BUSINESSEUROPE

THE PRESIDENT

Mr Jean-Claude Juncker
President
European Commission
Rue de la Loi 200
Building BERL
BE-1049 Brussels
BELGIUM

28 February 2017

Re: Deepening EMU and restoring competitiveness in order to support investment

Dear President Juncker,

Completing EMU and strengthening trust in the euro is both a priority and a matter of urgency for business. Business investment requires a safe and predictable environment based on a well-functioning EMU.

BusinessEurope welcomed the 2015 Five Presidents Report on completing EMU as an important first step towards reinforcing the euro and creating the necessary mechanisms and institutions to ensure a strong and sustainable currency union. But we also cautioned that greater urgency and ambition was needed in strengthening EMU and in setting out a clear path for the coming years to provide an immediate boost to business confidence and investment.

Whilst we have welcomed the Council's recommendation for euro area member states to establish national productivity boards, elsewhere progress has been slow, in particular as regards efforts to develop a fiscal backstop for the Single Resolution Mechanism and to strengthen deposit insurance in the member states and the EU as a whole.

The March White Paper must reignite the process of strengthening EMU by setting out the remaining steps that need to be taken to complete EMU. European leaders must show unity, vision and leadership in driving the way forward. As we set out in our position paper following the publication of the 2015 Five Presidents' report, this includes:

- **Economic Union:** Put competitiveness at the core with a reinforced European Semester ensuring Member States, supported by national parliaments and social partners, implement structural reforms in order to increase growth, jobs and convergence. This includes strengthened implementation of the Macroeconomic Imbalance Procedure in both deficit and surplus countries;

- **Financial Union:** Put in place a full banking union- meaning its three pillars of supervision, resolution and deposit schemes - to address the continued fragmentation of EU savings and credit markets. Further decisions need to be taken to complete the single resolution mechanism and, following asset quality reviews for all relevant banks, as well as a further reduction of risk in banks' balance sheets, a European deposit insurance scheme. Credibility of a new system may already build-up in the initial stages as markets recognise the stabilising function of the deposit insurance. In many member states, national reforms to implement the bank recovery and resolution directive and the creation of harmonised deposit insurance systems, are necessary steps before establishing a common system. The regulatory treatment of bank holdings of government securities should be addressed in the appropriate framework of the G20;

- **Capital Markets Union:** Implement a comprehensive Capital Markets Union in order to strengthen cross-border capital flows, reinforce the resilience of the Euro Area to asymmetric shocks, and help companies access diversified funding sources;

- **Fiscal Union:** Improve the efficiency of the fiscal rules and encourage governments to pay more attention to the quality and composition of their public finances, helping ensure fiscal consolidation takes place without tax increases;

- Strengthen the long-term stability of EMU and its ability to handle asymmetric shocks to one or more of its economies through access to a Euro Area fiscal capacity or stabilisation fund, fully conditional on Members States implementing structural reforms and ensuring that it does not lead to an increase in the overall tax burden in the Euro area.

At the heart of both the EU and the Euro area is the single market, with improved flows of goods, services, capital and labour vital to increasing the integration and resilience of the currency area. Progress with EMU, must made be in a way that protects the interests of all Member States, with the door remaining open for the participation of non-Euro area countries.

In order to reinforce economic stability and increase Europe's long-term growth potential, Europe needs more high quality public and private investment as well as stronger public finances. However, the present political environment, more than ever, creates pressures for governments to pursue short-term goals at the expense of choices where the benefits are more long-term.

BUSINESSEUROPE

In this context, we believe it is essential that the EU uses all its available tools to strengthen the support and incentives for Governments to orientate their public expenditure towards high quality investment and expenditure that can support long-term growth, and catalyse private investment around innovation, technological development and digital transformation.

We have welcomed the Commission's Investment Plan, and in particular the establishment and extension of the European Fund for Strategic Investment (EFSI), and look forward to further Commission action across the full range of policies to bring down the barriers to investment.

More specifically, in relation to EMU, proper enforcement of the Stability and Growth Pact (SGP) is essential to help member states put their public finances on a stronger footing, and in particular bring down debt levels which in many member states remains well above the 60%/GDP Maastricht threshold. Fiscal sustainability, including where appropriate, fiscal consolidation, is key in order to strengthen investors' trust in the Euro area.

But it is also essential that the SGP gives the full support possible to member states who wish to orientate their budgets towards investment and growth-supporting expenditure. We believe the forthcoming white paper, and the expected 'stability orientated review of the SGP', provides the opportunity to review the effectiveness of the SGP in supporting public investment, notably through the investment clause, and to consider if there are ways that Government investment could be further incentivised whilst retaining the principles of the existing SGP.

I am copying this letter to Presidents Draghi, Tusk, Tajani and Dijsselbloem, as well as Commission Vice-Presidents Dombrovskis and Katainen, and Commissioner Moscovici.

Yours sincerely,

Emma Marcegaglia