

UEM: cosa resta da fare?

Verso l'Eurosummit di Dicembre

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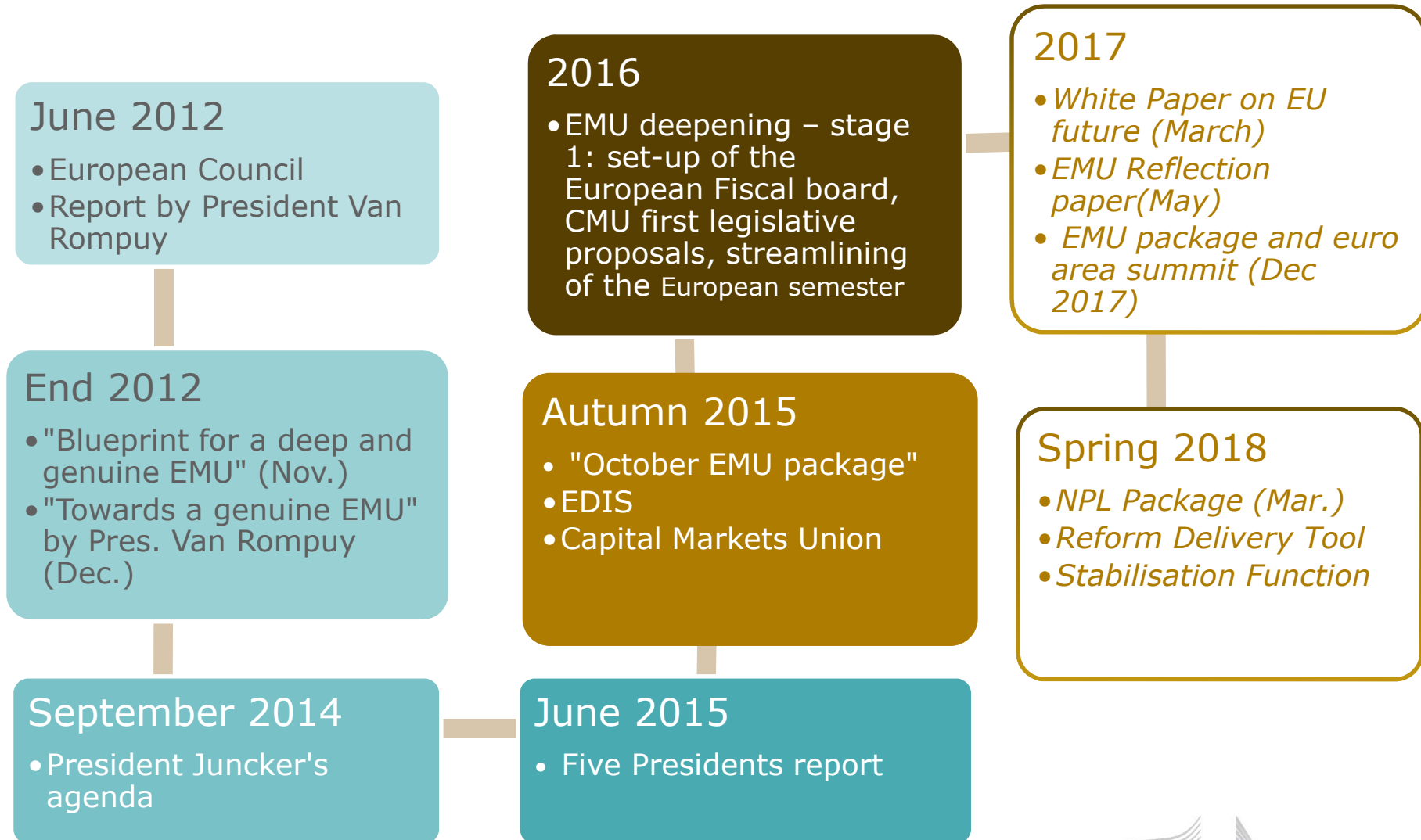


The case for completing EMU

- **Incomplete banking union and fragmented capital markets** prevent the EA from reaping the full benefits of financial integration and from achieving better risk sharing through market mechanisms
- The **bank-sovereign loop** has not been fully addressed
- **Absence of common safe asset** leads to flight to safety and sudden stops in times of market stress
- **Lack of a common fiscal stabilisation function** leads to pro-cyclical policies and overburdens the ECB in case of large shocks
- Low **growth potential**, insufficient **resilience** and persisting economic and social **divergences**



Where do we come from?





Elements for a political synthesis (Reflection Paper on EMU)





The Meseberg declaration gave new impetus to EMU deepening



- ***Banking Union:*** Guidance on the governance of the backstop to the Single Resolution Fund and potentially a credit line from ESM; EDIS discussions to start after the European Council
- ***ESM reform:*** Potential revision of the ESM Treaty, enhanced role for the ESM in designing and monitoring programmes
- ***Euro area budget:*** a budget specific to the euro area which would be set up within the EU framework with two purposes:
 - ✓ **Promotion of competitiveness and convergence;**
 - ✓ **Macroeconomic stabilization**



June summit

- *Agreement on ESM providing the common backstop to the Single Resolution Fund;*
- *ESM reform: Strengthening the ESM with new roles and instruments;*
- *Start working on a roadmap for beginning political on the European Deposit Insurance Scheme (EDIS);*



The path towards the December summit

Deliverables:

- Terms of reference of the backstop to the Single Resolution Fund including the governance process for its activation;
- An agreed term sheet for the further development of ESM competences and instruments;

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- A European Deposit Insurance Scheme (EDIS) roadmap including risk-reduction benchmarks for beginning political negotiations;
 - More details over a FR-DE proposal on EA budgetary instruments;



1 *Financial Union*



FINANCIAL	Done	Remaining
European System of financial supervision	<ul style="list-style-type: none">✓ Macro-prudential: European Systemic Risk Board (ESRB)✓ Micro-prudential: European Supervisory Authorities (EBA for banks, ESMA for securities, EIOPA for insurance)	<input type="checkbox"/> <i>Towards a single European Capital Market Supervisor</i>
Banking Union	<ul style="list-style-type: none">✓ Single Supervisory Mechanism (SSM)✓ Single Resolution Board (SRB) and Single Resolution Fund (SRF)	<input type="checkbox"/> <i>SRF backstop</i> <input type="checkbox"/> <i>EDIS</i>
Crisis resolution mechanism	<ul style="list-style-type: none">✓ European Stability Mechanism (ESM)✓ OMT programme by ECB	<input type="checkbox"/> <i>European Monetary Fund (EMU package)</i>



EA Summit June 2018 (and letter by PEG)

Backstop to Single Resolution Fund: to be provided by the ESM (revolving credit line)

- *Size: same as SRF (55bn)*
- *Decision making process: need to reconcile speed with accountability*
- *Fully operational before 2024 if sufficient progress on risk reduction (NPLs and build-up of bail-in-able assets) → to be assessed in 2020*

European Deposit Insurance Scheme (EDIS): Develop a roadmap to start political negotiations

- *A monetary union cannot properly function without a deposit guarantee scheme applied uniformly across its jurisdiction*
- *In October 2017, the Commission proposed a possible compromise with two phases (re-insurance and co-insurance): Loss coverage subject to conditions starting at 30% in 2022, could include a targeted Asset Quality Review (AQR) to address NPLs and Level III assets issues.*



Main elements underlying the discussion on backstop, ESM and EDIS

Agreement to specify the term of reference for the ESM providing the backstop to the SRF and to develop a term sheet for its further development:

- This implies:
 - ⇒ a reform of the ESM Treaty
 - ⇒ Looking at instruments, role, governance, sustainability
 - This requires unanimity
 - Some want to include measures to increase **market discipline** on MS.
 - Letter PEG: specify new Collective Action Clauses ("single limb")
 - Other ideas include:
 - adding a **sovereign debt restructuring mechanism** when the country asks for ESM support
- Similarly, some link the creation of the EDIS to changes to the regulatory treatment of sovereign exposures, which currently treats sovereign debt as risk-free.



2 *Economic and Fiscal Union*



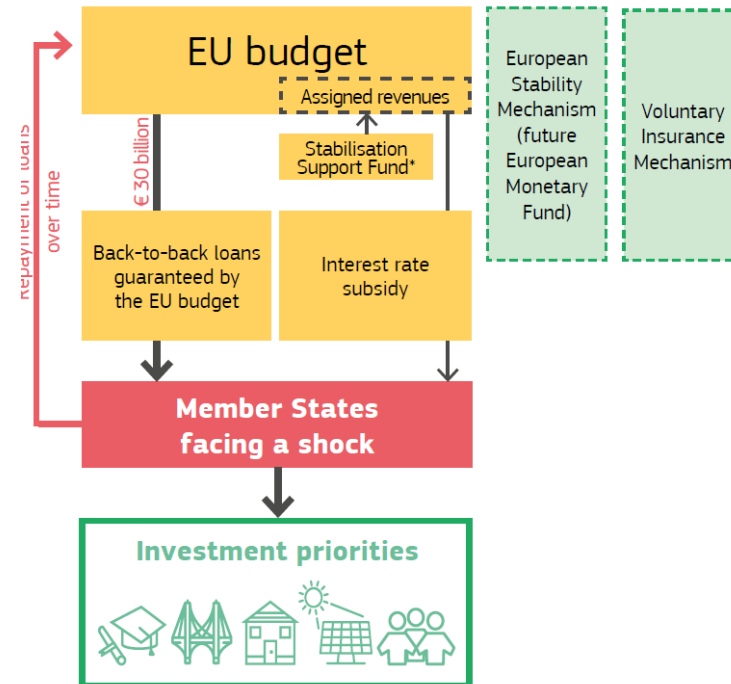
A European investment stabilisation function (EISF)

Will combine concessional back-to-back **loans of up to EUR 30 billion** under the EU budget with a **grant component to cover interest costs** financed through contributions from euro area Member States equivalent to a share of monetary income (seigniorage).

Two additional strands are to be developed over time in the form of a **possible role for the European Stability Mechanism** or a future European Monetary Fund and a **voluntary insurance mechanism** to be set up by Member States.

Non-euro area Member States (ERM-II) wishing to participate in the EISF would contribute to the financing

Only Member States **complying with the EU economic and fiscal surveillance framework during the period preceding** the large asymmetric shock are eligible for access. Triggering will be automatic and rapid on the basis of pre-defined parameters.



*Prefilled with contributions by Member States based on their monetary income ("seigniorage").



New Instruments in the EU budget (2021-2027) with an overall budget of €25 billion

Reform Delivery Tool	Technical support	Convergence Facility
<ul style="list-style-type: none">➤ financial support, open to all EU Member States➤ reforms identified in the context of the European Semester➤ budget of €22 billion	<ul style="list-style-type: none">➤ support in the form of technical expertise, open to all EU Member States➤ wide scope of reforms (including European Semester, Union law and Member States' priorities)➤ budget of €0.84 billion	<ul style="list-style-type: none">➤ extra financial and technical support for Member States wishing to join the euro within a defined timeframe➤ reforms to help prepare for euro adoption➤ budget of €2.16 billion

All in complement to the European Pillar of Social rights (EPSR), a reference framework for upwards convergence and concrete initiatives building on the EU social law (20 principles and rights, scoreboard)



EA Summit June 2018 (and letter by PEG)

New budgetary instruments for stabilisation, competitiveness and convergence

- *Guidance still needed to discuss options for an EA budget for competitiveness, convergence and stabilisation purposes;*
- *European Unemployment Insurance Fund in case of severe crisis could be considered;*
- *Different options as regards funding in terms of national contributions and allocation of tax revenues;*
- *Moral hazard concerns remain a major obstacle for reaching an agreement;*
- *European Commission proposals for a European Investment Stabilisation Function and a Reform Delivery Tool can be used as a basis for negotiations as they are compatible with other proposals.*



Concluding remarks

- The deliverables of the EA summit of December 2018 are clear...
- ...but to achieve them the core issue to tackle involves ESM competences;
- Continued uncertainty increases the risk for the economic outlook;
- Meseberg helped but a common DE-FR position is still lacking;
- Continuing on the "ultima ratio" again would be very risky;
- Political awareness would advise not to postpone key choices to after the May European elections.



Grazie per l'attenzione !

Marco Buti

Commissione Europea

