Completing Europe’s Economic and Monetary Union

“Five Presidents’ Report

2015

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Verbatim Extracts

Introduction

The Euro Summit of October 2014 called for work to continue to ‘develop concrete mechanisms for stronger economic policy coordination, convergence and solidarity’ and ‘to prepare next steps on better economic governance in the euro area’.

The Nature of a Deep, Genuine and Fair Economic and Monetary Union

The euro is a successful and stable currency. It is shared by 19 EU Member States and more than 330 million citizens. It has provided its members with price stability and shielded them against external instability. Despite the recent crisis, it remains the second most important currency in the world, with a share of almost a quarter of global foreign exchange reserves, and with almost sixty countries and territories around the world either directly or indirectly pegging their currency to it.

Europe’s Economic and Monetary Union (EMU) today is like a house that was built over decades but only partially finished. When the storm hit, its walls and roof had to be stabilised quickly. It is now high time to reinforce its foundations and turn it into what EMU was meant to be: a place of prosperity based on balanced economic growth and price stability, a competitive social market economy, aiming at full employment and social progress.

Preventing unsustainable policies and absorbing shocks individually and collectively did not work well before or during the crisis. There is now significant divergence across the euro area. In some countries, unemployment is at record lows, while in others it is at record highs; in some, fiscal policy can be used counter-cyclically, in others fiscal space will take years of consolidation to recover.

Progress must happen on four fronts: first, towards a genuine Economic Union that ensures each economy has the structural features to prosper within the Monetary Union. Second, completing the Banking Union. Third, towards a Fiscal Union that delivers both fiscal sustainability and fiscal stabilisation. And finally, towards a Political Union that provides genuine democratic accountability, legitimacy and institutional strengthening.

This longer-term vision will inevitably involve sharing more sovereignty over time. In practice, this would require Member States to accept increasingly joint decision-making on elements of their respective national budgets and economic policies.

The process would be organised in two consecutive stages.

- Stage 1 (1 July 2015 - 30 June 2017): In this first stage the EU institutions and euro area Member States would build on existing instruments and make the best possible use of the existing Treaties. In a nutshell, this entails boosting competitiveness and structural convergence, completing the Financial Union, achieving and maintaining responsible fiscal policies at national and euro area level, and enhancing democratic accountability.
- Stage 2: In this second stage concrete measures of a more far-reaching nature would be agreed. Specifically, the convergence process would be made more binding through a set of commonly agreed benchmarks for convergence that could be given a legal nature.
- Final Stage (at the latest by 2025): At the end of Stage 2, and once all the steps are fully in place, a deep and genuine EMU would provide a stable and prosperous place attractive for other EU Member States to join if they are ready to do so.

Towards Economic Union – Convergence, Prosperity and Social Cohesion

In EMU, monetary policy is centralised, but important parts of economic policy remain national. However, as the crisis made particularly visible, euro area members depend on each other for their growth. It is in each member's common and self-interest to be able to cushion economic shocks well, to modernise economic structures and welfare systems. It is equally in each member's interest that all others do so at a similar speed. This is crucial in a Monetary Union like EMU where largescale fiscal transfers between members are not foreseen and where labour mobility is relatively limited.

A euro area system of Competitiveness Authorities

The creation by each euro area Member State of a national body in charge of tracking performance and policies in the field of competitiveness is recommended. These Competitiveness Authorities should be independent entities with a mandate to 'assess whether wages are evolving in line with productivity and compare with developments in other euro area countries and in the main comparable trading partners'.

A euro area system of Competitiveness Authorities should bring together these national bodies and the Commission, which would coordinate the actions of national Competitiveness Authorities on an annual basis.

A stronger Macroeconomic Imbalance Procedure

The Macroeconomic Imbalance Procedure (MIP) was created at the height of the crisis. It is part of the European Semester, the annual cycle of reporting and surveillance of EU and national economic policies. It serves as a tool to prevent and correct imbalances before they get out of hand. It has become a vital device for instance, to prevent real estate bubbles, or to detect a loss of competitiveness, rising levels of private and public debt, and a lack of investment. It needs to be used to its full potential.

The Macroeconomic Imbalance Procedure (MIP) should also foster adequate reforms in countries accumulating large and sustained current account surpluses if these are driven by, for example, insufficient domestic demand and/or low growth potential, as this is also relevant for ensuring effective rebalancing within the Monetary Union.

A stronger coordination of economic policies

The European Semester needs to be strengthened to:-

- Give Member States clear recommendations that continue to focus on priority reforms.
- Hold Member States accountable for the delivery of their commitments
- The European Semester should be structured into two successive stages -a European and a national stage. This means that discussions and recommendations concerning the euro area as a whole should take place first, ahead of country-specific discussions, so that common challenges are fully reflected in country-specific action.

Towards Financial Union – Integrated Finance for an Integrated Economy

Completing the Banking Union

All banks participating in the Banking Union need to enjoy a level playing field notably for the quality and composition of banks' capital.

As the vast majority of money is bank deposits, money can only be truly single if confidence in the safety of bank deposits is the same irrespective of the Member State in which a bank operates. This requires single bank supervision, single bank resolution and single deposit insurance.

Towards Fiscal Union – An Integrated Framework for Sound and Integrated Fiscal Policies

One of the main lessons of the crisis has been that fiscal policies are a matter of vital common interest.

This requires a significant degree of economic convergence, financial integration and further coordination and pooling of decision making on national budgets, with commensurate strengthening of democratic accountability.

A euro area treasury

A genuine Fiscal Union will require more joint decision-making on fiscal policy. This would not mean centralisation of all aspects of revenue and expenditure policy. Euro area Member States would continue to decide on taxation and the allocation of budgetary expenditures according to national preferences and political choices. However, as the euro area evolves towards a genuine EMU, some decisions will increasingly need to be made collectively while ensuring democratic accountability and legitimacy. A future euro area treasury could be the place for such collective decision-making.

Democratic Accountability, Legitimacy and Institutional Strengthening

Greater responsibility and integration at EU and euro area level should go hand in hand with greater democratic accountability, legitimacy and institutional strengthening. It also means better sharing of new powers and greater transparency about who decides what and when. Ultimately, this means and requires more dialogue, greater mutual trust and a stronger capacity to act collectively.