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***European Economic and Social Committee***

***Directorate B –Legislative Work***

***Section for Economic and Monetary Union and Economic and Social Cohesion***

**ECO Priorities for 2018 and beyond**

*The EESC puts a particular emphasis on the need to* ***develop the European project and the architecture of Europe's Economic and Monetary Union (EMU)****. To that end, it is a long-standing practice of the ECO section not only to cover a whole range of strategic issues in its opinions but also to organise various in-depth conferences and hearings. These contribute to the high quality of the work and further emphasise the reputation of the EESC as a platform for high-level exchange with civil society and institutional representatives on issues that are of crucial importance for the future of the European economy and society.*

# **Economic governance and deepening EMU**

Putting the European economy on the track of sustained convergence, growth and employment, and bringing prosperity back to the European people and companies will remain the highest priorities of the ECO section over the next few years. In this respect, we have repeatedly taken the view that a gradual process of **deepening and completing EMU** is the key to a sustainable and balanced recovery from the recent economic and financial crisis. The EESC has already contributed to the EMU deepening with a number of flagship opinions drawn up in anticipation of, or as follow-up to, the Commission's Blueprint for a Deep and Genuine EMU, Jean-Claude Juncker's political guidelines for the European Commission, the Five Presidents' Report on Completing Europe's EMU, the White Paper on the Future of Europe, etc. We intend to continue our active involvement in this political debate by providing policy advice to the relevant decision-makers which promotes the views of organised civil society on the various proposals and alternatives for deepening and completing EMU.

Against this background, our guiding principle will be that persisting imbalances as well as the creation of trust and confidence across Europe require more effective and democratic economic governance, notably in the euro area. This has become ever more important since the UK decided to leave the EU – a decision which brought additional political, economic and social uncertainty for millions of European citizens and enterprises. **Brexit** is likely to have a significant impact both on the development of future EU policies and on the EU's position in the world economy. We do realise that decisive changes to the EU's economic and political landscape cannot be made overnight, but at the same time Europe cannot afford to put **further integration** off for years.

To that end, **in the short run concrete steps which are possible within the framework of the current Treaty** should be undertaken to prepare the ground for a genuine economic and fiscal union. In the first place, the European semester should be further strengthened by placing greater emphasis on the economic and fiscal governance of the euro area as a whole, while also carrying out social impact assessments of the recommended measures, with a view to reversing the trend of rising economic inequalities and achieving the social policy objectives as provided for in the Treaties. Properly implementing and scaling-up the Investment Plan for Europe and paying attention to the demand side of the economy when designing structural reforms are among the factors that will play an important role in this process. The establishment of fully-fledged Banking Union and Capital Markets Union as the building blocks of a future financial union has been long due and should be accelerated. In parallel, more political integration with improved democratic legitimacy is needed, notably through greater "parliamentarisation" of the euro area by making use of COSAC+ and increased involvement of European and national stakeholders through the launch of a euro area macroeconomic dialogue.

**In the medium-long term a revision of the Treaty** should bring the institutional provisions in line with the indispensable requirements of a **real economic, financial, social and political Union**. These include, but are not limited to, the creation of an EMU executive (treasury) headed by a stable Eurogroup president, common decision-making in economic and fiscal policy matters, a euro area fiscal capacity, setting common minimum standards in the labour market and social policy, strengthening the powers of the EP in EMU-related matters, finding a European solution to the issue of legacy debt, establishing a new Constitutional convention with the active involvement of civil society representatives.

The ECO section will continue to present innovative and ambitious proposals in all these areas. To this end, our **contacts with partners outside the Brussels fora will be further intensified**. In particular, we intend to continue our public hearings and bilateral meetings with representatives of national governments, think tanks, social partners and other civil society organisations, in a bid to contribute to the necessary consensus-building on the future of EMU. The outcomes of these discussions will **feed notably into our forthcoming opinions** on the annual recommendations for the euro area economic policy and the follow-up to the Commission's reflection paper on deepening EMU by 2025.

# **Stability of financial markets and the financing of the economy**

In line with the major political priority of the European Union to boost jobs, growth and investment, the strengthening of the European economy and the stimulation of investment will continue to be a main concern of the EESC and of the ECO section. The ECO section will continue to focus on measures **tackling investment shortages** head-on by increasing and diversifying the funding sources for Europe's businesses and long-term projects, along the lines of those proposed in the Commission's *Mid-term review of the Capital Markets Union (CMU)*.

The Committee in various opinions has pointed out that the **lack of access to finance** many businesses are confronted with, in addition to stagnation of demand, was to be taken very seriously as it was hampering economic growth. In particular SMEs' financing needs to be tackled as a priority, as SMEs are the backbone of the European economy, being responsible for the bulk of employment.

Non-performing loans (NPL) remain a cause of concern in the EU and lock up capital that could otherwise be used to grant more loans. The Committee believes that the Commission should take action to free up capacity on banks' balance sheets by promoting NPL securitisation and creating markets for impaired assets. Bank lending could be unlocked if deep and transparent markets for distressed bank debt were developed or revitalised where they exist. The Committee will contribute with its expertise to the legislative work in the context of the announced Commission proposal to develop a secondary market on Non- Performing Loans.

Looking at the level of very small and micro-enterprises, in the eyes of the **EESC initiatives of microfinance** should be promoted, as through such vehicles of intermediation that provide risk pooling, guarantees and advice, capital can flow to business and entrepreneurs otherwise excluded by the financial market mechanisms.

A **resilient and well-functioning financial system and financial stability** are essential for stable and sustainable economic growth and therefore a top priority for the ECO section. The financial system has to act as an intermediary between savers and investors and fulfil the financing needs of the economy. Against this background the Committee will continue to work on **initiatives to complete Banking Union**. The EESC will step up its efforts to support that **further risk sharing** in the Banking Union is to be complemented by further risk reduction.

To **safeguard the stability of the financial system**, the EESC will contribute to the legislative process in the upcoming comprehensive revision of the **EU macro prudential policy framework** that will also include a revision of the functioning and of the financing model for the European Supervisory Authorities. The aim of the reforms is to strengthen the effectiveness and efficiency of oversight at both macro- and micro- prudential levels across the EU and beyond. For the EESC, a holistic and integrated approach is important in the reforms.

The EESC will continue to push the issue of **proportionality** in reforms of the financial sector legislation. The specific features and possibilities of small and non-complex banks and investment firms are still not being sufficiently taken into account. A more structured and comprehensive approach is crucial here, no excessively heavy obligations or burdens should be imposed on these kinds of institutions.

The departure of the United Kingdom from the EU will have a major impact on EU policies in the field of financial markets and banking. London is currently the EU´s most important financial centre, which will, after Brexit, be located outside of the EU. This will have repercussions on policies aimed at safeguarding financial stability in the EU, because financial institutions that can be systemically important, will be located outside the EU, thereby depriving the EU of exercising oversight. For example, in the field of central counterparty clearing of derivatives markets, currently, almost 75% of EUR-denominated interest rate derivatives are cleared by central party clearing houses based in the UK. Also, certain markets like those for EU venture capital are primarily UK based, with the UK market accounting for about a quarter of the total EU venture capital market.

# **Taxation**

The EESC fully supports the European Commission and the OECD in fostering **tax transparency** and in the fight against aggressive tax planning as a world-wide priority and backs the ambitious programme drawn up by the European Commission to **combat tax avoidance** and the harmful tax competition that this creates in the EU. The Section will address reforms of the corporate tax framework in order to combat abuses, ensure sustainable revenues and help boost businesses in the internal market. Specific attention will be paid to the taxation of the sharing economy to guarantee that all global and technology-based companies pay their fair share of tax in Europe.

The relaunch of the **common consolidated corporate tax base** (CCCTB), **taxing profits at the place they are made**, an improved **business environment**, greater tax transparency and **better coordination within the EU** are the main topics that the ECO Section will prioritise through its work on taxation taking into account also the additional difficulties caused by Brexit..

The EESC will also continue to work on the EU VAT rate structure with a view to advancing towards a definitive VAT regime.

# **EU Budget and own resources**

At a time when resources are in more demand than ever, the EU budget must be geared to results. The EESC considers that the next **Multiannual Financial Framework** (MFF) covering the period **after 2021**, for which the legislative proposal is expected to be presented by the Commission in mid 2018, should be used to orient the EU budget further towards jobs, growth and competitiveness. Resources should be directed towards programmes that can relaunch economic, social and environmental development, employment, innovation and competitiveness on the one hand, and respond to the migration and refugee crisis, to internal security issues, external emergencies and the crisis in the agricultural sector on the other hand.

The debate on the MFF must focus on its adequacy – in terms of both the resources allocated and of the budget structure – for giving the EU the wherewithal to **pursue its strategic priorities without increasing the fiscal burden on the public and businesses**. The EESC believes that the EU Budget should have a leverage effect and achieve among others complementarity and economies of scale.

**The departure of the United Kingdom** will be a major factor in the design of the EU Budget beyond 2025. Not only will it have an impact on net-balances, but also there will be an impact on how EU policy and its priorities will develop. With this in mind, the EESC will actively feed into the legislative process that will **shape the future of EU finances**, building on the conclusions and recommendations drawn up in its recent opinions on the *Reflection Paper on the Future of EU Finances* and on the *Mid Term Review of the Multiannual Financial Framework*.

# **Cohesion and urban policy**

The ECO section will continue its work on ensuring the application of the partnership principle in the drafting and implementation of the 2014-2020 development projects. As stressed in several of its opinions, the EESC strongly believes that **genuine and profound partnership** greatly improves the effectiveness and overall success of the **EU's cohesion policy**. Furthermore, since the implementation of the 2014-2020 programmes must be well coordinated, the ECO section considers it of utmost priority that **the** **European Structural and Investment Funds create an added value to the Union's priorities**, in particular to the Europe 2020 Strategy and to the objectives of the Commission.

In this regard, the EESC believes that a simple, accessible strategy and objectives and a single, long-term project for Europe are vital (EU 2030-50 strategy) and the legal and financial instruments (in particular the European Structural and Investment Funds as well as the European Fund for Strategic Investment) must be consolidated in order to ensure a **strong central, development-oriented governance**.

It has been recognised, that – having the majority of the European population – cities can be the engine for Europe's economic development. Hence, the EESC supports the implementation of the EU Urban Agenda, an initiative the EESC has requested for years, and will continue its mission in which the underutilised potential of European cities is exploited in order to **trigger urban areas across Europe** to become poles of innovation, new investment and jobs, providing better quality of life and work.

Finally the Committee believes that the macro-regional strategies can help improve economic competitiveness, give a much needed boost to GDP, and also increase European added value; therefore the ECO section will continue stressing the **importance of the macro-regional strategies** having an increasing role to play in the future of the EU.

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