

Policy panel: how much of a Fiscal Union?

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The political risks: Fiscal Union, EMU and the EU

- The EMU and the European integration within the EU are not a different project. Merkel: *“If the euro fails, Europe fails”*
- In the absence of a Fiscal Union, EMU will not be sustainable. Strong economic arguments must overcome political obstacles. *“Political difficulty does not absolve from economic necessity”*
- At the same time, political tensions within the EU represent a major risk for EMU. A strong EU is a necessary condition for the success of EMU

Why a Fiscal Union?

- National fiscal policies don't add up, need to articulate national and general interests
- National economies are not converging, asymmetric shocks will happen again in the future
- Fiscal Union must provide:
 - Anti-cyclical fiscal instrument
 - Fiscal backstop for the Banking Union
 - Fiscal buffer – on top of capital and credit markets- for risk-sharing

Substantial discrepancies about the Fiscal Union model

- FR position (?), based on flexible rules, institutions and more political decisions ("Economic government"): Eurozone budget, Banking Union, Eurozone Minister of Finance
- DE position (?), based on fiscal rules and discipline, avoiding moral hazard: Independent body for fiscal surveillance, increased powers to the European Stability Mechanism, towards its conversion in the European Monetary Fund, by-passing the EU Commission powers

What should be done in the short term?

- Find a way-out for the Greek debt
- Renewed ownership of (updated) fiscal rules
- Agreement on a Common Deposit Guarantee Scheme
- Set up of a credible backstop for the Single Resolution Mechanism
- Resume discussions around the “5 Presidents Report” proposals for the second stage

Two questions for the immediate future:

- Will Merkel (Schulz) and Macron find a common strategy and be able to overcome their differences and adopt strategic decisions?
- Will Brexit facilitate EMU decision-making?

Points to be discussed in any case

- Aggregate fiscal stance: role of a fiscal capacity. An EMU budget?
- Risk-sharing: channels to absorb shocks
- Degrees of mutualisation:
 - Right now, pieces of incipient mutualisation: Juncker Plan, ESM, ECB's QE
 - Going forward, different options for joint issuance: ESBie's, Redemption Fund, E-bills, Blue and red bonds, Stability bonds, Eurobonds
- Role of EU institutions v. Intergovernmental bodies
- Is Treaty change possible?