What are the crucial steps to complete the economic and monetary union in the euro area?

Since 2010 the Greek crisis has repeatedly highlighted the weaknesses in the institutional architecture within the euro area and the problems in creating a strong economic and monetary union (EMU). To overcome these difficulties, in 2012 the presidents of the European Commission, the Eurogroup, the European Council and the ECB drew up a report\(^1\) that helped to speed up the implementation of mechanisms to supervise and coordinate the economic and fiscal policies of the different euro area countries. Now, in the «Five Presidents' Report»,\(^2\) the president of the European Parliament has been added to the initial list of leaders with the aim to promote the road map that deepens into those aspects still pending. The
particular aim of this initiative is for the euro area to move from a system of rules and recommendations to a system containing common institutions with greater shared sovereignty.

This report represents a significant step forward as it proposes, already in the first stage from July 2015 to June 2017, to carry out actions to promote greater economic and financial integration without the need to modify European treaties. Of particular note is the creation of independent national competitiveness authorities to assess whether wages are rising in line with productivity. The current governance system will also be strengthened via greater coordination between economic policies in a revamped European Semester. The first part of this stage (programmed from November to February every year) will focus more on the euro area as a whole, establishing the region's priorities. The second part (March to July) will focus on countries individually and will take the form of more specific recommendations to increase their respective growth potential. In this first stage a significant proportion of the institutional changes will include completing a banking union with a common deposit guarantee fund and a single resolution fund. A capital markets union will also be set up.

The challenge, however, is to ensure that the second stage as from July 2017 sees the completion of the institutional EMU structure to achieve long-lasting convergence. The publication of a white paper in spring 2017 represents a crucial step towards achieving this goal, specifying the measures required to complete the EMU including legislative changes. On the one hand, the process of economic convergence will be formalised in this stage with a series of benchmarks decided jointly between the countries (on the labour market, competitiveness, etc.) which will be legally binding. On the other hand, progress will be made towards a fiscal union by creating a common macroeconomic stabilisation function to absorb big macroeconomic shocks with greater guarantees and ensure higher resilience for the EMU. At the same time there is also the aim to make decision-making in the euro area more democratic, giving more sway to the European Parliament and national parliaments in the European Semester, as well as greater institutionalisation of the euro area with a single Treasury that takes more joint decisions in the fiscal area and a permanent presidency of the Eurogroup.
This proposal represents a step forward in constructing the EMU as it identifies the stages that must be carried out: it defines a sufficiently broad starting point to ensure all countries feel identified with the project and, at the same time, it keeps an ambitious goal in mind. However, the prolonged schedule for its implementation (at the latest by 2025) is a bit slow, given the urgency of the undertaking. It is vital to make rapid progress in proposals to further EMU with a system of common institutions that improve the economic and fiscal policy of all countries in the euro area and the proposals of the five presidents must be backed politically by the euro area countries' leaders, given that the construction of complete EMU requires strong support from all its constituent member States.


2. Completing Europe's Economic and Monetary Union, report by Jean-Claude Juncker (European Commission), in collaboration with Donald Tusk (European Council), Jeroen Dijsselbloem (Eurogroup), Mario Draghi (ECB) and Martin Schulz (European Parliament), published on 22 June 2015.

Tags
European Central Bank (ECB)
European governance
European integration
Banking regulations and supervision
European Union