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(Preparatory acts)

EUROPEAN CENTRAL BANK

OPINION OF THE EUROPEAN CENTRAL BANK

of 30 October 2019

on a proposal for a regulation on a governance framework for the budgetary instrument for convergence and competitiveness for the euro area**(CON/2019/37)**

(2019/C 408/03)

Introduction and legal basis

On 9 and 18 September 2019, the European Central Bank (ECB) received a request from the Council of the European Union and the European Parliament, respectively, for an opinion on a proposal for a regulation of the European Parliament and of the Council on a governance framework for the budgetary instrument for convergence and competitiveness for the euro area ⁽¹⁾ (hereinafter the 'proposed regulation').

The ECB's competence to deliver an opinion is based on Articles 127(4) and 282(5) of the Treaty on the Functioning of the European Union as the proposed regulation is relevant to the primary objective of the European System of Central Banks (ESCB) to maintain price stability and, without prejudice to the objective of maintaining price stability, to support the general economic policies in the Union, as referred to in Articles 127(1) and 282(2) of the Treaty and Article 2 of the Statute of the European System of Central Banks and of the European Central Bank.

In accordance with the first sentence of Article 17.5 of the Rules of Procedure of the European Central Bank, the Governing Council has adopted this opinion.

1. General observations**1.1. Overall objectives of the BICC**

The Five Presidents' Report of 22 June 2015 emphasised the need to complete the Economic and Monetary Union's (EMU's) economic and institutional architecture. In particular, it highlighted the importance of correcting the divergence witnessed during the crisis and embarking on a new convergence process. It was argued in the Report that 'sustainable convergence also requires a broader set of policies that come under the heading of "structural reforms", i.e. reforms geared at modernising economies to achieve more growth and jobs' ⁽²⁾.

The budgetary instrument for convergence and competitiveness (hereinafter 'the BICC') aims to not only support structural policies but also public investment in Member States whose currency is the euro by disbursing project-specific funds. Member States participating in the exchange rate mechanism (ERM II) may also participate in the BICC on a voluntary basis (hereinafter together with Member States whose currency is the euro the 'participating Member States').

Against this background, if the BICC is successfully applied, it is expected to improve the functioning of the economy and lead to a more growth-friendly composition of public expenditures, with a positive impact on potential growth and resilience of euro area economies to adverse shocks. As a result, the BICC would contribute to the smooth functioning of the EMU and the effectiveness of the ECB's monetary policy. The BICC should be endowed with sufficient resources to fulfil its intended goals.

⁽¹⁾ COM(2019) 354 final.

⁽²⁾ See 'Completing Europe's Economic and Monetary Union', Report by Jean-Claude Juncker, in close cooperation with Donald Tusk, Jeroen Dijsselbloem, Mario Draghi and Martin Schulz, 22 June 2015, page 7, available on the Commission's website at www.ec.europa.eu

1.2. *Governance of the BICC*

The proposed regulation establishes a governance framework for the BICC, in two steps. First, it foresees the adoption of strategic orientations on reforms and investment priorities for the euro area as a whole. In a second, subsequent step, it foresees 'country-specific guidance' (hereinafter 'CSG') for individual euro area Member States, which needs to be consistent with the strategic orientations and the Council's country-specific recommendations (hereinafter 'CSRs'). On the basis of CSG, Member States would then identify possible reform and investment packages to submit to the Commission for assessment. The Council will decide on the policy guidance and the strategic orientations after discussion in the Eurogroup and on the basis of the initiative taken by the Commission.

To the extent possible, the governance of the BICC should go hand in hand with the European Semester and all other existing mechanisms of economic policy coordination. This would ensure the necessary consistency across processes and procedures. The proposed regulation aims at achieving such consistency in the strategic guidance established by the Council during the Euro Summit and, after discussions with the Eurogroup, in the euro area recommendations. It also stresses the need for consistency of CSG with CSRs, as CSRs are a cornerstone of the European Semester. In line with their Treaty-based role in the economic policy coordination process, the Commission would assess the reform and investment packages submitted by Member States, monitor the progress of their implementation, and take the initiative on developing strategic orientations and guidance.

Moreover, it is essential, as currently foreseen, that the reform and investment packages submitted by Member States are assessed against commonly agreed country-specific policy needs, as reform and investment priorities vary significantly across Member States. For that reason, CSRs — already issued annually by the Commission and endorsed by the Council as part of the European Semester process — should be the main reference point for Member States and they should explicitly refer to existing CSRs when they submit their reform and investment packages. Given that the Commission's country reports issued in the context of the Council's CSRs identify, as of 2019, important structural policy needs and key areas for public investment at Member State level, they provide the appropriate benchmark for the formulation of national reform and investment packages. The CSG could further specify those CSRs, where appropriate.

In practice, and depending on when the reform and investment packages related to BICC are submitted to the Commission for assessment, CSRs of the previous year should be used as a benchmark for the BICC. In their assessment of the reform and investment packages submitted by Member States, the Commission could also take into account CSRs of the current year to the extent that they are published in due time.

Overall, the aforementioned way forward should help maintain CSRs as the main reference point and ensure consistency on substance across existing coordination procedures, notably the European Semester, and on time. In that context, the BICC could unfold its potential, keeping the focus on addressing the most pressing economic and fiscal policy challenges faced by Member States.

1.3. *Additional considerations*

Given the objective of the BICC to support structural policies and public investment in order to improve competitiveness and convergence, further discussions beyond the BICC are necessary on how to establish a macroeconomic stabilisation function, which remains absent at euro area level. Such a function exists in all monetary unions, to better deal with economic shocks that cannot be managed at national level ⁽³⁾. As previously highlighted by the ECB ⁽⁴⁾, a common macroeconomic stabilisation function would, if appropriately designed, increase the economic resilience of the participating Member States and of the euro area as a whole, thereby also supporting the single monetary policy. To that end, a fiscal stabilisation function should be sufficient in size.

This opinion will be published on the ECB's website.

Done at Frankfurt am Main, 30 October 2019.

The President of the ECB
Mario DRAGHI

⁽³⁾ See the general observations of Opinion CON/2018/51. All ECB opinions are published on the ECB's website at www.ecb.europa.eu

⁽⁴⁾ See the general observations of Opinion CON/2018/51.