Deutscher Bundestag

Interparliamentary Conference on Stability, Economic Coordination and Governance in the European Union, 12 October 2020

Presidency summary

As part of the parliamentary dimension of Germany's Presidency of the Council of the EU, the 15th Interparliamentary Conference on Stability, Economic Coordination and Governance in the European Union (SECG) took place on 12 October 2020. Because of the pandemic, the event took the form of a video conference for the first time since its inception in 2013. A total of 131 delegates took part in the conference. Besides Members of Parliament from 26 member states of the EU and the European Parliament, this figure also included Members representing the parliaments of Albania, which is a candidate for accession to the EU, Liechtenstein, Norway and the United Kingdom.

After the conference had been opened by the President of the Bundestag, Dr Wolfgang Schäuble, the delegates debated topical issues of budgetary, financial and economic policy at three sittings. The first sitting, devoted to the interaction between monetary and fiscal policy in the Economic and Monetary Union, was chaired by Dr André Berghegger, MdB, head of the Bundestag delegation. The second session, on the future of the European fiscal rules, was led by Dr (h.c.) Hans Michelbach, MdB, a member of the Bundestag Finance Committee, while Oliver Wittke, MdB, a member of the Bundestag Committee on EU Affairs, presided over the third session, which focused on the economic recovery of Europe.

1. Opening of the conference

In his words of welcome, Dr Wolfgang Schäuble, President of the Bundestag, described national parliaments in the EU as "transmission belts" between citizens of the EU and its institutions. Given the need for reforms in the EU, he said, parliamentarians should make the most of this role and see the current crisis as an opportunity for change. The most urgent tasks, he added, should be tackled first, such as the extension of qualified majority voting to more policy areas and a fundamental discussion about the division of responsibilities between the EU and the member states. He reminded his listeners that many of the problems faced by member states could only be solved in the EU framework and only by working together. This, he said, was also true of the issues on the conference agenda.

Dr André Berghegger, MdB, head of the Bundestag delegation, dealt in his opening words with the importance of interparliamentary discussion in the present crisis. Crises were commonly seen as times when the executive came to the fore, he said, but this did not absolve parliaments of their responsibility for scrutinising government actions, which was why the SECG Conference was taking place at an opportune moment.

2. Session I: New partnership: will monetary policy now receive the requested fiscal support?

In her keynote address, Professor Isabel Schnabel, a member of the Executive Board of the European Central Bank (ECB), gave an overview of the monetary policy of recent years. She illustrated the radical changes that had taken place by tracing the development of two key indicators. Over the past two decades, the ECB’s main refinancing rate declined from levels close to 5% to 0%. Consumer price inflation averaged 2.2% from 1999 to the eve of the global financial crisis in August 2008, but only 1.2% since then, well below the ECB's inflation target of "below, but close to, 2%". The same developments, she said, were also observable in other currency areas. A deep analysis of these and other issues would be the subject of the ECB's monetary policy strategy review that the ECB’s Governing Council has just resumed after the pandemic-induced pause. Professor Schnabel did, however, point to external factors including global excess savings, ageing societies and lower productivity growth causing a decline of the real equilibrium interest rate. This, in her view, had two broad consequences for the conduct of monetary policy: First, as the real equilibrium interest rate sank, ever lower central bank rates were needed to stimulate growth and investment. Second, years of weak aggregate demand and price pressures forced central banks worldwide to find additional instruments that could provide policy accommodation when their main policy rates were approaching zero. At the same time, monetary policy had not become powerless, and the criticism that had been levelled at ECB policy was unjustified, she said. In particular, there was no evidence that purchases of government debt had undermined the disciplinary function of financial markets or created substantial moral hazard. To the contrary, the provision of sufficient liquidity had been crucial in allowing the financial sector to act as a backstop for the euro area, preventing the health crisis from turning into a full-blown financial crisis. However, Professor Schnabel emphasised that, at times of significant uncertainty, private investment may not fill the gap left by the pandemic in spite of very favourable financing conditions. In these situations, monetary policy cannot unfold its full potential. Fiscal expansion would then become indispensable in order to sustain demand and mitigate the long-term costs of the crisis. Despite of the foregoing, Professor Schnabel argued that it would be misleading to speak of a new “partnership” between fiscal and monetary policy. After all, partnership implied a degree of coordination inconsistent with an independent central bank.

Olaf Scholz, Germany's Federal Minister of Finance, referred in his keynote address to the SECG Conference having its roots in the financial and sovereign debt crises; its creation, he said, had strengthened European democracy. He expressed satisfaction that the European Union had been quick to show solidarity during the pandemic. As a consequence, no country had experienced financial difficulties. The new Multiannual Financial Framework and the recovery programme were a great step forward, especially since they enabled the Union to invest huge sums in strategic technologies. Mr Scholz emphasised that (i) the funds were being borrowed by the EU itself and were not to be used to fund current budgetary expenditure but, instead, for investments, (ii) repayment of the loans was to begin soon, and (iii) the EU was to obtain new own resources. Hence, the EU was moving closer together in the sphere of fiscal policy, although progress was still needed with regard to the banking and the capital markets union. Despite the latter, Mr Scholz considered that the EU was on the way to becoming a “more perfect union”.

In response to questions from a delegate, Professor Schnabel addressed the issues of rising house prices and growing inequality. She refuted the suggestion that the monetary policy of the ECB had had no effect on the real economy. Many households in euro area countries owned real estate, therefore benefitting from rising house prices. However, she concurred, that there was a need to rethink whether the right measure of inflation was being used. Mr. Scholz diagnosed an investment gap in the real economy, but said that it had nothing to do with the issues of inflation and rising house prices. He urged that financial investments be redirected towards the real economy. He also referred to the need for government investments in public infrastructure. Lastly, Mr Scholz stated the case for a higher equity quota in the context of investments.

Asked when monetary policy was likely to return to normality, Professor Schnabel replied that the ECB's monetary policy was primarily determined by its mandate and incoming data. The decline in the real equilibrium rate of interest had resulted in conventional monetary policy instruments approaching their limits. Hence, the use of non-standard instruments had become necessary. Uncertainty, particularly people's fear of losing their jobs, was one of the major issues in the current pandemic, she said, and could result in households reverting from consumption to precautionary saving. This was compounded by a lack of private investment. The main response had to be on the fiscal side; in contrast to the previous crisis, monetary policy was not the predominant tool. The ECB's future monetary policy depended on how the economy evolved and how fiscal policy reacted. Monetary policy could only support the *Next Generation EU's* fundamental, namely to generate long-term growth, she said. Mr. Olaf Scholz stressed that the EU had given the correct fiscal response. Its clear announcements, he said, had created market confidence in the European answers to the crisis. Anyone examining the huge programmes would see that they address the current problems, which related to issues such as short-time working and investment in health services. Investment requirements, he said, must be met quickly; money had to be injected during the crisis, not when it was too late.

The coordination of economic and tax policies was also discussed. Mr. Scholz called for action to counteract further tax base erosion and profit-shifting. Efforts to combat tax avoidance had been stepped up, he said. In that context Mr. Scholz cited the efforts that were being made in the OECD framework. Professor Schnabel explained that the pandemic had led to greater divergence in the euro area, which was not attributable to the Member States' conduct but to different degrees in the pandemic's impact on Member States. Fiscal policy must find a way to tackle these divergences.

Almost as a prelude to the next session, the question was raised as to whether the rules of the Stability and Growth Pact were still fit for purpose. Mr. Olaf Scholz expressed the view that the fiscal rules had demonstrated their flexibility. It was a step forward, he said, that the EU could now borrow funds collectively and that repayment was to begin during the Multiannual Financial Framework's term. Professor Schnabel saw a need for reform of the Stability and Growth Pact, because the fiscal rules were too complicated, hard to enforce and pro-cyclical.

3. Session II: The future of the European fiscal rules: are they still constructive?

In his keynote address, Klaus Regling, Managing Director of the European Stability Mechanism (ESM), recalled that the Stability and Growth Pact had often been implemented pro-cyclically in the past. In boom times, member states had often failed to create buffers in their budgets with which they could take fiscal measures to counteract a recession without violating the rules. Since the rules had been temporarily suspended for the first time in March 2020 because of the COVID-19 pandemic, what was needed now, said Mr Regling, were clarity on the fiscal path for member states for the next two to three years and reflection on how to shape the fiscal rules so that they would be transparent and effective.

EU Commissioner Paolo Gentiloni criticised the fact that, in the past, the EU fiscal rules had not led to a reduction of debt levels in every member state. The existing rules were also too complex. In addition, the right balance between macroeconomic stabilisation and debt sustainability had not always been achieved. Be that as it may, in an economic and monetary union, and hence in the eurozone, coordination of national fiscal policies was essential. It was important to make the rules simpler, he said, and to find ways of encouraging investment. There was also a need to reflect on the role that the debt rule should play in the framework. In addition, a permanent fiscal stabilisation capacity was required at the European level to complement the role of monetary policy.

In the subsequent discussion with delegates, Commissioner Gentiloni confirmed that the general escape clause in the Stability and Growth Pact would definitely remain activated in 2021 and possibly in the following year too. The determining factor would be economic developments in the member states. ESM Managing Director Regling did not accept the argument that the planned high levels of government debt associated with recovery aid would harm future generations. If all the national and European fiscal measures had not been taken, he said, there would be a real burden for future generations, because GDP would have dropped even more. Accordingly, the full-scale response on the part of the European institutions and national governments, in Mr Regling’s view, was in the interests of future generations.

There was overwhelming agreement that the European fiscal rules should be simplified. An apparently more contentious point was whether certain types of expenditure should be exempted from the fiscal rules, for example to facilitate investment in the digital and green transition.
In summary, the chairman of the meeting, Bundestag Member Dr (h. c.) Michelbach, stated that a redesign of the European fiscal rules was only reasonable after the economic crisis had been overcome. If the member states’ different experiences as well as the European institutions’ knowledge were taken into account in the revision, the EU could achieve a rulebook that would be accepted by all.

4. Session III: Europe in recovery: what are the next steps?

The purpose of this session was to review the economic situation in Europe and to examine what the essential requirements would now be for the recovery of the economy and economic activity after the COVID-19 pandemic.

Peter Altmaier, Federal Minister for Economic Affairs and Energy of the Federal Republic of Germany, had identified three great challenges which, in his view, Europe had to tackle simultaneously, namely economic recovery after COVID-19, the digital revolution and the achievement of climate-neutrality by 2050. It was therefore right, he said, to place strong emphasis on all three of those challenges now, at the peak of the pandemic, not least because there was a common interest throughout the internal market and the single monetary area in the progress of economic development in all EU member states. COVID-19 had hit the European economy with unprecedented severity, but the crisis also offered the EU an opportunity to set itself up better for the future. Europe, said Mr Altmaier, must play a leading role in processes such as digitalisation, data processing and artificial intelligence, because these developments would have a profound influence on future growth and on the job market. The EU, he said, had set itself the aim of achieving climate-neutrality within thirty years. It was not waiting to see how industrialised nations in other parts of the world dealt with this issue; it was taking action. The Economics Minister emphasised the importance of the European Parliament and national parliaments as drivers of European integration and hailed the cooperation and exchanges between the various political tiers at the conference.

What was needed now, Mr Altmaier added, was the quickest possible agreement between the European Commission, the member states and the European Parliament on the Multiannual Financial Framework.

Valdis Dombrovskis, Executive Vice-President of the European Commission, said that the EU had shown the world at the start of the pandemic that it could act quickly and resolutely to protect livelihoods, to stimulate the economy and to bring about recovery together. Unfortunately, however, Europe was still in an exceptional situation, and the European economy was mired in the deepest recession in its history, he said. The EU and its member states had cooperated well to contain the shock. At the same time, there were still many challenges, such as the increasing number of company insolvencies and the problem of non-performing loans. Vice-President Dombrovskis emphasised that the EU now had a unique opportunity to help all member states to emerge stronger from the economic crisis. The recovery fund, he said, gave the EU an opportunity to invest in the resilience of member states' societies and economies as well as in the green and digital transitions. The package, said the Vice-President, was an unprecedented response to an unprecedented crisis; now the European Council and the European Parliament needed to agree quickly on the package so as to make funds available for the start of 2021.

Mr Dombrovskis called on the German Presidency of the Council of the EU and on member states to ratify the own-resources decision as soon as possible. He emphasised that member states should join forces for their projects under the Recovery and Resilience Facility in order to generate a European impact and explicitly welcomed several projects that France and Germany had jointly proposed. Reforms and investments, he said, reinforced each other. For that reason, national plans would be assessed against the 2019 and 2020 country-specific recommendations contained in the European Semester. The European Parliament and national parliaments had key roles to play, he said; their involvement and scrutiny would be vital to make sure that the plans were well designed, top-quality and properly focused. Ownership of a country's plan by national parliaments would be the key to effective implementation, which, the Vice-President said, could generate an extra 2% of GDP by 2024 and create two million new jobs.

Bundestag Member Oliver Wittke, who chaired the session, emphasised the need to find incisive answers to the unprecedented collapse of economic activity. It was important, he said, that national parliaments and the European Parliament should be closely involved in the implementation of the programmes. The Recovery and Resilience Plans that member states had to submit in order to obtain funds from the *Next Generation EU* recovery programme required parliamentary monitoring. Mr Wittke emphasised that the targeted allocation of funds depended crucially on national aid measures being dovetailed with the European programmes.

In the discussion, concern was expressed that timely completion of the negotiations on the Multiannual Financial Framework and the associated recovery programme might not be achieved. There was broad agreement that the aid measures must be rapidly made ready for implementation so as to provide sustained support for the economic recovery. There was criticism of the fact that parliaments had not been involved from the outset in the process of developing the aid measures. There were calls for an even sharper focus on the digital revolution and climate action in the allocation of funding, and individual delegates called for early progress in the development of new sources from which the EU could obtain more of its own budgetary resources. During the debate, demands were made for a temporary relaxation of the EU procurement directives so that funds could be more quickly disbursed to stimulate the economy, but other participants voiced criticism of this proposal.