RESILIENT BUT MODEST GROWTH

Real GDP, EA-12

index, Y-7 = 100

cyclical trough

1983 1993 2009
COMPLETING THE ECONOMIC AND MONETARY UNION

WAY FORWARD: DIFFERENT VIEWS

**Economic**
- Solidarity
- Short-term response
- Discretion
- Demand (cyclical/macro)
- All MS (symmetric adjustment)
- Discipline
- Long term reform
- Rules
- Supply (potential growth struct. ref.)
- Only vulnerable MS (asymmetric adjustment)

**Institutional**
- National sovereignty
- Secondary law
- Community framework
- Only vulnerable MS
- Political Union
- Treaty changes
- Inter-governmental
- European Union

#DeepeningEMU
THE WHITE PAPER ON THE FUTURE OF EUROPE – EMU IMPLICATIONS

- DeepeningEMU

**Carrying on**
- Steps to drive growth and prevent shocks
  - financial supervision
  - sustainability of public finances
  - capital markets development

**Nothing but the single market**
- The integrity of the euro and the capacity to respond to a new financial crisis is at risk

**Those who want more do more**
- Deepened cooperation on
  - taxation
  - social standards

**Doing less more efficiently**
- Several steps taken to consolidate the Euro area and ensure its stability

**Doing much more together**
- Economic, financial and fiscal union achieved as envisioned in the Five Presidents Report
**EMU TODAY: AN UNSUSTAINABLE EQUILIBRIUM**

- Insufficient private and public risk-sharing
- Impossible to achieve simultaneously:
  - an appropriate fiscal stance for the euro area as a whole
  - an optimal distribution of the fiscal effort
- Leads to the overburdening of monetary policy
- Risk of renewed financial instability
- Weak/challenged democratic accountability

**Incomplete Banking Union and no CMU**

**Asymmetric surveillance mechanisms**

**No common stabilisation function**
TWO COMPETING MODELS FOR EMU

"Back-to-Maastricht"

- Stronger enforcement of EU fiscal rules to rein debt and deficits
- MIP focused on competitiveness of lagging countries
- Banking Union does not need common deposit insurance
- End to the risk-free status for sovereign debt and establish sovereign debt restructuring mechanism
- More market discipline

Fast forward to federalist EMU

- Distribution of fiscal efforts to achieve an appropriate aggregate fiscal stance
- Symmetric adjustment to help weak countries and reduce Euro area current account surplus
- Full Banking Union to ensure financial stability and private risk sharing
- Fiscal capacity for public risk sharing and eventually sovereign debt mutualisation
- Euro area Treasury
A NEW POLITICAL SYNTHESIS IS NEEDED

Risk Sharing and risk reduction

Financial Union

Convergence Code

Fiscal Union

Reforms and incentives

Sound budgets and fiscal capacity

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COMPLETING EUROPE’S ECONOMIC AND MONETARY UNION

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