



EUROPEAN COMMISSION

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Towards a genuine economic and monetary union

Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

ECON Committee
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Mme Chair, Honourable Members, Ladies and Gentlemen,

I want to thank you for having initiated this discussion on the deepening of the Economic and Monetary Union, a project on which we have been jointly working on for the past two and a half years – and which will be with us, for sure, for at least two and a half years to come. I believe a profound discussion on these issues makes an appropriate start for what promises to become an exceptionally intensive and busy autumn season.

The EU has in the last few years taken substantial and far-reaching steps to overcome the financial and debt crisis and to improve the governance of EMU. However, tensions in the peripheral sovereign debt markets have intensified over the past year. Continuing financial stress and remaining economic imbalances mean that both the EMU and the future of our citizens' wellbeing remain under pressure.

Further changes to the current EMU architecture are definitely needed to address the weak spots of the original arrangements and to ensure stronger foundations for a sustainable single currency. Action is needed over the short term to contain the crisis, revive growth and unwind imbalances. And this needs to be combined with a long-term vision for EMU and a clear roadmap towards that vision.

Against this background, the June European Council exchanged views on further deepening of the EMU, based on the report "Towards a Genuine Economic and Monetary Union" presented by the President of the European Council, in cooperation with the Presidents of the Commission, Eurogroup and ECB.

The report sets out four essential building blocks for the future of EMU: an integrated financial framework, an integrated budgetary framework, an integrated economic policy framework, and strengthened democratic legitimacy and accountability.

Progress is needed on all these fronts, and the Heads of State or Government gave a mandate to the President of the European Council, in close collaboration with the other three Presidents, to present an interim report by October 2012 and a final report before the end of the year. The interim report, which will be presented to the October European Council, will focus on further measures that could be introduced in the short term. The final report in December will also examine what can be done within the current Treaty framework and which measures would require Treaty changes.

The Member States and the European Parliament will obviously be closely associated to these reflections and consulted during the preparation of the reports. The aim of the consultation process is to generate consensus on what is feasible in the short term and what is desirable in the longer term, in order to arrive at a comprehensive roadmap for the achievement of a genuine Economic and Monetary Union. Essentially, this means completing the rebuilding of the EMU, and thus creating an EMU 2.0.

Ladies and Gentlemen,

The further development of the financial union or banking union should be seen as a top priority in this context. We want to move without delay, and thus in two stages. At the present we are at the first stage: in line with the Euro Summit statement of 29 June, the Commission has been working on a legislative proposal for establishing a Single Supervisory Mechanism (SSM) for euro area banks as a matter of urgency. This will be presented in less than two weeks, in order to be finalised by the end of the year. Agreement on a Single Supervisory Mechanism should clear the way for the ESM to adopt, by a regular decision, a new instrument to enable the direct recapitalisation of banks.

We are convinced that moving the supervision of banks to the European level, as well as the envisaged further steps towards establishing a fully-fledged banking union, are necessary measures to ensure the stability of the integrated European economy and to break the negative feedback loop between sovereigns and banks.

You have just discussed this strand of our work in detail with my colleague Michel Barnier and it was also a subject of your debate with the President of the ECB Mario Draghi, with both of whom I have worked in very close cooperation. If you want to take this as a sign of unity and mutual understanding, I do not mind. Let me yet outline the main elements of our proposal, as it is a cornerstone of our comprehensive crisis response and of the future of EMU and the euro.

The financial system in Europe is highly integrated. As a consequence, there is great potential for financial instability that originates in one country to spill very rapidly over to other countries. The potential for cross-border contagion in crises is even greater for euro area countries.

The Single Supervisory Mechanism will therefore apply to all Euro area Member States, but will be open to the participation of other Member States that wish to embark on a path of deeper integration. In such cases, the member state concerned is expected to make a legal commitment and give assurances that the decisions taken by the ECB will be binding for their national authorities and banks.

The Single Supervisory Mechanism will need to have an ambitious scope as far as the number of banks covered is concerned. As we have seen in recent years, even small banks can be systemic and cause financial turmoil (Northern Rock, Anglo Irish, Bankia). Our approach therefore envisages an ambitious mechanism with a relatively broad coverage, which will oversee all banks in the euro area, with the ECB at the heart of the system.

The ECB will have to be entrusted with the prime responsibility and with key supervisory tasks to ensure efficient and high-quality supervision. National supervisors, who have accumulated experience and developed expertise in prudential supervision, will continue to play an important role in this system.

We will have to ensure that any risk of conflicts of interest in the decision making bodies of the ECB is excluded, in particular by ensuring the separation of supervisory functions from those related to the implementation of monetary policy.

Finally, appropriate mechanisms of democratic accountability must be constructed: for supervisory duties, the responsibility of the ECB must be strengthened, compared to the independence it enjoys as an institution responsible for monetary policy.

The Commission has already proposed legislation that will reinforce the current national systems for deposit guarantee schemes and bank resolution and recovery, and strengthen the capital requirements for banks. These proposals, which will apply to all the 27 Member States, are crucially important, and they should be adopted by the Council and European Parliament as soon as possible.

At the second stage, we must make decisive progress to build a Common Deposit Guarantee Scheme for the protection of depositors, as well as for a single European recovery and resolution framework.

When presenting the legislative proposals for setting up a Single Supervisory Mechanism, we shall also adopt a Communication which sketches out the roadmap towards a fully-fledged banking union.

Honourable Members,

The very high levels of economic and financial interdependence, particularly in the euro area, call for a qualitative move towards a fiscal union, in order to ensure the smoothest possible functioning of the EMU for the benefit of European citizens.

A fiscal union needs to ensure sound budgetary policies at the national and European levels, so as to contribute to sustainable growth and ensure macro-economic stability. It should include effective mechanisms to prevent and correct unsustainable fiscal developments in the Member States. It should also include tools to deal with asymmetric shocks and to help prevent contagion in the euro area.

This could in turn involve coordinated or even common – but limited – debt issuance, as long as the risk sharing is accompanied with commensurate steps towards common decision-making on budgets that safeguard against moral hazard and free-riding.

While we need to be ready for bold steps towards integrated financial, fiscal and economic policies, we should not raise the bar too high – at least in the short term – since this would risk, paradoxically, playing into the hands of those seeking to portray a truly integrated EMU as an impossibility.

Therefore, while we reflect and work on the design of a future EMU, we must at the same time make full use of the existing instruments and toolbox and of the governance framework currently in place, improving them where there is room for improvement.

We can still enhance the governance framework, in particular by completing work on the two-pack. We must introduce new dynamism into the ongoing trilogues to allow us to swiftly reach an agreement that respects the original aim of proposals, notably improving budgetary surveillance and coordination in the euro area.

This includes a timely presentation of Member States' draft budgetary plans ahead of parliamentary adoption and a more efficient framework to ensure the correction of excessive deficits.

Further steps towards integration can be pursued in the longer-run, including stronger fiscal integration, possibly coupled with common debt instruments. But it should be clear that such steps would involve significant further pooling of decision-making and would likely require Treaty changes and corresponding steps to ensure political legitimacy.

Honourable members,

Moving towards more decisions made at European level on financial, fiscal and economic policies requires strong mechanisms to legitimise the decisions taken in common and to ensure the necessary democratic accountability and political participation. This is essential to build public support for European-wide decisions that have a far reaching impact on the everyday lives of citizens. Citizens should not only be able to enjoy the benefits in terms of more stability and prosperity but also feel more ownership of the policy processes.

The Economic Dialogue introduced by the Six-Pack is a new inter-institutional instrument ensuring a forum for democratic accountability in the area of economic policy coordination. A potentially far-reaching aspect of the six-pack are the innovative provisions which allow the Parliament to conduct Economic Dialogues with individual Member States, in particular when they are in breach EU rules. These provisions allow for a national government to be held to account in public at the European level for any failure to respect their European obligations.

But the Economic Dialogue with the European Parliament is probably not enough to respond to broader questions about the democratic accountability of "Brussels" towards European citizens. There also needs to be more and closer co-operation between national parliaments and the European Parliament.

In this context, let me also draw your attention to one of the important proposals within the two-pack. It is the possibility for the Commission to be invited by national parliaments to explain its position on national budgets. Future legislation (for example on ex ante economic policy co-ordination) could include similar provisions.

Ladies and Gentlemen,

Let me conclude with a few observations of more general nature.

I find it positive and important that the needed serious debate on the future of the euro has now begun. Most participants in the debate agree that deeper integration is a central part of that vision. Most agree that this needs to be accompanied by stronger democratic legitimacy and accountability of decision-making.

I believe that in moving ahead with our common vision, Europeans will not and cannot be divided into winners and losers. Either we all win together or we all lose together. If the impression gains ground that undue advantages are gained by some at the expense of others, the result will not be politically sustainable. We are already seeing some worrying signs of such sentiments.

In this context, we need bridge-building to cross these different views and perceptions. They need to be replaced by a common vision towards a genuine and effective economic and financial union, backed by strong democratic accountability. That is a vision to build a true stability union of responsibility and solidarity, capable of enabling sustainable growth and job creation.

Dear Members of the ECON committee, your contribution to this debate and vision will be crucial, for the benefit of Europe and its citizens.