The political and institutional aspects of further euro area integration

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*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...

Common rules for EU28 (Single Rulebook):
- CRDIV/CRR
- BRRD
- State aid
- DGSD
...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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- 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.
Thank you for your attention!

For further information or questions
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