MEETING OF CHAIRPERSONS OF FINANCE COMMITTEES

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Evolution of Economic and Monetary Union

Address by Minister for Finance, Michael Noonan

Good morning everyone,

I am happy to be here for this session on the future of economic and monetary union in the European Union. This is an important topic during Ireland's Presidency and I look forward to the discussion and debate. I want to thank Commissioner Rehn, not only for his clear words just now, but also for the good work that the Commission has been doing over the last few years in relation to the challenges facing the EMU.

The economic and financial crisis has demonstrated that the architecture of the Economic and Monetary Union is not perfect. Cracks in the system became all too painfully obvious when it was tested by the enormous strains of recent times and, over the coming years, the Union will have to develop the ways and means of strengthening the underpinnings of our shared currency.

The last few years have made it crystal clear that the stability and well-being of the euro area and the entire European Union are inextricably linked to the stability and wellbeing of our currency.

Weakness, instability and uncertainty surrounding our common currency have had a markedly negative impact upon Member States.

It has become increasingly clear that the euro needs to be grounded on the foundations of a strengthened Economic and Monetary Union. Together with President Van Rompuy, and the valuable input of the Commission, we are in the process of carefully assessing what needs to be done.

Only then will we move to determining how best to take those steps forward. It is critically important that we get this right. EMU is a core project of the European Union and if these reforms do not succeed the EU itself may not endure.

Lead up to the crisis

I do not propose going into the detail of the history of the development of economic and monetary union. However I would like to draw some conclusions on what we can learn from the past – even from the very recent past.

Before the crisis, there seemed to be a fairly clear structure with respect to Economic Governance within the EU. The Central Bank was responsible for monetary policy and the governments of the member states were responsible for economic policy, including fiscal policy.

The Treaties established a loose framework seeking to ensure national fiscal discipline and the coordination of economic policy more generally for all members of the European Union.

Although Eurozone governments recognised that national economic policy had an impact on the economies of other member states, it is evident that they did not appreciate the strength of these feedback loops and the ultimate effect on their own economies.

The Stability and Growth Pact was the main instrument for co-ordination of Member States national fiscal policies in EMU, but regrettably it was not enforced consistently.

Furthermore, the system of economic governance did not give adequate regard to preventing large fiscal and economic imbalances building up in individual Member States.

And not only that, but essential structural reforms were postponed in a period of growth for many Member States, resulting in weaknesses which now need to be addressed.

Response of the EU to the Crisis

The EU has often been criticised for its slow response to the crisis in terms of introducing improved economic governance measures. In my opinion this is unfair.

The scale and depth of the crisis was unprecedented and required remedies that would have been practically inconceivable at the time.

In terms of institutional reform, we have a European Union of 27 Member States and, soon to be 28. In addition, we cannot forget the role of the European Parliament in the governance process of the Union. Change has to be agreed – it cannot be imposed and implementation takes time.

If we see that reforms are needed, we all want to have them implemented swiftly, we want a quick overall solution. However, the changes that have been adopted have political consequences for all Member States, both long-term and –often - immediate, and political and public agreement to them is essential.

There is a crucial job to be done by all Ministers to convince their citizens of the need for change – for example – to have external oversight of their budget processes where none may have existed previously.

These are important and - for many countries - difficult changes, and they need to be recognised as such.

So contrary to the criticisms of many, Europe is acting across a number of fronts in response to the crisis.

We have set up the EFSF and its successor the ESM to help Member States in difficulty.

There have also been various important and targeted interventions by the European Central Bank.

And we need to deliver on what has already been committed to – to break the vicious cycle between banking and sovereign debt. Our focus continues to be on delivering what was agreed by the Heads of State and Government, including the decision made on 29 June, 2012.

These commitments were vital in giving certainty to the markets and are important for the credibility of Europe as a whole.

Economic Governance

As I have already briefly touched on, the previous economic governance system was inadequate in that it was too narrow in its scope and did not lead to the identification of emerging problems and imbalances in time to head off the crisis or reduce its effects.

It is only when we look to the governance structures that were in place before the crisis that we can see how much has been achieved, particularly in the past 18 months.

The EU and its Member States have taken a series of important decisions that will strengthen economic and budgetary coordination for the EU as a whole, and for the euro area in particular. These reforms have been multifaceted in nature.

The main reform process began with EU2020, the EU's growth strategy for the decade which aims to make the EU a smart, sustainable and inclusive economy. This was followed by the European Semester to which was added the Euro Plus Pact and the so-called 'six-pack' which came into effect on 13 December 2011.

The effectiveness of the 'six-pack' has also been bolstered by the Fiscal Compact which requires contracting parties to ensure convergence towards the country specific medium term objective as defined in the Stability and Growth Pact.

The 'two-pack', on which political agreement was secured by the Irish Presidency last week, is a significant and welcome further enhancement of the economic governance architecture for euro area Member States and is in many respects a natural extension of the 'six-pack'.

Agreement in this dossier has been a priority of the Irish Presidency, following the mandate from the December European Council, which called for the 'rapid adoption' of the measures.

The agreement will now go forward for formal approval by Member States' ambassadors and the regulations will subsequently be formally agreed by the European Parliament and the Council before being adopted by member states.

Effective management of the European Semester is also an important element of the Irish Presidency and our implementation of the Presidency Roadmap for the 2013 Semester will help us to ensure that the process will be both efficient and effective.

Banking Union

Perhaps the greatest development in the response to the economic and financial crisis has been the move towards Banking Union. We need effective banking supervision at the level of the Eurozone and the EU. We need deposit insurance and a bank resolution scheme at a European level. We need agreement on the Capital Requirements Directive (CRD IV).

The Irish Presidency is giving absolute priority to all files relating to the promotion of the Banking Union, along the lines of the priorities outlined by the European Council.

The first real step to a European Banking Union to break the link between sovereigns and banks was in December when Finance Ministers reached an important agreement on the creation of a Single Supervisory Mechanism. This is a major step towards ensuring financial stability, and thus facilitating growth.

Political agreement now needs to be reached with the European Parliament so that the overall agreement can come into force. This is being pursued vigorously by the Irish Presidency.

We are also working hard to ensure that the remaining next pillars - Capital Requirements Directive (CRD IV) and harmonised resolution and deposit guarantee schemes are put in place as soon as possible. Proposals for a single resolution mechanism are also to be developed by the Commission.

Once full banking union is in place, the direct link between the sovereign and the banking system should be fully broken, thus ensuring a more stable euro-area in the future.

Next Steps

But this is one important element of a wider effort. The "Four Presidents" paper of December entitled "Towards a Genuine Economic and Monetary Union" has laid out four areas of necessary progress – more integration in our financial, budgetary and economic policy frameworks and enhanced democratic legitimacy and accountability. Thoughts on the way forward were also helped greatly by the Commission's Blueprint, which was published at around the same time.

I very much welcome the respective contributions of President Van Rompuy and the Commission on the next steps in relation to strengthening EMU.

As agreed by Heads of State and Government at the European Council in December, a number of issues on deeper integration of the EMU, including ex ante policy coordination and the idea of contractual arrangements, will be further examined by the June European Council.

These are wide ranging and complex issues, and I welcome President Van Rompuy's efforts to make the process as transparent as possible. Discussions at national level have just started on these issues and specific proposals are still to be tabled. Many Member States have yet to develop a formal position.

At recent council meetings, views appeared to converge more on the issue of ex ante coordination, while more uncertainty and diverging views were noted on the issue of mutually agreed contracts and even more so on solidarity mechanisms.

The contractual commitments proposed will warrant further consideration. These ideas need to be examined so we can be clear on what might be involved. They raise many questions and complex issues, but yet they may ultimately have a contribution to make.

Enhancement of democratic legitimacy

Before I conclude I would like to comment on the proposals on economic and monetary union on the enhancement of democratic legitimacy as part of that process. As a parliamentarian I believe that we need to strengthen our institutions at European level that we ensure that they do not become more remote from our citizens. In fact the opposite must be the case.

In Ireland, we have direct experience of the risks of people feeling disconnected from decision-making at a European level. There is of course a tension between acting quickly and decisively, and engaging in wide, openended consultation. But democratic legitimacy and accountability cannot be an afterthought. They are part of our shared European values, but they are also a crucial underpinning of the long-term stability of the whole system. Any agreed changes require democratic debate and agreement. The role of our own parliament and the European Parliament is central to this debate.

The Irish Presidency will continue to work closely with President Van Rompuy as he explores options for the further evolution of EMU, one that offers a suitable response to the great challenges that we face.

The process leading up to the June European Council presents us with an opportunity to take stock of the important progress we have made in recent months, and to outline a vision for a prosperous future for the European Union. A strengthened Economic and Monetary Union is critical to the stability and wellbeing of the euro area and indeed the entire European Union. We have been tested, and the pressures brought to bear on EMU have been almost unprecedented, but do not doubt for one second that our economic and monetary union will emerge stronger, clearer and more sustainable from this crisis.

The challenge now for European leaders is to put in place the policies we have already agreed upon, and those that are still urgently needed to ensure that the confidence which has returned in the euro will remain well into the future, and to put all member states, large and small, on a stable trajectory towards growth and prosperity in a closer, more solid, more balanced union. And we, as Presidency, will be at the forefront of these efforts.

Thank you