A Blueprint for a Deep and Genuine EMU

Launching a European Debate

Marco Buti
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The European response: Breaking the negative feedback loop

- **Bank funding**
- **Firewalls**
- **Bank recaps**
- **Structural reforms**
- **Fiscal discipline**
- **Differentiated fiscal consolidation & quality of public finances**
**Policy progress:**

- **Financial Stability Break**
  - Structural reforms
  - Bank funding
  - Bank recap
  - Firewalls
  - ESM: fully operational since October

**Overarching:** Completing EMUs Architecture

- **Commission proposal for Single Supervisory Mechanism**
- **OMT**
- **Up to EUR 100 bn to cover financing needs of the Spanish banking sector**
- **SOVEREIGN DEBT**
  - Fiscal discipline
  - Further fiscal measures and structural reforms in some Member States

- **ECONOMIC GROWTH**
  - Differentiated fiscal consolidation & quality of public finances
  - Compact for Growth and Jobs
The strategy started to work (1) financial markets are more stable

1. LTRO
2. PSI EL
3. OMT
The strategy started to work (2)
Intra-EA adjustment is taking place

Current-account position, % of GDP

* ECBIN 2012 autumn forecast
Crisis response: current and future

**Financial crisis**
- EERP
- European Semester
- Bank rescue
- Temp. State aid framework
- Measures set in ad hoc, temporary, or 'soft-law' frameworks

**Economic crisis**
- Europe 2020
- SMP, LTRO

**Sovereign debt crisis**
- GLF
- EFSF, EFSM

**Crisis of confidence – EA cohesion**
- OMT
- SSM
- TSCG
- EFS
- 2-Pack
- 6-Pack

1. Banking Union
2. Fiscal Union
3. Integrated econ. policy framework
4. Political Union

Permanent institutional frame set in secondary legislation or International Treaties

Crisis response: current and future

- Measures set in ad hoc, temporary, or 'soft-law' frameworks
- Financial crisis
- Economic crisis
- Sovereign debt crisis
- Crisis of confidence – EA cohesion
• June 2012 report by 4 Presidents: towards a genuine Economic and Monetary Union

• → 4 building blocks:
  • **An integrated financial framework:** single European banking supervision and a common deposit insurance and resolution framework
  • **An integrated budgetary framework:** build-up of fiscal capacity, common decision-making on budgets, common instruments of stabilisation/adjustment, issuance of common debt... towards a fully-fledged fiscal union
  • **An integrated economic policy framework:** stronger economic coordination, broader scope
  • **Democratic legitimacy and accountability:** articulation EP, national parliaments, etc..

→ **Timeline** December
Bridging different positions

- Solidarity
- Short-term response
- Discretion
- Demand (cyclical/macroe)
- Maintaining sovereignty

- Discipline
- Long term reform
- Rules
- Supply (potential growth struct. ref.)
- Political Union

- All MS (symmetric adjustment)
- Only vulnerable MS (asymmetric adjustment)
- Secondary law
- Community framework
- Treaty changes
- Inter-governmental
- Euro Area
- European Union
• The Commission Blueprint for a deep and genuine EMU

• → Principles:
  • A comprehensive approach:
    - financial, fiscal, economic and political architecture.
    - economic, legal, and institutional aspects.
  • A gradual approach:
    - short, medium and long term actions
  • A balanced approach:
    – Discipline and solidarity
    – National and EA responsibilities
  • Based on Community method:
    - deepening of EMU to be based on the Community method
    - Euro area must be able to integrate quicker (Art. 136 TFEU)
    - Treaty changes to be resorted to when indispensable
The Commission Blueprint
The short term (6-18 months)

- Full deployment of on-going comprehensive response ('Six-Pack'; 'Two-Pack'; Single Supervisory Mechanism).
- A Single Resolution Mechanism matching the Single Supervisory Mechanism.
- Ex-ante coordination of major structural reforms.
- Detailing and incentivising structural reforms for rebalancing: the 'Convergence and Competitiveness instrument'.
- A rapid decision on the MFF
- Promoting public investment in the Euro Area
- External representation of the Euro Area
The Convergence and Competitiveness Instrument

- Promote the implementation of structural reforms in Euro Area Member States by the set-up of contractual arrangements between Member States and Commission
- Build on the existing EU surveillance framework
- Increase ownership on EU and national level by better dialogue and consensus building
- Possible support in the form of positive financial incentives.
The Commission Blueprint
The medium term (18 months to 5 years)

- **Greater control of national budgetary policies:**
  a European collective control over national budgetary policy in defined situations

- **Scaling up the Convergence and Competitiveness Instrument:**
  a Euro area fiscal capacity, including borrowing

- **Towards conditional steps in debt mutualisation:**
  - European Redemption Fund ➔ tackling legacy debt
  - Eurobills ➔ financial market efficiency, conduct of monetary policy
A European Redemption Fund

- Anchor for a **credible reduction in public debt to below the 60% ceiling**
- **Lower overall financing costs** of over-indebted Member States
- **Debt reduction on a transparent and coordinated basis** across the euro area
- Moral hazard to be addressed by additional commitments in the area of economic governance
- **Pre-condition for participation**: a path for budgetary consolidation and structural reform
The Commission Blueprint for a deep and genuine EMU—The long term (beyond 5 years)

- **A full banking union** (supervision, resolution, deposit insurance) including 'fiscal backstop'
- **An EMU cyclical stabilisation instrument:**
  - for asymmetric shocks only
  - or
  - including symmetric shocks (implying borrowing)
- **Common public debt**
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<table>
<thead>
<tr>
<th>All along the process</th>
<th>Secondary law</th>
<th>Treaty change</th>
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<tbody>
<tr>
<td><strong>Short Term</strong></td>
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<tr>
<td>Within the next 18 months</td>
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<tr>
<td>1. Full implementation of <em>European Semester</em> and <strong>six-pack</strong> and quick agreement on and implementation of <strong>two-pack</strong></td>
<td>✓</td>
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<tr>
<td>2. <strong>Banking Union</strong>: Financial regulation and supervision: quick agreement on proposals for a <strong>Single Rulebook</strong> and <strong>Single Supervisory Mechanism</strong></td>
<td>✓</td>
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<tr>
<td>3. <strong>Banking Union</strong>: <strong>Single Resolution Mechanism</strong></td>
<td>✓</td>
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<td>4. Quick decision on the next <strong>Multi-annual Financial Framework</strong></td>
<td>✓</td>
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<tr>
<td>5. <strong>Ex-ante coordination of major reforms</strong> and the creation of a <strong>Convergence and Competitiveness Instrument (CCI)</strong></td>
<td>✓</td>
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<tr>
<td>6. Promoting <strong>investment</strong> in the <strong>Euro Area</strong> in line with the Stability and Growth Pact</td>
<td>✓</td>
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<td>7. <strong>External representation</strong> of the <strong>Euro Area</strong></td>
<td>✓</td>
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<td><strong>Medium Term</strong></td>
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<td>18 months to 5 years</td>
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<tr>
<td>1. Further reinforcement of budgetary and economic integration</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>2. <strong>Proper fiscal capacity</strong> for the <strong>Euro Area</strong> building on the CCI</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>3. <strong>Redemption fund</strong></td>
<td>✓</td>
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<td>4. <strong>Eurobills</strong></td>
<td>✓</td>
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<td><strong>Longer Term</strong></td>
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<td>Beyond 5 years</td>
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<tr>
<td>1. <strong>Full Banking Union</strong></td>
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<tr>
<td>2. <strong>Full fiscal and economic union</strong></td>
<td>✓</td>
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<tr>
<td>Political union: Commensurate progress on democratic legitimacy and accountability</td>
<td>✓</td>
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