European Committee of the Regions

ECON-VI/025

126th plenary session − 30 November and 1 December 2017

OPINION

Reflection Paper on the Deepening of the Economic and Monetary Union by 2025

THE EUROPEAN COMMITTEE OF THE REGIONS

– supports a convergence strategy that would complement existing European policies to strengthen economic, social and territorial cohesion and build on the following proposals: i) creating euro area fiscal capacity, including preparations for accession to the euro area, to establish incentives to promote social and macroeconomic convergence; ii.) turning part of the European Stability Mechanism (ESM) into an integrated non-monetary European instrument; iii) establishing a convergence code supplemented by a system of incentives for structural reforms, the scope of which would be defined according to their European added value;
– is opposed to euro area fiscal capacity being made a euro area budget heading in the EU budget while the own resources ceiling remains fixed at 1.23% of EU GNI. In this scenario the amount of capacity would be completely inadequate for providing aid for structural reforms, playing a stabilising role, acting as a backstop for the Banking Union and serving as an instrument for pre-accession assistance for Member States not using the euro. There would also be a risk of a crowding out effect on EU policy financing such as the ESIF;
– calls for genuine democratic involvement of the European Parliament and consultation of the CoR and the social partners prior to adopting country-specific recommendations under the European Semester;
– considers that the February 2016 Council agreement on flexible application of the Stability and Growth Pact (SGP) should also be confirmed in EU primary law. The CoR reiterates, in this context, its calls for public investment by local and regional authorities and ESIF co-financing not to be included in structural expenditure.

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Rapporteur

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Reference document

Reflection Paper on the Deepening of the Economic and Monetary Union
COM(2017) 291 final

Opinion of the European Committee of the Regions – Reflection paper on the deepening of the Economic and Monetary Union (EMU) by 2025

THE EUROPEAN COMMITTEE OF THE REGIONS

1. considers that the lack of convergence and cohesion within the European Union and economic and banking vulnerabilities – which have a particular impact on local authorities owing to the rise in social expenditure caused by the crisis and their shrinking capacity to invest in and maintain public services of satisfactory quality – call for the structural deficiencies of the Economic and Monetary Union (EMU) to be very swiftly remedied before any further crisis;

2. calls, therefore, for real progress to be made in improving the EMU, through a focus on strengthening resilience to economic and social shocks and on support for convergence between economies that takes account of the role of local and regional authorities. The future steps for the EMU should be planned in several stages between now and 2025, identifying steps which can be taken immediately without changes to the Treaties and those which, beginning with the transposition of the Fiscal Compact into primary law, require Treaty amendment;

3. moreover, welcomes the fact that the reflection paper identifies the EMU as one of the priority issues that will drive the public debate on the future of Europe[1]. Although 73% of citizens in the euro area and 60% of those in the EU are in favour of EMU[2], this support for the shared asset that the Euro has become goes hand in hand with a strong demand for reform within the area[3], with the aim of making it a strong and stable currency and in order to lay the foundations for genuine democratic governance of economic and monetary policy. The CoR therefore believes that EMU reform should be one of the priority areas for the decentralised democratic fora that could meet in the regions and cities of Europe from 2018 to involve the public in the EU reform process;

4. regrets, however, that the financial and economic urgency of remedying the euro area's original shortcomings has not been granted sufficient recognition in the reflection paper. The current upturn in growth in the EU is underpinned by the short-term support provided by the European Central Bank's (ECB) monetary policy, which, since 2008, has made it possible to reduce interest payments by public authorities by EUR 1 trillion and to keep interests rates particularly low in many Member States. However, the public authorities and financial actors in the euro area must prepare for a gradual reduction in the ECB's monetary support policy and a rise in long-term rates. At the same time, the EU finds itself at a point where the strategic relevance of the euro area needs to be reaffirmed through demonstrable economic added value;

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1 Following a CoR resolution on The European Commission White Paper on the future of Europe – Reflections and scenarios for the EU27 by 2025 adopted on 12 May 2017, the CoR launched a consultation on the reflection process and will draw conclusions from this consultation in an opinion to be adopted in mid-2018.

2 See pages 34 and 35 of the Standard Eurobarometer 87, spring 2017.

3 See eupinions #2016/4: "A European Finance Minister with Budget Autonomy?" Need for reforms of the Eurozone and their potential, given public opinion in Europe, Bertelsmann Stiftung.

5. notes, furthermore, that the majority of the specific proposals put forward in the reflection paper concern measures relating to the capital markets and the banking union already launched, such as the establishment of a European Deposit Insurance Scheme (EDIS). It is hoped that an agreement will be reached on this before the end of 2019 with a view to implementation in 2025. The CoR regrets that, in contrast, issues relating to the EMU have been relegated to the end of the reflection paper and that only options have been put forward, not specific proposals that the Commission has committed itself to. As a result, the reflection paper contains few new elements, in comparison with the Four Presidents' Report (December 2012) and the Five Presidents' Report (June 2015)[4], as well as numerous European Parliament resolutions, including that of 16 February 2017 on a budgetary capacity for the euro area;

6. considers it a priority to boost structural growth in each Member State and to support the creation of conditions for convergence within the euro area, to make it more resilient to shocks caused by any future financial crises; Indeed, it should be noted that the growth rates in different Member States have converged overall, but that their per capita income levels still differ greatly. The EU is also suffering from a lack of competitiveness in many economic sectors, a lack of domestic demand, and low levels of both private and public investment. At the same time, it is worrying to note that, ultimately, the real economy seems to benefit very little from monetary policy, insofar as the productive capital stock is stagnating, while financial and property values are increasing at a disproportionate rate;

7. therefore supports a convergence strategy that would complement existing European policies to strengthen economic, social and territorial cohesion and build on the following proposals:

7.1 creating euro area fiscal capacity, including preparations for accession to the euro area, to establish incentives to promote social and macroeconomic convergence and resilience in the face of globalisation; In this context, the CoR stresses that more attention needs to be paid to the role of local and regional authorities in fiscal matters and, in this regard, highlights that many local and regional authorities already have fiscal powers. Proposals at EU level should therefore respect those powers;

7.2 turning part of the European Stability Mechanism (ESM) into an integrated non-monetary European instrument under the responsibility of the European institutions with a clearly defined mandate which would have borrowing and lending capacity of EUR 100 to EUR 200 billion, to allow for short- and medium-term interventions in the event of a sudden financial crisis and asymmetric shocks;

7.3 establishing a convergence code supplemented by a system of incentives for structural reforms, the scope of which would be defined according to their European added value and could include for example fiscal convergence and measures to make the labour market more dynamic in the area of training, digitisation and consolidated social cohesion, taking into account in particular the challenges linked to demographic change. In this context, the CoR draws the attention to the fact that technical assistance can already be supported through the Structural Reform Support Programme (SRSP);

4 http://www.consilium.europa.eu/en/policies/emu-report-2015/.

8. in view of the above, reiterates its call:
   - for any national, regional or local co-financing in relation to the European Structural and Investment Funds to be excluded from the accounting mechanism of the SGP, as is already the case for contributions to the European Fund for Strategic Investments;
   - for an EU-level typology to be introduced for the quality of public investment in the accounts of public expenditure according to its long-term effects;
   - for a review of the methodology for calculating the "structural deficit" in order to take account of the intrinsic characteristics of national economies and of the structural differences of public expenditure;
   - for an indicator relating to the investment rate to be included in the macroeconomic scoreboard;

9. calls for genuine democratic involvement of the European Parliament and consultation of the CoR and the social partners prior to adopting country-specific recommendations under the European Semester, particularly to ensure that they are in line with the principle of subsidiarity and have not been put forward on the basis of potential macro-economic imbalances derived from national figures alone without considering if they are appropriate at regional and/or local level;

10. calls for the euro area itself to operate more democratically, with the European Parliament and national parliaments playing a greater role, particularly in terms of supervising the ESM and its future extension to a European fund. The CoR rejects, however, the idea of creating new parliamentary bodies, bearing in mind that the European Parliament is already the parliament of the euro area, as according to the Treaties the euro is the common currency of the European Union. On the other hand, in time and, if appropriate, as part of a revision of the Treaty on the Functioning of the European Union (TFEU), voting procedures similar to that provided for in Article 138 TFEU concerning the Council could be adapted in the European Parliament in order to cater for the fact that MEPs can be elected in countries that are not members of the euro area;

11. supports the merging of the functions of the President of the Eurogroup and the Commissioner for Economic and Monetary Affairs, in order to represent the general interest of the euro area within the Eurogroup;

12. emphasises the need for the Eurogroup to have formal operating rules that boost its transparency;

13. stresses the fact that, in line with the roadmap set out by the European Council in December 2012, EMU must be accompanied by a genuine social pillar in order to raise employment and upwardly harmonised social standards to the status of macro-economic priorities[5];

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5 See the CoR opinion on the Communication from the Commission – Strengthening the social dimension of the EMU, COM(2013) 690, drafted by Jean-Louis Destans (FR/PES), adopted on 31 January 2014, ECOS-V-050. The CoR will also adopt an opinion drafted by Mauro D'Attis (IT/EPP) on the Proposal for an Interinstitutional Proclamation on the European Pillar of Social Rights and Reflection paper on the social dimension of Europe, SEDEC-VI/027, on 11 or 12 October 2017.

14. suggests adding a fifth principle addressing contribution to sustainable development and to the implementation of the objectives of the Paris Climate Conference to the four guiding principles proposed by the Commission on deepening the EMU;

15. also reiterates its belief that the size of the current EU budget – only 1% of GDP – is insufficient to produce a countercyclical macroeconomic effect at EU level. The CoR stresses, however, that the European Structural and Investment Funds (ESIF) – despite their relatively modest size (0.37% of EU gross national income (GNI)) – are an important tool for boosting local investment and helping to bring about convergence between the economies of the future 27 EU Member States; therefore calls for cohesion policy post-2020 to have sufficient resources, equivalent to at least one third of the future EU budget;

16. highlights the need to support the post-2020 EU Multiannual Financial Framework with new types of own resources[6]. The aim of this proposal should be to improve democratic governance and make the EU budget easier to understand as well as to increase the effectiveness of budgetary management. The new own resources could in particular build on an EU corporate income tax by means of a common consolidated corporate tax base (CCCTB) and EU taxation of profits and/or turnover in the digital economy sector, a tax on financial transactions and a carbon tax to act as an incentive to reduce CO_2 emissions. In line with its Communication of 21 September 2017, the Commission should be making proposals on these by spring 2018;

17. is opposed to euro area fiscal capacity being made a euro area budget heading in the EU budget while the own resources ceiling remains fixed at 1.23% of EU GNI. In fact, incorporating euro area fiscal capacity into the European Union's budget would take it to at most under EUR 30 billion a year, which seems completely inadequate for the role the Commission envisages for it, namely: 1) providing aid for structural reforms; 2) playing a stabilising role; 3) acting as a backstop for the Banking Union; and 4) serving as an instrument for pre-accession assistance for Member States not using the euro. In addition, integrating fiscal capacity into the EU budget could carry the risk of a crowding out effect on EU policy financing such as the ESIF;

18. considers that, before putting in place convergence instruments with a view to Member States joining the euro area, clarification is needed on their scope vis-à-vis the ESIF and, in particular, the Cohesion Fund[7];

19. notes that the reflection paper raises the possibility of strengthening the link between structural reforms and the EU budget in two ways, firstly through a specific fund that aims to encourage Member States to carry out reforms and secondly by linking the disbursement of structural and investment funds (totally or partially) to progress made in implementing practical reforms to promote convergence. Reform implementation would be monitored as part of the European Semester. The CoR, therefore, stresses its opposition to any form of macro-economic conditionality that uses the ESIF as a deterrent or form of punishment. The CoR is also

6 See point 35 of the opinion of 7 February 2017 by Carl Fredrik Graf (SE/EPP) on the Fiscal capacity and automatic stabilisers in the EMU.

7 See point 35 of the opinion of 7 February 2017 by Carl Fredrik Graf (SE/EPP) on the Fiscal capacity and automatic stabilisers in the EMU.

concerned by the fact that during the European Semester process, much greater importance is attached to the reduction of national public deficits, with a view to containing or reducing the high debt/GDP ratio, than to measures to boost growth. Finally, the CoR regrets that the involvement of local and regional authorities in the governance of the European Semester is still very unsatisfactory, although more than three-quarters of the 2017 country-specific recommendations relate to the regions while their implementation relies on subnational levels of government;

20. considers that the February 2016 Council agreement on flexible application of the SGP should also be confirmed in EU primary law. The CoR reiterates, in this context, its calls for public investment by local and regional authorities not to be counted in the structural deficit for the medium term objective (MTO) as defined in the SGP and the Fiscal Compact, and for ESIF co-financing by the Member States and local and regional authorities not to be included in structural expenditure. This co-financing is by definition investment of general European interest and has a proven leverage effect when it comes to fostering economic growth[8];

21. stresses the importance when it comes to completing the Banking Union of taking a coordinated European approach on non-performing loans[9], which accounted for around EUR 1 000 billion at the end of 2016, equivalent to around 6.7% of EU GDP and 5.1% of total bank loans, and regarding which very substantial differences can be found within the EU, with percentages between 1% and 46% across a wide range of economic sectors. The CoR thus expresses its support for the action plan adopted by the Council on 11 July 2017, which aims to resolve the issue of NPLs in the banking sector through a number of initiatives in the field of banking supervision, reform of the insolvency and debt recovery frameworks, development of secondary markets for non-performing loans and restructuring of the banking sector;

22. remains sceptical about the proposal to create securitised financial products to potentially be issued by a commercial entity or institution that would buy a portfolio of euro area sovereign bonds and then issue its own bonds backed by that portfolio (sovereign bond-backed securities or SBBS), akin to US Treasury bonds. Admittedly, such bonds would make it possible to break the link between banks and sovereign borrowers and to de-privilege sovereign bonds, while avoiding debt mutualisation and moral hazard. At the same time, securitisation allows banks to spread financial risk to unregulated financial actors. In addition, SBBS will risk increasing the interest rate differential between government bonds (the "spread") during periods of economic stress.

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8 See points 52 and 54 of the opinion of 8 February 2017 by Markku Markkula (FI-EPP) on Bridging the Investment Gap: How to Tackle the Challenges?

9 NPLs are bank loans that are subject to late repayment or unlikely to be repaid without requiring the sale of collateral. The persistently high levels of non-performing loans are problematic as they are an obstacle to the profitability of banks because of the higher administrative and financing costs for banks. Provisioning needs deplete banks' capital base and the viability of banks with high levels of non-performing loans can be jeopardised.

Brussels, 30 November 2017

The President
of the European Committee of the Regions

Karl-Heinz Lambertz

The Secretary-General
of the European Committee of the Regions

Jiří Buriánek

PROCEDURE

Title	**Reflection Paper on the Deepening of the Economic and Monetary Union by 2025**
References	Reflection Paper on the Deepening of the Economic and Monetary Union by 2025 COM(2017) 291 final
Legal basis	Article 307(4) TFEU
Procedural basis	Rule 41(b)(i) of the Rules of Procedure
Date of Council/EP referral/Date of Commission letter	/
Date of President's decision	11 July 2017
Commission responsible	Commission for Economic Policy
Rapporteur	Christophe Rouillon (FR/PES), Mayor of Coulaines
Analysis	
Discussion in commission	19 September 2017
Date adopted by commission	9 November 2017 in Rovaniemi, Finland
Result of the vote in commission (majority, unanimity)	Majority
Date adopted in plenary	Brussels, 30 November – 1 December 2017
Previous Committee opinions	– Opinion of 11 May 2017 on **Improving the governance of the European Semester: a Code of Conduct for the involvement of local and regional authorities** Rapporteur: Rob Jonkman (NL/ECR) – Opinion of 7 February 2017 on the **Fiscal capacity and automatic stabilisers in the EMU** Rapporteur: Carl Fredrik Graf (SE/PPE) – Opinion of 8 February 2017 on **Bridging the Investment Gap: How to Tackle the Challenges?** Rapporteur: Markku Markkula (FI/EPP) – Opinion of 7 April 2016 on the **Follow-up to the Five Presidents' Report on Completing Europe's EMU** Rapporteur: Paul Lindquist (SE/EPP) – Opinion of 9 July 2015 on **Making the best use of the flexibility within the existing rules of the Stability and Growth Pact** Rapporteur: Olga Zrihen (BE/PES) – Opinion of 3 December 2014 on **Promoting quality of public spending in matters subject to EU action** Rapporteur: Catiuscia Marini (IT/PES)
Date of subsidiarity monitoring consultation	N/A

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