BUSINESSEUROPE

THE PRESIDENT

Mr Jean-Claude Juncker
President
European Commission
Rue de la Loi 200
BE – 1049 Brussels
BELGIUM

27 November 2017

Dear President Juncker,

Recent months have seen the EU recovery gaining strength, with our latest forecast released this month showing businesses expect growth of 2.3% this year and 2.1% in 2018.

But ensuring that the recovery is long-lasting and sustainable requires further reforms to strengthen investment and business confidence. Business investment requires a safe and predictable environment based on a well-functioning EMU. This is why completing EMU and strengthening trust in the euro is a priority for business.

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 have welcomed the Commission's thoughtful and wide-ranging reflection paper on deepening EMU which has prompted an important discussion in a number of member states and was supported by more concrete proposals in President Juncker's State of the Union Address. **It is essential that the Commission now builds on the political momentum, and sets out a full road map in December outlining the measures it believes necessary to strengthen EMU, with a clear and specific timetable for action.**

We believe the following objectives must be a priority for EMU deepening:

- **EMU must deliver convergence towards strong growth rates in all member states.** We must reinforce the European Semester's role in increasing growth, competitiveness and convergence through ensuring 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. 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.

- **The efficiency of the fiscal rules must be improved, with governments encouraged to pay more attention to the quality and composition of their public finances.** 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. But it is also essential that the SGP gives the fullest support possible to member states who wish to orientate their budgets towards investment and growth-supporting expenditure.

- **A full banking union must be put in place**, with rapid agreement and implementation of an EU deposit insurance scheme, 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, further asset quality reviews of all banks are necessary before establishing a common system. **Implementation of a comprehensive Capital Markets** Union which improves companies' access to diversified funding sources can also reinforce the resilience of the Euro Area to asymmetric shocks.

In addition, President Juncker's State of the Union address has highlighted a number of areas where more detailed proposals are to be put forward:

- **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. Within such a context, the proposal to combine the two separate roles of Commissioner and Eurogroup/Ecofin chair into a single position merits further examination.

- **A stabilisation function for the Euro Area:** 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.**

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- **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 would further strengthen it and would be an important step towards increasing democratic and political accountability. However, the expertise and support of the IMF is still decisive to develop, implement and monitor comprehensive assistance programmes. We look forward to the Commission's December proposals providing a clear explanation of what is being envisaged by such a transformation, including the powers, financing and governance structure of the new fund.

- **Development of a European 'Safe Asset':** We agree with the observations in the Commission reflection paper that the euro area does not have a 'safe' asset on a par with US treasuries. We also share the Commission's view that the development of a European safe asset can lead to a diversification of assets held by banks, improve liquidity and mitigate the interconnection between banks and sovereigns. The EU should examine how, particularly the regulatory framework may support financial markets in developing such 'safe' assets, both for government and commercial debt, for example, through encouraging greater securitisation.

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. We believe 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.

I am copying this letter to Presidents Draghi, Tusk, Tajani and Dijsselbloem, as well as Commission Vice-Presidents Dombrovskis and Katainen, and Commissioner Moscovici.

Yours sincerely,

Emma Marcegaglia