

# Achieving Europe's competitiveness through closer integration

Polish non-paper

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**Conclusions of the February European Council<sup>1</sup>** indicate that European Union is capable of dealing with the current economic crisis. Decisions, impossible to imagine a few years ago, are emerging as a result of the ongoing policy response to the economic and financial crisis, only to mention the Stability and Growth Pact reform (including stricter sanctions) or the creation of a vital economic institution the European Stability Mechanism. **Deepening the economic integration is a right response to the crisis** given that European economy's fundamentals are more solid than those of our global competitors.

**The common currency is a cornerstone of the European project and it has to be strengthened by greater economic integration. Therefore Poland fully supports strengthening the economic coordination and stability of the EU through improved integration of Member States' economic policies.** Stronger economic dimension of the Economic and Monetary Union seemed indispensable for many years and now we make it reality.

**Fiscal prudence begins at home and therefore strong, legally binding limits for public debt or deficit should be implemented.** The Polish constitution limits public debt to 60 percent of GDP. It is supplemented with additional fiscal rules in the secondary legislation. They envisage actions aimed at reducing deficit when the debt-to-GDP ratio exceeds threshold of 50 and 55 percent. In such situation the government is obliged to impose additional measures that limit the deficit. Poland has recently introduced another fiscal rule that limits discretionary and new legally mandated expenditures to 1% above inflation. Currently the government is working on a complex fiscal rule that would curb total public spending in the future on a permanent basis. These national aspects of macroeconomic surveillance should be supported by a strict application of the Council directive on requirements for budgetary frameworks of the member states. It is the role of the Council and the Commission to monitor implementation of these solutions.

**Competitiveness of the EU might be strengthened by a more efficient tax policy.** Comprehensive and stable corporate tax system could boost Europe's competitiveness. Notwithstanding that regulating tax rates is a domain of member states, the upcoming Polish presidency stands ready to work on the Commission's proposal on the Common Consolidated Corporate Tax Base to be published in March. We will welcome discussion aimed at improving competitiveness of the EU by broadening the tax base and eliminating tax exemptions. **A simple corporate tax base will strengthen European economy only if it is globally competitive.**

**Rising life expectancy of Europeans implies greater public spending. Therefore member states should reform their pension systems.** Over 10 years ago Poland has introduced a defined-contribution scheme which helps tackle those liabilities that still remain implicit in many member states. **Fair treatment of ambitious pension reforms at the EU level should be guaranteed as it would create incentive for reform.** More competitiveness can be also achieved by market-based wage indexation which decreases the risk of inflation.

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<sup>1</sup> "Building on the new economic governance framework, Heads of State or government will take further steps to achieve a **new quality of economic policy coordination** in the euro area to improve competitiveness, thereby leading to a higher degree of convergence, without undermining the single market. Non-euro members will be invited to participate in the coordination. (...) The Heads of State or government of the interested non-euro area Member States are duly involved in the process."

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**Crucial solution to European challenges is a true single market as it has a real potential for raising growth. Therefore the EU should design and implement ambitious Single Market Act.** The Polish presidency stands ready to work in a determined fashion to make maximum progress on the SMA package. It is also important to secure adequate financing for strategic areas of R&D, education and infrastructure as they underpin the single market. Open public tenders can also contribute to the economic growth of the EU as a whole.

**Systemic solution for the banking sector is needed to fend-off the crisis.** It should be achieved by implementing necessary rules at the EU and national level. Poland avoided recession due to solid financial regulation framework and growth enhancing cohesion policy investments. The debate can be based on the current Commission proposal on „technical details of a possible EU framework for bank recovery and resolution”.

**Profound response can only be built with full involvement of the interested parties.** We therefore welcome inclusive initiatives that allow every willing Member State to participate. Inclusiveness has always been a cornerstone of the European integration and we need to respect this basic principle, especially in the difficult crisis times.<sup>2</sup>

**Poland unequivocally supports a strong role of the EU institutions, including legislative role of the Commission, in coordinating our economic policies.** The EU institutions are an effective forum of balancing interests of member states. Therefore any initiative should be in line with *acquis communautaire*. As regards the instruments of achieving these policies, it is important to recall the European Council conclusions. “In the context of the European Semester and on the basis of the Annual Growth Survey presented by the Commission, the March European Council will identify the priorities for structural reforms and fiscal consolidation for the next round of stability and convergence programmes as well as in the EU's areas of competence, including the single market. On this basis, and steered by the Europe 2020 integrated guidelines, Member States are invited to submit in April their national reform programmes as well as their stability or convergence programmes.” Full support of this approach is in European interest. **Instruments that were created recently to strengthen economic coordination should be fully exploited.**

Europe may envisage ambitious actions that fall outside the scope of the European treaties and do not violate the free movement of persons, services and capital. However, let us first consider what is possible within the current framework. Articles 5 and 121 of the Treaty on the Functioning of the European Union leave a great flexibility for agreeing social and economic policies at the EU level. We should explore these together with the enhanced cooperation possibility.

**Achieving Europe's competitiveness through closer integration is our common interest.**

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<sup>2</sup> This position is consistent with a very high support of the Polish society for the EU, which the government is securing by inclusive participation in the EU's economic governance.