



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

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**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

			A blueprint for a deep and genuine EMU Launching a European debate		
			Secondary law	Treaty change	
ALL ALONG THE PROCESS	SHORT TERM	Within the next 18 months	1. Full implementation of <b>European Semester</b> and <b>six-pack</b> and quick agreement on and implementation of <b>two-pack</b>	✓	
			2. <b>Banking Union</b> : Financial regulation and supervision: quick agreement on proposals for a <b>Single Rulebook</b> and <b>Single Supervisory Mechanism</b>	✓	
			3. <b>Banking Union</b> : <b>Single Resolution Mechanism</b>	✓	
			4. Quick decision on the next <b>Multi-annual Financial Framework</b>	✓	
			5. <b>Ex-ante coordination of major reforms</b> and the creation of a <b>Convergence and Competitiveness Instrument (CCI)</b>	✓	
			6. Promoting <b>investment</b> in the <b>Euro Area</b> in line with the Stability and Growth Pact	✓	
			7. <b>External representation</b> of the <b>Euro Area</b>	✓	
	MEDIUM TERM	18 months to 5 years	1. <b>Further reinforcement of budgetary and economic integration</b>	✓	✓
			2. <b>Proper fiscal capacity</b> for the <b>Euro Area</b> building on the CCI	✓	✓
			3. <b>Redemption fund</b>		✓
			4. <b>Eurobills</b>		✓
	LONGER TERM	Beyond 5 years	1. <b>Full Banking Union</b>		✓
			2. <b>Full fiscal and economic union</b>		✓
Political union: Commensurate progress on democratic legitimacy and accountability			✓	✓	

## Current state of play

### **European Council (18 December 2014) – Conclusions**

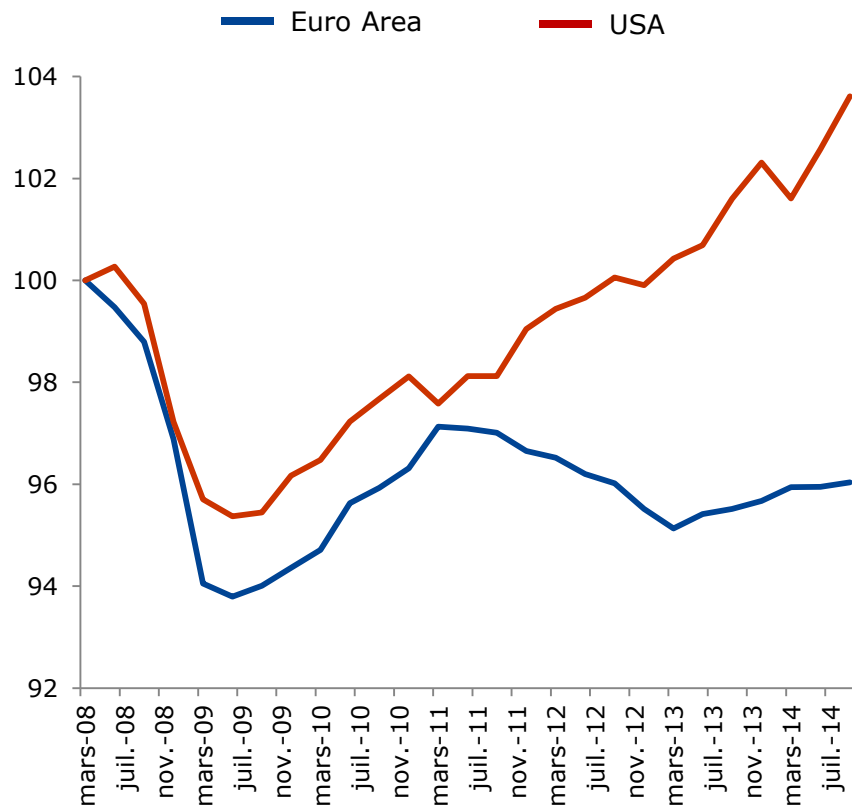
Closer coordination of economic policies is essential to ensure the smooth functioning of the Economic and Monetary Union.

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**.

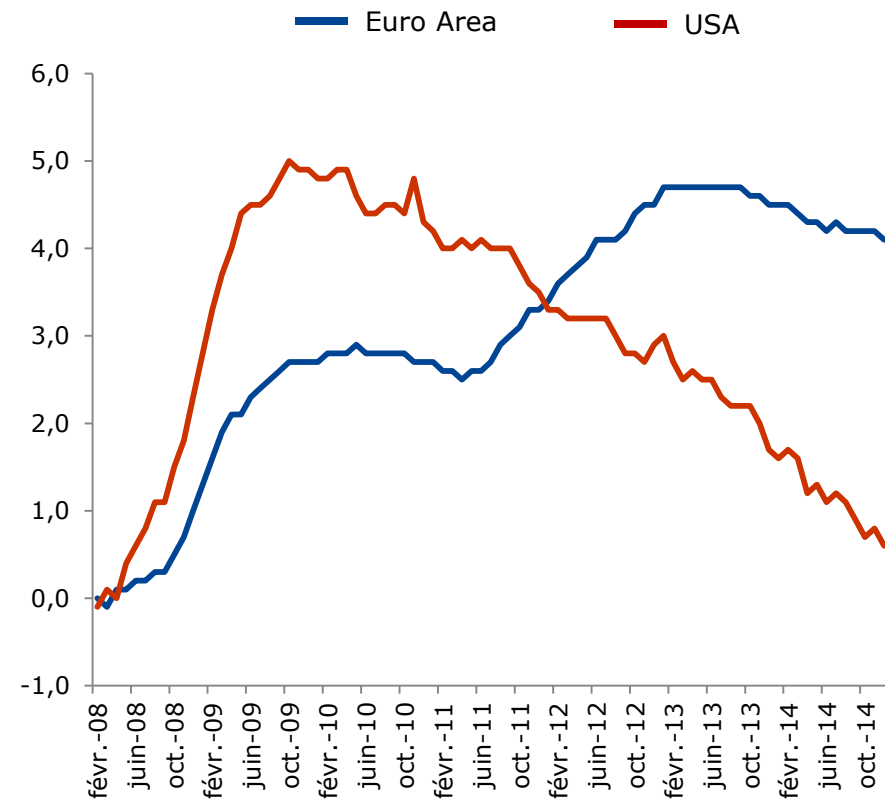
The Member States will be closely involved in the preparatory work.

# Regaining ground

**Real GDP per capita**  
Index, first quarter 2008 = 100



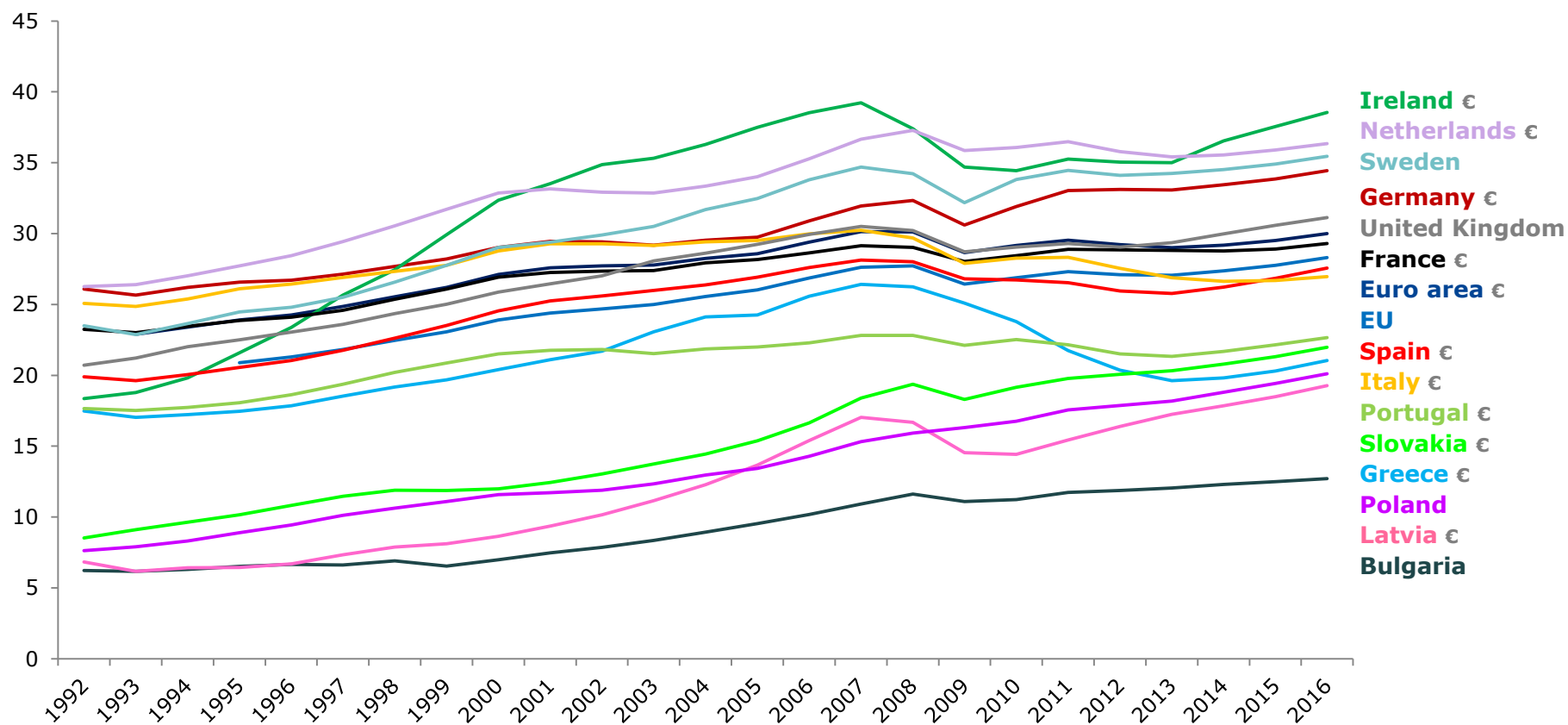
**Unemployment rate**  
Change since January 2008, percentage points



Source: Eurostat, Bureau of Economic Analysis, Bureau of Labor Statistics, US Census

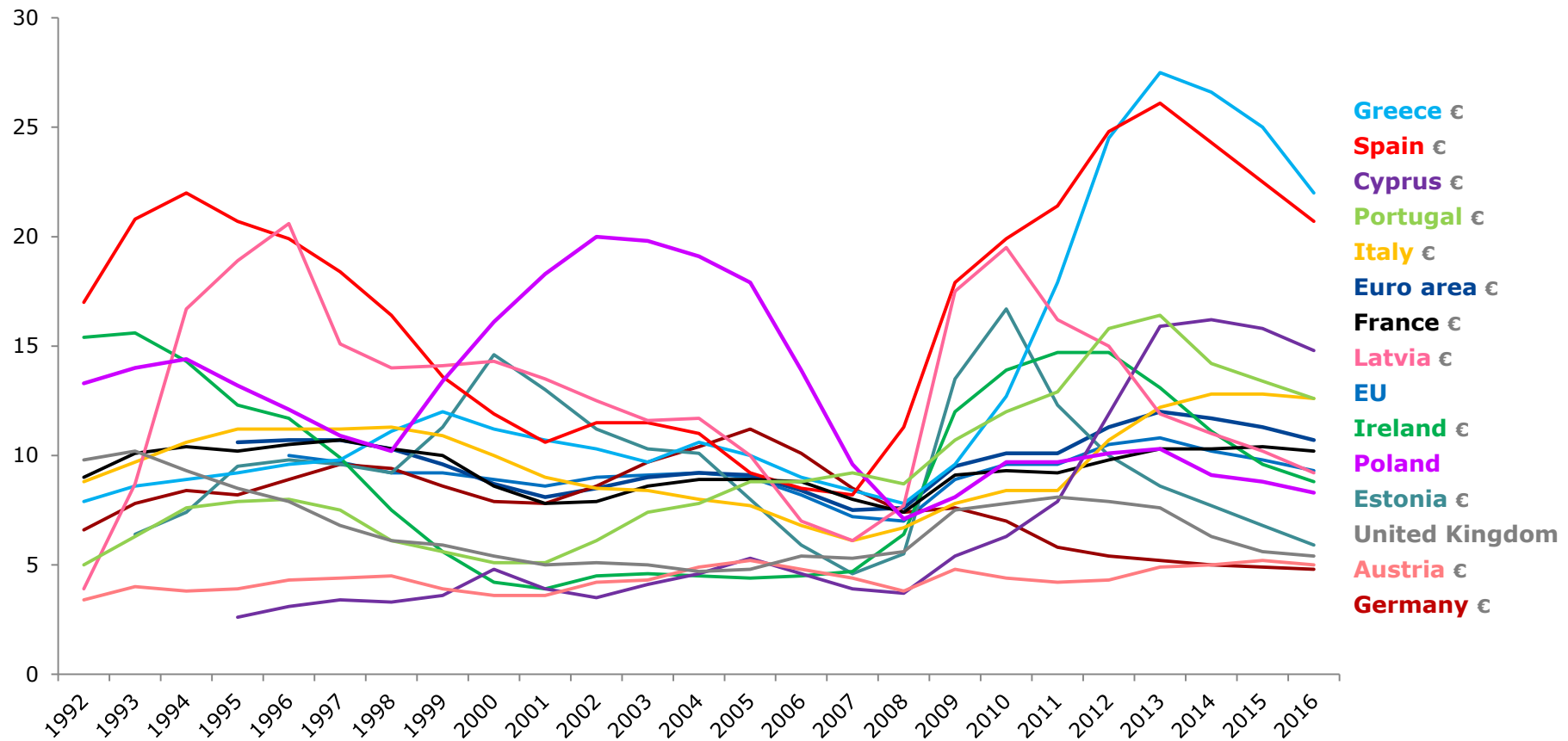
# GDP per capita

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



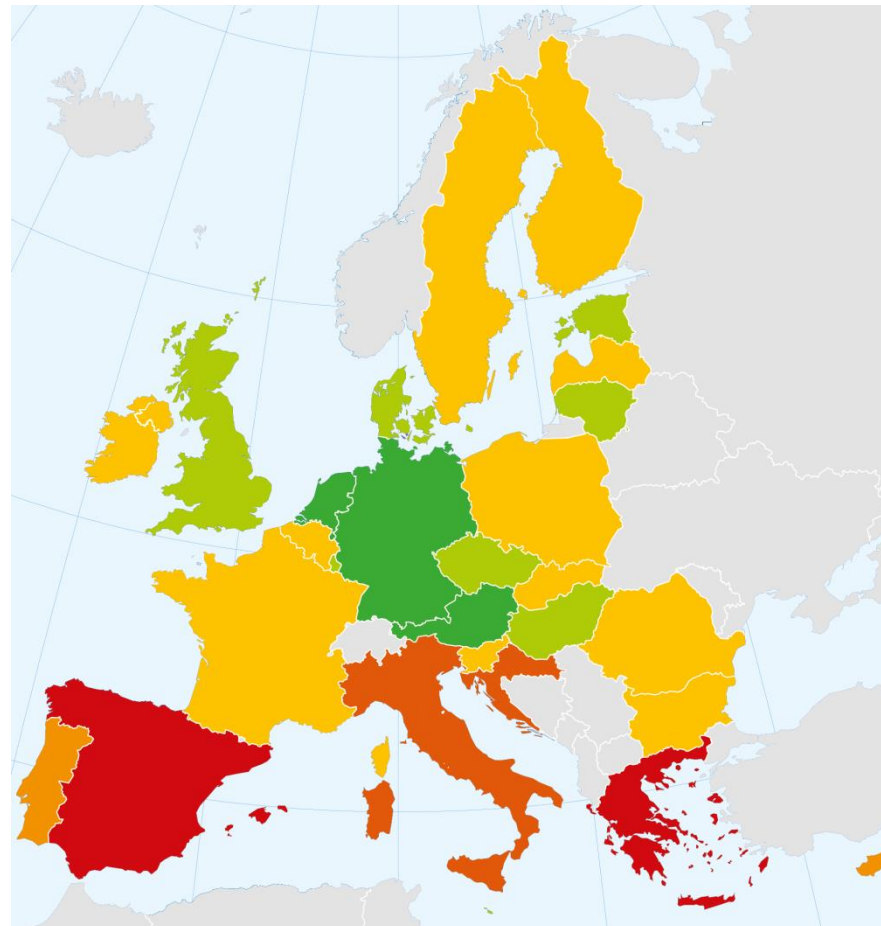
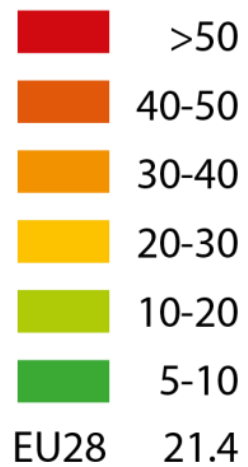
# Unemployment rate

Unemployment rate  
Annual average percentage



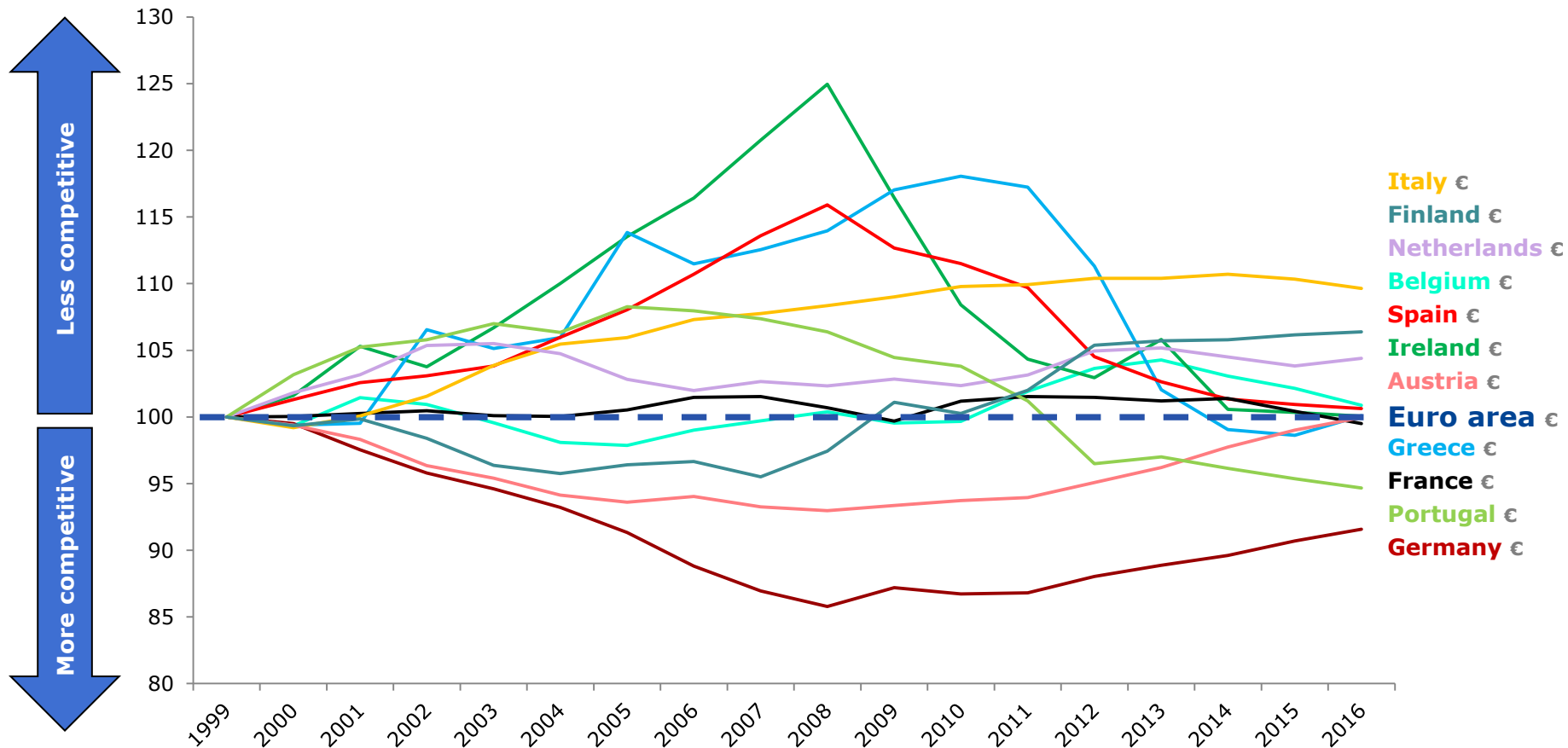
# Youth unemployment

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



# Cost-competitiveness

**Unit labour costs**  
(Euro Area (18) = 100, index: 1999)

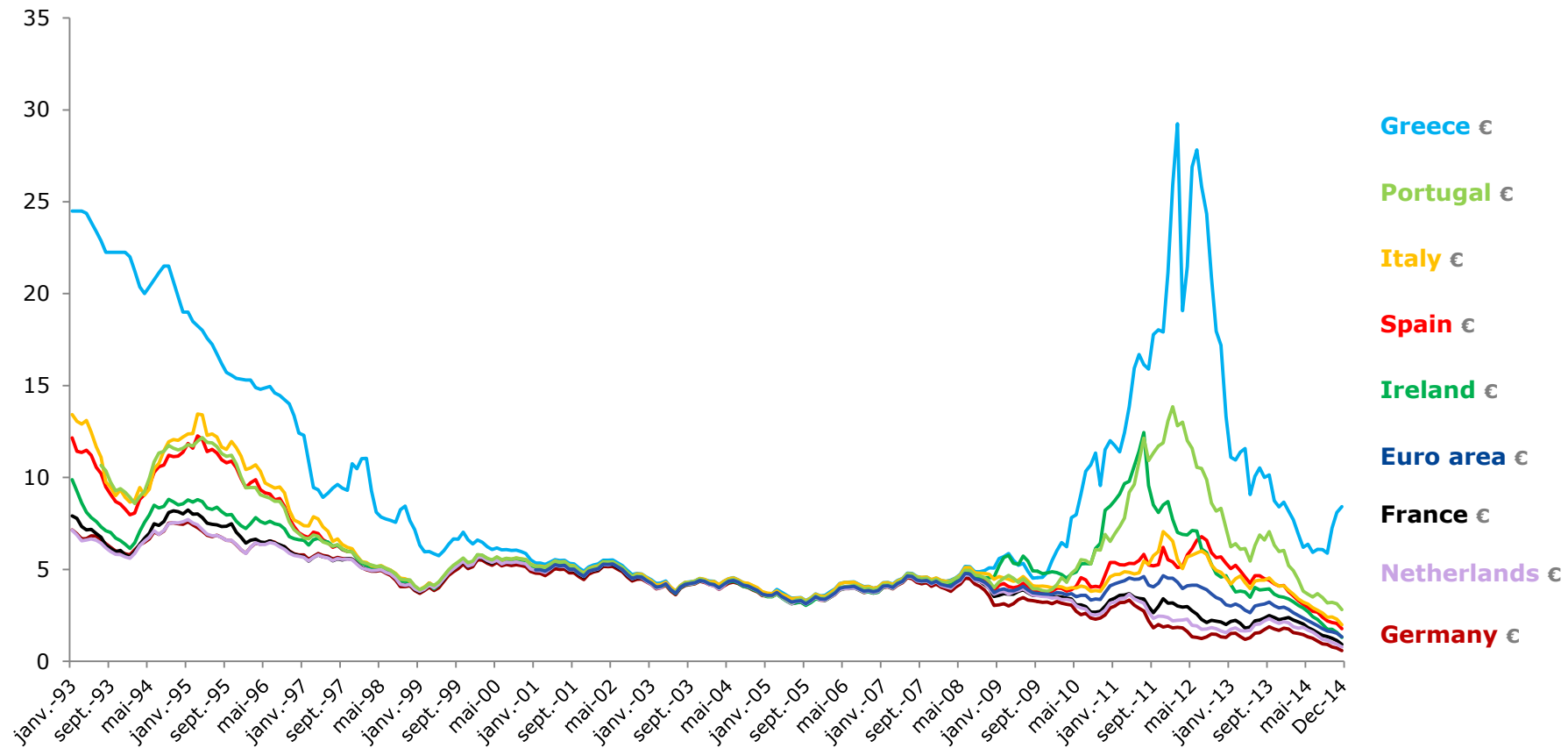


Source: European Commission



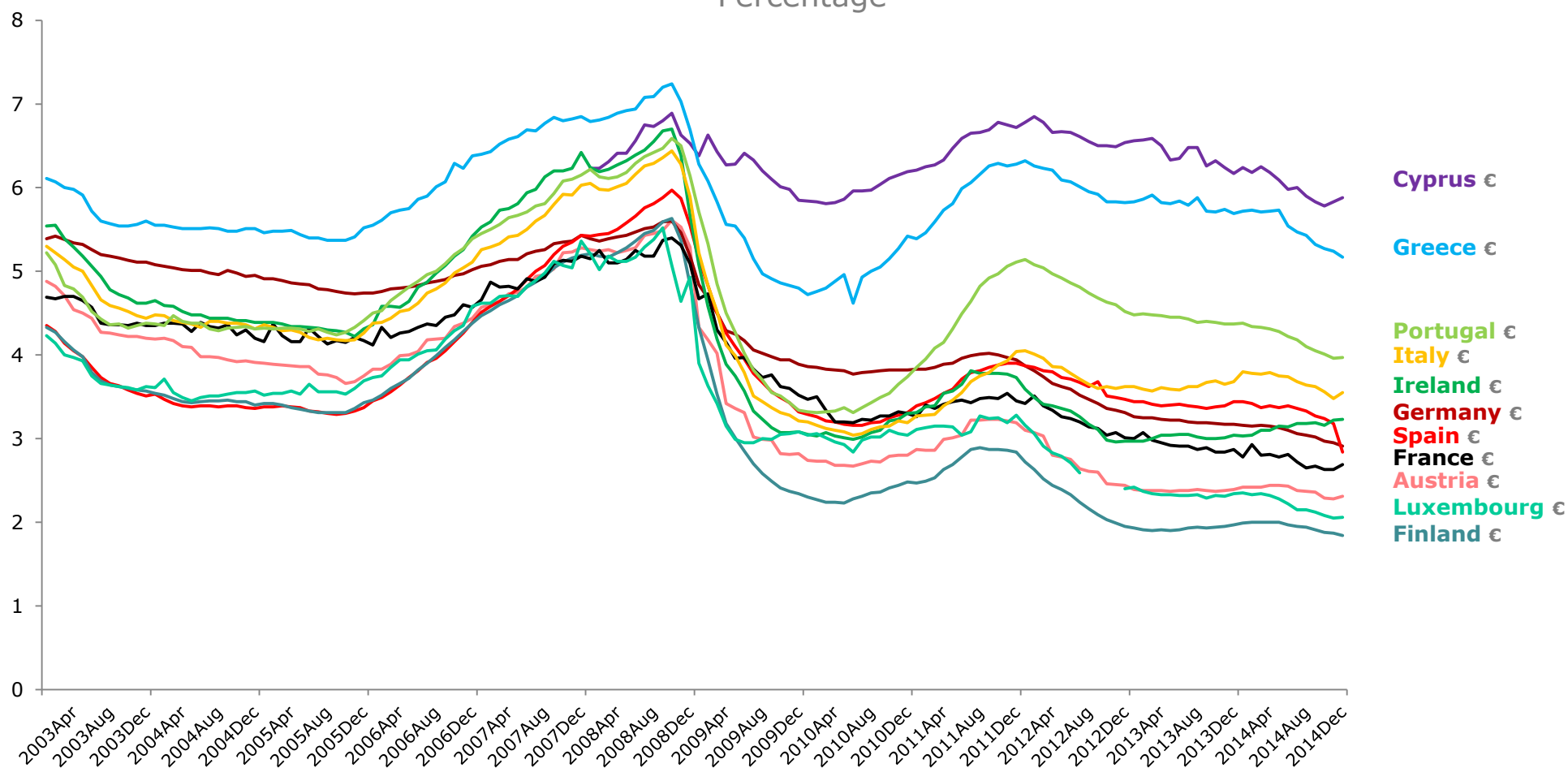
# Interest rates on Government bonds

Interest rates on 10-year Government bonds  
Percentage yield



# Interest rates to firms

Interest rates to firms (non-financial corporations)  
Percentage



Source: ECB

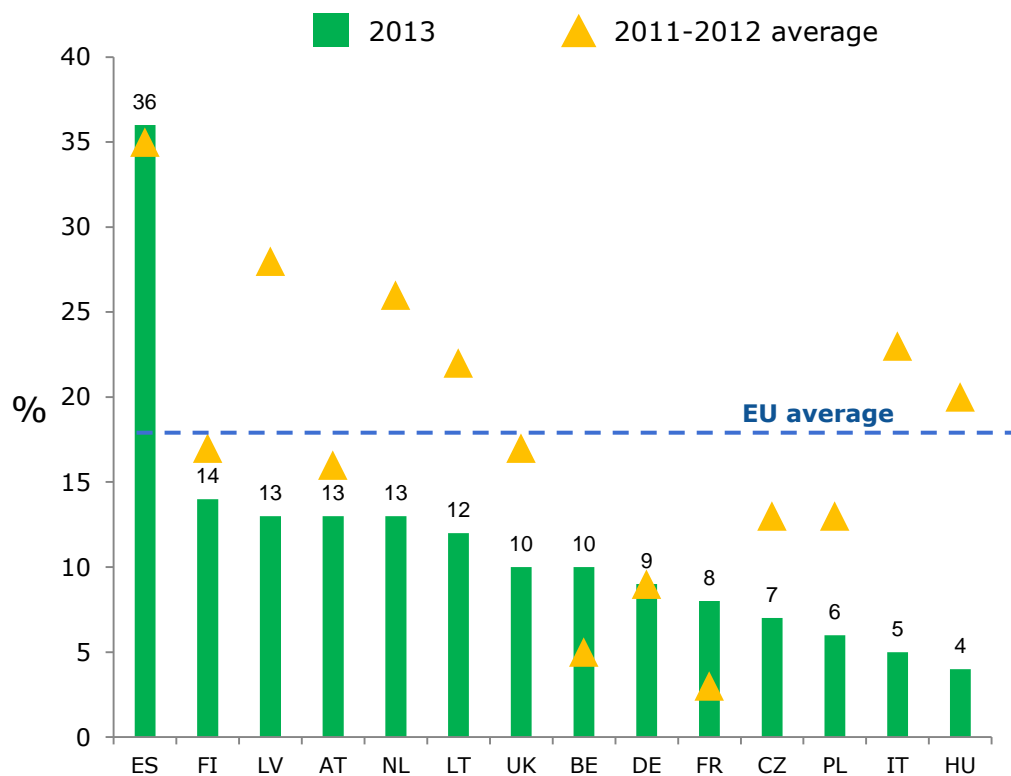
# Respecting our rules

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

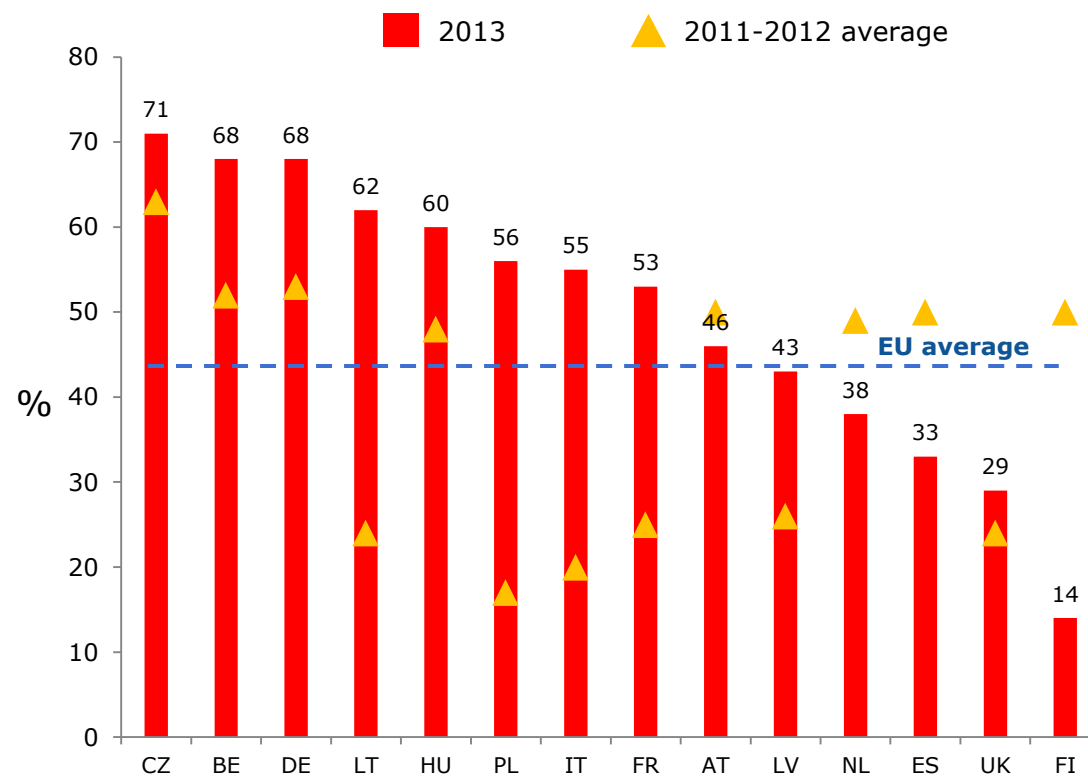
Country			Number of years in EDP	Country			Number of years in EDP
	AT	€	5		IE	€	11
	BE	€	5		IT	€	7
	BG		2		LT	€	4
	CY	€	8		LU	€	0
	CZ		7		LV	€	4
	DE	€	8		MT	€	11
	DK		4		NL	€	6
	EE	€	0		PL		11
	EL	€	11		PT	€	10
	ES	€	8		RO		4
	FI	€	1		SE		0
	FR	€	11		SI	€	7
	HR		4		SK	€	9
	HU		9		UK		10

# Implementing reforms

## Full implementation of EU country-specific recommendations



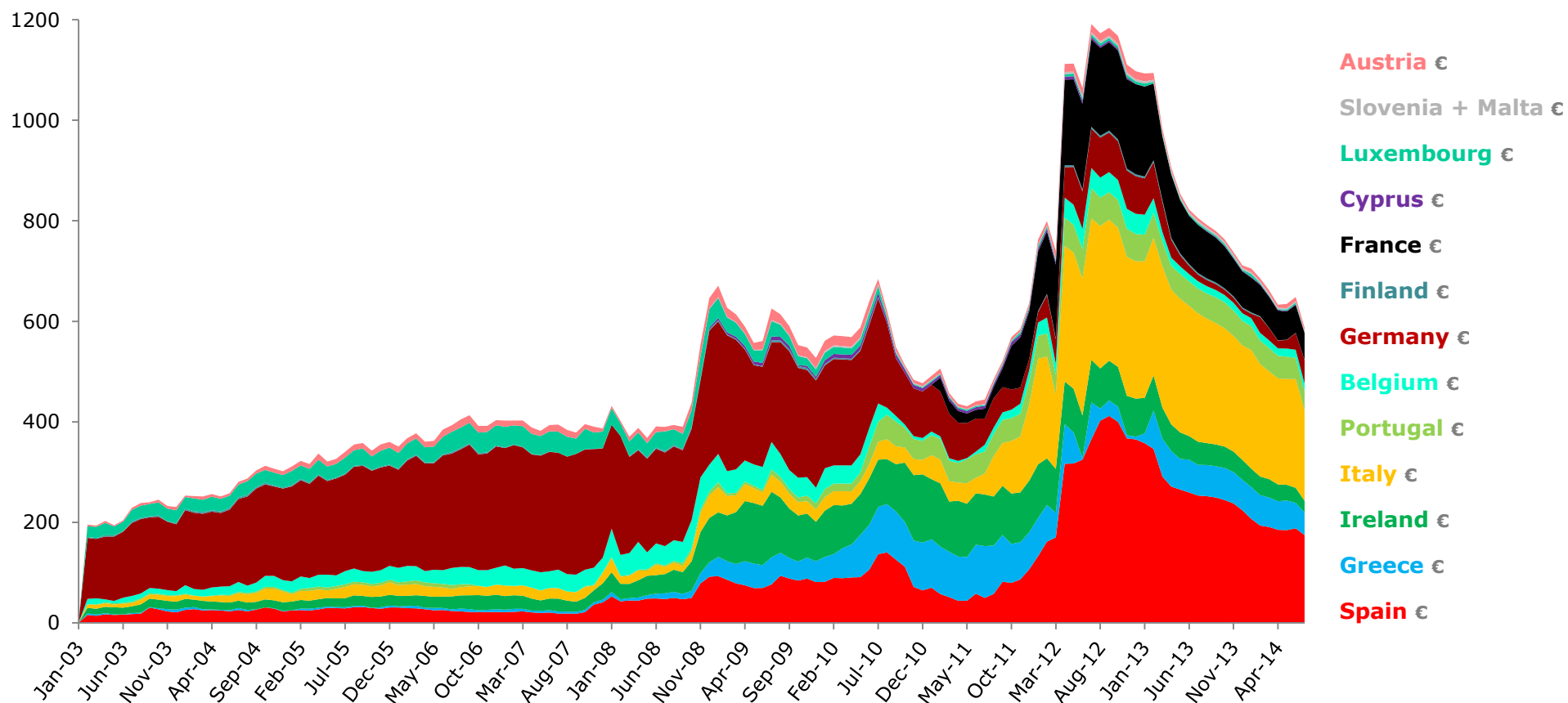
## Non-implementation of EU country-specific recommendations



Source: European Parliamentary Research Service

# Absorbing shocks

**Eurosystem Main and  
Longer-Term Refinancing Operations**  
(EUR bn)

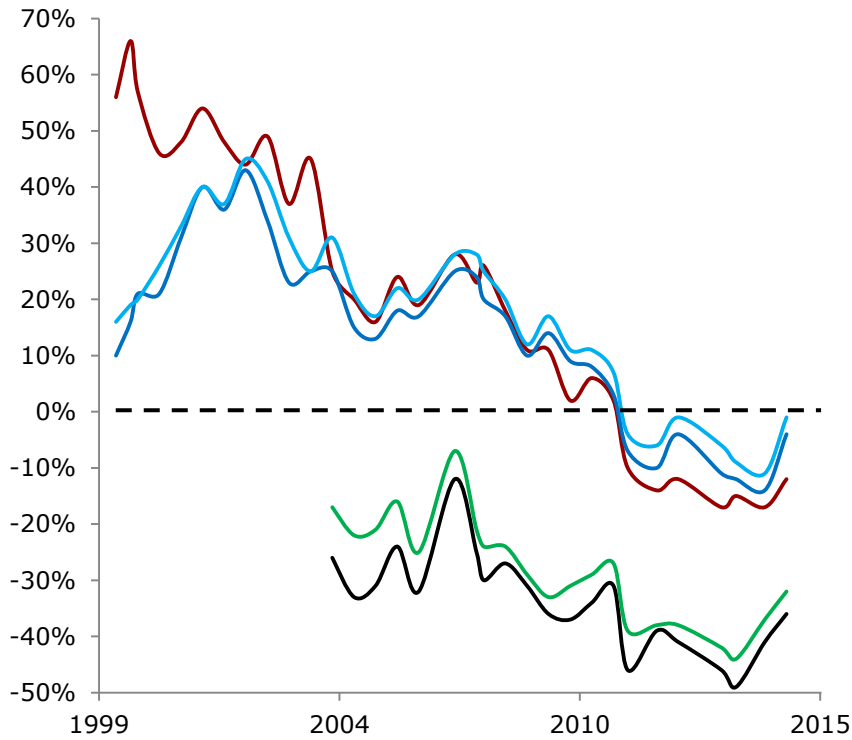


Source: Bruegel based on ECB and national central banks

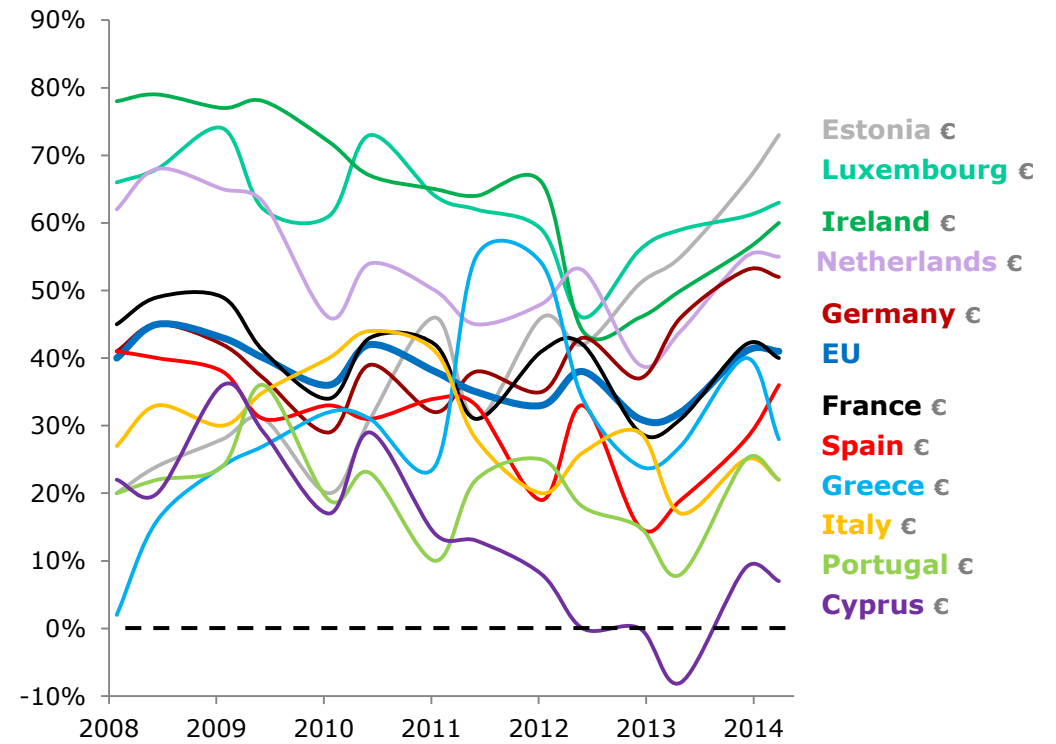
# Rebuilding trust

## Trust in the Institutions

- European Central Bank
- European Commission
- European Parliament
- National Parliaments
- National Governments



## Support for the euro



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

# 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?

