

European Economic and Social Committee
Section for Economic and Monetary Union and Economic and Social Cohesion

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Post Summit Debate on the Future of EMU

Introductory Statement

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I. Background

- Role of European Integration and role of EMU – all political efforts have to be geared towards safeguarding the achievements associated with it: That should be the commitment for the future, while the immediate future implies foremost dealing with the current deficiencies in our member states and in the common institutional settings, in particular of EMU. Against this background: There are three simple questions: Where do we come from? Where do we stand? Where do we want to go to?

Where do we come from?

- The economic and financial crisis has evidently and very clearly shown the deficiencies and problems in our member states policies (resp. public debt developments, weaknesses of the finance and banking sector, deterioration of international competitiveness, bubbles/imbances).
- The situation we are facing now is not the result of fiscal consolidation today, but the result of structural misdevelopments partly over decades, a lack of budgetary discipline and a lack of reforms, e. g. in labour and product markets. As a consequence the adjustment burden was shifted into the future and is now being addressed at much higher economic and social costs.

- And the situation is also the result of the insufficient institutional design of EMU, thus the insufficient governance and coordination.
- The major challenge: Development of an appropriate and sustainable policy strategy. And it is the conviction of my government that this strategy is now in place.

II. Progress and Achievements

Where do we stand?

A lot has been achieved:

- See substantial reform efforts to consolidate public finances, to improve the functioning of labour and product markets, research and education and to strengthen competitiveness by the member states themselves. Nothing will work without ownership by the member states. Encouraging: a lot has been undertaken and we see progress (public deficits, export developments, reduction of current account developments), but clearly no room for complacency.
- The establishment of rescue mechanisms (EFSF, ESM): giving countries in need time to proceed with reforms and stabilizing the euro area as whole
- The strengthening of EU and Euro Area governance (European Semester with its Country-Specific-Recommendations, six-pack, two-pack, fiscal contract, Macroeconomic Imbalances Procedure).
- Step-by-step implementation of reforms and new governance instruments has reinstated market confidence notwithstanding temporary disturbances.

III. Challenges or areas where more needs to be done

Where do we want to go to?

- **Forceful and continuous implementation of growth-friendly consolidation and structural reforms, we should not change our general policy strategy.**

This would be counter-productive. Furthermore: Consolidation and growth policies do not exclude each other.

- **Convincing flanking measures at EU-level to strengthen growth, fight youth unemployment and ease SME-financing. The EC in June has send the right messages (*not because the current strategy failed, but instead to support the necessary implementation*):**

1. rapid implementation of the Pact for Growth and Employment June 2012: effective use of the EIB – capital increase, single market initiatives, innovation, digital agenda, services

2. Youth unemployment: reprogramming of unspent structural funds where appropriate, striving for the Youth Employment Initiative to be fully operational / disbursement of the 6 bn. € allocated to it in 2014 / 2015, EIB with own financing window

3. SME-financing: among other measures: the expansion of joint risk-sharing financial instruments between the COM and the EIB to leverage private sector and capital market investments in SME's to ensure that the volume of new loans to SME's across the EU is expanded.

- **Credible and effective implementation of the improved governance and further improvements in the area of economic policy coordination.**

1. As mentioned, substantial progress achieved in the field of fiscal coordination – implementation is now key. However, prudent fiscal policies require also prudent economic policies to be successful. An efficient economic policy coordination could act here as a catalytor. And yes, we have seen substantial progress.
2. However, our impression is that this should be deepened further going beyond the European Semester and the MIP and we have to think about how to improve peer pressure and incentives to advance reforms in our member states: the key words being ex-ante coordination, mutually agreed contracts and associated solidarity mechanisms.
3. The EC took on board a joint French-German proposal (2-step-approach: October 2013 – developing a joint understanding on necessary indicators and policy areas taken into account in the coordination framework; December 2013: discussion of modalities concerning the mutual contracts and associated solidarity mechanisms – how to improve the incentive structure to advance necessary structural reforms)

- **Financial Market Regulation and Banking Union**

The importance of progress here cannot be stressed too much. Efficient European supervisory structures in particular are a precondition for well-functioning financial markets which in turn are a precondition for the efficient allocation of scarce financial resources and for restoring normal lending.

1. For the German government: key priority in the coming months at European level. We are clearly committed to implement all necessary steps as agreed to further regain confidence into the Euro Area and broaden the basis for sustainable growth.

2. Against the background of progress related to the Single Supervisory Mechanism, the directive on recovery and resolution of banks (June Ecofin), the agreement on main features of the direct banking recapitalization the discussion of the design of a Single Resolution Mechanism is now at the focus of the debate.

IV. Beyond the existing Treaty

- Minister Dr. Schäuble has regularly addressed issues concerning future developments in the EU and the Euro Area, going beyond the current debate and involving possibly treaty changes. This concerns in particular with a view to further strengthen fiscal discipline the idea of strengthening the role of the Commissioner for fiscal and economic affairs connected with a Veto-right, if the budgets of member states do not comply with the rules.
- However, in such a case we also need stronger democratic legitimacy on the side of the European Institutions which inter alia might include the direct election of the President of the Commission. It is clear that this is a long road. The main focus is and has to be now on the issues raised before.

V. Final remark

Decision making processes at European level are complicated and difficult. They take their time, because we have to reach compromises, and we have to ensure that the measures are of highest quality.

The German government is fully determined to the benefit of the future of EMU and the European Union to advance in close cooperation with our partners all necessary steps as fast as possible to ensure that measures taken at European level can take effect to strengthen growth, competitiveness, employment, social integration and in general the functioning of relevant markets in our member states and to stabilize the Euro Area and the EU as a whole.