New package of measures for EU economic and financial strategy

The new package of measures adopted by the European Commission regarding the action to be followed for growth governance and stability contains four elements: the 2012 Annual Growth Survey consists of priorities for the coming year, a Green Paper on the feasibility of introducing Stability Bonds and two new Regulations to further strengthen budgetary surveillance in the Euro area. By adopting this package, the European Union focuses on the strengthening of the Eurozone governance.

The 2012 Annual Growth Survey (AGS)

The AGS, sets out Commission's priorities for the coming year in terms of economic and budgetary policies and reforms to boost growth and employment. Its priority actions are focused on fiscal consolidation and macroeconomic stability, labour market reforms for higher employment and growth enhancing measures.

The key messages of AGS for 2012 are concentrated on five priorities:

- Establishing differentiated and tailored –made growth friendly fiscal consolidation;
- Facilitating normal lending to the economy and providing banks' access to term funding and strengthening of their capital positions;
- Promoting growth and competitiveness through the building of the EU digital economy and completing the internal market with services;
- Tackling unemployment by promoting business creation and self employment, by encouraging labour mobility and by improving social protection;
- Modernising Public Administration by minimising administrative burdens, by ensuring cooperation between administrations and by improving national business environments.

Introduction of Stability Bonds

Sovereign issuance in the Eurozone is currently conducted by EU Member States on a decentralised basis. The introduction of commonly issued Stability Bonds focuses on the sharing of associated revenue flows and debt-servicing costs.

The possible options regarding the common issuance of Stability Bonds can be categorised in certain approaches, based on the degree of substitution of national issuance and the nature of the underlying guarantee. Consequently, the scale extends from the full substitution by Stability Bonds of national issuance with joint and several guarantees to partial substitution by Stability Bonds of national issuance with several but not joint guarantees.

The proposed approaches vary from the most ambitious one, by replacing the entire national issuance by Stability Bonds to the most limited one, by covering only partially Member States' financing needs and accompanied only by several guarantees.

According to the Commission's Green Paper, the Stability Bonds could have significant benefits promoting the efficiency in the Eurozone Sovereign Bond market and the Eurozone's financial system, by improving the effectiveness of the Euro-area monetary policy and by making the Eurozone financial system more resilient to future adverse shocks.

Two new Regulations to strengthen budgetary surveillance in the Eurozone

Due to the global economic and financial crises which have created serious difficulties to the governance of the Economic and Monetary Union, reform package, known as Six Pack, will enter into force in order to strengthen the Stability and Growth Pack (SGP), to lay down new requirements for Member States' national budgetary frameworks and to introduce procedure for excessive imbalances.

The first Regulation will apply to all the Member States of the Eurozone, especially to those which are subject to an Excessive Deficit Procedure (EDP). The second Regulation sets out explicit rules for enhanced surveillance for those euro-area Member States facing problems with their financial stability, or receiving financial assistance on a precautionary basis. These Member States will be subject to tighter monitoring. In case that the financial situation of a Member State has adverse effects on the financial stability of the Eurozone, the Commission may propose that the Council recommends that the Member State concerned seeks financial assistance and that a macro-adjustment programme be prepared.

Completing the missing links in the EU

The estimated effect of the internal market in the EU and the intra-European actions have been the main driving forces behind European growth. The Single Market Act of 2011 will complete and deepen the internal market in the areas of access to finance, citizen mobility, public procurement, digital market, intellectual property, social entrepreneurship and social cohesion, as well as harmonisation of the regulatory environment for businesses. The levers of this Act will be completed before the end of 2012, in order to profit quickly from its benefits across the EU.

Further, it is necessary to maximise the impact of EU funding. In order to improve the potential to generate growth, Member States should be able to proceed to reprioritisation or even reprogramming of funding towards areas with a high growth potential.

Today, the core of EU's economy remains the Single Market. Nevertheless, EU's future growth potential will happen outside of Europe. Thanks to Europe's well established external economic relations with developing countries, the EU will develop new and broad instruments and will maximise trade opportunities. To this end, the trade agenda with the near neighbourhood goes beyond growth and employment, implying in parallel, security and solidarity, which are essential elements for stable and sustainable economic recovery and financial development of the European Union.

29/11/2011
Christos Floridis
Advocate / Senior Associate
Head of European Affairs
Andreas Neocleous & Co LLC
Limassol
Cyprus
http://www.neocleous.com