

EMU Reform: What is the Road ahead?

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On December 6th this year, the European Commission confirmed renewed commitment to completing the Economic and Monetary Union (EMU) with the publishing of a Roadmap for action, building upon the Five Presidents' Report and the Reflection Paper on the deepening of the EMU.¹ While the everyday observer might not pay particular attention to yet another Commission communication about the EMU, this Roadmap represents a significant step forward. Political will as well as academic analysis of EMU matters have been well aligned for many years, see e.g. Enderlein, Letta et al. (2016) and yet formulation of concrete policies has been missing from the discussion.^{2,3} This commentary presents the proposed steps to be taken over the next 18 months, and aims to shed light on its associated opportunities.

The call for unity, efficiency and democratic accountability

To understand the current state of the EMU, consider the three following characteristics: an incomplete banking and capital markets union; no central fiscal stabilisation function; and insufficient adjustment mechanisms.⁴ Deepening the EMU will boost jobs, investment, growth, social fairness and macroeconomic stability, and is a key priority after a decade of learning from the institutional weaknesses that became obvious during the economic and financial crisis. The call for unity, efficiency and democratic accountability is very relevant for the completion of the EMU. Except for Denmark, all non-euro Member States are legally obliged to adopt the euro. To ensure this development, stronger governance

and more efficient use of resources are required. Transformation of the current system will allow greater synergies and streamlined procedures on Member State level, greater political responsibility and transparency of who decides what at the different levels. With enhanced unity, efficiency and democratic accountability, the European dimension can be brought closer to its citizens and to national debate.⁵

Up until now, two competing views have been dominating the debate on how to move forward with the EMU, most efficiently summarised as risk reduction vs. risk sharing. The advocates for risk reduction have called for compliance with the Maastricht Treaty's strict rule-based fiscal framework of sanctions and the re-affirmation of the no-bailout clause, while the risk sharers have pushed for smarter rules with greater discretion accompanied by the introduction of risk sharing instruments.⁶ To address this, the Reflection paper published in May this year identified a set of key steps for the short term, while recognising that other required elements for a successful completion of the EMU can be delivered over the longer run. Broadly categorised, the steps include completing the Financial Union, achieving a more integrated Economic and Fiscal Union, and strengthening of the Eurozone institutions and accountability.⁷ The Roadmap builds on this and presents four measures, with the overall aim to enhance the unity, efficiency, and democratic accountability of the EMU by 2025.

The Roadmap: Four concrete policies for deepening the EMU

The first policy involves the creation of a

European Monetary Fund (EMF). The European Stability Mechanism (ESM) has proven its role in safeguarding the stability of the Eurozone by assisting and supporting Member States during the crisis to regain or maintain access to sovereign bond markets. The Commission proposal for a Regulation aims to establish the EMF within the EU's legal framework and builds on the ESM structure that is already functioning. The EMF would assist eurozone Member States in times of financial uncertainty, provide the common backstop to the Single Resolution Fund, and act as a lender of last resort. The European Parliament and the Council are invited to adopt this proposal by mid-2019.⁸

The second policy proposal includes a Directive to integrate the Treaty on Stability, Coordination and Governance into the Union legal framework. This was also called for by the European Parliament, aiming to incorporate into Union law the main elements to support sound fiscal frameworks on Member State level in line with primary and secondary legislation. The European Parliament and the Council are invited to also adopt this proposal by mid-2019.⁹

A third policy includes a communication of a eurozone budgetary instrument to be set up within the Union legal framework. The communication discusses four main functions: technical support to Member States for structural reform delivery; support to Member States on their way of joining the eurozone; a backstop for the Banking Union through the EMF to be agreed by mid-2018; and a stabilisation function to protect investments in the event of asymmetric shocks. For the period of 2018-2020, the Commission wants to double the funding for technical support for structural reform programmes.¹⁰

As a fourth measure, the Commission suggests formulation of functions for a European Minister of Economy and Finance. The minister could serve as vice president of the Commission and chair the Eurogroup. A position of this kind would make economic policy making in the EU

more efficient, transparent and accountable.¹¹

The Roadmap package constitutes an important step for the deepening of the EMU and an essential element for creating enhanced unity, efficiency and democratic accountability within the EU. A key lesson from history is that not any option should be considered alone, but rather that all should be considered as a comprehensive package with more evident merits and more nuanced limitations. The measures will require further integration between Member States, but the realisation that risk reduction and risk sharing can be combined have united the camps and created a window of opportunity for the Roadmap to be implemented without internal friction. As expected, the completion of the EMU is subject to several measures, this will not be the final step in the process, but it is an important and welcomed shift from vague political direction to concrete measures and action.

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