“The global economy is slowing down: Is the Euro Area ready?”

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*7 March, Milan*
Major EMU reforms during the crisis...

More effective prevention of gross policy errors
- Focus on structural balances
- Expenditure benchmark

Focus on debt developments
Debt reduction benchmark

Crisis resolution instruments
- EFSM/EFSF: temporary
- ESM: permanent
- ECB: OMT

Sound fiscal policy

Better enforcement of SGP rules
- Sanctions
- Two Pack: ex ante submission of draft budgets, closer monitoring
- National layer: Directive on fiscal frameworks, Fiscal Compact

Prevention and correction of macro imbalances
- Procedure and sanctions

European Semester for economic policy coordination

Balanced growth

More effective supervision and regulation of the financial system
- ESAs - ESRB - CRD IV
- Banking Union: SSM; direct recap by ESM

Structural reform strategy (Europe 2020)

Growth Compact (EIB, Structural funds, Projects bonds)

... but job not yet finished

ISPI
“L’Euro e l’Europa delle regole”

European Commission – DG Economic and Financial Affairs

Marco Buti
## Two competing models for completing EMU

<table>
<thead>
<tr>
<th>&quot;Back-to-Maastricht&quot;</th>
<th>Fast forward to federalist EMU</th>
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<tbody>
<tr>
<td><strong>Stronger enforcement</strong> of EU fiscal rules with sanctions</td>
<td><strong>More flexible fiscal rules</strong> and a sizeable Euro Area budget</td>
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<td>More <strong>market discipline</strong> in the sovereign bonds markets</td>
<td><strong>Mutualisation</strong> of the sovereign bonds issuance</td>
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<tr>
<td><strong>Incomplete Banking Union</strong> without a meaningful common deposit insurance</td>
<td><strong>Full Banking Union</strong> to ensure financial stability and private risk sharing</td>
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**>> Risk-reduction**

**>> Risk-sharing**

In their « pure » form, both are economically and/or politically unfeasible
The way forward

For the June Eurosummit, EA Leaders in December agreed on:

• Progress on Banking Union and Capital Market Union including a roadmap for political discussions on EDIS
• Agreement on European Stability Mechanism Treaty reform (with a Common Backstop for SRF)
• Main features of the budgetary instrument for convergence and competitiveness (“EA budget”)

After June two ways forward:

Narrow: Improvements at the margin within the current setting, building on the June deliverables

VS

Wide: A new deal overcoming the creditors/debtors divide:
Solving the banking sovereign doom-loop, rethinking fiscal rules, a stabilisation function, EA safe asset (no Eurobonds) and new governance