BUSINESSEUROPE

Position Paper

20 March 2018

COMMISSION COMMUNICATION (6/12/2017) : FURTHER STEPS TOWARDS COMPLETING EMU : A ROADMAP – BUSINESSEUROPE POSITION

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 Economic and Monetary Union (EMU).

Following the economic crisis, the EU made important progress in strengthening EMU, including through the development of the Banking Union and strengthening of the Stability and Growth Pact. But since the publication of the 2015 Five Presidents Report on completing EMU, progress has been too slow. In addition, as our annual Reform Barometer indicates, too many member states remain reluctant to implement agreed country specific reform recommendations to boost economic performance and convergence.

We therefore welcome the Commission's 6th December 2017 communication on further steps towards EMU, which we believe sets out a number of helpful initiatives that can deepen the common currency. It is essential that political leaders now agree and implement a significant number of the proposed reforms and, in doing so, demonstrate to citizens, businesses and investors alike that the political desire exists for the full completion of EMU in future years.
Regarding the specific proposals set out in the communication, and based on the limited details so far set out, we have the following views:

- **Transformation of the European Stability Mechanism (ESM) into a European Monetary Fund:**

The ESM has proven to be an important instrument to manage and overcome crises. Integrating it into EU law in the form of a European Monetary Fund, would further strengthen it and would be an important step towards increasing democratic and political accountability, complementing the existing role of national parliaments in approving the flow of funds from member states. However, the expertise and support of the IMF can still potentially play an important role in helping to develop, implement and monitor comprehensive assistance programmes.

Given the need, noted elsewhere in this paper for a fiscal backstop, accessible under specific conditions, to support the Banking Union and specifically the Single Resolution Fund, we believe it is appropriate that the ESM should fulfil this role.
Regarding the Commission's suggestion that the ESM develops 'new financial instruments', it will be important to consider the appropriateness of the ESM playing such a role as further proposals are developed in detail.

In terms of governance, we support the shift from requiring unanimity to a reinforced qualified majority (85%) in the limited and specific cases the Commission communication refers to, notably specific decisions on stability support, disbursements and the deployment of the backstop (but not capital calls).

BUSINESSEUROPE

- **Integrating the substance of the Treaty on Stability, Coordination and Governance (the fiscal compact) into the Union legal framework:**

Proper implementation of the Stability and Growth Pact (SGP), drawing on in-built flexibility, is essential to help member states put their public finances on a sustainable footing. Fiscal sustainability, including where appropriate, fiscal consolidation, is key in order to strengthen investors' trust in the Euro area.

We therefore support the proposal to bring the fiscal compact into the EU legal framework and in turn support the proper implementation of the SGP.

However, in the longer-term, we believe that the efficiency of the fiscal rules must be improved, in particular, by reducing the complexity of the existing rulebook, with governments encouraged to pay more attention to the quality and composition of their public finances. We therefore support the Commission's suggestion that, following stronger economic, fiscal and financial integration, there should be a review of the EU fiscal rules, with the aim of 'a substantial simplification' by 2025. The introduction of a Euro Area stabilisation function, discussed below, can also reduce the necessity for flexibility in the application of the SGP and enhance political support for proper enforcement of the pact.

- **New budgetary instruments for a stable euro area within the Union framework, including a new convergence facility for member states on their way to joining the euro and a new structural reform delivery tool:**

EMU must deliver convergence towards strong growth rates in all member states. We therefore welcome, in principle, an increased focus in the EU budget on supporting both convergence, structural reforms and competitiveness. We look forward to more detailed Commission proposals as promised in May 2018. Such schemes, where possible, should be based on ex-ante eligibility criteria in order to further incentivise Member States to implement growth enhancing structural reforms.

More generally, we must reinforce the European Semester's role in increasing growth, competitiveness and convergence through ensuring that all Member States, supported by national parliaments and social partners, implement agreed growth and employment enhancing structural reforms. This includes strengthened implementation of the Macroeconomic Imbalance Procedure in both deficit and surplus countries.
Moreover, completion and enforcement of the Single Market is an equally important convergence driver, with less new, but better and properly implemented legislation being key to supporting integration and avoiding fragmentation.

- **A stabilisation function for the Euro Area through an investment protection scheme:**

We support strengthening 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 stabilisation fund, fully conditional on Members States implementing structural reforms and there being no increase in the overall tax burden. To ensure the stabilisation fund is effective, support should be **rapid and temporary.**

The Commission's proposal that the stabilisation function be delivered through an investment protection scheme bringing together different EU and Euro Area funds and financial instruments could potentially be in line with these principles, and, if delivered through market mechanisms, could improve the quality of public expenditure, providing much needed emphasis on high-quality public investment, as well as increasing long-term stability in the Euro Area. We look forward to more detailed proposals for the scheme later in May which, we hope, will contain a strong emphasis on the good governance of the scheme, including strict predefined criteria for disbursement.

- **A strengthened Eurogroup Chair/ Commissioner for Economic and Financial Affairs :**

The present role of Eurogroup chair can be strengthened by transformation into a full time position. However, such a position would need to be empowered, and placed within the existing competencies of EU bodies, in a way that streamlines and simplifies the presently fragmented economic governance and avoids any ill-designed overlap of the institutions. Such a proposal may also address the present dual role played by the Commission in both assessing breaches of the SGP (technical) and proposing action (political).

In addition, the December 2017 communication also references the Commission's October 2017 communication on **completing banking union**:

- **BusinessEurope believes a full Banking Union must be put in place,** with rapid agreement and implementation of an EU deposit insurance scheme (EDIS), alongside the existing supervision and resolution pillars, needed to address the continued fragmentation of EU savings and credit markets. Member states have now implemented the bank recovery and resolution directive and are creating harmonised deposit insurance systems. In addition, in line with its ongoing supervisory role, the ECB should undertake further asset quality reviews of all banks before a common system is established, while ensuring the rapid implementation of EDIS. We support the provision of a fiscal backstop to underpin the single resolution mechanism and fund, although such a backstop should only be put into use in the event that the resolution fund proves inadequate to maintain overall financial stability and the resolution board has already ensured, in line with the need to avoid moral hazard, that the possibility for bail-in of eligible liabilities has been exhausted and market access is no longer available to the bank(s) in question. Any losses to the fiscal backstop should ultimately be made good by payments from the financial sector, in line with the funding model for the single resolution fund.

- **Implementation of a comprehensive Capital Markets** Union in order to strengthen cross-border capital flows and help companies' access to diversified funding sources. For example equity financing and corporate bonds can further reinforce the resilience of the Euro Area to asymmetric shocks.

We also note with interest the recent report by the European Systemic Risk Board (ESRB) to develop the market for sovereign bond backed securities. This was also referred in the Commission communication, as a complement to other tools described earlier, in order to enhance growth. We agree with the observations of both the Commission and the ESRB that the Euro Area does not have a 'safe' asset on a par with US treasuries and that the development of a European safe asset, along the principles envisaged in the report, can lead to a diversification of assets held by banks, improve liquidity and mitigate the interconnection between banks and sovereigns, without requiring the mutualisation of Member States' sovereign debt. We hope that the Commission will now build on the recommendation of the ESRB and consider how, particularly the regulatory framework, may support financial markets in developing such 'safe' assets.

The adoption of a joint European debt instrument may be a long-term aspiration, conditional upon a transfer of budgetary authority from national to the European level, as well as Euro area economies showing greater convergence, and ensuring their public finance positions are in genuine adherence with the Maastricht criteria.

Finally, we believe **the process of deepening EMU should be an open and inclusive process,** with member states whose currency is not yet the Euro able to participate in the various aspects of EMU. At the same time, if EMU members are ready to enhance integration, they should not be blocked from proceeding. A deeper EMU underpinning strong growth, competitiveness, investment and prosperity for all its participants can be the best way of encouraging more member states to take the necessary steps to membership of the single currency, further strengthening the Single Market and promoting strong and stable growth.