



romania2019.eu
Romanian Presidency of the Council of the European Union

 **BANCA NAȚIONALĂ A ROMÂNIEI**

THE PANNEL TOPIC: THE EU'S FUTURE CHALLENGES
seen through the lenses of a central banker from a presiding
non-euro area member state

Joint Vienna Institute, May 17th, 2019

Gabriela Mihailovici, National Bank of Romania

What the Presidency of the Council of the EU could provide to a presiding country:

1. An *inside* perspective:

- a) **A chance to contribute** to the progress of political and technical policy making negotiations in the Council of the European Union

2. An *outside* perspective:

- a) **An opportunity to:** (i) **cooperate** deeper and **coordinate** better within the European context, in line with their economic rationale and the overall institutional building process, and to (ii) **improve** the quality of national institutions
- b) **A time for further reflection** with respect to the institutional balance of power in the EU

1. The *inside* perspective: the RO presidency stocktaking

While presiding these meetings, the **key roles** that the RO authorities must assume are:

1. **the role of an administrator**: preparation and organization of the formal and informal meetings
2. **the role of a coordinator** of working relations between the Council and other EU institutions
3. **the role of an agenda-shaper** of its six-month presidency programme
4. **the role of a mediator** during the negotiations in order to reach acceptable compromises
5. **the role of Council representation** externally and internally

The RO presidency in topics - close files / reach agreements on:

- **Gas market** (review of the Natural Gas Directive)
- **Copyright in the digital single market** (adopting the directive)
- **EU elections** (2 new mechanisms re incidents of disinformation)
- **Brexit** (15 legislative proposals to limit the effects of a no-deal Brexit)
- **Multilateral Financial Framework post 2020** (common understanding on several dossiers)
- **Capital Market Union** (closing fundamental dossiers regarding a more efficient financing of investment projects)
- **Labor market** (establishment of a European Labor Authority)

The RO presidency in figures:

- 1300 events and meetings = 12 meetings per day
- 100 legislative files finalized, as they are “all confirmed in the Council and in a great part in the European Parliament.”
- 25 Conclusions of the Council signed (negotiations closed)
- 23 legislative documents co-signed together with the EP

2a) The *outside* perspective - the EU presidency as an opportunity for more cooperation and boosting the quality of national institutions

A) More European cooperation matters however the degree of interdependency make the difference since it could:

- ***deepen***, triggering more convergence ('put your house in order and prepare for further integration')
- or
- ***widen/dissipate***, generating a gap between the national objectives and the accomplishments of the EMU advancing reform since the cooperation could not progress at the same pace at which interdependence
- or
- ***be mimed to happen***, affecting the quality of national institutions i.e. their strengthening to become more efficient, effective and better run institutions

Neither good policies nor good investments are likely to emerge and be sustainable in an environment with no appetite for cooperation, with dysfunctional institutions, populist policies and poor governance

B) Well functional and effective institutions and strong governance are at a heart of economic development

How?

Policies and institutions are closely interlinked in several ways:

- policy design depends on the institutional capacity: weak or dysfunctional institutions are associated with high policy distortion and institutional incapability
- policies do not emerge from a vacuum! They are a result of bargaining among political ruling parties / groups who shape the institutional profile towards the rule of the law, the policy orientation towards reforms and the political “rules of the game”
- policy choice can significantly influence the way institutions develop → for example: the policy mix in RO = populist fiscal policies have a high impact on fiscal and monetary policies

Let's see the RO central bank case:

Example of policy and political choices in RO:

Policy mix interdependence = overburdening of the NBR monetary policy	Institutional cooperation = undermining of the NBR independence
<ul style="list-style-type: none">• During the last few years, the government adopted a strategy of wage-led growth, stimulating household consumption and GDP growth rates at unsustainable rates• The current wage-push inflation is mainly generated by a number of leading factors:<ul style="list-style-type: none">○ A high, persistent but artificial increase in public sector wages (not backed by an upsurge in competitiveness or productivity growth)○ Additional fiscal stimuli○ A sharp increase in administrative prices○ A persistent scarcity of local workers (emigration)	<p>Is a consequence of the fragmentation of national decision making driven by:</p> <ul style="list-style-type: none">• a constant political oscillation between seeing NBR as producing the most important public good (price stability) and interpreting it as a political tool that requires political control• The political desire to allow other policies (fiscal and financial) supremacy and to undermine the monetary dominance (i.e. prejudices to goal and instrument independence of NBR)

2 takeaways:

- 1) A sustainably stronger expansion of the economy is only possible by increasing productivity and competitiveness**
- 2) The role of monetary policy is to stabilize prices. Its expansionary effects influence economic performance only temporarily (short term)**

2b) An *outside* perspective: a time for further reflection with respect to the European institutional balance of power

Does the EU treat all its Member states equally? Is that indeed the only game in town?

- The reluctance to confer portions of national power to European institutions is based on a **model of sovereignty according to which national government should remain undivided, but be kept as a single and monolithic decisional block** – it originates in Westphalian order and was increasingly promoted in the course of 19th century first with the idea that nation and state should coincide – but it was this same evolution that set the conditions for the rise of nationalism and catastrophes from 1914 to 1945!
- **Being an EU member state implies an already assumed level of cooperation and interdependency and the unlimited national autonomy does not exist any longer!**
- So, the risk of neglecting this reality in such a deep integrated EU is that the sovereignty claimed now can, in fact, be regained – rather than lost – by delegating tasks for common policies to supra national institutions (by adopting the euro, entering Banking Union, Capital Market Union, etc.) → **acting alone with unlimited national autonomy is less effective than delegating power to Eurozone** → **the key is cooperation and willingness for trade-offs!**

There are always means for reconciliation – another game in town?

The tension between large and small countries has been a constant point of reference in European political life since the 16th century → what matters is **to achieve convergence and to avoid divergence!**

Reaching a faster CONSENSUS around the most urgent EU projects is a form of deepening European cooperation → How?

For example, by **securing the European tri-polar institutional balance of power**

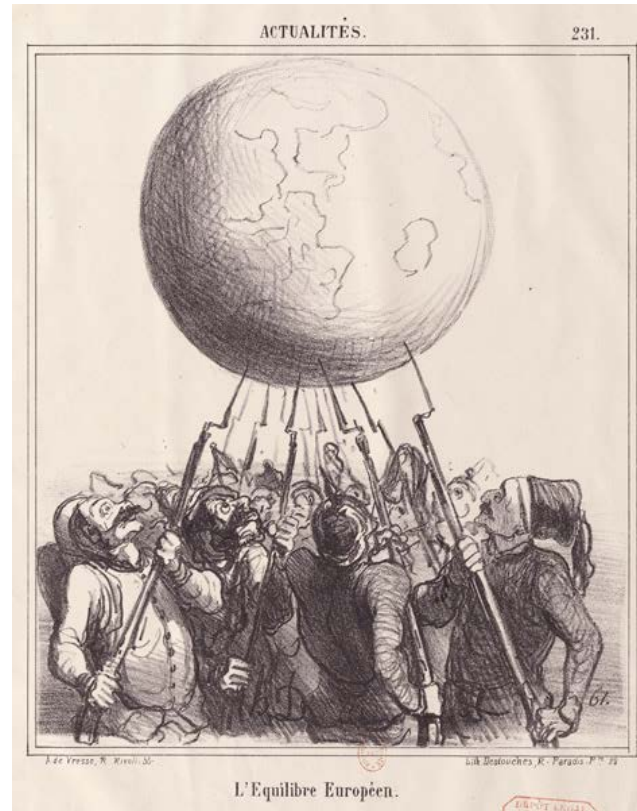
- The voting system in the Council (the 2 principles of equality and proportional representation)
- the economic priorities assumed by the future Commission and
- The tasks of the future European Parliament
- (The increasing role of the future High Representative of the Union for Foreign Affairs)

Reconcile and simplify them might be a noble objective if it is done in a consensual manner otherwise it could become counter-productive by generating new tensions



The EU has never been simple; it probably needs to remain somewhat complex to preserve its efficiency and its legitimacy in the eyes of all EU citizens!

Thank you for your attention!



Source:
Honoré Daumier "L'Équilibre européen" [**The European Balance**],
plate n° 231 in the series "Actualités", 1866, lithograph, published
in *Le Charivari*, 1 December 1866.