



HOUSE OF LORDS

HOUSE OF LORDS EUROPEAN UNION COMMITTEE Financial Affairs

COMPLETING EUROPE'S ECONOMIC AND MONETARY UNION

CALL FOR EVIDENCE

The House of Lords EU Financial Affairs Sub-Committee, chaired by Baroness Falkner of Margravine, is conducting an inquiry into the steps laid out in the Five Presidents' report '*Completing Europe's Economic and Monetary Union*' and particularly the possible implications for the UK. The Committee invites interested individuals and organisations to submit evidence to this inquiry.

Written evidence is sought by 25 November 2015. Public hearings will be held from December to February 2016. The Committee aims to report to the House, with recommendations, in May 2016. The report will receive a response from the Government, and may be debated in the House.

BACKGROUND

Europe's Economic and Monetary Union (EMU) is often described as a house built over decades that is only partially finished. EMU is designed to bring the EU towards closer economic and political integration, but the recent financial and sovereign debt crisis has put greater emphasis on integrating euro area Member States further and on seeking agreement on the political direction of the Eurozone.

While EMU involves notably the single currency, the euro area, and an independent monetary policy run by the European Central Bank, EMU also sets fiscal rules for all EU Member States, including the UK. The EU has in recent years enhanced economic policy coordination and surveillance mechanisms to ensure macroeconomic growth and stability. While much of the Five Presidents' report and the Commission Communication of 21 October focuses on the euro area, both documents identify that the process of creating a deeper EMU is open to all EU Member States. The report and the Commission Communication argue that the process should be transparent and preserve the integrity of the Single Market in all its aspects. As the debate between members of the euro area progresses it is important that the interests of non-euro area Member States, including the UK, are also respected.

The Five Presidents' report "*Completing Europe's Economic and Monetary Union*" was published on 22 June 2015 and was presented at the June 2015 European Council. The report builds on a previous report '*Towards a Genuine Economic and Monetary Union*' published by the Four Presidents in December 2012 that laid out plans to build an integrated economic, budgetary and financial framework, commensurate with progress on democratic legitimacy and accountability. The Five Presidents' report was prepared at the request of the Euro Summit of October 2014 and the European Council of December 2014. The Euro Summit in

particular underscored the fact that closer coordination of economic policies was necessary to improve the functioning of EMU, while work should continue to look at mechanisms not only to support stronger economic policy coordination but to facilitate convergence and solidarity. The Five Presidents' report states that euro area Member States are undergoing 'Stage I' reforms scheduled to run between July 2015 and 30 June 2017. They call the process 'Deepening by doing' and the five Presidents emphasise boosting competitiveness, structural convergence, completing the Banking Union and enhancing democratic accountability. The Commission Communication, published 21 October 2015, sets out the package of measures to implement these plans.

The European Commission has brought forward a revised approach to the European Semester, as well as plans to introduce National Competitiveness Boards and an advisory European Fiscal Board as tools to strengthen the economic governance framework. The European Commission has also published a proposal to move to a unified representation for the euro area in the International Monetary Fund with the President of the Eurogroup as the representative for the euro area. In addition, various steps are proposed to complete Banking Union.

The Committee will examine the new recommendations and proposals in the European Commission's Communication that seek to introduce mechanisms to improve and foster greater coordination and convergence in EMU and wish to identify the potential positive and negative impacts to the UK. At the same time, the Committee will explore how EMU can be completed over the long term to meet global challenges and lead to economic prosperity for all EU Member States through the economic, budgetary and financial frameworks. The initiatives the Commission has identified will be directly and indirectly relevant to the UK and this inquiry therefore seeks to:

- Take stock of the reforms that have been put in place further to integrate economic budgetary and financial frameworks in EMU and consider the degree of flexibility and conditionality in the economic governance framework;
- Review the steps proposed to improve the European Semester, and analyse how effective and credible the fiscal and macroeconomic coordination and surveillance tools have been since they came into force;
- Consider the design of National Competitiveness Boards and an advisory European Fiscal Board to explore how they aim to contribute to economic and fiscal convergence, and review possible paths for achieving fiscal union through a strengthened governance framework;
- Review forthcoming proposals to complete the Banking Union, and take note of any mechanisms to bolster the crisis management framework;
- Examine possible strengthening of euro area external representation in the IMF with a view to understanding the future role of the euro in the global financial architecture and to identify any direct or indirect impact to the UK;
- Reflect on the role of the ECB and whether it needs to be better codified in the economic governance framework;
- Contribute to the debate on enhancing democratic accountability, legitimacy and institutional strengthening;
- Establish whether the balance is right between what is required of euro area Member States and non-euro area Member States.

The Committee will be interested to examine the impact of these issues on the non-euro area Member States, particularly the UK including the City of London.

ISSUES

The Committee seeks evidence on the following questions in particular.

Economic Union: coordination, surveillance and convergence

1. Is economic and fiscal policy coordination and surveillance working effectively in the European Union, both for euro area Member States and non-euro Member States? Is greater 'structural convergence' necessary to build a resilient and smooth-functioning EMU?
2. What is your assessment of the European Semester? What can be done to strengthen the implementation of Country Specific Recommendations and boost national ownership of reforms? Should the Macroeconomic Imbalance Procedure be given greater importance?
3. What are the merits of the recommendation by the European Commission to introduce a euro area system of National Competitiveness Boards? How should non-euro area Member States participate in plans to enhance policy coordination and surveillance of competitiveness developments across the wider EU?
4. How should the European Commission reduce complexity and increase transparency of fiscal rules and the application of them? To what extent does the Stability and Growth Pact achieve a balance with respect to creating flexibility and maintaining credibility?

Completing Banking Union

5. How should the Banking Union be completed? Is there merit in the European Deposit Insurance Scheme proposed by the five Presidents?
6. In what ways can the EU's financial framework be strengthened to reduce the negative sovereign-bank feedback loop?
7. What is the ECB's role in the future of the EMU governance framework?
8. What solutions should be proposed to create an adequate bridge financing mechanism, should resources in the Single Resolution Fund not suffice in the short term? In what ways can the euro area create a resilient common backstop for the Single Resolution Fund?
9. What could EU institutions have done differently in the context of the instability in Greece in 2015 to respond to the escalating funding crisis?

A path toward Fiscal Union

10. What are the advantages and challenges associated with the creation of an advisory European Fiscal Board?
11. What is your understanding of a fiscal union? What type of fiscal union is appropriate or achievable for the euro area based on the political capacity available?
12. Is a fiscal stabilisation function necessary and achievable?

Democratic accountability, legitimacy, institutional strengthening and implications for the UK

13. What are the implications of the euro area unifying its external representation on issues such as programmes, reviews, economic and fiscal policy, macroeconomic surveillance, exchange rate policies and financial stability in the International Monetary Fund? How would this proposal affect the UK and other non-euro area Member States?
14. What areas of EMU governance are ripe for institutional strengthening? What are the consequences of introducing intergovernmental agreements (such as those establishing the ESM and the Single Resolution Fund) into the EU community framework? What are the implications for non-euro area Member States?
15. How should democratic accountability be enhanced if decision making is pooled across the euro area? Is democratic legitimacy weakened by the complexity of the crisis management framework?
16. How will the UK and other non-euro area Member States be affected by initiatives put forward by the European Commission and Five Presidents' report? What effects will this have on the City of London?

You need not address all of these questions.

ANNEX: GUIDANCE FOR SUBMISSIONS

Written evidence should be submitted online using the written submission form available at www.parliament.uk/completing-europes-economic-monetary-union-submission-form. This page also provides guidance on submitting evidence.

If you have difficulty submitting evidence online, please contact the Committee staff by email to turnerjd@parliament.uk or by telephoning 020 7219 3616. The deadline for written evidence is 25 November 2015.

Short submissions are preferred. A submission longer than six pages should include a one-page summary.

Paragraphs should be numbered. All submissions made through the written submission form will be acknowledged automatically by email.

Evidence which is accepted by the Committee may be published online at any stage; when it is so published it becomes subject to parliamentary copyright and is protected by parliamentary privilege. Submissions which have been previously published will not be accepted as evidence. Once you have received acknowledgement that the evidence has been accepted you will receive a further email, and at this point you may publicise or publish your evidence yourself. In doing so you must indicate that it was prepared for the Committee, and you should be aware that your publication or re-publication of your evidence may not be protected by parliamentary privilege.

Personal contact details will be removed from evidence before publication, but will be retained by the Committee Office and used for specific purposes relating to the Committee's work, for instance to seek additional information.

Persons who submit written evidence, and others, may be invited to give oral evidence. Oral evidence is usually given in public at Westminster and broadcast online; transcripts are also taken and published online. Persons invited to give oral evidence will be notified separately of the procedure to be followed and the topics likely to be discussed.

Substantive communications to the Committee about the inquiry should be addressed through the clerk of the Committee, whether or not they are intended to constitute formal evidence to the Committee.

This is a public call for evidence. Please bring it to the attention of other groups and individuals who may not have received a copy direct.

You may follow the progress of the inquiry at www.parliament.uk/completing-europes-economic-monetary-union