A New Fiscal and Monetary Framework for the EMU

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EMU today: An unsustainable equilibrium

- Insufficient private and public risk-sharing
- Overburdening of monetary policy
- Risk of renewed financial instability
ADEMU proposals

A central fiscal stabilisation capacity is vital for the EMU sustainability

A common unemployment insurance system goes back as far as 1975 (Marjolin Report) and was reassessed again recently

The EUIS proposal meets the key criteria: sizeable stabilization; no permanent transfers; no change to existing national labour markets/unemployment insurance policies

The ESF proposal is timely and ambitious given current discussions on developing the ESM and integrating counter-cyclical stabilisation into the crisis management framework

The proposal shows how financial contracts can be designed in theory to achieve the above objectives but there are questions on how they would work in practice
The Commission proposals

1) Central fiscal stabilisation: yes, but aimed at maintaining the public investment base
   ➢ Unemployment will be the trigger for support
   ➢ Start with cheap loans, insurance instrument later

2) Strengthening the ESM: yes, but not with a contract
   ➢ Precautionary instruments to avoid loss of market access
   ➢ Cheap loans with light conditionality

BUT POLITICAL HURDLES REMAIN...
Debunking Four Myths

- Lack of fiscal discipline shows that the EU fiscal rules don't work
- A central fiscal stabilisation function isn't necessary if countries rebuild their fiscal buffers
- With a sovereign debt restructuring mechanism we will be finished with the bailout culture
- Completing Banking Union is all that is needed

A COMMON NARRATIVE NEEDED FOR A SUCCESSFUL EURO AREA SUMMIT IN JUNE
Thank you