European Commission

DEEPENING EUROPE'S ECONOMIC AND MONETARY UNION

Taking stock four years after the Five Presidents' Report
#FutureofEurope #DeepeningEMU

The economic and financial crisis that hit Europe did not start in the euro area, but laid bare some of its institutional weaknesses. This is why the Juncker Commission made the completion of a deep and fair Economic and Monetary Union one of the 10 political priorities for its mandate. This is a means to an end: more jobs, growth, investment, social fairness and economic stability for the members of the euro area as well as for the EU as a whole. **Significant progress has been made.** The European economy is now growing for the seventh consecutive year, employment is at a record high and the overall stability and integrity of the euro area has been strengthened. **But more remains to be done**.

ACHIEVEMENTS

The Juncker Commission has delivered concrete measures to deepen Europe's Economic and Monetary Union. These follow up on the Five Presidents' Report of June 2015, the White Paper on the Future of Europe of March 2017, and the thematic Reflection Papers on the Deepening of the Economic and Monetary Union and the Future of EU Finances of May 2017. In December 2017, the Commission presented a comprehensive roadmap to further enhance the unity, efficiency and democratic accountability of the Economic and Monetary Union.

The euro

- 75% of EU citizens support the euro in 2018 compared to 67% when this Commission took office
- Around 60 countries in the world either are using, will use or link their currency to the euro

Progress on the economic situation

- The EU economy is growing for the 7th year in a row
- 13.4 million jobs created in the EU since the start of the Juncker Commission
- EU unemployment stood at 6.4% in April 2019, the lowest rate recorded since the start of the century
- The employment level is the highest ever, with 241 million people employed in the EU and 160 million people employed in the euro area
- Wages, which declined in the aftermath of the crisis, are growing again, in particular since 2017. Wages per employee have increased by around 10% in both the EU and in the euro area between 2014 and 2019

Here are the main ways in which the EU has strengthened the toolbox of the Economic and Monetary Union

Economic Union:

- 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***

Financial Union:

- 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 to promote capital mobility and private risk sharing. Strengthen access to finance by boosting market-based funding, in particular for innovation and start-ups***

adopted after the crisis (2010-2014)
done/initiated during the Juncker Commission

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 cycles***

Democratic accountability and strong institutions:

- ***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***

ONGOING WORK

BUDGETARY INSTRUMENT FOR THE EURO AREA

The Commission proposal for a Reform Support Programme of May 2018 has been the basis for discussions on a Budgetary Instrument for Convergence and Competitiveness for the euro area (BICC). An agreement on the main features is within reach. Anchored within the EU budget, this instrument will support euro area Member States in their structural reforms and investment. Member States will submit to the Commission on a voluntary basis their investment and reform proposals, and if the proposals meet the transparent criteria, the Member State will receive financial support, subject to meeting agreed milestones.

REFORM OF THE EUROPEAN STABILITY MECHANISM

Setting up the European Stability Mechanism (ESM) during the crisis was a major milestone in building a more stable Economic and Monetary Union. Ultimately, the ESM should be in the legal framework to offer institutional clarity, increase its political and legal accountability and recognise its importance for the Economic and Monetary Union. The ongoing reform of the ESM Treaty, as an intermediate solution, is meant to further strengthen crisis prevention and resolution in the euro area. This will include clarifying the eligibility conditions for ESM support, ensuring an operational and effective common backstop to the Single Resolution Fund in the form of a credit line, and provision of liquidity in resolution.

BANKING UNION

Today the EU banking sector is in much better shape than it was 10 years ago and we have seen a significant amount of risk-reduction. The ratio of non-performing loans has decreased by more than half since 2014 in the EU and in the euro area and is now approaching pre-crisis levels. Recently-agreed legislation will reduce risk further and enhance further the resilience of the European banking sector. In December 2018, the Leaders called for the work on the Banking Union to advance, and in particular to define a roadmap for starting political negotiations on the European Deposit Insurance Scheme, the third and still missing pillar of the Banking Union. Regrettably, the impasse that charaterised the past several years has persisted and progress is extremely slow.

THE WAY FORWARD

ECONOMIC SURVEILLANCE

Good progress has been made in recent years in returning Member States and the overall euro area economy towards sound and sustainable growth paths. In particular, the fiscal deficit and debt of the euro area as a whole have been considerably reduced, and more so than in other advanced economies. The Commission will take stock of the implementation of the framework for economic and fiscal surveillance with **the review of the two-pack and six-pack legislations**, which should eventually pave the way **towards simpler EU fiscal rules**. The review could also provide the basis for **further improvements in the transparency and effectiveness of the policy coordination framework and to reinforce the social dimension** of the surveillance framework.

INSTITUTIONAL STRENGHTENING

New rules should go hand in hand with a streamlining of competences in the Economic and Monetary Union. To increase transparency and democratic accountability, the Commission proposed in December 2017 to appoint the same person for the positions of the **Vice-President of the Commission in charge of Economic and Monetary Union and the President of the Eurogroup**. In addition, the **European Stability Mechanism** should be integrated in the EU legal framework over time and a **euro area Treasury** could take shape, to access financial markets on behalf of its members to fund part of their regular refinancing needs.

FISCAL STABILISATION

One important lesson of the financial and economic crisis was that the current framework is ill-equipped to tackle very large country-specific or euro area-wide shocks. A **common stabilisation function** would be an important complement to national budgets. In 2018, the Commission made a proposal for an up to €30 billion European Investment Stabilisation Function to stabilise public investment levels in the event of severe economic shocks. This proposal remains relevant and should be seen as a complement to the Budgetary Instrument of Convergence and Competitiveness for the euro area.

BANKING UNION

The Banking Union was always intended to consist of three pillars – single supervision, single resolution, and a single deposit insurance scheme. Both the Single Supervisory Mechanism and the Single Resolution Mechanism are already operational. Time has now come to make concrete progress on the third pillar: a common depositor protection mechanism. Guaranteeing deposits on a European level would ensure that all deposits are equally protected across the Banking Union and thereby strengthen the confidence of depositors and mitigate the risk of bank runs. While significant progress has been achieved in harmonising the Single Rulebook, more should be done to remove unnecessary obstacles to the cross-border integration of the banking system.

CAPITAL MARKETS UNION

The Capital Markets Union supports a well-functioning Economic and Monetary Union. It contributes to stability and resilience of the financial system and aims to get money - investments and savings - to flow more easily across the EU so that it can benefit consumers, companies and investors in a sustainable way. The European Parliament and the Council have now agreed 11 out of 13 legislative proposals. The agreed legislation must now be implemented.

INTERNATIONAL ROLE OF THE EURO

The euro is twenty years young and is the world's second currency. It remained strong even during the worst moments of the financial and sovereign debt crises. At the same time, the global order has become more multi-polar with new economic powers, institutions and technologies emerging and existing powers repositioning themselves. This calls for strengthening Europe's economic and monetary sovereignty. In recent months, the Commission has consulted market participants to hear their views: there is broad support for reducing dependence on a single dominant global currency. Moreover, the euro stands out as the only strong candidate that has all the necessary attributes of a global currency that market participants use already today as an alternative to the US dollar. Finally, there is recognition that the EU, through the euro, can reinforce its economic sovereignty and play a more important global role to benefit EU business and consumers and contribute to international financial stability.

IMMEDIATE ACTION

At the June European Council, the Commission invites EU Leaders to:

- Reach an agreement on the main features of the Budgetary Instrument for Convergence and Competitiveness with a view to supporting a swift adoption by the European Parliament and the Council. To agree on its size in the context of the Multiannual Financial Framework.
- Finalise the changes to the Treaty establishing the European Stability Mechanism 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. To integrate the European Stability Mechanism into EU law over time.
- Make a renewed effort to complete the Banking Union starting with political negotiations on the European Deposit Insurance Scheme.
- Accelerate progress on the Capital Markets Union and step up work to strengthen the international role of the euro.