

Quo Vadis, Europe?

Diario Expansión (Spain)

María Abascal

31 Jul 2017

The main sources of uncertainty that have hung over Europe in recent times, such as Brexit or the wave of populism and anti-European parties, are starting to disappear, or at least have moderated. Moreover, the economic outlook has improved and we are seeing an acceleration of the economy. The question is: is this enough to inspire the European citizen on the street once again?

In general, his frustration with Europe comes from the belief that the Union reacts tardily, slowly and not always as appropriately as it might. Added to this is the perception that Brussels is far removed from people's problems. Therefore the Council decided, with the Bratislava roadmap, to focus on the priority issues for citizens: immigration, terrorism and economic and social security.

Following the heavy blow delivered by the Brexit vote to the identity of the community project, Europe is starting to digest it. The victory of pro-European parties in the Netherlands, and especially in France, seems to have restored hope for European construction. While we shall have to wait for the result of the German elections in September, there is a perception of a renewed Franco-German alliance that has yet to be fleshed out.

All this needs to be used as the starting point for a more in-depth reflection on the future of Europe. The debate has already got under way, with a series of reports by the Commission. The first one refers to the possible scenarios as to how European integration could evolve, and presents a number of options. One of the alternatives, that of a two-speed Europe, may be considered the baseline or most probable scenario.

The second and more recent one is a paper on the future of the euro zone. In order to achieve the complete integration of the European Economic and Monetary Union, progress needs to be made in three key areas: financial union, economic and fiscal union and political integration. To achieve this objective, an agenda of reforms has been established in two phases. 2017-2019 and 2020-2025. All in all, the plan for the euro is based on gradual progress with a sequence of proposals in the appropriate direction. It requires a balance between risk reduction and risk sharing, and the most complex issues are left to last, without excessive detail, in the hope of reaching a consensus.

In the field of finance there is short-term ambition, and there is an appeal to complete banking union with a single deposit guarantee scheme and a mechanism for common public contribution to the Single Resolution Fund, helping to break the sovereign-bank circle. Furthermore it would be desirable for a review of the functioning of the banking union to be carried out in order to close possible lacunae in the single legal framework and ensure equitable application of the letter and spirit of the law in the various different jurisdictions. It would be very useful to analyse the lessons learned from the recent cases of resolution and liquidation of Spanish and Italian banks. It is also recommended that the capital markets union be completed, a positive measure that is less disruptive than banking union.

Fiscal union is the objective that remains least well defined and longest term, for lack of consensus. The

Commission proposes studying a new European instrument (the Sovereign Bond-Backed Security) to promote diversification of bank holdings of sovereign debt and as part of the transition to fiscal union. The design of the instrument will provide clues as to what type of fiscal union is being considered. In the field of economics, the aim is to favour economic convergence by improving budgetary coordination and planning and promoting structural reforms, tying them to European and stabilisation funds.

On the institutional framework, the Commission proposes major changes. It seeks a single external voice for the Eurogroup, the creation of a European Treasury and the appointment of an EU Minister of Finance. At the same time it proposes transforming the European Stability Mechanism into a European Monetary Fund.

The great question is how we wish to move forward. It is necessary and appropriate for both the authorities and society to reflect on this. Where are we advancing to, with whom and how fast? All these questions deserve to be fully debated, with the involvement of citizens, if we wish the European project to start inspiring people again.

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance. This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.