Editorial

This special issue of the OeNB's Monetary Policy & the Economy quarterly was written on the occasion of the Austrian EU Presidency taking place in the second half of 2018. Under the heading "Europe 2030: building a more resilient European monetary union," this issue explores whether the EU and the euro area are sound and resilient enough to prevent future crises, or whether they will at least be able to handle them more adroitly. Authors from the OeNB, some of them in cooperation with authors from other institutions, venture into the future of the European Union and in particular of European monetary union.

Following the onset of the global financial crisis, weaknesses and flaws in crisis prevention and shock absorption quickly came to the fore – not only in EU governance, but also in economic policies, which have remained a national responsibility in Economic and Monetary Union. As a consequence, EU governance underwent a comprehensive reform in 2010/2011. The objective was to shore up the fundamentals of sound fiscal policies in the Member States, to consider to a greater extent national economic conditions and specificities in the European fiscal framework and to anchor the latter in Member States' national law. Moreover, the reform aimed at enhancing both structural policy coordination and surveillance to counteract the buildup of macroeconomic imbalances.

By taking rapid and decisive action, European monetary policy makers played a key role in overcoming the crisis. Cutting the key interest rate to the effective lower bound and using a broad range of nonstandard measures, the Eurosystem successfully managed to ensure the transmission of monetary policy, stabilize inflation and financial markets, counteract financial market fragmentation, restore bank lending to the real economy and stabilize the monetary union. The study by Gnan et al. in this issue addresses a number of current monetary policy topics and forward-looking perspectives on central bank mandates, price stability/inflation targets and international monetary policy linkages.

In 2011, the foundation for a European banking union was laid. This initiative attests to the importance of a well-functioning, stable banking and financial sector for transmitting monetary policy and for funding the real economy. To date, the EU has already made great strides in implementing banking union. The crisis in the financial sector has also shown that microprudential supervision alone, albeit more effective and harmonized for systemically relevant large banks, does not suffice to safeguard overall financial stability. Thus, macroprudential supervision gained in importance. Clearly, implementing banking union and safeguarding financial stability with the help of effective macroprudential supervision may be regarded as milestones in advancing European monetary union. The studies by Boss et al. and Posch et al. address specific issues in these two important areas.

Establishing a European capital markets union (CMU) is yet another milestone. Expectations run high for CMU, as market-based corporate financing is meant to complement, rather than substitute, bank-based financing. In addition, CMU measures are expected to promote private sector risk sharing – similar to that already seen in the United States – across EU Member States in the event of asymmetric shocks. The pursuit of private risk sharing via a single European capital and credit market would reduce the urgency to introduce new common fiscal risk-sharing mechanisms in the euro area. The study by Beer and Waschiczek examines the challenges in implementing CMU and explores the economic expectations associated with it.

In the wake of the crisis, the economic policy debate about whether to introduce additional risk-sharing instruments in the EU and the euro area intensified, with the rationale centering on strengthening resilience in order to respond better to future shocks. The proposals on common fiscal risk-sharing mechanisms among euro area countries in case of shocks, in particular asymmetric shocks, are receiving a great deal of attention. The studies by Katterl and Köhler-Töglhofer and by Prammer and Reiss analyze the European fiscal framework, which underwent reform in response to the crisis, also addressing room for improvement and controversy surrounding various proposals for implementing fiscal risk sharing.

In the decades to come, Europe's prosperity will depend, among other things, on the political will of the individual Member States of the EU and the euro area alike to implement structural reforms. Such reforms will be key to achieving a level of flexibility that is necessary to absorb shocks, to improving the growth potential in the long run and to attaining sustainable real convergence among EU and euro area economies. The study by Fischer and Stiglbauer is dedicated to this topic.

Looking ahead, the likelihood of future crises has been reduced by implementing the fiscal governance framework and numerous regulatory requirements in the financial sector. However, it is of particular importance to ensure that the respective national and European institutions can take targeted action as needed.

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