

INTERPARLIAMENTARY CONFERENCE ON ECONOMIC AND FINANCIAL GOVERNANCE OF THE EUROPEAN UNION

CONTRIBUTION

16–17 October 2013, Vilnius

The Interparliamentary Conference on Economic and Financial Governance of the European Union (hereinafter referred to as the “Interparliamentary Conference on EFG”),

Having regard to the conclusions of the Conference of Speakers of the European Union Parliaments taken on 23 April 2013 in Nicosia;

Having regard to Article 13 of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (hereinafter referred to as “TSCG”);

Having regard to Title II of Protocol 1 of the Treaty of Lisbon on the role of national Parliaments in the European Union;

Having regard to Guidelines for Interparliamentary Cooperation in the European Union adopted at the Conference of Speakers on 21 June 2008 in Lisbon;

1. Welcomes the establishment of the Interparliamentary Conference on EFG and believes that it will provide a framework for debate and the exchange of best practice that will contribute to ensuring democratic accountability and legitimacy of the decisions taken in the area of economic and financial governance in the European Union (EU), particularly in the Economic and Monetary Union;
2. Notes that in response to the economic and financial crisis over the last few years the architecture of economic governance in the EU has undergone substantial changes and that it is crucial that these changes are followed by adequate mechanisms to ensure effective parliamentary control as well as the democratic legitimacy and accountability of the new governance structures;
3. Trusts that the Interparliamentary Conference on EFG will ensure a greater role for national Parliaments in matters covered by the TSCG and will contribute to the promotion of effective and regular cooperation between national Parliaments and the European Parliament on issues of economic and financial governance, especially with regard to practices and procedures of the European Semester;
4. Recalls the imperative foreseen in the Six-Pack that the strengthening of economic governance should include a closer and more timely involvement of the national

parliaments and the European Parliament (Regulation No. 1177/2011); recalls the role of the European Parliament within the framework of the European Semester and in particular as regards the Annual Growth Survey and the Six-Pack; calls on the European Commission to follow through on its commitment, as stated in its official reply to the Contribution of the XLVII COSAC, to develop a regular political dialogue with national Parliaments within the framework of the European Semester, which would take place twice a year; believes that the Interparliamentary Conference on EFG is the right platform for such a dialogue;

5. Stresses that it is important to find the right balance between national Parliaments and the European Parliament in organising the exercise of parliamentary control in the area of economic and financial governance, as foreseen in the Treaty on the Functioning of the European Union and Article 13 of the TSCG;
6. Is of the view that democratic control and accountability should take place at the level where decisions are taken and implemented; this implies a pivotal role for national Parliaments in controlling the implementation of the relevant policies at the national level, in ensuring the legitimacy of Member State actions in the European Council and the Council, and in the conduct of national fiscal, economic and social policies, while the European Parliament is a co-legislator and ensures scrutiny and democratic accountability for the decisions taken at the Union level;
7. Suggests that a Working Group open to representatives of each national Parliament and the European Parliament be set up to with a view to drawing practical arrangements for the Interparliamentary Conference on EFG, taking into consideration the draft Rules of Procedure submitted by the Seimas of the Republic of Lithuania as the Presidency Parliament and the amendments tabled by other delegations during the inaugural Vilnius Conference, as well as Article 13 of the TSCG and the conclusions of the Nicosia Conference of Speakers of EU Parliaments. This process, to be named the "Vilnius Process", shall work by consensus and the Rules of Procedure shall be likewise adopted by consensus by the Interparliamentary Conference on EFG in 2014.

ANNEX 1 – PROCEEDINGS OF THE INTERPARLIAMENTARY CONFERENCE ON EFG

Introductory remarks

The Interparliamentary Conference on EFG took place on 16-17 October 2013 in the Seimas of the Republic of Lithuania in Vilnius.

The Interparliamentary Conference on EFG was opened by the hosts Mr Bronius BRADAUSKAS, Chair of the Committee on Budget and Finance, and Mr Remigijus ŽEMAITAITIS, Chair of the Committee on Economics of the Seimas of the Republic of Lithuania. Participants were welcomed by H. E. Dalia GRYBAUSKAITĖ, President of the Republic of Lithuania, H. E. Loreta GRAUŽINIENĖ, Speaker of the Seimas of the Republic of Lithuania, and Mr Othmar KARAS, Vice-President of the European Parliament.

In the opening session debates were held on the following topics: *The Challenge of Restoring Growth and Competitiveness in Europe* (keynote speaker Mr Algirdas BUTKEVIČIUS, Prime Minister of the Republic of Lithuania) and *Genuine Economic and Monetary Union: The Imperative to Move Forward* (keynote speaker via video-conference Mr Olli REHN, Vice-President of the European Commission responsible for economic and monetary affairs and the euro).

In session I, entitled *Purpose and Vision of the Interparliamentary Conference on Economic and Financial Governance of the European Union*, the following keynote speakers took the floor: Mr Bronius BRADAUSKAS, Chair of the Committee on Budget and Finance of the Seimas of the Republic of Lithuania, Mr Philippe MARINI, Chair of the Committee on Finance of the French Senate, and Mr Othmar KARAS, Vice-President of the European Parliament.

In session II, entitled *Setting the Right Framework for Post-Crisis Economic Governance in the European Union*, the following keynote speakers took the floor: Mr Algirdas ŠEMETA, Member of the European Commission responsible for taxation, customs, statistics, audit and anti-fraud, Mr Norbert BARTHLE, Member of the Budget Committee of the German Bundestag, and Ms Elisa FERREIRA MEP, Rapporteur on the European Semester in the European Parliament.

In session III, entitled *Banking Union and Financial Integration in the European Union*, the following keynote speakers took the floor: Mr Vitas VASILIAUSKAS, Chairman of the Board of the Bank of Lithuania, Prof André SAPIR, Université Libre de Bruxelles, Senior Fellow at Bruegel, and Mr Erkki LIIKANEN, Governor of the Bank of Finland, Member of the Governing Council of the European Central Bank.

In session IV, entitled *Budgetary Consolidation and Structural Reforms in Europe: Track Record and Prospects*, the following keynote speakers took the floor: Mr Rimantas ŠADŽIUS, Minister of Finance of the Republic of Lithuania, Mr Eduardo CABRITA, Chair of the

Committee on Budget, Finance and Public Administration of the Portuguese Assembly of the Republic, Ms Martine GUERGUIL, Assistant Director of the Fiscal Affairs Department, International Monetary Fund, and Ms Pervenche BERÈS, Chair of the Committee on Employment and Social Affairs of the European Parliament.

Overview of the presentations and debates

OPENING SESSION

In his presentation Prime Minister of the Republic of Lithuania Algirdas BUTKEVIČIUS presented the priorities of the Lithuanian Presidency of the EU Council in the area of economic and financial governance. He spoke about the need to continue pursuing structural reforms in the Member States, especially in the labour market. The Prime Minister also emphasised the importance of strengthening the internal market, in areas such as services, energy, transport and the digital sector. In the energy sector, Lithuania promoted compliance with the third energy package and sought to abolish energy islands by joining energy infrastructure in the EU. Another priority was simplifying the rules and procedures on setting up businesses. It was also emphasised that alternative sources of funding for the Small and Medium Enterprises should be found. The speaker also stressed the importance of reindustrialisation as well as the need to foster innovation, especially green innovation.

During the debate with the Prime Minister participants raised questions and made comments on such issues as the late payments directive, the fiscal reform programme in Lithuania and the financial difficulties some Member States, especially in the South, were still experiencing. The importance of introducing a strong *bail-in* mechanism in the EU's financial system was stressed, which was all the more relevant in Europe's South. Some delegates spoke out against austerity and called for the establishment of a strong innovation union within the EU. Others raised the importance of completing the single market, especially in the digital sector.

Commissioner Olli REHN focused his speech on challenges to economic governance in the EU. He noted that the strategy of fiscal consolidation and structural reforms in Europe was giving results, although claims that the crisis was over were premature. He spoke about the new structures of economic governance in Europe and noted that had they been in place before the crisis, Europe would have avoided much of the pain. The Commissioner stressed three key policy areas for sustainable growth. First, the EU should strive to establish the capacity for real economic adjustment. Second, efficient financial and banking system should be in place in the EU; the EU therefore needed to continue integration in this area, the banking union being the priority. Third, sound public finances needed to be ensured, not least because fiscal sustainability contributed to uncertainty in the financial sector. The Commissioner stressed that due to Europe-wide measures and rules, budget deficits had on average decreased. And yet, next to the already strong monetary pillar, the economic pillar of the Economic and Monetary Union had to be further strengthened. The speaker also called for stronger mechanisms of democratic legitimacy and parliamentary scrutiny to follow deeper economic integration in the EU.

In the debate participants raised questions to the Commissioner on issues such as the budget crisis in the US, the role of national Parliaments in ensuring democratic legitimacy in the EU, the challenge of youth unemployment, the effectiveness of the Stability and Growth Pact, social aspects of macroeconomic imbalance in the EU and others. Some participants stressed the benefits of the mutualisation of debt in the EU, while others called for the reduction of official debt for the programme countries, such as Greece.

SESSION I. PURPOSE AND VISION OF THE INTERPARLIAMENTARY CONFERENCE ON ECONOMIC AND FINANCIAL GOVERNANCE OF THE EUROPEAN UNION

In his presentation Mr Bronius BRADAUSKAS, Chair of the Committee on Budget and Finance of the Seimas, stressed that the deepening of economic integration in the EU had to go hand in hand with stronger mechanisms to ensure democratic legitimacy and parliamentary control. He stressed the importance of enhancing cooperation between the national Parliaments and the European Parliament in the area of economic and financial governance. Mr BRADAUSKAS also referred to the commitment of the Commission, stated in its official reply to the Contribution of the XLVII COSAC, to hold a regular political dialogue, which would take place twice a year, with the national Parliaments in the context of the European Semester. At the same time Mr BRADAUSKAS acknowledged that national Parliaments and the European Parliament should not compete over parliamentary scrutiny of the decisions made at the Union level, as this is the competence of the European Parliament; national Parliaments should aim to improve their role in controlling decisions made at the national level.

Mr Philippe MARINI, Chair of the Committee on Finance of the French Senate, noted that the new economic and fiscal governance could be effectively created on the basis of democracy and that national Parliaments had a special role to play in this regard. Mr MARINI expressed his expectation that the Interparliamentary Conference on EFG would be the forum for its members to exchange information and best practices on matters of economic reforms implemented in their respective countries. The speaker also stressed the importance of fiscal consolidation measures, not least for the survival of the euro, even if these measures were often unpopular. He also noted that he saw no reason why the Rules of Procedure of the Conference should not be adopted in Vilnius, provided there was agreement among the participants.

Mr Othmar KARAS, Vice-President of the European Parliament, stressed that it was too early to speak about the end of the crisis in the EU. He noted that in general EU Member States had very similar economic aims, however, the consequences of the crisis and the reactions of the Member States varied. Yet the problems and challenges the Member States currently faced were mostly shared throughout the EU and therefore common strategies at the EU level needed to be sought. In this process, however, it would be most effective if the responsibilities between the different levels of governance in the EU would be clearly and responsibly divided. Common efforts were needed to implement the structural reforms and to finalise the creation of the banking union, which was a priority now in the EU.

In the debate many speakers stressed the potential role of the Interparliamentary Conference on EFG in strengthening the involvement of national Parliaments in the economic and financial governance of the EU, a goal that had been desired by national Parliament since the adoption of the Treaty of Lisbon. Participants also spent some time debating the draft Rules of Procedure, submitted to the Conference by the Seimas as the Presidency Parliament. Many speakers welcomed the draft and considered that its adoption would lay down the basis for the successful functioning of the Conference. During the debate it was suggested that a Working Group open to representatives of all national Parliaments and the European Parliament should be set up and should be responsible for the finalisation of the draft in 2014.

SESSION II. SETTING THE RIGHT FRAMEWORK FOR POST-CRISIS ECONOMIC GOVERNANCE IN THE EUROPEAN UNION

Mr Algirdas ŠEMETA, Member of the European Commission responsible for taxation, customs, statistics, audit and anti-fraud, expressed his conviction that the response provided by the EU to the crisis had been firm and decisive, as new tools to coordinate economic policies and ensure preventive and corrective fiscal surveillance had been put in place. The speaker mentioned other initiatives that were underway, such as the banking union and the mechanism to *ex-ante* coordinate structural reforms with other EU Member States and the Commission. He indicated that in the longer run the EU should aim to establish a common fiscal stabilisation capacity, common issuance of public debt and more generally seek closer fiscal integration. On the other hand, new economic governance structures in the EU should correspond to the legitimate expectations of the citizens of the Union. Mr ŠEMETA also called for more active engagement of national Parliaments in the process of the European Semester.

Mr Norbert BARTHLE, Member of the Budget Committee of the German Bundestag, among other issues focused on the question what further institutional reforms in the EU and the euro area should be implemented. In his view, trade, the financial markets, the euro, climate and environment, and foreign and security policy were examples of policy areas in which the European level should have the capacity to act. On the other hand, other areas, such as budgetary, economic and social policy should remain the primary responsibility of the Member States, however smarter coordination was needed at the EU level. For example, a strong position of a Commissioner for budgetary matters should be created with the power to veto national budgets in case they did not comply with commonly agreed rules. In parallel to more legislative powers being transferred to EU institutions, national Parliaments should also become more active in the coordination of EU economic policies.

Ms Elisa FERREIRA MEP emphasised that the EU lacked sustainable economic growth agenda and measures to boost the economy were often not socially responsible. According to Ms FERREIRA, the EU Member States had been unprepared for the economic impact of the crisis, particularly in social terms. Therefore, the majority of citizens of the union had expressed their discontent with Europe. The speaker called for closer cooperation between the European Parliament and national Parliaments in setting the right framework for post-crisis economic

governance in the EU, especially in dealing with the high level of poverty and unemployment, tax avoidance and tax evasion across the EU.

During the debate most of the speakers agreed that there needed to be closer cooperation between the European Parliament and national Parliaments in developing the framework for economic governance in the EU. Such cooperation was also needed in efforts aimed at reducing unemployment, improving tax collection and seeking social equality – all in correspondence with the expectations of the EU citizens. The participants noted that there was a need for more Europe and closer fiscal integration and that the right balance had to be found between the public revenue and expenditures. Some also stressed that the policy of austerity should not take place at any cost and that it should take into account the specificities of each Member State.

SESSION III. BANKING UNION AND FINANCIAL INTEGRATION IN THE EUROPEAN UNION

In his presentation Mr Vitas VASILIAUSKAS, Chairman of the Board of the Bank of Lithuania, focused on the key elements of the banking union. He elaborated about the Single Supervisory Mechanism (SSM) and noted that the official completion of the legislative process will soon trigger a 12-month countdown for the European Central Bank to assume its new supervisory powers. He also spoke about the Single Resolution Mechanism (SRM) and its legal basis, the Bank Recovery and Resolution Directive. Mr VASILIAUSKAS also stressed the importance of maintaining sound macro-prudential policy across the EU and ensuring structural reforms of the EU banking sector.

Mr Erkki LIIKANEN, Governor of the Bank of Finland and Member of the Governing Council of the European Central Bank, noted that national supervision and resolution mechanisms alone were not able to ensure financial stability when the financial markets were functioning on a cross-border basis. The speaker stressed that financial integration was an essential element of the single market and that non-euro area Member States should be involved in the process as much as possible. Mr LIIKANEN noted that the banking sector in the EU required significant structural and financial adjustments and expressed his conviction that Europe would only benefit from having a more integrated system of financial supervision and more resilient banking structure.

Prof. André SAPIR, Senior Fellow at Bruegel, expressed a strong opinion that the European financial system needed fundamental changes. He reminded that when the financial crisis had struck, there was no common supervision, nor a common resolution mechanism in the EU, and this exacerbated the crisis in Europe. According to Prof. SAPIR, parallel structures should be created to monitor banks in the EU as a whole and in the euro area separately. Furthermore, he believed that a thorough scrutiny of a Member State's banking sector should be carried out before it was allowed to join the banking union. Ultimately, the EU should aim at establishing a genuine union of banks and capital markets.

The debate noted that the banking union should be based on the EU-wide approach to ensure a level playing field for banks that operate across the EU. The Single Supervisory Mechanism (SSM) would provide the means for the comprehensive assessment of banks and their balance sheets and that was of essence in ensuring efficient functioning of the SSM. Many speakers in the debate underlined that the SSM should be supplemented with the Single Resolution Mechanism (SRM). The SRM should enable the resolution of ineffective banks at the lowest possible cost. There were delegations, on the other hand, that questioned whether Article 114 of the Treaty on the Functioning of the European Union is the right legal basis for the SRM.

SESSION IV. BUDGETARY CONSOLIDATION AND STRUCTURAL REFORMS IN EUROPE: TRACK RECORD AND PROSPECTS

In his presentation Mr Rimantas ŠADŽIUS, Minister of Finance of the Republic of Lithuania, emphasised that budgetary consolidation and economic growth were compatible and could be implemented in synergy. He stressed that the EU economy was slowly recovering after the lengthy recession, but that it was “genuine growth” which should gather momentum in 2014. Mr ŠADŽIUS also noted that Europe had still not done its homework in boosting the internal demand. When presenting Lithuania’s experience the Minister noted that the Government of Lithuania aimed to promote economic growth and enforce responsible fiscal policy at the same time. Mr ŠADŽIUS believed that Lithuania’s aim to introduce the euro in 2015 would open new opportunities both for Lithuanian people and businesses and would contribute to the development of the EU economy as a whole.

Eduardo CABRITA, Chair of the Committee on Budget, Finance and Public Administration of the Portuguese Assembly, presented the experience of Portugal and addressed the issues of the EU budget, budgetary consolidation and structural reforms in his speech. He noted that austerity hindered Portugal’s economic recovery. However Mr CABRITA emphasised that differentiated and growth-friendly fiscal consolidation should be pursued, and austerity and economic stimulus programmes had to be implemented simultaneously. He further elaborated that balanced fiscal adjustments might significantly reduce the negative impact on economic growth. He also believed that restored fiscal sustainability in all countries would bring benefits to both public and private entities; moreover it would contribute to the overall financial stability of the Union. Mr CABRITA said that it was very important not to postpone the reforms in order to stimulate growth. He noted that the Member States and the EU institutions had already adopted many important decisions and that the trend in the implementation of the agreed measures should continue.

Ms Martine GUERGUIL, Assistant Director of the Fiscal Affairs Department of the International Monetary Fund, noted that the term “structural reforms” had become a “catch-all” concept and therefore more accuracy was needed to define the specific reforms in question. According to Ms GUERGUIL, if reforms were implemented in the area of fiscal institutions, structural reforms and budgetary consolidation could proceed in parallel. However, if structural reforms were implemented in labour and products markets, some sequencing may be warranted, in particular in countries with weak demand or where reforms had large budgetary costs.

Ms Pervenche BERÈS MEP, Chair of the Committee on Employment and Social Affairs of the European Parliament, emphasised the exigency to accelerate economic growth in Europe and drew attention to the huge macroeconomic imbalance that exists among the EU Member States, especially in terms of the diverging unemployment rates. She stressed the social dimension of economics and urged to consider social aspects of structural reforms and fiscal consolidation. In the view of Ms BERÈS, budgetary tightening should not come at the expense of such important funding priorities as education, for example.

It was noted during the debate that budgetary consolidation and structural reforms normally complemented each other and could therefore be pursued in parallel. However, in those cases where fiscal consolidation was pursued in countries with a more ambitious reform agenda in the labour and commodities markets, reforms were usually slower. The debate highlighted that fiscal consolidation might have a negative effect on growth in the short-term. The participants of the debate also noted that in order to ensure sustainable growth and job-creation, structural reforms were needed. Participants in the debate also expressed support to growth-friendly fiscal consolidation, focused on the importance of restoring normal lending, authorities in charge were encouraged to tackle unemployment and other social consequences of the crisis and modernise public administration.