

## *Research Fellowship Programme - Future of the EMU*

### **Essay on Revisiting EMU@10**

#### **Background**

In its 2008 report on EMU@10, the European Commission reviewed the main changes brought by the euro, discussed remaining policy challenges and proposed a three-pillar policy agenda to deepen and broaden macroeconomic surveillance, step up the euro-area's role in global governance and make its governance system more effective.<sup>1</sup> Among the identified benefits of EMU, enhanced cross-border trade and financial integration featured prominently, together with higher investment and employment. Additional benefits included increased macroeconomic stability – supported by sound monetary policy and improved fiscal behaviour in Member States –, better income convergence processes and the euro's quick emergence as the world's second international currency. The report also identified a range of important challenges, including a disappointing productivity performance and lasting Member State divergences in macroeconomic performance. This down side reflected both a backlog in structural reforms in some countries and an insufficient awareness of the policies required to ensure that a single currency area functions smoothly. The report therefore called for deepening fiscal policy co-ordination, for broadening macroeconomic surveillance beyond fiscal policy and for better integrating structural reforms in overall policy co-ordination.

#### **Aims of the essay and key questions to be tackled**

The main objective of this essay is to revisit this analysis in the light of the recent crises and evolving policy challenges. The work should provide food for thought for the ongoing redesign of economic policies in the euro area and help shape the evolving governance structure of EMU. To the extent of possible, the essay should provide empirical evidence supporting its main conclusions.

Important questions to be addressed include, inter alia:

- How should the prospects for macroeconomic stability and growth in the euro area be reassessed in the light of the crises? What lessons can be drawn from the crises in terms of the macroeconomic shocks that can affect Member States and what are the implications for the functioning of EMU?
- EMU@10 already noted that living under the euro could put strong demands on the adjustment capacity of participating countries. What can now be said about country needs in terms of adjustment capacity?
- What lessons can be drawn from the crises regarding the nature and the size of cross-border spillovers in the euro area and their implications for policy coordination? Is there a need to coordinate ongoing adjustment processes (e.g. involving both countries with an external deficit and those with a surplus)?

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<sup>1</sup> 'EMU@10, Successes and challenges after 10 years of Economic and Monetary Union', European Economy, No. 2, 2008.

- More generally, how have policy needs and challenges in terms of fiscal, monetary and structural policies evolved due to the crises?
- What are the implications of the strengthening of the euro-area domestic governance, of the rise of the G20 as prime forum for international economic cooperation and of the changing realities in the global economy for the role of the euro area in global governance?