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Without the euro. Legal and economic perspectives of the "euro-outs" on the EMU reform

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Dear Colleagues,

In the European Union, the rule is that all EU member states – apart from Denmark and the United Kingdom, which has just left the EU - are "required and entitled to join the euro once they fulfil all conditions". Today, eight of the EU 27 member states have not yet joined the common currency area. The progress in Eurozone enlargement has come to a halt, since Lithuania joined the single currency at the start of 2015.

We have to bear in mind that the euro is not just a currency. It is a political project uniting Europe. It facilitates growth, stimulates competitiveness, offers political security, facilitates benefiting from common policies and strengthens Europe's role in the global world.

The differentiation between euro 'ins' and 'outs' has, in my view, a negative impact on EU integration. It creates asymmetries in addressing common challenges. Policy responses to the challenges in certain areas, in particular in economic and financial sectors, are, in my view, tailored to the specificities of Eurozone members. On the other hand, national reflexes of Eurozone members regarding reforms hinder EU's efforts to streamline or make legislative instruments more consistent. Also, even though the Capital Markets Union is a project for all Member States, still, you do not hear voices coming from outside the Eurozone.

Another example is the fact that the debate on the global role of euro – to make it more attractive to the international investors - takes place amongst euro states. The

Banking Union has been so far limited to Eurozone members only, and no Member State that is currently out of the Eurozone has opted to join. Yet, the benefit and desirability for all Member States to be part of the Banking Union is obvious. At the same time, non-euro Member States have the ability to block decisions on issues that are important for the integration of the Eurozone in fear of further marginalisation or cost implications. The UK used to be a champion in using vetoes in such situations to the detriment of the Eurozone members. As a result, we have in practice a two speed European Union. If it keeps on like this, this two speed principle will become even more deeply consolidated. There are or will be institutional mechanisms that will make it possible.

It is my view, that when EU Member States want to go further in their integration, while respecting the rules of the whole, they should be allowed to do so. Similarly, those who want to join the common currency they should be invited and even more, they should be helped to prepare to join. However, those who do not want to be 'in', should not be given the right to slow down the others. Demonstrating its will to advance in the Economic and Monetary Union, the European Commission has put forward a proposal which is discussed in the context of the MFF negotiations, to amend the Structural Reform Support Programme. The Reform and Investment Support Programme might include a budgetary instrument for the euro area countries and a Convergence and Reform Instrument to provide non-euro area Member States with financial support. Looking into the future, and reflecting on the prospects of other Member States that are currently outside the Eurozone and wish to join, I believe that the Union's way forward should aim at creating frameworks for all 27 Member States, with temporary opt-out options.

This should be true for reforms of financial, budgetary and economic policy frameworks. This should in turn foster the participation and inclusion of all Member States. Currently, those Member States that are outside the Eurozone have limited influence over some EU policy decisions, which are determined by the interest of the euro-in Member States. The role of Eurogroup is increasing, leading on many decisions. This has consequences for interests of the Member States that are outside the Eurozone.

This could be further exacerbated with Brexit. For the 8 Member States, that do not share common currency the departure of the United Kingdom signals the departure of a major non-euro Member State from the European decision-making processes. It also marks a political power shift. The UK not only had a big weight in the legislative decision making due to its population, but it was also traditionally well positioned at the political table, I would even say above its economic weight, and was often a major source of expertise. It will be more difficult for Euro-out Member States to form a 'blocking minority' under the double qualified majority system. In numbers, it could be virtually impossible for those Member States to override the majority formed by Eurozone members in the Council.

Moreover, the absence of political intelligence and expertise of the UK could further exacerbate marginalization of the Member States outside the Eurozone. Also, due to the fact that the prioritized European interests and their own priorities can be different depending on their economic model and situation. Hence, the political unity and common direction amongst the non-euro Member States could be hard to achieve. Brexit, and in particular its consequences for the common currency in the financial sector, can result in a renewed appetite for reinforcing the unity of the euro area. We have already seen changes in the formation of alliances and the emergence of new formats. Estonia, Finland, Ireland, Latvia, Lithuania, the Netherlands and the two euro-outs, Denmark and Sweden, have formed the New Hanseatic League, already in 2018. Czech Republic and Slovakia joined the League later. The unified approach that the Hanseatic League took against the joint proposals of Germany and France for Eurozone reforms, demonstrates how joint representation of euro-ins and euro-outs can be successful.

Finally, looking at the current state of play of the potential accession of non-euro members, their diversity on all accounts does not come as surprise. Croatia and Bulgaria are the two countries closest to accession. Romania has set 2024 as the target date, while Czech Republic, Hungary and Poland have not yet set a date for adopting the euro. In Sweden and Denmark, the euro adoption was rejected by voters in referendum and they don't plan for the time being to repeat these referenda any time soon. My understanding is that if Sweden makes a first move in this direction, Denmark will follow. Croatia seems to be on track for its euro-accession. The Eurogroup welcomed in July 2019, the intention of Croatia to put in place necessary elements for successful entry into ERM II, which is the only formal step missing. According to the 2019 IMF staff report Croatia could get its SSM membership by mid-2020.

On the other hand, Bulgaria has fulfilled most of its commitments undertaken under its Action Plan to join the ERM and the Banking Union. Nevertheless, the 2020 IMF report notes that Bulgaria still needs to make further improvements in important areas. The ECB and the Commission are now monitoring the effective implementation of the commitments made by both Croatia and Bulgaria. Once they have provided a positive assessment, a decision will be taken by the ERM II parties on the formal application for ERM II participation.

The new ECB and European Commission Convergence report coming in 2020, will provide crucial information on the state of play and the prospects of the euro-out countries joining the Eurozone. Commenting on the current state of affairs, it is clear, that the conditions for the accession of Member States to the Eurozone have changed significantly over recent years. Before the economic crisis of 2008-2009, Members States that wanted to join the Eurozone were required to meet the nominal convergence criteria. Learning from the crisis, the 19 'euro-in' member states have become more cautious about admitting new members to the club, afraid that incoming members might not be economically and institutionally prepared. As a result, the conditions for the accession of candidate Member States to the Eurozone have become more stringent. In order to join, a high level of real convergence, maintaining macroeconomic imbalance discipline and joining the Banking Union - at the same time as joining the Exchange Rate Mechanism II - is required. Accessing the Eurozone has admittedly become a big scrutiny exercise, which can prove hard to match.

Today, we are facing another great challenge, with the outbreak of the Coronavirus. The economic impact of the Coronavirus is a big unknown. The Commission has pointed to the downside risks, which seem to be materialising. In light of the evolving situation, it is likely, that an already weak European economy will be hit hard by the Coronavirus impact and might be pushed into recession territory. In view of the outbreak and the consequences it may have, respecting the discipline can prove to be even more difficult. The political will of euro-out Member States to join the Eurozone will be tested as well, but I would risk saying that new situation can have a positive impact on the will to be part of a closer circle of European integration.