



Future of EMU: Is more fiscal integration really indispensable?

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* Disclaimer: the views expressed in this paper are the authors' alone and do not necessarily correspond to those of the European Commission and its Services.

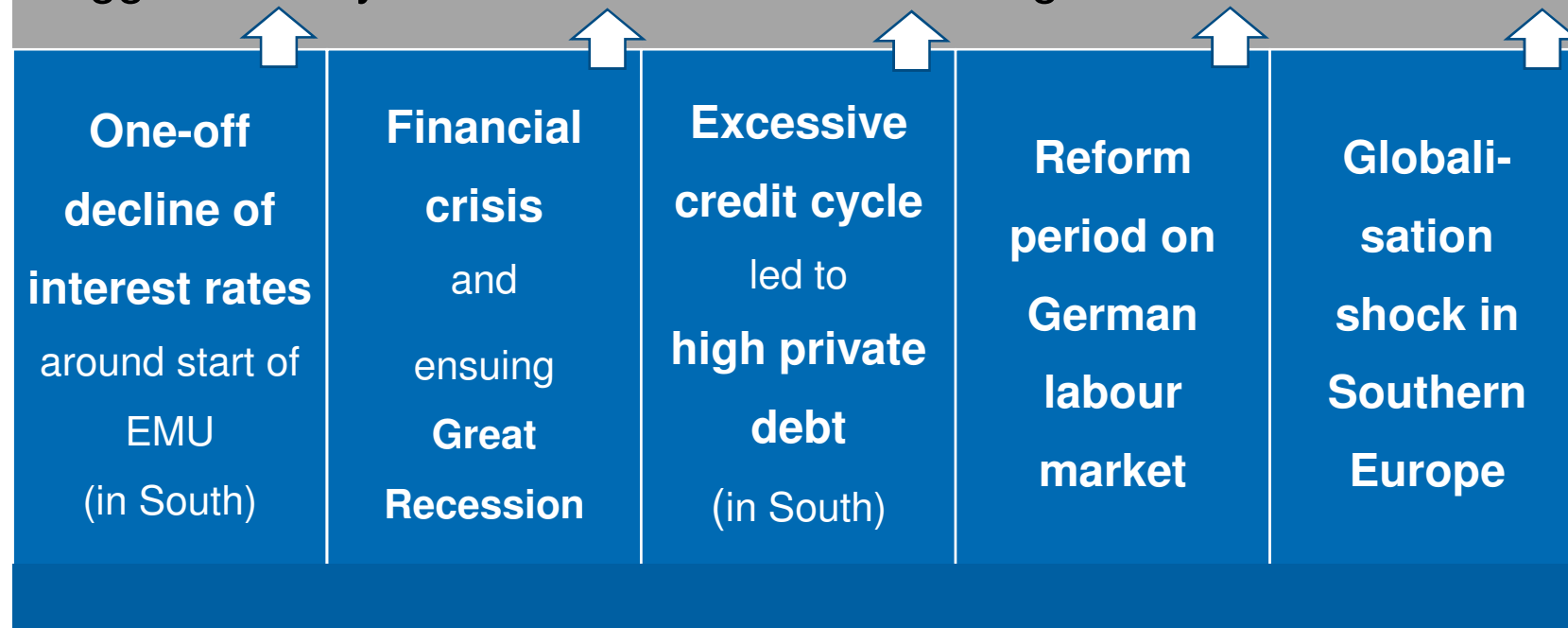
ÖNB, EMU Forum 2016, Session 3, November 25, 2016, Vienna

 iW.KÖLN.WISSEN
SCHAFFT KOMPETENZ.

Exceptional features of the euro debt crisis

High private and public indebtedness

- Crisis deeper and longer than usual, recovery more muted
- Aggravated by weak banks and financial fragmentation



Key Message

Questionable
need for
fiscal adjustment
mechanism

because

Current crisis
was exceptional
and can be
solved

and

Future crises
should be less
severe

**As: Remaining short-term problems are temporary
and should be tackled
with temporary instruments only**

e. g. with unconventional ECB policy, more active EFSI, etc.

**As: Reforms have addressed key roots of crisis
If: A limited range of additional reforms is taken
mainly in the financial system**

**Objective: Mitigation of future crises (debt cycles)
Improved EMU can better deal with „normal“ crises**

Reforms to mitigate future crises

Key objective:

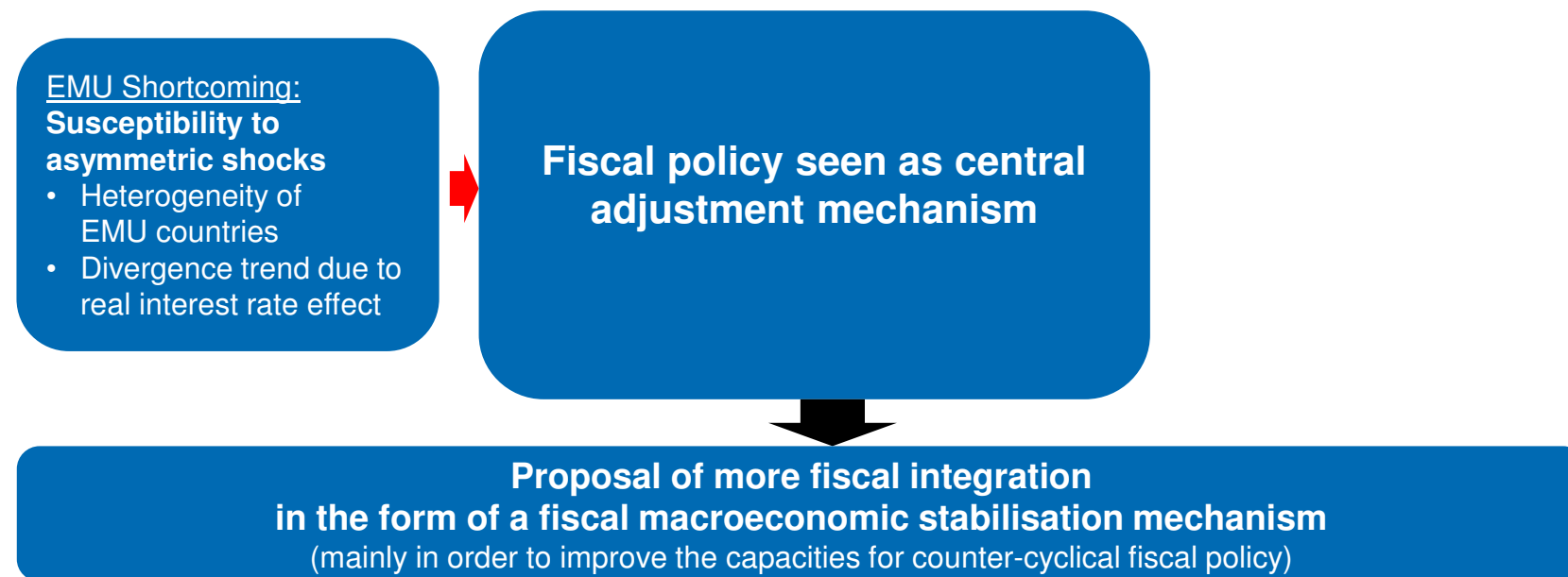
Avoiding excessive credit booms / private debt increase

- ▶ **Reforms already taken to make future crises less severe**
 - **ESM and OMT (ELA and Target2)**
 - **Macroeconomic Surveillance**
 - **Macroprudential supervision with strong SSM**
 - **Banks: recapitalisation, Banking union, (to do: clear NPLs ...)**
- ▶ **More reforms needed in financial sector (examples)**
 - **Active use of countercyclical buffers**
 - **Shadow banking system and supervision of whole financial sector**
 - **Dispense with tax preference for debt vs. equity financing**
 - **Bank-Sovereign Nexus: phase-out preference for sovereign bonds**

Now: Why and how EMU will function better in the future

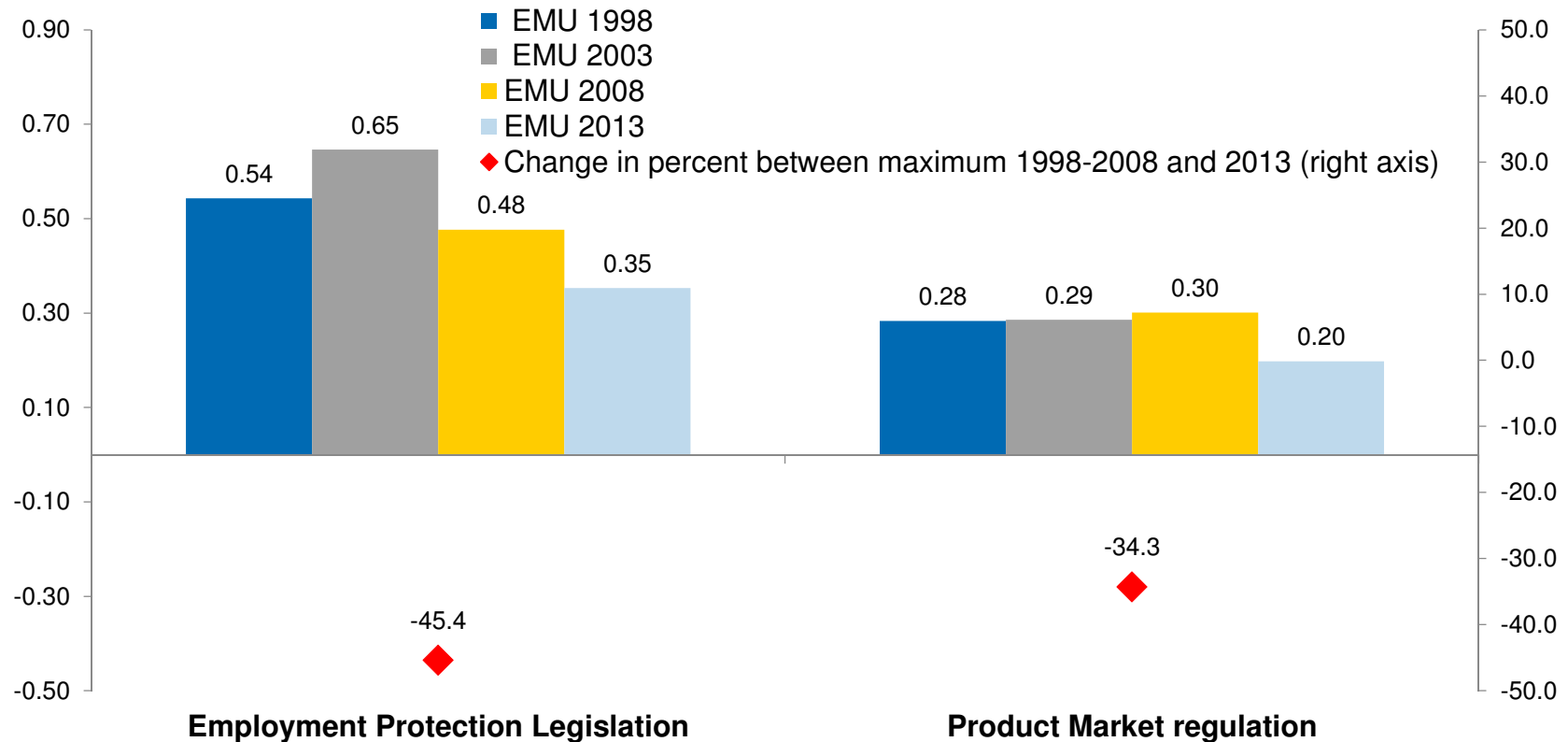
Our train of thought

Based on the proponents' arguments for more fiscal integration



Change in heterogeneity of regulation

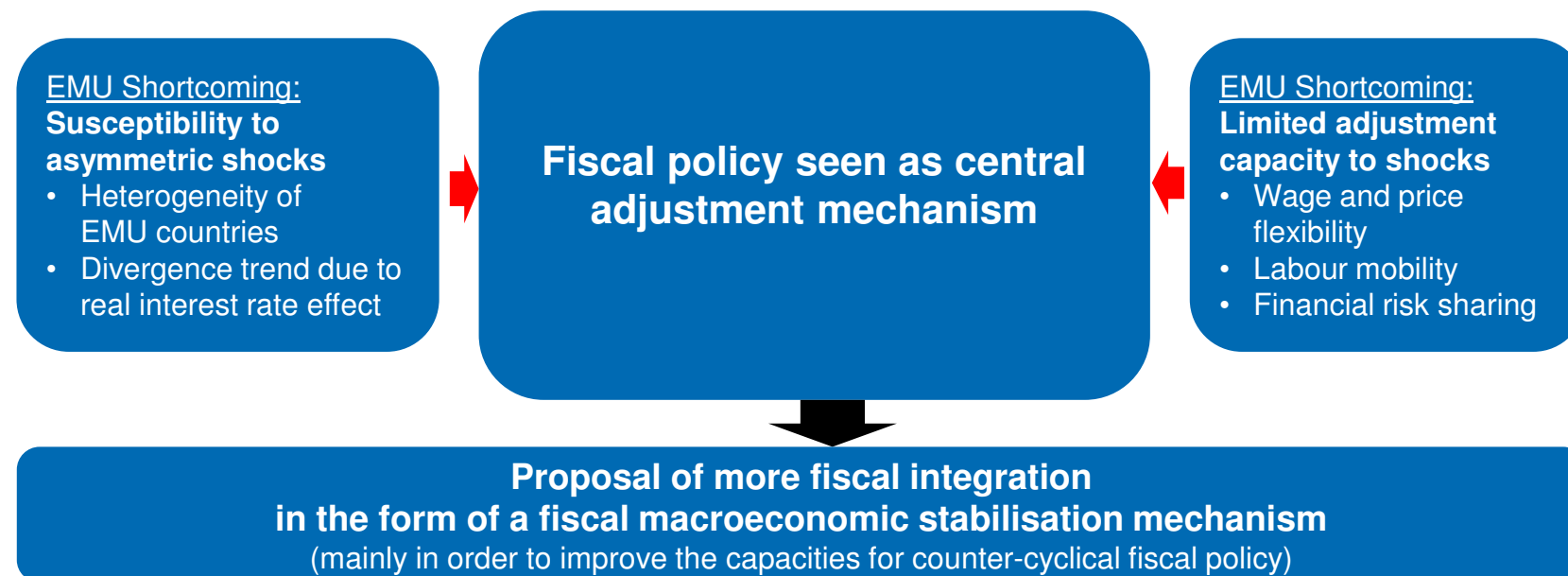
Standard deviation among sample of EMU countries*



*Reduced sample due to lack of data availability for 1998 for some countries.
Sources: OECD; IW Köln

Our train of thought

Based on the proponents' arguments for more fiscal integration



Reforms of collective bargaining systems

Since 2008

	PT	ES	GR	IT
Decentralisation / firm level orientation				
Priority to firm level agreements	x	x	x	
Limits to the extension of wage agreements	x		x	(x)
(More) opt-out possibilities		x	x	x
More working time flexibility	x	x	x	x
Agreements possible for non-members of trade unions	(x)		x	
Duration/time extension for agreements reduced	x	x	x	
Wage indexation eliminated or significantly reduced		x		x

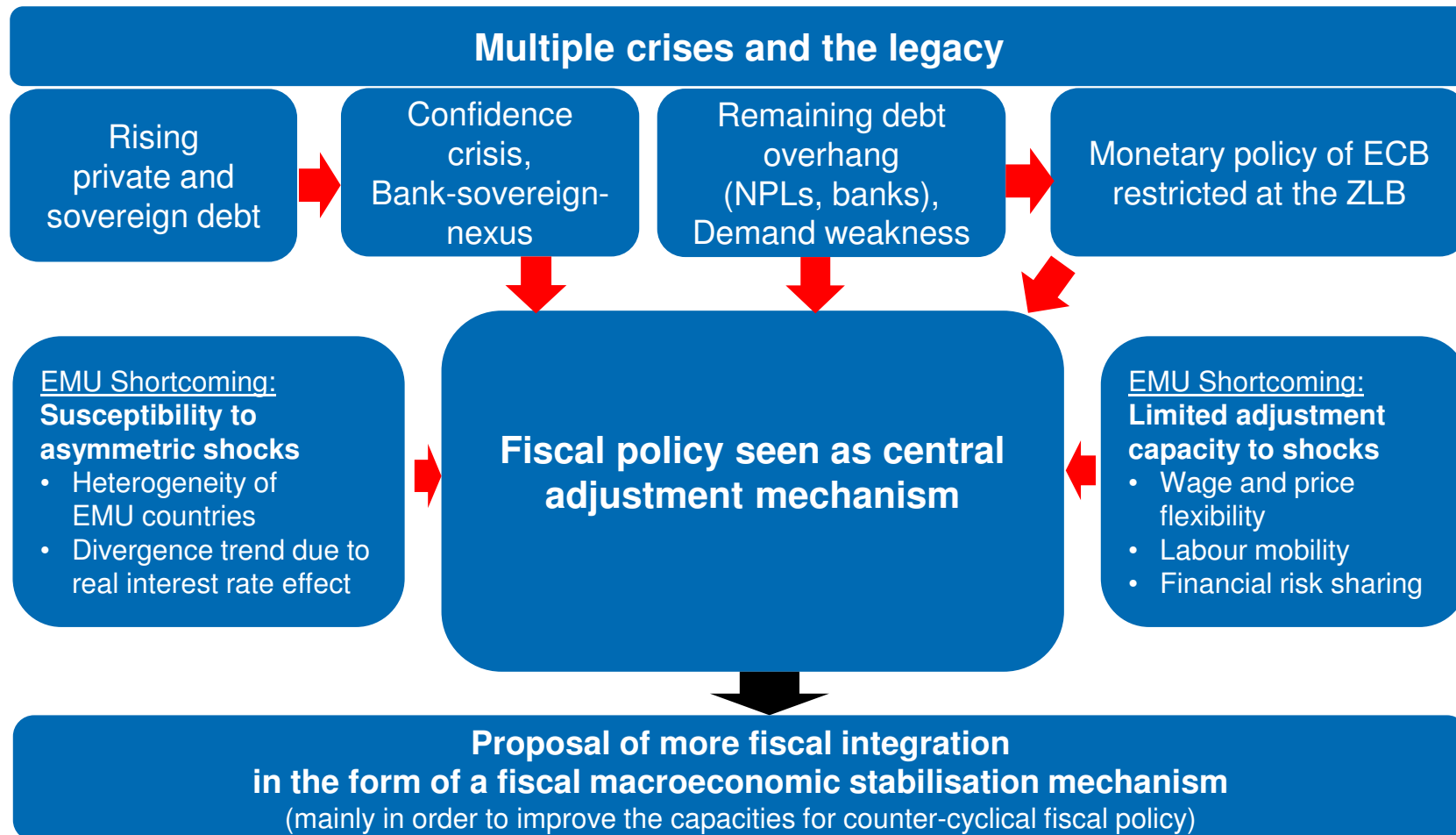
Preliminary evaluation, not to be quoted.

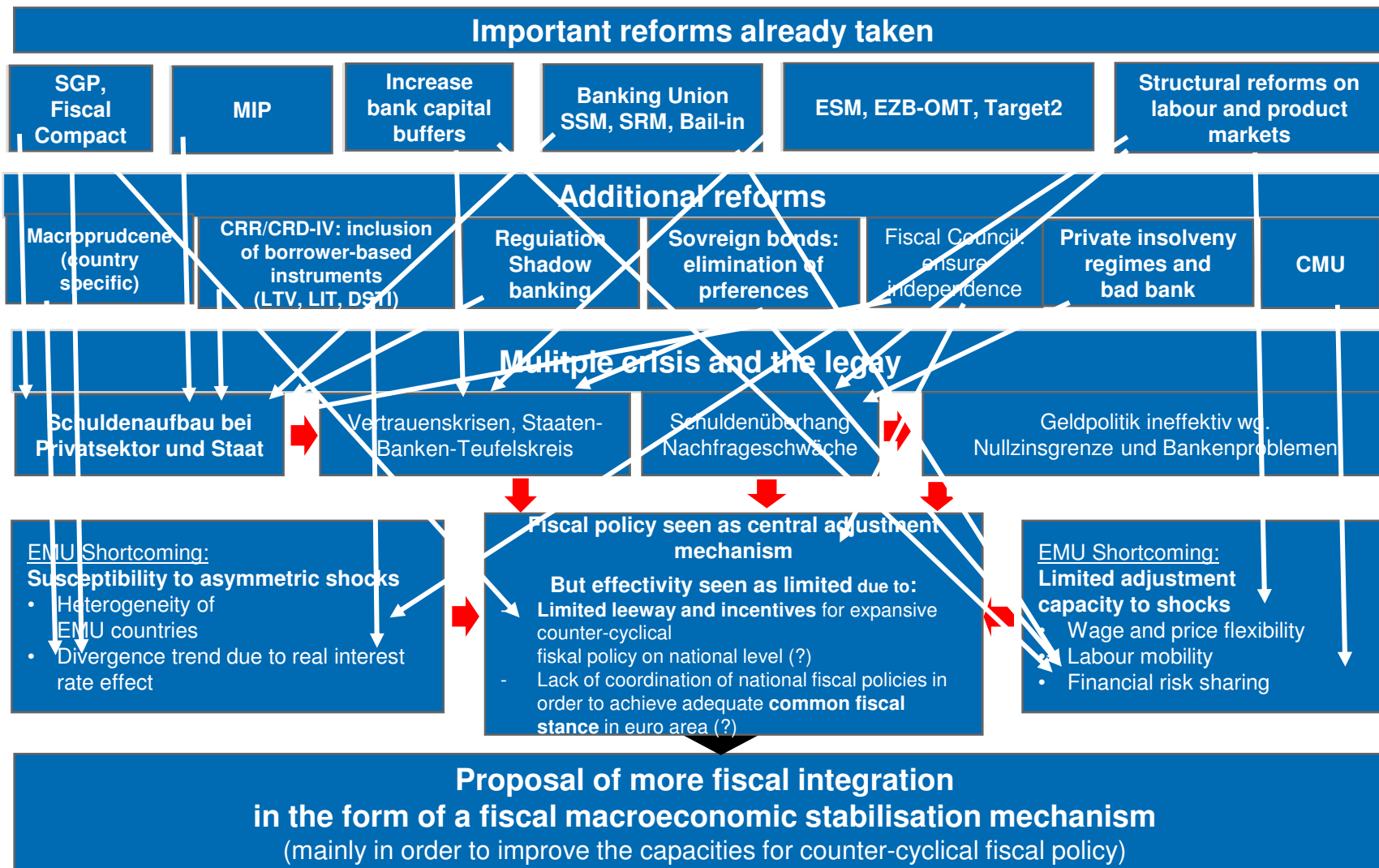
Note: x: significant reform, (x) partial reform.

Source: Own compilation based on a various studies from Eurofound European Industrial Relations Observatory (EIRO), OECD Economic Country Surveys, IMF Article IV consultations, EU and IMF programme reviews, European Semester reports

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Comments or questions?

Thank you very much for your attention!

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