

Inter-parliamentary Conference on Stability, Economic Coordination and Governance in the European Union

30 September to 1 October 2019, Helsinki

Background Note 1: Economic Governance in the EMU: What next?

Completing the EMU

The [Five Presidents report](#) on “Completing the EMU”, published in 2015, set the following four work-streams on Economic and Monetary Union (EMU) governance:

1. Towards a genuine *Economic Union* that ensures each economy has the structural features to prosper within the Monetary Union;
2. Towards a *Financial Union* that guarantees the integrity of our currency across the Monetary Union and increases risk sharing with the private sector. This means completing the Banking Union and accelerating the Capital Markets Union;
3. Towards a *Fiscal Union* that delivers both fiscal sustainability and fiscal stabilisation;
4. Finally, towards a *Political Union* that provides the foundation for all of the above through genuine democratic accountability, legitimacy and institutional strengthening.

As the four Unions are inter-dependent and mutually reinforcing, they should be developed in parallel and all euro area Member States should participate in all Unions. For each work-stream, progress would follow a sequence of shorter- and longer-term steps.

In June 2019, the European Commission published a [Communication on “Taking stock of four years after the Five Presidents Report”](#). The Annex presents its summary of the progress made to strengthen the currency area and to make the EMU more robust. Nevertheless, despite such progress, additional work is required to complete it. The Commission invited EU leaders:

- To reach an agreement on the main features of the Budgetary Instrument for Convergence and Competitiveness (BICC) with a view to supporting a swift adoption by the European Parliament and the Council and to agree on its size in the context of the Multiannual Financial Framework (MFF);
- To finalise the changes to the Treaty establishing the European Stability Mechanism (ESM) with a view to a swift ratification by the euro area Member States, including an operational and effective common backstop, the provision of liquidity in resolution and active and effective precautionary instruments;
- To preserve a clear delineation of responsibilities between actors and the possibility to adjust the EU Single Rulebook for banks according to the Community method and to integrate the European Stability Mechanism into EU law over time;
- To make a renewed effort to complete the Banking Union starting with political negotiations on the European Deposit Insurance Scheme (EDIS);
- To accelerate progress on the Capital Markets Union and step up work to strengthen the international role of the euro.

The conclusions of the Euro Summit in June 2019 and the work of the Eurogroup

On 21 June, the [Euro Summit took stock of the work to strengthen the EMU](#), based on [a letter of the President of the Eurogroup of 15 June 2019](#). The Euro Summit took note of the broad agreement:

- On the revision of the ESM Treaty and mandated the Eurogroup to continue its work with a view of an agreement on a full package in December 2019;
- A budgetary instrument for convergence and competitiveness for the euro area and ERM II Member States (the latter on a voluntary basis), to be set in the context of the Annual Financial Framework.

In addition, leaders looked forward to the continuation of the technical work on further strengthening of the Banking Union.

The President of the Eurogroup took note of the [report by the Chair of the High Level Working Group \(HLWG\) on the European deposit insurance system](#) and mandated the HLWG to continue the work and report back by December 2019.

At its [meeting](#) of 8 July 2019, the Eurogroup (EG) discussed the further work that is needed:

- On ESM reform, EG will aim to finalise the full package by December 2019 and start the ratification procedures in early 2020;
- In recent months EG have worked on mapping out what a steady state Banking Union should look like. That includes EDIS. More technical work will take place until December to set out a transitional path, including the so-called roadmap to start political negotiations;
- On the BICC, the Leaders asked EG to work further on all open issues and to report swiftly on the appropriate solutions for financing. EG aim is to deliver in October, to pave the way for a broader debate on the MFF that will follow. Within the same timeframe, EG will also look at the details of the allocation methodology, of the modulation procedure and of the governance aspects.

On 24 July the Commission made a [proposal for a Council and Parliament Regulation](#) on the governance framework for the **budgetary instrument for convergence and competitiveness for the euro area (BICC)**. The instrument is proposed to be part of the Reform Support Programme and consequently the draft Regulation should read in conjunction with it. The proposed governance framework will provide economic policy guidance for reforms and investment to be supported by the new budgetary instrument. The strategic orientations and country-specific guidance to be adopted under the Regulation would be limited to providing guidance to the euro-area Member States, while the choice of actual reforms and investment would remain with the Member State concerned.

The governance framework as set out in the draft Regulation on the BICC is proposed to be aligned with the timeline of the European Semester and to provide complementarity and synergies with the proposed Union programmes relevant for investment, such as EU cohesion policy funds, the Connecting Europe Facility and InvestEU. The BICC is proposed to be part of the Union's budget and its size will be determined in the context of the negotiations on the MFF 2021-2027.

The priorities of the Finnish Presidency

The Finnish presidency set its [priorities](#), also based on the [conclusions of the Euro Summit](#) on the work to strengthen the EMU. It stressed the following points:

- A well-functioning financial single market requires more resilient capital markets, a fully-fledged Banking Union and a robust crisis management framework. More transparency and simplicity is needed in economic policy coordination. The ultimate responsibility for economic policies, however, rests with the Member States;
- Only a healthy banking sector can finance the investments needed in technological development and in actions to combat climate change. Determined efforts to reduce risks are therefore needed. Completing the Banking Union demands an ambitious approach. Discussions will continue based on

the agreed roadmap, including the issue of regulatory treatment of sovereign exposures. The Finnish Presidency will take forward the technical discussions on EDIS;

- Sustainable finance and diversification of risks in capital markets are other key focus areas in strengthening the EMU. In this respect, a solution needs to be found to break the vicious circle between banks and sovereigns. Green finance is also needed to complement sustainable climate policy measures;
- BICC is being created within the EU budget to cater for the specific needs of the euro area, and the ESM is being strengthened to ensure financial stability;
- The ongoing discussions in the OECD on digital taxation will continue. We need to work harder to prevent harmful tax competition and tax evasion. Close cooperation within the EU should make it possible to take effective action in tackling aggressive tax planning and tax evasion and reducing harmful tax competition. These policy measures will make for a fairer and more predictable business environment;
- Finally, we must make sure that supervisors have sufficient powers and capacities to combat money laundering and terrorist financing.

The upcoming revision of the current EU rule-based surveillance framework

The current EU economic governance framework is based on EU legislation, namely, directives and regulations. It was revised via the so-called “Six-pack” and “Two-pack” in 2011 and 2013, respectively, and integrated into the European Semester for economic policy coordination. It aims at supporting many of the objectives of a well-functioning economic union, such as:

- a) The sustainability of Member States’ fiscal policies;
- b) Avoiding the building up of macroeconomic imbalances in the Member States;
- c) Enabling an EU stability framework for Member States of the Euro Area experiencing difficulties and potentially requiring financial assistance. s

Each of the legislative acts includes a **review clause**, requiring the Commission to publish a report and possibly proposals for amendments by end 2019. It will be up to the new Commission to present these new proposals, but discussions will most likely start already in autumn 2019 (see [Eurogroup work programme for autumn 2019](#)).

Some framing questions for the participants:

1. In respect of next initiative aimed at strengthening the governance and the resilience of the EMU, which should be the priorities in the short term, and which should be the longer-term goal?
2. What is the appropriate role for an EU rule-based surveillance framework for fiscal, economic and social policies? How can the political ownership be strengthened?
3. What should be the next steps (and timetable) in building the banking union and the capital markets union?
4. What role for the European Parliament and national parliaments in the democratic control of the economic governance framework? How could inter-parliamentary cooperation be improved?

ANNEX: “Taking stock of four years after the Five Presidents Report

Economic Union	Financial Union
<ul style="list-style-type: none"> ✓ Macroeconomic Imbalances Procedure: early identification of threats to economic stability ✓ Revamped European Semester: streamlined and strengthened, more emphasis on social issues ✓ Euro area recommendations: more focus on euro area priorities ✓ Structural Reform Support Service: technical support for reforms in the Member States ✓ European Pillar of Social Rights: key principles to support fair and well-functioning labour markets and welfare systems ✓ Social impact assessment: carried out for the latest stability support programme for Greece ✓ National Productivity Boards: monitoring productivity and competitiveness developments ✓ Proposals to establish dedicated budgetary instruments to strengthen Europe’s Economic and Monetary Union 	<ul style="list-style-type: none"> ✓ Single Rulebook: harmonised rules for a more resilient, more transparent and more efficient European financial sector ✓ Banking Package: a comprehensive set of reforms that will further strengthen the resilience and the resolvability of EU banks, including a proposal for a European Deposit Insurance Scheme ✓ Harmonised rules for deposit insurance: deposits protected up to €100,000 per customer and per bank ✓ Single Supervisory Mechanism/Single Resolution Mechanism: centralised supervision and resolution of banks in the euro area ✓ Capital Markets Union: new rules that will strengthen the Economic and Monetary Union and the International role of the euro by promoting capital mobility and private risk sharing ✓ Capital Markets Union will also strengthen access to finance by boosting market based funding, in particular for innovation and start-ups
Fiscal Union	Democratic accountability and strong institutions
<ul style="list-style-type: none"> ✓ Fiscal Union: Financial support for Member States in difficulty: various rescue funds leading to the European Stability Mechanism ✓ 2-Pack/6-Pack legislation: stronger budgetary surveillance and focus on debt ✓ European Fiscal Board: independent advice on the implementation of EU fiscal rules and euro area fiscal stance ✓ Simplifying fiscal rules: greater focus on the public expenditure benchmark ✓ Flexibility within the Stability and Growth Pact: to support investment and reforms and to better reflect economic cycle 	<ul style="list-style-type: none"> ✓ Increased ownership: intensified dialogue with the European Parliament, national Parliaments, national Governments and stakeholders ✓ New start for EU social dialogue: more opportunities for social partners at all levels to discuss priorities ✓ Stronger focus on the international role of the euro and proposal to strengthen the external representation of the euro area ✓ Proposals to integrate intergovernmental agreements into EU law and to strengthen efficiency and accountability through a European Minister of Economy and Finance

Source: [Commission Communication on “Taking stock of four years after the Five Presidents Report”](#).