ROMÂNIA
SENAT

Parliament of Romania
Senate

Bucharest, 5th December 2017 *Courtesy translation*

OPINION of the ROMANIN SENATE

on the Reflection Paper on the Deepening of the Economic and Monetary Union

COM (2017) 291 final

The Romanian Senate, pursuant to art. 67, art. 148 (2) and (3) of the Romanian Constitution and the Protocol no.2 annexed to the Treaty of Lisbon amending the Treaty on European Union and the Treaty on the Functioning of the European Union, signed in Lisbon in 13rd December 2007, has examined the **Reflection Paper on the Deepening of the Economic and Monetary Union – COM (2017) 291 final**

Having in view the report of the Committee for European Affairs from 23rd November 2017, **the Romanian Senate**, issued on 4th December 2017 an OPINION, as follows:

1. Confirms that the Economic and Monetary Union is not an end in itself, but a framework in which the main objectives pursued are job creation, economic growth, social justice, economic convergence and financial stability.

2. Appreciates the European Commission's approach of demonstrating transparency towards member states which are currently not part of the Eurozone with regard to the additional measures envisaged towards deepening the EMU.

3. Supports:

- the Commission's proposals in the field of economic and social convergence, given that this objective is of particular importance, both at the level of euro area and at the level of the European Union;
- also the proposal by the President of the European Commission to establish an Accession Instrument to the Eurozone for non-euro member states.

4. Considers:

- as regards *the Single Resolution Mechanism*, that the using of the distribution key used for the Single Resolution Mechanism must be determined according to the size of the banking system in each member state. Also, the activation of this mechanism and the use of funds must be carried out only with the prior approval of the member states, and not automatically.

- as regards *the change in the regulatory treatment of sovereign bonds*, this could lead to a reduction in investors sovereign bond portfolios, which would have implications in securing funding needs for countries such as Romania, in rising financing costs, with negative effects on the ability of banks to carry out the activity of market-makers and the distribution of securities to investors;

- as regards *the European Deposit Insurance Scheme (EDIS)*, that:

(i) the mutualisation of contributions from the national GSC would be fair only after attaining an uniform minimum level of resources accumulated by the national GSC;

(ii) the establishment of EDIS for states within the Banking Union must not affect the functioning of the Single Market;

(iii) the list of banks' risk indicators should be supplemented by the coverage with provisions for non-performing loans.

5. **Rejects** *the development of new euro-area financing instruments, to be classed by investors as safe assets, such as sovereign bond-backed securities (SBBS), namely collateralized debt instruments with portfolios of euro area government bonds, two tranches, Junior and Senior level, under the following conditions*:

a) Ensuring the liquidity of the new instrument would negatively impact the liquidity and price formation for other sovereign government bonds and therefore the public debt refinancing costs, in particular affecting lower debt markets;

b) It should be stimulated the interest of investors to acquire this new class of instruments, at least in the beginning, by remunerating them more than the actual level (liquidity premium), which would translate into higher costs for contributors, which would become even more relevant in times of crisis, when the "safe asset" status of these instruments (the Senior tranche) would be questioned;

c) The high level of coordination needed at the level of public debt agencies/treasuries, in terms of the timing of issuance and maturity, allowing for a feasible structure for this instrument, may affect the functioning of sovereign debt benchmark markets, and therefore the increase of refinancing risks and access to debt markets in the member states;

d) Assessing the risks and benefits of introducing such a complex instrument also involves assessing the probability of partial or total default across the euro area, with some member states potentially at risk of default;

e) The preliminary analysis of the rating agencies of this new instrument shows that the senior tranche will not be eligible for the highest AAA rating, since the portfolio of assets to be secured includes government bonds with different ratings, of which only some have the AAA rating.

As regards the *comprehensive package of risks reduction measures in banks by further consolidation of prudential management and through strengthening market discipline*, the issue of maintaining a balance in the home-host member state relationship, **is rejecting** proposals that:

(i) restrict the current competencies of the NBR as the competent authority / resolution at the individual level and / or those that

(ii) adversely affect the ability to cover losses and recapitalize at subsidiaries in host member states.

Also, on the *issue of amendments from large exposures*, **it is necessary to clarify** the new provisions in order to avoid the interpretation that would lead to the annulment of the effect of the current provisions that allow the exemption of sovereign debt in the local currency from the application of the limits of large exposures.

6. Draws attention to the fact that a budget architecture with a separate euro area budget would be a threat to traditional policies (Common Agricultural Policy and Cohesion Policy), thus widening the gaps between net contributing and net beneficiary states, namely the growth of economic and political divergences between the member states of the European Union.

Therefore rejects the Eurogroup's formalization and the creation of centralized decision-making mechanisms within the Eurozone because this would be equivalent to setting up the "concentric circles" scenario, a formula rejected even by EU President, Jean Claude Juncker, in his speech on the State of the Union of 13 September 2017.

p. President of the Senate

Iulian-Claudiu MANDA