



# Deepening EMU: why, how, when?

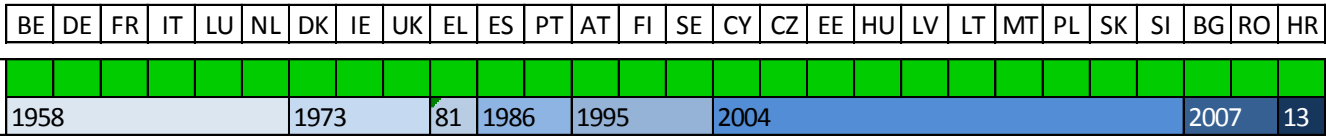


















**Servaas DEROOSE**





**Deputy Director-General  
European Commission, DG Economic and Financial Affairs**

***To what extent are we moving towards a two-speed Europe?***  
**Seminar Ministry of Finance Sweden / Bruegel**

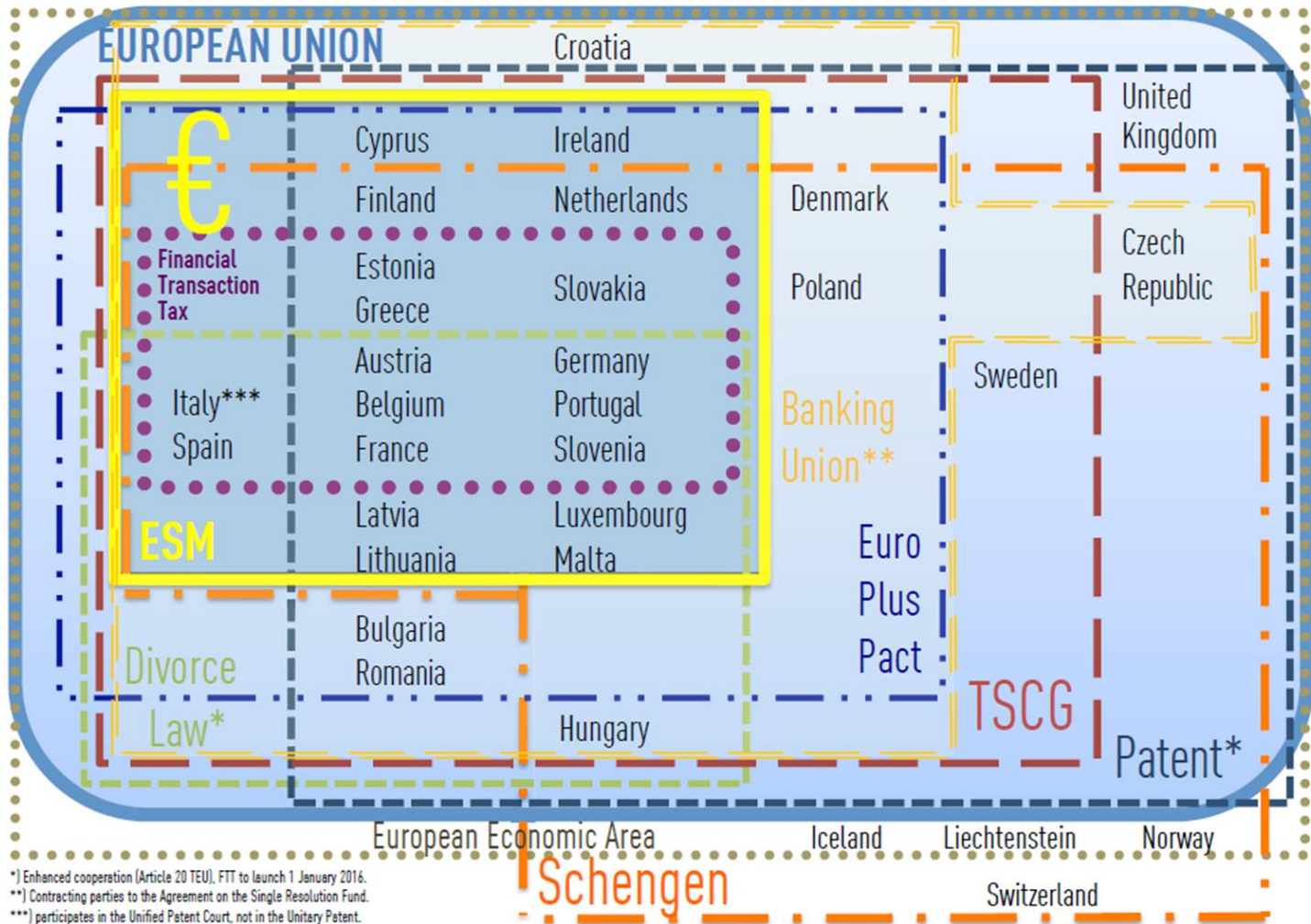
**Stockholm, 12 November 2015**

# A multi-speed Europe is reality

	BE	DE	FR	IT	LU	NL	DK	IE	UK	EL	ES	PT	AT	FI	SE	CY	CZ	EE	HU	LV	LT	MT	PL	SK	SI	BG	RO	HR	#EA	#EU
<b>European Union</b>																											19	28		
<b>Economic</b>	Euro area																											19	19	
	Euro+ Pact																											19	23	
	Fiscal Compact																											19	25	
	OECD																											15	21	
<b>Financial</b>	ESM																											19	21	
	ESRB																											19	27	
	SSM																											19	19	
	SRM																											19	26	
	FTT																											11	11	
<b>Trade</b>	EEA																											19	28	
	EU Customs Union																											19	28	
	WTO																											19	28	
<b>Political</b>	Nordic Council																											1	3	
	Baltic Assembly																											3	3	
<b>Defense</b>	NATO																											14	22	
	Schengen																											17	22	
<b>Misc.</b>	Bruegel Members																											13	18	
	UEFA Members																											19	28	

 Members
  Non-members
  Non-members who are obliged to join
  Not yet ratified

# A highly differentiated European reality



\*) Enhanced cooperation (Article 20 TEU), FTT to launch 1 January 2016.  
 \*\*) Contracting parties to the Agreement on the Single Resolution Fund.  
 \*\*\*) participates in the Unified Patent Court, not in the Unitary Patent.

# An evolving multi-speed Europe

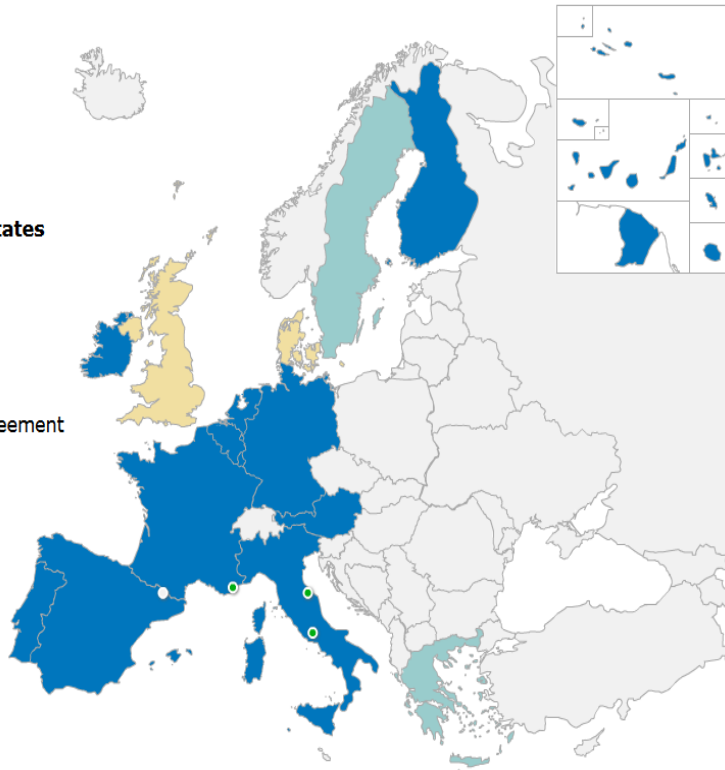
1999



2015

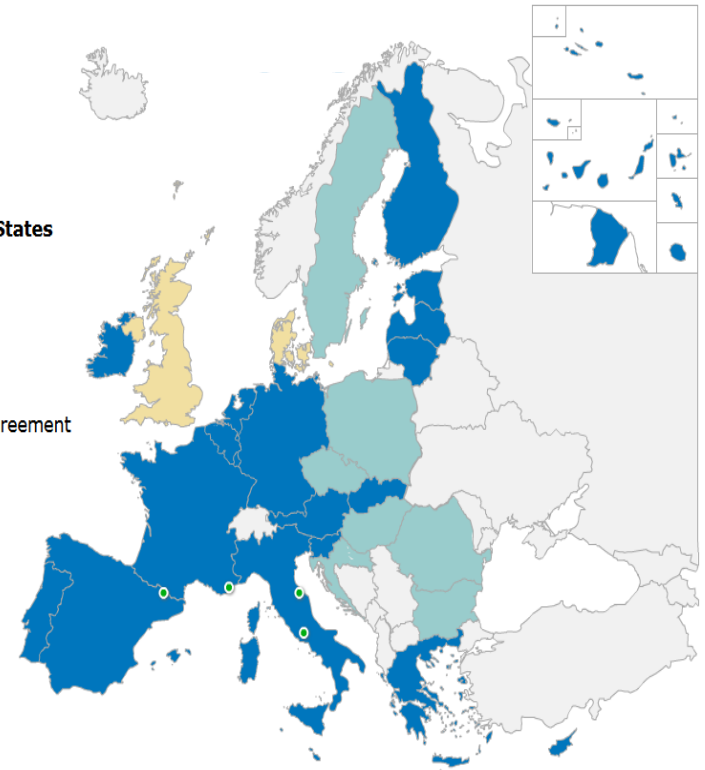
**EU Member States**

- Euro area
  - Opt out
  - No euro
- Non-EU**
- Monetary agreement
  - No euro



**EU Member States**

- Euro area
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## **Factors contributing to differentiated integration**

- **Crisis-induced strengthening of EMU governance**
- **Tendency towards intergovernmentalism**
- **Increased heterogeneity of EU**

## Initial design flaws of the Maastricht assignment

- No credible structural reforms at the national level
- Lack of tools to prevent macroeconomic imbalances
- Fiscal framework was weakly enforced, focused too little on debt, did not prevent pro-cyclical fiscal policies
- Lack of a crisis management mechanism
- No tools to address financial fragmentation of the banking system
- High bank dependency/little diversified sources of finance

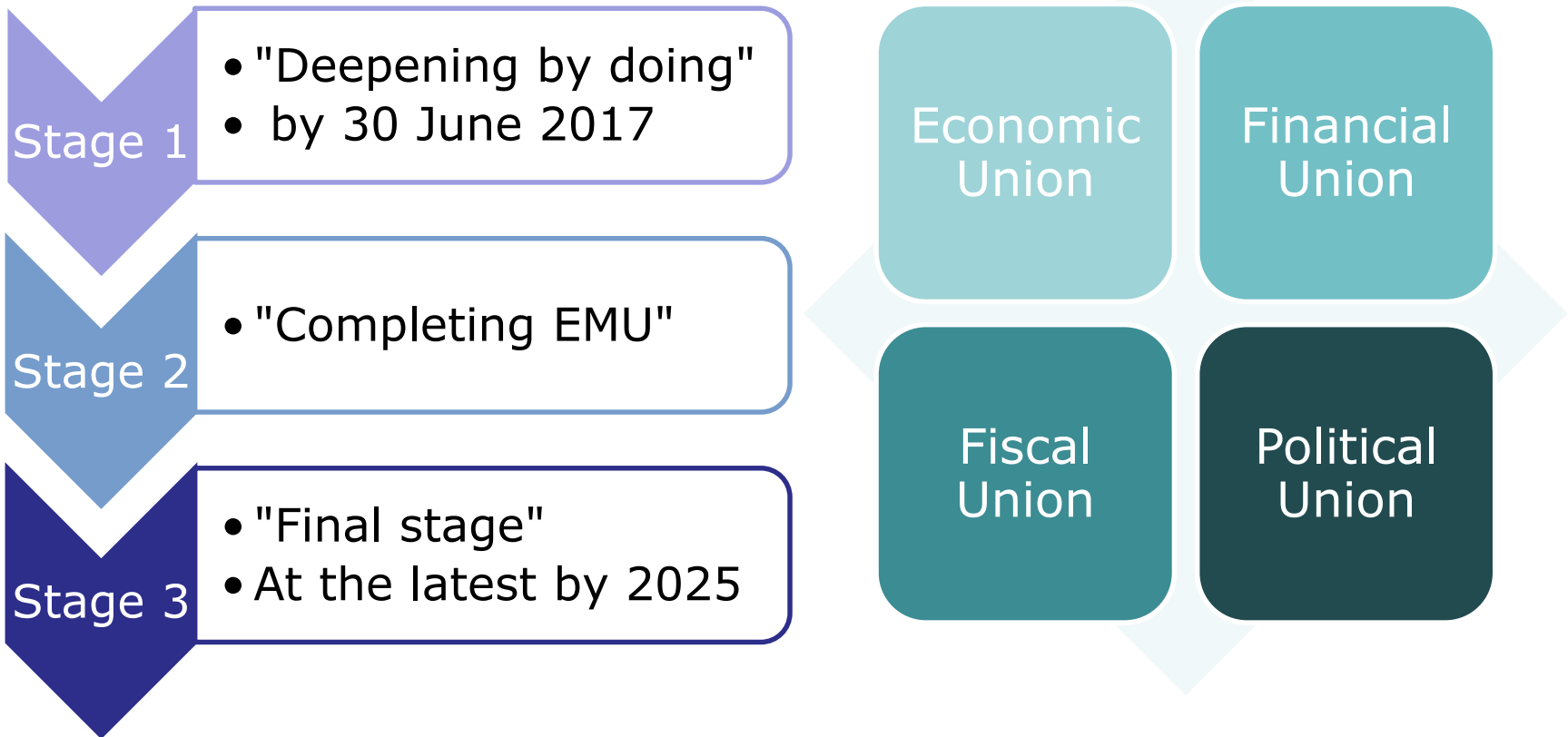
# Main reforms introduced in 2011-2014 strengthened a multi-speed Europe

Field	Enacted Reforms	Applies to:	
		EACs	NEACs
<b>Surveillance</b>	• Reinforced treaty-based commitment to fiscal discipline ( <i>TSCG</i> )	■	1
	• Strengthened preventive monitoring of fiscal developments ( <i>6-P, 2-P</i> )	■	■ 2
	• Closer surveillance of countries in financial difficulty ( <i>2-P</i> )	■	2
	• New voting rules for excessive deficit procedure ( <i>TSCG</i> )	■	1
	• Debt criterion for correction of excessive deficit ( <i>6-P</i> )	■	■
	• Prevention and correction of macroeconomic imbalances ( <i>6-P</i> )	■ 3	■
	• Integration of sectoral procedures within the European semester ( <i>6-P</i> )	■	■
	• Macro-prudential oversight ( <i>specific legislation</i> )	■	■
<b>Crisis management and resolution</b>	• Creation of ESM ( <i>specific treaty</i> )	■	
	• OMT programme ( <i>ECB</i> )	■	
<b>Systemic Integration</b>	• Banking Union ( <i>specific legislation</i> )	■	4

Notes: ■ Euro area countries (EACs); ■ Non-Euro area countries (NEACs)

1) For NEACs (excl. UK, SE and HR) the TSCG is only binding after euro adoption; 2) 2-P provisions are only binding for EACs; 3) The Macroeconomic Imbalance Procedure (MIP) foresees different thresholds in the scoreboard for EACs/NEACs, possible sanctions in case of 'excessive' imbalances can only be imposed on EACs; 4) NEACs can opt in.

## 5 Presidents' Report: 3 stages, 4 unions





## Rationale for EMU deepening

### Economic Union

- New boost to jobs, growth and convergence
- Prevent macroeconomic imbalances
- Stronger coordination of economic policies

### Fiscal Union

- Assure fiscal discipline and fiscal sustainability
- Provide fiscal stabilisation and run pro-growth fiscal policies
- Increase transparency and reduce complexity of the rules

### Financial Union

- Remove negative feedback loop between sovereign and bank risks
- Restore credit flows to the real economy
- Strengthen financial integration

### "Political Union"

- Enhance democratic accountability
- Strengthen the EA's role in global governance

## Policy response: Economic Union

Stage  
1

- Creation of a EA system of Competitiveness Authorities
- Stronger and more encompassing Macroeconomic Imbalance Procedure (MIP)
- Greater focus on employment and social performance
- Stronger coordination of economic policies within a revamped European Semester

Stage  
2

- Binding targets for structural convergence of EA economies
- Challenging task to be dealt with by the expert group
- Main issues:
  - Which standards?
  - Convergence to which frontier?
  - How to define benchmarks?
  - Key role for the Single Market?

## Policy response: Fiscal Union

Stage  
1

- Increase transparency and reduce complexity of the rules
- Create a new advisory European Fiscal Board (EFB) with three functions:
  - Provide an evaluation of the implementation of the EU fiscal framework
  - Advise the Commission on the appropriate fiscal stance
  - Cooperate with the national fiscal councils

Stage  
2

- Set up a EA-wide macroeconomic stabilisation mechanism for the euro area (*e.g.: EA unemployment insurance; emergency fund; investment fund*)
- Create EA Treasury
- Other possible elements (to be developed by experts group)
  - Introduce a sovereign debt restructuring procedure
  - Credible pan-European backstop for banking sector
  - Some form of common borrowing (backed by common revenue)

## Policy response: Financial Union

Stage  
1

- ***Complete the Banking Union:***
  - Single bank supervision
  - Single bank resolution (SRF)
    - Setting up bridge financing for the SRF
    - Implementing concrete steps towards the common backstop to the SRF
  - Single deposit insurance: could be conceived as re-insurance system at the EU level for the national deposit guarantee schemes
- ***Launch the Capital Markets Union***
  - Ensure more diversified sources of finance
  - Strengthen cross-border risk-sharing through deepening integration of bond and equity markets

## Policy response: Political Union

Stage  
1

- Enhanced role of national and European Parliaments (*e.g. more systematic appearances of Commissioners in national Parliaments; plenary debate on the Annual Growth Survey*)
- Consolidate external representation of the Euro Area
- Integrate inter-governmental arrangements into EU law framework (*ESM; TSCG; EuroPlus Pact; Single Resolution Fund*)
- Strengthening of Eurogroup

Stage  
2

- Full-time presidency of Eurogroup
- Integrate ESM into EU law framework
- Set up a Euro Area treasury accountable at European level

## Alternative models for the future of the Euro area

	Discipline	Solidarity	Governance	Legitimacy
<b>Fully decentralised model</b>	Strict no bail out, maximum exposure ceilings for banks	No Euro area-specific solidarity	Insolvency procedures for sovereigns	No specific accountability
<b>Federal model</b>	Rules and procedures for fiscal and macroeconomic surveillance	Countercyclical transfers and conditional assistance financed by common budget	Federal institution (presumably COM) as Euro area executive	Accountability to European Parliament
<b>Hybrid model</b>	National rules consistent with common principles, network of national institutions	Graduated mutual support system	Euro area coordination executive	Parliamentary body built from national parliaments and the EP

Source: Pisani-Ferry (2015): *Rebalancing the governance of the euro area*, p. 20.

## Conclusion

- More than thirty shades of differentiation epitomises a complex reality and contributes to conceptual confusion
- Various factors will continue to drive increased differentiation
- Alternative scenarios for future euro area, but:
  - In short-run, functionalism likely to prevail, implying at least temporarily further differentiation
  - In medium term and beyond, in particular in case of political convergence process, providing fully legitimate institutions and involving Treaty changes, the process might lead to the emergence of a more permanent two-speed Europe
- Five Presidents' report puts short-term further integration along four dimensions in the context of a long-term agenda

# Background slides



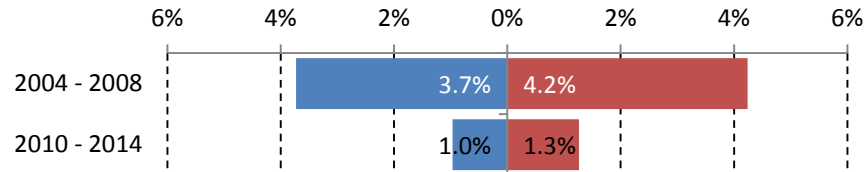
## Euro area potential growth remains weak

	Euro Area		US	
	Potential Growth	GDP per capita	Potential Growth	GDP per capita
		(Potential)		(Potential)
<b>1998-2007</b>	2.0	1.6	2.8	1.7
<b>2008-2013</b>	0.7	0.4	1.5	0.7
<b>2014-2023</b>	1.1	0.9	2.5	1.8

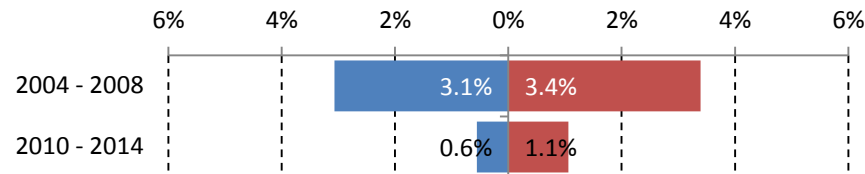
Source: European Commission (2014): *The euro area's growth prospects over the coming decade, Quarterly Report on the Euro Area, Vol. 12(4)*.

# Economic performance: EA vs. non-EA

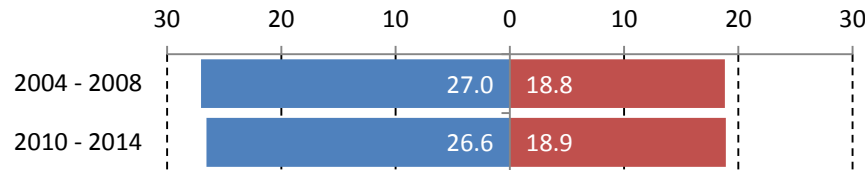
**Real GDP**  
(yoy %, 5y avg.)



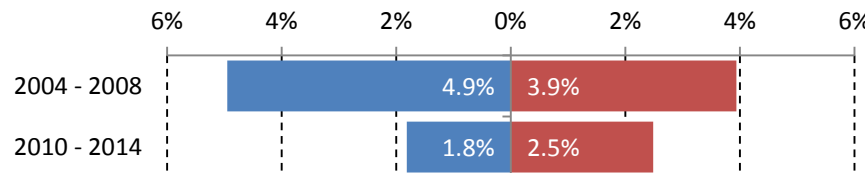
**Potential GDP**  
(yoy %, 5y avg.)



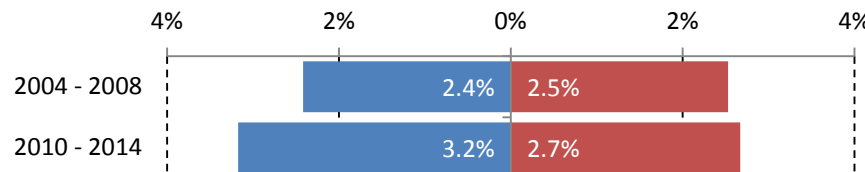
**Real GDP per capita**  
(in EUR 1000, 5y avg.)



**HICP inflation**  
(yoy %, 5y avg.)



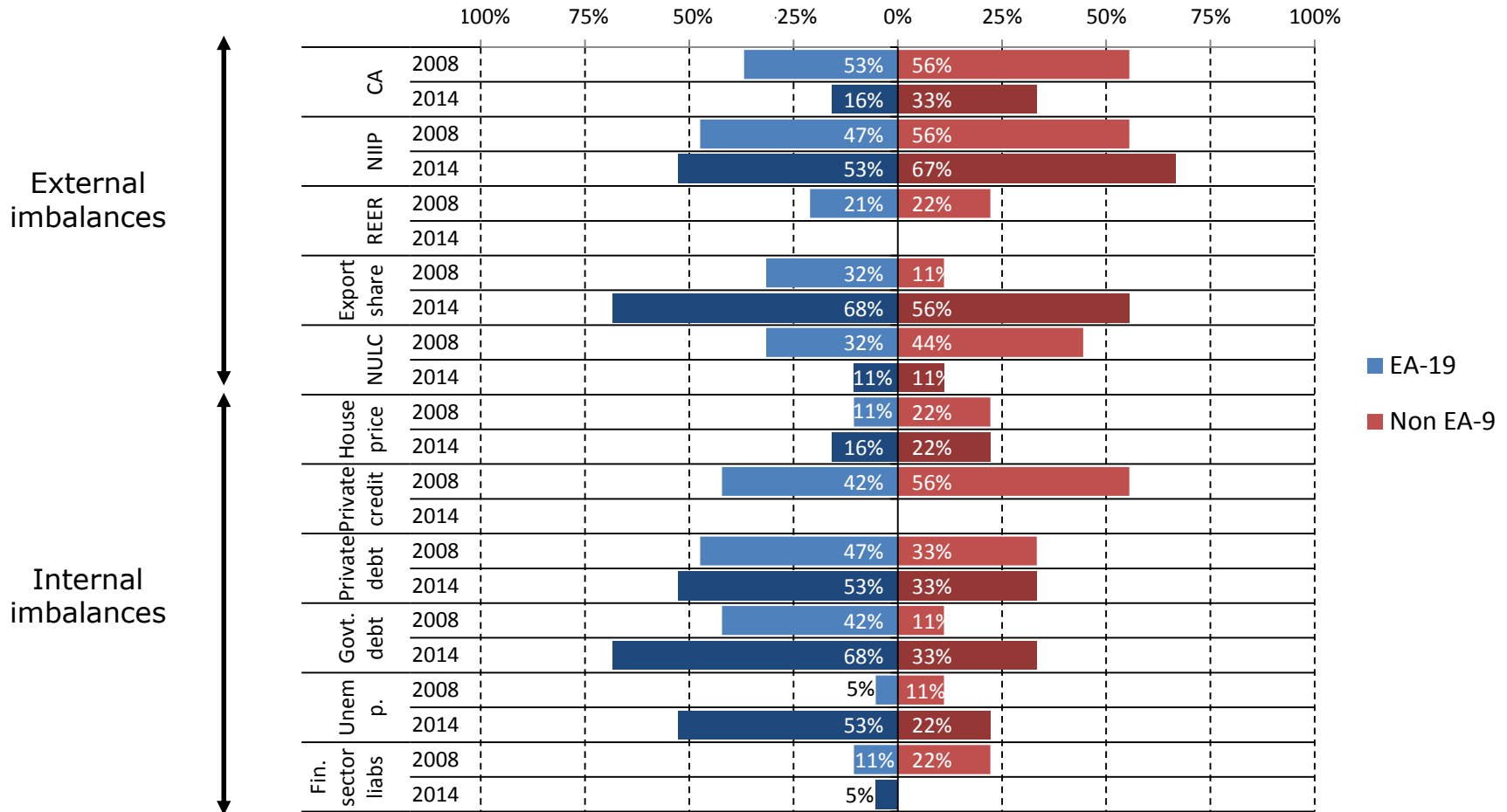
**Govt. deficit**  
(in % of GDP, 5y avg.)



■ EA-19  
■ Non EA-9

Note: Calculations are based on simple unweighted arithmetic means across EA-19/non EA-9 countries.  
Source: Ameco.

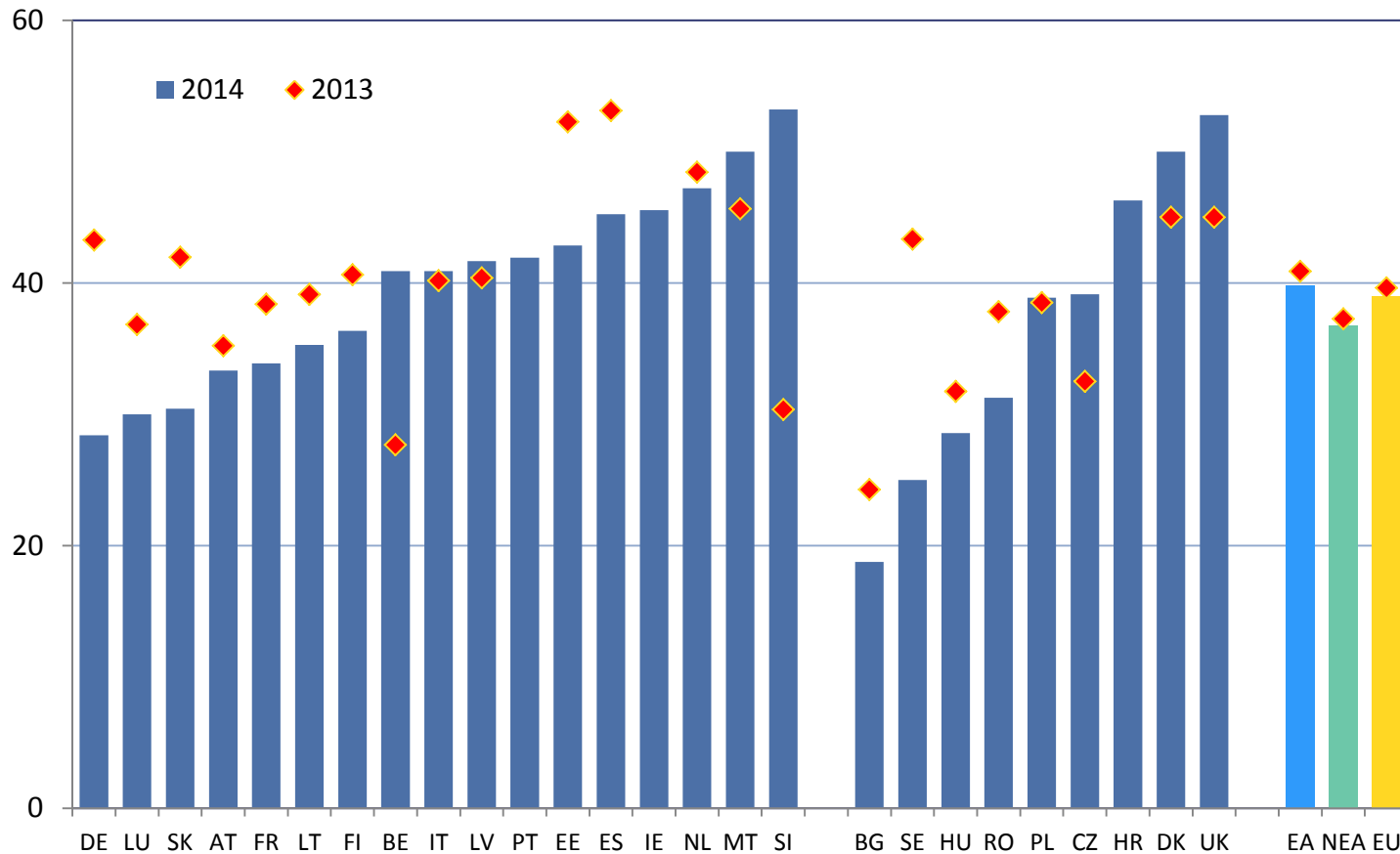
# Macroeconomic imbalances: EA- vs. non-EA



Note: The chart displays the percentage share of EA-19/non EA-9 countries violating a given MIP scoreboard indicator in 2008/2014. Calculations of EA-19/non EA-9 are based on simple unweighted arithmetic means across EA-19/non EA-9. Source: Eurostat (2015): MIP indicators.

# Initiative to reform: EA vs. non-EA

*Implementation record of COM country-specific recommendations (CSRs)*



*Note: Implementation record is measured by a COM composite indicator ranging from 0 (no implementation) to 100 (full implementation). The country-specific recommendations (CSRs) list key reform needs of Member States as part of the European Semester.*

# Improving the toolbox of economic governance

- **Revamped European Semester**

- Better integrate euro area and national dimensions
- More attention to employment and social issues
- Enhanced use of benchmarking
- Support for reforms: EU Funds and technical assistance

- **Fiscal surveillance**

- Increasing transparency
- Reducing complexity
  - Consistency of methodology between the debt rule and the MTO
  - Streamlining assessment of compliance – a single indicator?
  - Updating of multi-annual EDPs

- **Macroeconomic Imbalances Procedure**

- Increasing transparency
- Ensuring appropriate follow-up to the identification of excessive imbalances
- Stronger euro-area dimension

## European Fiscal Board

- **Mission**
  - Contribute to multilateral surveillance in the euro area
  - Advisory role
- **Tasks**
  - Evaluate the implementation of the EU fiscal framework
  - Euro area fiscal stance: economic judgment within the rules
  - Cooperate with national fiscal councils
- **Set up**
  - High degree of independence
  - Five renowned economists, supported by small secretariat
  - Key stakeholders consulted on nominees (EWG, ECB, fiscal councils)

# Competitiveness Authorities

- **Objective**
  - Monitor performance and policies in the field of competitiveness to foster convergence and increase reform ownership
- **Set up**
  - Can rely on existing institutions, conforming to common principles
  - Independent and unbiased
- **Tasks**
  - Monitor competitiveness
  - Conduct analysis
  - Publish annual reports
- **European dimension**
  - Commission coordination
  - Analysis feeding into Semester and MIP

## External representation

- **A unified representation by 2025 at the latest**
  - One or several constituencies
  - Ministerial level: President of the Eurogroup
  - Executive Board: Executive Director of a euro area constituency
- **Transitional phase until the final stage can be reached:**
  - Start moving into constituencies composed of only EA member states
  - An observer status for the EA in the Executive Board
- **Need to maintain and further strengthen co-ordination with non-EA member states**