

# **EMU REPORT**

**Fiscal Union, Economic Union, Democratic  
Union Selected issues**

## **Quadrilateral meeting**

**Munich, 13 September 2012**

***Inigo ARRUGA OLEAGA, Secretary EFMLG***

- **Reinforced Economic Governance**
- **Fiscal Compact**
- **EMU Report by the 4 Presidents of the EU Institutions**
- **Current Developments: transformation of the EFSF into the ESM, use of the EFSF/ESM conditionality for ECB OMTs**

# Reinforced Economic Governance

## Reinforced Stability and Growth Pact:

- Stronger budgetary surveillance of the Member States by the European Union
- Stronger Excessive Deficit Procedure (3% GDP deficit; 60% GDP debt)

## Addition of macroeconomic surveillance:

- Macroeconomic imbalances procedure
- Excessive imbalances procedure (euro area)

## Addition of Fiscal Frameworks Directive

## **Fiscal Compact (Treaty on Stability, Cooperation and Governance):**

Mandatory introduction of several EU budgetary rules into national law (balanced budget rule);

Voting commitment of Member States in respect of the deficit criterion for EDP procedures;

Role of the ECJ in verifying the proper introduction of the balanced budget rule into national law

# Other parts of TSCG

## Economic Policy Coordination and Convergence (TSCG):

Member States working together towards an economic policy fostering the smooth functioning of EMU and economic growth through enhanced convergence and competitiveness;

Ex-ante discussion of all major economic policy reform

# EMU Report: towards a genuine EMU

- 4 Presidents (European Council, European Commission, Eurogroup and European Central Bank)
- June 2012 finalised and presented to European Council
- 29 June 2012 the European Council asks for its development: interim report in October 2012; finalisation December 2012

## EMU Report. Vision for the euro area.

Consolidating EMU requires a **vision**. The vision is for the euro area.

*The vision for the future of EMU governance laid out in this report focuses on the euro area Member States as they are qualitatively distinct by virtue of sharing a currency.*

*Nevertheless, the process towards deeper economic and monetary union should be characterised by openness and transparency and be in full compatibility with the single market in all aspects.*

# EMU Report. 4 building blocks I.

## 4 building blocks:

*An integrated financial framework to ensure financial stability in particular in the euro area and minimise cost of bank failures. Responsibility for supervision to the European level, with common bank resolution and deposit guarantee;*

*Link made by the Euro Area Summit of 29 June 2012 to the possibility of the ESM recapitalizing directly euro area financial institutions;*

*An integrated budgetary framework to ensure sound fiscal policy making at the national and European levels, encompassing coordination, joint decision-making, greater enforcement and commensurate steps towards common debt issuance. This framework could include also different forms of fiscal solidarity.*



## EMU Report. 4 building blocks II.

*An integrated economic policy framework which has sufficient mechanisms to ensure that national and European policies are in place that promote sustainable growth, employment and competitiveness, and are compatible with the smooth functioning of EMU.*

*Ensuring the necessary democratic legitimacy and accountability of decision-making within the EMU, based on the joint exercise of sovereignty for common policies and solidarity.*

# EMU Report. Budgetary Framework I.

*The smooth functioning of the EMU requires not only the swift and vigorous implementation of the measures already agreed under the reinforced economic governance framework (notably the Stability and Growth Pact and the Treaty on Stability, Coordination and Governance), but also a **qualitative move** towards a fiscal union.*

*.... effective mechanisms to prevent and correct unsustainable fiscal policies in each Member State are essential.*

*Towards this end, upper limits on the annual budget balance and on government debt levels of individual Member States could be agreed in common. Under these rules, the issuance of government debt beyond the level agreed in common would have to be justified and receive prior approval.*

*Subsequently, the euro area level would be in a position to **require** changes to budgetary envelopes if they are in violation of fiscal rules, keeping in mind the need to ensure social fairness.*

*In a medium term perspective, the issuance of common debt could be explored as an element of such a fiscal union and subject to progress on fiscal integration. Steps towards the introduction of joint and several sovereign liabilities could be considered **as long as** a robust framework for budgetary discipline and competitiveness is in place.*

*The process towards the issuance of common debt should be **criteria-based and phased**, whereby progress in the pooling of decisions on budgets would be accompanied with commensurate steps towards the pooling of risks.*

*Stronger economic integration is also needed to foster coordination and convergence in different domains of policy between euro area countries, address imbalances, and ensure the capacity to adjust to shocks and compete in a globalised world economy.*

*It is important to make the framework for policy coordination **more enforceable** to ensure that unsustainable policies do not put stability in EMU at risk.*

*Moving towards more integrated fiscal and economic decision-making between countries will require strong mechanisms for legitimate and accountable joint decision making. Building public support for **European-wide decisions with a far-reaching impact on the everyday lives of citizens** is essential*

*Close involvement of the European Parliament and national parliaments will be central, **in the respect of the community method**.*

# **EFSF Transformation into ESM and current development**

- **EFSF issues debt guaranteed by the euro area Member States**
- **ESM is an international organisation with capital subscribed by the euro area Member States**
- **Entry into force of the ESM**
- **Strict conditionality of two programmes of the EFSF/ESM is necessary condition for ECB OMTs**