ETUC Position on the Proposals for a Budgetary Instrument for Convergence and Competitiveness (BICC) and new developments of the European Stability Mechanism (ESM)

Adopted at the Executive Committee Meeting of 17-18 December 2019

The Budgetary Instrument for Convergence and Competitiveness (BICC) is a financial tool, within the EU budget, aimed at enhancing the resilience of member states' economies and of the euro area through support to targeted reforms and investment.

The BICC proposal came as a result of a controversial debate concerning the design of stabilisation instruments destined to stabilise the EU economy either countering symmetric or asymmetric shocks or fostering economic resilience of member states, especially those of the Euro Area. The latter aspect prevailed over the former.

On 31 May 2018 the European Commission proposed a Regulation on the Establishment of the Reform Support Programme, as part of a set of stabilisation instruments composed of European Structural and Investment Funds (€391 billion), the InvestEU Fund (€38 billion with a potential of €650 billion of investments). A Reform Support Programme included a reform support fund of about €22 billion.

A legislative proposal for a European investment stabilisation function did not achieve consensus among governments and was terminated by the Council in 2019.

Despite this rejection, governments were still committed to protect the EU economy by introducing stabilisation mechanisms for the benefit of member states experiencing adverse economic situations, embodied in the EU budget, avoiding permanent transfers between countries while maintaining incentives for sound fiscal policymaking.

National governments, and especially the majority of the Euro Area, remained convinced that rather than designing an instrument to react to economic shocks, it was more efficient to encourage member states to pursue reforms and investments that would foster economic convergence and competitiveness in the Euro Area and the wider EU. So, the Euro Group and the Council gave a mandate to the Commission to develop a new proposal for a financial instrument that supports efforts by member states to implement priorities identified during the EU Semester or policy priorities under excessive deficit procedures.

During the summer 2019, the Council started outlining terms of reference of the future budgetary instrument for convergence and competitiveness. The ETUC promptly expressed its disapproval of new instruments that would not have included a fiscal capacity, as a stabilisation tool, at the European Union level to cope with pro-cyclicality and sovereign debt crises by providing a permanent possibility to access European funding at an acceptable cost. Moreover, the ambition to cope with asymmetric shocks and crisis was also left aside in favour of a primary aim of promoting "cohesion within the Union by providing Euro Area Member States with financial support for reforms and investment, as set out in coherent packages"[1]

[1] *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, COM (2019) 354 final.*

MAIN FEATURES OF THE BICC

At this moment in time, the BICC is not defined in all its aspects. Its rules will be the combination of:

MFF provisions, allocating about €17 billion, but open to further contributions from member states through Inter-Governmental Agreements (enabling clause).

A governance framework established with 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, issued on 24 June 2019.

The Regulation establishing a Reform Support Programme, amended as needed to establish operational measures of the BICC.

The legislative acts have to implement the terms of reference set by the Eurogroup and the Council of the EU, on 14 June 2019 and of 10 October 2019.

The BICC is meant to be a financial instrument providing grants to member states for reforms and public investments. It covers Euro Area and ERMII countries on a voluntary basis. The reform or the investment proposals are submitted by the member states. Such proposals should:

- implement Country Specific Recommendations
- be consistent with the Euro Area Recommendations
- be included in the Country-Specific Guidance of the Council

The BICC implies a reinforced role of the Euro Area Recommendations issued in the framework of the European Semester with the Autumn Package and adopted in February.

MAIN FEATURES OF THE REFORMED TREATY OF EUROEPAN STABILITY MECHANISM

The ESM provides financial assistance to countries that have lost market access because of severe financial difficulties. The new ESM Treaty

- introduces a backstop to the Single Resolution Fund to support stability of the banking sector,
- introduces a credit line to financially support countries experiencing severe financial problems but respecting the Stability Growth Pact, while toughening conditions for member states that do not abide by the SGP,
- reshapes prerogatives of creditors in case of debt restructuring.

Finally, the Treaty substantially shifts the centre of the governance from the European Commission to the ESM governing bodies, which is a step away from the overall objective of turning the ESM into EU law.

CRITICAL POINTS

CONCERNING THE BICC

Limited allocation of resources. It is unclear how many resources the BICC will be equipped with. At the moment, the budget is estimated around €17 billion with an enabling clause to cater for the possibility of member states providing additional financing in the future, through an Inter-Governmental Agreement.

Governance strongly controlled by member states. Reforms and investments remain under the control of the Council and the Euro-Summit. The European Parliament is informed within the Economic Dialogue. Social partners are not mentioned. The Commission administers the fund but has less power in prioritising project proposals or to modulate co-financing of the single projects.

Threads for policy coherence. Euro Area Recommendations gain more relevance: it would establish the strategic orientations for the reform and investment priorities of the Euro Area and monitor implementation with reports from the Commission. In parallel, member states propose packages of reforms and investments, linked to the NRP and compatible with the national budgetary process. However, the timing of the European Semester is too strict. Processes that should be consecutive (for instance the Euro Area Recommendations and the NRP) are often elaborated in parallel, without any guarantee of consistency or of policy coherence.

Lack of social dimension. Social partners are not considered as key stakeholders. Social Dialogue is not even considered as a policy tool for a better governance of the BICC. The European Pillar of Social Rights and the Sustainable Development Goals are not even mentioned in the proposed regulations for the Reform Support Programme or for the BICC governance.

Reduced stabilisation functions. While the idea of earmarking 20% of resources to be used on a more flexible basis to react to country specific challenges by supporting packages of reforms and investments that are especially ambitious as measured against the Euro Area priorities, such amounts are too limited (about €3.4 billion) compared to the imbalances within the single market and in the Euro Area.

CONCERNING THE ESM

The **reform of the ESM Treaty** should go **together with the BICC** and the common deposit insurance scheme. The ESM is a risk sharing facility that is necessary to ensure stability to the EURO Area from which all European citizens can benefit from. But its stabilisation function cannot be considered fair and fully achieved without measures that help member states to use fiscal policies and policy measures to stimulate the economy in bad times and protect the European social model. The reform of the ESM Treaty should go together with two important instruments of stabilisation that protect national economies against economic shocks and distribute the benefits of the monetary union more fairly among all EU citizens.

The ETUC considers that the renewed ESM should be adopted as soon as possible. Still, the ESM alone doesn't suffice to deepen the fiscal stabilization functions of the EMU. Apart from the ESM the EMU needs:

- **a financial instrument** (such as the BICC) to support structural reforms and public investment in the euro area with stabilisation properties whose size (in terms of mobilised billions) are proportionate to the size of the challenges that the Euro Area and its members may encounter during the economic cycles.
- a **completed Banking Union** with a common deposit insurance, and a credible solution for ensuring sufficient liquidity for the banks emerging from operations that save them.

Democratic tenure of the Euro Area. Furthermore, moving the governance toward the ESM governing bodies, - taking power away from the European Commission which exercises its prerogatives within the operational and legal framework of the economic governance (as set in the TFEU) - implies that member states will be encouraged to operate as “shareholders” of the Euro Area instead of acting as “stakeholders” seeking to maximise the common good of EU citizens participating the EU project. It risks deepening the democratic gap with a final exclusion of the role of the European Parliament and of social partners from future democratisation of the overall economic governance architecture.

Protection of EU social model. Finally, measures imposed on member states using the ESM facilities should be consistent with the measures of economic policy coordination provided for in the TFEU (e.g. European Semester of Excessive Imbalance Procedures), but no mention is made to the social objectives of the Treaty and the necessity for member states to maintain its path of upward progression of its social performances as stated in the European Pillar of Social Rights. It means that the situation of financial instability of a member states will be detrimental for workers and all those that depend on wage-earners, including the maintenance of adequate and accessible public services.

ETUC PROPOSALS

CONCERNING THE BICC

The ETUC considers the current features of the BICC inadequate for the purpose it has been designed for. The concept of “resilience” of national economies as used in the definition of the BICC, supposes that the strengthening of convergence in the EU can be achieved by improving one's own competitiveness, especially in terms of prices. There is a serious risk that supported reforms would make the productive fabric of the EU even more uniform and favouring solely export-oriented growth model. Instead, the Euro Area needs a multiplicity of growth models that can diversify the production structure.

Without changes in the objectives and rules of the BICC, the risk is that this instrument can be useless or harmful to European workers because it is not conducive to more investments and has no potential to implement the European Pillar of Social Rights. It would also be a lost opportunity to reinforce government expenditure in the direction of a stronger balance between economic, social and environmental aspects of development (UN2030 Agenda).

It strongly urges the European Commission and the member states to:

bind the adoption of reforms and the investments projects submitted by member states under the BICC to qualifying (and impact assessment) criteria that take into account progress in the implementation of the European Pillar of Social Rights and the implementation of the UN2030 Agenda.

ensure that projects financed under the BICC promote additional public investments that reinforce creation of quality jobs, shelter workers against the effects of digital and green transitions and reinforce public infrastructures, especially those related to public services and services of general interest. Any projects that involve the restructuring of public administration and public services should ensure that proper information and consultation procedures are carried out with the trade unions.

enable the European social partners to be consulted on the Euro Area Recommendation at an early stage, in order to have a meaningful assessment of the policy options available and the opportunity to submit proposals at technical and political level.

give national social partners the right to be properly consulted in advance of the National Reform Programmes, or in good time and with appropriate instruments to ensure that their voice and proposals can be heard when member states plan to submit a project under the BICC. Measures should be taken to ensure that social partners have more opportunity to input into and react to the Country Reports as they determine the content of the Country-Specific Recommendations on which projects might be based.

With these criteria fulfilled, the ETUC asks the Commission and the member states to:

increase the total amount of the budget supporting the BICC, also through direct additional contribution of Member States.

agree that the 25% of co-financing can be subtracted from the calculation of the deficit and debt rule under the SGP.

submit the governance of the BICC to stricter accountability of the European Parliament and setting measures for social partners' involvement and so that the impact is assessed against the creation of stable jobs and progress in achieving the objectives of the European Pillar of Social Rights.

ensure the BICC is complementary to EU Funds and in particular the ESIF (European Structural and Investment Funds). Consequently, the BICC has to be managed with the full involvement of social partners as stipulated in the European Code of Conduct on Partnership.

towards implementing the UN2030 Agenda, create an SDG-based matrix of assessment of projects for reform and investment in order to maintain the balance between economic, social and environmental sustainability, through ex-ante evaluation and ex-post assessment of the actions financed through this financial instrument.

CONCERNING THE ESM

The ETUC welcomes the postponement of the signature of the ESM Treaty and asks:

That the ESM Treaty will be adopted together with, or at least treated as a single strategic package which includes:

i) a BICC adapted to the ETUC requests as described in this document and
ii) ii) to the common deposit insurance in the Banking Union.

That the access to credit lines or loans granted by the ESM is subject to more democratic procedures. The responsibility has to stay mainly in the hands of the European Commission and under control and accountability of the European Parliament.

That a reinforced participation of social partners in the Economic Governance of the EU could ensure that social partners could better determine conditions of access to credit lines and loans and avoid tough austerity measures on countries in financial distress.

That the social standards and the EPSR are mentioned and included as permanent and necessary conditions to evaluate measures of economic policy coordination provided for in the TFEU, in particular with any act of European Union law, including any opinion, warning, recommendation or decision addressed to the ESM Member concerned. This would imply that the burden of reforms will be more fairly distributed among all groups of interest.