

Interparliamentary Conference on Stability, Economic Coordination and Governance in the European Union (SECG) 29-31 October 2017, Tallinn

Background information

Session II: National reforms, financial assistance and investment programmes: objectives, performance, outcome and perspectives

Economic revival in the European Union is showing positive signs, but the full potential is yet to be achieved as problems range from a sluggish labour market to disappointing investment activity. To help the post-recession recovery, the EU authorities launched specific programs to address the most urgent concerns. Economic policies varied in member states as countries tackled idiosyncratic shocks in banking, labour market or tax revenues.

Measures to boost growth by encouraging investments and restoring trust in the financial system have been adopted in the EU. Structural issues were dealt with through a better coordination of economic policy and fiscal measures. That included policy recommendations by the European Commission and their resulting implementation through what is called the [European Semester](#), coupled with governance tools, known as the [Six-Pack](#), the [Fiscal Compact](#) and the [Two-Pack](#). Related to these measures, the [Structural Reform Support Programme](#) has been launched to complete reforms and provide institutional assistance to Member States through policy coordination. Structural reforms have many dimensions, including fiscal components and labour market regulations. Economic growth would benefit from the removal of excessive labour market regulations, in order to unleash the potential of European workers. A cross-border transfer of knowledge and skills is still far from being frictionless, but among the most challenging are reforms in digital infrastructure. Achieving a single digital market would mean that the European single market would be digitised to face the 21st century needs.

An important source of flexibility comes from institutions and instruments that complement the EU budget, such as the European Investment Bank, the European Development Fund and other facilities. Financial instruments such as guarantees, loans and equity can, at times, play a significant role in allowing the EU to accomplish more and leveraging the EU budget, particularly at a time of budgetary constraints.

With financial stability in mind, the EU authorities reacted to adverse developments triggered by the financial crisis of 2007–2008 by providing support to Member States. [Eight](#) EU Member States have received financial assistance and policy advice through different mechanisms. Financial assistance to the Member States is conditional and depends on macroeconomic policy implementation, including fiscal, structural and supervisory reforms. Following the crisis, the immediate response was to employ measures like financial assistance, capital requirements and modified system of supervision, while the long-term goal of a banking union was set. To address potential bank failures, the [Single Resolution Board](#) was established. The [European Stability Mechanism \(ESM\)](#), a permanent intergovernmental institution set up in 2012, and the temporary facility [EFSF](#) are functional to provide assistance to countries in need of

borrowing (replacing an earlier [EFSM](#) arrangement). The lending capacity of ESM totals €500bn. Regarding the monetary policy, the [asset purchase programme](#) by the ECB since spring 2015 has targeted both public and private sector securities: bonds issued by governments of the euro area and EU institutions, as well investment grade euro-denominated bonds issued by non-bank corporations of the euro area. The monetary measures should encourage investment and consumption in the euro area.

A disappointing trend in productivity in many regions of Europe has brought forward the necessity to boost productivity growth. Public investments in many regions of Europe are at a lower level today than before the crisis. Well-targeted spending on infrastructure, education, health, or research and development, as explained in a [study](#) by OECD, may yield significant output gains. Moreover, a sustained investment stimulus, including projects in environmental protection and energy efficiency, combined with structural reforms, lead to both immediate as well as long-term positive growth effects. The EU has launched a multiannual [investment plan](#) to engage public and private investment projects. The plan includes the creation of a fund for strategic investment projects such as infrastructure, education, energy: [European Fund for Strategic Investments \(EFSI\)](#), and it has the capacity to channel ca €500bn into the single market by the end of 2020, with a particular focus on small and medium-sized companies. It has been [estimated](#) that economic activities in Europe could increase by an additional €1 trillion in 2030, adding an extra 5% to the GDP if overall investment levels were to return to their pre-crisis share of the GDP by 2020.

In the [Reflection Paper on the Future of EU Finances](#) by the European Commission, which should stimulate the discussion on the future of the EU, the large number of various financial instruments and rules applying to them is seen as an obstacle to their efficient use. Therefore, to avoid ensuing implementation difficulties, it is essential to achieve coherence between the programmes and instruments. By avoiding overlaps and simplifying implementation, the policy proposal is that the “same rules should apply for the same type of interventions to the extent possible with a view to moving towards a single rule book.”

Some points for discussion:

- 1) What can be done to achieve convergence and coherence of EU financial assistance measures?
- 2) What incentives could assure implementation of structural reforms in Member States?
- 3) Should the link between the European Semester and EU financing be strengthened?