THE FUTURE OF THE EUROPEAN ECONOMIC AND MONETARY UNION: CHALLENGES AND SOLUTIONS FOR A SOLID CONSTRUCTION

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Abstract

The article aims at analysing the debate regarding the future of the European Economic and Monetary Union as a core structure that will be capable to ensure the development of the European Union and to reach the fundamental goal of the free movement of the capital. Considered by many built on a week foundation, the discussion regarding how the European Economic and Monetary Union must be restructured became an urgent problem to be solve in the light of the last ten years political and economic events (international financial crisis, euro crisis, the radical view of several European political leaders elected after 2014). Our research focuses on different points of view regarding the future structure and regulation framework of the European Economic and Monetary Union as a critical qualitative research in order to put together the advantages and disadvantages of such opinions and the validity of arguments in their favour. Our research has as starting point the 2012 Four Presidents Report and the 2015 Five Presidents Report facing the opinions of the academia and the European financial market reality. We analysed different future developments proposals in order to identify the validity of concepts such as a banking union, new tools and mechanisms designed to contribute to the accomplishment of a functional Economic and Monetary Union. The article ends with several conclusions regarding the process to develop a deeper Economic and Monetary Union in the EU.

Keywords: Economic and Monetary Union, Eurozone, integration, convergence

Introduction

One of the most important goals set in the 1950s for the future economic, social and political construction of Europe was the free movement of capital. The decades that followed had been characterized by numerous initiatives (the creation

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of mechanisms and procedures, institutional structures, legal frameworks, a new currency) aimed at achieving this objective. However, decades later, we are still facing a challenge – the completion of a European mega-project – the functional Economic and Monetary Union with a high level of financial integration and real convergence at the European level.

The first steps were taken by creating an exchange rate union with a fixed range within which the currencies of the EU member states could fluctuate, the monetary snake, aiming at diminishing the risks and the imbalances. The fragile equilibrium created was broke sooner than expected facing the oil crisis and the mechanism was abandoned in order to allow the member states to deal with the economic shocks. In the 70s rose the first initiatives to establish at European level a certain part of the annual GDP to be used to adjust the economic and financial imbalances.

Starting from late 1980s and 1990s, after concluding that just little real progress was made in the direction of achieving the financial integration across Europe, numerous actions and more coordinated decisions were taken: the decision to set up an Economic and Monetary Union(1988- mandated a committee chaired by Jacques Delors to set up a process and actions to be made), a new treaty for a new and more complex construction was signed, The Maastricht Treaty, the creation of the European System of Central Banks (1993) and the European Central Bank(1998) were set up, the European Monetary Institute (EMI) was created in 1994 and starting with 1997 a new exchange rate mechanism was in place – ERM II; a new currency was created – European currency named Euro – 1999, and the Eurozone was born based on the Maastricht criteria for convergence; the Stability and Growth Pact was adopted by the European Council in June 1997 – with regulations regarding budgetary discipline in the EMU(The Pact was subsequently amended with conditions and directions of action- 1998, 2005, 2011 and its content is still under debate in the light of the financial crisis that saw European Union and the Eurozone strained by imbalances.

At the end of a decade (1988-1998) the first form of a European Monetary Union was finalized: a legal framework, a central bank for the new monetary system – European Central Bank, a new currency – Euro – 1999 (with initially 11 EU member states and 12 from 2001 when Greece adopted the single currency). Unfortunately, 30 years later, enlarged at 19 EU member states, the Economic and Monetary Union is far from being a well-functioning and stable European construction which was brought to the edge of the failure when the international financial crisis hit the European financial markets and have had little to do facing the Euro crisis.

The present paper focuses on the different points of view regarding the future structure and the regulation framework of the European Economic and Monetary Union as a critical qualitative research in order to conclude if the planned actions, institutional structures and proposed tools and mechanisms have become effective instruments to complete the Economic and Monetary Union. Our research has as starting point the 2012 Four Presidents Report and the 2015 Five Presidents Report facing the opinions of the academia and the European financial market reality, as the latest attempts of the European Union to complete the EMU. The context of launching the debate regarding the efficiency of the mechanisms and procedures of the EMU is the analysis of the international crisis from 2007-2008 impact on the EU member states with focus on the euro area members. We analysed different future developments proposals in order to identify the validity of concepts such as a banking union, new tools and mechanisms designed to contribute to the accomplishment of a functional Economic and Monetary Union. The article ends with several conclusions regarding ways to develop a deeper Economic and Monetary Union in the European Union and the effectiveness of the measures already taken.

1. Challenges and facts regarding the reconstruction of Economic and Monetary Union

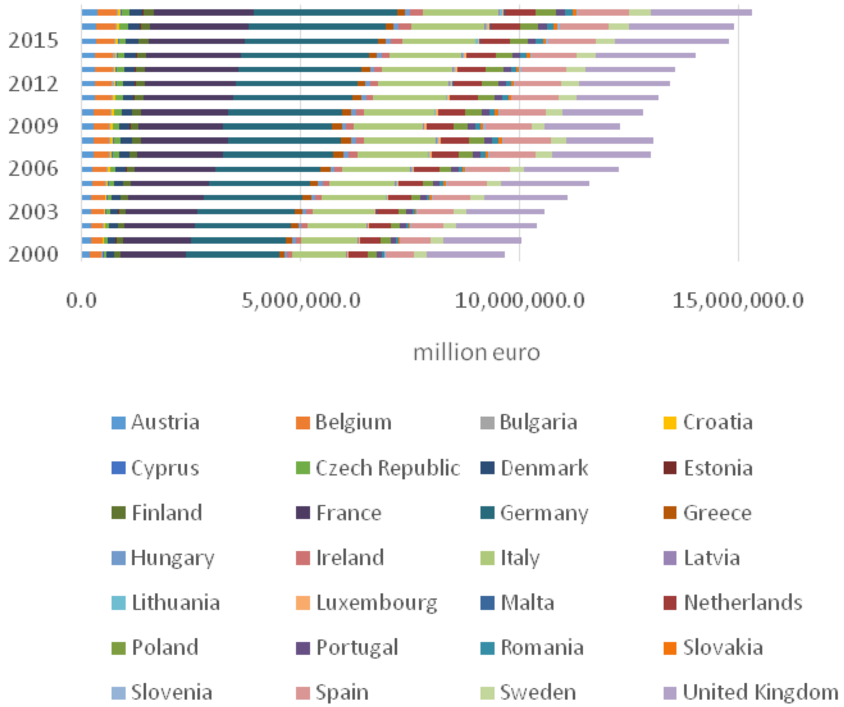
The success of the European Union mechanisms and constructions such as the Economic and Monetary Union, ensuring the 3 pillars – the free movements of goods and services, people and capital was easy to be considered successful prior to the global crisis that hit the European economies in the summer of 2007.

The crisis, considered especially a financial crisis, at least at the beginning of it, and turned into a sovereign debt crisis, raised important questions regarding the solidity of the European economies and showed their vulnerabilities. Obviously, the crisis was the most important challenge for the euro area member states economies as they were forced to deal with additional issues coming from the membership to a monetary union with a single currency.

To see the impact of the crisis on the European economies we analysed several indicators that can summarize the evolution of the economic climate within the EU and Euro area in the last almost twenty years.

The first and most important indicator of an economy's activity is the value of its' gross domestic product, reflecting the value of all goods and services produced minus the value of goods and services used for their production. We therefore begin our analysis of the general economic context with the evolution of the nominal GDP value. At the EU level, the GDP at current market prices total value has seen an increasing trend since 2000, with the exception of 2009 when the effects of the economic crisis on the GDP value were most acutely felt. Figure 1 shows the evolution of the nominal GDP for the Union as a sum of the evolutions of each member's GDP.

Figure 1. The evolution of EU's GDP between 2000 and 2017

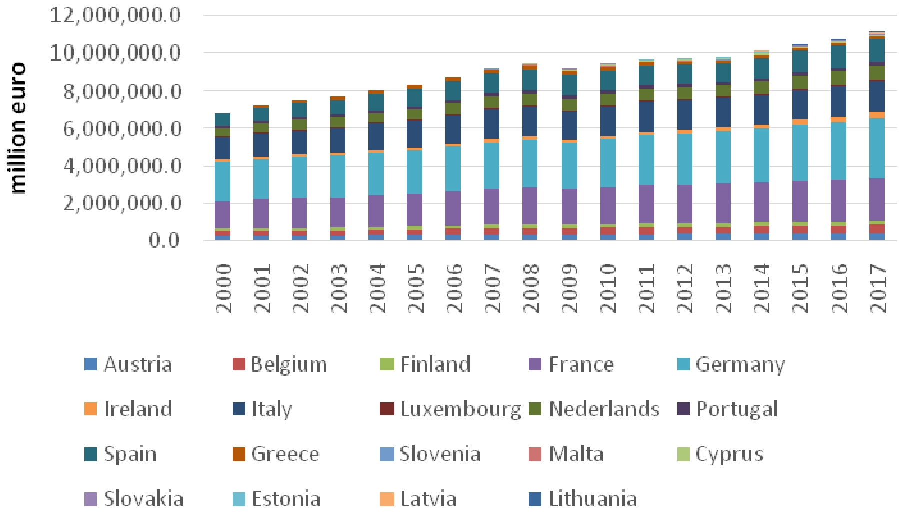


Source: authors' compilation from EUROSTAT data 2000 -2016

The countries whose economies have contributed most to the Union's GDP throughout this period were Germany with a contribution between 19.3% and 21.9%, United Kingdom with a contribution between 15.1% and 18.5%, France and Italy each contributing with 12 to 15 percent to the total GDP. The other member states' GDP, with the exception of Spain, represented less than 3 percent of the total throughout the analysed period. Since the four above-mention economies' GDP ads up to more than half of the EU's total, it safe to say that, after the finalization of the Brexit process, the UE's economy will lose one of its' most important components and is likely to become a three-stroke engine.

Throughout the analysed period the countries that compose the Euro area, regardless of their number, amounted around 70 percent of the EU's GDP. Since Germany, France and Italy were amongst the first eleven countries that adopted euro as their currency in 1999, the evolution of their GDP had the biggest influence on the Euro area's aggregated GDP, the newer Eurozone members having a small contribution to the total GDP. Figure no. 2 shows the evolution of the nominal GDP for the Euro area as a sum of the member states GDP, taking under consideration the year of their assertion to the European currency.

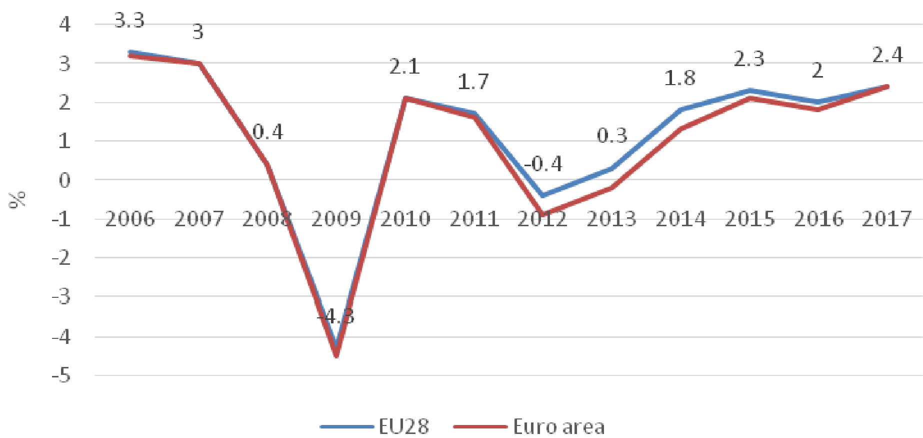
Figure 2. The evolution of EA's GDP between 2000 and 2017



Source: authors' compilation from EUROSTAT data 2000 – 2017

At first glance, the evolution of GDP at current market prices may prove that the EU's economy was able to recover from the financial crisis, the only year with a smaller GDP value compared to the previous being 2009. But, if we take the analysis one step forward and use the real GDP growth-rate as a measure of the dynamics of economic development the conclusion seems to change. Figure no. 3 shows the growth rate of GDP's volume as a chain-linked series for the EU and EA.

Figure 3. Evolution of the real GDP growth for the EU and EA, 2006-2017



Source: authors' compilation from EUROSTAT data 2006 -2017

When GDP at current prices is valued in the prices of the previous year and the volume changes are related to the level of a reference year, we can observe a slight decrease in value in 2007 followed by a more significant decrease in 2008 and a plunge into the negative zone in 2009. After the 2010 rebound, the growth rate slowed down and reached another negative value in 2012, increasing slightly afterwards. In 2017, the real GDP growth-rate was still lower than that before the crisis.

Although the Euro Area real GDP growth-rate average only shows a slowdown in growth, a country-wide analysis reveals large disparities between GDP evolutions. For example, in 2009 countries such as Estonia, Lithuania, and Latvia have experienced a negative growth-rate of around 14 percent, while Cyprus, Belgium or Malta registered GDP decreases between 1.8 and 2.5 percent. In 2012, half of the Euro Area countries had negative GDP growth-rates while the other half had a positive evolution of their real GDP growth-rate.

We can thus conclude that, even if in terms of nominal GDP, the EU's economy overcame the financial crisis, the real GDP growth-rate has slowdown in the last ten years and there are large differences in the evolution of the member states' economies, highlighting the need for new economic and financial mechanisms.

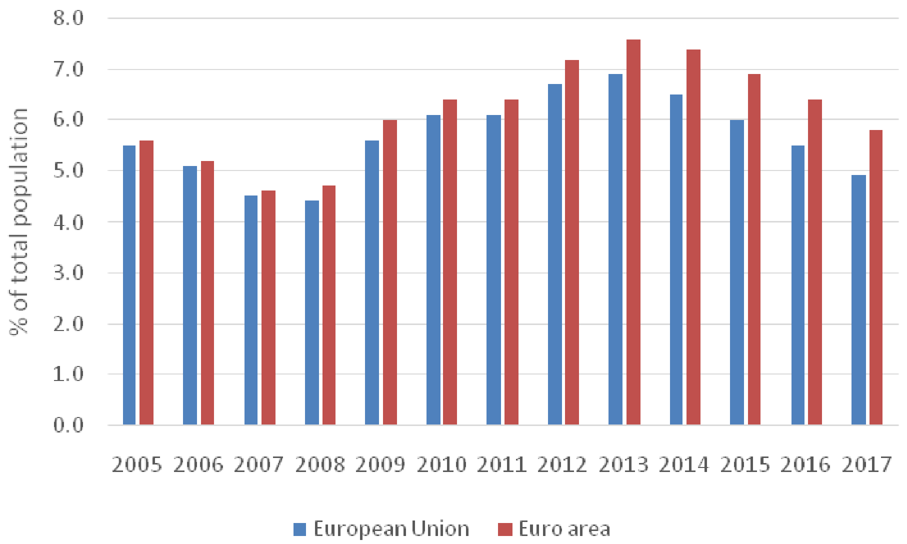
The next aspect that we believe is important for the general economic and financial context of this paper is the evolution of the unemployment rate. As stated by the Okun's empirical law and generally accepted by the economic theory, the unemployment rate evolution influences that of the gross domestic product, an increase of the unemployment rate leading to an increase of the GDP for the developed economies and a decrease of the GDP for the under-developed ones.

The analysis regarding the unemployment situation on European Union and Euro area level between the years 2005-2017 reveals some interesting results. It must be mentioned that the specific indicator included in our analysis was the one who reflects the percentage of unemployed EU or EA citizens related to the total number of population. The data are presented in the figure no.4.

Based on the evolution of the considered indicator, in the above mentioned period of time, we can point out a normal evolution associated with the general economic background. Thus, we could notice that between 2005 and 2008 (the starting year of global financial crisis) a steadily decreasing evolution was registered. The favourable evolution of the overall economical context has generated a constant improvement of the employment rate in the EU and EA space.

The period encompassed between 2009 and 2013 was marked by a constant increase of the unemployment rate in the European Union and Euro area. The peak was reached in 2013 with the value of 6.9% of unemployed people related to the total population of the Union and 7.6% in the Euro area. This situation indicates an interesting fact, considering that the year 2013 represents a moment in time when the global economy had overcome the crisis period and the first signs of recovery were noticed from previous year. Even if the economical evolution had restored its positive trend the unemployment rate had reached its highest level. This situation leads to the conclusion that the EU economy needed an adjustment period of time with its new coordinates. From 2014 to present times the evolution of the unemployment rate in the EU and EA was constantly a decreasing one, reflecting the positive economical trend. Throughout the entire period of analysis, the unemployment rate in the Euro area was superior in value to the one in the EU.

Figure 4. Unemployment rate evolution for the EU and EA between 2005-2017

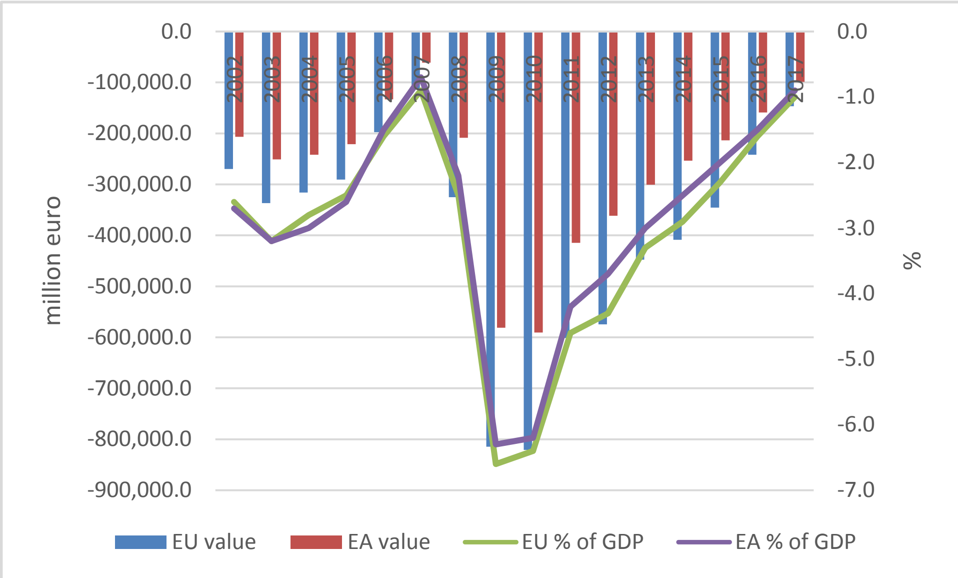


Source: authors' compilation from EUROSTAT data 2005 -2017

Another aspect of our analysis of the economic and financial context within the European Union and the Euro area intends to prove that the preservation of EU's living standards, as reflected in the positive trend of its' GDP, was made at the expanse of an increasing deficit. Figure no. 5 shows the evolution of government deficit both in nominal value and as a percentage of GDP.

Throughout the entire analysed period the EU's economy, seen as a whole, registered deficits, even though some member states were in surplus situations. In 2007, the value of the deficit was the smallest of only 112,899.1 million euro representing 0.9% of GDP. Since 2008 and more significantly in 2009 and 2010, the government deficit increased reaching 820,976.5 million euro, and a 6.6 percent of GDP. This demonstrates that, in order to surpass the economic crisis, governments resorted to borrowing, especially in the developed countries such as UK, Germany, France, Italy or Spain, countries that also represent the largest portion of EU's GDP. Since 2011, the government deficit has set on a downward trend, both in nominal value and percentage of GDP, some of the member states, mostly the less-developed economies, being able to register budgetary surpluses. Ten year after the beginning of the financial crisis, in 2017, the value of government deficit was 146,589.5 million euro, 1% of GDP.

Figure 5. The government deficit evolution in EU and EA between 2002-2017



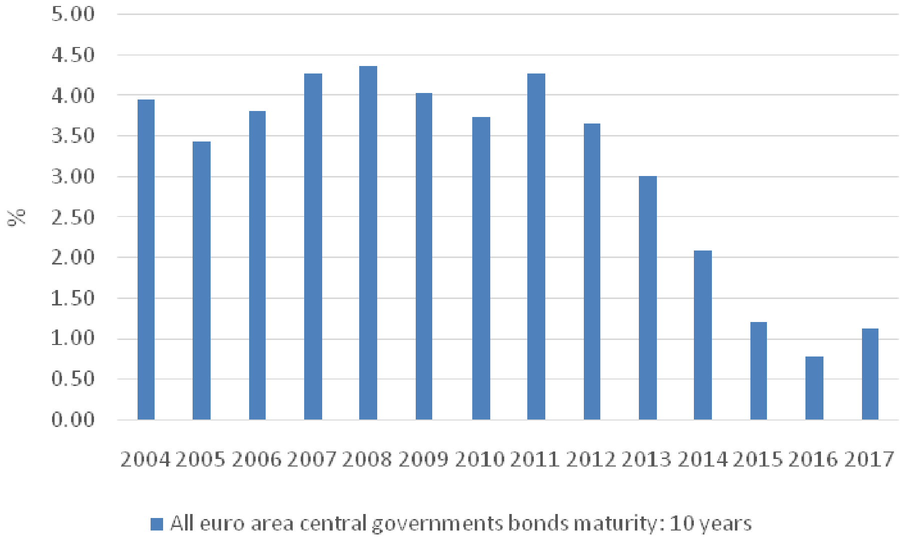
Source: authors' compilation from EUROSTAT data 2002 -2017

The Euro area member states followed the same evolutionary trend of the government deficit as the entire European Union. However, meeting the convergence criteria has made the deficit level for these countries to be lower than the average of the European Union.

In relation with the previous indicator, we believe important to stress out the evolution of the euro yield curve for central government bonds, since it reflects the asset pricing process on financial markets. Figure no. 6 shows the evolution of zero-coupon yield curve spot rate for central government bonds with 10 years maturity.

As shown by the data in the above figure, the EA yield curve has had a sinuous evolution throughout the last period of time. Since the yield curve represents the relation between the cost of borrowing and the maturity of government bonds and it reflects the expectations that investors have in the evolution of an economy, a "normal" yield curve should rise for longer maturity. The similarity in the evolution of the yield curve form before the 2007 financial crisis and that form 2015-2016 might suggest that the investors are once again concerned with the evolution of the EA economy and that we might be in the eve of a new financial crisis.

Figure 6. The euro yield curve for the EA between 2004 and 2017



Source: authors' compilation from EUROSTAT data 2004 -2017

In this economic and social context and in light of the new challenges that EU is facing, we believe that it is important to discuss the importance of a new, improved, architecture of the financial system, able to answer the needs of the EU member states and particularly of the Euro area countries, to better manage economic and financial crisis and to contribute to the development of the EU's economy.

2. Reinforcement of the Economic and Monetary Union – concerted actions

The crisis affecting the European Union' economies, showed, especially for the euro area economies, that the structure and the functionality of the Economic and Monetary Union, in terms of mechanisms and instruments to face systemic shocks, is unable to fulfil its primary goal – to offer a stable and prosper economic environment for the member states to develop and lost its attractiveness for those EU member states preparing to become a part of it.

After 2008, at European level, started a process of reshaping the Economic and Monetary Union and several reforms were initiated. In this process some of the existing mechanisms and tools were reorganized and new ones were created in order to deal with the vulnerabilities showed during the crisis:

The European Semester – introduced in 2010, was reinforced by creating an instrument for preventive surveillance of the economic and fiscal policies of its member states with the primary goal of enforcement of economic policy coordination The European semester has a fixed calendar deadlines to take several steps: in March, the European Council will set economic policy priorities based on the Annual Growth Survey of the European Commission with recommendations regarding the budget policy and the economic policy; in April, the member states will submit to the

Commission their medium-term budgetary and economic strategies taking into account the recommendations. The Commission will assess the action-plans of the member states and the Council will vote for them; in June and July, the European Council and the Council will provide country-specific policy advice on general economic policy and budget policy. In the next year the Commission will assess the level of implementation of the recommendations received by the member state. *The Macroeconomic Imbalance Procedure (MIP)* was introduced in 2011 with the aim of identifying, preventing, and addressing the accumulation of harmful macroeconomic imbalances and monitor their correction through recommendations and even sanctions for a particular member state (European Commission, 2016). Because, at European level, one of the issues considered when discussing the possibilities to better react at a crisis' effects was the lack of the alerting mechanisms, all the actions and initiatives taken considered a plethora of alerting tools and instruments such as the alert mechanism report (a scoreboard of selected indicators to screen EU countries for potential economic imbalances needing policy action), the annual growth survey or the in-depth reviews(triggering other actions(such as specific monitoring) depending on the results).

The reforms of the Stability and Growth Pact (2011-2013)

The European Stability Mechanism (ESM) established on 27 September 2012 as a permanent crisis mechanism tool for the Eurozone offering access to financial assistance for the member states facing financial problems, and replacing two other temporary instruments created in 2010, the European Financial Stability Facility (EFSF) and the European Financial Stabilization Mechanism (EFSM).

The European System of Financial Supervisors (ESFS) was created in order to strengthen the financial regulation and especially supervision, having as components the European Banking Authority, The European Insurance and Occupational Pensions Authority and The European Securities and Markets Authority. The new construction had the main objective to tighten supervision of all financial markets' segments especially in the direction of the EU legislation implementation at national level. Supplementary, a new macro – prudential watchdog was created – the European Systemic Risk Board (ESRB).

Even during a four years span many actions were taken, a diversity of new or existing tools and mechanisms were put into place in order to fight the crisis 'effects and to sustain the EMU, in 2012 the European Union recognized that the present architecture of the EMU it is not a well-functioning structure, failing to overcome the problems triggered by the financial and sovereign debt crisis and repeatedly call the member states and the European institutions to take action.

In our opinion, the position of the European Commission was a non –combat type one because, at the end of 2012, different official positions and communications of the Commission recognized two simple trues: many actions were taken and considerable financial, administrative and legislative efforts were made to tackle the crisis and to progress toward a functional Economic and Monetary Union but the results failed to reach the expectations and that more actions are needed to be developed for a future viable construction.

In November 2012, the European Commission launched a "European debate" regarding the ways to achieve a "deep and genuine EMU" (EC, 2012). With that occasion was widely recognized that all the efforts made at European level to overcome the crisis and to complete the EMU were sabotaged mainly by the Member states as they didn't properly implemented the regulation and did not comply strictly with the European rules as the instruments envisaged were too soft to be seriously taken into consideration (lack of strong supra-national EU-level institutions for bank supervision, lack of appropriate governance of the financial sector).

We consider that, for the first time, an official position of the European Commission recognize that despite of the multitude of mechanisms implemented and the actions taken, the European Union and the euro area was facing a re-fragmentation of the EU's financial markets, a reinstallation of the constraining power of national borders (European Commission, 2012, p.10), a step back from the ultimate goal of the free movements of persons, capital and goods and a threat to the economic and financial integration.

The European Commission stated that, in order to have a "deep and genuine EMU" a full banking union and a full fiscal and economic union are needed, and most important it was recognized that a political union must be fulfil as the basic support of these. The most important step of this process, at that moment, was the report known as the 4 Presidents report created by the President of the European Council, the President of the Commission, the President of the Eurogroup and the President of the European Central Bank, envisaged to be a specific and time-bound road map for the achievement of a genuine Economic and Monetary Union.

The 4 Presidents report recognized, again, that the actual way of how the Economic and Monetary Union function is far from being the structure capable to absorb shocks, to protect its members from imbalances and to help them to prosper. The report proposed a process to be developed in three stages in order to have in the end real improvements (Van Rompuy *et al*., 2012, 4-5):

Stage 1 (End 2012-2013) Ensuring fiscal sustainability and breaking the link between banks and sovereigns

The completion of the first stage should ensure sound management of public finances and break the link between banks and sovereigns, considered the main reason for the rapid spread and the concerning depth of the crisis.

The five key elements of the first stage were:

- The completion and thorough implementation of a stronger framework for fiscal governance ('Six-Pack'; Treaty on Stability, Coordination and Governance; 'Two-Pack').
- Establishment of a framework for systematic ex ante coordination of major economic policy reforms, as envisaged in Article 11 of the Treaty on Stability, Coordination and Governance.
- The establishment of an effective Single Supervisory Mechanism (SSM) for the banking sector and the entry into force of the Capital Requirements Regulation and Directive.

- Agreement on the harmonization of national resolution and deposit guarantee frameworks, ensuring appropriate funding from the financial industry.
- Setting up of the operational framework for direct bank recapitalization through the European Stability Mechanism (ESM).

Stage 2 (2013-2014) a complete integrated financial framework

With two key elements, this stage aimed to obtain:

- An integrated financial framework through the setting up of a common resolution authority and an appropriate backstop to ensure that bank resolution decisions are taken rapidly and considering the best interest of all members.
- The creation of a mechanism for stronger coordination, convergence and enforcement of structural policies based on arrangements of a contractual nature between Member States and EU institutions on the policies countries commit to undertake and on their implementation. This mechanism will take into consideration to offer financial support to a specific member state but this support will be considered only temporary and the use of it will be targeted to specific issues to be solve using flexible procedures.

Stage 3 (post 2014) as final step to develop the process of reshaping and reinforcing the EMU is the creation of a shock-absorption function at the central level

In the last stage two key directions were set:

- Establishing a well-defined and limited fiscal capacity to improve the absorption of country specific economic shocks, through an insurance system set up at the central level. Such a construction was considered as complementary for the contractual arrangements established in the stage 2 and capable to stimulate the member states to ensure sound economic policies.
- An increased degree of common decision-making on national budgets and an enhanced coordination of economic policies, particularly for taxation and employment, based on the Member States' National Job Plans.

The report was, in our opinion, a very optimistic position of the European Commission, with a very well designed process to bust the development of the Economic and Monetary Union in order to reach the potential foreseen by its founders. When launched, as the concerted ultimate initiative, at European level, for a new Economic and Monetary Union, the report was appreciated by the academia as well as by the economic environment, being considered a proof of a convergent political will to take real measures to real problems and vulnerabilities revealed by the crisis, especially by the sovereign depth crisis.

Think tanks all over the European Union (Foundation Robert Schuman, Notre Europe – Jacques Delors Institute, Bruegel, etc.), produced a plethora of policy papers, research articles and recommendation papers in order to support the institutional efforts at European level but, after two years of implementing the process set up by the report, the results were far from being close to the finality foreseen by the 4 Presidents report.

At the end of 2014, the deadline to enter in the post process period, several key elements of the three stages were in place or in an ongoing phase, some of them were still in a projection phase and some didn't exist. Summarizing the achievements, we can stress out that, from the four bold directions to develop according the 4 presidents report, just in regard of the banking union completion some progress was made with the single supervisory mechanism becoming functional in 2013 and the single resolution mechanism in 2015.

3. The latest attempt to create a real Economic and Monetary Union

2015 marked, one more time, a series of actions and initiatives of the European Union to achieve a well-functioning Economic and Monetary Union and to progress towards a real economic and financial integration. In February 2015, the President of the European Commission launched a discussion regarding the future of Economic and Monetary Union through an analytical note, pointing out the economic and financial context that showed the weaknesses and the fragile structure of the EMU, the steps already made after 2010 as lessons learned from the crisis, and the necessity of a serious debate regarding the actions to be taken in order to achieve a real financial integration in the European Union and an Economic and Monetary Union capable to ensure a real convergence and to offer an healthy economic environment for EU member states future development. The president of the European Commission proposed several questions and dilemmas to be answer in the preparation process of the second report of the four presidents (Junkers *et al*., 2015, p. 8).

Table 1. Questions and dillemas

Questions and dilemmas ahead of the second report of the four presidents	Sound fiscal and economic policies in the euro area
	Solutions to ensure better implementation of the rules of economic and fiscal governance, and more importantly, is the current framework capable of protecting the euro area from shocks and helping it to develop
	The validity of strong rules and strong common institutions as a solution and to what extent?
	Instruments and measures needed when national policies don't comply with the European rules
	Institutional and legislative constructions on fiscal policy and financial markets are able to prevent future crises, especially sovereign debt crises
	Ways to ensure a fair private risk-sharing through financial markets in the euro area in order to better absorb the shocks
	Forms of a stronger governance: conditions, structural reforms, ways to foster real convergence
	Means to achieve accountability and legitimacy in a multilevel setup

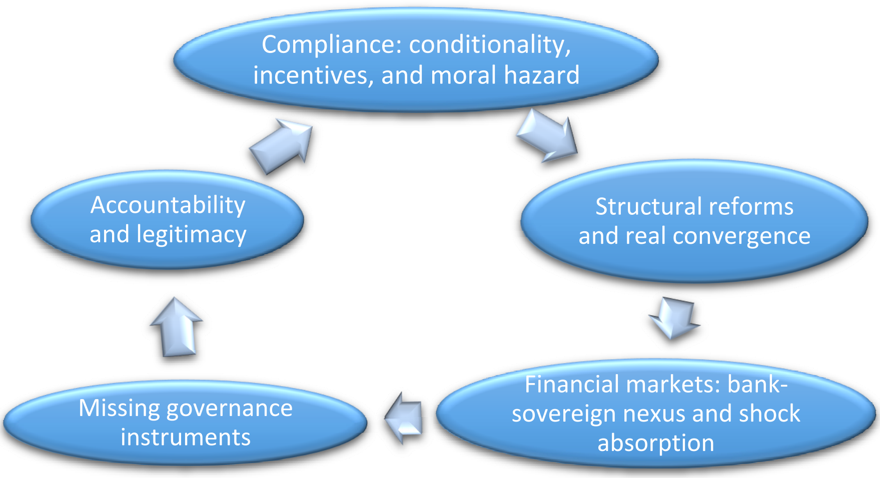
Source: authors' compilation based on Analytical note (Junkers *et al*., 2015, p. 8)

The position expressed in the Analytical note have fuelled concerns as it put under discussion every single angle and aspect regarding the Economic and Monetary Union. As we can see from the wide range of issues raised by the President, the document can be considered a recognition of a failure at European level regarding multiple aspects: a functional EMU, a real financial and economic integration process, well design regulation and institutional framework.

Specialists and researchers, independently or affiliated to a think tank, offered different opinions and recommendations regarding the measures to be taken and directions of developments for the future architecture of the process of completing the Economic and Monetary Union. To see how these interested parties developed directions and measures we analysed the policy paper of one of the most active think tank in the European monetary and financial issues – Notre Europe – Jacques Delors Institute.

The directors and research fellows at the Jacques Delors Institute and Jacques Delors Institute – Berlin prepared, in February 2015, a Policy Paper, prior to the report on the future of EMU expected in 25/26 June 2015 from the President of the European Commission known as the Five Presidents report, based on an Analytical Note published in February 2015. The document set up several principles and guidelines "for the effective functioning of EMU" and a deeper financial integration considering that is absolutely necessary to have at all levels "a serious debate on EMU's long-term perspective" (Bertoncini *et al*., 2015, p. 1).

Figure 7. Directions to take actions for strengthened EMU



Source: authors' compilation after Bertoncini *et al*. (2015)

The policy paper gave specific recommendations regarding each of the 5 directions identified to be the solutions for the concerns/questions subject to debate in the Analytical Note, also called by the authors "Junker's questions", which are supported by other research works in the field:

Compliance with the EMU rules and procedures

The measures to be taken in order facilitate the compliance with the EU rules and procedures refers to the fact that these need to be well-designed and to be seen as legitimate by those subjected by them. In the authors' view, the directions for improvement are: the deadline extensions for deficit correction to be based more explicitly on reform progress (additional the temporary deviations from the medium-term budgetary objectives will be acceptable when the justification is a necessary public investment); the extension of the 'investment clause' to countries under the corrective arm.

Talking about the macroeconomic surveillance, the mentioned policy paper stresses the idea that "social imbalances need to be taken into account in the application of the macro-economic imbalance procedure (MIP)", an idea supported by an extensive previous research works but which remained for more than a decade just a theoretical conclusion (Fernandes, S. and Maslauskaite, K. 2013, p. 14; Pochet *et al*., 1999, p. 61) as the various articles and authors raise more questions than gave answers in the attempt to link the social European dimension to the development of the Economic and Monetary Union.

An answer for how to stimulate a real implementation of EMU rules and procedures could be, as several authors established, maintain a balance between sanctions and incentives: that means to change the current view of the EMU governance as based mostly on sanctions with the immediate effect of triggering the domestic resistance. A direction for development of a more effective European Monetary Union could be to introduce positive incentives, particularly for implementing structural reforms and financial incentives might be an option (Bertoncini *et al*., 2015, p. 4). One of the reasons for the difficulties to dealing with non-compliance at the EMU level, which we agree with, is a non-credible major sanction – the exit from EMU. For this essential sanction for a non-compliant state to become an effective solution, without creating a path easy to take, an option could be to operationalize the bank union and the assistance schemes, as the exit from EMU of a state could affect the stability of the Eurozone.

Lack of governance instruments and the need of structural reforms/real convergence

The authors of the policy paper mentioned above support the "soft" point of view regarding the way in which the reforms should be promoted instead of a stronger governance mechanisms on the European level, reforms based on the cooperation of the EU member states and particularly between those that are part of the Eurozone, as well as Rubio (2014, p. 19) or Enderlain *et al*. (2012).

Bertocini *et al*. (2015, p. 7) proposed several directions for development of the structural mechanisms: efficient adjustment mechanisms that would prevent large imbalances between euro-area members(strengthening the real-exchange rate channel, setting of common euro area standards in areas such as the labour market, taxation or pension rights); a clearer and more effective crisis prevention and resolution mechanism through new European institutions as an European Monetary Fund (EMF) replacing the European Stability Mechanism and a reinforced bank union.

We agree with the policy paper stating that, in order to have a real financial integration and a functional Economic and Monetary Union, is absolutely necessary to complete the bank union as The Single Resolution Fund (SRF) is small compared to banks' balance sheets. Two more proposals are in line with the desire of a new European Monetary Union creation, one that is capable to ensure the absorption of the asymmetric socks: to set up a European Deposit Insurance scheme and going further to create a Capital Market Union.

All these new measures and new institutions represent key points for the ultimate goal of deepening the economic and financial integration and establish a new Economic and Monetary Union with the condition that the EU member states are willing to cooperate and have a common objective – to reach a real convergence and to fulfil the economic and financial integration.

As a conclusion, the policy paper of the Notre Europe – Jaques Delors Institute experts pointed out five key elements, which will contribute to the future development of a functional Economic and Monetary Union (as in figure below).

Figure 8. Elements for the future actions to be taken to strengthen the EMU

• Common rules that take into account the broader goals of the monetary union and provide an adequate balance between sanctions and incentives.
• Real convergence among EMU countries through structural reforms.
• A complete banking union that includes a fiscal backstop and a European deposit insurance.
• Stronger institutions in the area of economic governance, namely a European Monetary Fund
• A more explicit institutional structure for the euro area that increases the accountability and legitimacy of the new governance instruments on the parliamentary and executive level.

Source: authors' compilation after Bertoncini *et al*. (2015)

In the attempt to bust the reshape of the vulnerable Economic and Monetary Union, in June 2015, a new action was taken by the European Commission through a report designed to propose a strategy for achieving the solid construction that EMU was meant to be. The report, known as "the Five Presidents report" has been prepared by the President of the European Commission, in close cooperation with the President of the Euro Summit, the President of the Eurogroup, the President of the European Central Bank, and the President of the European Parliament.

Considering the Economic and Monetary Union a work in progress, the report states that, for the completion of the Economic and Monetary Union, is important to make a real progress in four different directions:

- a genuine Economic Union that ensures each economy has the structural features to prosper within the Monetary Union.
- a Financial Union that guarantees the integrity of Euro currency across the Monetary Union and increases risk-sharing with the private sector. In order to

be able to do so, the European Union must finalize the Banking Union and accelerate the Capital Markets Union completion.

- a Fiscal Union that delivers both fiscal sustainability and fiscal stabilization.
- a Political Union that provides the foundation for all of the above through genuine democratic accountability, legitimacy and institutional strengthening.

Often accused of being unable to take real measures and put in place efficient mechanisms to accomplish the goal of having a functional Economic and Monetary Union in terms of financial integration and real convergence, the European Commission committed through the voices of the 5 Presidents to a process developed in two stages with a timeline of ten years (Junkers *et al*., 2015, 5):

Stage 1 (1 July 2015 – 30 June 2017) – named "deepening by doing", was dedicated to a process of reviving and rearranging the existing instruments and mechanisms in order to boost competitiveness and the structural convergence with the final goal to complete the Financial Union, "achieving and maintaining responsible fiscal policies at national and euro area level, and enhancing democratic accountability".

Stage 2 – named "completing EMU" will focus on the convergence process reinforced by a set of commonly agreed benchmarks for convergence that could be given a legal nature. Reaching these standards and continuously adhering to them will represent the main condition for the euro area Member States to participate in a shock absorption mechanism for the euro area.

The report envisaged a final stage (at the latest by 2025) with all the projected actions and steps fulfilled that will provide a so call "deep and genuine EMU" as "a stable and prosperous place for all citizens of the EU Member States that share the single currency, attractive for other EU Member States to join if they are ready to do".

If in 2012, the road map to achieve a "deep and genuine EMU" was facing a wave of support from the academia and the business environment, in 2015 the initiatives of the European Commission were critically analysed and interested parties had various positions.

The European Economic and Social Committee expressed its opinion, on September 2015, regarding the envisaged process of completing the Economic and Monetary Union through an opinion. The EESC position is firmly against continuing the austerity policy based on spending cuts without a solid investment plan "to generate revenue through growth, social cohesion and solidarity". The EESC stressed out that the Community method to build a more democratic and social EMU is the best way to allow the EU's social policy objectives to be reach. Analysing the five presidents' report, the EESC pointed out some directions of disagreement with its view: given the little progress made with the proposed anti-crisis policy, the enhanced structural reforms without an adequate social union as a primary goal of the EMU is a wrong path to be taken but the report speaks only about fiscal, financial and political union; strongly supports the full „parliamentarisation" of the euro area, giving the social partners a real involvement in the construction of the EMU must be a priority as the European social model is the foundation of the European Union as "a serious debate on a well-founded architecture of the EMU, implying a consensus concerning economic and social objectives as well as agreed governance, is unavoidable" (EESC, 2015, p 10); encourages the Macroeconomic dialogue in the euro area for the development of a more democratic and social EMU; underlines the importance of a "smooth interaction between monetary and budgetary policy and wage development in order to ensure more growth and jobs, boosting confidence in monetary union" (EESC, 2015, p 11).

ADEMU[1] Scientific Coordinator Ramon Marimon, responding to a survey regarding the five presidents' report, declared that "it is a step ahead towards the policy and institutional consolidation of the Euro area. Unfortunately, this does not necessarily imply that they guarantee economic growth and financial stability in the Euro area". Marimon' opinion on how effective will be the implementation of the process presented by the report points out that the key elements for a successful completion of EMU remained undefined.

Another European think tank, Jacques Delors Institute, expressed cautiously its opinion on the process proposal considering that important substantial elements are included (a drive to complete the Banking Union by mid-2017 and a proposal to formulate binding "convergence indicators" that decide whether a country may accede to an EMU-wide shock-absorption mechanism) but underling that the report failed to discuss: improvements to the European Stability Mechanism's governance and accountability and measures to deal with a sovereign default in the euro area (Enderlein and Haas, 2015, p. 1).

To summarize, as other opinions (of Bruegel or BusinessEurope) go in the same direction, we consider that the planned process of completing a well-functioning Economic and Monetary Union represents a step in the right direction emphasizing the need to urge the achievement of the banking, fiscal, capital markets and political unions, but being too vague regarding the means to boost the competitiveness, to trigger real economic convergence and to ensure a social union as well, the results expected will be delayed, again.

After two years of implementation, the history of the process of completing the EMU repeated: some of the measures and instruments became functional (the Single Supervisory Mechanism and the Single Resolution Fund) but the last pillar of the banking union – a European Deposit Insurance Scheme (EDIS) is still not in place and the perspectives aren't optimistic (especially for political reasons and due to national positions of the Member states); for the other steps to be made little and insignificant progress was registered. We consider that one more minus of all initiatives taken is a very little importance gave to the EU member states that are not members of the Eurozone even the declared future goal of the European Union

[1] ADEMU (A Dynamic Economic and Monetary Union) is part of the Horizon 2020 work program topic Resilient and sustainable economic and monetary union in Europe (EURO-1-2014). The primary focus of the project is on the dimension – The impact of macroeconomic and social imbalances on economic stability. http://ademu-project.eu/project-overview/;http://ec.europa.eu/research/social-sciences/index.cfm?pg= newspage&item=150720.

is to enlarge it and to offer a safe economic, financial and social environment that will allow to growth and prosper for the members of the European Union.

Conclusions

The present paper had as goal to investigate and to analyse the process of completing the Economic and Monetary Union, designed and implemented by the European Union, after the weaknesses showed by the crisis from 2007 – 2008.

After analysing the steps made from the 80's until now to fulfil the goal of free movement of the capital in the European Union and to have a well-functioning Economic and Monetary Union, we can draw several conclusions:

- Created during a decade, the Economic and Monetary Union was put to a real test by the financial crisis from 2007-2008 and failed to pass;
- For the a four years span a variety of measures were taken, several new mechanisms and instruments were created but the actions taken were not well coordinated and the results expected did not appear.
- The first initiative to develop a process to complete the EMU was viewed as a good plan and was considered a proof that the political will among the EU member states is to support the measures envisaged to be taken.
- The credibility of the European institutions dropped as the processes designed failed repeatedly to become a reality.
- The resistance of the EU member states, especially of those in the euro area, to the implementation of these processes proves that the financial integration and the real convergence is more of an ideal to discuss about than an immediate and real goal of the EU member states.

Even a plan "well designed" is in place from 2015 the failure of become a reality is recognized by European Union that kept producing more papers (white paper, reflecting paper) and kept coming with new "possible ways" to solved the problems that prevented achieving a genuine economic and monetary union.

In our opinion, the solution is not to create every couple of years new plans, new tools and new institutions or regulatory bodies at European level in order to finalize the EMU but to find the way that the political will across the European Union (representing a diversity of cultural, religious and social communities) consider that is in the best interest of the EU members to genuinely follow the rules, and implement the mechanisms already in place. On the other hand, the European Union must be able to function as a supra-state structure which decides in the direction of the general good and is not biased in decisions on penalizing those economies that endanger the balance and the development of the Economic and Monetary Union regardless of which member states they belong to.

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