



25 April 2013

## ECONOMIC GOVERNANCE AND THE EURO

### KEY MESSAGES

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- 1 Safeguarding and strengthening the Euro is fundamental to the future economic prosperity and social cohesion of our continent.
- 2 The Council must agree a specific and time-bound roadmap for further strengthening the Euro drawing on President Van Rompuy's report "Towards a genuine economic and monetary union" and the Communication from the European Commission "A blueprint for a deep and genuine economic and monetary union: launching a European Debate". Agreement on such roadmaps can have an immediate impact in strengthening confidence.
- 3 The implementation of long overdue structural reforms in Member States economies is needed to improve fiscal sustainability and competitiveness and underpin the long-term credibility of the euro. The EU's role in ensuring that structural reforms are implemented should be enhanced.

### WHAT DOES BUSINESSEUROPE AIM FOR?

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- Structural reforms: Member States need to continue to deliver structural reforms and fiscal consolidation. Further measures are still required to enhance the EU's role in ensuring that Member States develop and implement ambitious structural reform plans, especially as regards making the obligations under the Euro Plus Pact and the Council's country-specific recommendations more enforceable.
- European Semester: We welcome efforts to strengthen this process, with the Commission providing ambitious Country Specific Recommendations and the ECOFIN Council continuing to play a leading role in finalising them and ensuring their implementation.
- Stability and Growth Pact: The full implementation of the six legislative agreements on economic governance is essential. The strengthened Stability and



Growth Pact (SGP) is built on the crucial foundations of early prevention, greater surveillance of fiscal and macroeconomic imbalances, and a more automatic decision-making process in the Council. Moreover, we need a swift agreement on the two-pack. It should focus on strengthening Commission surveillance of national budgetary and economic policy and further economic policy coordination.

- *Euro area banking union*: We support greater integration of financial markets in Europe and measures to break the negative feedback loop between the financing of banks and government, which has reduced confidence in the financial system, increased segmentation of financial services across national borders and raised financing costs for many well run businesses across Europe. The new mechanisms must nevertheless be carefully tailored in a way that maintains affordable access to finance in avoiding excessive costs for banks or undue costs between banks.
  - *Single supervisory mechanism (SSM)*: A strong and efficient SSM should be created in a determined as well as in an orderly manner to allow banks to be recapitalized directly through the ESM. As the EU is one market, the SSM needs to ensure equal treatment and representation for non-Euro-area Member States wanting to take part in the SSM, while at the same time ensuring full access to the single market in financial services is maintained for all EU Member States. We support the ECB having proper backstop supervisory powers over all banks established in participating Member States whilst ensuring that day-to-day responsibility for smaller banks is delegated to national authorities. Furthermore, a clear and effective separation of the ECB's supervisory function from the monetary policy is crucial for the credibility of the SSM.
  - *Single resolution framework*: The Euro Area, in particular, also needs a single bank resolution framework which can both increase confidence and be more effective in ensuring a healthy structure to the financial system. Such a bank resolution framework should be defined in a way which avoids moral hazard and incentivizes banks to adopt responsible risk profiles.
  - *Deposits guarantee*: Recognizing the importance of credibly guaranteed deposits, which take into account the issue of moral hazard, the European business community welcomes the progress made in the negotiation of the current proposal on deposit guarantee in EU 27. National deposit guarantee schemes need to be strengthened in the first place. In the longer-term, careful co-ordination of resources between euro area members may further enhance the credibility of such schemes.
- *European Central Bank*: We welcome the ECB's 'Outright Monetary Transactions' programme, noting the importance that any bond purchases are conditional upon Member States' commitment to appropriate specific reforms. This scheme can play an important role in supporting financial stability and reducing fragmentation in Euro Area financial markets.



- European Stability Mechanism: The ESM provides a long-term crisis mechanism scheme for the euro area. By ensuring that lending is conditional on a credible adjustment plan, if necessary requiring orderly debt restructuring, financial markets will play an enhanced role in disciplining future government borrowing. We believe the ESM should be further developed into a politically independent European Monetary Fund open to all EU members.
- Euro area fiscal capacity: The development of a 'limited Euro area fiscal capacity', (alternatively described as a 'solidarity mechanism') can, when linked to contractual arrangements, be a means of strengthening the EU's role in encouraging structural reforms and fiscal consolidation, provided it does not lead to an increase in the overall tax burden in the Euro area.
- Eurobonds: 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, adoption of a joint European debt instrument, such as Eurobonds, may be a long-term aspiration.
- Democratic control and legitimacy: Increased transparency and accountability can enhance the legitimacy of EU decision-making. Greater fiscal and economic integration needs to be complemented by stronger mechanisms for democratic control and accountability at both EU and national level.