THE EXTERNAL REPRESENTATION OF THE EU AND EMU

Recent developments, such as the agreement on IMF governance reform, the emergence of the G20 as the prime informal grouping to coordinate the global crisis response and the adoption of the Lisbon Treaty, make it appropriate to pay closer attention to the evolution of the external representation of the EU and EMU during the first twelve years of the euro. This article looks into the rationale for European coordination on issues of interest to the EU and of particular relevance to EMU that are addressed in international financial institutions and fora, and explores the benefits of a coherent external representation on such issues. The article explains why the ECB is interested in efficient coordination and representation on European issues and how it contributes to this objective. Against this background, the article reviews and assesses the current arrangements in particular for representing EMU externally and looks at the challenges ahead.

1 THE RATIONALE FOR EUROPEAN COORDINATION AND INTERNATIONAL COOPERATION ON EMU ISSUES

EU Member States and euro area countries are undergoing two simultaneous integration processes. Like all advanced economies, they are integrating into the international economy as part of the overall process of globalisation. Uniquely, they have also been integrating increasingly among themselves via the process of European integration. The combination of these two processes puts EU Member States in a special position when it comes to international cooperation.

Globalisation in general creates structural economic shifts that constrain the possibilities of EU Member States – like all countries – to take economic and financial decisions without exerting an influence on each other. Cooperation at the international level is a tool for better internalising the external effects of such economic and financial decisions, as well as for mitigating the risks of negative spillovers arising from unsustainable domestic policies and developments.[1] The EU, which is the largest economic area in the world as well as the world's largest exporter of goods and services, and the euro area, which issues the second most important reserve currency, are key partners in this process.

European integration has fostered economic interdependence between EU Member States, which together form an internal market, and are thereby becoming increasingly aligned in their economic interests. Even when the interests of individual EU Member States diverge, the distance between their positions is likely to be smaller than those between non-EU countries. This means that there is a strong incentive for EU Member States not only to actively engage in international fora, but also to do so in a coordinated manner. This rationale is even stronger for the euro area countries, which share a common currency.

EUROPEAN INTEGRATION AND COORDINATION ON EMU ISSUES

Beyond the economic rationale for coordination, the creation of the Single Market and the single currency, and the requirement for EU Member States to coordinate their economic policies within a European framework, imply a transfer of economic policy competences from the national to the European level. This transfer of competences, which can be partial or even complete in specific instances, also has implications for the representation of these policy areas in international fora.

In particular, in line with European Court of Justice (ECJ) case law, where the EU has an exclusive internal competence, the EU alone is responsible for the external representation of that competence. Looking specifically at

1 The positive aspects of globalisation were highlighted in an article entitled "Globalisation, trade and the euro area macroeconomy", *Monthly Bulletin*, ECB, January 2008. See also the article on the benefits of global cooperation entitled "The financial crisis and the strengthening of global policy cooperation", *Monthly Bulletin*, ECB, January 2011.

competences relevant for EMU, this principle applies for the single monetary policy and exchange rate policy, and at the EU level for competition policy and the common commercial policy. In all of these areas, the relevant EU institutions represent their policy competence in international fora.

In areas where both the EU and the Member States are competent, representation is typically more complex. Economic and financial policies are a case in point. While some competences (such as the Single Market, including financial regulation, as well as energy and the environment) are shared between the EU and the Member States, other policy areas, in particular fiscal and structural policies, have remained largely a national competence, albeit subject to coordination and surveillance tools at the European level. The ECJ stipulated in an opinion that,

"… when it appears that the subject-matter of an international convention falls in part within the competence of the [Union] and in part within that of the Member States, it is important to ensure that there is a close association between the institutions of the [Union] and the Member States both in the process of negotiation and conclusion and in the fulfilment of the obligations entered into. This duty of cooperation … results from the requirement of unity in the international representation of the [Union]."[2]

The most relevant shared competences from the EMU perspective are those related to the internal market. Here, there is both an economic incentive for EU Member States to coordinate their positions in international fora in view of the mutual interconnectedness of their economies, and also a legal obligation to do so, owing to the wide-ranging EU initiatives in this area, which result in a high degree of harmonisation of their national legislation. EU Member States also share a common interest in ensuring consistency between EU and international regulations so as to avoid regulatory arbitrage.

There is also a rationale for EU Member States and euro area countries to coordinate their representation on issues or policies, such as fiscal and structural policies, that are largely national competences. This is because these policies are guided by EU policy frameworks and are, at the same time, increasingly subject to international cooperation. Thus the institutional policy set-up of the EU and the euro area needs to be adequately respected and represented.

In view of their more stringent governance framework, the rationale for coordination is particularly relevant for euro area countries. For example, within the context of the G20 Framework for Strong, Sustainable and Balanced Growth, as far as assessments of external imbalances are concerned, the European dimension needs to be duly taken into account. Also at the time of the IMF-led multilateral consultations on global imbalances in 2006, the euro area participated together with other systemically important countries, i.e. China, Japan, Saudi Arabia and the United States. Another illustration of the perception of the euro area as an entity in its own right are the spillover reports that the IMF will conduct in 2011 for the euro area, as well as for China, Japan, the United Kingdom and the United States. Moreover, the EU is a member in its own right in the G20, which has emerged as the prime informal grouping to coordinate the policy response to the current crisis at the global level.

Finally, it should also be noted that, according to a recent Eurobarometer survey[3], most EU citizens do not feel that their countries are best placed to represent their interests on EU and EMU-related issues by acting alone in international fora. Indeed, less than one in ten EU citizens consider their national government to be the right agent when it comes to the regulation and reform of global financial markets, and instead put more trust in the international and European organisations to address these tasks. Many citizens favour a stronger role for the EU as an actor on the

2 Opinion No 2/91 of the European Court of Justice of 19 March 1993, ECR I-01061.
3 Economic Governance in the European Union, Standard Eurobarometer 74, January 2011.

international stage, with over eight in ten supporting a greater role for the EU in the process of developing new rules to govern the global financial sector. These findings suggest strong public support in EU Member States for international cooperation on European issues.

2 COMPLEXITIES IN THE EXTERNAL REPRESENTATION OF EMU

While there is a clear rationale for the EU Member States to coordinate their participation in international cooperation, their representation in international institutions and fora is characterised by a certain degree of complexity.

The representation of the "monetary leg" of EMU is unified and consistent. The single monetary policy is represented through the ECB in all relevant institutions and fora. This clarity derives from the fact that monetary policy is an exclusive EU competence, which implies that the EU has sole responsibility to represent it externally. The ECB is given a clear role under the Treaty to decide on this representation (see the box below). A similar clarity applies to exchange rate matters, which are also an exclusive EU competence. However, in contrast to monetary policy, both the ECB and the ECOFIN Council (de facto the Eurogroup[4]) are involved in this competence. Eurogroup participants regularly review exchange rate developments and both the President of the Eurogroup and the President of the ECB participate in informal gatherings during which exchange rate matters are discussed. This specific set-up for the external representation of monetary and exchange rate issues has required some adjustments to be made to the existing rules and procedures of international institutions and fora – as will be described in the following section. The long-standing framework for international cooperation, where membership is as a rule country-based, was not tailored to the involvement of a monetary union that is not at the same time a fully fledged political union, i.e. a currency with a central bank, but without a "government".

4 The Eurogroup was created to meet the need for enhanced economic policy coordination amongst EU Member States sharing the single currency. At its informal monthly meetings, the Eurogroup brings together, under the chairmanship of its elected President, the finance ministers of the euro area countries, the European Commissioner for Economic and Monetary Affairs and the President of the ECB.

Box

RELEVANT EU PROVISIONS GOVERNING COORDINATION AND REPRESENTATION ON EMU ISSUES

The EU framework for coordination and representation of EMU is based on European Council conclusions, Article 138 of the Treaty on the Functioning of the European Union (TFEU) and the Statute of the European System of Central Banks and of the European Central Bank (Statute of the ESCB). These provisions aim to ensure the coherence and effectiveness of the EU, so as to enable it "to speak with one voice on issues of particular relevance to economic and monetary union."[1]

Legal basis

While Article 138 of the TFEU confirms in substance the provisions of the Nice Treaty regarding EMU external representation, it clearly strengthens its wording by adding an explicit reference to a "unified representation within the international financial institutions and conferences."[2]

1 Paragraph 15 of the Presidency conclusions of the Vienna European Council of 11 and 12 December 1998.
2 Article 138(2) of the TFEU.

This adds to the existing provisions regarding the establishment of common positions on "matters of particular interest for economic and monetary union".[3] Such positions have to be adopted by the Council (in euro area composition) after consulting the ECB, on a proposal from the European Commission. The same institutional framework prevails for the adoption of measures to ensure a unified representation.

The Statute of the ESCB charges the ECB with the task of deciding how the ESCB shall be represented. In order to prevent any conflict with Council decisions, Article 6.3 of the Statute specifies that these decisions "shall be without prejudice to Article 138 of the TFEU."[4]

Key policy steps

The December 1997 and December 1998 European Council conclusions launched the external representation policy for EMU. In December 1997 the Luxembourg European Council agreed on a basic framework for the implementation of an external coordination and representation of EMU: "The Council and the European Central Bank will fulfil their tasks in representing the [Union] at international level in an efficient manner and in compliance with the distribution of powers laid down in the Treaty. The Commission will be associated with external representation insofar as necessary to enable it to fulfil the role assigned to it by the Treaty."[5]

In December 1998 the Vienna European Council conclusions further specified practical arrangements for the external representation of EMU in order to strengthen coordination on EMU issues in international fora, such as the IMF and the G7: "The introduction of the euro will be a major event for the international monetary system. It is imperative that the [Union] should play its full role in international monetary and economic policy cooperation within fora like the G7 and the International Monetary Fund."[6] Moreover, the European Council reiterated its call for cooperation between EU institutions and Member States by encouraging them to "take the necessary action to ensure a timely and effective preparation of common positions and common understandings which can be presented to third parties in international fora."[7]

3 Article 138(1) of the TFEU.
4 Article 6.1 of the Statute of the ESCB.
5 Paragraph 46 of the Presidency conclusions of the Luxembourg European Council of 12 and 13 December 1997.
6 Paragraph 14 of the Presidency conclusions of the Vienna European Council of 11 and 12 December 1998.
7 Paragraph 15 of the Presidency conclusions of the Vienna European Council of 11 and 12 December 1998.

Representation of the "economic leg" of EMU is less uniform. This is the result of the EU's multi-level governance framework, where competences for economic and financial policies are shared, to varying degrees, between the EU and its Member States. Economic policies are largely a national competence. In these areas, EU Member States can decide on their own representation, although this needs to take into account that economic and financial policies are subject to EU-level coordination frameworks. Financial policies constitute another example of where both the European Commission and national authorities may exercise regulatory competences. Beyond that, there are several other factors that make the coordination of external representation on issues of relevance to EMU more complex.

First, some issues are relevant for the EU as a whole (e.g. single market and financial sector issues), while others pertain only to the euro area (e.g. euro monetary and exchange rate policies), which implies that different coordination processes are required. This is particularly evident in the G20 where, for example, the euro area dimension is relevant for discussions on global imbalances, but the EU dimension is relevant for discussions on the implementation of financial sector regulation.

A second complication is that not all EU Member States are members of all international institutions and fora. While all EU Member States are members of the IMF, only a sub-set of them is represented in the OECD, G7, G20 or FSB.

Third, the fact that competences are spread over several EU institutions may also complicate the external representation of EMU. Whereas there is only one institution – the ECB – that decides on and speaks for the single monetary policy, a number of EU institutions and bodies have a stake in economic and financial issues. For example, representation of a common EU position on financial sector regulation at the G20 may involve the European Commission, the ECOFIN Council, the ECB and the newly established European System of Financial Supervision.

Fourth, the external representation of the "economic leg" of EMU is complicated by the fact that the established framework for international cooperation is mostly country-based and therefore not tailored to the involvement of regional integration groups. As a consequence, national representatives may find themselves in situations where they need to represent EU competences on behalf of the EU. This is, for instance, the case for the IMF Executive Board, where neither the European Commission nor the EU Council Presidency are members, and the ECB only has an observer status (see below).

3 REVIEW OF CURRENT ARRANGEMENTS

Looking at a selected set of current arrangements in international institutions and fora reveals the complexities of the external representation on EU and EMU issues discussed above. Over time, the EU and the euro area have developed procedures to help prepare international policy discussions. For instance, the various topics on the agenda of international meetings at the level of finance ministers – such as international economic policy cooperation, financial regulation and reform of the international monetary system – are discussed and prepared at euro area/EU level by the Eurogroup and the ECOFIN Council and their respective sub-groups, such as the Eurogroup Working Group (EWG) or the Economic and Financial Committee (EFC). Within the Eurosystem/ESCB, the International Relations Committee of the ECB assists the ECB's decision-making bodies in developing common views on international policy issues of relevance to central banks and serves as a forum for discussion and exchange of views.

INTERNATIONAL MONETARY FUND

On the IMF Executive Board, which is the decision-making body for the Fund's day-to-day business, euro area countries are currently spread over eight out of a total of 24 constituencies, and the EU Member States over ten constituencies (see table below). Of these, France, Germany and the United Kingdom each appoint their own Executive Director, while the other countries belong to mixed constituencies that also involve non-EU countries. The composition of these mixed constituencies is a result of voluntary decisions when countries joined the Fund and/or of later moves to take up more influential positions in another constituency.

The IMF's Articles of Agreement restrict membership of the Fund to countries. To enable the ECB to be represented at the IMF without changing this rule, the ECB was granted observer status at the end of 1998. This pragmatic solution enables an ECB observer to participate in meetings of the IMF Executive Board that deal with issues of direct relevance to the ECB. Moreover, the President of the ECB and the European Commissioner for Economic and Monetary Affairs attend the meetings of the International Monetary and Financial Committee (IMFC) twice a year in the context of the IMF's Spring and Annual Meetings.

Current dispersion of EU Member States over ten constituencies in the IMF

Germany
France
United Kingdom
Belgian constituency
Belgium
Austria
Hungary
Czech Republic
Slovak Republic
Luxembourg
Slovenia
Other 3 countries
Dutch constituency
Netherlands
Romania
Bulgaria
Cyprus
Other 10 countries
Mexican – Spanish – Venezuelan constituency
Spain
Other 7 countries
Italian constituency
Italy
Greece
Portugal
Malta
Other 3 countries
Canadian constituency
Ireland
Other 11 countries
Nordic constituency
Sweden
Denmark
Finland
Lithuania
Latvia
Estonia
Other 2 countries
Swiss constituency
Poland
Other 7 countries

Since 1997 EU Member States have stepped up their coordination on IMF issues. Coordination takes place either in Brussels-based meetings, in particular in the EFC sub-committee on IMF-related issues (SCIMF), as well as directly in Washington in the EURIMF group, which brings together the representatives of the EU Member States at the IMF. It depends on the topic under discussion whether it is the euro area that develops common views or whether all EU Member States are involved. For instance, the discussion on the IMF's flagship report, the World Economic Outlook, which involves a discussion on global economic, financial and exchange rate developments, is usually prepared among euro area countries. Moreover, for the euro area Article IV discussions[5] in the IMF Executive Board, the euro area speaks with one voice and issues a written statement, which includes a distinct section on monetary policy prepared by the ECB.

Common views on the Global Financial Stability Report, which focuses on financial market issues and developments, are prepared among the EU Member States in view of the existence of the single financial market. An example of the application of the single voice principle among EU Member States is the written statement which is delivered at the biannual meetings of the IMFC on behalf of the EU by the EU Member State that holds the rotating EU Presidency. On other issues, common terms of reference provide a set of messages to be integrated into the individual statements of Executive Directors from euro area or EU countries.

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

As in the case of the IMF, membership of the OECD is restricted to countries. However, contrary to the IMF, only a sub-set of 21 EU Member States are members of the OECD, namely Austria, Belgium, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, the Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden and the United Kingdom. Moreover, the ECB and the European Commission also attend certain meetings of the OECD.

5 Article IV consultations are regular reviews of member countries' policies and developments by the IMF under its surveillance mandate. The Fund also conducts a regular review of the monetary, financial and economic policies of the euro area as a complement to its Article IV consultations with individual euro area countries.

Among the OECD committees and working parties that are attended by EU representatives, the Economic and Development Review Committee (EDRC) is of particular relevance. The EDRC has primary responsibility for conducting reviews of the economic situation and policies of each OECD member country. It also conducts regular economic reviews of the euro area and the EU, with a view to identifying the main economic developments in the area and analysing policy options to address them. These reviews complement the reviews of individual euro area countries and EU Member States. For these reviews of the euro area and the EU, common terms of reference are prepared by the EFC, in liaison with the ECB for the section on monetary policy.

INFORMAL FORA FOR FINANCE MINISTERS AND CENTRAL BANK GOVERNORS

G20 FINANCE MINISTERS AND CENTRAL BANK GOVERNORS

The complexities involved in the external representation of EMU can also be observed in the framework of cooperation within the G20, which was designated by G20 leaders at the Pittsburgh Summit in September 2009 as the premier forum for economic cooperation.

France, Germany, Italy and the United Kingdom are members of the forum of G20 finance ministers and central bank governors, while Spain has a permanent invitation. The EU is also a member of this forum, represented by the ECB, the rotating EU Council Presidency and the European Commission. At the meetings of the G20 leaders, which have taken place since 2008, the EU is represented by the President of the European Council and the President of the European Commission. For the meetings of G20 finance ministers and central bank governors, EU Member States prepare common terms of reference. Moreover, a letter setting out the key EU policy priorities is circulated to G20 members.

G7 FINANCE MINISTERS AND CENTRAL BANK GOVERNORS

Finance ministers and central bank governors of the G7 mainly discuss economic and financial developments and prospects in their respective countries/economic area, including exchange rate issues. France, Germany, Italy and the United Kingdom are members of the G7. Moreover, both the President of the ECB and the President of the Eurogroup are invited to all parts of the meetings of the G7 finance ministers and central bank governors, whereas the European Commissioner for Economic and Monetary Affairs only participates in certain parts of the meetings (as do the central bank governors of France, Germany, Italy and the United Kingdom).

FINANCIAL STABILITY BOARD

The Financial Stability Board (FSB), which was established in April 2009 as the successor to the Financial Stability Forum, is a key body in addressing vulnerabilities, as well as developing and implementing strong regulatory, supervisory and other policies to safeguard financial stability. The authorities of a number of EU Member States – Germany, Spain, France, Italy, the Netherlands and the United Kingdom – are represented in the FSB. Moreover, both the ECB and the European Commission are members. At the EU level, common grounds on different issues of the agenda of the FSB are developed by the EU Financial Services Committee, which contributes to the preparations of the meetings of the EFC on financial policy issues.

BANK FOR INTERNATIONAL SETTLEMENTS AND RELATED CENTRAL BANK FORA

The BIS fosters international monetary and financial cooperation and serves as a bank for central banks. It fulfils its mandate by acting, among other things, as a forum for discussion and decision-making among central banks and within the international financial and supervisory community.

As a shareholder of the BIS, the ECB and most euro area central banks participate in the Annual General Meeting of the BIS. The President of the ECB is also an elected member of the BIS Board of Directors.

Hosted by the BIS, the bi-monthly Global Economy Meeting (GEM) is the main forum for discussion among central bank governors at the global level. Governors assess global economic and financial conditions and analyse the global financial system. The central bank governors of several EU Member States are members of the GEM, namely those of Belgium, Germany, Spain, France, Italy, the Netherlands, Poland, Sweden and the United Kingdom. Moreover, the governors from the Czech Republic, Denmark, Ireland, Greece, Hungary, Austria, Portugal, Romania and Finland attend meetings on a revolving basis as observers. The President of the ECB is a member of the GEM and also its current chairperson.

The BIS also acts as hub for a number of permanent committees, of which the following are of particular relevance:

- the Basel Committee on Banking Supervision (BCBS);
- the Committee on the Global Financial System (CGFS);
- the Committee on Payment and Settlement Systems (CPSS);
- the Markets Committee.

The BCBS provides a forum for regular cooperation on banking supervisory matters with the objective of enhancing understanding of key supervisory issues and improving the quality of banking supervision worldwide. Supervisory authorities from a number of EU Member States are members of the BCBS, i.e. Belgium, Germany, Spain, France, Italy, Luxembourg, the Netherlands, Sweden and the United Kingdom. The ECB has observer status at the meetings of the BCBS.

The CGFS is mandated to identify and assess potential sources of stress in global financial markets, further the understanding of the structural underpinnings of financial markets, and promote improvements to the functioning and stability of these markets. Authorities from Belgium, Germany, Spain, France, Italy, Luxembourg, the Netherlands, Sweden and the United Kingdom, as well as the ECB, are members of the CGFS.

The CPSS contributes to strengthening the financial market infrastructure through promoting sound and efficient payment and settlement systems. The CPSS is a standard-setting body for payment systems and, in cooperation with IOSCO, for securities and derivatives clearing and settlement systems. It also serves as a forum for central banks to monitor and analyse developments in domestic payment, settlement and clearing systems as well as in cross-border and multi-currency settlement schemes. The central banks of Belgium, Germany, France, Italy, the Netherlands, Sweden and the United Kingdom, as well as the ECB, are members of the CPSS.

The Markets Committee acts as a forum for open and informal exchanges of views on recent developments in financial markets and the possible short-term implications of particular current events for the functioning of these markets and central bank operations. As regards European representation, the Markets Committee comprises officials from the NCBs of Belgium, Germany, Spain, France, Italy, the Netherlands, Sweden and the United Kingdom, as well as the ECB.

4 CHALLENGES AND OPPORTUNITIES AHEAD

While all EU Member States have a strong economic incentive, as well as a legal obligation, to coordinate their positions at the international level, this incentive is, as argued before, particularly strong for euro area countries by virtue of their closer integration through sharing a single currency. The following observations on the challenges and opportunities ahead will therefore take primarily a euro area perspective.

Many of the complications described above could be overcome if the euro area countries were to avail themselves of Article 138 of the TFEU (see box) and mandate a single representative for EMU. This raises the question as to why, if the incentives for enhanced coordination are clear, they have not done so. One explanation for this draws on political economy models, which predict that, where a potential policy change provides marginal benefits to a larger group, but imposes concentrated losses on a smaller group, the views of the latter group may prevail, as it has a greater incentive and capacity to organise.

Applied to the external representation of EMU, one could thus assert that the benefits of more unified representation accrue to a diffuse group – the citizens of Europe – whose interests would be more effectively represented on the international stage. The losses are concentrated on a smaller group – some euro area governments – that would stand to lose their seat at the table in international fora. However, there are a number of new dynamics that may change the cost-benefit analysis applied by national governments to more unified representation.

NEW DYNAMICS IN EUROPEAN INTEGRATION

First, European integration is an ongoing process. The Lisbon Treaty is very ambitious and calls for important changes in the context in which the EU conducts its external relations. In particular, despite all obvious difficulties, the Treaty aims at strengthening Europe's voice on the world stage by enhancing the overall consistency of and coherence between the common foreign and security policy and the external EU policies, particularly those related to trade, development cooperation and enlargement. To this end, a number of important institutional changes have taken place. The new position of High Representative of the Union for Foreign Affairs and Security Policy (the holder of which is, at the same time, the Vice-President of the European Commission responsible for external relations) aims at unifying the EU's external representation on foreign and security policy issues with that on external EU competences. The establishment of the European External Action Service, supported by a global network of EU delegations, aims at setting up an EU diplomatic service that is intended to progressively coordinate the EU's bilateral relationships with third countries, as well as its multilateral relations. The position of an elected President of the European Council, also created by the Lisbon Treaty, provides an external representative for foreign and security policy issues at the level of the Heads of State or Government.

These developments imply that, for issues of global relevance, the EU is called upon to become progressively the appropriate level at which to coordinate action. This overall development may also create favourable dynamics for the external representation of EMU, all the more so as the importance of economic cooperation at the international level has increased since the onset of the crisis. Indeed, the aspiration for a more unified EU foreign policy may eventually need also to be supported by a more coherent external stance on EMU matters or, by the EMU members particularly, on global economic and financial matters more generally.

Moreover, the frameworks that govern economic and financial policies in the EU have been reinforced, or are currently being enhanced. Measures aimed at making economic governance more comprehensive and stringent reflect a key lesson drawn from the crisis, namely that national discretion in the exercise of fiscal and broader macroeconomic policies must be geared towards supporting the stability of EMU as a whole.[6] The same logic informs the substantial strengthening of the framework for coordinating supervisory policies at the EU level through the establishment of the European System of

6 More information on this issue is provided in the article entitled "The reform of economic governance in the euro area: essential elements", *Monthly Bulletin*, ECB, March 2011.

Financial Supervision.[7] The crisis is also leading to a reinforcement in EU financial regulation and has been setting the stage for greater European cooperation in the area of financial crisis management and resolution. These developments impose tighter boundaries on national discretion over economic and financial policies than previously and reinforce the need and incentive to cooperate in their external representation. In addition, the establishment of the European Stability Mechanism (ESM) from 2013 onwards will provide a permanent framework for euro area authorities to provide financial assistance to euro area countries in financial difficulties. This will further reinforce the incentive for a single euro area voice. To the extent that financial assistance is provided together with the IMF, it may also lead to a stronger voice for the euro area in the IMF.

NEW DYNAMICS IN INTERNATIONAL COOPERATION

There are also important developments taking place at the international level that may affect how EU and euro area governments weigh the benefits of more unified representation. The recent crisis has led to an increased recognition of the economic importance and systemic relevance of emerging market economies and thus the need to better integrate these countries into global governance. Emerging markets represent about one-third of world GDP at market exchange rates and close to a half in purchasing power parity (PPP). Current IMF projections show that the weight of emerging market economies in world GDP will increase further to 39% at market exchange rates and 53% in PPP in 2015. While the increased role of emerging countries was a trend that was acknowledged before the global financial crisis, the crisis has accelerated the need for changes to global governance and to strengthen its legitimacy.

A first visible adjustment was – as mentioned above – the increased role of the G20 finance ministers and central bank governors and the organisation of regular meetings at the level of the Heads of State or Government. The Financial Stability Forum was expanded into the Financial Stability Board, with its broader membership now largely overlapping that of the G20. As regards the IMF, even before the crisis there had been extensive discussions on the need to reform its governance framework in order to increase its legitimacy and efficiency. In this context, significant attention has been devoted to the weight of emerging markets in terms of quotas in the institution and the size and composition of the IMF Executive Board. In November 2010, as part of a comprehensive reform package, the Board agreed – following a political agreement achieved in the G20 – first, to shift quota and voting shares from advanced to emerging markets, and second, to reduce the number of Executive Directors representing advanced European countries in an all-elected Board by two in favour of emerging markets.[8]

The EU and the euro area, together with the non-EU European countries, will now have to decide how to meet this commitment by the end of 2012. The increasing economic weight of emerging markets will translate over time into them accounting for even larger weights in the IMF and corresponding lower weights for advanced economies, including European countries. Given that Europe is bound to see its relative economic weight somewhat diminishing and has to free up space in the IMF's decision-making bodies, it would seem advisable for the euro area to take a proactive approach.

The changing international environment and the new dynamics in the European integration process provide a strong rationale for the EU and euro area to reassess the external representation of EU and EMU issues. In addition to the growing interlinkages between economies, the current crisis has illustrated how different policy areas are intertwined. This requires comprehensive

7 For more information, in particular on the European Systemic Risk Board, please refer to Chapter 6 of the ECB's Annual Report 2010.

8 The agreement refers to Executive Directors representing *advanced* European countries, which implies that a solution will also have to take into account advanced non-EU countries, in particular Switzerland and Norway.

policy responses, covering macroeconomic, regulatory and supervisory as well as governance aspects. To effectively influence the global debate on all of these issues, Europe is well advised to reinforce its efforts to speak with a single voice.

This requires that EU Member States, as a minimum, step up internal coordination processes and adhere to jointly agreed policy lines when the relevant issues are discussed in international fora. However, more efforts will be needed to make Europe's voice on the international stage commensurate with its economic weight. The current dispersion of European representation is not only suboptimal from an effectiveness and efficiency perspective when trying to pursue EU and EMU interests, but it is also increasingly at odds with the expectations of international partners. Pursuing efforts towards a consolidation of European representation will remain a useful policy instrument for promoting the articulation of Europe's voice in international policy debates in the coming years.