A safer and more prosperous Economic and Monetary Union

ar augmented reality

epp european people's party

Dear Friend,

We look forward to the future and its opportunities; for we are confident that together we will make that future prosperous. And how could we not be confident, since despite an occasionally rocky road, we have created prosperity, stability and a period of peace in Europe by working together over the last 60 years.

The Economic and Monetary Union is a significant part of this success. Often, we Europeans do not take enough credit for what we have achieved. It is time to change this and to proudly say: the EU and the Euro are significant global success stories which we must be proud of.

Our strength comes from continuous work to ensure success in making things work better. And we have many ideas on how to make the Economic and Monetary Union stronger and more prosperous so that everyone can feel its benefits. As Chancellor Merkel once put it, "The Euro is our common fate, and Europe is our common future."

It probably goes without saying, but we the EPP are truly committed to the Euro. It is not only our joint currency, but also the second most important currency in the world. The Euro makes it easier and cheaper to buy and sell products and services to each other. No more standing in queues to exchange money, no more unstable and high interest rates. The Euro also deepens the Single Market, makes us more competitive and helps to create jobs for European citizens.

We must also acknowledge that the last few years have not been easy. But lessons have been learned and weaknesses corrected. Many things have been done already, but we envision much more to come in the future.

This is the difference between the EPP and the populists: we want to make the EU and the Euro perpetually better. Populists only want to complain and destroy.

Please take your time to read our proposals on how to make everyone better off. Policies are not formulated in a vacuum. So get in touch and let us know what you think. We would like to hear from you.

Faithfully yours,

Joseph Daul
President

Jyrki Katainen
Vice-President

We want to change the way our Economic and Monetary Union (EMU) works. We think it can be made to work better for the benefit of our citizens.

We propose multiple reforms as to how to strengthen the EMU. This begins by better explaining it. Discussion of the Economic and Monetary Union rarely lands the front page — though it should. After all, how our EMU functions influences the daily life of every citizen and resident in the Euro area.

> Let's build EMU 2.0 together — for the benefit of every Euro area citizen!

What we are proposing will make everyone's future both safer and more prosperous. The EPP's main goals are simple: safety, fairness and prosperity. We have three policy priorities: 1) the relationship between Euro area members and their domestic banks, 2) the functioning of labour markets and 3) deeper and better functioning Capital Markets. We believe these three issues will determine our future prosperity.

First, we are convinced that separating Euro area members from their domestic banks will make us all safer. We, like many others, find the current situation untenable in the long term. Links between countries and domestic banks make it easier for trouble to spread from one to the other. This is a delicate issue; so we must enact this separation carefully and in a well-coordinated manner in order to safeguard stability. But we will not back down from our overall aim of ensuring that taxpayers never have to bail out banks.

Second, we moved to the Single Currency in the first place in order to increase stability, reduce costs and boost trade. The Euro has delivered on all metrics. But in the absence of Francs, Marks, Guilders, Liras, Pesetas and other old currencies, we need well-functioning labour markets more than ever before. It is crucial that every Member State invest in competitiveness. The flexibility of labour markets is an important aspect of both increasing and retaining competitiveness because it makes responding to changes and adjusting to new economic realities so much quicker. Flexible labour markets make creating new jobs easier.

Third, technology is developing at an amazing speed, and innovative companies seem to go from founder's garage to global champions in an instant. But most new global technology champions have been created in the US — not the EU. We must change that in order to remain at the cutting edge of development. Boosting the availability of risk financing to companies and entrepreneurs is the key to becoming the global champion of innovation.

These are the three focal points of our proposals, but they are not the only ones. In the pages that follow, we lay out numerous other suggestions for increasing safety, fairness and prosperity. Let's build EMU 2.0 together — for the benefit of every Euro area citizen!

> What we are proposing will make everyone's future both safer and more prosperous.

The EPP's vision

Over the last two decades, the European Union has taken major steps to create more prosperity for European citizens. The flagship project has been the Economic and Monetary Union (EMU), which culminated in the launch of the Euro currency on 1 January 1999.

We have taken long strides towards an ever stronger Economic and Monetary Union. But the global financial crisis of 2008 painfully exposed some gaps in the EMU and highlighted our need both to strengthen existing tools and mechanisms as well as to add new ones.

We have already strengthened our Economic and Monetary Union in multiple ways. We have created the Banking Union to make sure we are better prepared for financial adversity. We have created the European Stability Mechanism to showcase that we are a continent built on the principles of solidarity and responsibility: when one Member State faces hardship, the ESM is our mechanism for helping it back on its feet. The requesting Member State's own internal reforms for overcoming economic distress embody our collective commitment to responsibility. The EMU and the ESM represent real, sustained progress. We have achieved a lot. But we know there is much more to be done to secure an ever safer and more prosperous future for our citizens.

> "The EPP's vision on the future of the EMU implies taking steps at both European and national level."

The Five Presidents' Report envisions a three-staged plan for deepening the Economic and Monetary Union. The European People's Party (EPP) builds on the report's proposals and timetable in laying out our vision for a complete and convergent EMU. While the creation of the EMU represented a major step forward for the EU as a whole, it should be acknowledged that, like all great political and economic projects, it was not born ready-made. We envision the Euro area to be joined, ultimately, by the seven Member States currently outside but which have signed up to join in the future as part of the 1992 Maastricht Treaty.

We envision a prosperous Euro area, in which differences between Member States have been erased through convergence and rapid economic growth. Our unequivocal aim is to complete the Economic and Monetary Union by ensuring the following attributes:

Convergence: This is our primary goal. We must speed up the process of convergence through which poorer areas can become more prosperous and catch up with the rest. This must happen both between and within Member States.

Fairness: Risk and reward must go hand in hand. We want to strengthen the Banking Union so that taxpayers' money need not be used to bail out those who have made irresponsible and bad decisions.

Resilience: The EMU must be prepared to withstand and manage economic instabilities, no matter where they might originate. We must make our Union more resilient. We believe this can be done by systematically working on weakening the negative loop between Member States and their banks. In addition, we must have balanced public budgets and strive towards lower public and private indebtedness.

Flexibility: Our Union must be flexible in order to swiftly, and automatically, deal with imbalances. Our labour markets must be such that they can respond quickly to changing situations and help in quickly regaining competitiveness.

The EPP's vision on the future of the EMU implies taking steps at both European and national level. We believe we must reform some of the structures underlying the EMU in order to make it fairer and more resilient. We believe we must strengthen market-based discipline and adjustment mechanisms. Therefore, we focus heavily on the relationship between sovereigns and their banks, on capital markets and the functioning of labour markets. We believe that focusing on these three aspects will benefit our citizens the most.

First, we want to sever the link between sovereigns and their domestic banking sectors. This can be done by discouraging excessive levels of sovereign bonds being held by the domestic banking sector: both by establishing a limit on banks' exposure to sovereign bonds and by determining risk weights on sovereign bonds. We believe these actions would discourage Member-State indebtedness and lead to lower levels of debt.

Second, at EU level, we must strengthen the Banking Union. In the medium term, we want to establish a fiscal backstop for the Single Resolution Fund to ensure it remains credible and adequately resourced in dealing with all possible shocks. But this must happen strictly per the appropriate sequence by reducing risks and banks' sovereign exposure. The same sequence must be followed with regards to building a European Deposit Insurance Scheme.

Third, we want to guarantee the no-bailout rule between Member States. We want to do this through two avenues: first, through clear commitment to the 'no-bailout rule' as enshrined in the Lisbon Treaty; and second, through policy choices that prevent countries and financial institutions from getting into trouble in the first place. We also foresee Collective Action Clauses to be part of the toolkit for dealing with serious trouble in the future. This requires tangible progress on separating banks and sovereigns. We want to be crystal clear that 'the no-bailout rule' should not be confused with solidarity for a Member State facing short term trouble, since in this case offering assistance and support to a fellow Member State and its citizens represents the responsible choice.

Fourth, we want the current rules that govern the EMU to be fully applied, as this is in everyone's interest. All Members must follow the rules; if breaches occur, the European Commission, as guardian of the Treaties, must enforce these rules. We want the rules to be followed to avoid negative spillover effects. Ultimately, we think we must look into technical methodologies underpinning the governing rules with the aim of increasing transparency, counter-cyclicality and the effectiveness of compliance.

> "We must speed up the process of convergence through which poorer areas can become more prosperous and catch up with the rest."

The EPP's long-term vision for bolstering the EMU entails reforms to make our EMU more competitive, flexible and convergent.

First, we suggest joint actions at both EU and national levels to boost labour mobility, which remains low in the Euro area. Further mobility should be encouraged so that more people can find employment. Our approach must be balanced to avoid permanent 'brain drain'.

Second, we insist on finishing the project to complete all Single Markets under construction. Finishing these projects would add well over a trillion Euros to our annual EU GDP, creating millions of new jobs. Thus, it is crucial that obstacles be removed and joint standards and rules created.

> "We want the EMU to be resilient and well-equipped to deal with economic and financial instabilities."

The Capital Markets Union is an especially important Single Market project, since we believe it is one of the best ways to build market-based risk sharing as a way to weaken asymmetric shocks.

Third, we suggest that Member States reform their labour markets to make them more flexible. This will facilitate regaining price competitiveness and increasing participation rates by encouraging decentralized wage-setting mechanisms. We believe that more flexible labour markets benefit everyone by creating more jobs and lowering barriers to (re)enter the labour market.

Fourth, we want to diversify funding sources for companies and increase the amounts of risk financing available in Europe. We believe that the form of financing available is a major determinant of the types of companies we have and the fields in which they operate. We believe we must make Europe a better place for creating radically innovative companies. We believe that by building a stronger, cross-border, private-equity sector in the EU, we best facilitate entrepreneurs creating radically innovative and disruptive new companies, business models and jobs. In order to make the above-mentioned possible, we also suggest clarifying heterogeneous insolvency practices to facilitate more cross-border investments.

Fifth, we want to highlight the European Fund for Strategic Investments (EFSI) as a tool of the EU in order to facilitate convergence and support investments, especially for boosting productivity in less prosperous areas. We insist that it remain a vehicle for public-private collaboration.

1. Resilient and Fair

We want the EMU to be resilient and well-equipped to deal with economic and financial instabilities. It must have all the right rules, tools and institutions in place.

We want to focus on reforming the relationship between Member States and the banks and to make the sector more resilient. We want to introduce reforms in order to introduce more market-based discipline mechanisms, with the aim of defending taxpayers' interests and increasing resiliency to shocks.

Over the last two decades, the European Union has taken major steps to create more prosperity for European citizens. The flagship project has been the Economic and Monetary Union (EMU), which culminated in the launch of the Euro currency on 1 January 1999.

A strong banking sector is needed to support the real economy and to facilitate a prosperous, safe future for all Europeans. At the same time, disentangling sovereigns from their domestic banking sectors is crucial for systemic stability. This is in the interest of our citizens.

1.1 A strong Banking Union — to safeguard taxpayer money

We want to build a fully-fledged Banking Union. Creating a complete Banking Union is absolutely crucial in safeguarding taxpayers' money. We don't accept using taxpayer funds to bail out those who have made irresponsible or bad business decisions. Therefore, the new Bank Restructuring and Recovery Directive (BRRD) must be fully implemented and respected.

Sovereigns and their national banking systems are closely linked through a range of both direct and indirect channels. These include banks' claims on countries, semi-automatic links between countries and bank credit ratings, public fiscal backstops, collateral in banking operations and the effects of fiscal distress on the whole economy — and therefore also the quality of bank loans.

Due to these close interlinkages, problems arising in the banking sector can trigger downward spirals in which increased country risk, banking system difficulties and the deteriorating economic situation spill over and reinforce each other. Throughout history, we have witnessed many cases in which a banking crisis — triggered by the bursting of a real estate bubble — has caused serious difficulties for countries. A similar spiral can also be activated by problems originating from a particular country's actions.

"A strong banking sector is needed to support the real economy and to facilitate a prosperous, safe future for all Europeans. At the same time, disentangling sovereigns from their domestic banking sectors is crucial for systemic stability."

1.2 A strong Banking Union — Exposure limits and sovereign debt risk

Second, we must establish exposure limits and change the rules considering Member States' debt risk weightings within the Basel global regulatory framework. It is important that a solution be found within the Basel framework; this would allow us to proceed in tandem with our international partners. Additionally, it is of crucial importance to carefully manage the process and to have a long transitional period to ensure financial stability. We must also bear in mind the particularities of the Economic and Monetary Union in order to find bespoke solutions that suit our specific needs.

For the time being, sovereign bonds are excluded from rules considering banks' exposure to a single asset class. This has led to a situation in which bank exposure to domestic sovereign debt in the Euro area averaged 118% of banks' own funds at the end of 2013. This means that in case of sovereign default, many banks would be completely wiped out and bankrupted. We must take action to deal with this situation in order to safeguard the well-being of our citizens and the stability of our economies in the long term. In comparison, US banks are exposed at only 14% of their own funds to US treasury bonds. Without question, the process must be carefully managed over an extended period of time to avoid disturbances.

Capital Requirements Directive IV (CRD IV) and Capital Requirements Regulation (CRR) make it possible for sovereign debt to have a zero-risk weighting, which means that debt issued in Euros by Euro area Member States is considered completely risk-free in the EU. Therefore, banks do not need to hold any capital against their sovereign debt holdings. This has led to banks' holding large quantities of sovereign debt in their books; it has also dropped the interest rates for sovereign debt, making it easier for EU Member States to issue more debt than they could if sovereign debt carried higher risk weighting. In addition to large exposure rules on domestic sovereign bonds, we would like to change CRD IV and CRR regarding risk weights.

Having large exposure rules in place would automatically stop developments towards unsustainable levels of exposure. However, since the current average level is 118% of own funds, it will take an extended period of time to bring this level under the current rule of Large Exposure, capping the limit at 25% of own funds. Therefore, we should use risk weights as an interim solution, as this would introduce a necessary incentive for banks to start reducing their exposure.

1.3 A strong Banking Union — Risk reduction and a fiscal backstop to the Banking Union

In order to address this problem of 'banks and countries deadly embrace', certain policies have to be enacted. We must establish a fiscal backstop for the Single Resolution Fund.

This needs to be done in order to ensure that the Banking Union can function in all possible situations. This is important because studies by the European Parliamentary Research Service (EPRS) indicate that even when the Single Resolution Fund will be fully capitalized in 2023, the funds would remain insufficient for dealing with another crisis like that of 2008. Bearing in mind the high costs in terms of lost GDP and unemployment resulting from financial and banking crises, the capacity for swift resolution to any crisis becomes crucial. This is why we need to strengthen the Banking Union by making its resolution arm more credible.

> "We believe that we must keep upholding and defending the no-bailout rule as obliged by the Lisbon Treaty. One Member State's debt cannot become a liability for the others."

However, risk reduction and lessening banks' sovereign exposure are as important as strengthening the available supervision tools and the Banking Union itself.

Therefore, we must proceed strictly per the appropriate sequence to keep the right balance and to avoid moral hazard. A fiscal backstop must thus be preceded by commitment and actions by Member States in order to reduce risk in the banking sector, including the risk associated with high stocks of Non-Performing Loans, and to reduce banks' exposure to their own respective sovereign. In the longer term, the ESM is a potential option as a fiscal backstop, but it is not the only one; further work is required to establish the best possible model.

Measures to make sovereign bonds more risk-sensitive (and the 'no-bail-out clause' more credible) in the Euro area would reduce the supply of safe financial assets, which sovereign bonds typically are. Safe assets are essential to the good functioning of modern financial systems and to the preservation of financial stability, as they are used to price other financial assets and to provide safe and liquid investment options. To preserve sufficient availability, and at the same time promote a diversification of risk by banks, a new common safe asset could be introduced by bundling national sovereign issuances and identifying part of this bundle as being senior, and hence very safe — without the mutualisation of risk, and without joint liability. The specific model needs further reflection and will benefit from ongoing work in academia and in official institutions (e.g. in the ESRB).

1.4 European Deposit Insurance Scheme (EDIS)

A European Deposit Insurance Scheme is the third pillar of the Banking Union. It is extremely important that this be designed in the years to come in such a way as to further weaken the feedback loop between Member States and their banks. This will make the European banking sector more resilient.

The process of implementing EDIS must be carefully crafted, since we insist on risk reduction as a condition for risk sharing. Furthermore, it is crucial that EDIS incentivise responsible behaviour and remain strictly conditional upon following established EU rules.

1.5 Debt restructuring — The 'no-bailout rule'

We believe that we must keep upholding and defending the no-bailout rule as obliged by the Lisbon Treaty. One Member State's debt cannot become a liability for the others. It is crucial, though, that the 'no-bailout rule' not be confused with solidarity between Member States and their citizens whenever a Member State faces trouble. It was right to assist the Member States facing economic crisis in recent years and to help them in overcoming these crises. Offering assistance, support and loans was the right policy for avoiding an even deeper economic, social and political global crisis. But we also believe that if a particular situation is beyond reasonable hope of salvation, orderly default and debt restructuring must be an option.

Collective Action Clauses (CAC) were introduced as part of the European Stability Mechanism Treaty. However, the use of CAC is severely hampered by the close connection between those countries issuing debt and their domestic banks.

> A fiscal backstop must thus be preceded by commitment and actions by Member States in order to reduce risk in the banking sector, including the risk associated with high stocks of Non-Performing Loans, and to reduce banks' exposure to their own respective sovereign.

We envision a Union in which solidarity prevails and other Member States are supported when they face unexpected hardship. But we want this support to be conditional on the implementation, by the Member State in question, of remedial actions and reforms. The support granted by EU Member States or institutions must have the status of senior creditor — and be secured against 'haircuts' since our intention is not to support bailouts. If the situation under consideration is deemed unsustainable, the 'no-bailout rule' must be enforced and the CAC used to return the Member State in question to a sustainable path. We believe this path of action would not destabilise sovereign bond markets but rather make them more rigorous. At the same time, we believe that using CACs would render adjustments swift and allow the Member State in question to implement the reforms and remedial actions needed in order to quickly return to stability.

1.6 European Semester — Strong commitment to structural reforms

Nineteen countries together form the Euro area. We are all in this together as partners. Some national policies have spillover effects on other Member States. Reforms can cause positive spillovers in other countries, whereas irresponsible policies in one country can have a negative influence. Therefore, we must have rules in place which govern the Monetary Union. This is also why we must implement reforms when they are due.

> We envision a Union in which solidarity prevails and other Member States are supported when they face unexpected hardship.

In a globalised world with international supply chains, competitiveness and structural reforms to increase productivity are the keys to prosperity. In modern times, there are no longer shortcuts through exchange rate manipulation. Structural reforms are integral in always striving towards the most efficient public services, and towards political and economic structures that support growth, employment, quality social services and investment.

We have a process called the European Semester for encouraging reforms. Yet only part of the Semester recommendations are being carried out. At the same time, it is evident that willingness to reform is at its highest when countries are facing severe hardship. We must strive towards implementing reforms during economically good times instead of only waiting until delay is no longer possible.

Implementing reforms cannot be made compulsory. However, it is still crucial that more recommendations be implemented. So we must encourage more national ownership over reform recommendations. One way to do this is to involve independent national productivity councils and nationally respected think tanks and universities in formulating recommendations.

Preparing legislation and effectively implementing reforms is no easy task. The effects of reforms may take time to materialise. But the more they are delayed, the longer economies will grow below their potential. Some reforms may bear budgetary costs; others may be technically complex. Adequate administrative and institutional capacity is crucial to success. To help EU Member States address the challenge of implementation, the European Commission has set up the Structural Reform Support Service (SRSS) and proposed a dedicated EU Structural Reform Support Programme (SRSP). Under the SRSP, Member States can request technical support, in particular in the context of the European Semester. We encourage all Member States to make the best use of the support available.

1.7 Rules governing the EMU

All Member States and EU institutions must respect the rules that govern our Monetary Union. Due to the possibility of spillover effects, we must have rules that are fit-for-purpose. Recent years have shown that decisions by one country can have far-reaching impact on other Member States. Therefore, we must have rules to restrict these risks, rules which apply equally for all Member Countries. The Commission, as guardian of the Treaties, must enforce these rules in case of breach.

We emphasise that we must respect the rules and parameters which such rules establish for Member States.

First, the application of our common fiscal rules relies to a great extent on potential output and output-gap estimates. Given some well-known challenges related to the calculation of these variables, the methodologies underpinning the application of our rules are being improved, with a greater focus to be given to an expenditure indicator along with indications of structural balance, which currently serves as the main parameter of fiscal policy under the SGP. The expenditure indicator has the advantage of relying mostly on observable metrics, being less subject to revision than structural balance and being directly under the control of government, thus increasing overall predictability and transparency.

Second, besides fiscal rules, a major lesson of the crisis is that imbalances in the private sector can be highly destabilising and must be prevented or, if they do occur, promptly corrected. Effective implementation of structural reforms is crucial for the correction of macroeconomic imbalances, which were allowed to grow unchecked prior to the crisis, leaving many countries vulnerable to shocks. All the instruments available under the Macroeconomic Imbalances Procedure, including the Excessive Imbalances Procedure, should be deployed to support Member States in their adjustment efforts in order to bring their economies onto a path of sustainable growth and job creation. This is a precondition for a successful convergence process.

At the same time, we must also emphasise that no matter what set of rules we have, no rules will be effective unless Member States follow and respect them. The main principle must be that no reform or change in the EMU's institutional framework create new imbalances or sources from which new imbalances could emerge. The key aims of the Stability and Growth Pact must be kept at the centre of all reforms: namely, that fiscal policies remain responsible and that Member States work towards lowering their debt levels to under 60% of GDP.

> "All Member States and EU institutions must respect the rules that govern our Monetary Union."

2. Flexible, Competitive and Converging

Our vision puts our citizens' wellbeing and prosperity at the centre. We want our EMU to have adequate capacity in dealing with imbalances between regions or countries, to be competitive vis-à-vis other parts of the world and converging towards the highest social standards, such that the least affluent areas can develop and become as prosperous as the most.

We should not understand competitiveness only in terms of price competitiveness. Long-lasting competitiveness gains rely on the efficient allocation of resources and on steady improvements in productivity. This requires high-quality education, R&D and innovation which are effectively translated into competitive products and services.

One of the most important factors is creating an environment in which innovative companies can flourish. This requires attracting more private equity into Europe, building deeper Single Markets but also looking at our insolvency practices.

Our EMU must also be able to adjust to changing external and internal conditions. Labour markets must thus provide flexibility to respond quickly to changes and facilitate a more efficient process whereby employees find open vacancies. More flexible labour markets also help us to address skills mismatches; for this, labour mobility within the Euro area is vitally important.

To achieve this vision of a converging EMU, we must take action at both the EMU, but also at the national, level.

> "The main principle must be that no reform or change in the EMU's institutional framework create new imbalances or sources from which new imbalances could emerge."

2.1 High social standards for everyone

The Social Market Economy, foundation of the EPP and the EU, is based on the commitment to ensuring high social standards and to supporting everyone who wants to contribute to society. Social policy is a Member-State competence, but we would like more to be done to ensure that Member States converge towards the best policies among their peers.

We believe that learning from other Member States' experiences will help in finding the right policy mix for the future.

Technological development is ever more rapid. How we make products, the skills we need to enter labour markets and the way we work are all changing with technology. This development already poses major challenges to our education, social and employment systems and will become more challenging in the years and decades to come. We must strike a right balance between more flexible labour markets and a confidence in tomorrow which citizens understandably ask for. We believe that demanding more flexibility from citizens must be reciprocated by Member States' making their social security systems more flexible as well, and better fit for a future labour market more fragmented than the one we experience today. Increasing labour market flexibility must be reciprocated by providing high social standards and a sustainable work-life balance.

> "Our vision puts our citizens' wellbeing and prosperity at the centre."

Skills needed to enter and remain in the labour market are changing quicker than ever before. Automation, artificial intelligence and digitalisation are disrupting existing industries. We want every citizen to benefit from technological advancement. Hence, we must offer opportunities for everyone to learn the new skills needed for the future. We must invest more in our citizens, even as private-sector involvement will also play a crucial role in ensuring the right skills are acquired. We must pay special attention in trying to activate more citizens' entrance into the labour force and in providing quality education and training opportunities throughout a person's life. We must turn life-long learning from a policy mantra into a reality. There is a lot we can learn from each other and share as far as best practices go in upholding high employment levels and in making sure no section of society is left behind.

2.2 Increasing labour mobility — European Labour Market Union

We must encourage further labour mobility within the Euro area. This is crucial for the long-term stability of the

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Euro area and for lowering unemployment levels.
Labour mobility is also a way to address the problem of skills mismatch. In 2013, only 4% of the EU's working age population (20-64 years old) was working in a different Member State from the one where they were born. Add to that an estimated 1.1 million people who work cross-border, without residing in the country of their employment, plus the estimated 1.9 million workers posted in another Member State on temporary contracts, and the total share rises to about 5%. This is very low compared to the US, where 30% of the population work in a state other than the one they were born in. We must accept change as a constant feature of our lives. We must encourage and support citizens' moving in pursuit of new employment opportunities. At the same time, we must make sure that encouraging labour mobility does not lead to permanent 'brain drain', since this would undermine the principle of convergence.

Encouraging labour mobility must also mean removing all obstacles to mobility. We must make sure that rules regarding mobile labour are applied equally to all employees and that policies — for example, on pensions — treat them fairly. Pensions are a national competence, but solutions must be found in tandem to address the various remaining issues and to reduce red tape.

Equally important are rules considering posted workers, who should have the same rights and obligations as all other employees working in a particular Member State.

2.3 Encouraging a decentralized wage-setting mechanism to foster more flexibility and a higher labour participation rate

In the Euro area, as in any other monetary union, real interest rate-inflation dynamics function as a pro-cyclical mechanism which enhances the effects of economic growth and, vice versa, economic downturn. Before the crisis, we saw this mechanism in practice in several Southern European Member States. Rapid growth, the influx of capital and ensuing inflation lowered the real interest rate, which further propelled the cycle. Catch-up growth is needed; but when rapid growth suddenly ends, we must have the means to rebalance, regain price competitiveness, if necessary, and retain flexibility such that jobs can be protected in cyclical downturns.

> We must offer opportunities for everyone to learn the new skills needed for the future.

In a monetary union, flexibility must follow from adjusting prices, and thus through wage flexibility if necessary. It is essential for Member States to encourage a move towards decentralized wage setting, or at the very least to have clauses in collective bargaining agreements which allow diversion away from collective bargaining agreements in case of downturn. It is important to bring flexibility to the labour market since rigid contracts in times of crisis only cause deeper unemployment than necessary. In Spain, real wages continued to increase right up until the beginning of 2012, even though at the end of 2011 unemployment was already at 21.4%. This highlights how inflexible labour markets can be when rules remain rigid.

We must also remember that in 2012, 92.7% of all companies in the EU were micro-companies employing less than 10 persons. Small and Medium-Sized Enterprises (SME) employ more than two-thirds of all employees in Europe. Providing flexibility is extremely important for small companies so that they can remain in business when unexpected hardships strike. We do not want to reduce employees' rights, nor do we want to downgrade their protections. When wages are set at the company level, employees must have transparent access to information regarding the state of the company in question. What we want to introduce is more flexibility so that we can stop jobs' being destroyed unnecessarily due to rigidities. Secondly, we want to achieve an additional mechanism which will enable a more rapid recovery of competitiveness and facilitate higher labour participation rates.

2.4 More equity financing — More innovative companies

Europe, by and large, is running behind the US as a birthplace for disruptive, radically innovative companies. We must understand that this follows partly from structural factors in our continent compared to our partners on the other side of the Atlantic. Venture Capital Funds in the EU are on average small. We need to support creating Funds of Funds, and we must look into existing regulations to make sure that investing into private equity funds is not discouraged by regulations and capital rules.

One defining factor of European economies is our reliance on credit financing compared to equity investments. The form of finance plays an important role in defining how quickly companies can grow and what kind of sectors they operate in.

This is a problem we cannot solve with public money, since studies show that public money crowds out venture capitalists. We need to make the legislative and tax framework in Europe such that it encourages investors to put their capital in European growth companies and convinces the brightest European entrepreneurs to stay in Europe. This ties together why we need to build the Single Markets, so that new, innovative companies can scale up as quickly and as easily as possible. This is one of the advantages of a big Single Market which fosters innovation.

> "We need to support creating Funds of Funds, and we must look into existing regulations to make sure that investing into private equity funds is not discouraged by regulations and capital rules."

Companies which offer radically innovative services or products, without much to offer a bank, are especially in need of equity financing. It is better for the overall stability of our economic and financial system that banks credit-finance companies, which already have assets and steady cash flows. Companies which are riskier and radically innovative or disruptive require equity financing. This is not a binary question; we need both kinds. We must have a strong banking sector complemented by a strong private equity sector.

Building the Capital Markets Union is also crucial because it will build more market-based risk sharing among the Euro area Member States, since cross-border ownership of assets spreads risks and makes shocks less asymmetric. By building the CMU, we do not only boost the Euro area's convergence and competitiveness, but we also make it more resilient to shocks, both external and internal. In terms of the Capital Markets Union, it is important that it pay sufficient attention to private equity and not only to credit markets.

> "The EFSI, by boosting investments, increases productivity and facilitates both incremental as well as radical innovation."

We want to see a well-functioning Capital Markets Union in terms of safe securitisation and deep and liquid corporate bond markets. But equally important for us is that cross-border equity investment be encouraged and obstacles tackled to support innovation and entrepreneurship.

2.5 European Fund for Strategic Investments (EFSI) — Tool for addressing market failure and for strengthening international competitiveness

Convergence does not happen overnight. It is a long process in which investments in productive capacity and infrastructure play a major role. Countries which are less prosperous also tend to have more expensive credit, and fewer equity investments, available, which creates obstacles for becoming more competitive. The EFSI must remain a body which supports investments that may not otherwise materialise.

If a country is facing problems with its price competitiveness, increasing productivity can also be used to bring down relative unit-labour costs. This requires the EFSI to strictly follow its own viability criteria and to only facilitate projects in cases where the private sector is a large contributor. In other words, the EFSI cannot become a redistributive mechanism. It must remain market-orientated and a tool offering guarantees to economically viable projects in which the private sector is willing to invest.

We should not forget our international competitiveness either. The EFSI, by boosting investments, increases productivity and facilitates both incremental as well as radical innovation. Citizens of the European Union are getting older, and the old-age dependency ratio is worsening. Therefore, it is crucial that we increase investments in Europe in order to remain competitive internationally, become more productive and spearhead technological development and innovation.

We can build on our experience with the European Fund for Strategic Investments. If a country is experiencing a major economic shock, we could envisage a financial mechanism providing loans, under favourable conditions, to support investment activity. While this shall not lead to any permanent transfers between countries, nor undermine incentives for sound fiscal policy making at the national level, such support could be taken into account in the assessment of compliance with fiscal rules.

2.6 More Single Markets

The Euro area requires a well-functioning Single Market. We already have this for goods, but there is still a long way to go regarding services, capital and digital. We are adamant on the need to finish building these Single Markets as soon as possible. Not only do we need to focus on finishing those still under construction, but we must also focus on making sure that existing rules are fully implemented and respected. We need all three pending Single Markets in order to help create new jobs, economic growth and opportunities. But they are also needed to support convergence and cross-border risk sharing. It is estimated that finishing all Single Market projects currently under construction would increase the EU's GDP by well over a trillion Euros, creating millions of jobs. We must seize the opportunity to deliver new opportunities for our citizens.

In principle, we want to move forward from the mentality of building Single Markets sector by sector. We envision a future in which we consider all sectors, in all Member States, as part of the European Single Market.

> "It is estimated that finishing all Single Market projects currently under construction would increase the EU's GDP by well over a trillion Euros, creating millions of jobs."

2.7 Insolvency practices

Europe still suffers from an overhang of private debt. There are vast numbers of Non-Performing Loans (NPL) currently on banks' books, and debt levels for households and companies remain high. This holds economic growth back and will have long-term effects if we do not solve the problem.

Insolvency legislation in many countries is such that entrepreneurs experiencing bankruptcy will need years to get back on their feet. This is also part of the reason why we envision the future EMU's promoting more equity financing. Establishing certain common insolvency principles could address this problem and encourage entrepreneurs to try again. Problems with insolvency regimes also hamper cross-border investment and lending, since investors find it cumbersome and risky to deal with several insolvency frameworks, while for banks it poses a regulatory risk.

In essence, there are two options for how to proceed. First, we can establish certain minimum standards considering the most important aspects of corporate insolvency. This would mean finding common understanding on special protection for new financing for a company in distress, such that it can continue to operate while still going through a restructuring. Equally important in this scenario would be the establishment of common rules regarding chapter-11-type stay-of-proceedings against a viable company attempting to restructure.

Another alternative, however, would be to create a voluntary 29th regime which investors and companies could opt into. This 29th regime would be the most effective way, since investors could be absolutely certain how insolvency proceedings work throughout Europe. Insolvency regimes must be such that they enable restructuring for viable companies and allow entrepreneurs to recover quickly. Insolvency practices cannot be ways to punish bankrupt entrepreneurs, but rather the mechanism allowing creditors to recoup what is possible from a bankrupt company.

> "Increasing labour market flexibility must be reciprocated by providing high social standards and a sustainable work-life balance."

3. Conclusion

We believe in our Economic and Monetary Union. It has delivered great benefits to many European citizens in the past, and we are convinced our Union will remain a source of prosperity and stability in the future. We the EPP, as a political family, envision a converging EMU that is complete. A complete EMU to us means one that is fair, resilient, flexible, competitive and convergent. An Economic and Monetary Union that makes Europe ever more prosperous for all of its citizens. This is our vision. These are the steps we need to take in order to make that vision a reality.

> "We believe in our Economic and Monetary Union. It has delivered great benefits to many European citizens in the past, and we are convinced our Union will remain a source of prosperity and stability in the future."

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If you have any question you would like to ask please contact us.

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