Summary for non-specialists
Occasional Papers No. 147 / May 2013
Occasional Papers index

The Two-Pack on economic governance: Establishing an EU framework for dealing with threats to financial stability in euro area member states

The global economic and financial crises have exposed weaknesses in economic and budgetary surveillance and overall economic governance in the Economic and Monetary Union. The ongoing reform of economic governance has already addressed a number of major weaknesses of economic surveillance and coordination. To strengthen the existing legislative framework, a legislative package on economic governance – the so-called Six Pack – was elaborated and entered into force in December 2011. The Six-Pack has strengthened substantially the instruments available for the EU's economic policy coordination and multilateral surveillance.

As the uncertainty relating to the sovereign debt crisis in some Euro Area Member States continued, the extent and potential consequences of the spillovers between euro area Member States' economic, financial and budgetary situations has become increasingly evident. Based on this rationale and building on the Six-Pack, the European Parliament and the Council adopted two further pieces of legislation aimed at strengthening the surveillance mechanisms in the euro area which entered into force at the end of May 2013.

This so-called Two-Pack on economic governance comprised two proposals: a regulation on the strengthening of economic and budgetary surveillance of Member States experiencing or threatened with serious difficulties with respect to their financial stability in the euro area (i.e. the regulation on enhanced surveillance) and a regulation on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area. This paper focuses on the former of the two regulations mentioned above and attempts to explain the key objectives of the new regulation.

First, the regulation makes Member States experiencing severe difficulties with regard to their financial stability or receiving financial assistance on a precautionary basis subject to a new form of enhanced surveillance. The economic and financial integration of all Member States and in particular those whose currency is the euro, calls for some form of enhanced surveillance to prevent contagion from a Member State experiencing difficulties with respect to its financial stability to the rest of the euro area and, more broadly, to the Union as a whole. A Member State under enhanced surveillance has to take measures to address the sources or potential sources of difficulties. In addition, the Commission can request specific measures to implement the enhanced surveillance regime. The Commission will monitor regularly in liaison with the ECB and with the relevant European Supervisory Authorities (ESAs) and, where appropriate, the IMF the progress made in implementing all those measures.

Second, the new regulation aims at articulating the financial assistance granted outside the framework of the Union with the Treaty. During the crisis, new financial stability mechanisms have been established to provide financial assistance to euro area Member States. Mostly, these new mechanisms are based on intergovernmental arrangements (e.g. EFSF and ESM). Against that background, the regulation aims at ensuring that there is full consistency between the Union multilateral surveillance framework established by the Treaty and the possible policy conditions attached to financial assistance granted outside the Treaty framework. It sets out notably a clear procedure for preparing and adopting macro-economic adjustment programmes.

Third, the regulation aims at creating a system of post-programme surveillance for countries which have received financial assistance, as long as a minimum of 75% of the financial assistance received has not been repaid. This will help ensuring that the country concerned remains firmly on a safe track.

Finally, the paper describes a number of provisions outlined in the legislation that aim at increasing accountability and transparency. In particular, this regards the involvement of national parliaments and the European Parliament as well as the involvement of relevant stakeholders in the new procedures set out in the legislation.