the governance framework, the European Financial Stability Facility and the European Financial Stabilization Mechanism, adopted to address the crises in Greece and Ireland, have taken on an especially important role and represent a good line of defence for the next three years as well;

the positive action taken to safeguard the European Union's financial stability should be completed by creating a permanent European stabilization system, expressing the fundamental principle of political solidarity inherent in the adoption of the single currency, helping to position it as an irreversible element of the European construction;

however, a very careful assessment must be made of the effects on the financial markets of the requirement – contained in the Eurogroup Ministers' statement of 29 November 2010 – for Member States in difficulty to negotiate a restructuring plan for their debt with private-sector creditors, as well as to include standardised collective action clauses in the terms and conditions of the government securities issued starting from June 2013;

it appears advisable to create a European Debt Agency to replace the current European Financial Stability Facility. It would be able to finance up to 50%, and in certain exceptional cases, even up to 100%, of the securities issued by Member States;

this would lead to the creation of a global market for European securities, a market capable of gradually achieving liquidity comparable to that for US treasury bonds. In addition to protecting countries from speculation, it would help to keep existing capital in Europe and to attract new capital, thereby fostering the integration of Europe's financial markets and facilitating investment in relation to economic growth;

despite the many positive innovations, the system envisaged in the Commission and Task Force proposals appears to focus on parameters intended to safeguard budgetary stability, while the mechanisms designed to achieve the growth and employment targets set out in the 2020 Strategy are of limited scope;

the weakness of the growth support instruments stands in contrast with the structure and purpose of the new governance system, since the structural reduction of public debt and the goal of balancing the budget over the medium term can be pursued and are socially sustainable only if GDP expands at a high rate;

the rationale underlying the introduction of the European Semester must be consistent and rigorously adopted at the level of the European Union and of the individual Member States, addressing, within a unified context using coordinated

instruments, the challenge of balancing the public finances and of generating economic growth, which can only be adequately solved through joint evaluation and action;

the application of the new governance mechanisms and the selection of common growth, employment and social policy objectives necessarily involves specifically identifying the European and national resources to be used to pursue them, with the goal of coordinating and increasing the harmonisation of national budgets and the EU budget to ensure that available resources are more accurately assessed and put to better use;

in order to increase the focus of the new coordination mechanisms on growth, the specification of the common objectives using these mechanisms must necessarily be accompanied by the designation of specific European and national resources to be used to pursue them to a much greater extent than provided for in the 2007-2013 financial framework, consistent with the Pescante et al. Resolution (6-00043), approved by the Chamber of Deputies on 13 July 2010 with the support of all the parliamentary groups. These aspects should be given priority in the interim budget review launched with the European Commission communication of 19 October 2010 (COM(2010) 700);

in order to revive economic growth in Europe, rules should be drafted to govern the issuance, possibly by the European Investment Bank and the European Bank for Reconstruction and Development, of European securities (Union Bonds) to help finance European projects for major network infrastructures needed to complete the internal market, research projects, plans for the ecological conversion of the production system. This could have a positive impact on internal demand in the short term and on supply and growth in the longer term;

the external dimension of the new economic governance arrangements must be developed, ensuring that there is a common position and unified representation of the euro area and, where possible, of the European Union within the competent international financial institutions and conferences, in accordance with Article 138 of the Treaty on the Functioning of the European Union;

as noted by the Task Force, at the national level, strengthening governance involves the development of public institutions and bodies that analyze, assess and formulate independent projections concerning issues relating to budget policy, to be performed in collaboration with the Parliament and for the purposes of the scrutiny and policy-setting activities of the Houses;

the nature and functions of the new multi-level governance system require the close involvement of national parliaments during the decision-making stage at the European level and during their implementation at the national level;

b) with regard to macroeconomic surveillance:

the introduction of macroeconomic surveillance makes it possible to achieve a system of coordination for the economic policies of the Member States that, taking due consideration of the overall economic framework of the individual Member States, should essentially be based on a collaborative and cooperative relationship between the EU institutions and the Member States;

if a Member State presents an excessive macroeconomic imbalance, the Commission, in transmitting the findings of its preliminary examination, should ask that State for its opinion before the adoption of any recommendations by the Council;

extending surveillance to macroeconomic imbalances must enable technical assessments based on the quality and sustainability of growth processes, anticipating any attempts to conceal the actual state of the public finances;

under the new macroeconomic surveillance arrangements, risk indicators should be identified more effectively, with the goal of accurately reflecting the medium-term outlook for the economies of the various countries. To this end, in addition to the various indicators relating to the public debt, indicators for private sector debt, the stability of the real estate market, the trend of spending in relation to the aging of the population and the stability of the banking system should also be considered;

the proposal to use exceptional and extraordinary revenues solely to reduce public debt should be considered further, in part due to the difficulties of clearly identifying these types of revenues;

c) with regard to strengthening the Stability and Growth Pact:

we share the goal of continuing policies for consolidating the public finances of the Member States through more rigorous application of the Stability and Growth Pact, which should, within an appropriate period of time, lead to the gradual reduction of public debt to comply with the parameter set at the European level;

with regard to measures falling within the so-called preventive arm for containing public debt, the rigid and semi-automatic quantitative criteria for reducing excessive public debt envisaged by the proposal for a Regulation on speeding up and clarifying the implementation of the excessive deficit procedure (COM(2010) 522 final) are debatable. They should be modulated and made more flexible to take account of the specific characteristics of each Member State and to avoid an adverse impact on the already feeble economic recovery;

the preventive arm must be further enhanced through a more effective and reactive early warning system, the publication of the performance of individual countries and the full transparency of the decisions of the Ecofin Council and the Eurogroup;

greater importance should specifically be given, in both the prevention and correction of excessive deficits, to indicators of critical situations, such as private sector debt or the existence of implicit liabilities, resulting from the imbalance of pension and banking systems and the healthcare system, and to the simultaneous evaluation of favourable indicators, such as household savings rates and assets. The Commission should transparently propose a balanced framework of indicators and methods for this purpose;

with regard to the procedures for imposing sanctions during both the preventive and corrective stages, it is felt that, from an institutional standpoint, the introduction of the principle of reverse majority voting does not comply with Treaty provisions, which set out the required majorities for the institutions to make decisions in their respective areas of competence. As a result of the application of this rule, the Council could in fact make decisions not supported by the majority of its members, which could change the balance of powers between the institutions. These decisions should therefore be approved by ordinary qualified majority or, in special cases, by a simple reverse majority of the Member States;

the proposal to amend the Treaty on the Functioning of the European Union to add the sanction of suspending the vote of non-compliant States would not appear to be compatible with the institutional balance upon which the European Union is founded and, therefore, requires careful evaluation with the involvement of the national parliaments;

in Europe there is a general consensus on the need to establish conditions for faster growth in order to ensure the sustainability of public budgets, since action cannot be limited to setting new, stricter rules on debt and deficits that could generate depressive effects on the European economic cycle;

in this context, expenditure planning should be reinforced at the national level, with implementation at the level of the various sectors of public administration, providing for this to be achieved through the analysis and evaluation of all budget items so that ineffective and inefficient expenditures can be identified and such resources can be reduced or reallocated;

experience has demonstrated that, in the absence of such expenditure review arrangements, restrictive policies inevitably end up impacting the level of public investments and run into even greater difficulties in reducing transfers, notably

with respect to income support instruments. As a result, the tools for analyzing the quality of the expenditures envisaged in the programmes of the individual States must be reinforced;

in order to free up resources for growth, Italy, after having completed the reform of the pension system and that of the public administration, must continue down the road of structural reform, particularly with regard to the market for products and the factors of production, the rules governing entrepreneurial and professional activities and the tax system, also with a view to intensifying the fight against tax evasion and avoidance;

considering that national investment policies may be scrutinised by the EU institutions under the new governance framework, proper consideration should be given to the possibility of excluding a portion of public investment or specific public investments, to be agreed at the European level, from the calculation of public expenditure material to the definition of budget balances. This assumes that the higher GDP growth resulting from these investments is able to neutralize the possible effects on monetary stability of greater financial flows;

d) with regard to the review of the budgetary frameworks of the Member States:

in the light of the experience of Greece, for the EU's budgetary surveillance framework to function properly, there must be a greater supply of information and full transparency of budget documentation, including sharing best practices in public accounting, leveraging the role of Eurostat in this area;

the recent national law reforming public accounting and finances has increased the amount of information included in planning documents and in draft budget legislation. Transposing the European Semester into the national system should represent an opportunity to make further progress in that direction, developing the procedures, already provided for under the law, aimed at ensuring a multi-year budget planning horizon that includes compliance with medium-term budget objectives;

during the current transition stage towards fiscal federalism, special care must be taken, including through the harmonisation of public budgets, to coordinate all the sectors of government so as to ensure uniform coverage of these sub-sectors in budget planning and in formulating the related forecasts;

e) with regard to the role of Parliament in the governance system:

the Government must guarantee that the Houses of Parliament receive a constant flow of information on the premises and the operation of the new governance procedures, both with regard to decision-making procedures on the proposed

legislation addressed in this document and to any corrective or penalty procedures undertaken in respect of excessive imbalances or deficits;

for this purpose, swift approval of the parliamentary bill concerning the transposition of the European Semester in Italy is crucial to ensure adequate prior consultation of the Houses of Parliament in the drafting of the national reform and stability programmes as well as the definition of the Italian position in relation to the decisions of the European Council and Ecofin Council within the context of the European Semester;

it is also necessary to support the initiative, suggested by the European Parliament, to organise an annual interparliamentary conference starting from 2011 within the framework of the European Semester, before the spring European Council, to give each national parliament information on the political and economic context in which national and European budgetary and economic policy decisions will be made. Starting from January 2011, the Chamber of Deputies, working closely with the European Parliament, plans to sponsor a special initiative to ensure adequate preparation for this conference, in order to promote a more effective exchange of information and assessments on the political, social, economic and budgetary contexts material to carrying out the European Semester process.