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NOTE

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	European Semester for economic policy coordination
	Brussels, 27- 28 February 2012

PLENARY SESSION/ COORDINATING NATIONAL POLICIES WITHIN THE EUROPEAN SEMESTER

At the opening of the second inter-parliamentary meeting on Monday 27 February on the European Semester for Economic Policy coordination, bringing together national and European parliamentarians, both Presidents Van Rompuy and Barroso praised the event as an example of European democracy in action, underlining its significance in reflecting the growing interdependence and co-responsibility of European and national politics.

The debate was opened by the Chair of the European Parliament Committee on Budgets, Alain Lamassoure (EPP, FR), who stressed that deeper economic co-ordination could not be carried forward without the participation of the European and national parliaments, and by EP Vice-President Gianni Pitella (S&D, IT) who focused his remarks on the need to enhance democratic legitimization and growth.

Presidents Van Rompuy and Barroso delivered the speeches in annex.

In the subsequent exchange of views, several national parliamentarians such as Ms Muriel Gerkens (Greens/EFA, BE), Chair of the Committee on Finances and Budget, Mr Marini (EPP, FR), Chair of the Committee on Finances, Mr William Cash (ECR, UK), Chair of the Committee on European Scrutiny, Ms Elisabeth Svantesson (EPP, SE), member of the Committee on Finance as well as some Members of the European Parliament including Mr Alejandro Cercas (S&D, ES), political coordinator in the Committee on Budgets and Mr Hoan Ngoc (S&D, FR) took the floor to address a range of issues such as how to ensure compatibility and coordination between national and European budgetary cycles, growth, jobs and the EU2020 objectives in the European Semester, the application and scope of Article 13 of the new treaty, the consensual use of neutral figures in the European Semester and the issue of democratic legitimacy and scrutiny.

Both Presidents Van Rompuy and Barroso reiterated the independence and impartiality of the European Commission. President Van Rompuy noted that despite the complexity of the exercise, it was possible to reconcile national and budgetary cycles. He noted that it was up to national parliaments and the European Parliament to agree on how to organise future interparliamentary forums. President Barroso pointed out that, in its Annual Growth Survey, the Commission had addressed many of the EU2020 Strategy targets, and that fiscal discipline was not an end in itself. He also agreed with the deepening of the single market and the consolidation of public finances to restore confidence and trust to stimulate private consumption and investment in order to promote growth and job creation.

The meeting continued with two separate workshops on fiscal discipline and restoring growth.

In the workshop on fiscal discipline a number of national parliamentarians spoke about the domestic approaches in their countries to the current economic situation. In response to a question on the "Two-Pack", Ms Ferreira, the rapporteur, agreed that the notion of structural deficit had to be clarified. She considered that the Six-Pack could be useful in clarifying why some MS enjoyed permanent surpluses, and why some economic policies could interfere with those of other MS. She announced amendments to the timetable of the European Semester and said that the Two-Pack should be complemented with a Redemption Fund that would run alongside the European Stability Mechanism.

Mr Gauzès, rapporteur, assured Mr Cash (UK) that the EP was not seeking to take powers from National Parliaments. He criticised the recent position of the Ecofin Council on the Two-Pack, as the Council should have more to say on enhanced monitoring, and should not, for example, leave to the Commission the responsibility for assessing which MS were in serious difficulties.

Ms Bowles (ALDE, UK) chair of the ECON Committee concluded by recalling action being taken within the EP to promote growth and competitiveness, project bonds, and the coordination of financial services. She also recalled that the economic dialogue with Finance Ministers took place on a voluntary basis, although she stressed its importance given the interconnection of the economies of the MS.

PLENARY SESSION "INTERNATIONAL AGREEMENT ON A REINFORCED ECONOMIC UNION: WHAT NEXT?"

<u>Mr Gualtieri (S&D, IT</u>), referring to the Fiscal Compact to be signed at the next European Council, mentioned the intergovernmental nature of the Treaty and the European Parliament's initial reservations on the value of such a text given the recent adoption of the six-pack, and on the procedure followed for its adoption. He considered however that the EP had managed to avoid having a parallel set of governance put in place, which would derogate from the community method, and had ensured a coherent text, a valuable complement to existing legislation, and respect for both the community method and the traditional role of European institutions. He also considered that the final wording of the text, notably its Article 3, had been significantly improved thanks to the European Parliament's involvement. It was now an option and not an obligation for the Member States to enshrine this new set of obligations into their Constitutions, and the wording was now more in line with existing European legislation. He referred among other elements to the ECJ role in the new set-up, which he considered could be further clarified.

<u>Mr. Brok (EPP, DE</u>) referred to some of the reasons justifying the need for this treaty, as well as to some of its main features (enhancing budgetary discipline, obligation for the signatory Member States to introduce the golden rule in their internal legislation). He remarked that the new treaty did not aim at resolving the current crisis, but was a necessary complement to the institutional architecture put in place to guarantee sound public finances in future. He referred to the need to overcome imbalances in Europe so as to ensure continuous and sustained growth. He called for structural funds to be used in a way which reflected their original purpose.

<u>Mr. Jens Joel (MP, DK)</u>, referring to the economist Joseph Stiglitz, argued that fiscal discipline was not enough to overcome the crisis and advocated further investment. He referred to the doubts expressed within the DK National Parliament regarding the six- and two- packs, the European Semester and the new Intergovernmental Fiscal Treaty and the need to involve national Parliaments. He considered that what was needed was fresh money to stimulate growth and job creation, welcomed the new focus of the European Council on growth and jobs and the Commission's proposal for project bonds, and referred to the DK Presidency slogan "Europe at work" as the way forward to create jobs and growth. <u>Mrs. Goulard (ALDE, FR)</u> considered that the "Fiscal compact" was useful to allow the ECB to pursue its mission in its current form. She considered that the fiscal compact was the end of a cycle dedicated to improving fiscal discipline and that the focus should now be on growth. She noted that the EU, by deciding on the creation of a single currency back in 1992, had entered a new political era and that this implied a new institutional framework and behaviour for those Member States which had decided freely to adopt the euro. She considered that the issue was now one of the collective credibility of the EU, which needed to be preserved and ensured in a pragmatic way, notably by ensuring that EU citizens have a stake in the relevant legislation. She considered that putting together 27 national democratic legitimacies did not automatically deliver collective EU legitimacy and that the democratic scrutiny of the work at European Council level had to be ensured as well. She also referred to the interdependence between MS. All in all, she considered that this was only the beginning of a process and that much more needed to be done to put the EU on a growth path.

MPs from national parliaments made a number of interventions. Mr Cash (UK) expressed serious doubts about the legality of the draft agreement and considered that it could endanger the viability of the EU in the long run. Mr. Clapisson (UK) asked for clarifications, notably on the compliance with the treaty provisions in case of high unemployment and recession levels. Mr. Slocija (SI MP) noted that debt levels had doubled within a few years in his country; that the priority of the new treaty was to ensure balanced budgets, but that the foundation for further growth was the level of competitiveness; that austerity and fiscal consolidation were important but could not be an end in itself. Mr. Bodru (LU) questioned the added value of the golden rule decided at EU level in the current economic context and noted that it was not for the EU to decide on the constitutional order of its Member States. Mr. Lyndon Harrisson (UK) referred to the House of Lords' position on a number of issues and conveyed the view that the UK should have signed the Treaty.

Mrs. Berès (S&D, FR), Chair of the EMPL Committee pointed out the macroeconomic divergences which made the overall situation unsustainable. She considered that the six pack, while not perfect, at least addressed the issue of macroeconomic balances whilst the new treaty did not. She recalled that the UK conditions for accepting the treaty, i.e. to be exempted from financial legislation, were unacceptable. She highlighted the importance of ensuring balance between discipline and growth, which was not the case with the new draft treaty.

Mr. Giorgetti (IT) considered that people should be involved in such decisions through referenda. Mr. Ngoc (FR) noted that the structural deficit depended of the levels of consumption and investment and that this needed to be examined further. Mr. Pinto (PT) questioned the notion of structural deficit and the possibility of Member States to bring proceedings against other MS, and noted that if discipline were not complemented by growth, the whole set-up could not properly work.

Mr. Brok, EPP, DE called for better coordination between the NPs and the EP, agreed that the crisis could only be solved through growth, while considering that growth would not come about without restoring sound public finances and without a sustainable reform environment.

Mr. Gualtieri (S&D, IT) expressed some doubts on Article 8.2, noted that the fiscal compact did not add anything to the sanctions provided for in the six pack; referred to a three-levels structure of sanctions provided for in the overall legislative set-up. He acknowledged that the issue of macroeconomic imbalances and of the economic crisis was not solved yet and called for the creation of project bonds, for an ambitious EU budget and for the creation of financial transaction tax to raise money to be geared towards growth and jobs creation.

Mr. Lamassoure, EPP, FR suggested institutionalizing the current dialogue between national Parliaments and the EP.

Mrs. Vestager concluded the debate by calling for all these elements (consolidation of public finances, stabilization of national economies, of well-working financial markets, national structural reforms) to become European growth drivers and to stimulate investment and consumption.

Commissioners Rehn and Andor concluded the debate.

Speech by President Herman Van Rompuy to the Interparliamentary Committee meeting on the European Semester for Economic Policy Coordination

It is a pleasure to say a few words at this important event. Your gathering here today and tomorrow is itself a sign of the changing times. It shows the growing interweaving of European and national politics.

In the old days, exaggerating just slightly, the European Community used to exist on one planet, and national politics on six, nine, twelve, fifteen other planets. This is over now. The debt crisis, difficult and painful as it is, brings home the fact that the Union is us.

Right here and now, in everyone's daily life. Europe is not a great abstract idea for the future, no it is our daily experience!

Our interdependence is more clear than ever, and so is co-responsibility. Co-responsibility of the governments and institutions, to overcome the crisis. Co-responsibility also, of national parliaments.

Since the start of the Greek crisis, the events forced such momentous decisions upon us that national leaders had to step in, together.

Via national leaders and governments, national parliaments have also become more implicated than ever in the day-to-day business of the Eurozone. Just think only of the negotiations of the most recent Greek package. National tax payers' money was and is at stake. Given the relatively limited size of the central European budget, this was the only instrument available.

And all the while the European institutions play their essential role. The European Parliament was decisive in keeping its line in the discussions on the six-pack. There is no zero-sum game here.

Decisions by one national parliament -- be it in Germany or Ireland, in Slovakia or Portugal -- are watched all over Europe. Maybe not formally speaking, but at least politically speaking, all national parliaments have become, in a way, European institutions.

This is political interdependence: the decisions of one affect all. Fiscal irresponsibility put the Eurozone in danger. A lack of solidarity could have produced the same result. Debtor and creditor countries have to work together. And in general, the economy of non- Eurozone countries also depends on the Eurozone. We carry a common project, especially those in the Eurozone, even if the choices are made nationally. Forgetting this in our actions undermines the common good.

How did this come about? Some would say dismissively that national leaders have only acted for the European good under the pressure of events, not out of inner conviction.

Well, the pressure of events can be very effective too. Ideas can guide men; hard facts teach them. When I say the crisis put Europe's national leaders face to face with coresponsibility, two reasons spring to mind why it fell upon them, personally.

First of all, as I said: there is a lot of money at stake. The public debt crisis, like the banking crisis in 2008, requires taxpayers' money (albeit also in loans and guarantees).

Given that the central EU budget is relatively small (ca. 1 pct of GDP), the EU institutions as such cannot act decisively on their own. It is therefore essential for the Member States to step in. And the amounts are such -500 billion, or more than 5 pct of the GDP of the Eurozone that within countries the decision can only be taken at the highest political level.

Many prime ministers would prefer this issue to stay in the hands of their Finance Minister... Yet the need for national money is simply a fact.

Secondly: in times of crisis, we reach the limits of institutions built on attributed competences. When we enter uncharted territory and new rules have to be set, the European Council, bringing the 27 country leaders, the President of the Commission and the President of the European Council around the table, is well placed to play its part.

Not everybody is satisfied by this situation. Some political actors feel side-lined. Some say the traditional "Community method" is abandoned. I have a more nuanced view. Over the past two years, we have worked to make sure that Europe's institutions can deal with this new interdependence. And even if we had to use in part the "intergovernmental" road..., the work we have been doing has actually -- and paradoxically -- resulted in stronger central institutions.

The Commission has received unprecedented supervisory power. The Court of Justice will control the transposition of the debt brake. The European Parliament was decisive in designing the new budgetary and macro-economic surveillance, the so-called "six-pack", which is the backbone of the whole enterprise.

In the three major recent efforts by the Union to give itself a better economic governance – the Task Force which I chaired on economic governance, the Euro Plus Pact, the Fiscal Compact – I worked hard together with the Commission to bring the results within the normal EU framework.

When it comes to budget policies, everybody now acknowledges these are a matter of common interest. We have worked to align legislation and practice on this principle. The division of labour in this field is subtle. Member States set the ceiling on debt and deficit together, at the Union level, and they decide individually how to raise money and spend it.

Within this division of labour, the national parliaments keep their budgetary sovereignty, at least as long as national policies do not threaten the financial stability of the whole. To prevent that, countries in excessive deficit will conclude a 'contract' with the Commission to bring down the deficit below the 3 pct ceiling.

Nevertheless there is some uneasiness among national politicians about the EU's new tasks. Yet recent events show that each and every part of national political life can take on a European dimension! Every national MP should therefore take an interest in talking to fellow parliamentarians in Strasbourg and in other member states – a member of the Bundestag can only gain from speaking with, let's say, Italian or Slovenian colleagues -- and vice-versa!

The new Fiscal Treaty introduces meetings of the budget committees of national parliaments with the European Parliament. Even if this forum does not take decisions, it is important as a forum of exchange, as an eye-opener.

In my feeling it is in everybody's interest -- also that of the European Parliament -- that this forum works. As an outsider, I sometimes have the impression that the EP and the national parliaments live in different worlds: the one always pushing for more integration, the others focussing on domestic issues and pulling the brakes. That is why it is important to understand each other's perspective!

This year is the second time the European Semester is in place. But it has already been much strengthened since last year. The basic calendar remains the same: from the Commission's Annual Growth Survey (this time already in November 2011), via the National Reform Programs and others, to the June European Council which closes it.

But along this process, our tools have been strengthened, in particular thanks to the entry into force of the so-called "six-pack" for budgetary and macro-economic oversight. I should like to underline that this doesn't apply to the same extent to non-Eurozone members; for them the new sanctions do not apply.

As you know, the Commission is now monitoring the budgetary cycles, giving its opinion on the draft budgets, allowing you, the national parliaments, to better dialogue with your own government.

In the framework of the European Semester, the Commission also assesses macroeconomic policies (beyond fiscal issues). For instance, it recently decided to do extra reporting on imbalances for 12 countries, including countries with surpluses on the balance of payments (Sweden, Denmark). The Council can make recommendations to Member States to correct imbalances; when these are not followed, sanctions will ensue.

Now, once again, this new way of working reflects the new political reality of Europe after the crisis: the awareness that what happens in one country affects its neighbours, especially within the Eurozone. This can be about budget deficit, but also about economic reforms, for instance on the labour market, having a major impact on the rest of the Union. The Commission and other euro area Member States have to be consulted before adoption of any major fiscal or economic policy reform with potential spill-over effects, so as to allow for an assessment of possible impact on the euro area as a whole.

Here the old slogan of the three musketeers applies: "All for One; One for All!" It is the responsibility of the parliaments to adapt themselves to this situation.

Sometimes people say we take decisions behind closed doors. I do not think any government or any board of directors would take vital decisions with the cameras running...But we do take these decisions having listened very carefully to all points of view.

In meetings of the European Council, one feels the presence around the table of all the parliaments which you represent. Not only do we listen to the President of the European Parliament at the beginning of each of our meetings – a Parliament to which one of our colleagues, President Barroso, is directly accountable. Many national leaders, in our discussions, refer to the position of their parliament, to defend specific amendments.

In that respect I sometimes have the impression that I am the only one in the room without a parliament! As a long-time elected politician, and a former President of a national parliament, I miss this dearly! I do have voters of course, but they are only 27 -- 27 electors all democratically elected themselves!

Sixty years of integration has taught us that Europe is not built by dissolving Member States, but by infusing them ever more deeply. A slow process which sometimes gets a sudden push. In this crisis we have reached a whole new level of cooperation, a sort of European home affairs. "Europe is domestic policy."

And that is why it is so important to have dialogues like the one of today.

Speech by José Manuel Durão Barroso President of the European Commission "Unity in difference, strength in convergence" Interparliamentary committee debate on the European Semester Brussels, 27 February 2012 (check against delivery)

Mister Chairman, Vice-President of the European Council, Honourable Committee Chairs, President of the European Council, Dear Members,

It is a pleasure to be here to open this interparliamentary debate on the European Semester. I warmly welcome the European Parliament's initiative to organise this meeting and I am particularly happy to have the opportunity to exchange views also with representatives of the national parliaments, which, by putting in place reforms on the ground, have a really crucial role in the process.

This interparliamentary debate is an example of European democracy in action. In a globalised and connected world, I believe it is essential to strengthen European democracy by enhancing the relationship between the national democratic processes and the European democratic process. The European Semester is a way to anticipate and prevent dangerous economic imbalances before they spillover to other countries, and as such, is an integral and central plank of our comprehensive approach to resolving the crisis and working for sustainable growth.

This type of meeting is crucial in ensuring its democratic legitimacy.

I wish to focus briefly on three elements today. The first is the importance of the Semester in our response to the financial and economic crisis. The second is how the Semester can help to prevent future crises.

And finally I would like to mention some of the steps we can all take to maximise and improve the process – both in terms of its economic and democratic elements.

The first point: the European Semester's purpose is to strengthen coordination between Member States' budgetary and structural policies while they are still in preparation, in order to detect inconsistencies and emerging imbalances. President Van Rompuy explained this in a very clear way so I can go fast.

Just to highlight that the Commission kicked off the second of these Semesters in November last year with our Annual Growth Survey for this year 2012. We set out five priorities on boosting growth and competitiveness, in areas such as restoring bank lending, tackling unemployment and promoting competitiveness. These have been largely supported by finance and employment ministers in the Council.

On Thursday, the Heads of State and Government will meet here in Brussels with me and of course under the chairmanship of the President of the European Council to discuss these challenges and how to address them.

This will open the next phase of the European Semester, where Member States will present their national economic reform programmes.

Without going into all the subsequent phases of the Semester, the point I want to make is this – the Semester is a process of mutual support, of learning and of common and practical guidance and workable solutions to the problems we face today. Let me give you some examples of the type of solutions and support I mean. I mean for instance constant guidance throughout the process by the Commission and the Council because the problems are common and have of course consequences for the whole European Union.

I mean for instance bilateral meetings with each and every Member State followed by targeted and relevant recommendations. And I also mean Commission action teams being sent to the eight Member States with the worst problems of youth unemployment during February, to help identify how their unspent structural funds could be used to get young people into work. So it is not only about the classic macro-economic surveillance and enforcement, it can also be a real dialogue and interaction about economic policy and how we can get back to sustainable growth.

Moreover, by linking the Semester into the wider economic governance structure we ow have in Europe, and into the Europe 2020 strategy for growth, the Semester lays a pivotal role in providing the stability we need to restore confidence. Of course there will be no growth without confidence. And there will be no resolution to this crisis without growth.

I want to underline this element of sustainable growth because one of the critical points, as political leaders I am sure all of you have identified, is the need to mitigate the social consequences of many of the painful reforms that are taking place in many of our Member States and also to have parts of the social acceptability, the political visibility of these very ambitious programmes. That is why I insist we have to be clear about the goal, the goal is growth. Fiscal consolidation is not an end in itself and it is important that the citizens of Europe are aware of the goals we are pursuing together with these reforms so that they understand what are the sacrifices for, and even more, that the sacrifices are distributed in a fair manner and not only having a burden always on the same, most vulnerable parts of our societies.

This brings me to my second point – how the European Semester can help prevent crises in the future.

If there is one conclusion that all policy-makers and citizens must be able to draw from this crisis, it is that our economies are now inextricably linked, both within the European Union and also globally. What happens in one country can have huge implications on all others. And indeed the world is looking what is really happening in the euro area and in the European Union. This shows the high level of interdependency we have now in the global economy.

In Europe we have built a solid Single Market and it is one of our greatest assets and areas of economic potential – without it, I am sure that the crisis in Europe would have been much worse. But today's open economic model, that has delivered so many benefits, also requires an increased level of responsibility. So it is vital that we improve our early-warning system, precisely to avoid the type of spillover effects we have experienced in Europe since 2008.

Let me be clear – national budgetary decisions are the responsibility of national parliaments and will remain so. This is of course clear in terms of democracy and in terms of separation of power.

But the purpose of the Semester is to create a platform whereby potential weaknesses or threats can be detected early. Also to read: relevant and accurate information and I believe that when we have more information at the European level we are also giving a contribution to the decision making at the national level. As such, it is an important tool in preventing unintended imbalances and unwelcome side-effects.

I know that there will be concerns or sensitivities about opening national plans to European Unionlevel scrutiny, but let us not forget that every one of our budgetary and economic decisions is under the intense scrutiny of external partners and market actors, So let's show that we are in this together and going in the same direction.

Let's never again pay the price for ignoring just how closely our futures are interlinked. Let's use the European Semester as an important instrument in delivering on the potential of our internal market and restoring growth in Europe.

The third point: if the Semester is to successfully contribute to these goals, it must evolve and improve with each cycle. It is a process that cannot work if it is done in a top-down way and that can only work with the backing and commitment of all actors at all levels.

That is why we warmly welcome the views and experiences of all actors in the process.

I also welcome the reports presented in the last European Parliament plenary of February on the first European Semester, and am encouraged by the wide convergence of views between our Institutions.

The Commission recognises that there is room for improvement in all phases of the cycle. That is why, for instance, we brought forward the Annual Growth Survey to November last year, to allow for greater debate in the European Parliament and the national parliaments ahead of the Spring European Council.

However, there is also scope for improvement in putting in place structural measures on the ground that are essential to regain European competitiveness.

While I fully recognise and applaud the huge efforts being made across the European Union and praise the bold reforms going on in several countries, I am also concerned at the slow progress in some areas. While significant headway has been made in terms of fiscal consolidation, growth-boosting reforms are still lagging behind. I mean this in areas such as tax reform, pension reform, labour market reform and opening up the services and retail sectors. Of course the picture is mixed across the Union, but these are the areas the Commission and Council will focus on in the Country-Specific Recommendations.

I know these reforms can be difficult and sensitive. But they are entirely necessary to restore growth and competitiveness. I look to you to maintain a high level of ambition, and to make the most of the guidance, support and partnership enshrined in the Semester as you do so. I also look to you to foster frank and honest debate in your countries and constituencies about the need for reform in Europe and about the consequences of a lack of competitiveness in a globalised and competitive world.

I believe it is critical on these efforts, namely about Europe 2020 Strategy, the ownership at the national level of these reforms not only by the national parliaments but also by social partners and the regions. More has to be done here because as was highlighted by the President of the European Council we have to avoid the idea that there is a complete disconnect. Sometimes, I have to tell you, I also feel that there is this disconnect about what we here, what the Heads of Government come say here in Brussels and afterwards what happens in our Member States.

Each of us has a role to play in fostering this debate and in explaining the many ways in which working together, breaking down barriers and using all the advantages of European integration can help us build job-friendly sustainable growth.

When I say growth I mean also investment. We are going to discuss this in the next European Council and I will come with an idea and with a proposal regarding project bonds. The concrete idea is to anticipate the proposals we have made for the next Multi-Annual Financial Framework.

How can we leverage investment by using our structural funds, with the European Investment Bank, with the private sector so that we can have more investment in Europe for instance in infrastructure. There are a lot of inter connections form transport to energy, to digital in Europe. So when we speak about growth is not only about the reforms it should also be about the appropriate level of investment at the European level and also about the ways to mitigate the negative consequences form the social point of view of some of the measures that are taken.

Ladies and gentlemen,

I will finish with this observation. By bringing together so many crucial elements into one process, the European Semester encapsulates the tremendous potential that we have in the European Union. The key to unlocking this potential is taking advantage of all our opportunities and assets.

That is why I believe that this European Semester represents the essence of this winning combination: the combination of national level input and European Union level work, of ensuring stability in the short-term and stimulating sustainable growth for the medium- and long-term.

By bringing together all these elements, all this knowledge and all these tools into one process, we have a tremendous potential and real opportunities to make our recovery and our future growth stronger.

This is about mobilising all these tools, synchronising them and using them in the best way. It is also about strengthening the links between the national and European dimensions of budgetary and economic decision-making. It can represent a very important step forward in European cooperation. Now we all have a duty to be equally ambitious in strengthening its democratic legitimacy.

Today's meeting I think can be a very important step in this ambitious vision.

I wish you a constructive day and I look forward to hearing the outcomes and also to participate on our democratic debate.

Thank you for your attention.