



EUROPEAN CENTRAL BANK

EUROSYSTEM

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The political and institutional aspects of further euro area integration

EESC Discussion organized
organised in support of the work on
the opinion - *Completing EMU: The
political pillar*

*The views expressed are those of the presenter and do not necessarily reflect the position of the ECB

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Key Messages

- The euro area entered the crisis with a **weak governance framework**.
- However **the institutional architecture & governance structure have been gradually strengthened** during the crisis – for crisis prevention, crisis containment and crisis resolution.
- These short term actions are crucial, but should be complemented **by a long-term strategy for completing EMU**, especially with regard to economic, fiscal and political union.

Four key shortcomings in the pre-crisis governance of EMU

- Failure to enforce the **fiscal policy framework**
- Lack of a **competitiveness framework** and surveillance of economic policies
- Insufficient integration of **financial sector policies**
- Lack of **crisis resolution mechanisms** to provide financial support to euro area member states



Comprehensive set of reforms to address these shortcomings

Areas of EMU reforms

Fiscal policies

- Strengthened Stability and Growth Pact/ Fiscal Compact

Structural policies

- Macroeconomic Imbalances Procedure

Crisis management

- European Stability Mechanism

Micro-prudential supervision

- Single Supervisory Mechanism, European Supervisory Authorities

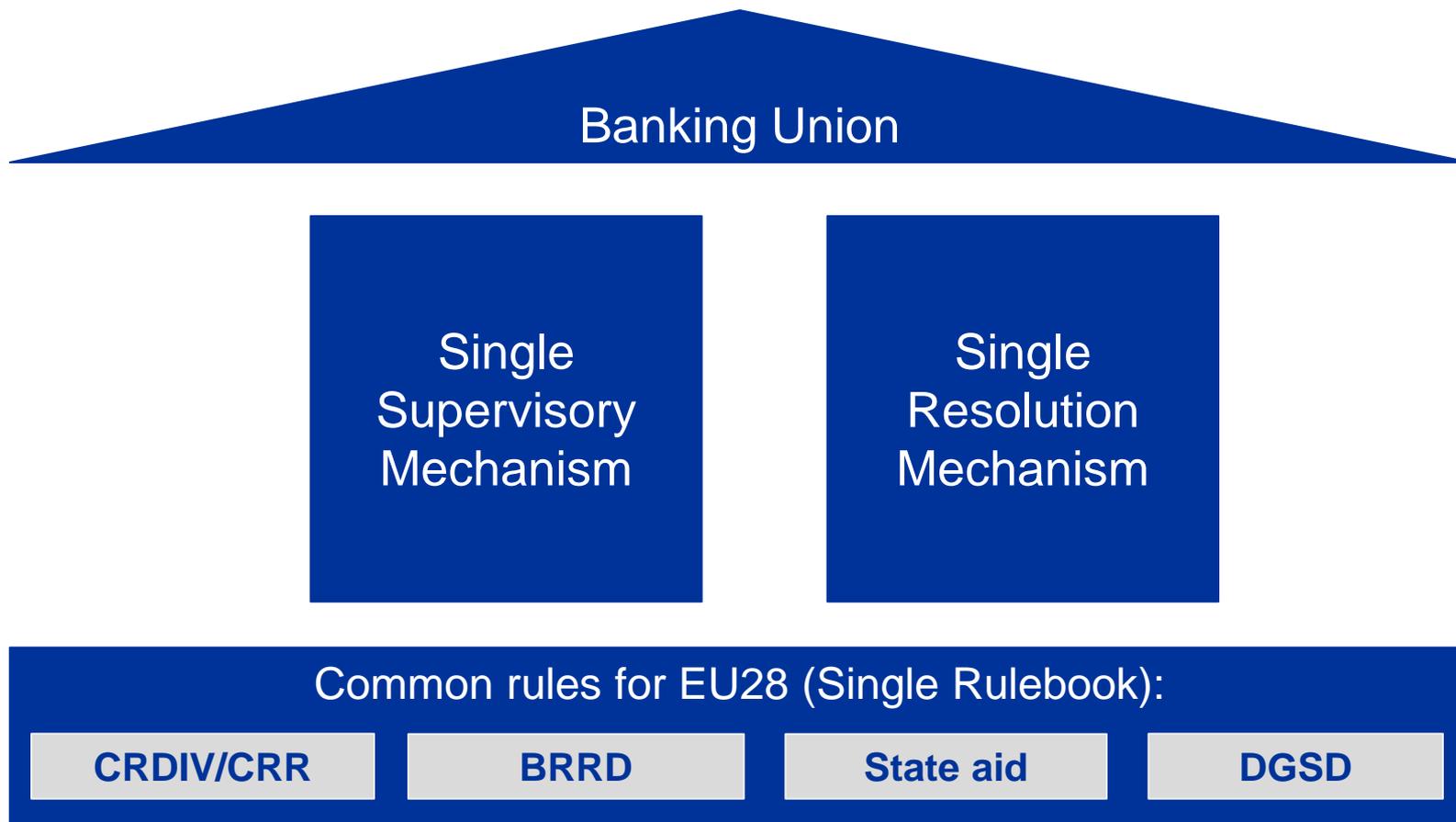
Macro-prudential supervision

- Single Supervisory Mechanism, European Systemic Risk Board

Banking resolution

- Bank Recovery and Resolution Directive, Single Resolution Mechanism

Banking Union has deepened integration with regard to financial markets...



...but progress has been less significant in other areas.

- **Economic policies:** Strengthened framework led to better identification of imbalances and to more detailed recommendations from the centre but **implementation is weak.**
- **Fiscal policies:** Important consolidation efforts have taken place, but a full and consistent implementation of the Stability and Growth Pact is key for **confidence in the fiscal framework.**

The importance of economic convergence

- Monetary Union creates **economic integration, but this does not automatically lead to economic convergence.**
- The economic convergence seen before the crisis was not structurally anchored.
- **Convergence on productivity levels** is needed for the union to be sustainable → key relevance of structural reforms.
- **Double bond with monetary policy:**
 - monetary policy effectiveness depends on the economic convergence
 - current monetary policy creates an incentive for structural reforms

The importance of institutional convergence

- Despite the crucial importance of **structural reforms**, they remain almost entirely a **national responsibility**.
- Strong need for **higher degree of institutional convergence in the structural domain**



EMU need to move from rules to institutions

From rules to institutions (i)

- Two different methods of economic governance:
 - **Institutional convergence:** Monetary Policy (ECB), financial policy (SSM), competition policy (EC).
 - **Rules based convergence:** fiscal and economic policies
- Good reasons why those different methods have been applied, but consider the benefits of giving European institutions executive power:
 - **credible and flexible policymaking**
 - **direct accountability**

From rules to institutions (ii)

- Quantum leap in **institutional convergence**:
 - Sovereignty sharing within common institutions
 - Strengthened democratic accountability
- **Rules** remain crucial **anchor for confidence**. Need to be fully respected in order to make transition into the future.

Conclusions

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Thank you for your attention!

For further information or questions

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