Preparing for Next Steps on Better Economic Governance in the Euro Area

Presentation by Baudouin Regout
Based largely on the presentation of Jean-Claude Juncker
To the Informal European Council of 12 February 2015

EESC - Study Group on Completing EMU: The political pillar
Study group's first meeting - 5 March 2015
Position of the Commission: The Blueprint published in November 2012

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<tr>
<th>A blueprint for a deep and genuine EMU</th>
<th>Secondary law</th>
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<td>Launching a European debate</td>
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### SHORT TERM
- 1. Full implementation of European Semester and **six-pack** and quick agreement on and implementation of **two-pack**
- 2. **Banking Union**: Financial regulation and supervision: quick agreement on proposals for a **Single Rulebook** and **Single Supervisory Mechanism**
- 3. **Banking Union**: Single Resolution Mechanism
- 4. Quick decision on the next **Multi-annual Financial Framework**
- 5. **Ex-ante coordination of major reforms** and the creation of a **Convergence and Competitiveness Instrument (CCI)**
- 6. Promoting investment in the **Euro Area** in line with the Stability and Growth Pact
- 7. **External representation** of the Euro Area

### MEDIUM TERM
- 1. Further reinforcement of budgetary and economic integration
- 2. **Proper fiscal capacity** for the **Euro Area** building on the CCI
- 3. Redemption fund
- 4. Eurobills

### LONGER TERM
- 1. Full Banking Union
- 2. Full fiscal and economic union

### BEYOND 5 YEARS
- Political union: Commensurate progress on democratic legitimacy and accountability

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Current state of play

European Council (18 December 2014) – Conclusions

Closer coordination of economic policies is essential to ensure the smooth functioning of the Economic and Monetary Union.

Following a discussion on this issue on the basis of an analytical note at the informal meeting of the Heads of State or Government in February, the President of the Commission, in close cooperation with the President of the Euro Summit, the President of the Eurogroup and the President of the European Central Bank, will report at the latest to the June 2015 European Council.

The Member States will be closely involved in the preparatory work.
Regaining ground

Real GDP per capita
Index, first quarter 2008 = 100

Unemployment rate
Change since January 2008, percentage points

GDP per capita

Gross Domestic Product per capita
(EUR 1000 of 2014, adjusted for purchasing power)

Source: European Commission
Unemployment rate

Annual average percentage

Source: European Commission
Youth unemployment

Youth (under 25s) unemployment rate (%), December 2014

Source: Eurostat 2015
Unit labour costs
(Euro Area (18) = 100, index: 1999)

Source: European Commission
Interest rates on 10-year Government bonds

Percentage yield

Source: ECB
Interest rates to firms

Interest rates to firms (non-financial corporations)
Percentage

Source: ECB
## Respecting our rules

### Number of years in Excessive Deficit Procedure since 1997
(including ongoing deadlines)

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*Source: European Commission*
Implementing reforms

Full implementation of EU country-specific recommendations

Non-implementation of EU country-specific recommendations

Source: European Parliamentary Research Service
Absorbing shocks

Source: Bruegel based on ECB and national central banks
Trust in the Institutions

Support for the euro

Europe Central Bank European Commission European Parliament National Parliaments National Governments


Reading: net trust/support is defined as "tend to trust/support" minus "tend not to trust/support" in percentage points

Source: Eurobarometer
Key questions to address going forward

- How can we ensure **sound fiscal and economic positions** in all euro area Member States?
- How could a better implementation and **enforcement** of the economic and fiscal governance framework be ensured?
- Is the current governance framework – if fully implemented – **sufficient** to make the euro area shock-resilient and prosperous in the long run?
- To what extent can the framework of EMU mainly rely on **strong rules** and to what extent are **strong common institutions** also required?
- **What instruments** are needed in situations in which national policies continue – despite surveillance under the governance framework – to go harmfully astray?
- Has the **fiscal-financial nexus been sufficiently dealt with** in order to prevent the repetition of negative feedback loops between banks and sovereign debt?
- How could **private risk-sharing through financial markets** in the euro area be enhanced to ensure a better absorption of asymmetric shocks?
- To what extent is the present **sharing of sovereignty** adequate to meet the economic, financial and fiscal framework requirements of the common currency?
- Is a **further risk-sharing** in the fiscal realm desirable? What would be the preconditions?
- Under which conditions and in which form could a **stronger common governance over structural reforms** be envisaged? How could it foster real convergence?
- How can **accountability and legitimacy** be best achieved in a multilevel setup such as EMU?

*Source: Analytical note presented to the Council of 18 February 2015*