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

Recent and upcoming EESC opinions on
The Future of Economic and Monetary Union

Key Points

June 2014

European Economic and Social Committee
Rue Belliard 99, 1040 Brussels

EN

Table of Contents

Ten years on, where is the euro headed?

Key points:

When the international economic and financial crisis struck it exposed the structural limitations and contradictions in EMU, depriving the euro of its propensity to attract. It was thought that all it would take to make EMU work was a set of "accountancy" rules, whereas the problem was not technical but economic and political.

The EESC recognises the importance of stability, but stability must not only concern prices or financial institutions, but also politics and social conditions.

The EESC believes that a single currency will be unsustainable unless we achieve convergence between the economic capacities of the euro area countries and improve overall competitiveness, objectives which require economic as well as political commitment.

The Treaty on Stability, Coordination and Governance stresses stability without proposing joint financial instruments for recovery and employment. Europe instead needs to go back to generating wealth in order to redistribute it fairly.

Briefly, these are the four recommendations for completing the euro framework:

- EU economic governance to promote growth, including via financial investments through bonds attracting excessive global savings; a common budget for the euro area; reducing economic asymmetries between the euro countries;
- monetary and financial governance: completing the ECB's mandate and the internal market for finance, also through banking union;
- moving towards political and social union, making the decision-making process more democratic and transparent and, where necessary, acting on the basis of strengthened cooperation;
- strengthening the international role of the EU and global governance.

Full details of the opinion:
Opinion of the EESC *Ten years on, where is the euro headed? The EU's economic and political future and the new Treaty* (own-initiative opinion),
OJ C 271 of 19 September 2013, p. 8.
Rapporteur: Mr Carmelo Cedrone
Adopted on 22 May 2013.

Economic policies of the Member States whose currency is the euro

Key points:

- The EESC welcomes the establishment of general economic policy guidelines for the countries of the euro area and supports the formulation of recommendations tailored to each country as well as measures to assess their implementation.
- However, the Committee regards the current macroeconomic policy mix as unbalanced, since it overlooks the significance of demand and distributive justice.
- The Committee calls for stricter regulation of financial markets taking account of the shadow banking systems and coordinated at G-20 level, as well as bringing back the financial system into line with the needs of the real economy.
- A credible solidarity-based safety net including a strong building on earned trust could ensure that any speculation against countries in difficulty is futile and thus reduce their financing costs.
- The EESC calls for a general re-think not only of expenditure but also of tax systems, with due regard for distributive justice.
- Policies should capitalise more on the fact that the negative income and employment multipliers of revenue-related measures are generally more limited than those of spending cuts.
- The Committee reiterates its call for a wage policy that makes full use of the scope for productivity, and rejects any state interference in the autonomous collective bargaining policy.
- The importance for competitiveness of non–price factors is often overlooked. Europe will only be successful in the global race if it pursues a "high road" strategy of high-quality added value.
- The Committee calls for a stronger role for the social partners and for closer Europe-wide coordination of wage policy, for example by introducing macroeconomic dialogue in the euro area.

Full details of the opinion:
Opinion of the EESC on the *Recommendation for a Council Recommendation on the implementation of the broad guidelines for the economic policies of the Member States whose currency is the euro* (COM(2012) 301 final),
OJ C 133 of 9 May 2013, p.44.
Rapporteur: Mr Thomas Delapina
Adopted on 13 February 2013.

A deep and genuine Economic and Monetary Union

Key points:

The EESC welcomes the Commission communication, which may prove a historic turning point provided that the Council finally musters the courage and the will to adopt and implement swiftly the provisions that will help to achieve the stated objectives.

The Committee has already drawn up opinions and recommended solutions regarding most of the Commission's current proposals, particularly those relating to the limitations of EMU, the ECB, growth and sovereign debt.

The EESC believes it is useful that institutional considerations are on the agenda, including political union, though most of the proposals are rooted in the current framework and will therefore fail to resolve anything if the Council does not go further, in particular extending majority voting to all subject areas, starting with economic and employment policy.

Therefore, to achieve genuine EMU, the EESC believes it necessary in the immediate term (without amending the Treaty) to:

- launch a European growth initiative, as austerity alone will not suffice to meet any of the criteria set by the EU;
- introduce a convergence instrument to help overcome the economic asymmetries with micro-level measures to help the countries worst affected by the crisis;
- implement a solution to the debt issue to address the problems facing all the countries that have adopted or will adopt the euro;
- rapidly implement banking union and European supervision;
- complete the single market in all sectors;
- reduce the fragmentation of the credit market in order to ensure a level playing field where the cost of credit is the same in all Member States.

In the medium and/or long terms, possibly with changes to the Treaty, it is necessary to:

- establish genuine EU economic governance alongside monetary, financial and fiscal governance, not least in order to ensure greater consistency between EU and state policies;
- complete the mandate of the ECB;
- implement fiscal union, starting by creating a joint euro area budget and also introducing a solidarity mechanism;
- implement a social compact for social union, involving the social partners and organised civil society;
- establish political union, if necessary on the basis of enhanced cooperation, and establishing a more democratic, transparent decision-making process. To this end giving the next EP constituent powers along with the Council;
- give the EU a more representative role in international bodies.

Full details of the opinion:
Opinion of the EESC on the *Communication from the Commission – A blueprint for a deep and genuine EMU: Launching a European debate* (COM(2012) 777/2 final),
OJ C 271 of 19 September 2013, p. 23.
Rapporteur: Mr Carmelo Cedrone
Adopted on 22 May 2013.

CCI/Major economic policy reforms

Key points:

- The Committee gives a guarded welcome to the two Communications from the Commission.
- The Committee is disappointed that they provide little additional detail to the concepts already outlined in the blueprint, which therefore renders assessment difficult.
- The Committee is concerned that a further complexity has been added to an already crowded agenda of economic governance instruments, with relatively little added value.
- While these two proposals could be a help to Member States in difficulty, their impact on restoring growth and capacity to the most needy areas may be hampered or delayed because the focus of concern is that the measures taken must **also** be to the benefit of the euro area as a whole.
- The Committee is sceptical that Member States would agree to introducing a new financial instrument to fund the CCI and is unclear what added value it brings over existing structural funds.
- The Committee questions how much substance the proposed ex ante coordination will add to the European Semester and what additional burden of bureaucracy it will entail.
- The Committee is concerned that the filters used for ex ante coordination could interfere with a Member State taking reform measures because they change relative competitiveness in another Member State.
- The Committee believes that spill overs through financial markets have no place in ex ante coordination; every effort should be directed instead at establishing a Banking Union.
- The Committee wishes to continue the debate and make proposals at a future date as developments evolve.

Full details of the opinion:
Opinion of the EESC on the *Communication from the Commission to the European Parliament and the Council - Towards a Deep and Genuine Economic and Monetary Union - The introduction of a Convergence and Competitiveness Instrument* (COM(2013) 165 final), and the *Communication from the Commission to the European Parliament and the Council - Towards a Deep and Genuine Economic and Monetary Union - Ex ante coordination of plans for major economic policy reforms* (COM(2013) 166 final),
OJ C 271 of 19 September 2013, p. 45.
Rapporteur: Mr David Croughan
Adopted on 22 May 2013.

Banking Union Package

Key points:

The EESC

- considers the package of measures set out in the Commission's Roadmap towards Banking Union, and in the two legislative acts presented at the same time to be appropriate;
- supports the call for the measures to be adopted before the end of 2012 and to be drawn up with careful attention to the effects on banking and national economies;
- specifically, urges rapid agreement on the entry into force of the Single Supervisory Mechanism (SSM). The basic initial objective is to save the euro while minimising the costs for taxpayers of possible restructuring measures or closures, by ensuring that sufficient funds are in place in advance and that the costs of resolution are borne by shareholders and creditors;
- supports the ECB taking on responsibility for supervising all banks in the banking union, however small;
- welcomes the fact that the ECB will from the beginning have a supervisory board to avoid potential conflicts of interest with its monetary functions;
- advocates a stronger role for the European Systemic Risk Board (ESRB) and the ECB as part of a more integrated financial system, and urges the Commission to provide more practical details on how the national authorities and the ECB are to interact;
- welcomes the idea of promoting the involvement of non-euro area countries using the "opt-in" clause, with the same rights as euro area countries;
- considers close connections between the European Banking Authority (EBA) and the ECB to be crucial;
- where decision-making is concerned, further analysis and consideration is needed to balance the internal market banking interests of Member States not belonging to the SSM, while avoiding the risk of Eurozone integration being paralysed by minority blocking votes. It is important to avoid a two-tier market in financial services;
- considers that the Commission should draw up a green or white paper on how to finance the banking union in a harmonised manner so it will be in a position to decide on the taxes or levies on financial and banking transactions.

Full details of the opinion:
Opinion of the EESC on the *Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 1093/2010 establishing a European Supervisory Authority (European Banking Authority) as regards its interaction with Council Regulation (EU) No…/… conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions* (COM(2012) 512 final - 2012/0244 (COD)) and the *Communication from the Commission to the European Parliament and the Council - A Roadmap towards a Banking Union* (COM(2012) 510 final), OJ C 11 of 15 January 2013, p. 34.
Rapporteur: Mr Carlos Trias Pintó
Adopted on 15 November 2012.

Recovery and resolution of credit institutions

Key points:

The EESC welcomes the introduction of the effective resolution of failing financial institutions within the EU as an essential element in the completion of the internal market and forwards a number of recommendations:

- additional clarity regarding those tools which are new and have not been tested in systemic crises;
- banks should be involved in the process of the drawing up and the updating of resolution plans;
- Professional advice of consumer organisations, trade union representatives, etc., should also be sought;
- Central Banks should be involved in the assessment of the recovery and resolution plans;
- confidentiality requirements with respect to credit institutions and their recovery and resolution plans should be strengthened;
- harmonised rules and conditions for intra-group financial support are welcomed;
- introducing explicit and more clearly defined trigger rules and conditions for the Special Manager;
- the powers and responsibilities of RAs need additional distinctions and clarifications;
- The directive should leave no doubt that supervisors have the right to inform the RA without waiting for notification by the bank's management whenever they deem that the trigger conditions for resolution have been met but the notification is delayed;
- the bail-in tool needs additional explanations and clarifications;
- the introduction as soon as possible of a **realistic roadmap** towards establishing the future system of financing arrangements for resolution funding.

Full details of the opinion:
Opinion of the EESC on the *Proposal for a Directive of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directives 77/91/EEC and 82/891/EC, Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC and 2011/35/EC and Regulation (EU) No 1093/2010* (COM(2012) 280 final - 2012/0150 (COD)),
OJ C 44 of 15 February 2013, p. 68.
Rapporteur: Ms Lena Roussenova
Adopted on 12 December 2012.

Single Resolution Mechanism

Key points:

The EESC

- welcomes the proposals to set up a Single Resolution Mechanism (SRM) and associated financing mechanism, which, forms an important new building block in developing the banking union;
- feels that work needs to be done on the various components (SSM, ESM, BRRD, SRM) of banking union, and that the logical sequence and internal consistency of the proposals needs to be respected when implementing them;
- calls for the BRRD and the SRM to be geared to one another as closely as possible;
- feels that with regard to the Single Resolution Board, it is vitally important for its members to have the greatest possible independence and expertise and for democratic scrutiny of its decisions to be built in. Its powers should be clear and well defined;
- welcomes the proposed Single Bank Resolution Fund. The Committee would like the legal basis of the fund to be clarified as soon as possible and all the challenges involved in setting up such a fund (e.g. moral hazard) to be dealt with in advance;
- considers it important to ensure that the resolution fund has the financial resources it needs to fulfil its role properly. When setting the target level for the fund, fed by contributions from the banks, the various financial sector recovery measures in different areas should be taken into account.

Full details of the opinion:
Opinion of the EESC on the *proposal for a Regulation of the European Parliament and of the Council establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Bank Resolution Fund and amending Regulation (EU) No 1093/2010 of the European Parliament and of the Council* (COM(2013) 520 final – 2013/0253 (COD)), OJ C 67 of 6 March 2014, p. 58
Rapporteur: Mr Daniel Mareels
Adopted on 17 October 2013.

Long-term financing – financial services sector

Key points:

The EESC

- welcomes the Green Paper's focus on productive investment and the formation of long-lived tangible and intangible capital but urges the Commission to give greater attention to the need to finance more "socially useful" capital investment;
- considers that banks might play a less prominent role in the future as providers of long-term financing, and that opportunities may arise for other intermediaries such as national and multilateral development banks, institutional investors, sovereign funds and, crucially, bond markets. However, obstacles that prevent banks from fulfilling their role as the main providers of long-term financing must be avoided.
- welcomes the recent recapitalisation of the EIB as this will strengthen its ability to leverage additional private investment finance and to play a stronger countercyclical role in investment funding and credit supply to SMEs;
- considers that the €10 billion capital injection to the EIB is significant but short of what is needed in the present circumstances;
- finds that the arrival of EU 2020 Project Bonds is a positive development;
- calls for the creation of an EU or eurozone wide savings vehicle to mobilise long-term savings, perhaps offering an interest rate premium may be worth considering;
- would like to see greater emphasis placed on socially responsible investment and proposes the establishment of an observatory to monitor long-term investment conditions;
- welcomes the Commission's suggestions about enhanced voting rights and dividends for long-term investors and changes to the shareholders' rights directive;
- feels that consideration could be given to a co-ordinated use of capital gains tax allowances to incentivise longer-term shareholding by fund managers;
- proposes that the EIF's role should be enlarged beyond providing loans to include the provision of venture capital. If the EIF were to be adequately recapitalised then it could become one of the main providers venture finance for SMEs;
- perceives that national and regional governments are already in the business of promoting the survival and long-term growth of SMEs through their regional development bodies, and feels that there is a case for these bodies to take on a role in the operation of such SME trading platforms. This role could range from assessing the credit worthiness of client SMEs to providing limited guarantees to institutional investors.

Full details of the opinion:
Opinion of the EESC on the *Green Paper on long-term financing of the European economy* (COM(2013) 150 final/2)
OJ C 327 of 12 November 2013, p. 11
Rapporteur: Mr Michael Smyth
Adopted on meeting of 10 July 2013.

Upcoming: Completing EMU – the next European legislature

Key points:

- Besides fiscal discipline, flanking economic and social policies for growth and jobs as key factors underpinning successful consolidation must be worked out simultaneously by the EU and the Member States. Common confidence building must replace mistrust and tensions. Therefore the EESC calls on the next European legislature to establish urgently a roadmap to tackle the pressing problems. To this end, the EESC proposes:

I. The completion of EMU, ensured by a robust governance and management structure of the euro area and based on:

i. a monetary and financial pillar, including the implementation of a fully-fledged EU-driven Banking Union to bring about a pan-European capital market, while also protecting taxpayers from excessive risk-taking and disorderly defaults;

ii. an economic pillar to strengthen the decision-making process in economic policy, thus fostering growth, employment, competitiveness, convergence and European solidarity;

iii. a social pillar to take properly into account, among other factors, the social effects of economic adjustments;

iv. a political pillar, including greater accountability and democratic legitimacy, to foster credibility and confidence.

II. The launch, as a matter of urgency, of a real European plan for growth and employment, which should be driven by public and private investment and should be taken into consideration in the evaluation, rebalancing and proper implementation of existing instruments;

III. The establishment of a timeline and arrangements for the launch of political Europe as a whole, including through a reflection process on its institutional set-up in the context of a new European convention;

IV. The launch of a communication and simplification strategy on EMU, as a joint effort by the Commission, EP, Member States and civil society.

The EESC has organised a public hearing in the context of this opinion on **5 December 2013 in Brussels**. For more information, please follow the link:
http://www.eesc.europa.eu/?i=portal.en.events-and-activities-debate-emu

Full details of the opinion:
Opinion of the EESC on *Completing EMU - The proposals of the European Economic and Social Committee for the next European legislature* (Own-initiative opinion)
Rapporteurs: Mr Joost van Iersel and Mr Carmelo Cedrone
To be adopted at the plenary session of 9-10 July 2014.