



COMPLETING EUROPE'S ECONOMIC AND MONETARY UNION

#deepeningEMU



Outline

1. Economic rationale
2. Sequencing logic
3. Completing the four unions:
economic, financial, fiscal and political
4. Conclusion

1. Rationale

Despite recent progress, **EMU remains incomplete**

Two implications:

- doubts about the **long-term viability** of EMU
- difficult to achieve a more rapid, even and sustainable **recovery in the short run**

Well-functioning EMU needs **strong national economies**

1. ability to **prevent crises** through sound fiscal and structural policies at national level;
2. ability to **absorb the shocks internally** by
 - resilient labour markets,
 - flexible product markets and
 - sufficient fiscal buffers

EMU specificities:

- adjustment of relative prices slower than of exchange rates
- risk of contagion, jeopardising EMU stability

Complete EMU needs **shock absorption**

- large negative shocks cannot be absorbed nationally only; **risk sharing** within EMU helps to smooth demand and limit spillovers
 - private sector (cross-border private capital and credit markets)
 - public sector (e.g. fiscal policies)

2. Sequencing

Stage 1

Deepening by doing
(1 July 2015 - 30 June 2017)

- boost competitiveness and structural convergence
- complete the Financial Union (banking and capital markets)
- achieve and maintain responsible fiscal policies
- enhance democratic accountability and legitimacy

Stage 2

Completing EMU
(start 1 July 2017)

- make convergence process more binding
- significant progress in convergence pre-condition to participate in shock absorption mechanism

3. Completing the Four Unions

Economic Union

Financial Union

Fiscal Union

Democratic Accountability

Economic Union

Stage 1

Converge towards best practices in EU:

- euro area system of competitiveness authorities
- stronger Macroeconomic Imbalance Procedure
- stronger focus on employment and social performance
- stronger coordination of economic policies via revamped European Semester

Stage 2

Formalise the convergence process:

- common high-level standards defined in legislation (e.g. on labour markets, competitiveness, taxation)

Financial Union

Stage 1

Private sector shock absorption via financial markets

Banking Union

- single bank supervision
- single bank resolution
- single deposit insurance: could be conceived as re-insurance system at the EU level for the national deposit guarantee schemes

Capital Markets Union

Fiscal Union

Fiscal policy objectives

- ensure public debt sustainability
- allow automatic fiscal stabilisers to operate

EMU level

- appropriate aggregate fiscal stance to avoid pro-cyclicality
- need for a EA-wide fiscal stabilisation function to absorb large asymmetric shocks

Fiscal Union

Stage 1

European Fiscal Board (EFB):

- evaluate implementation of fiscal framework
- advise on fiscal stance in euro area and Member States
- cooperate with national fiscal councils

Stage 2

- Euro area-wide macroeconomic stabilisation function

Democratic Accountability

Stage 1

- enhance role of national and European Parliaments (more appearances of commissioners; plenary debates)
- consolidate external representation of the Euro Area (e.g. at IMF)
- integrate inter-governmental arrangements into EU framework (TSCG; EuroPlus Pact; Single Resolution Fund)
- strengthen Eurogroup

Stage 2

- full-time presidency of Eurogroup
- integrate ESM into EU law framework
- set up a Euro Area treasury accountable at European level

4. Conclusion

Conclusion of the European Council (25-26 June 2015):

"The European Council ...

- took note of the [5-Presidents'] report on the Economic and Monetary Union ... and ...
- asked the [ECOFIN] Council to rapidly examine it."

Need to proceed rapidly with the implementation of the roadmap



Thank you very much
for your attention!