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BBVA Research

Deepening EMU to create genuine opportunities for business and increase competitiveness and growth in the EU

The Future of the European Union – Employers Perspectives

June 21, 2018

Creating Opportunities

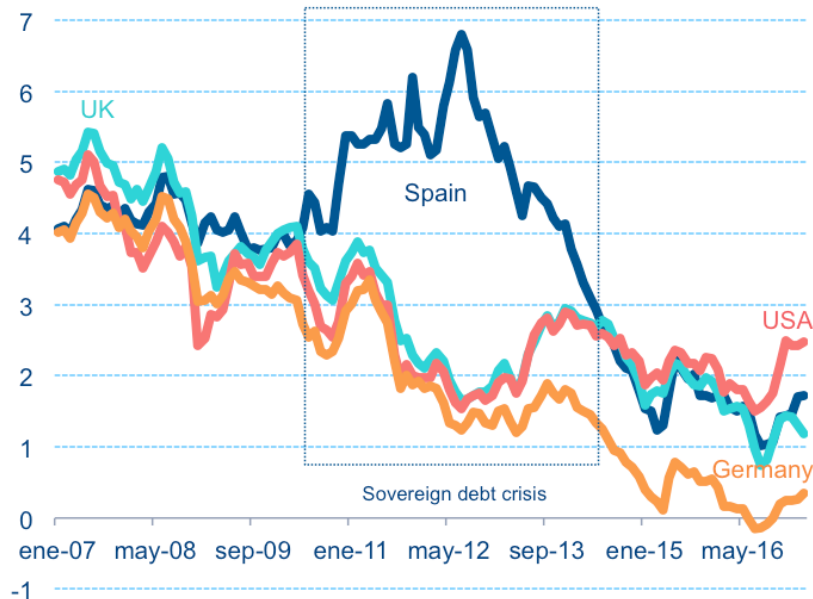
Main messages

- Despite the progress in improving the governance in the last years, the present architecture of EMU is not enough to deal properly with future crisis and face the challenges of the on-going digital revolution
- A genuine monetary, fiscal, banking and economic union, with a non-constrained interaction between monetary and fiscal policies
- The new architecture of EMU should avoid future sovereign debt crisis and allow EMU members to have, at least, the same margin of manoeuvre in their economic polices than non-EMU countries
- Better institutions but also better functioning of the existing ones (countercyclical fiscal consolidation, structural reforms, etc.), as the ECB has done after 2012: no excuse to not fulfil its mandate by intervening in the sovereign bond market ([Constancio, 2018](#))
- European Council, 28-29, June. The Franco-German proposal is a minimal agreement that exceeds expectations, necessary but not enough, with many pending details and without clear commitments in EDIS or in a safe asset. A small step for completing EMU but a bigger leap for its politics ([Sandbu, 2018](#))

Deepening EMU to increase growth

10-year government bond yields, Spain, UK and USA, 2007-2017

(%)



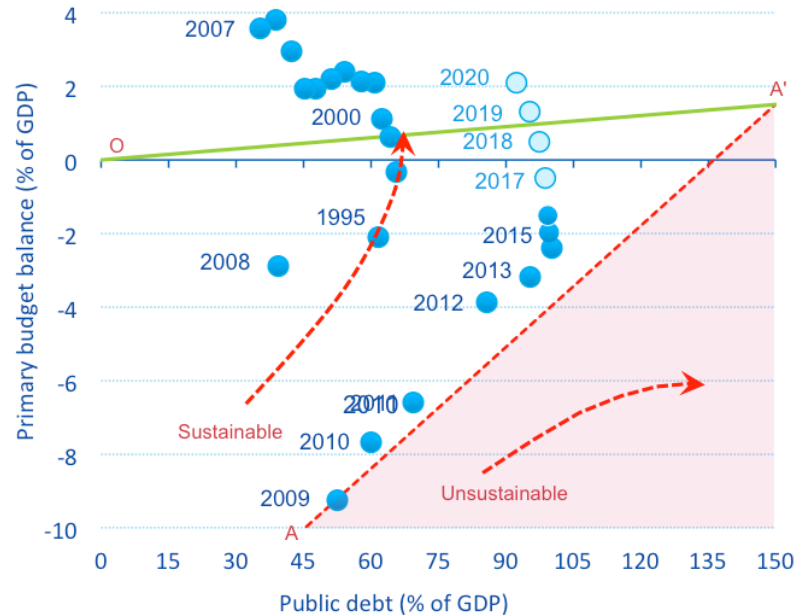
Source: own elaboration from FRED, June, 2017. See [Doménech and González-Páramo \(2017\)](#)

- Despite the progress in improving the governance, the present architecture of EMU is not enough to deal properly with future crisis and the challenges of the on-going digital revolution
- Spain vs. UK: In the sovereign debt crisis Spain had a fiscal situation similar to that of the UK but faced higher financial tensions
- EMU had a larger fiscal space than the US and the UK, but the absence of a genuine fiscal and banking union was a clear limitation

Deepening EMU to increase growth

Public debt and primary budget balance over GDP. Spain, 1995-2018

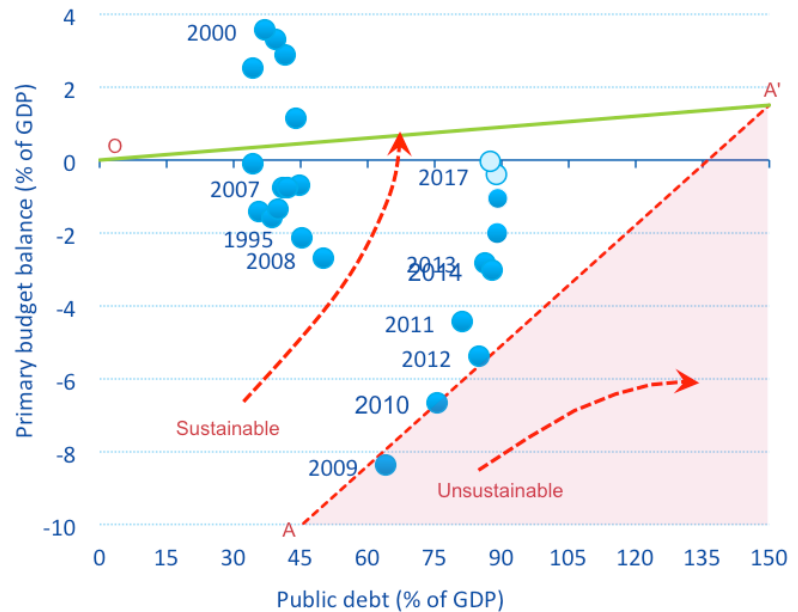
(%)



Source: own elaboration from AMECO, May, 2017.. See [Doménech and González-Páramo \(2017\)](#)

Public debt and primary budget balance over GDP. UK, 1995-2018

(%)

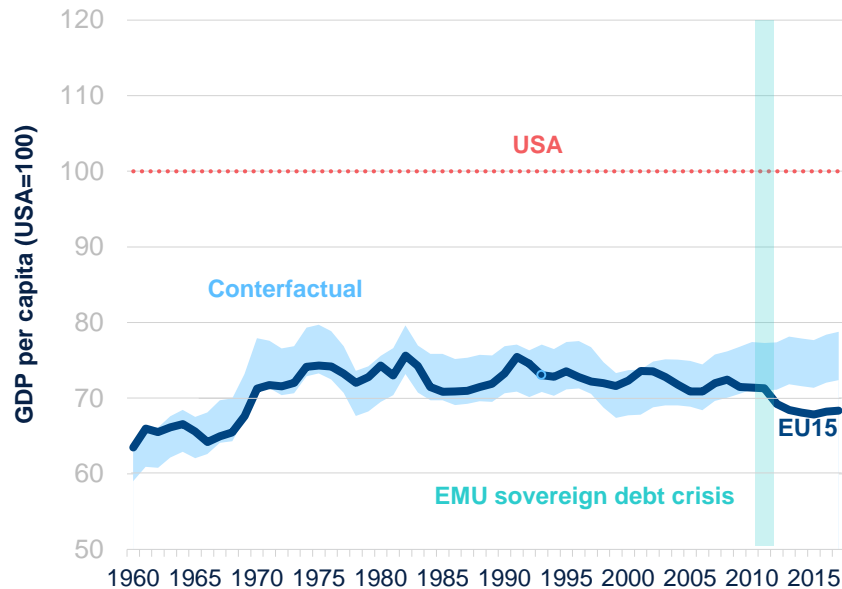


Source: own elaboration from AMECO, May, 2017.. See [Doménech and González-Páramo \(2017\)](#)

Deepening EMU to increase growth

Relative GDP per capita. EU15, 1960-2017

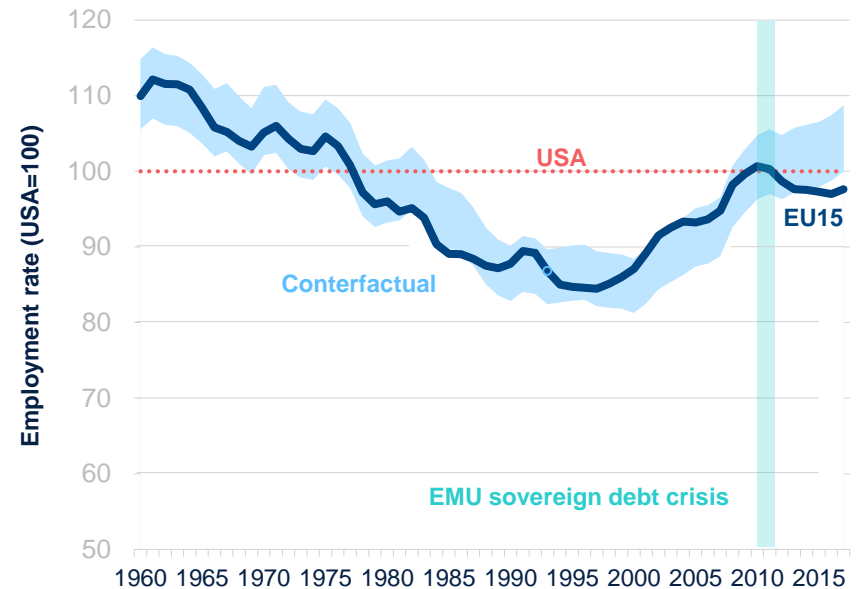
(%, USA=100)



Source: see [Cubero et al \(2018\)](#)

Relative employment rate. EU15, 1960-2017

(%, USA=100)



Source: see [Cubero et al \(2018\)](#)

Challenges for the new architecture of EMU

		Fiscal union	Financial union	Economic union
European responsibility	National responsibility	<p>A truly fiscal union: Eurozone Treasury, with a common budget, taxes, debt and the European Monetary Fund</p> <p>SBBS vs. European Safe Asset w/full risk sharing (Eurobonds)</p>	<p>A truly banking union, with a fiscal backstop for the SRF</p> <p>European Deposit Insurance Scheme (EDIS)</p> <p>Capital Markets Union</p>	<p>Macroeconomic imbalances procedure</p> <p>Social and investment funds for structural reforms</p> <p>Instruments to face asymmetric shocks</p>
		<p>Compliance with the Stability and Growth Pact and the Fiscal compact</p> <p>Fiscal rules</p>	<p>Macroprudential regulation</p> <p>Indirect supervision</p>	<p>Structural reforms</p> <p>Reinforced commitment to EMU</p>
	Crisis management	<p>Financial support in case of sovereign insolvency (SDRM)</p> <p>Conditional liquidity support and ECB as lender of last resort for solvent sovereign debts</p>	<p>Financial support in banking restructuring</p>	<p>Technical assistance</p>

Beyond risk sharing and risk reduction: A Spanish view of EMU reforms (2018)

01

Greater political, fiscal, financial and economic union. Economies need to accelerate their **structural transformation to face digital revolution**

04

Complete the Banking Union with EDIS, a fiscal backstop for the SRF and the convergence of bankruptcy rules. All solvent sovereign bonds should continue to be considered risk-free assets, backed by the ECB (lender of last resort)

02

A Central Fiscal Authority with own revenues and a safe asset, to deal with asymmetric shocks. Commissioner for the Euro ratified by the Committee for EMU affairs in the European Parliament

05

Risk sharing with risk reduction. Incentives to undertake **structural reforms**: only countries that commit to reforms should be able to receive financial support from the centre

03

Simpler fiscal rules monitored at a technical and independent level by a reformed **Fiscal European Stability Board (FSB)** that would absorb the current ESM and integrate it into EU law

06

Treaty changes: greater degree of political union to provide democratic legitimacy and accountability
In the short run, **enhanced cooperation**

Main messages

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