

Deepening the EMU



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We need to accelerate our efforts to create a fiscal capacity

Since the European leaders started dreaming of the project of a Monetary Union, back in the 20th century, much has been achieved in the EU: not only have we created the common currency, but we have also leaped forward in deepening our monetary, financial and economic system, improving its instruments and architecture, notably with the establishment of a Banking Union, as one of the elements of response to the harshest economic and financial crisis in the last 60 years.

Much has been achieved, but we must advance further. Europe is still facing major challenges and we must make sure that the euro area is well prepared for downturns. This compels us to further strengthen our common structures and to make them more efficient, more resilient and more beneficial to our citizens. For the project to work, there is a need to complete financial integration and to create a common fiscal capacity as an instrument for stabilization.

To achieve financial integration, it is fundamental to conclude the Banking Union and to boost the Capitals Market Union. The Banking Union is already well underway, with banking supervision and resolution carried out at the European level, but it will not be

completed if deposit protection remains purely national. The Common Deposit Insurance Scheme is indispensable to break effectively the links between bank failures and sovereigns. To foster the Capital Markets Union, it is of the utmost importance to remove investment barriers along national borders. Creating a large and liquid capital market in Europe will contribute to achieving a more diversified and resilient financial system and reinforce financial stability. It will channel high levels of savings and resources towards productive uses in the economy, notably towards SMEs, to create wealth and employment for our citizens. This project is ever more compelling now that Brexit is around the corner.

On the top of this progress, we must not lose sight of the final objective of completing the Economic and Monetary Union: shared prosperity and economic and social convergence. For this purpose, we need a common fiscal capacity. We all agree that national fiscal stabilizers are the first line of defense in case of normal economic fluctuations. But as we have seen during the crisis, in case of a significant shock, national stabilizers need to be complemented by a stabilization function for the euro area as a whole. The common fiscal capacity can take many forms, such as, a euro area budget to support investment downturns or an Unemployment European Fund.

One of the worst legacies of the crisis is the increased inequality and poverty that has hit many Europeans, especially the young. Unemployment, but also poor salaries and unfair labour conditions, remain an issue that we must tackle before they become structural to our system. It is important not only for social reasons but also to ensure long term sustainability. These problems affect the Union as a whole and must, therefore, be faced together by all of us.

Protection against permanent fiscal transfers is of course very important. But it should not be used as an excuse to postpone the creation of the fiscal capacity forever. The restoration of national fiscal buffers and the creation of the central fiscal stabilization could advance in parallel. The move towards a common fiscal stabilization function could be subject to conditional criteria.

Let me conclude by underlining that the trend of divergence of the European economies during the crisis is now being reversed as a result of the determined response to strengthen the functioning of the euro. Once again, further integration has been the answer to our most recent problems, as when the founding members of the European Union decided to overcome our differences by creating a shared space of economic and social cooperation in Europe. There is an urgent need to accelerate the completion of financial integration and the creation of the common fiscal capacity. By December, Leaders should be presented with a comprehensive package for a financially stable and resilient Economic and Monetary Union. We need to ensure that when the next shock strikes, the Monetary Union will have sufficient mechanisms to counter it and that the European Union progresses towards economic and social long term sustainability. ●