

European Economic and Social Committee

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A Roadmap for Completing EMU

Key steps to address the challenges ahead

The analytical toolbox : how to address the outstanding
challenges for EMU

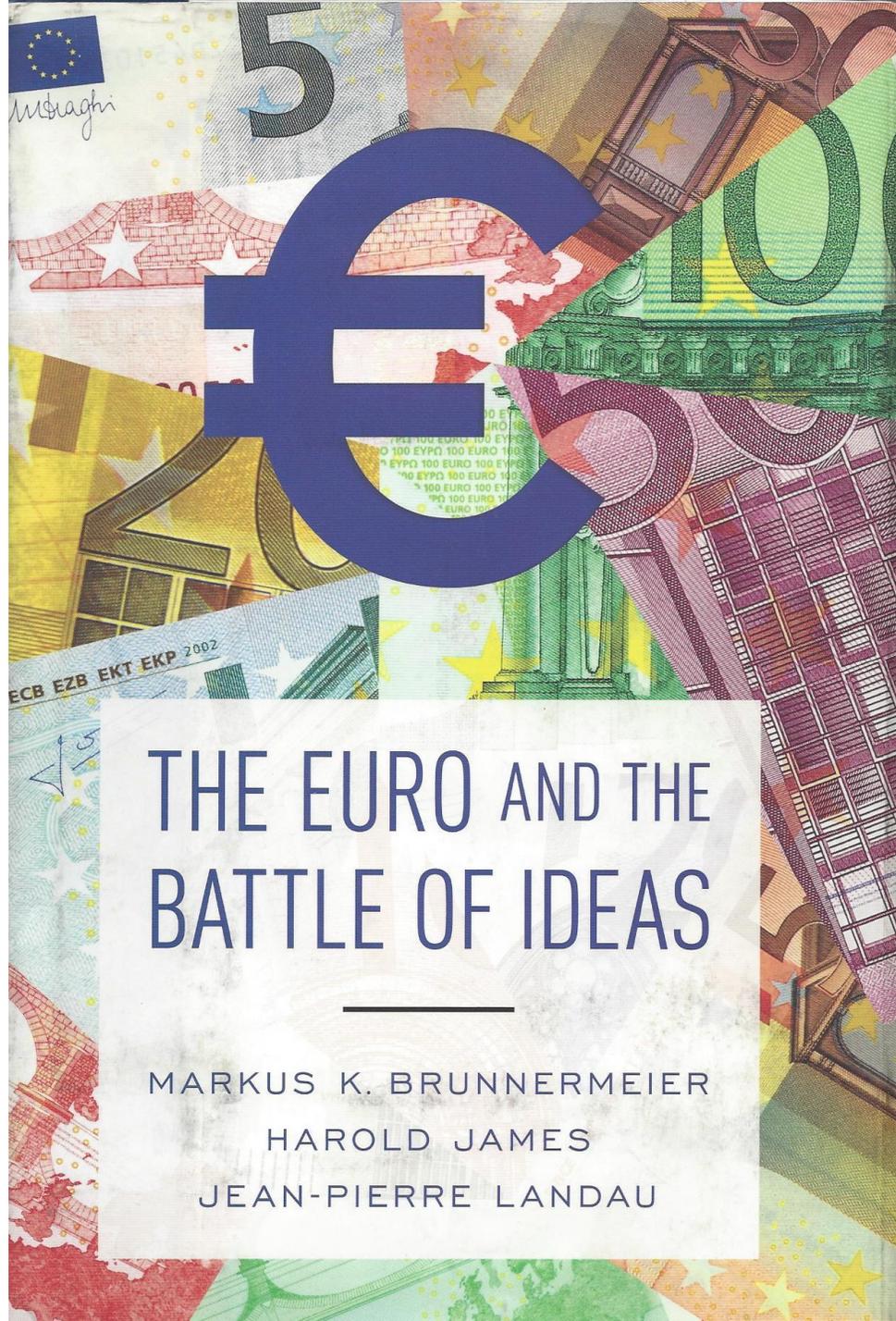
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Things to remember in the debate about completing EMU

- EMU is the natural complement to the EU single market: without the euro, the single market would be subject to destabilising exchange rates variations and the whole European integration process could unravel; the euro and its institutions protected the Euro area countries and their citizens in the global financial crisis.
- Nevertheless, the global crisis and the sovereign debt crisis in the euro area have demonstrated a number of flaws and the fragility of EMU as designed by the Maastricht Treaty.
- A lot has already been done to strengthen EMU but its architecture remains incomplete and its governance unsatisfactory.
- Opposing views on the appropriate balance between solidarity and responsibility in the necessary reforms have not yet been bridged.
- We have now a window of opportunity, which should not be wasted.
- The Opinion of EESC Rapporteur David Croughan provides a good basis for discussing the issues involved.



THE EURO AND THE BATTLE OF IDEAS

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The missing pieces in the toolbox

- Completing the Financial Union to eliminate the «bank-sovereign doom loop» and increasing risk sharing; priorities are: completing Banking Union, delivering on Capital Markets Union and creating a truly European safe asset.
- Creating a macro-economic stabilization capacity; the priorities are a budget of the euro area budget and the transformation of the European Stability Mechanism (ESM) into a genuine European Monetary Fund.
- Strengthening Eurozone institutions and accountability.
- Persuading Germany and other big surplus countries to contribute to the re-convergence process.

Completing the European Banking Union(EBU)

- Agreement on the «backstop» for the Single Resolution Fund is essential to make the new EU framework for bank resolution effective.
- Setting up the European Deposit Insurance Scheme (EDIS) to ensure that savings and bank deposits are protected to the same extent across the Eurozone. Key issue is: access to the ESM or Member States providing parallel loans or guarantees?
- What do do with the problems of the past? Do we need to clean up first the non-performing loans (NPLs) on the balance sheets of eurozone banks? Can we achieve a better framework for restructuring and insolvency on a euro-wide basis?

Delivering on the Capital Markets Union

- The real objective should be a «Unified Euro denominated capital market» allowing the euro to deliver all its advantages.
- Like in the US, provide more innovative, sustainable and diversified sources of funding for households and businesses.
- Enhance risk sharing with the private sector.
- Revisit question of universal bank versus separation of commercial banks and investment banks, giving more flexibility and reducing needs for capital.
- More integrated supervisory framework and more centralised supervisory enforcement.
- The acceleration of the Capital Markets Union is necessary to recycle excess savings in surplus countries to the rest of the Eurozone via equity rather than debt, thereby reducing the risk of financial instability.

As soon as possible develop a «European Safe Asset»

- Safe assets are essential for modern financial system. The EU does not have the equivalent of the US Treasuries bills or bonds.
- € denominated safe assets would improve risk diversification, liquidity and transmission of monetary policy, creating the possibility to use, without limits, the full capacities of the ECB as a central bank; they would help address the vicious interconnection between banks and sovereigns .
- The EU needs an instrument for the common issuance of debt.
- Mutualisation of debt through Euro-bonds is opposed by Germany because of concerns about weakening incentives for sound national policies (although there is already an indirect mutualisation of debt through the ECB). Might become more acceptable if linked to a change in the regulatory treatment of sovereign exposures (RTSE), depriviledging national sovereign bonds. However, a change of the RTSE could probably not be implemented before the EBU and CMU are in place.
- Remember ELEC « EMU Bond Fund » proposal of 2011 (or earlier «Eurobill Fund») to pool the short term borrowings of States whose economic policies, complying with their Country-Specific Recommendations (CSRs), would have been approved by ECOFIN in the European Semester.

Macroeconomic Stabilisation and Elements of a Fiscal Union

- Alternative methods to introduce a macro-economic stabilisation function: bigger EU budget, creation of a dedicated euro-area budget or access to European Stability Mechanism (ESM).
- One of the most important objectives is to protect the investment component of national budgets in case of asymmetric shocks: this could be achieved through changing rules on deficits (Golden rule?) and/or through a «European Investment Protection Scheme».
- Another alternative would be a European Unemployment Reinsurance Scheme
- Post-Brexit Multiannual Financial Framework 2021-2026 will require introduction of new Own Resources
- Euro-Area Treasury in charge of formulating and implementing of euro-area budget and coordination of issuing a European Safe Asset;
- Key issue to secure the agreement of Germany: appropriate balance between solidarity and responsibility and between rule-based mechanisms and discretionary decisions.

Transforming the ESM into a European Monetary Fund

- If transformed into a European Monetary Fund, the ESM would give the euro area more autonomy from other international institutions (IMF) when it comes to financial stability.
- It should become the last resort backstop to the Banking Union and provide liquidity assistance to MS in situations of crisis.
- It should define its own doctrine of conditionality, linking financing and economic/fiscal/financial adjustment depending on the diagnosis on the causes of the crisis.
- Instead of relying on fiscal contributions from MS of the euro area, it could rely on monetary funding from the ECB.
- The EMS governance should be changed and faster decision making introduced in urgent situations: reinforced qualified majority (85%) for specific decisions on stability support, disbursements and deployment of the backstop (unanimity for major decisions with financial implications like capital calls).
- The German proposal to combine EMF interventions with the restructuring of sovereign debt owed to private creditors would be imprudent before the EBU and CMU would be fully in place.

Strengthening Eurozone institutions and accountability

- Completing the EMU means greater democratic accountability and higher transparency about who decides what and when at each level of governance
- The principle of subsidiarity should be respected: whenever possible use incentives rather than transfers of sovereignty.
- The internal governance and external accountability of the institutions of the eurozone (European Commission, specific European Commissioner in charge of the Eurozone budget and treasury function, Council of Ministers of the Eurogroup, EMF, ECB) should become more transparent and their dialogue with the European Parliament and national parliaments strengthened .
- The EMF should be anchored within the EU legal framework (presently the ESM is an intergovernmental agreement for euro area MS)
- Delicate point: respective roles of European Commission and EMF in monitoring macro-economic policies of countries receiving EMF funding.
- Unification of the Eurozone external representation, particularly in the IMF

Agenda for a first round of negotiations with potential agreement between France and Germany

- Completing EBU: SRF backstop and roadmap for EDIS
- Considering an enhanced budget for the Euro-area
- Considering the establishment of an «European Minister of Finance» who would be Vice-President of the European Commission and Chair the Eurogroup and oversee the euro-area budget and possibly a euro-Treasury function
- Transforming the ESM into a European Monetary Fund
- Taking measures to reduce the German balance of payments surplus
- Discussing how to increase democratic accountability of euro institutions