

## **Proposal on the architecture of a Eurozone Budget within the framework of the European Union**

In Meseberg, France and Germany proposed establishing a Eurozone Budget within the framework of the European Union to promote competitiveness, convergence and stabilization in the Euro area. Given the current EU framework and the division of competences between the EU and Member States, a Eurozone Budget is only one element of a set of different instruments within the EU-framework promoting competitiveness, convergence and stabilization in the Euro area including investment in innovation and human capital. Coherence across those policies needs to be ensured. The following considerations outline a possible structure of such an instrument in the framework of the EU taking into account the principles of the Meseberg Declaration.

**Focus on the Eurozone:** The scope of application of the instrument would be limited to Eurozone Member States. Such a restriction is considered legally possible if there is an objective reason justifying the need for a specific instrument for the Eurozone. A justifying reason is the need for a higher level of convergence and competitiveness within the Eurozone to ensure stability of the euro area as a whole. The range of options for Eurozone Member States to address convergence and competitiveness are more limited since they lack monetary policy and exchange rate adjustment instruments at national level. In this light, Euro area Member States also need to comply with more stringent requirements in the context of economic policy coordination. A Eurozone budget would thus be based on the specific need of the Euro area for a higher level of convergence and competitiveness and support relevant investments and reforms in Euro area Member States. The Eurozone budget would foster convergence and incentivize reform implementation in particular by co-financing growth-enhancing public expenditures such as investments, research and development, innovation and human capital. Moreover, it could also play a stabilising function in the Eurozone, especially as investments are prone to be shed in case of pressure on national public finances.

Regardless of the restricted scope of application of the instrument, all 27 MS would be entitled to vote in the Council on the legislative proposal establishing the Eurozone Budget.

**Legal Basis:** A Eurozone Budget instrument within the EU legal framework requires corresponding legal bases in the EU Treaties. In light of its role to promote competitiveness, convergence and stabilization including investment in innovation and human capital, legal bases for such an instrument could be Article 175 (3) TFEU (specific actions outside Structural Funds), possibly in conjunction with Article 182 TFEU (research and technological development) and Article 173 TFEU (competitiveness of the industry) depending on the concrete design in conjunction with Art 136 (provisions specific to euro area Member States). This instrument should not be a precedent for the EU's cohesion policy.

**Budgetary framework and resources:** The Eurozone Budget would be part of the EU budget. This would ensure that it is in coherence with overall EU policies and satisfies budgetary principles and requirements in terms of sound financial management, budgetary control and parliamentary accountability. The Eurozone budget would primarily be financed by external assigned revenues, possibly including the allocation of tax revenues (such as an FTT according to the French model) and European resources (such as the proposed reform delivery tool). The assigned revenues would consist of regular contributions by Eurozone Member States, collected and transferred to the EU budget on the basis of an intergovernmental agreement (IGA). Contracting parties of the IGA would be the Eurozone Member States. The IGA would provide for a methodology to determine the contributions by each Eurozone Member State and a binding

maximum amount. It will provide for a decision procedure on the funding priorities of the Eurozone Budget (see Governance).

**Governance:** As part of the EU budget, the Eurozone Budget would be principally subject to the general EU budget rules and the framework of its basic act. At the same time, it would operate with the strategic guidance of the Euro summit, which would be operationalized by the Eurogroup on a yearly basis. For example the Eurozone Budget could be executed under the system of shared management: Eurozone Member States would prepare programmes to implement the Eurozone Budget. Programmes would have a short timeframe and the Eurozone Member States may request an amendment of a programme whenever deemed appropriate reflecting investment and reform priorities. When proposing the programmes to the Commission, the Eurozone Member States would reflect the strategic decisions of the Eurozone Member States on Eurozone funding priorities which have to be in line with the framework of the legislative act establishing the Eurozone Budget instrument. The Commission would approve the programmes. Member States and programmes could only receive support by the Eurozone budget if they pursue policies that are in accordance with their obligations under the European economic policy coordination framework, including fiscal rules.

**Link with the MFF:** The Eurozone Budget would be part of the EU budget and its size would be determined by the Heads of State and Government. The IGA would provide for a multiannual cap of the overall size of the Eurozone budget, which would be negotiated in the context of the MFF.