

Taking our Economic and Monetary Union forward

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In the debate about the future of Europe's Economic and Monetary Union (EMU), it is important to strike the right balance between ambition on the one hand and realism and pragmatism on the other. The Five Presidents' Report tries to do so. Over the last years, significant steps have been taken to put EMU on a more stable foundation. We have, for example, moved banking supervision to the European level, strengthened the EU's economic governance framework and, with the European Stability Mechanism, created a powerful financial firewall. These were major achievements. There is no need to belittle them. However, it is also clear that the fundamental difficulty with our monetary union remains. There is one monetary policy in the euro area, but 19 sovereign economic policies that are subject to coordination; the euro area is not a federation and is unlikely to become one any time soon. We need to tackle the challenges this set-up poses and show ambition in addressing them. Yet, in doing so, we also need to be realistic. Steps that are necessary theoretically and appealing intellectually are often not possible politically, at least not in the European Union we live in today. Rather than giving false impressions or creating too high expectations, we should be honest about this.

Likewise, in drawing up the Five Presidents' Report, it has been important not to transform the debate on the future of EMU into a premature debate about Treaty change. To be clear, over the longer term, EMU might benefit from institutional changes that would require Treaty change. The report refers, for instance, to a binding process of convergence "towards similarly resilient economic structures throughout the euro area". This would eventually imply the sharing of sovereignty over policies of common concern. However, we should not put the cart before the horse. Before we start considering opening the Treaties, there needs to be at least broad agreement among the euro area countries on what a new institutional arrangement would look like. This is why the report, while giving a sense of direction for the future of EMU, puts a lot of emphasis on short-term measures that can be implemented under the current Treaty.

¹ The views expressed herein are solely those of the author and do not necessarily reflect the views of the President of the European Council or of the Council.

Progress on deepening EMU needs to be made on many fronts. However, if I had to single out just one element from the report by the five Presidents, I would choose the completion of the banking union as the key priority. The crisis taught us that, for the euro area countries and monetary union as a whole to be resilient, Europe needs a financial architecture that further weakens the dependency of banks on sovereigns and vice versa. It goes without saying that the most immediate priority needs to be the transposition and implementation of what has already been agreed. All Member States have to transpose the directives on bank recovery and resolution and deposit guarantee schemes, respectively, and properly implement them. The Single Resolution Fund needs an adequate bridge financing mechanism until the fund itself has the necessary capital and a credible common backstop. Yet, we must also start constructing the third pillar of our banking union, a common European insurance for bank deposits. Concerns regarding a mutualisation of risks stemming from diverging national policies that impact on banks' equity cannot be an excuse for inaction. Rather, they should spur the ongoing work on reducing the risks in national banking systems and establishing a real level playing field for banks.