DEEPENING OF THE ECONOMIC AND MONETARY UNION

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EMU today: An unsustainable equilibrium

- Insufficient private and public risk-sharing
- Overburdening of monetary policy
- Risk of renewed financial instability
Financial union: the most urgent priority for EMU
Smoothing income shocks via financial markets remains low

Cross-border risk sharing through different channels, in % of total asymmetric shock to output

Fiscal union
Benefits of a central stabilisation capacity

Very bad economic times

Normal economic times

Amount of unused capacity in the economy (output gap)

Fiscal adjustment (change in the structural balance)

COM AF2017
Economic union to strengthen economic resilience

The euro area resilience spectrum

ADAPTABILITY
• Shock Absorption
• Reallocation
Elements for a political synthesis: the EMU package

1. Financial Union

- Complete Banking Union and Capital Markets Union
  - Communication on Banking Union (October 2017)

2. Economic and Fiscal Union

- Economic and social convergence
  - Euro area budget line:
    - Backstop for the BU
  - Structural reform assistance
  - Convergence instrument for euro pre-ins
  - Stabilisation function

3. Institutions and Governance

- Accountable institutions and effective governance
  - Transformation of the ESM into a European Monetary Fund
  - Integration of the substance of the TSCG into EU law
  - European Minister of Economy and Finance