



**The economic rationale for
deepening Europe's EMU**

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Deepening EMU, a process to be completed by 2025

- ▶ **22 June 2015:** Five Presidents' Report on Completing Europe's Economic and Monetary Union
- ▶ **1 March 2017:** the White Paper on the Future of Europe
- ▶ **31 May 2017:** Reflection Paper on the Deepening of the Economic and Monetary Union
- ▶ **13 September 2017:** President Juncker's State of the Union Speech
- ▶ **11 October 2017:** Communication from the Commission on Completing the Banking Union
- ▶ **6 December 2017:** **EMU package of proposals** adopted by Commission
- ▶ **15 December 2017:** Euro area Summit (in extended format)
- ▶ **22-23 March 2018:** Euro area Summit (in EA format)
- ▶ **June 2018:** European Summit
- ▶ **2018 – 1H2019 :** Decisions under the current EU legislature
- ▶ **2H2019:** New mandate for European institutions
- ▶ **By 2025:** Complete EMU



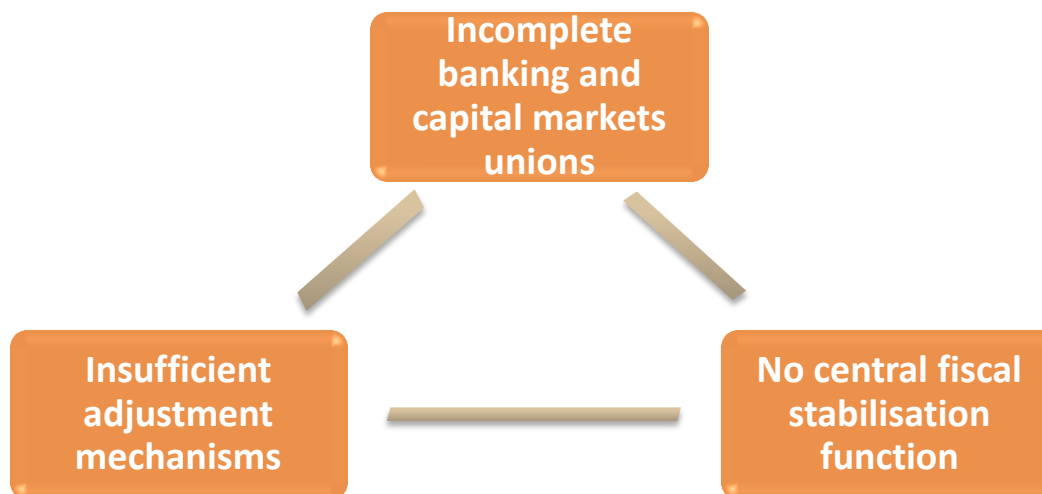
The case for completing the Economic and Monetary Union

A determined response to the crisis stabilised the situation, but challenges remain to be addressed

- Remaining sources of financial vulnerability, esp. given high public and private debt
 - Have the financial-sovereign doom loops been sufficiently severed?
- Low growth potential and persisting economic and social divergences
 - Can we create the right incentives for the necessary reforms (in good times)?
- Insufficient collective stabilisation tools
 - Does the EMU have the capacity to withstand the next large shock?
- Complex governance and democratic deficit
 - Can the decision-process be made more efficient and accountable ?



EMU today: An unsustainable equilibrium



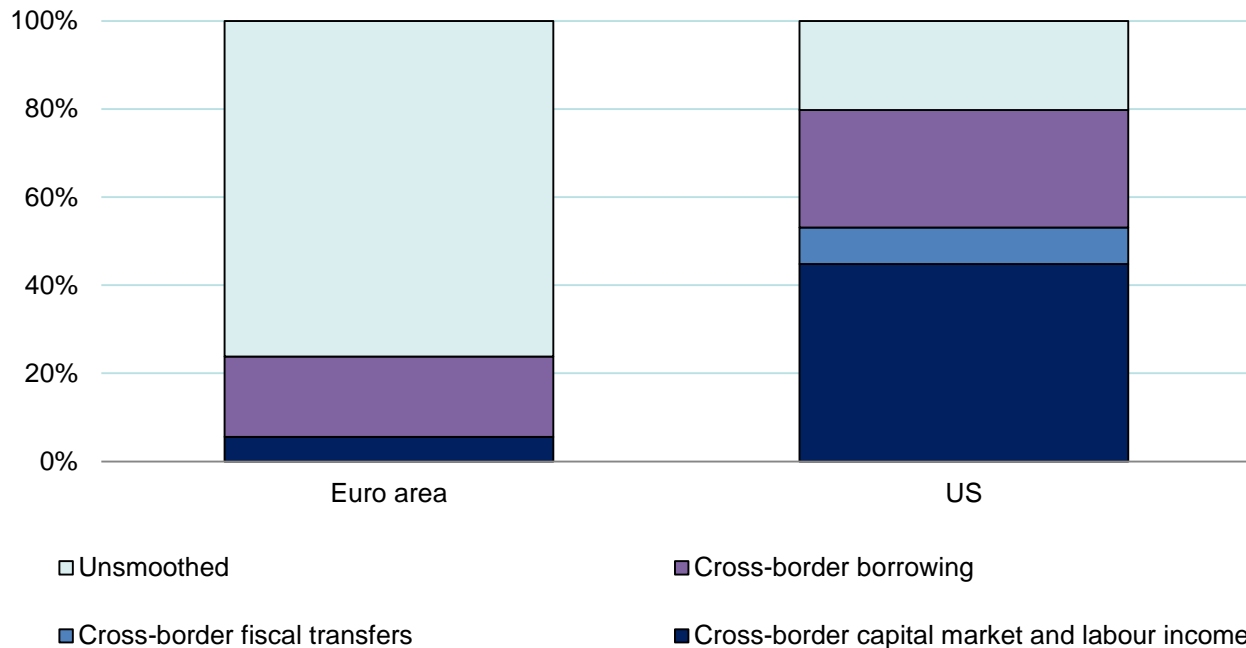
- **Insufficient private and public risk-sharing**
- **Overburdening of monetary policy**
- **Risk of renewed financial instability**



Financial union: the most urgent priority for EMU

Smoothing income shocks via financial markets remains low

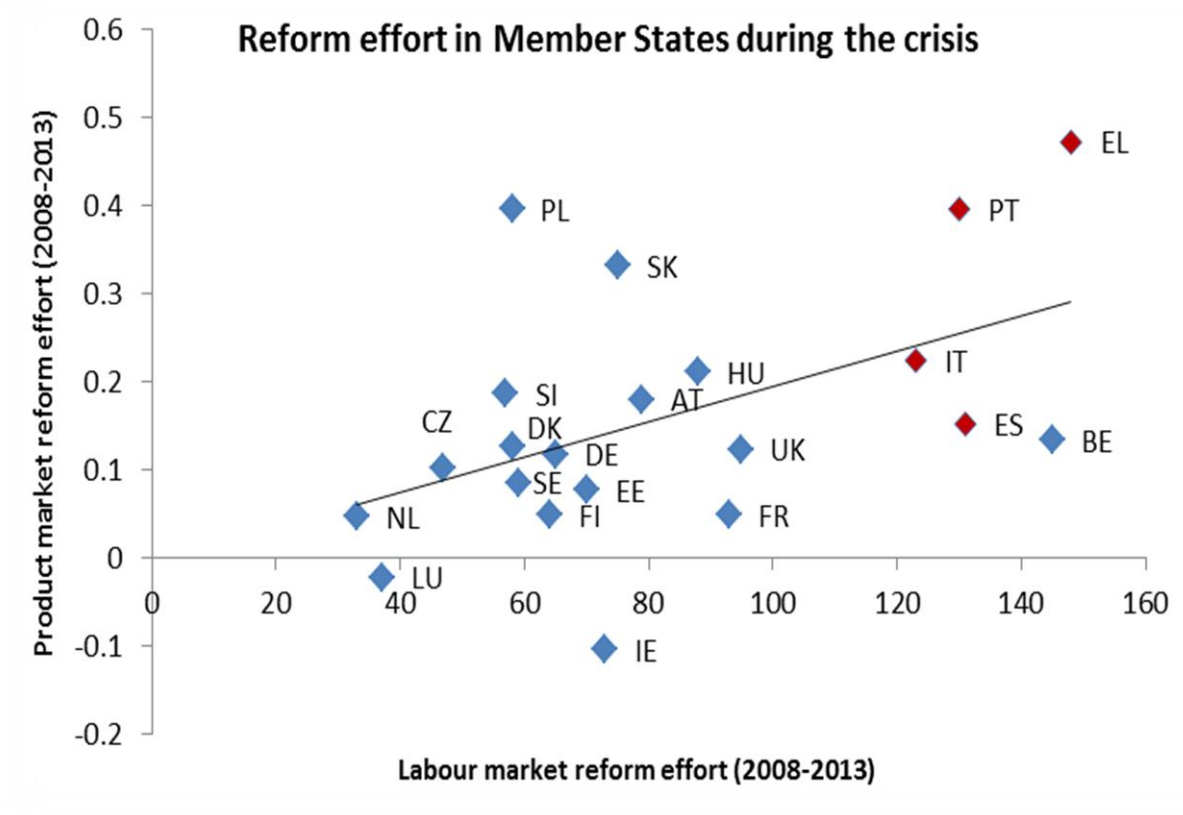
Cross-border risk sharing through different channels, in % of total asymmetric shock to output



Source: Buti et al. (2016). Smoothing economic shocks in the Eurozone: The untapped potential of the financial union, VOX August.



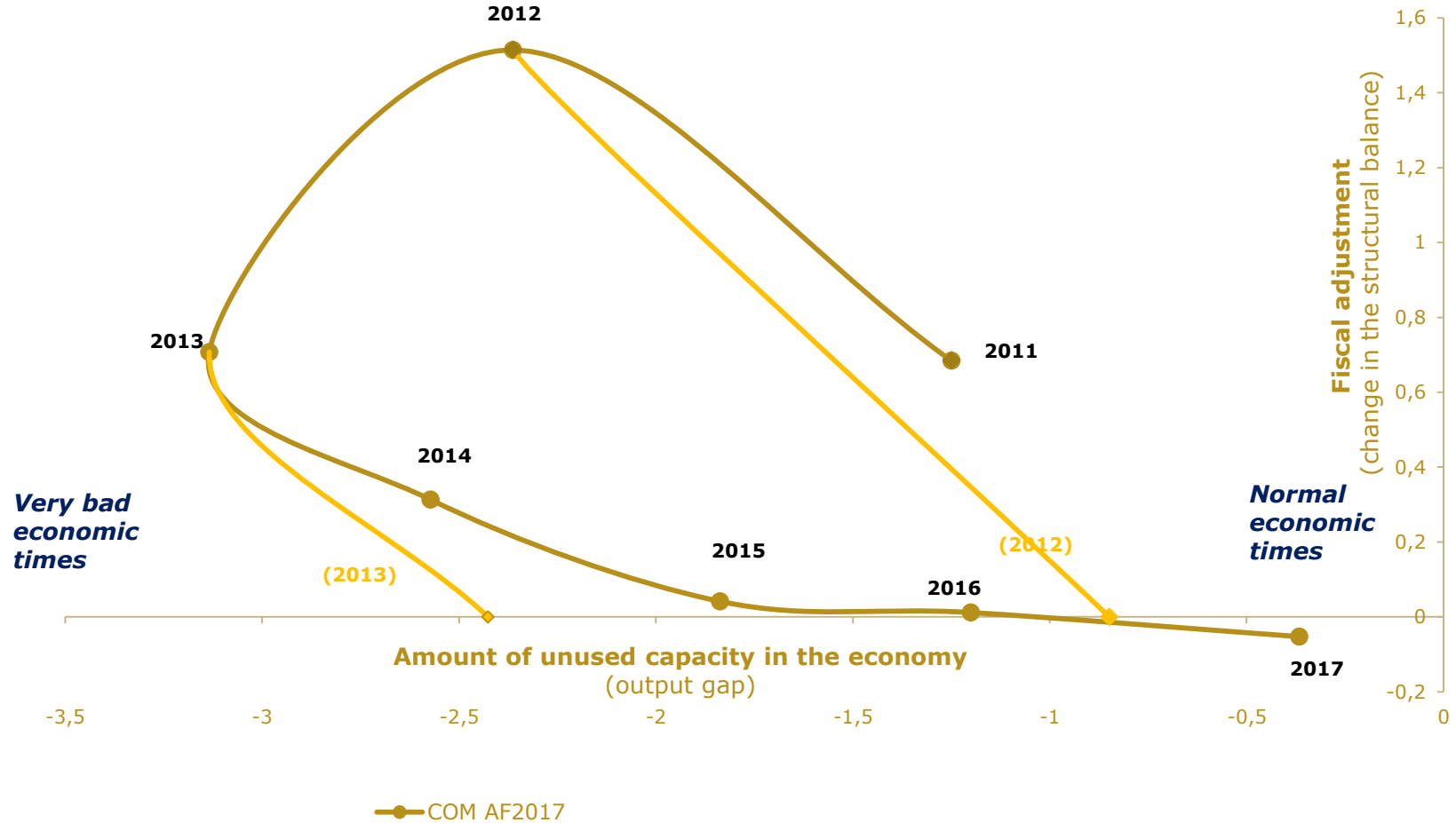
Reforms have been undertaken since the crisis, especially in crisis-hit countries





Fiscal union

Benefits of a central stabilisation capacity





The December 2017 EMU package builds on the synthesis made in the May 2017 Reflection Paper and offers a political synthesis

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

Common fiscal stabilisation capacity

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**



DEEPENING OF THE ECONOMIC AND MONETARY UNION
