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

# *Public Hearing on*

# *COMPLETING EMU:*
## *Arguments and proposals for the next term of office of the European Parliament and the European Commission*

## *Thursday, 5 December 2013*
## *9.45 a.m. – 5.30 p.m.*

*European Economic and Social Committee*
*Rue Belliard 99, 1040 Brussels*
*Room JDE 62*

# *MINUTES*

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## Opening and introduction to the debate

**Mr van Iersel**, President of the ECO Section and rapporteur for the own-initiative opinion *"Completing EMU – the proposals of the EESC for the next European legislature"*, welcomed the participants. He referred to the fact that new elements and regulations were continuously being added to the EMU framework to establish it more firmly, while the overall EMU architecture remained incomplete. He mentioned the existence of several obstacles that had to be addressed, such as the adjustments that the Member States needed to do in order to achieve better economic performance and the lack of trust between them, which undermined political will.

**Mr Cedrone**, Vice-President of the ECO Section and also rapporteur for the own-initiative opinion *"Completing EMU – the proposals of the EESC for the next European legislature"*, announced that the main aim of the hearing was to gain better understanding with regards to the financial crisis and the limits of the euro, to examine issues related to the Banking Union and to tackle the lack of a common European economic policy.

**Mr Taneli Lahti**, adviser to Olli Rehn, Vice-President of the EC and Commissioner for Economic and Monetary Affairs and the Euro, firstly mentioned that, as the former ECB President Mr Jean Claude Trichet had called for, a quantum leap in fiscal integration was about to be completed, which was an important step as we already had the first positive results. Secondly, he recalled some achievements since 2011: integration of as many surveillance procedures as possible into one process, introduction of legislation that made it possible to offer much more thorough statistics on Member States public finance, introduction of a mechanism which allows a quick reaction to fiscal imbalances when they appear and major reforms of economic governance in the EU. In addition he explained the function of the Annual Growth Survey, which analyses the economic challenges for the following year and suggests priorities that should be followed. Finally, Mr Lahti highlighted that the implementation of the recommendations by all Member States would ensure positive growth in EMU in 2014.

The following members took the floor in the ensuing general debate: **Mr Croughan, Mr Coldrick** and **Mr Farrugia.** The main points raised included: the question of whether fiscal consolidation could be the solution to a financial crisis, the necessity of paying attention to imbalances across the Member States and the need to create a framework in order to avoid the build-up of such imbalances, and the question of what actions the European Commission should take with regards to surplus.

The president then gave the floor to **Mr Lahti** to respond to the points raised. Mr Lahti said that the reasons and the results of the crisis in each Member State were different. The road to economic growth was a painful procedure, but it helped all the Member States stay together, as this was the first time EMU faced a strong crisis. Furthermore, he highlighted that unemployment had stopped increasing, which reveals a positive signal for the euro area.

**Panel 1: From Monetary to Banking Union: what policy and regulatory framework for the financial system?**

**Mr van Iersel** introduced the guest speakers and gave them the floor.

**Mr Frank Moss**, Director General for International and European Relations at the European Central Bank, announced the plan to have a nearly complete Banking Union by December 2014 which would resolve the incompatibility between monetary union, national banking supervision and financial stability, as well as remove the tight link between national sovereigns and their banking systems. However, success still required a lot of hard work by the EBA, the ECB, the co-legislators and the governments. Secondly, he pointed out that Banking Union was a necessary, but not a sufficient condition for eliminating financial fragmentation in the euro area, as we should not forget the contribution of the capital markets. It was important to pursue further reduction in fiscal imbalances and in the differences in credit conditions across countries. Mr Moss highlighted that the framework for that already existed and needed to be implemented. Moreover, he explained that the global agenda for strengthening resilience of the financial sector would remain unfinished by 2015. Europe's role was important as the European authorities had to be really actively involved in all policy debates, in addition to strengthening the European frameworks for insurance and pension funds. Finally, Mr Moss underscored that further work needed to be publicly perceived as an agenda bringing benefits to the EU citizens and not only to the financial sector.

**Mr Karel Lannoo**, Chief Executive of the Centre for European Policy Studies (CEPS), stated that what we needed to work on was accountability, legitimacy, efficiency and transparency. He went on to say that a legislative role has been given to the European Parliament, but at the same time, the number of own-initiative reports was low compared to that of the European Commission. He stressed that the EP legislative role should be further strengthened. Secondly, Mr Lannoo pointed out that the European Commission had made a large number of legislative proposals that needed to be implemented and applied in practice. He underscored the importance of a clearer agenda for the next five years and the need for a redefined portfolio of some of the Commissioners. Moreover, he emphasised that the European Institutions needed more human resources, a bigger budget in order to implement what is agreed, as well as more transparent procedures. Finally, Mr Lannoo mentioned the necessity of a clear definition of SMEs in order to help them in a more targeted way.

**Mr Guillaume Prache**, Managing Director of EuroFinuse, firstly pointed out that over the last years the European Institutions had focused more on financial stability, but currently it was important to focus on financial services users' protection, fairness, consumers' rights, long-term investments, the real economy and job creation. Secondly, Mr Prache agreed with Mr Moss that it was important to break the link between sovereigns and banks and added that for that reason capital markets' restructuring was necessary. He highlighted as a key priority the protection of investors. Moreover, he referred to the 2013 Green Paper of the Commission which mentioned inconsistencies between the EU policies on financial stability and the need to improve the long-term financing of the economy. Finally, Mr Prache explained that risk management and foreign exchange spot markets needed to be regulated, as fraud was increasing in those sectors and only the Commission among all European Institutions had the authority to apply regulations.

The following members took the floor in the general debate that followed: **Mr Danev, Mr Sartorius** and **Mrs Lopez Almendariz**. The main points raised included: the need to pay attention to the distribution of financial resources especially in cohesion policy, the question of where money provided by the ECB to address problems of liquidity ended up, the strict requirements that needed to be fulfilled by the banking institutions in order to withdraw liquidity by the ECB, the need to draw attention to SMEs as they were at the heart of the economy.

**The President** gave the floor to the speakers to respond to the points raised.

**Mr Prache** emphasised the need to focus on SMEs as they were a crucial part of the real economy. Credit should go back to them and the ECB was the appropriate institution to address that issue.

**Mr Moss** mentioned that we needed to focus not only on the public sector but also on the private sector, for example by promoting cross-border mergers. With regards to the risk-rated assets and the asset quality review (AQR), he explained that a harmonised methodology across the euro area would lead to a successful outcome and to a less fragmented and more stable banking system. The ECB could only contribute to financial stability, while trying to avoid a credit crunch in the economy.

**Mr Lannoo** highlighted that it remained to be seen how many non-euro Member States would participate in the Single Supervisory Mechanism (SSM). With regards to the AQR, he underscored that the ECB had to harmonise definitions, as there were huge differences in Europe on how assets are classified. Finally, Mr Lannoo stressed that we should also pay attention to the taxation of SMEs as they are the main job creators in Europe.

**Panel 2: From economic coordination to economic governance: which micro and macroeconomic instruments to sustain the real economy in fostering growth and jobs?**

**The President** introduced the speakers and gave them the floor.

**Mr José Leandro**, Member of the Cabinet of Herman Van Rompuy, President of the European Council, mentioned that each Member State that had adopted bad policies could affect EMU as a whole because of the high degree of interdependence between the Member States. In terms of governance and coordination, a lot had been done in order to manage that interdependence, such as the reinforcement of the Stability and Growth Pact, the agreement on the Two-pack and the Six-pack and the emphasis on debt sustainability. Mr Leandro highlighted that by reinforcing fiscal rules and economic coordination, we were also reinforcing sovereignty by giving the governments the ability to deliver what citizens expect. Furthermore, a road map was put forward on how EMU could evolve into a full banking, fiscal, economic and political union. Among those four blocks, the priority was banking union, as it was the natural consequence of EMU. In this regard, he also said that we had to eliminate the main differences in the ways banks are regulated, supervised and resolved. Finally, he pointed to the ongoing debate on a stronger framework for economic coordination through the introduction of contractual agreements on reforms accompanied by a solidarity instrument.

**Mr Alfredo Panarella**, Head of Unit *"Policies inside the EU"* of the European Investment Bank, stated that the EIB's aim was to support growth and jobs. Following its capital increase, the EIB had been able to significantly boost its activity for investments into the real economy, despite the challenging economic environment and the deterioration of the credit quality of borrowers in Europe. Mr Panarella pointed out that in terms of priorities, specific attention was given to research and innovation, SME financing, strategic infrastructure and resource efficiency, by prioritising projects and industries which target growth and employment, with special emphasis on vulnerable countries. The EIB was also committed to lend considerable volumes to intermediaries and SMEs in the Southern European countries. Furthermore, Mr Panarella explained that the EIB developed new products, such as the Trade Finance Facility in Greece and Cyprus. He also referred to the European Investment Fund which aimed at fostering objectives such as entrepreneurship, growth, innovation, R&D and employment. With regards to employment, the EIB proposed the *"Skills and Jobs-Investing for Youth"* programme which aimed at addressing skill gaps and mismatches throughout the EU while creating new jobs for young people. Finally, he highlighted the development of a loan guarantee instrument, the Risk Sharing Instrument, which would help SMEs to borrow more money and to hire young people.

**Mr Fabian Zuleeg**, Chief Executive of the European Policy Centre (EPC), explained that we focused a lot on the financial sector, but we needed at the same time to focus much more on the real economy. The major problem was that we needed to achieve convergence among all Member States in terms of growth. In addition, he pointed to the existence of significant levels of unemployment which could have political consequences, as there was no support for the way the EU handles the situation. He highlighted that we had to deal with risk and boost growth. This could be achieved by boosting the single market, trade, exports, research and innovation and by fixing industrial policy. He went on to say that we needed to do more for the economic adjustment countries, for example to handle the impact on consumption, to protect social and public investments and to acknowledge that a certain level of fiscal transfers would be needed. He also highlighted the need to deal with other problems that arise from the crisis, such as the necessity to increase access to credit for all companies in order to boost confidence and consumption, and to continue ensuring macroeconomic stability by conducting a specific monetary policy. Finally, he stressed that unemployment was closely linked to growth and that we needed to focus on it in order to create jobs.

The following members took the floor in the general debate that followed: **Mr Smyth, Mr Palenik, Mr Jahier, Mr Dulevski, Mrs Lopez Almendariz** and **Mr Farrugia**. The main points raised included: the possibility for the EIB to borrow money from the ECB through the LTROs and to lend directly to banks and to Member States, the measures needed in order to eliminate long term unemployment, the question of demographic pressure, the need to facilitate access to credit for SMEs and to create more jobs and the availability of funds for those SMEs which want to invest.

**The President** gave the floor to the speakers to respond to the points raised.

**Mr Zuleeg** pointed out that positive growth was needed in order to cover demographic pressure and to get out of the debt crisis. He emphasised the fact that more growth corresponds to more employment. Furthermore, he explained that we had to focus on long term unemployment and youth unemployment as these resulted in great loss of human capital. Finally, he said that we needed to bring young people back to the labour market sustainably and that the success key for that was the private sector.

**Mr Panarella** stated that the EIB model had not changed since 2010 and that the EIB would support SMEs as much as possible. Mr Panarella mentioned that a lot could be done on unemployment but, at the same time, that depended on the growth rate as well. He highlighted that the EIB was trying to enlarge its toolbox and to tackle the issue of SMEs as they were the main vehicles to create employment.

**Mr Leandro** stressed the importance of structural reforms, which needed to be dealt with in each Member State. Both social partners and stakeholders needed to discuss the Member States' National Reform Programmes which have to be submitted each April. He pointed out that such huge jumps in unemployment were observed for the first time. This could be linked to the fact that Member States had created dual labour markets with outsiders, such as young people, that could be easily fired, and insiders that were fully protected. This duality was one of the issues that needed to be tackled.

**Keynote Speech**

**Mr van Iersel** welcomed Mr Elmar Brok, MEP, and gave him the floor to deliver a keynote speech.

**Mr Brok** pointed out that we could no longer afford a situation in which one single business like a big bank may have systemic effects for which taxpayers will have to pay automatically. The market was the best way to create wealth, but a strong framework was needed as a market without it would destroy itself. The creation of European and international rules was needed as markets became European and global. Mr Brok emphasised the fact that we needed to tackle the crisis at a European level. More attention should be paid to fiscal solidity and the respect of rules in order for the law not to lack credibility. In terms of debt and fiscal position, a lot had been done by creating many relevant mechanisms and regulations, but their implementation was a national matter. National ownership, such as the involvement of each national parliament in the adoption of the reform programmes, was a necessity. As for the European Parliament, it needed to introduce clear structures and targets in order to solve the imbalances between Member States. Finally, Mr Brok highlighted that as regards competitiveness EU Member States should not focus on the national level alone, but realise the added value of Europe as competition has become global. The fields to which we should pay most attention in order to achieve that were those of education, training and research.

**Panel 3: From Debt to Fiscal Union: how to put national responsibility and European solidarity together?**

The ECO Section Vice President **Mr Cedrone** introduced the guest speakers and gave them the floor.

**Mr Graham Bishop**, Independent Consultant on EU Integration and Member of the Commission Expert Group on debt redemption fund and eurobills, proposed the creation of a Temporary Eurobill Fund (TEF). As Europe's economy would be financially fragile for the next decade, he mentioned that this Fund would be a helpful step. The over-arching objectives would be to restore confidence within the euro area, to promote the return of the "single market" in banking finance and to recognise political reality. Mr Bishop went on to present the financial objectives which would be the elimination of the risk of a roll-over liquidity crisis of European government bonds, the reduction of the doom loop between banks and states, and the reduction of the burden on the ECB. Furthermore, he pointed to the political objectives which would be to deepen trust between euro area Member States, to provide the possibility of a modest Eurozone fiscal capacity, to create the basis for a European Treasury and to demonstrate that Europe still has the political ability and will to take significant economic decisions. Finally, Mr Bishop emphasised the importance of moral hazard: his proposal included taking collective decisions on incremental risk. How much the fund issued would be a collective decision by all counterparties, risk automatically expired, unless renewed, and the issue could be stopped at any time.

**Mr Sergio Marchisio**, Professor of International Law at the University of Rome "La Sapienza", explained that in balancing national responsibility with European solidarity we had to overcome some obstacles. Beyond the financial sphere, solidarity was something we had to accept in some fields, such as immigration, but it was not effective yet. He went on to say that the European Commission had been really dynamic in finding solutions to the crisis over the last two years, but we should focus more on the legal action. He underscored that the Single resolution Mechanism (SRM) had raised some issues in terms of co-operation, integration and transparency. Furthermore, he emphasised the role of all European Institutions for defining the budget package and he pointed out that it needed to be reviewed continuously.

The following members took the floor in the general debate that followed: **Mr van Iersel** and **Mr Croughan.** In addition, **Mr Jean-Victor Louis**, Professor emeritus at Université Libre de Bruxelles (ULB), took the floor. The main points raised included: the question of trust between those who lend and those who borrow, with the need to explain in more detail the issue of moral hazard, as well as the need to put emphasis on Fiscal Union.

**Mr Bishop** took the floor in order to respond to the points raised. He said that the TEF would be an intergovernmental treaty among the euro area Member States. The first element of trust was that the treaty should be signed by all euro countries. Furthermore, he explained that all participating States which are in good standing would borrow from the fund and the fund would borrow from the market. He went on to say that in case a country could not repay, it would be encouraged to take a programme from the ESM. Finally, Mr Bishop said that this procedure should deepen trust substantially, as those who did not follow the rules would be subject to market discipline.

**Panel 4: From a community of nation-states to a Political Union: how to ensure democratic legitimacy and decision-making in EMU?**

**The Vice President** introduced the guest speakers and gave them the floor.

**Mr Jean-Victor Louis**, Professor emeritus at Université Libre de Bruxelles (ULB), explained that apart from price stability further objectives should be added to the ECB mandate, and at the same time attention should be paid to the link between those objectives and the independence of the ECB. He added that the ECB is an institution with great political accountability, obliged to work with other institutions all over Europe. For those reasons special attention should be paid to the transparency of the discussions that take place in order to supervise the euro area banking system. Furthermore, Mr Louis stressed the differences between the ECB and other central banks. He stated that we should keep in mind that the ECB is not a national bank and because of that co-ordination among policy makers had to be increased. Finally, he underscored that unlimited extension of liquidity could create problems to financial stability.

**Mr Yves Bertoncini**, Director of Notre Europe – Institut Jacques Delors, explained that the European Parliament is a Federal Parliament, responsible for the governance of EMU. Mr Bertoncini went on to say that at the executive level we needed to bring together the faces and the means, so the euro, as a public good, needed to be embodied by a person. The EMU governance needed to take the form of a regular summit. With regards to the Troika, he explained that it had been put in charge because of the lack of knowledge and experience to handle a crisis, but by now those had been built up. Therefore he expressed the need that the Troika be replaced by a trio composed of the European Commission, the Eurogroup and the ECB. Finally, Mr Bertoncini emphasised that from the Parliamentary side what was needed was effectiveness and legitimacy.

**Mr Philippe Lamberts**, Member of the European Parliament, explained that we needed to boost transparency in the decision-making process. Mr Lamberts stressed that the issue was very important as it affected democratic accountability, the legitimacy of the decisions, the faith in institutions, as well as the political agenda in general. He added that intransparency in the decision-making process would seriously affect the image that European citizens had for Europe, as there was a great distance between those who took the decisions and those who suffered the consequences, something which could lead to grave alienation from the European project.

The following members took the floor in the general debate that followed: **Mr Palenik, Mr Croughan, Mr Pariza Castaños, Mr van Iersel** and **Mr Cedrone.** The main points raised included: the question of who takes the decisions, especially for the countries that are in crisis and have no influence, the question of how to eliminate the conflict of interests in decision-making, the need to pay attention to transparency, to the creation of a clearer European identity and to the responsibility of credit rating agencies, as well as the question of whether a change to the Treaty is needed or not.

**The Vice President** gave the floor to the speakers in order to answer the various points raised.

**Mr Louis** mentioned that central banks usually worked very effectively, but the recommendations in several cases impacted strongly on policies beyond monetary policy. What was needed was greater democratic legitimacy.

**Mr Bertoncini** pointed to the fact that MEPs should represent people and not countries. He went on to say that since the beginning of the crisis several mistakes have been made in the financial sector. What we needed was to focus on the control of banks by the ECB, on the access to funds and on more generous interest rates. Furthermore, he suggested that the programme countries could go out of the programme, but at the same time should keep fulfilling some obligations.

**Mr Lamberts** stressed that the European Commission's role should be strengthened. He pointed out that special attention should also be paid to the democratic control of the European Central Bank.

Finally, **Mr van Iersel** and **Mr Cedrone** thanked all participants and guest speakers, and both put forward the importance of working in the interest of citizens.