

The response of the Welsh Government to the call for evidence on Economic and Monetary Policy as part of the UK Government's review of the balance of competences between the UK and the European Union

Monetary policy is not a devolved matter. However, regarding fiscal policy, the Welsh Government's budget has in the past been almost wholly composed of a block grant, with changes determined by the 'Barnett formula'. However, the Wales Bill that is currently before the UK Parliament will devolve new powers over certain taxes to Wales, coupled with powers to borrow in order to invest in Welsh infrastructure. In future therefore, the Welsh budget will be determined by a combination of a block grant, devolved tax revenues and borrowing powers.

In broader terms, the Welsh Government contributes to the development and implementation of economic policy at both the UK and the EU levels as a result of our active participation in the European Semester process.

The importance of the European Semester as an economic governance system that encourages vital growth-enhancing reform across the EU is fully recognised by the Welsh Government. This is reflected by the fact that the EU's aims for achieving smart, sustainable and inclusive growth, as set out in its Europe 2020 strategy, are closely aligned to those contained in the Welsh Government's own Programme for Government.

The Welsh Government sees much value in the framework that the European Semester brings in terms of inducing Member State governments to improve their performance on structural reforms. This annual cycle of analysis and advice is vital to ensuring that the EU avoids repeating some of the worst features of the recent economic crisis.

The Welsh Government welcomes the opportunity to be able to work closely with the UK Government, as the government of the Member State, throughout this annual process of economic policy co-ordination and assessment. It is essential that the extensive liaison that takes place during the production of the UK Government's annual report to the European Commission setting out progress made and future plans regarding structural reform measures – the National Reform Programme (NRP) – continues as this enables the Welsh Government to ensure that the document contains details of bespoke programmes for Wales including those aimed at stimulating growth and jobs, tackling poverty and boosting skills.

Within the UK, the Welsh Government has developed a strong working relationship with the UK Government, principally the Treasury but also with other relevant departments, in the production of the NRP. As stated above, this has resulted in the incorporation of a wide range of contributions on Wales and Welsh Government initiatives in the NRP. For the 2014 NRP, the Welsh Government's Minister for Finance, along with officials from the Welsh Government, the UK Treasury and the European Commission, spoke at a stakeholder event in Wales on the NRP and the European Semester, to inform people of the work being done and to stimulate contributions to the document.

We note the increasing importance of institutions at the sub-Member State level in setting economic policy and believe that consideration should be given as to how these institutions would fit into any economic governance system.

The Welsh Government agrees with the UK Government's position that a stable euro area is in the interests of all Member States, not least because of the positive impact this will have on trade and investment throughout the whole of the EU. The EU is a vitally important trading partner for Wales as evidenced by the data showing that, in 2013, 44% (£6,561m) of the exports of Welsh goods (by value) was to other EU Member States.

We also note that the two measures underpinning the Stability and Growth Pact (public deficit and public debt as a percentage of GDP) exclude some of the public sector's wider liabilities and obligations, including those relating to:

- Public sector pay-as-you-go (PAYG) pensions schemes
- State pensions schemes
- PFI (private finance initiative) schemes
- Contingencies, provisions and guarantees.

There is a need for greater transparency and consistency in considering obligations of Member States' public sectors.

In tackling public sector debt, we believe that emphasis should be placed on policies to support economic growth rather than undertaking "austerity" policies.

There are potential risks from the Commission proposing country-specific recommendations for budgetary, economic and social policies on the basis of economic forecasts when recent the performance of most economic models has been widely regarded as poor.

There is a continued need for policies to support spatial rebalancing of economic activity within Member States as well as between Member States.

Overall, the Welsh Government is broadly content with the level of involvement it has in the process of economic policy co-ordination as part of the European Semester even though it does not always agree with the UK Government's chosen policy approach in a number of areas.