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?

June 2012
- European Council
- Report by President Van Rompuy

End 2012
- "Blueprint for a deep and genuine EMU" (Nov.)
- "Towards a genuine EMU" by Pres. Van Rompuy (Dec.)

September 2014
- President Juncker's agenda

Autumn 2015
- "October EMU package"
- EDIS
- Capital Markets Union

June 2015
- Five Presidents report

2016
- EMU deepening – stage 1: set-up of the European Fiscal board, CMU first legislative proposals, streamlining of the European semester

2017
- White Paper on EU future (March)
- EMU Reflection paper (May)
- EMU package and euro area summit (Dec 2017)

Spring 2018
- NPL Package (Mar.)
- Reform Delivery Tool
- Stabilisation Function
Elements for a political synthesis (Reflection Paper on EMU)

1. Financial Union
   - Complete Banking Union and Capital Markets Union
   - Diversified banks’ sovereign exposures

2. Economic and Fiscal Union
   - European safe asset
   - Economic and social convergence

3. Institutions and governance
   - Common fiscal stabilisation capacity
   - Accountable institutions and effective governance
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;

• 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
<table>
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<th>FINANCIAL</th>
<th>Done</th>
<th>Remaining</th>
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| **European System of financial supervision** | ✓ Macro-prudential: European Systemic Risk Board (ESRB)  
✓ Micro-prudential: European Supervisory Authorities (EBA for banks, ESMA for securities, EIOPA for insurance) | □ Towards a single European Capital Market Supervisor |
| **Banking Union** | ✓ Single Supervisory Mechanism (SSM)  
✓ Single Resolution Board (SRB) and Single Resolution Fund (SRF) | □ SRF backstop  
□ EDIS |
| **Crisis resolution mechanism** | ✓ European Stability Mechanism (ESM)  
✓ OMT programme by ECB | □ European Monetary Fund (EMU package) |
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.
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.
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.
New Instruments in the EU budget (2021-2027) with an overall budget of €25 billion

<table>
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<tr>
<th>Reform Delivery Tool</th>
<th>Technical support</th>
<th>Convergence Facility</th>
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<td><strong>financial support</strong>, open to all EU Member States</td>
<td><strong>support in the form of technical expertise</strong>, open to all EU Member States</td>
<td><strong>extra financial and technical support</strong> for Member States wishing to join the euro within a defined timeframe</td>
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<td><strong>reforms identified in the context of the European Semester</strong></td>
<td><strong>wide scope of reforms</strong> (including European Semester, Union law and Member States’ priorities)</td>
<td><strong>reforms to help prepare for euro adoption</strong></td>
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<td><strong>budget of €22 billion</strong></td>
<td><strong>budget of €0.84 billion</strong></td>
<td><strong>budget of €2.16 billion</strong></td>
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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)
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!

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