# "THE INTERIM REPORT ON THE EMU IS ENCOURAGING"

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António Vitorino discusses the issues on the European Council agenda for 18-19 October 2012, addressing in particular the progress made to date in the projects for budgetary, banking, economic and political union.

## 1. The European Council will be examining the interim report on "economic and monetary union" put together by Herman Van Rompuy and the other three presidents. What do you think of this report?

The road map that Herman Van Rompuy and the other three presidents submitted in June is very ambitious because it suggests either instituting or strengthening four types of union: "budgetary", "banking", "economic" and "political" union. Thus the upcoming European Council meeting will be useful if it allows us not to reach a final goal on these four points so much as to clarify a few of the key issues ahead of the final report, which is due to be submitted in December, on the basis of the suggestions contained in the interim report.

Where budgetary union is concerned, the interim report usefully reminds us of what has been done where budgetary discipline is concerned , albeit while recognising that "it is not sufficient". It recalls the need to institute a "different kind of budgetary solidarity" to enable countries to better absorb asymmetric shocks, while linking this solidarity to the implementation of structural reforms.

It is a welcome development to see the interim report suggesting the issue of common debt or the establishment of an anticyclical stabilisation tool at the EMU level, as proposed by the Tommaso Padoa-Schioppa Group[1]. This, because such a tool would make it possible to support the EMU countries when they are going through a rough spell in terms of their potential growth or of their average unemployment rate, without waiting for them to be in such an acutely critical situation as to force them to resort to the European Stability Mechanism. The European Council meeting in November, which is devoted to the "multiannual financial framework" after 2013, offers a good opportunity to debate the issue in greater depth, so as to reach agreement not only on the content of the EU27 budget but also on the outlines of a specific euro-zone budget, which would have to focus of necessity on objectives designed to stabilise the EMU.

## 2. What do you think of the interim report's proposals concerning "economic union" and "political union"?

Where economic union is concerned, the June report spoke vaguely about the need to strengthen the coordination of economic policies within the euro zone. The interim report usefully reminds us that this should be achieved in the context of the "European semester" and taking advantage of the imminent implementation of the TSCG and of the "euro plus pact". It also suggests contractual arrangements between the EU and the member states, which should be supported through "financial incentives": this is certainly a welcome and fruitful solution worth examining since otherwise the EU might not go very far beyond the limits of the open method of coordination.

And lastly, where the issue of "political union" is concerned, there appears to be a consensus on the need to assign a stronger role both to the European Parliament and to the national parliaments in exercising democratic supervision over the major decisions regarding the EMU. But in addition to this parliamentary involvement, what I would like to see above all is the heads of state and government leaders specifying what the expression "political union" actually covers, because it has so many different potential interpretations that the European Council back in June and the interim report do not even dare to use it! What we need to avoid is the expression "political union" making us waste years in sterile debating – as happened, for instance, over the term "economic governance" – simply because it is interpreted in a different way in different countries…

### 3. Back in June you suggested that the situation in Spain was going to "lead us to banking union"[2]: do you think that the European Council is going to confirm that trend?

The European Council on 28 and 29 June this year said that "banking union" is one of the crucial pillars of the economic and monetary union's good health: sure enough, it is the only thing that will make it possible to break the vicious circle binding the sovereign debt crisis to the bank crisis, a bond which is particularly strong in a country such as Spain. This "banking union" plan is essential in order to lastingly restore the euro zone's stability and credibility, as the IMF[3], for instance, has recently pointed out.

At this juncture, it is a matter of adopting the Commission's recent proposals favouring a europeanisation the "banking supervision": they clearly assign new powers to the ECB, whose task – acting in conjunction with national supervision bodies – is to monitor the 6,000 banks in the euro zone. This, because the crisis in Spain has clearly shown us that so-called "small" banks can destabilise the entire financial system just as easily.

I also notice that no decisive impulse has yet been given to set up a European system of banking deposits or of banking resolution funds: the interim report remains rather cautious on these two aspects.

It is not certain that the member states will fully subscribe to the banking union project as a whole, because we cannot deny its exceptional nature. And in saying that, I am not only referring to the countries in difficulty but also to such countries as Germany and Austria, where the authorities do not necessarily want to see the ECB monitoring their banks. In fact it is all the more uncertain because, in the wake of the ECB's recent moves on the markets, borrowing rates in the countries in trouble have begun to drop and this calming of the markets may well reduce the pressure to take action.

But whatever the case, the ECB must take the time to get organised so that it can perform the task of prudential supervision about to be conferred on it properly. For now I think it is important to stick to the major principles adopted during the European Council in June 2012 and to get started on the gradual establishment of the "European banking union" which, regardless of individual details, must be unanimously implemented in the medium term.

### 4. Do you think that the European Council should issue a specific signal to Greece?

The European Council is naturally going to await the Troika's report on the progress being made in the sphere of reforms in Greece, but that report is unlikely to be available this month. Yet we can see that the three parties in the Greek coalition government have agreed on a new adjustment plan, which will come in addition to the stringent measures already implemented. We should remember that Greece has lost 20% of its GDP since 2008 and that the Greek people have made a huge effort, yet without achieving any particularly brilliant results for the time being. So the time has come to show understanding when we grant the next aid instalment worth 31.5 billion euro, without which Greece will no longer be able to honour its commitments as of the end of November: if the reforms are to continue, we are going to have to consider reviewing the planned duration of its adjustment programme, while taking care to preserve the euro zone in its current configuration.

I would add that it is just as important for a clear political signal to be addressed to the citizens of the countries displaying solidarity with them, in order to attenuate the current lack of symmetry between underestimation of the efforts being made in the "countries benefiting from aid programmes" and overestimation of the costs linked to the "recovery plans". The countries showing solidarity have provided guarantees, loans and capital sums: they have certainly not "given" money away without any hope of ever seeing it again, and thanks to this crisis they even sometimes benefit from the very low level of their own borrowing rates on the money markets. Those countries' leaders have agreed to display solidarity because they know that the costs it entails are relatively low compared to the costs that the hypothetical collapse of the euro zone would involve. If the European Council is incapable of delivering such a message, then at least one or other of its members should do so in their own country!

### 5. Do you think that the European Council could or should commit to the creation of institutions specific to the euro zone?

First of all, I note that the current crisis has already made it possible to engineer a very useful adjustment of the euro zone's institutional framework. We have just witnessed the launch of the ESM, which is going make it possible from now on to help countries and banks in difficulty in return for increased supervision on Europe's part. We also have "euro-zone summits" which have a stable president and which can take decisions in times of crisis and define the broad guidelines to be followed. Yet several aspects of the euro zone's institutional architecture continue to be elusive.

The ECB, which is already adopting an extremely proactive stance in this crisis, must now implement a clear, internal division of tasks between its traditional monetary functions and the new prudential functions that it now has to perform. By the same token, the ECB should also be tasked with applying the prudential measures defined at the EU27 level, albeit with most of the job being delegated to the national supervisors under Frankfurt's watchful eye.

We also need to start addressing the partial mutualisation of national debts on the basis of two distinct timeframes. In the short term we are going to need mutualisation mechanisms based on the accumulated debt stock, for which it would be sufficient to adopt a "special vehicle" based on the "redemption fund" as proposed by the German "Council of Wise Men" and mentioned in the interim report of Herman Van Rompuy. In the medium term, on the other hand, the common issue of new debt requires the establishment of a "European debt agency", which would represent a major step forward for the euro zone in both symbolic and operational terms.

And lastly, we need to strengthen the democratic aspects of the way in which the EU monitors the implementation of national economic and budgetary policies. The "fiscal compact" provides for growing involvement on national parliaments' part, but the nature of that involvement has yet to be specified. For instance, one might envisage setting up a "parliamentary committee for the euro zone", which would also include European parliamentarians among its members.

Of course, we need to ensure that all of these new institutional developments are based on a clear linkage between the EU17 and the EU27. It is very positive that the "fiscal compact" is being adopted and ratified by the countries outside the euro zone, and indeed also the "euro plus pact" on competitiveness. It is also positive that the ECB should have to apply the measures devised by the European Banking Agency when acting in the sphere of prudential supervision.

## 6. The European Council's agenda also includes an examination of the most important "strategic partnerships". What is your view of the progress made to date in that connection?

Catherine Ashton said in the spring of 2010 that the strengthening of strategic partnerships was to be one of her priorities. These partnerships are the perfect vehicle for fully demonstrating the usefulness of the European External Action Service (EEAS), which is tasked by the Lisbon Treaty with ensuring consistency among the EU's various external action tools and policies. Yet we have no choice today but to note that, far from providing a long-term road map, these "strategic partnerships" basically just contribute to preparing the bilateral summits between the EU and China, the EU and Russia and so on...

Thus the dialogue set up with the target countries does not appear, at this stage, to be based on a very clear vision of Europe's interests: its action is limited to merely boosting ties that are unquestionably important, yet it is failing to establish strategic relations towards the furtherance of which the EU could then mobilise all of its policies – whether integrated (trade policy) or not (defence policy) – and all of its diplomatic and financial resources.

So unfortunately, it is hardly surprising that the European Council's agenda includes only an "exchange of views" on the issue, without any written conclusions. Yet we really do need to beware of the demobilisation that such a situation could trigger. Jacques Delors warned, as long ago as when the Maastricht Treaty was being thrashed out, that the development of a "common foreign and security policy" would demand a lengthy incubation, and that it was necessary to focus first on adopting more clearly identified common actions. It is encouraging that the creation of the "EEAS" is prompting the EU to try to move from rhetoric to concrete action with greater frequency, but it will be impossible to achieve anything decisive unless the heads of state and government leaders impart a stronger boost to the service.

1. Tommaso Padoa-Schioppa Group, "Completing the Euro. A road map towards fiscal union in Europe", *Studies and Reports No 92, Notre Europe*, June 2012.
2. "The Spanish situation leads us to the banking union", Interview with António Vitorino ahead of the European Council meeting on 28 and 29 June 2012, *Tribune, Notre Europe*, 26 June 2012.
3. IMF, "Global Financial Stability Report", October 2012.

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