



OESTERREICHISCHE NATIONALBANK

EUROSYSTEM

Closing remarks

Workshop

Toward a genuine Economic and Monetary Union

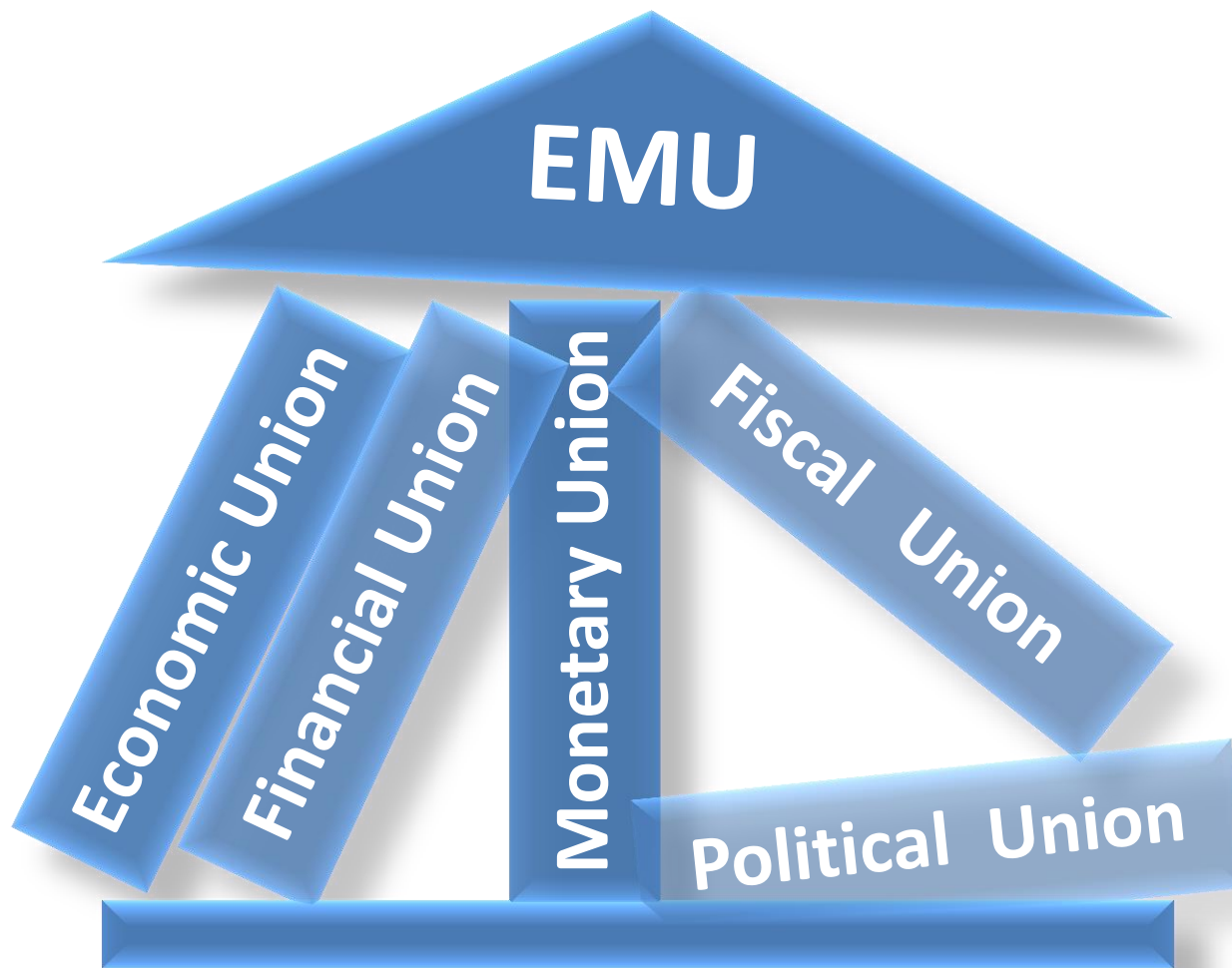
September 11, 2015

Andreas Breitenfellner

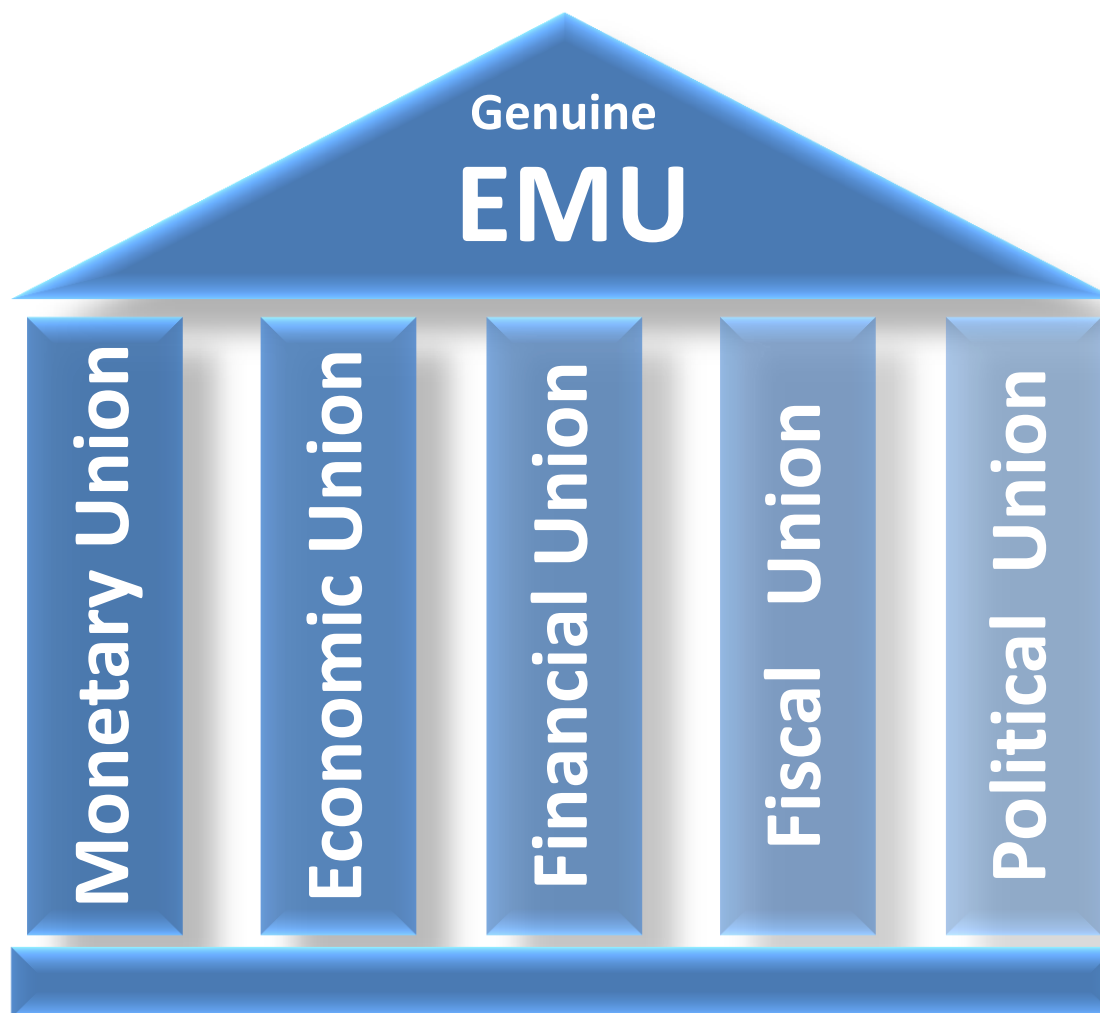
Foreign Research Division

www.oenb.at

Construction site EMU



The vision of the Five President's Report



Emerging consensus but still open issues

- ✓ **The glass is half full**
- ✓ **Some further integration indispensable**
- **What kind of reform-mix? (complements vs. substitutes)**
- **Detailed design? (pooling sovereignty, risk sharing)**
- **Timing and Sequencing? (How to deal with skepticism?)**

Are there easy ways out of impasse?



The debate continues

**If the euro fails,
Europe will fail.**

(A. Merkel)

**L'Europe se
fera par la
monnaie, ou ne
se fera pas.**

(J. Rueff)

**Europe will be
forged in crises.**

(J. Monnet)

**Within our mandate, the
ECB is ready to do
whatever it takes to
preserve the euro.**

(M. Draghi)

**EMU will not
survive unless it
also brings
prosperity to its
members.**

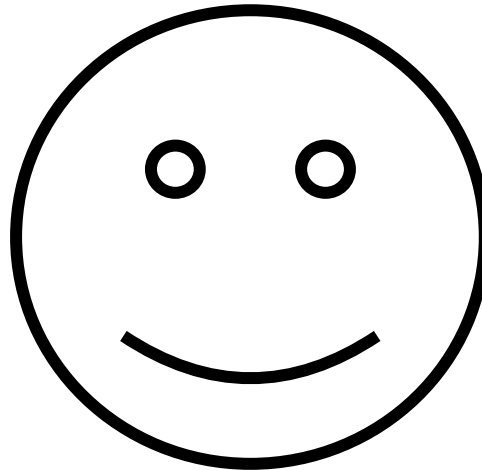
(S. Fischer)

The way forward

- **Publication:**
 - ✓ **Homepage**
 - **Journal EMPIRICA – special issue end-2016?**
 - **Meanwhile workshop proceedings?**
- **Follow-up events?**
- **Networking**
- **Continue research and public debate**
- **Support decision makers**
 - **EMU is a priority of the Juncker Commission.**

Thank you!

- **Contributors**
- **Participants**
- **Euro50 Group**
- **Organizing team**
- **OeNB staff**



Bon week-end and a safe trip home!

Auf Wiedersehen!



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Appendix

A photograph of the facade of the Oesterreichische Nationalbank building, showing a large stone inscription that reads 'OESTERREICHISCHE NATIONALBANK'. The building features classical architectural elements, including a relief of figures above the inscription and ornate carvings on the facade.

OESTERREICHISCHE
NATIONALBANK

The rationale for a monetary union?

Benefits:

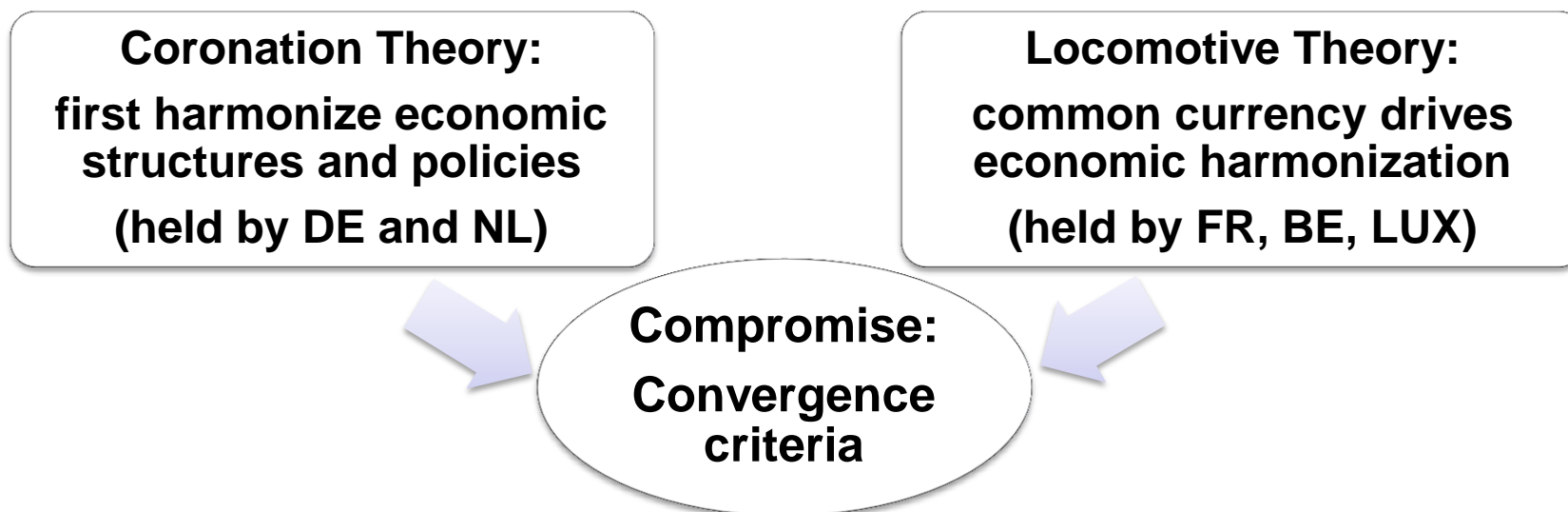
- Exchange rate stability
- Low interest rates
- Low transaction costs
- Price transparency, competition
- Completion of the common market
- Europe's increasing role in the international financial system
- Political integration, European "identity"

Costs:

- No national monetary and exchange rate policy in case of asymmetric shocks
- Divergence creates tensions
- Without a genuine Economic and Monetary Union (EMU), central bank may overstretch its mandate

The euro is part of the European peace project

- **End: political unity**
- **Means: economic unity**
- **Common market requires common currency**
- **But where to start with?**



Optimal currency area theory

R. Mundell (1961), McKinnon (1963), Kenen (1969):

1. Countries benefit from a common currency

- the opener they are,
- the closer their trade relations,
- the more synchronized their business cycles,
- the more flexible their economy (wages and process),
- the more mobile economic factors are (labor and capital).

2. Politics can help “optimize”

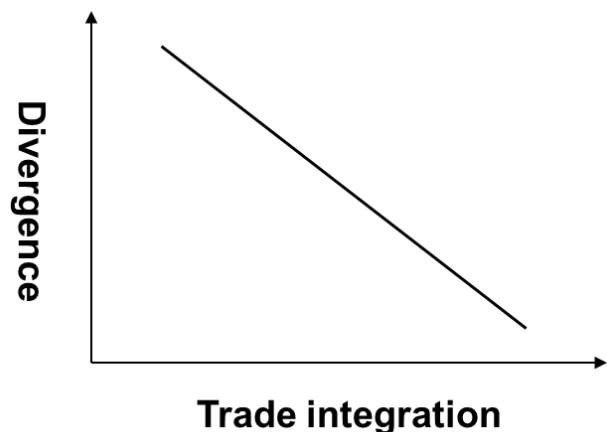
- fiscal discipline (Stability and Growth Pact – SGP)
- economic policy coordination (e.g. investment plan)
- common institutions (e.g. ESM, Banking Union)

(Currency) integration → convergence or divergence?

Optimists

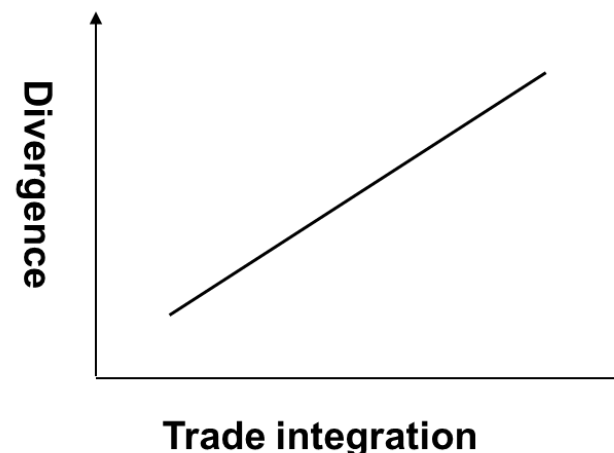
(European Commission, 1998):

- Trade in the EU (intra-industry)
- Demand shocks hit all countries at once
- Integration leads to similar economic structure

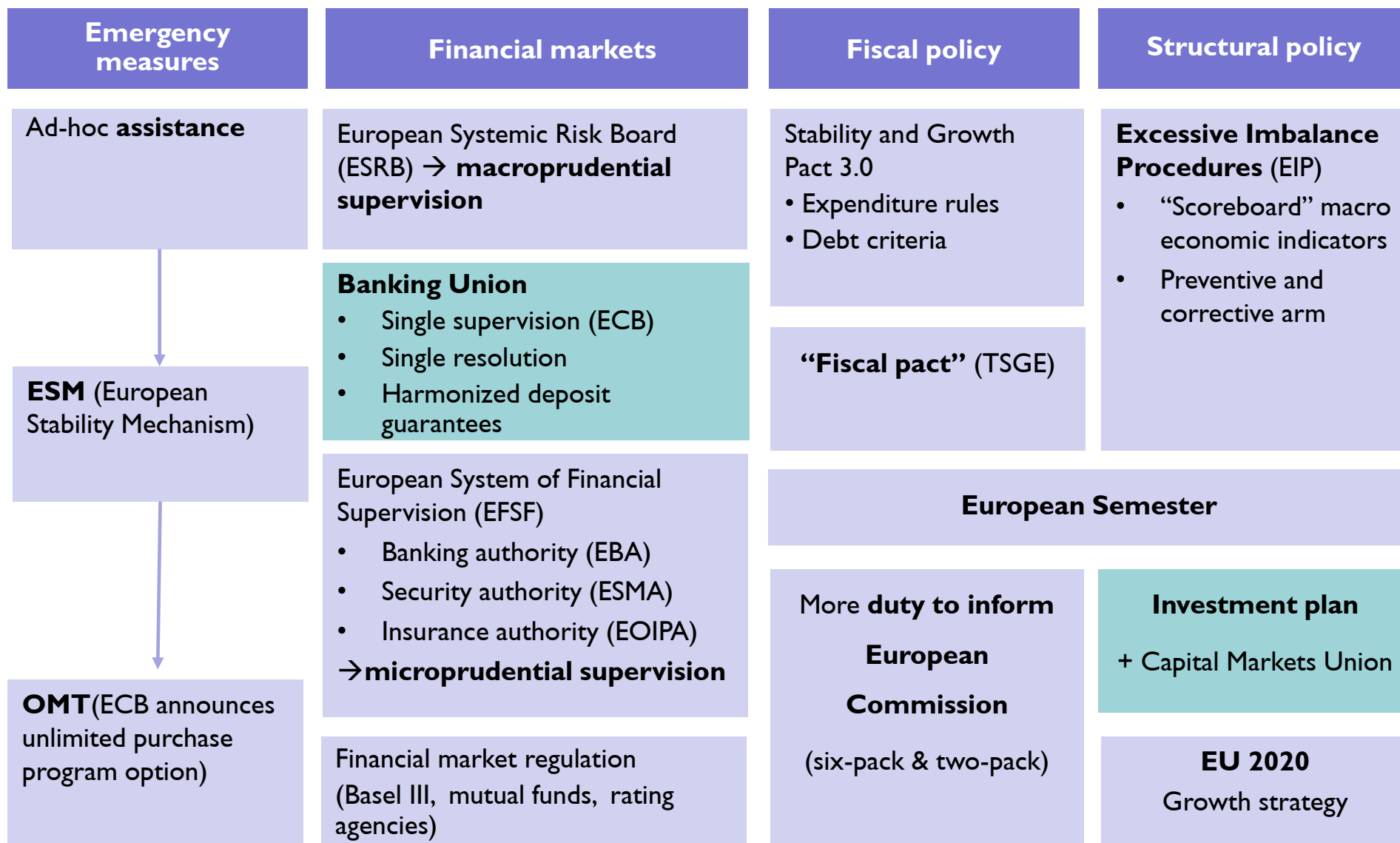


Pessimists (Paul Krugman):

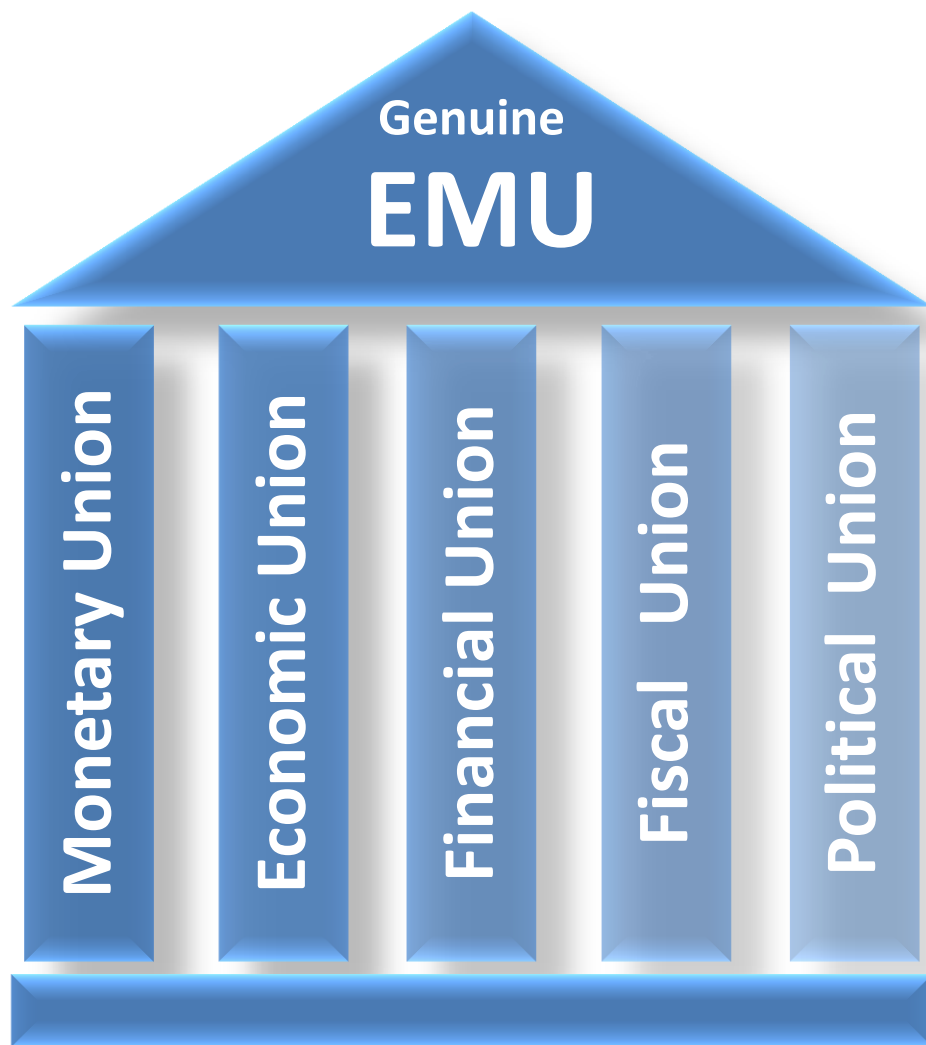
- Free trade → economies of scale and concentration of production
- Demand shocks hit individual countries (and products)
- Integration leads to asymmetric shocks



EU response to the crisis (until now)



The five pillars of the Five Presidents' Report



- **Economic Union – convergence, prosperity and social cohesion**
- **Financial Union – integrated finance for the economy**
- **Fiscal Union – integrated framework for sound fiscal policies**
- **Political Union – democratic accountability, legitimacy and institutional strengthening**

Stage 1: immediate steps until mid-2017

- **Economic Union**
 - Competitiveness authorities (wages \leq productivity)
 - Re-enforce Macroeconomic Imbalance Procedure
 - Focus on employment and social performance
 - Revamp European Semester (policy coordination)
- **Financial Union**
 - Complete Banking Union (e.g. common deposit insurance scheme)
 - Launch of Capital Markets Union
- **Fiscal Union**
 - New advisory European Fiscal Board
- **Political Union**
 - European Parliament in control of European Semester
 - Interaction between European Commission, the European Parliament and national parliaments
 - Reinforce the Eurogroup
 - Consolidate external representation of the euro area (IMF, etc.)
 - Integrate Intergovernmental devices into EU law (fiscal compact, Euro Plus Pact, Single Resolution Fund)

Stage 2: complete EMU architecture by 2025

- **Economic Union**
 - Formalize binding convergence process
- **Fiscal Union**
 - Set up macroeconomic stabilization function for the euro area
 - Convergence toward resilient economic structures (= condition for access to stabilization function)
- **Political Union**
 - Integrate ESM into the EU legal framework
 - Euro area treasury