

## EUROPEAN COMMISSION

Brussels, 23.6.2014  
C(2014) 4232 final

*Dear Chairman,*

*The Commission would like to thank the House of Lords for its Opinion entitled “Euro area crisis: an update”. This Opinion is an update of the House of Lords' 2012 report on the euro area crisis, to which the Commission sent a detailed reply on 27 September 2012. The Commission welcomes the thorough and close monitoring carried out by the House of Lords and the importance which it attaches to these matters.*

*The Commission receives the Opinion with interest and finds it rich and balanced. It highlights many important issues on the topics the Commission has covered, i.e. the signs of economic recovery and whether the crisis is over, the roles institutions played and could play in future, the need for further integration, and the consequences of these developments for the UK. The Commission trusts that the House of Lords will find that there is a considerable convergence of views in the findings of the Opinion with the Commission's analysis.*

*The Commission broadly shares the views presented in the Opinion as regards the statements questioning whether the crisis is over and identifying weaknesses persisting in the euro area. First, the Commission agrees that there are welcome signs of economic recovery in the euro area. **Europe's economic recovery**, which began in the second quarter of 2013, is expected to continue spreading across countries and gaining strength while at the same time becoming more balanced across growth drivers. The strengthening of domestic demand this year should help achieve more balanced and sustainable growth. Rebalancing of the European economy has been progressing and external competitiveness is improving, particularly in the most vulnerable countries. It is true that the recovery remains fragile. However, after two years of contraction, domestic demand is gently firming, as the crisis' legacy of excessive debt, financial fragmentation, economic uncertainty and the need for adjustment and fiscal consolidation fades, and confidence is improving.*

*Due to the great importance of having a proper understanding of the economic situation, the Commission regularly monitors the situation and issues publications such as its Economic Forecast and the Quarterly Reports on the Euro Area, the latter intended to contribute to a better understanding of economic developments in the euro area and to underpin the public debate surrounding the euro area's economic policy.*

*Lord Boswell  
Chairman of the European Union Committee  
House of Lords  
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*The Commission also shares the House of Lords' view that while the worst of the crisis may be behind, there are still weaknesses in the EU economies and that now it is not the time for complacency. It is important to stay on track and continue the needed reforms and the deepening of the Economic and Monetary Union. **The European Semester** is a key tool in this respect. Over the past four years the European Semester has developed to become the cornerstone of the EU's strengthened framework for coordination and surveillance of national economic policies. The process has been reinforced, in particular with the so-called "six-pack" and "two-pack" legislations. With the Annual Growth Survey, the Commission kicks off the European Semester by presenting its views on the economic situation in the EU and setting priorities for the year ahead. The European Semester culminates with the country-specific recommendations and accompanying staff working documents.*

*The 2013 **recommendations for the euro area** concentrated on ensuring the good functioning of the euro area, fiscal consolidation, improving credit to the real economy, the banking union, structural reforms and ex-ante coordination of these as well as on unemployment and social reforms. The recommendations were underpinned by the corresponding staff working document which contained sections on the topics pertaining to each of the recommendations. These recommendations correspond largely to the areas identified in the House of Lords' Opinion.*

*In mid-November, the Commission presented the **2014 Annual Growth Survey**. The key message of the Annual Growth Survey 2014 is precisely the importance of strengthening the recovery that is already underway. It advocates EU-wide economic and policy priorities consisting of differentiated growth-friendly fiscal consolidation and structural reforms and measures to improve financial, product and labour markets functioning. The Commission **adopted on Monday 2nd June 2014 its yearly set of country-specific recommendations**. They provide recommendations to Member States and to the euro area on what is needed to boost sustainable growth and investment, create sustainable jobs and ensure sound public finances. These recommendations have subsequently been discussed by the Member States. The European Council is expected to endorse the recommendations at its next meeting, 26-27 June, thus concluding this year's European Semester.*

*In parallel with the European Semester, there is also the **macroeconomic imbalances procedure**, the objective of which is to establish a framework for the detection of macroeconomic imbalances as well as the prevention and correction of excessive imbalances that could jeopardise the functioning of the economies of each Member State or of the EU or the euro area as a whole. This kicks off with the Commission publishing its Alert Mechanism Report based on strong analyses of each Member State and taking into account inter alia a scoreboard of external balances and competitiveness and internal balances. On this basis, the Commission decides which Member States warrant further examination in the form of an in-depth review, which again provides the basis for conclusions as to whether an imbalance or in severe cases an excessive imbalance exists in a Member State. This year, in-depth reviews were carried out for 17 countries.*

*The European Semester is also closely linked to the **EU's growth strategy**. The Commission is in the midst of preparing a mid-term review of the Europe 2020 strategy. The strategy was adopted in 2010 and during the last four years the economic and social situation in the EU has changed and the economic governance framework has been strengthened. Growth is still fragile and the EU must redouble its efforts to accelerate growth, productivity and job creation. In addition, the EU needs to deal with the economic and social impact of the crisis to build the basis for sustainable growth. It is thus an opportune moment to conduct a mid-term review of the performance of the strategy and to adjust where necessary to ensure that the strategy is still right for the future.*

*One important first step in preparing a review has been taken with the Communication from the Commission, "Taking stock of the Europe 2020 strategy", adopted on 5 March 2014. This Communication presents an overview of the means and results of the strategy since 2010. It finds that while the EU is on course to meet or get close to the targets on education, climate and energy, the same cannot be said for the employment, research and development and poverty reduction targets, programme countries being no exception. In March 2014, the European Council assessed the Europe 2020 strategy on the basis of the above Communication, it stated that achieving the strategy's goal of smart, sustainable and inclusive growth remains crucial and it called for stepping up efforts to reach the targets. The Communication announced that the Commission will "launch an EU-wide consultation of all stakeholders on the lessons to be learned and on the main factors that should shape the next stages of the EU's post-crisis growth strategy". This public consultation was launched on 5 May 2014 and will be open until 31 October 2014. The mid-term review is to be presented by the European Commission to the European Council in 2015.*

*The Commission also agrees with the House of Lords' view on the importance of the **Single Market** and its potential for generating growth and would like to point to its reply of 27 September 2012 to the House of Lords' first report on the euro area crisis.*

*The Commission welcomes the Opinion's views concerning the need for **further integration in the euro area** and the opinion that the Economic and Monetary Union must be accompanied by closer fiscal and political union. The Commission agrees that a deep and genuine Economic and Monetary Union is needed, even if this is not an easy step politically as the House of Lords' Opinion also highlights.*

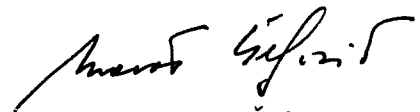
*The Commission's views and plans for achieving this were set out in its Communication on a Blueprint for a deep and genuine economic and monetary union. The crisis demonstrated that stronger, more integrated financial, budgetary and economic frameworks are needed to ensure economic and social welfare for EU citizens. Regarding the various parts of the Genuine Economic and Monetary Union, the Commission refers to its replies to the House of Lords' call for evidence on the inquiry into EU "Genuine Economic and Monetary union" and its implication for the UK.*

*Significant steps have been taken to strengthen the fabric of **Economic and Monetary Union** ("EMU"). The Commission agrees with the views presented in the Opinion that the well-functioning of the euro area is also in the interest of the UK. The Commission recalls that*

*with reference to a potential gap between euro area Member States and non-euro area Member States, the Commission's blueprint Communication bears witness to a clear preference, where possible, to move ahead with policies and instruments for all 28 Member States. The deepening of Economic and Monetary Union should build on the institutional and legal framework of the Treaties. However, the euro area must in some areas be able to integrate quicker and deeper than the EU at large, while preserving the integrity of the policies conducted at 28, notably the Single Market. This means that, wherever appropriate, the euro area measures should be open to the participation of other Member States.*

*The Commission hopes that this reply addresses the issues raised by the House of Lords and looks forward to continuing the political dialogue in the future.*

*Yours faithfully,*

A handwritten signature in black ink, appearing to read 'Maroš Šefčovič', with a stylized flourish at the end.

*Maroš Šefčovič*  
*Vice-President*