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

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
     - Euro area budget line:
       - Backstop for the BU
       - Structural reform assistance
       - Convergence instrument for euro pre-ins
       - Stabilisation function
   - Communication on Banking Union (October 2017)

2. Economic and Fiscal Union
   - Economic and social convergence
   - 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