ASSEMBLY OF THE PORTUGUESE REPUBLIC

EUROPEAN AFFAIRS COMMITTEE

Opinion

COM(2014) 401

COUNCIL RECOMMENDATION on the implementation of the broad guidelines for the economic policies of the Member States whose currency is the euro

PART I - INTRODUCTION

In accordance with Article 7(2) of Law No 43/2006 of 25 August 2006 on the monitoring, examination and issuing of opinions by the Assembly of the Portuguese Republic in the context of the process of European Union construction, as amended by Law No 21/2012 of 17 May 2012, and in accordance with the Guidelines for the Scrutiny of EU Initiatives approved on 8 January 2013, the Council Recommendation on the implementation of the broad guidelines for the economic policies of the Member States whose currency is the euro [COM(2014) 401] was submitted to the European Affairs Committee.

Given its subject matter, the initiative was forwarded to the Committee for Budgetary and Financial Affairs and Public Administration, which examined it and approved the report which is annexed hereto and forms an integral part of this Opinion.

PART II - GROUNDS

This initiative concerns various aspects of the process of EU integration, with special emphasis on ‘the specific policy agenda for the euro area ...’ and the functioning of the EMU. Accordingly, the Recommendation covers various facets of the ‘structural reforms’, namely:

1. Tax reform policy
2. Fiscal policy
3. Financial sector

On the subject of tax reform policy, the Recommendation starts by describing the process of adjustment in the euro area, with special emphasis on the countries of the periphery. It traces the trends in these countries' current account deficits since the 'start of the financial crisis' and asserts that 'a large share of this adjustment is non-cyclical', given that it is 'driven by both structural declines in domestic demand and... by improved export performance.'

In addition to describing the factors driving the drop in domestic demand, i.e. 'the reductions in potential output', the Recommendation also acknowledges the serious human and economic impact, referred to as the 'high economic and social costs.' Despite acknowledging the economic costs - declining domestic demand and high unemployment - the Council urges the Member States to continue structural reform, since 'the rebalancing process is far from complete'.

Describing the social situation in the euro zone, the Recommendation refers to the 'levels of unemployment', 'labour market conditions' and the 'risk of poverty'.

It notes that that unemployment in the euro zone 'reached 12 % in 2013', which 'reflects a 0.7 pps increase since 2012', adding that 'unemployment rates increased strongly in 1/3 of Eurozone Member States, including in a number of countries where rates were already very high.' Long-term unemployment 'has continued to rise, reaching 50 % of total unemployment.' This long-term unemployment in the countries of the monetary union may become 'increasingly structural'.

The document notes that the social situation in the countries of the euro area was characterised by a worsening of 'almost all social indicators' in 2012 (i.e. reflecting 2011 income), especially 'for the working age population, most directly hit by the deterioration of labour market conditions.'

Deteriorating living conditions are clearly seen in the following figures: the 'at-risk of poverty stands at 17 %, severe material deprivation at 7.6 %, the level of people living in a very low work intensity households at 10.5 %, the in-work poverty rate at 10.6 %, and...the poverty gap at 23.4 %.' It is also noted that 'starting from 2010, those countries most severely hit by the crisis have seen their severe material deprivation rate increase steeply', while the negative impact of poverty is also felt in 'access to education and health services'.

The Council Recommendation concludes this section by recommending that the euro area countries continue to implement reforms in services, goods and labour markets, in taxation and in unemployment benefit systems.

Moving on to reform of the labour market, the Recommendation reviews developments over the last three years, highlighting 'changes in the definition of fair dismissals', 'the size of severance payments', and facilitation of exit flexibility 'by revising dismissal rules'.

The Recommendation then looks at fiscal policy, starting with a description of the fiscal framework of the euro area and the fiscal consolidation measures taken by the euro area countries and ending with an account of the process of consolidating public finances, highlighting the key principles that should underlie the definition of areas of expenditure.

'The aggregate fiscal picture for the euro area has continued to improve', affirms the Recommendation, giving the following forecasts for the euro area in 2014: 'the nominal deficit... is expected to fall below the 3 % of GDP', to stand at 2.5 %; public debt should 'stabilise..., although at a high level of 96 % of GDP in the euro area'; Despite these projections, the document states that 'the Commission Spring Economic Forecast shows that the pace of fiscal consolidation in the euro area will be slower in 2014 than in the previous year [2013] and is expected to be below ¼ pp of GDP.' The document also urges the Member States of the euro area to continue tax reforms in order to achieve fiscal consolidation. It also makes reference to the measures contained in the legislative 'Six-Pack', with special emphasis on the obligation to comply with the Treaty on Stability, Coordination and Governance, commonly known as the Fiscal Compact, i.e. compliance with the limit on structural deficits of 0.5 % of GDP.

Finally, on the subject of spending, the Recommendation calls on the Member States of the euro area to pay heed to 'two main aspects' when deciding on overall expenditure: (i) 'the composition of expenditures and in particular the weight of more growth-friendly spending items'; and (ii) 'the efficiency of expenditures, i.e. how well public resources are translated into services to citizens and business'.

This part of the Recommendation concludes by reaffirming the need for the Member States to ensure compliance 'with all legal provisions now fully in place as soon as possible', in particular the transposition of the Directive and the Fiscal Compact. The principal objectives it identifies for 2014 are: 'the effective set-up and functioning of fiscal rules, in particular structural budget balance rules, and their monitoring by independent fiscal institutions; 'the full national integration of the new common budgetary timeline including Draft Budgetary Plans and Medium-Term Fiscal Plans, based on forecasts produced or endorsed independently.'

The Recommendation reviews financial-sector policy in the euro area Member States, concluding that 'the heterogeneity of lending conditions remains very high and contrasts with the reduced financial fragmentation in other market segments such as those for sovereign and corporate debt.' Bank lending to businesses, especially small and medium-sized enterprises, is deemed to be low, with reference to '...still very weak lending volumes to the non-financial corporate sector'.

The Recommendation also covers the financial sector and banking, and the Single Resolution Mechanism.

It refers to the ECB's findings from its assessment of the largest banks in the euro area. The assessment concerned 128 credit institutions across 18 Member States.

The Council recommends that the Member States take the following measures over the period 2014-2015 (summarised):

1. Promote and monitor the implementation of structural reforms in those areas most relevant for the smooth functioning of the euro area in order to foster convergence and adjustment of internal and external imbalances. Assess and promote progress in implementing reforms in euro area Member States with excessive imbalances and in euro area Member States with imbalances requiring decisive action, to limit negative spillovers to the rest of the euro area.

2. Coordinate fiscal policies of the euro area Member States, in close cooperation with the Commission, in particular when assessing draft budgetary plans to ensure a coherent and growth-friendly fiscal stance across the euro area. Improve the quality and sustainability of public finances by increasing material and immaterial investment at national and EU levels. Ensure that national fiscal frameworks, including national fiscal councils, are strengthened.

3. Ensure the resilience of the banking system, in particular by taking the necessary steps in follow up to the asset quality review and stress tests and by implementing the Banking Union regulations, taking forward the further work foreseen in the SRM transition period. Stimulate private sector investment and increase the flow of credit to the economy via actions to improve access to credit by SMEs, deepening of capital markets, reviving the securitisation market, in accordance with the proposals and timetable in the Commission Communication on long-term financing of the European economy.

4. Take forward work on deepening Economic and Monetary Union and contribute to the improvement of the legislative framework for economic surveillance in the context of the reviews scheduled for the end of 2014.

In view of the substance of this proposal, the following questions must be addressed:

(a) Legal basis

The legal basis for this Recommendation is Article 136 (Chapter IV 'Provisions specific to Member States whose currency is the euro'), in conjunction with Article 121(2) ('the Council, acting on a recommendation of the Commission, shall formulate a draft for the broad guidelines of the economic policies of the Member States and of the Union, and shall report its findings to the European Council') of the Treaty on the Functioning of the European Union.

But also taken into account are Council Regulation (EC) No 1466/97 (on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies) and Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances.

The Recommendation is accompanied by the Commission staff working paper, the 'Assessment of the 2014 national reform programmes and stability programmes for the euro area', on which it is based.

(b) Principle of subsidiarity

As the document under examination is a non-legislative European initiative there is no need to assess it for compliance with the subsidiarity or proportionality principles.

PART III - OPINION OF THE RAPPORTEUR

This Council Recommendation, despite not touching on legislative matters, makes a set of recommendations to the euro area Member States, which, in the opinion of the PCP Parliamentary Group and the rapporteur, need to be scrutinized and discussed.

First, it should be noted that the macroeconomic scenario described in the Recommendation is already out of date. We now know that the data on the growth of Portugal's GDP are not correct. The report accompanying the 2nd amending budget recognises that, compared with the forecasts presented in April in DEO 2014/2018, GDP growth for 2014 has been revised downwards from 1.2 % to 1.0 %.

The same is true of the social impact of the fiscal consolidation measures. In particular, the risk of poverty is underestimated to such an extent that the at-risk-of-poverty data for 2012 are based on 2011 reference values. However, given that the policy of cutting incomes (wages, benefits and pensions) and social support continued and was stepped up in 2013, it is quite possible that the number of people who are at risk of poverty today is higher than stated in the initiative under scrutiny. Other measures referred to in this Recommendation - weaker labour rights, reductions in severance payments - have also contributed to workers' impoverishment and lack of protection.

On the subject of unemployment the Recommendation again fails to mirror reality. For example, in the case of Portugal the unemployment figures do not reflect the growing number of inactive people who would be available for work but have given up and are not included in the official figures because they are attending training courses, are on employment and insertion contracts or are among those (350 from Portugal) who every day leave the country to find work.

In addition to the above, and looking at the overall substance of the Council Recommendation, the rapporteur would say that this Council initiative mirrors and reflects the direction that the European Union has been following: a clearly neoliberal and federalist direction. Neoliberal in that it continues and intensifies the attack on people's social, economic, political and cultural rights and on their sovereignty. Federalist in that it promotes and intensifies the process of capitalist integration geared towards concentrating power in Europe's major capitalist powers and in distant supranational authorities that escape people's control.

Turning to a more specific analysis of the recommendations, the rapporteur considers that in substance they constitute a very significant set of measures that the euro area Member States must further implement, in line with the logic of 'economic governance' and the 'European Semester' and with the memorandums of understanding that imposed severe restrictions on the democratic and social rights of workers and the peoples subject to adjustment programmes; they are designed to institutionalise the policy of impoverishment, exploitation and economic colonisation, so subordinating the economic and fiscal policies, and even the fundamental laws, of States to the interests of big capital.

The recommendations assert the need to deepen economic and monetary union to save the euro but remain silent about the harmful effects of this process, namely the total loss of fiscal sovereignty and the pursuit of policies and goals that perpetuate impoverishment and decline.

Strengthening the Economic and Monetary Union and implementing the measures set out in the Fiscal Compact will enshrine the liberalisation of capital movements and the relentless pursuit of lower labour costs.

Implementation of the Fiscal Compact will impose tight restrictions on public investment and continue the dissolution of the state's social functions - education, health, social protection - and the process of privatisation of strategic industries and sectors, handing them over to national and transnational big capital. The policies undertaken under the Fiscal Compact prevents public investment and growth and economic development, further worsening the living conditions of the Portuguese people.

Implementing the recommendations on Banking Union and the Single Resolution Mechanism will remove what little remains of states' sovereign control over banking and promote a process of centralised EU decision-making on bankruptcies, mergers and acquisitions that is aligned on the interests of big finance capital and does not, contrary to the propaganda of the European authorities and the Portuguese Government, offer states any protection from the speculation of private banks and rating agencies or stop public resources from being used to plug shortfalls created by mismanagement and financial speculation, as happened recently with the injection of over €4 billion in Banco Espirito Santo by the Portuguese State.

The PCP believes that another Europe is possible, and that the interests and aspirations of the Portuguese people and the peoples of Europe deserve another Europe. A Europe based on the principles of cooperation between States having equal rights, the defence of democracy, and sovereignty. A Europe in which there is a right to economic development, progress and social justice but also a Europe that protects jobs and workers' rights.

PART IV - OPINION

In the light of the information set out above and the report of the relevant committee, the European Affairs Committee's opinion is as follows:

1. This initiative is a non-legislative initiative, and so does not breach the principle of subsidiarity.

2. As regards the questions raised above, the European Affairs Committee will continue to monitor the legislative process for this initiative, in particular by means of an exchange of information with the Government.

Palácio de S. Bento, 30 September 2014

Rapporteur	The Chairman of the Committee
(Carla Cruz)	(Paulo Mota Pinto)

PART V - ANNEX

Report issued by the Committee for Budgetary and Financial Affairs and Public Administration

Report

Council Recommendation on the implementation of the broad guidelines for the economic policies of the Member States whose currency is the euro (COM(2014) 401)

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PART I – INTRODUCTION

In accordance with Article 7(1), (2) and (3) of Law No 43/2006 of 25 August 2006, as amended by Law No 21/2012 of 17 May 2012, on the monitoring, examination and issuing of opinions by the Assembly of the Portuguese Republic in the context of the process of European Union construction, the Council Recommendation on the implementation of the broad guidelines for the economic policies of the Member States whose currency is the euro (COM(2014) 401) was, in view of its subject matter, submitted to the Committee for Budgetary and Financial Affairs and Public Administration for scrutiny and the drafting of this report.

PART II - GROUNDS

Main points

There are various signs that a lasting recovery is now taking place in euro area.

- In 2013 growth turned positive in a large majority of Member States and the outlook has improved even in the more vulnerable ones.
- This real GDP growth is projected to advance with moderate momentum in 2014 before gaining further speed in 2015.
- euro area inflation declined markedly;
- the euro exchange rate continued to fall;
- unemployment declined in most Member States;
- stress on sovereign debt eased;
- Member States, especially vulnerable ones, continued with fiscal consolidation and structural reforms;
- at EU level significant steps have been taken to deepen the EMU, notably in the area of Banking Union and in the application of the strengthened economic and budgetary governance framework.

Recovery, however, is fragile. Barriers to the transition from a fragile recovery towards a situation of solid, sustainable and job-creating growth remain, namely:

- high public and private debt levels;
- lack of progress in adjusting current account surpluses;
- poor opportunities for productive investment;
- the necessary deleveraging in the private sector still has a long way to go in many euro area Member States;
- the financial system is fragmented and in recovery;
- access to finance, notably for SMEs, remains challenging in many euro area Member States;
- unemployment is unacceptably high.

The implementation of specific recommendations for individual euro area Member States and the euro area as a whole is incomplete and challenges remain.

In this context the Council recommends that euro area Member States take action, individually and collectively, without prejudice to the competences of the Council as regards the coordination of economic policies of the Member States, within the period 2014-2015 to:

Structural reform policy: continue the structural reforms needed to ensure the proper functioning of EMU, promote convergence and further mitigate risks for stability, future growth potential and social cohesion in the euro area, taking the potentially large spillovers of such reforms into account; regularly hold discussions on structural policies with potentially large spillovers, focusing on reducing the high tax burden on labour and reforming services markets.

Fiscal policy: make a greater effort to decrease high debt levels and make the adjustment as growth-friendly as possible, adopting a mix of spending and revenue measures and and increasing the efficiency of spending.

Financial sector: ensure the resilience of the banking system, in particular by implementing the Banking Union legislation, increasing the flow of credit to the economy, deepening capital markets, and reviving the securitisation market.

Principle of Subsidiarity

As this is a non-legislative initiative, there is no need to assess its compliance with the subsidiarity principle.

PART III - CONCLUSIONS

In view of the above, the Committee on Budgetary and Financial Affairs and Public Administration concludes as follows:

1. As this is a non-legislative Council document, there is no need to assess it for compliance with the subsidiarity principle.

2. The Committee on Budgetary and Financial Affairs and Public Administration considers its examination of this initiative to be complete. Pursuant to Law No 43/2006 of 25 August 2006, this Opinion shall be duly forwarded to the European Affairs Committee.

Palácio de S. Bento, 09 July 2014

Rapporteur	The Chairman of the Committee
(Eduardo Cabrita)	(Jorge Paulo Oliveira)