European Economic and Monetary Union:
The first and the next 20 years

46th OeNB Economics Conference,

in cooperation with SUERF

Making the most of EMU: challenges and opportunity for reform

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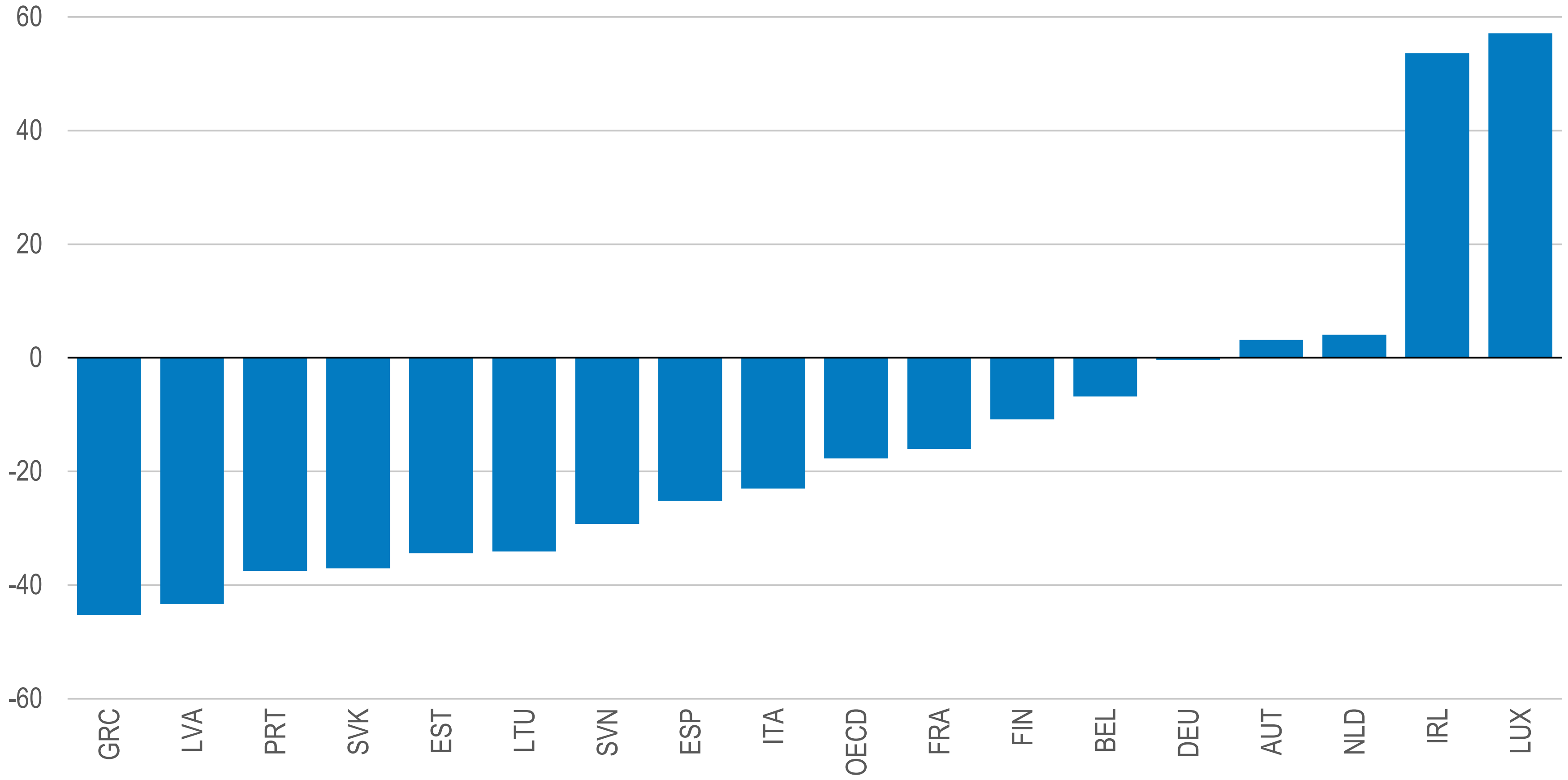
BETTER POLICIES FOR BETTER LIVES

Structural challenges to strengthen the economic and monetary union

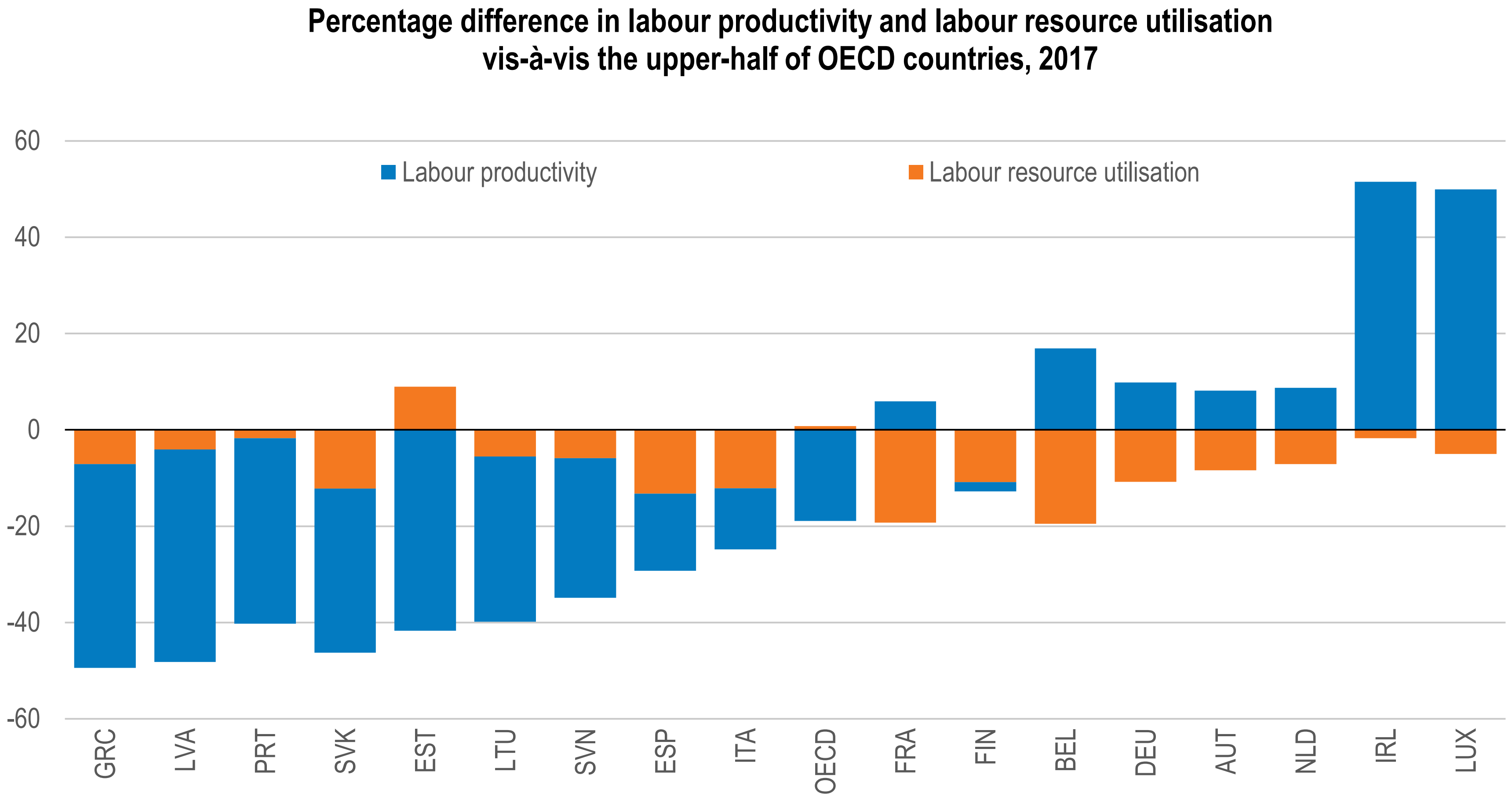
Gaps in living standards remain large among the euro area countries, …

Percentage difference in GDP per capita vis-à-vis the upper-half of OECD countries, 2018



Source: OECD, National Accounts, Economic Outlook and Productivity Databases.

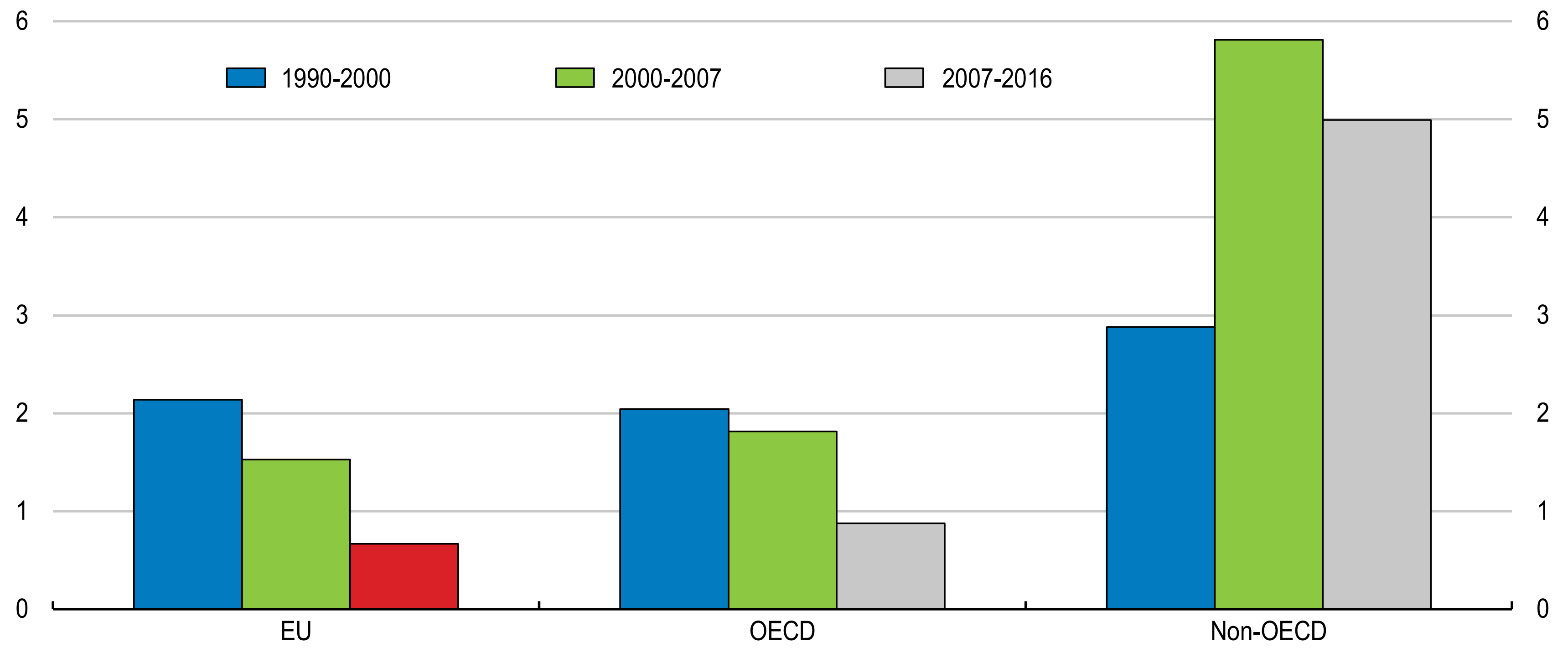
… essentially on account of persistent productivity gaps



Source: OECD, National Accounts, Economic Outlook and Productivity Databases.

Productivity growth has declined in the EU as a whole, …

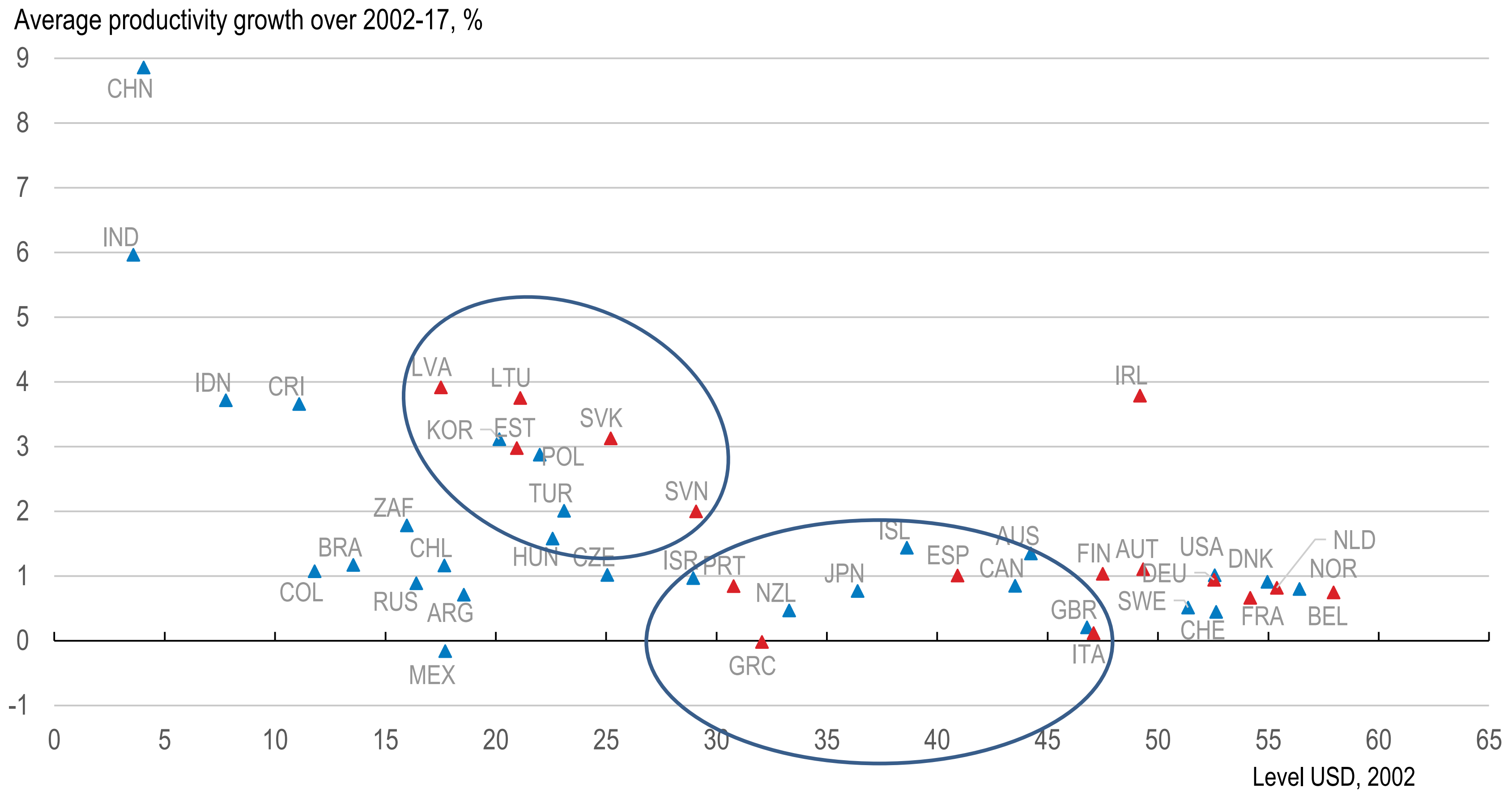
Output per hour worked[1], annualised growth rates (%)



1. Productivity is measured as output per employee for Non-OECD countries.
Source: OECD estimations using OECD National Accounts database; OECD Productivity database; International Labour Organisation database.

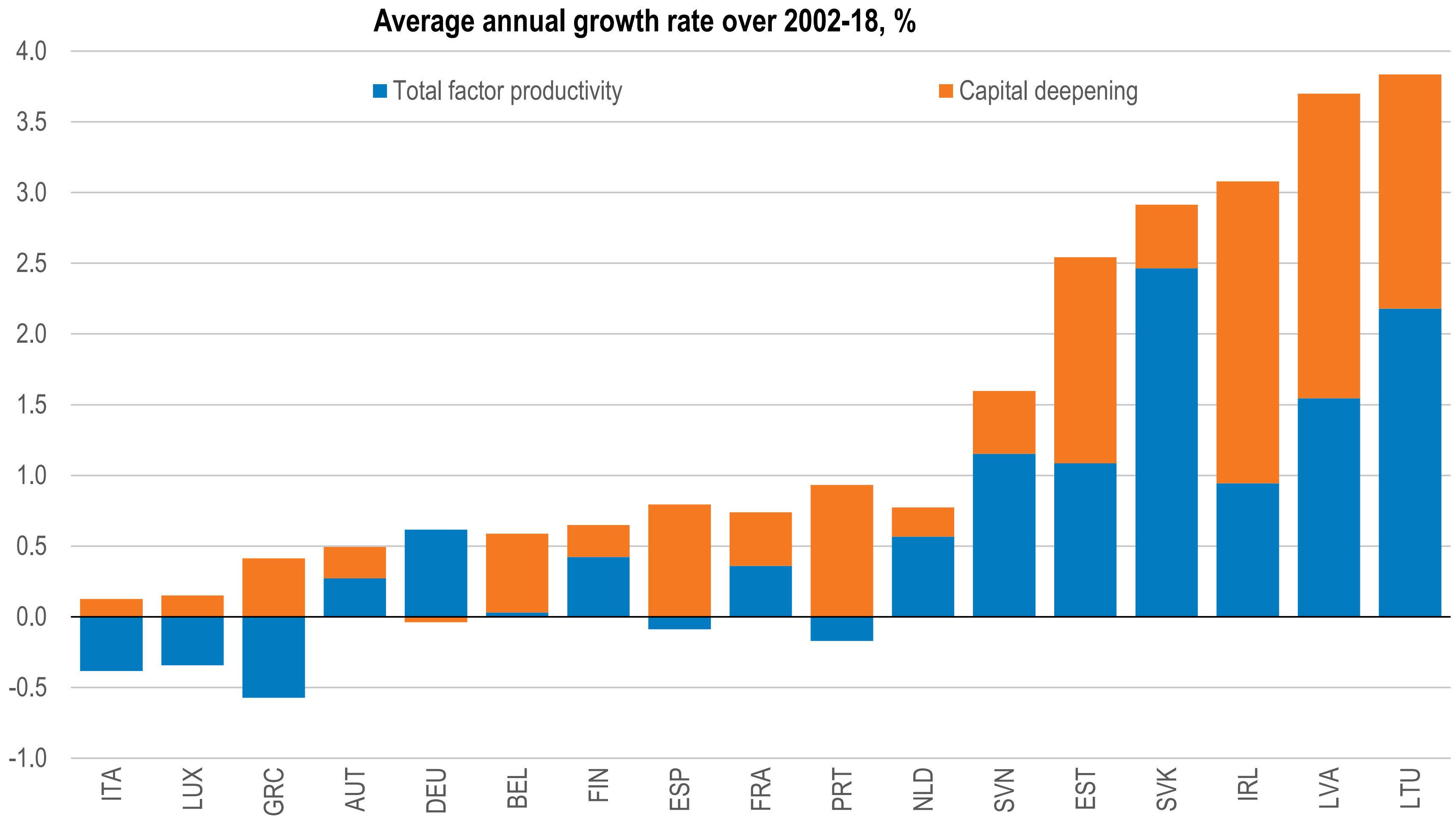
… and it has been uneven: catching up in Central and Eastern Europe, but not in the South

Productivity growth versus levels, comparison with other countries



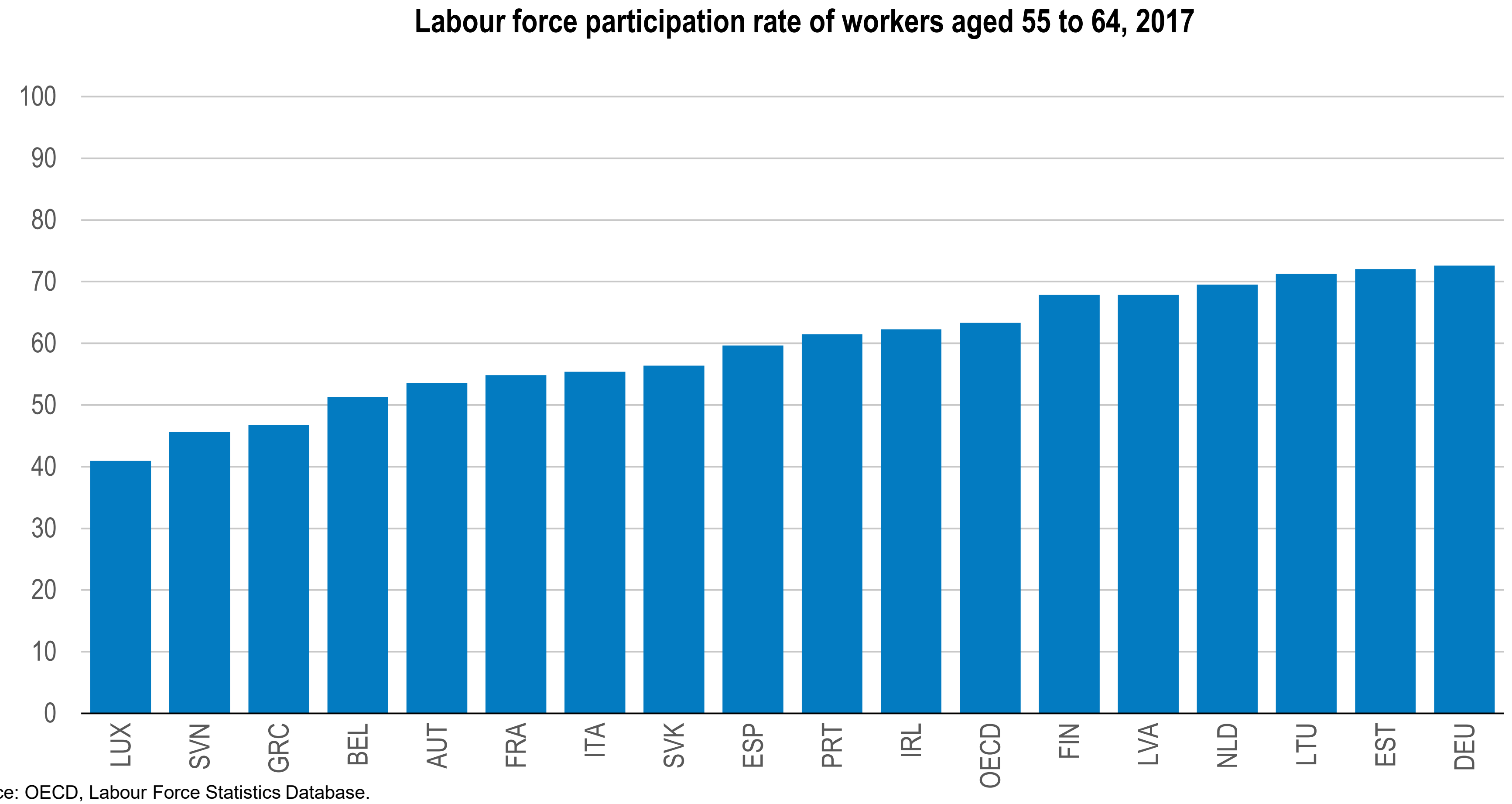
Source: OECD, National Accounts, Economic Outlook and Productivity Databases.

Differentials in total factor productivity growth have been the main culprit



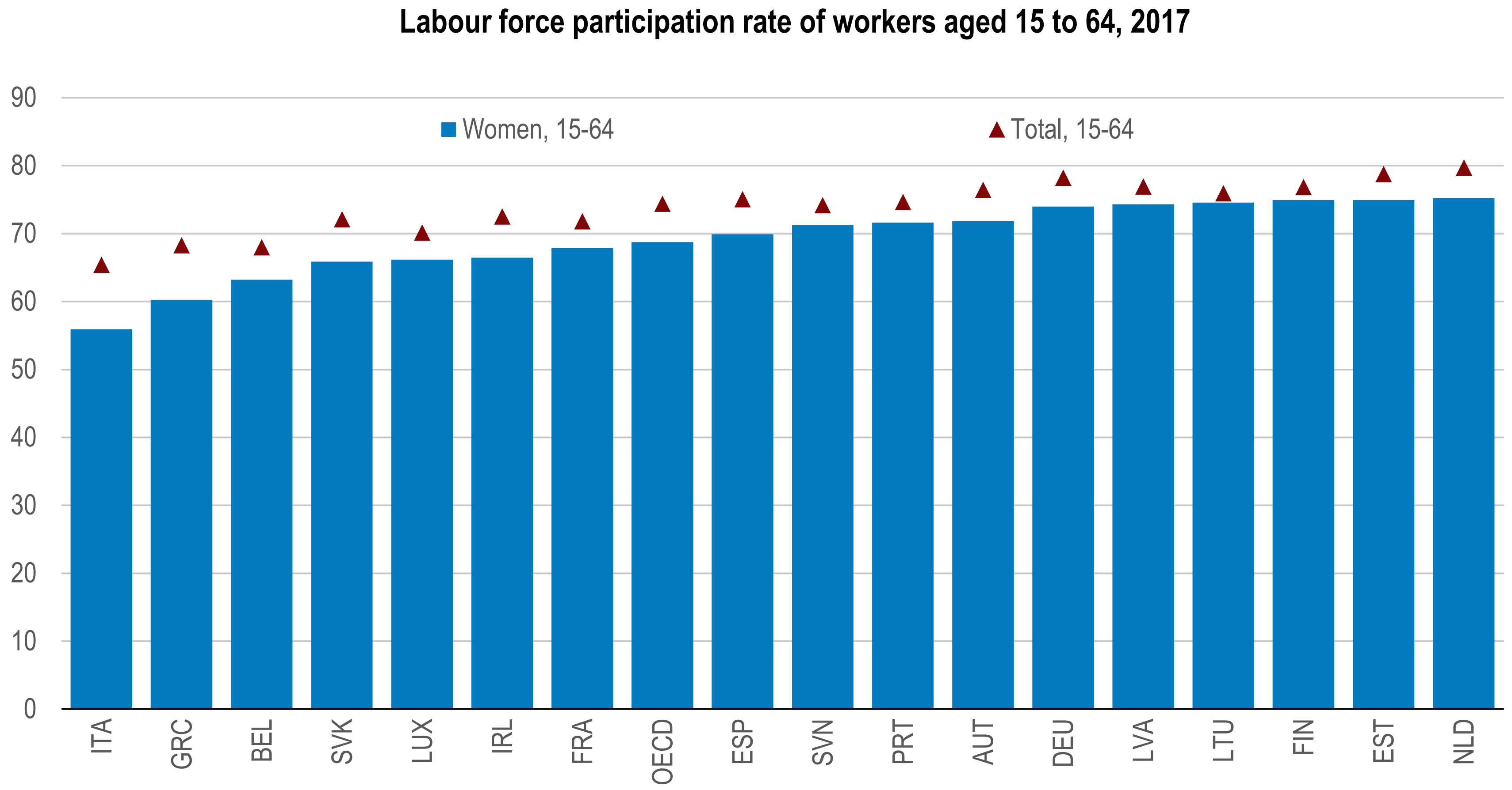
Source: OECD, Economic Outlook Database.

On labour utilisation, there are large differences in the labour supply of older workers, …



Source: OECD, Labour Force Statistics Database.

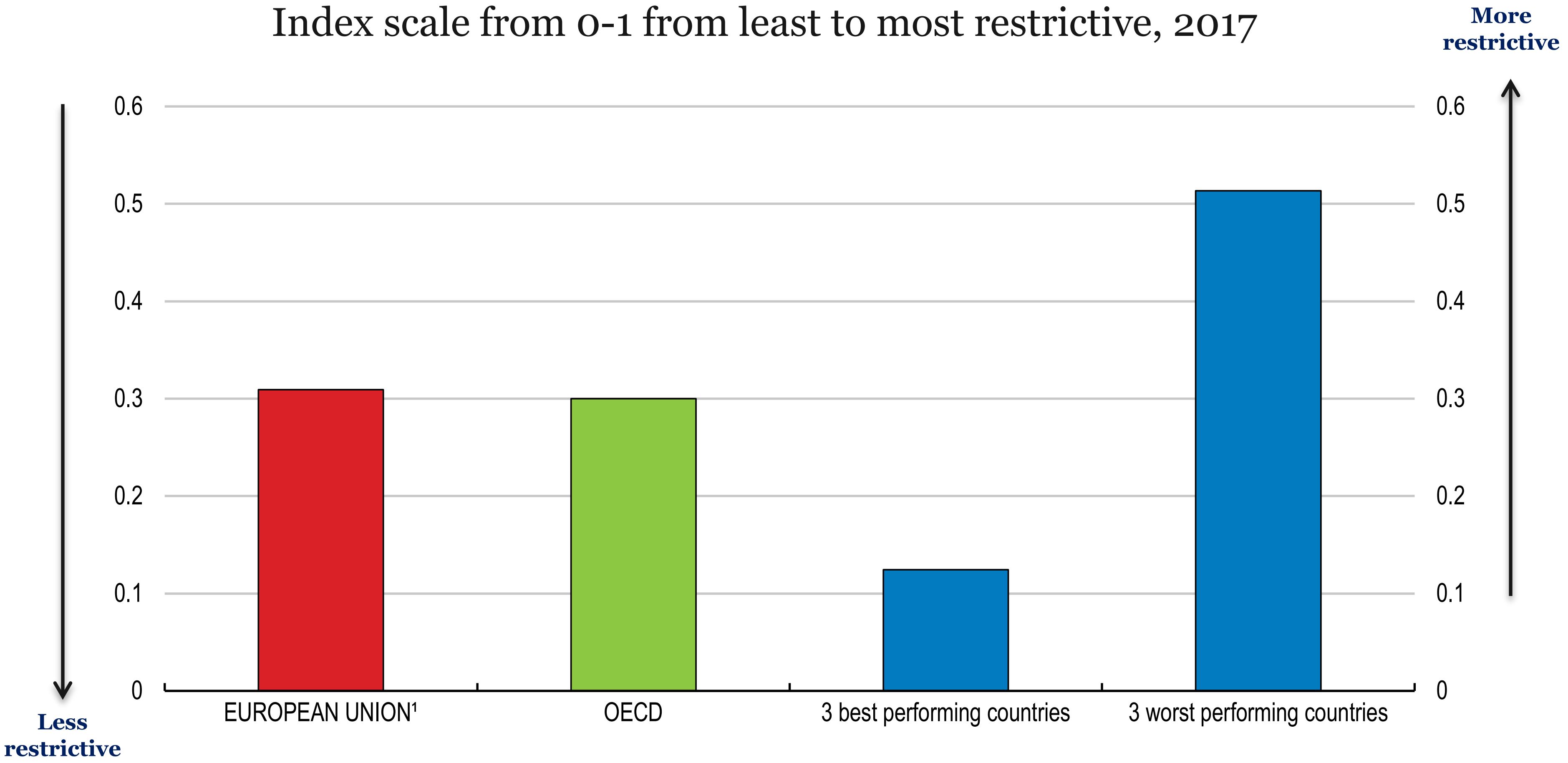
… as well as labour force participation of women



Source: OECD, Labour Force Statistics Database.

Completing the single market: gaps remain in the regulation of professional services

Index scale from 0-1 from least to most restrictive, 2017

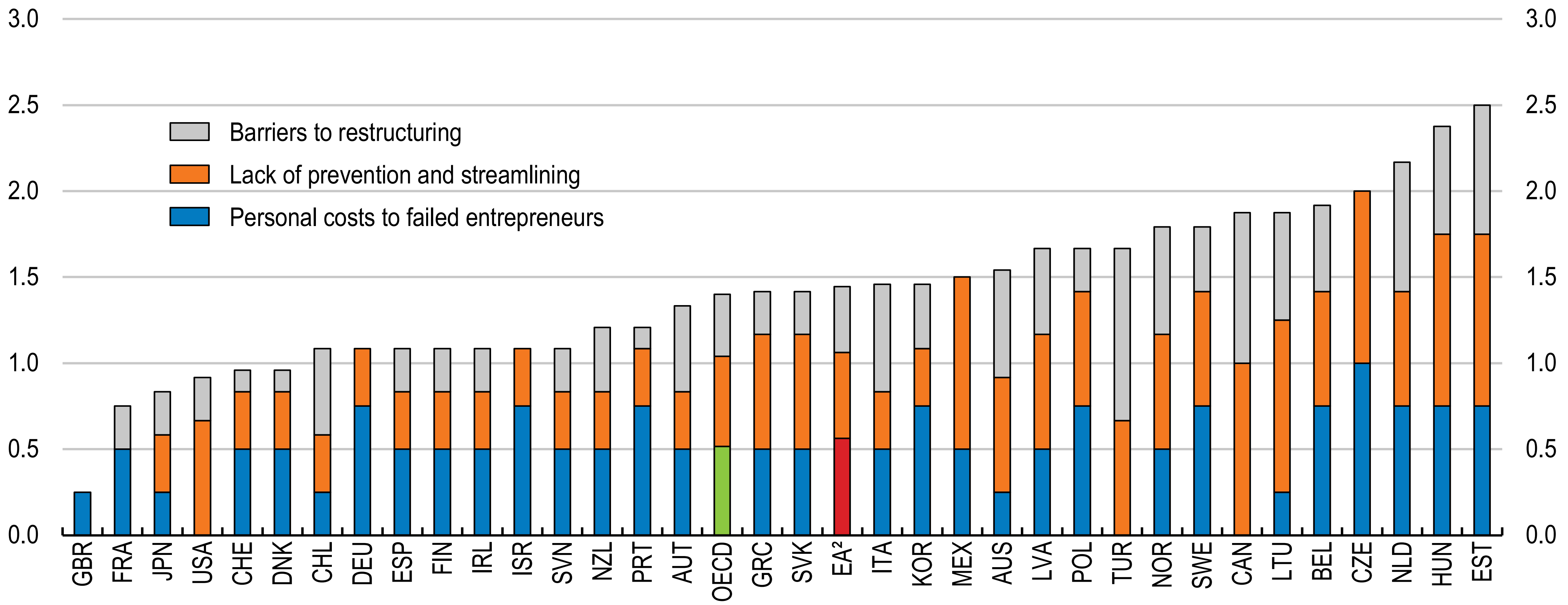


1. European Union refers to all 23 members of the European Union.

Source: OECD (2018), *Services Trade Restrictions Database*.

Insolvency regimes differ considerably across countries

Index scale from 0 to 3, from most to least efficient insolvency regimes[1], 2016

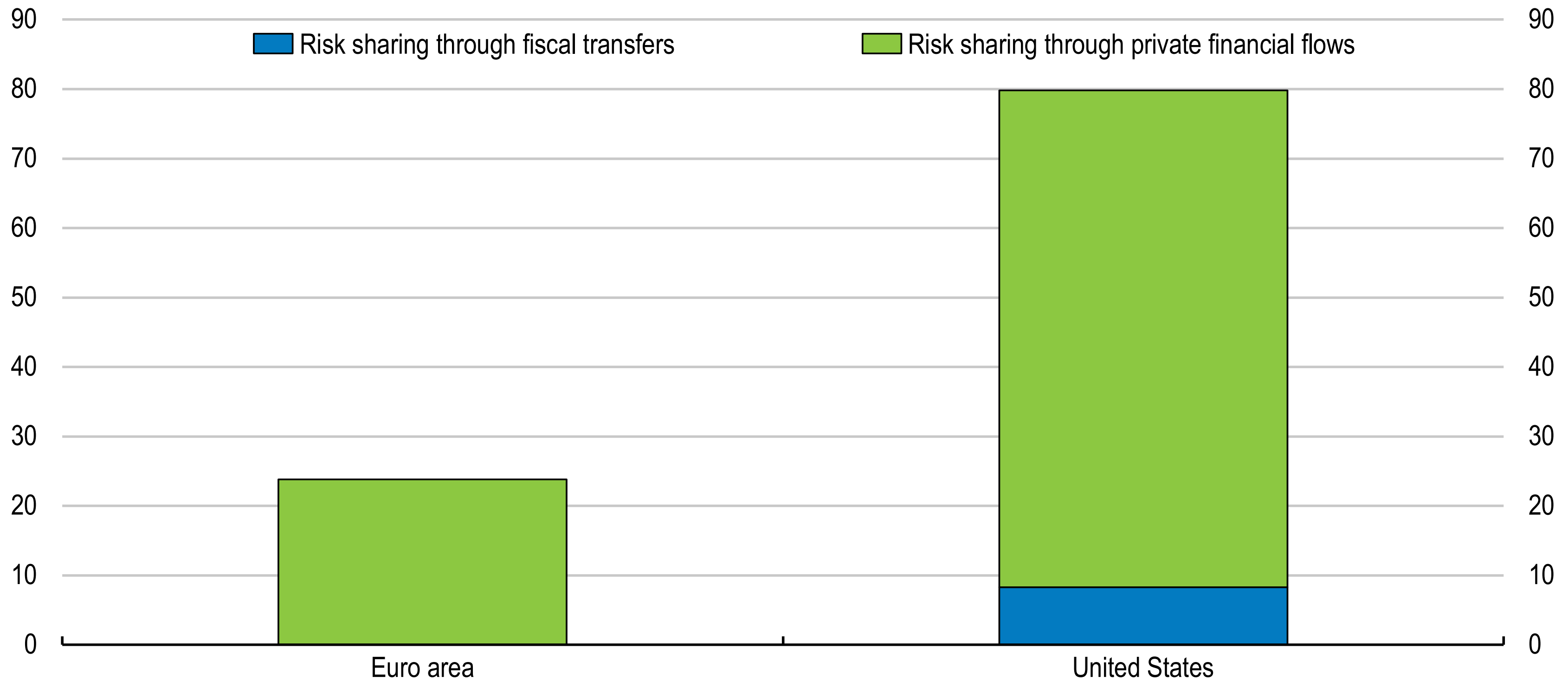


1. *A higher value corresponds to an insolvency regime that is most likely to delay the initiation of insolvency proceedings and/or increase their length.*
2. *Euro area member countries that are also members of the OECD, excluding Luxembourg; unweighted average.*

Source: OECD calculations based on the OECD questionnaire on insolvency regimes; Adalet McGowan, et al. (2017).

Cross-border risk sharing is limited

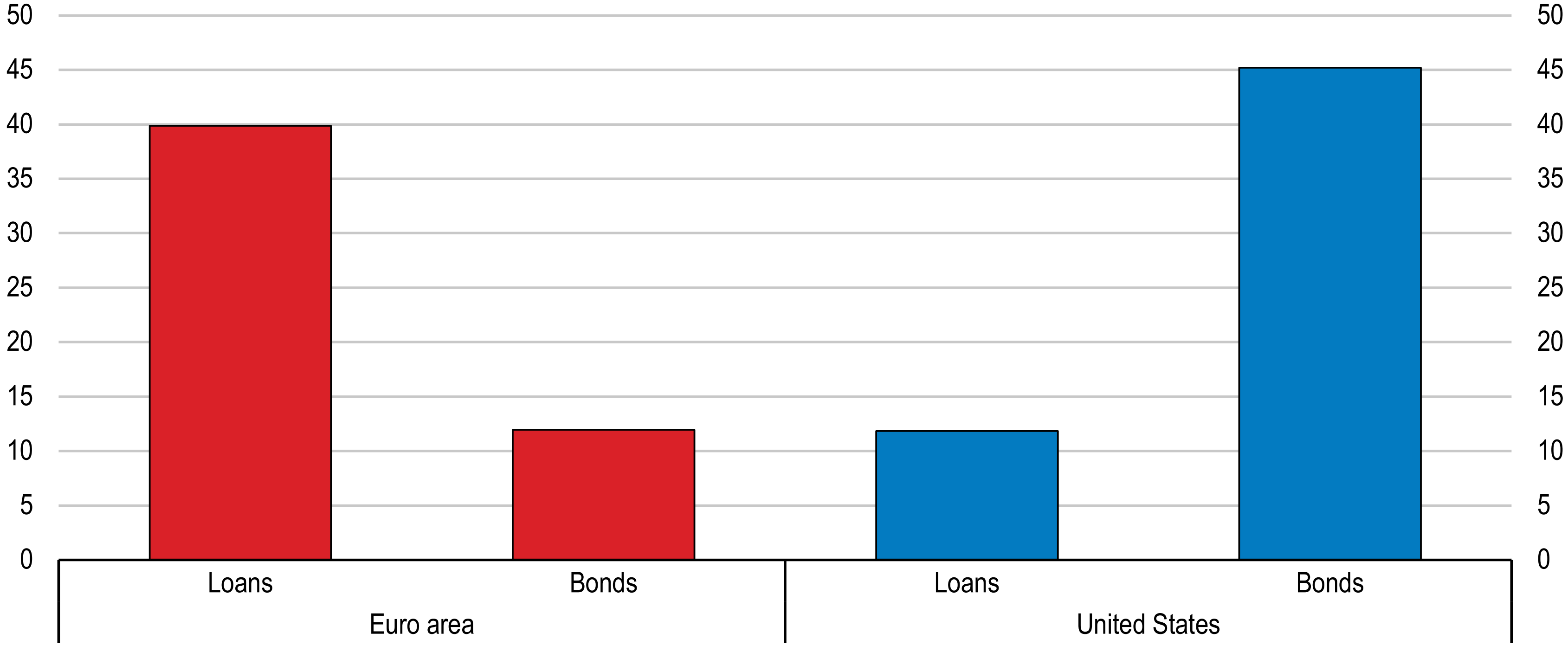
Percentage of absorbed shocks through private and public risk sharing



Source: European Commission (2016), "Cross-Border Risk Sharing after Asymmetric Shocks: Evidence from the Euro Area and the United States", Quarterly Report on the Euro Area 15(2), Brussels.

European capital markets have much room to expand

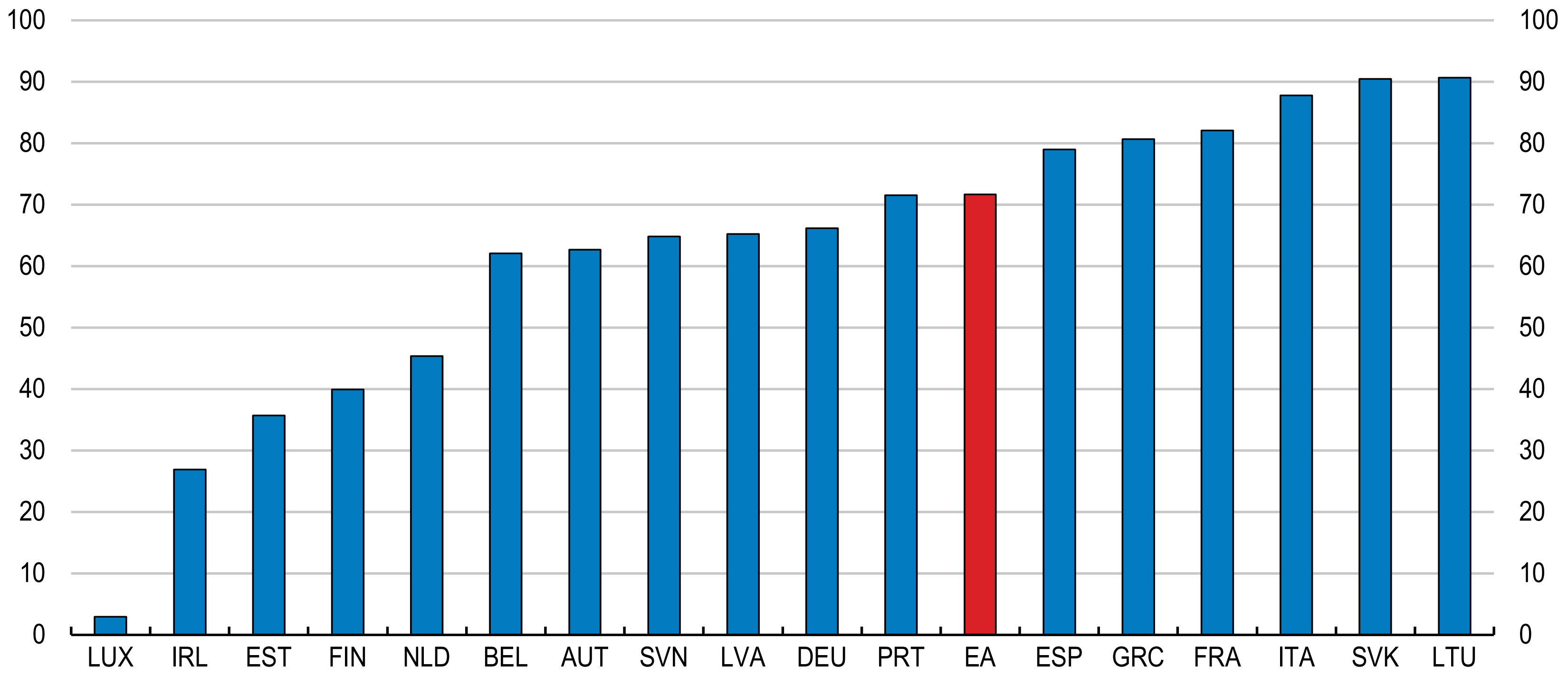
Outstanding loans and bonds of non-financial corporations as a % of GDP



Note: Average 2015-2017.
Source: Eurostat, European Central Bank, US Bureau of Economic Analysis, Board of Governors of the Federal Reserve System, and Securities Industry and Financial Markets Association.

The links between banks and their own State remain high

Share of domestic sovereign bonds in banks' portfolios, March 2018 (%)

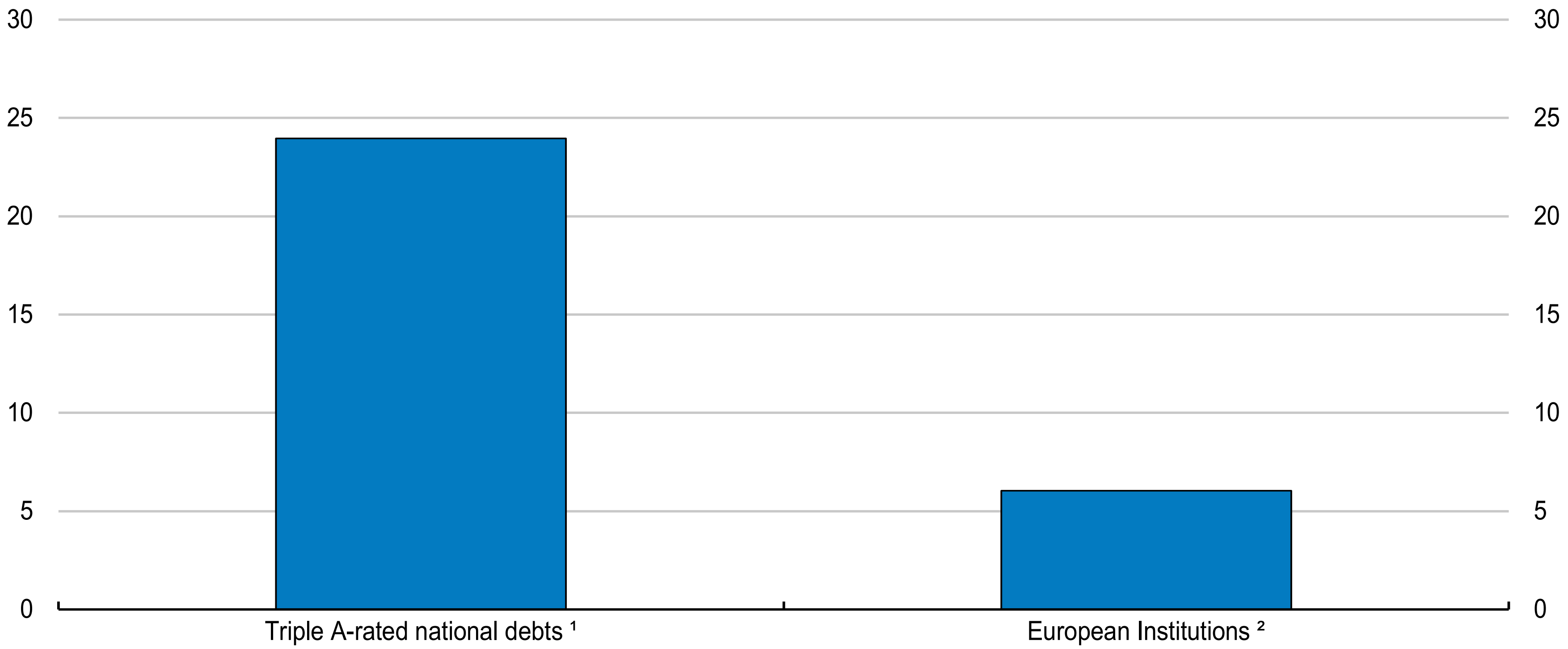


Source: OECD calculations based on ECB (2018), "Balance Sheet Items statistics", *Statistical Data Warehouse*, European Central Bank.

The supply of European safe assets is limited

Debt securities issued by governments and European institutions

As a percentage of euro area GDP, 2016



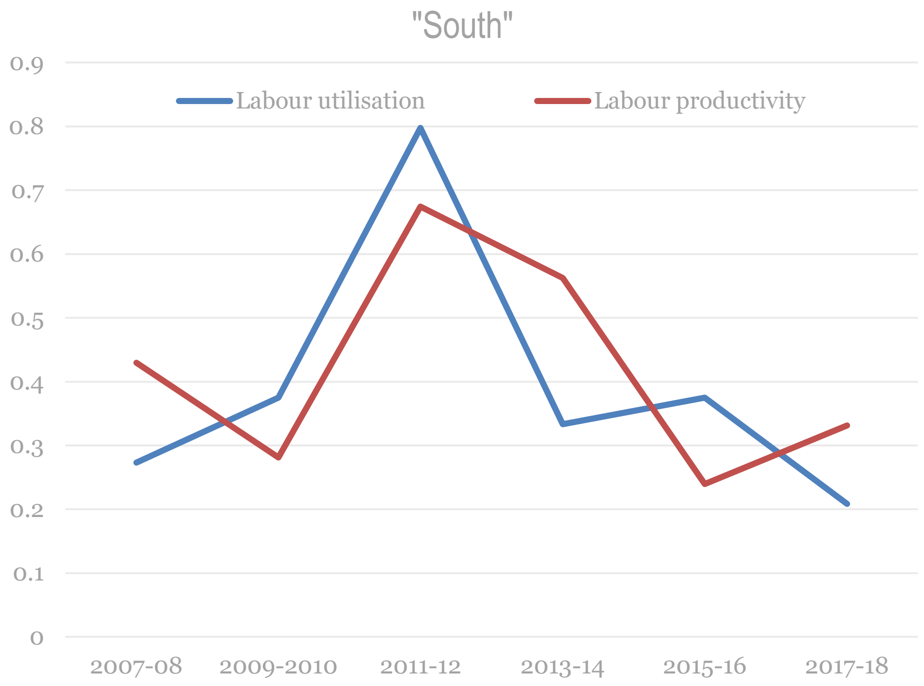
1. Sovereign debt securities issued by the governments of Germany, Luxembourg and the Netherlands.
2. Triple A-rated securities issued by the EU institutions and authorities (EIB, ESM, EFSM, BOP Facility and the Macro-Financial Assistance Programs.

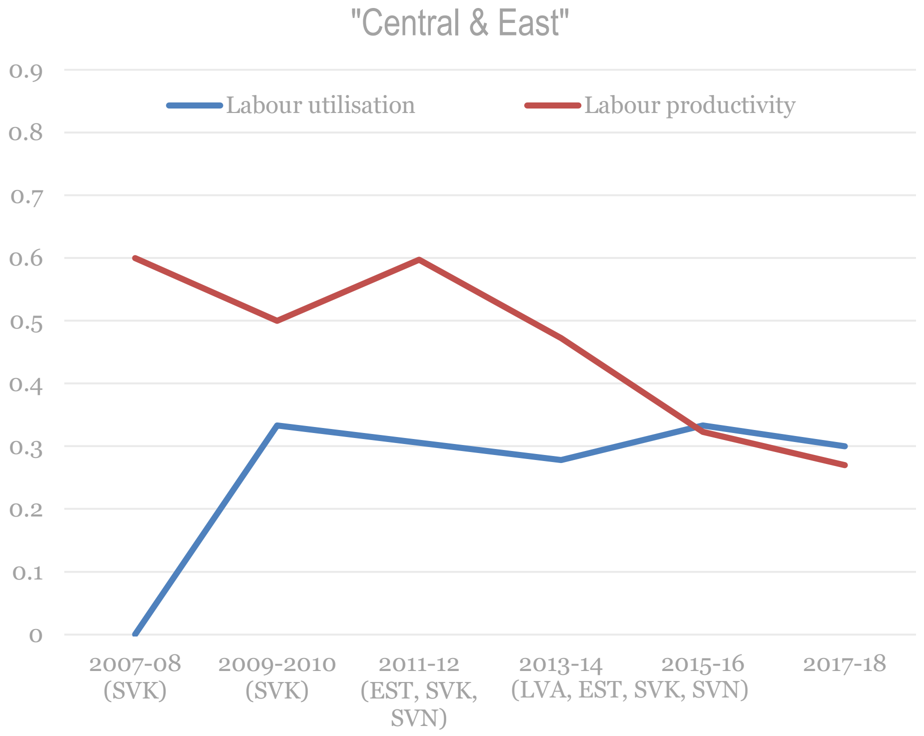
Source: Brunnermeier, M. et al. (2017). ESBies: Safety in the tranches. Economic Policy, 32(90), 175-219; OECD calculations based on public information released by European Institutions.

Proposals for dealing with these challenges

Structural reforms have focused on productivity enhancement in Central and Eastern Europe

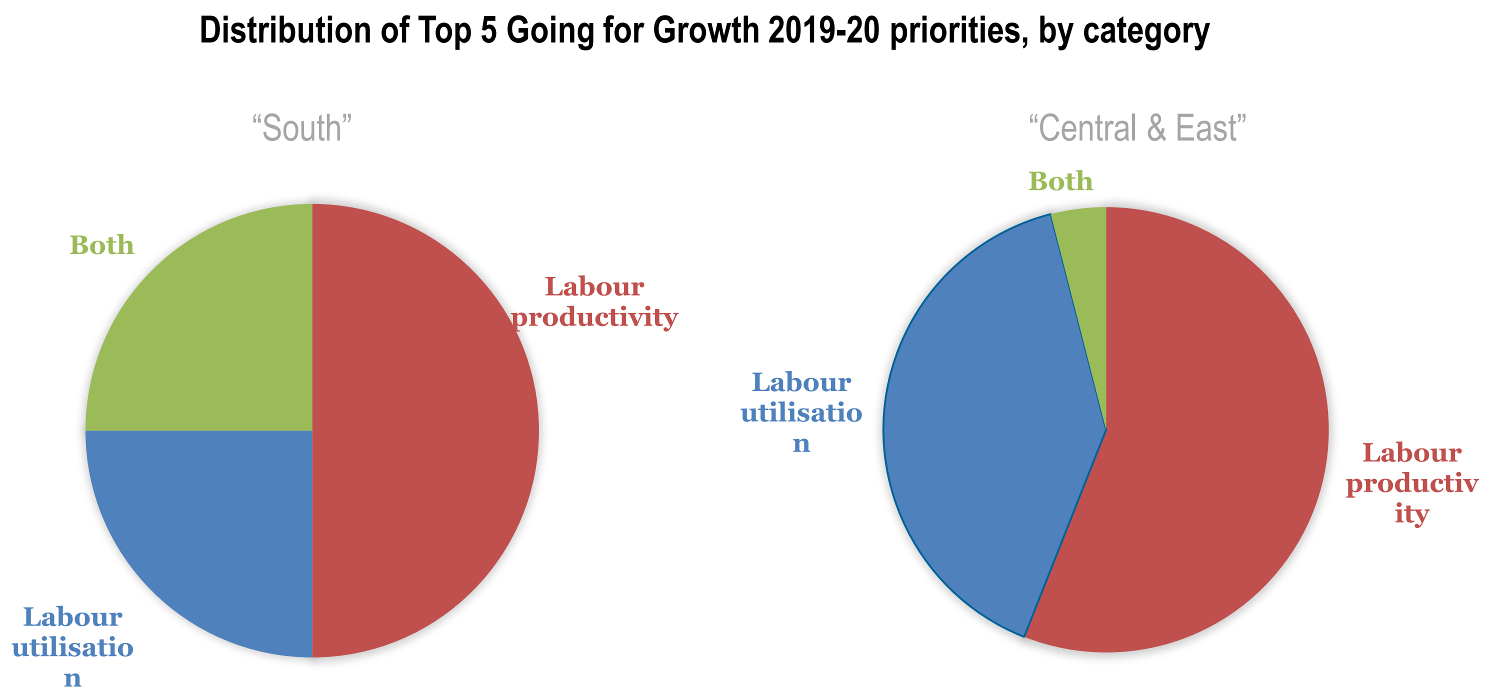
Reform responsiveness rate to Top 5 OECD Going for Growth priorities, by category





Notes: Based on the Going for Growth Reform Responsiveness Indicator (RRI). Does not account for quality of reforms. RRI measures the responsiveness to recommendations in the Top 5 priority areas for each country, as identified in OECD Going for Growth. The priorities are identified every two years, hence the two year reporting period. For Central and East Europe, the coverage in the early years is based on a subset of countries that were covered in Going for Growth at the time.

Moving forward, priorities in both groups focus largely on boosting productivity growth



Notes: Based on the Going for Growth 2019 priorities (forthcoming). "Both" denotes priorities targeting both labour productivity and labour utilisation, primarily in the area of Education and Skills.

Source: Extracted from the OECD ECO Reform Tracker.

Completing the Single Market to improve long-term growth

1. **Address barriers in the business services sector through simplified administrative formalities.**

2. **Pursue cross-border co-operation on energy through better power system operation and trade.**

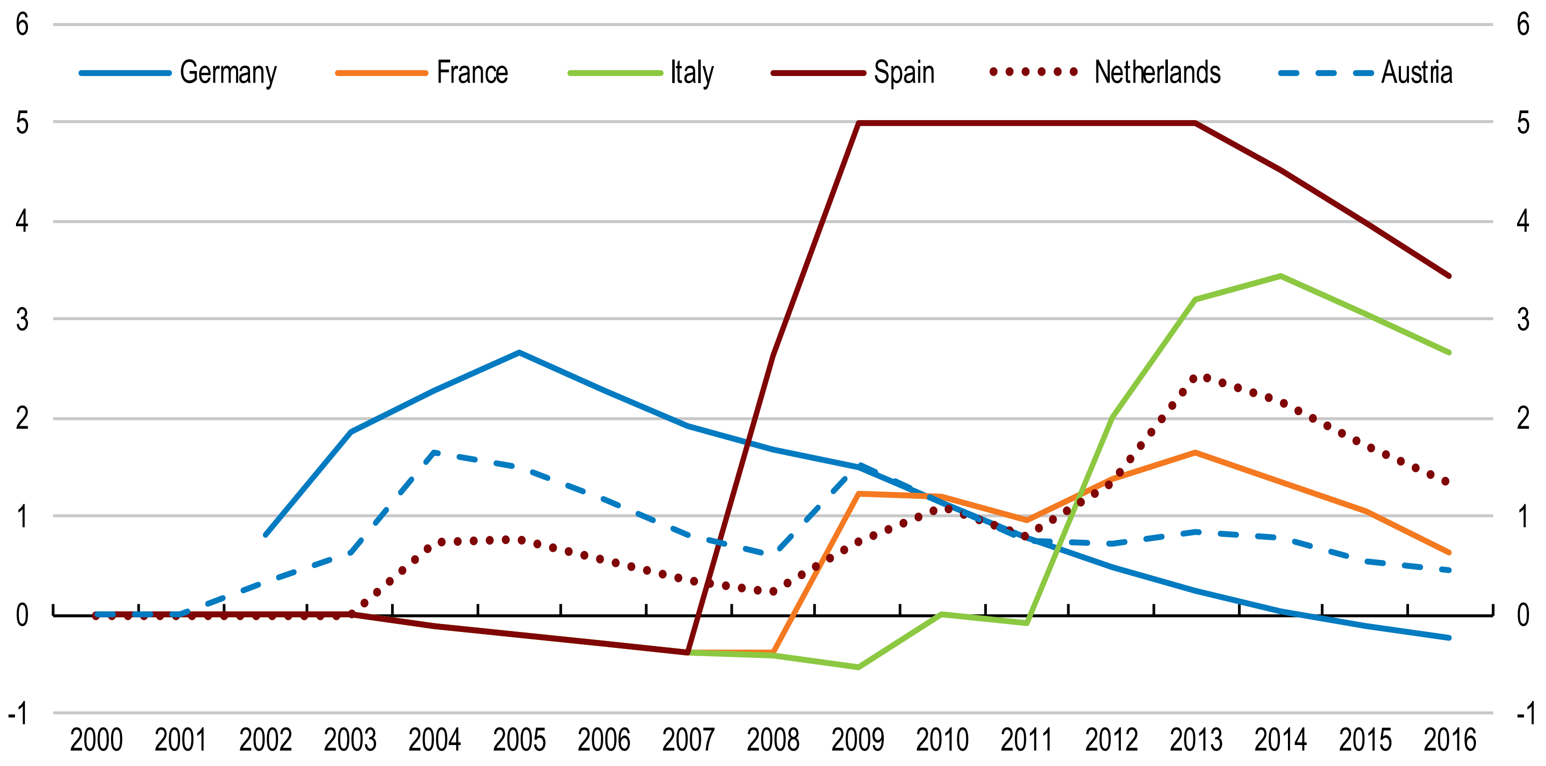
3. **Develop tools to help member states monitor digital skill needs. Set EU standards for the monitoring of digital skills and task content of occupations.**

Strengthening resilience through a common fiscal capacity

- The 2018 OECD Survey of Euro Area proposed an unemployment-triggered scheme:
  - Automatic trigger based on unemployment
  - Support is proportional to the size of the shock
  - Cumulative support is up to 5% of GDP
  - Regular annual contribution to build up the fund is 0.1% of GDP (but can be less or more)
  - The scheme can borrow to provide support

Most countries would benefit from the scheme at one point

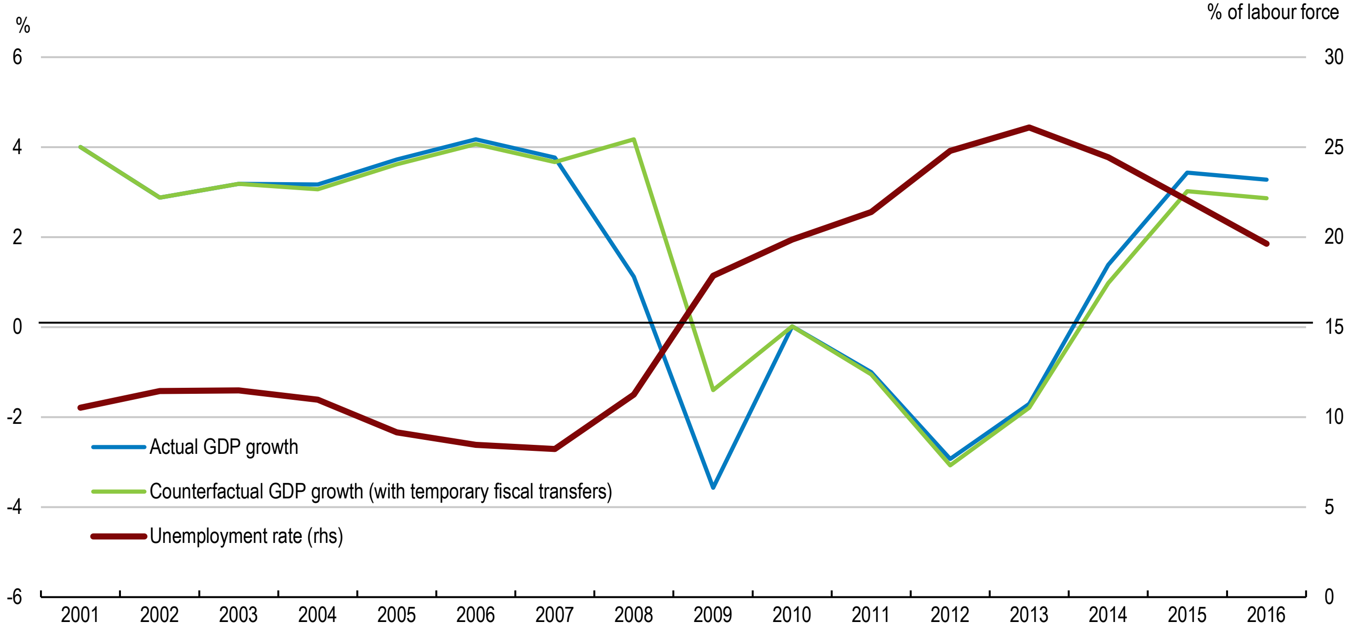
Cumulative net balances towards the scheme (% of GDP)



Source: Claveres and Stráský (2018).

How the scheme would have worked: Spain as an example

Spain: real GDP growth and unemployment rate



Source: OECD (2018), OECD Economic Outlook No. 103: Statistics and Projections (database) and authors' calculations.

In the long run, more ambition may be needed

- A dedicated euro area budget could reinforce EMU in the long run:
  - Convergence and cohesion: energy transition, security, defense and immigration, and other projects that boost potential growth more directly, such as education and infrastructure
  - If sizeable enough, restore market discipline by allowing national debt restructuring
  - A European safe asset
  - Increase democratic oversight and political legitimacy, enhancing trust

Reducing financial fragmentation and increasing private risk-sharing

1. Pre-funded common deposit insurance scheme
2. European Stability Mechanism as a fiscally-neutral backstop for the Single Resolution Fund that can be deployed rapidly
3. Diversify banks' exposure to sovereign bonds, including by sovereign concentration charges in parallel with a European safe asset.
4. Harmonizing insolvency proceedings: simpler early restructuring, shorter effective time to discharge and more effective liquidation

THANK YOU!