CECODHAS HOUSING EUROPE

Affordable Housing, housing markets and economic stability

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EU POLICY BRIEFING #
December 2011

EU economic governance and macro-economic surveillance: what is it , where does housing policies fit ?

In short:
HOUSING MARKETS IMPACT ECONOMIES MUCH BEYOND THE FINANCIAL SECTOR

The paper presents how housing markets indicators have been integrated into the macro-economic surveillance mechanism that the European institutions have agreed in 2011 . It is completed by facts and figures from our member's knowledge of their national housing market major dysfunctions.

This paper is based on scientific evidences but is not a research paper. It aims to build on CECODHAS's member's experiences to propose innovative policies with a special attention on EU potential role to bring fair and sustainable housing market and thus economic stability.

In the following document you will find a brief summary of the different proposals from the Commission and information about the adoption process. The latest part will be completed further according to Members suggestions for national policies to improve housing market functioning.

1. ***Introduction to the 6 pack": new economic governance in the EU (which can change with Council's conclusion on the 8th /9th December 2011)***

2. ***What is the AGS : Annual Growth Survey 2012 ?***

3. ***What is the EIP: Excessive Imbalances Procedure ?***

4. ***What about housing policies ?***

   This part will be completed after discussion with members.
   How can social housing contribute to the overall objectives of economic growth, financial stability , job creation and social cohesion?

1. *Introduction to the 6 pack": new economic governance in the EU*

Adopted after one year negotiations new rules reinforcing the surveillance of budget and macro-economic performance of EU member States have been adopted by the European Parliament, the Council on the 16th of November.

Known as the "**six pack**"; the six legislation are establishing new rules and procedure in order to have a better control of the Member States capacity to deliver at least the Maastricht criteria (protocol 12 of the Lisbon Treaty about the article 126: 3% max deficit; 60% public debt). These proposals are supposed to prevent and act before any public debt bankruptcy and favour convergence of the main economies part of the Euro.

The "six pack"; a "Stability and Growth pack "upgrade allows more preventive approach, but introduce also **clear sanctions mechanisms which were lacking**. It is supposed to answer to the two failures of the first SGP to prevent the Euro public debt crisis; and is composed as such:

- 2 regulations are aimed at effective budgetary surveillance (one text for the Euro zone, one for EU)
- 2 regulations are on enforcement measures to correct excessive macro-economic imbalances (Eurozone, EU)
- 2 regulations explaining the new calendar and process to inform EU on the budget and macro-economic policies

Surveillance of economic and fiscal policies

- **Stronger preventive action through a reinforced Stability and Growth Pact (SGP) and deeper fiscal coordination**: Member States are required to make significant progress towards medium-term budgetary objectives (MTO) for their budgetary balances. Expenditure benchmarks will now be used alongside the structural budget balance to assess adjustments towards the MTO. A non-interest bearing deposit of 0.2% of GDP will be imposed on non-compliant euro-area countries.
- **Stronger corrective action through a reinforced SGP**: The launch of an Excessive Deficit Procedure (EDP) can now result from government debt developments as well as from government deficit. Member States with debt in excess of 60% of GDP should reduce their debt in line with a numerical benchmark. Progressive financial sanctions kick in at an earlier stage of the EDP. A non-interest-bearing deposit of 0.2% of GDP may be requested from a euro-area country which is placed in EDP on the basis of its deficit or its debt. Failure of a euro-area country to comply with recommendations for corrective action will result in a fine.
- **Minimum requirements for national budgetary frameworks:** Member States should ensure that their fiscal frameworks are in line with minimum quality standards and cover all administrative levels. National fiscal planning should adopt a multi-annual perspective, so as to attain the MTO. Numerical fiscal rules should also promote compliance with the Treaty reference values for deficit and debt.
- **Preventing and correcting macroeconomic and competitiveness imbalances**: Over the past decade, Member States have made economic choices which have lead to competitiveness divergences and macroeconomic imbalances within the EU. A new surveillance mechanism will aim to prevent and correct such divergences. It will rely on an alert system that uses a scoreboard of indicators and in-depth country studies, strict rules in the form of a new Excessive Imbalance Procedure (EIP) and better enforcement in the form of financial sanctions for Member States which do not follow up on recommendations.

Enforcement is strengthened by the expanded use of 'reverse qualified majority' voting. Under this voting system, a Commission recommendation or proposal to the Council is considered adopted unless a qualified majority of Member States vote against it.

The European Semester: Who does what and when?

	Jan	Feb	Mar	Apr	May	Jun	Jul	
European Commission	Annual Growth Survey (AGS) presented				Assessment of NRPs and CSPs	Recommendations to Member States based on NRPs and SCPs		
Council of the European Union		AGS debated ahead of European Council					Recommendations to Member States formally adopted	**THROUGHOUT THE YEAR:** Peer review of Member States' compliance with recommendations including consideration of possible further/enforcement measures (Excessive Deficit Procedure / Excessive Imbalance Procedure)
European Parliament		AGS debated ahead of European Council						
European Council			Endorsement of reform priorities for EU, Member States			Debate and endorsement of recommendations to Member States		
Member States				National Reform Programmes (NRPs) and Stability / Convergence Programmes (SCPs) sent to Commission				**AUTUMN:** Governments present draft budgets to national parliaments for debate in line with established national practice

In the past, the EU institutions discussed economic policies in the spring and examined fiscal policies and developments separately in the autumn. But in the new approach towards economic surveillance and a new policy-making timetable was agreed. The aim is to ensure that all policies are analysed and assessed together and that policy areas which previously were not systematically covered by economic surveillance **such as macroeconomic imbalance (including housing market) and financial sector issues** are included.

The new approach was put into practice for the first time during the first half of 2011, the first 'European semester'. EU-level discussions on fiscal policy, macroeconomic imbalances, financial sector issues, and growth-enhancing structural reforms will now always take place jointly during the European semester and before governments draw up their draft budgets and submit them to national parliamentary debate in the second half of the year (the 'national semester').

This 'upstream' policy coordination should make the implementation of policy guidance more effective and help embed the EU dimension in national policy-making. **The annual cycle begins with the Commission's Annual Growth Survey(nov 2011) , which gives broad guidance on priority actions to be taken at EU and national level. Member States then submit Stability or Convergence Programmes on their fiscal plans and National Reform Programmes on structural reforms and measures to boost growth and jobs**.

The Commission assesses these reports based on an integrated analysis covering fiscal, macroeconomic, and structural policies and on that basis proposes concrete policy recommendations for each country. The June European Council discusses the recommendations and the Council adopts them.

2. What is in the AGS : Annual Growth Survey 2012 ?

The publication on the 23rd of November of the AGS 2012 is the start of the new European semester. Each member State will have to answer to the priorities of economic policies as identified by the Commission

For 2012, the Commission considers that efforts at national and EU level should concentrate on the **following five priorities:**

- ▪ **Pursuing differentiated growth-friendly fiscal consolidation**
- ▪ **Restoring normal lending to the economy**
- ▪ **Promoting growth and competitiveness for today and tomorrow**
- ▪ **Tackling unemployment and the social consequences of the crisis**
- ▪ **Modernising public administration**

Below, you can find extracts from the AGS 2012 concerning housing policies in each of the 5 priorities:

1. Pursuing differentiated growth-friendly fiscal consolidation

"*Prioritising growth-friendly expenditure, such as education, research, innovation and energy which are an investment in future growth, and ensuring the efficiency of such spending*"

"Greater efforts should be made to shift taxation away from labour towards taxation which is less detrimental to growth: for example, increasing consumption, environmental, wealth (for example, high value property) taxation can help to alleviate the tax burden on labour thus making hiring more attractive. Particular attention should be paid to the needs of the most vulnerable groups in any tax shifts."

2. Restoring normal lending to the economy

"*Working with the European Investment Bank to maintain and increase its SME loan activity at a sustained pace, while developing synergies with the European Investment Fund through risk-sharing operations, and the establishment of a fund-of-funds to provide capital to funds that targets investments in more than one Member State*."

This would consist of a collective investment vehicle at European level managed by the EIB to invest in other funds at national level rather than investing in shares, bonds, etc…

3. Promoting growth and competitiveness for today and tomorrow

"*There is still considerable room for using or re-programming available funds to boost growth and competitiveness and to implement the country specific recommendations of the first European semester. There are many examples of successful schemes – for instance schemes to support apprenticeships for young people with the help of the European Social*

*Fund or energy efficiency investment programmes for households and firms – which have an immediate impact. Such programmes are a very effective and smart way to create local jobs, especially now the construction sector is struggling.***"**

"*– For Member States receiving financial assistance programmes, the Commission has proposed to increase the co-financing rates in order to make sure that necessary investments take place now despite severely constrained national budgets. The Commission urges the European Parliament and the Council to adopt these proposals by the end of 2011*."

4. Tackling unemployment and the social consequences of the crisis

• Enhancing labour mobility by removing remaining legal obstacles, by facilitating the recognition of professional qualifications and experience, by strengthening cooperation between public employment services, and by reviewing the functioning of housing markets and the provision of transport infrastructure.

•Promoting business creation and self-employment, including social entrepreneurship, by improving the quality of support systems, and promoting entrepreneurial skills.

• Developing initiatives that facilitate the development of sectors with the highest employment potential, including in the low-carbon, resource-efficient economy ("green jobs"), health and social sectors ("white jobs") and in the digital economy.

The Commission considers that Member States should give priority to:

• The implementation of active inclusion strategies encompassing labour market activation measures, and adequate and affordable social services to prevent marginalisation of vulnerable groups.

• Ensuring access to services supporting integration in the labour market and in society, including by ensuring access to a basic payment account, electricity supply to vulnerable customers and access to affordable housing.

5. Modernising public administration

Where absorption rates of EU structural funds is low, building administrative capacity, including the necessary expertise and continuity of management, to ensure speedier disbursement of unused funds on growth-enhancing projects and using available technical assistance for this purpose

Together with the AGS 2012, the European Commission published a number of key annexes detailing the analysis behind their policies recommendations.

Annex: Tax growth-friendly policies

Reducing debt-bias in corporate and housing taxation
The debt bias in housing is also due to the tax deductibility of mortgage interest payments (or even capital payments) in the personal income tax that provides incentives for building up debt and overinvestment in housing, i.e. a misallocation of resources at the expense of (more) productive investment. This type of tax relief is considered to have contributed to the increase in housing prices and debt leverage, and thereby to the housing market bubble. There is evidence that countries that favour homeownership through a favourable tax treatment of mortgage debt financing also have higher ratios of mortgage debt to GDP.
Both debt biases lead to households' and businesses' financial decisions in favour of increased leverage being driven by tax incentives and not based on economic grounds. These distortions increase risk and volatility in the economy and can accentuate negative economic outcomes in cases where such risks materialise

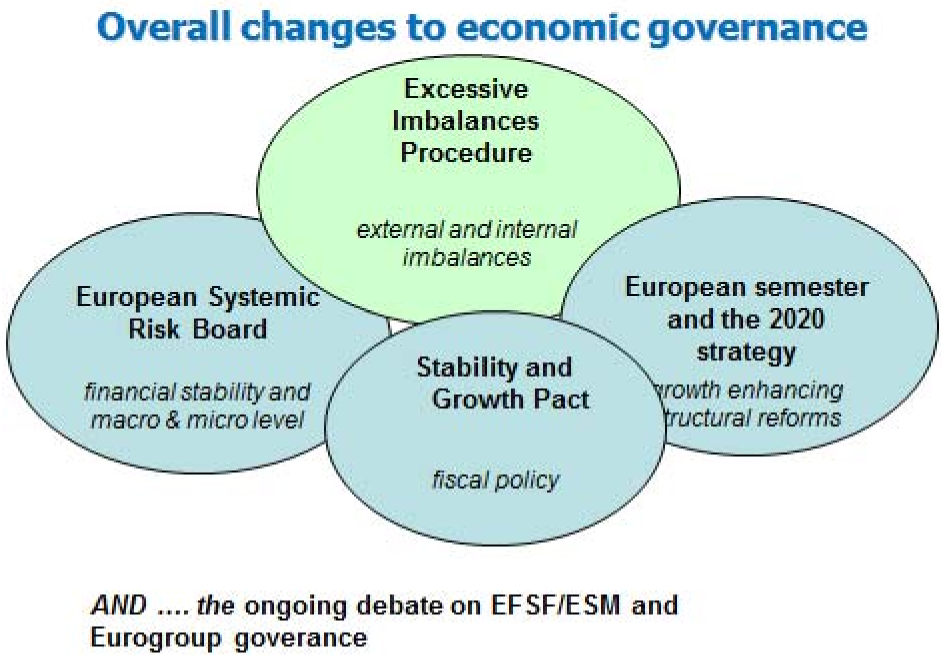
Annex: progress report of the Europe2020 strategy

The cost and quality of housing are a key determinant of living standards and well-being, especially for the most vulnerable people. This is clearly shown by the EU indicators on housing cost and housing deprivation[38]. In 2010, 38% of people at-risk of poverty spend more than 40% of their disposable income on housing – more than six times for the rest of the population (6%)[39]. At the same time, the share of housing costs in total disposable income reached 32% and more for half of the people at risk of poverty against 16% for the rest of the population. If housing costs are analysed more in detail, it emerges that rents and interest paid on mortgage make up only around 30% of total gross housing costs, while other elements – repairs, maintenance, fuel and others costs of various kind – make up some 70%[40]. According to the Commission's Household Budget Survey, housing, water, electricity, gas and other fuels is the single most important item in household's expenditure corresponding to 27.7% of household consumption.
The consequences of housing costs, and in particular utilities, on poverty rates is very significant: if disposable income is defined after deducting housing costs, the proportion of people with income below 60% of the (new) median was increased in 2007 from 16% to 22% in the EU as a whole.[41] This points to the importance of a full implementation of Directive 2009/72/EC concerning common rules for the Internal Market in electricity, including Article 3(8) on the need to address energy poverty.

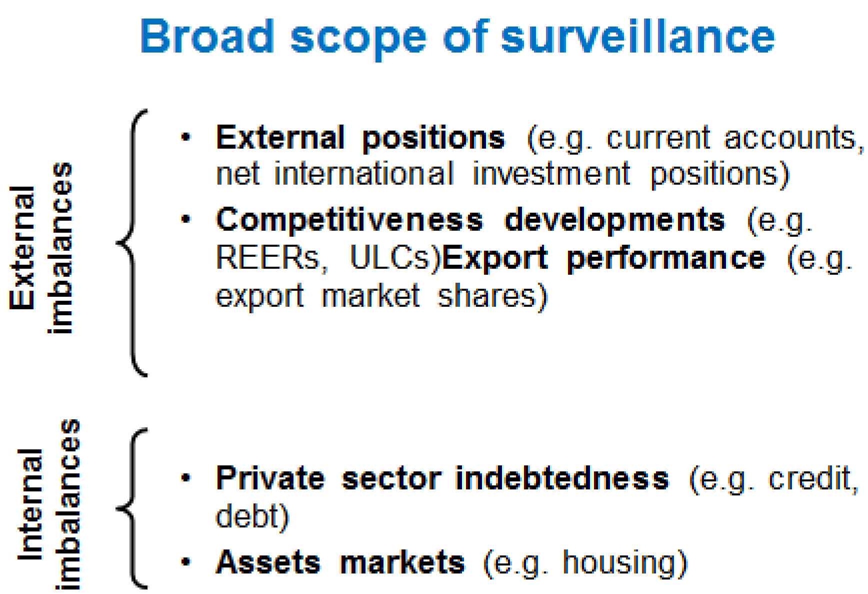
All documents are available:
http://ec.europa.eu/commission_2010-2014/president/news/documents/2011/11/20111123_documents_1_en.htm

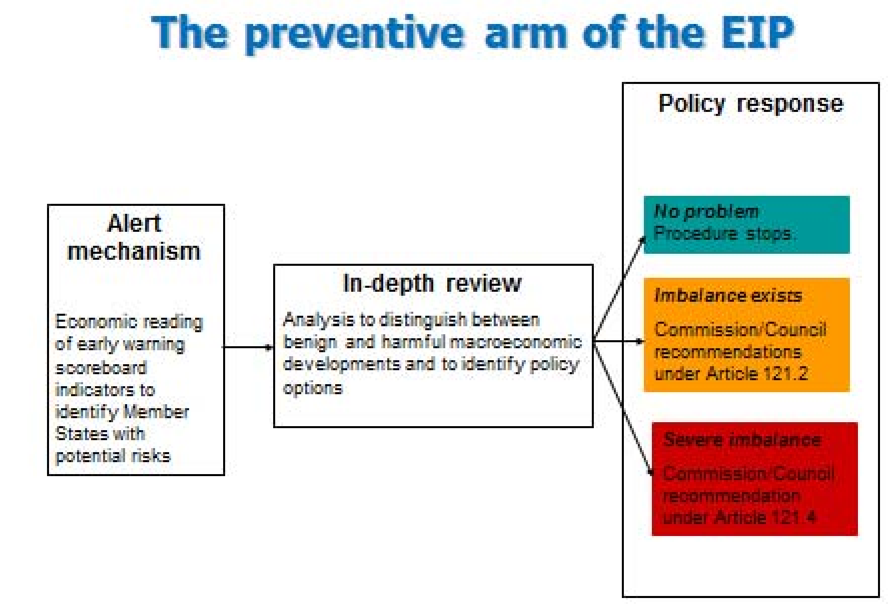
5. *What is the EIP: Excessive Imbalances Procedure ?*

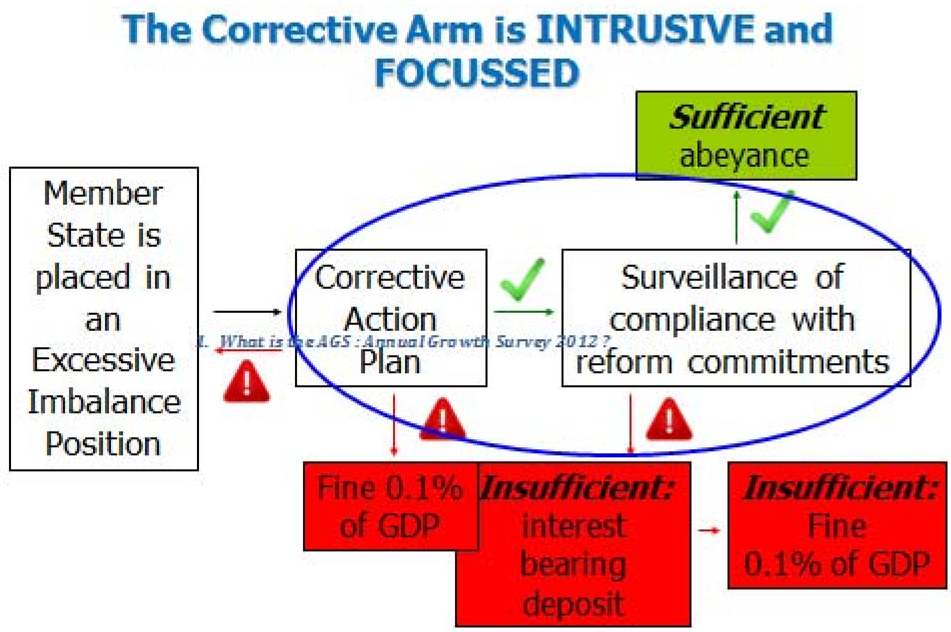
(slides from this section are from DG ECFIN, Declan Costello and Aurora Mordonu)



Next to the European Semester which is the new process to ensure fiscal consistency and sound public budget's planification, the European Commission also included a new process to monitor wider economic performance: the excessive imbalances procedure.







Where is housing indicators fitting in this ?

In the next weeks, the list of indicators part of the macro-economic scoreboard will be finalised.

- **Finalising the scoreboard design.** ECOFIN supported the envisaged design on 7 November 2011, and comments expected from the European Parliament and ESRB by mid December
- **The angle of surveillance under the EIP: potential house price bubbles, due to concerns linked to:**
  - **Wealth and collateral effects (Consumption)**
  - **Reallocation of resources towards the construction sector (Investment, employment)**
  - **Bank balance sheets, impact on macro-economic stability**
- Broad scope: general access to affordable housing, labour mobility, spatial developments, energy efficiency
- Equity and efficiency policy goals (study is undergoing) to give more precise recommandations

6. *What are the next step ?*

The timeline to influence recommendations to member States:

- 23 November 2011: The AGS launches the 2012 European Semester of economic governance

- Commission will present its **Alert Mechanism Report** (expected either 20 December or 4 January) for discussion in ECOFIN-Eurogroup in 24 January

- 1st and 2nd March 2012: based on the AGS and reaction of the Council of Ministers (ECOFIN on the 21st of February), **the European Council** adopt appropriate policy guidance for the Member States

- April/May 2012: Member States submit their National Reform Programmes (economic policy) and Stability and Convergence Programmes (public finances) to the European Commission

- May 2012: Based on those programmes, the European Commission issues country-specific recommendations

- June 2012: the European Council adopts the country-specific recommendations

- Member States incorporated the recommendations in their national budget proposals for the year 2013

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The federation of public, cooperatives and social housing

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CECODHAS Housing Europe ‘ The Federation of public, cooperative and social housing’, is a network of national and regional social housing federations gathering 4.500 public, voluntary housing organisations and 28.000 cooperatives housing. Together the 45 members in 19 EU members States **manage 25 million dwellings**. CECODHAS members work together **for a Europe that provides access to decent and affordable housing for all in communities which are socially, economically and environmentally sustainable and where all are enabled to reach their full potential,**