



Some ideas on the Future of the European Union

or

how to rebuild confidence

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Four points:

1. Many forms of crisis – one word to describe them all: loss of confidence
2. EMU: from success to crisis
3. Solutions at the aggregate level?
4. A policy proposal

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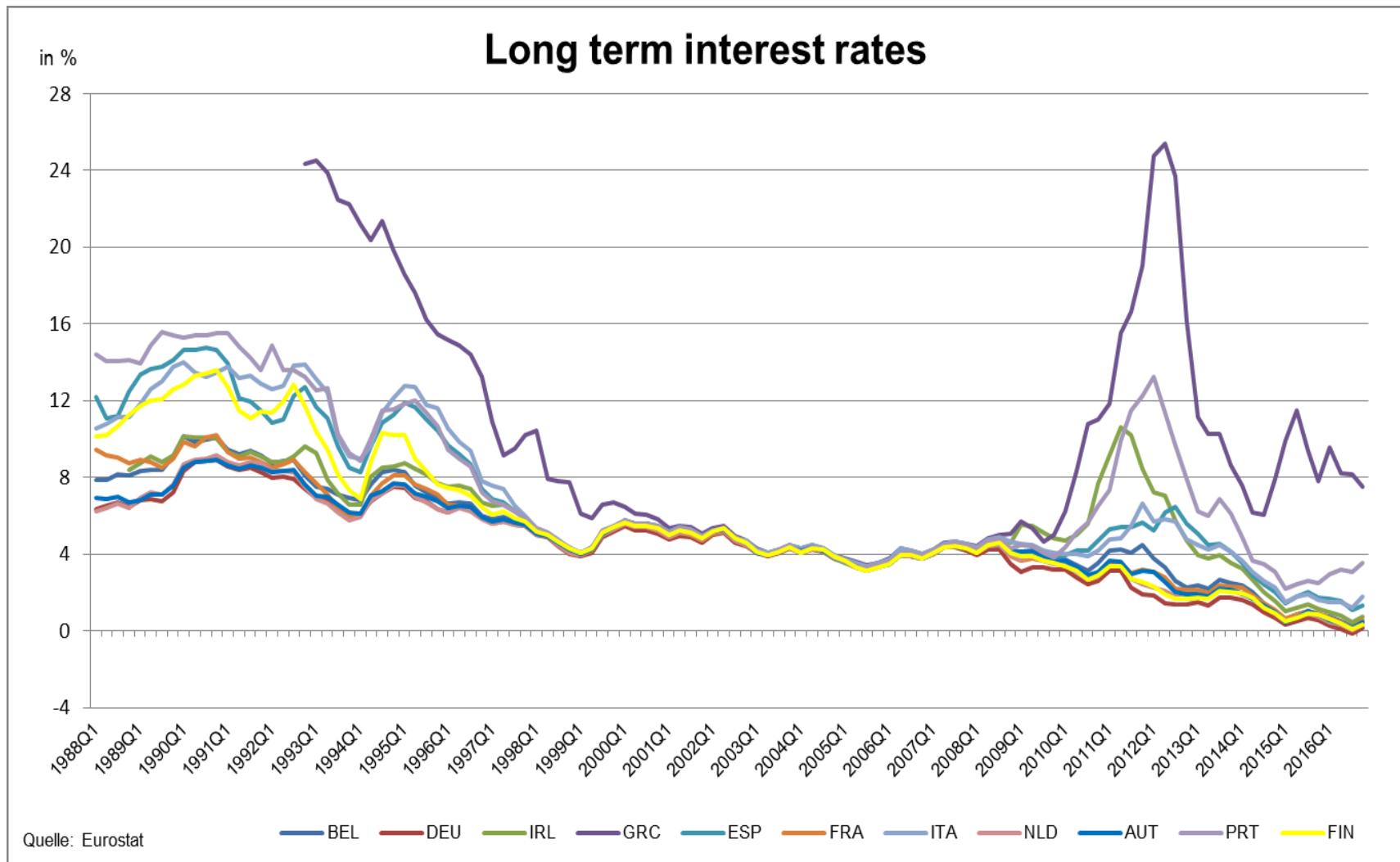
“For years, I’ve been troubled by the problem of understanding the social psychology and economic impact of confidence.”

Robert Shiller, 2013

“Confidence... thrives on honesty, on honour, on the sacredness of obligations, on faithful protection and on unselfish performance. Without them it cannot live”

Franklin D. Roosevelt, 1933

à la recherche de la confiance perdue...



Euro zone: Growth, business climat, Ifo

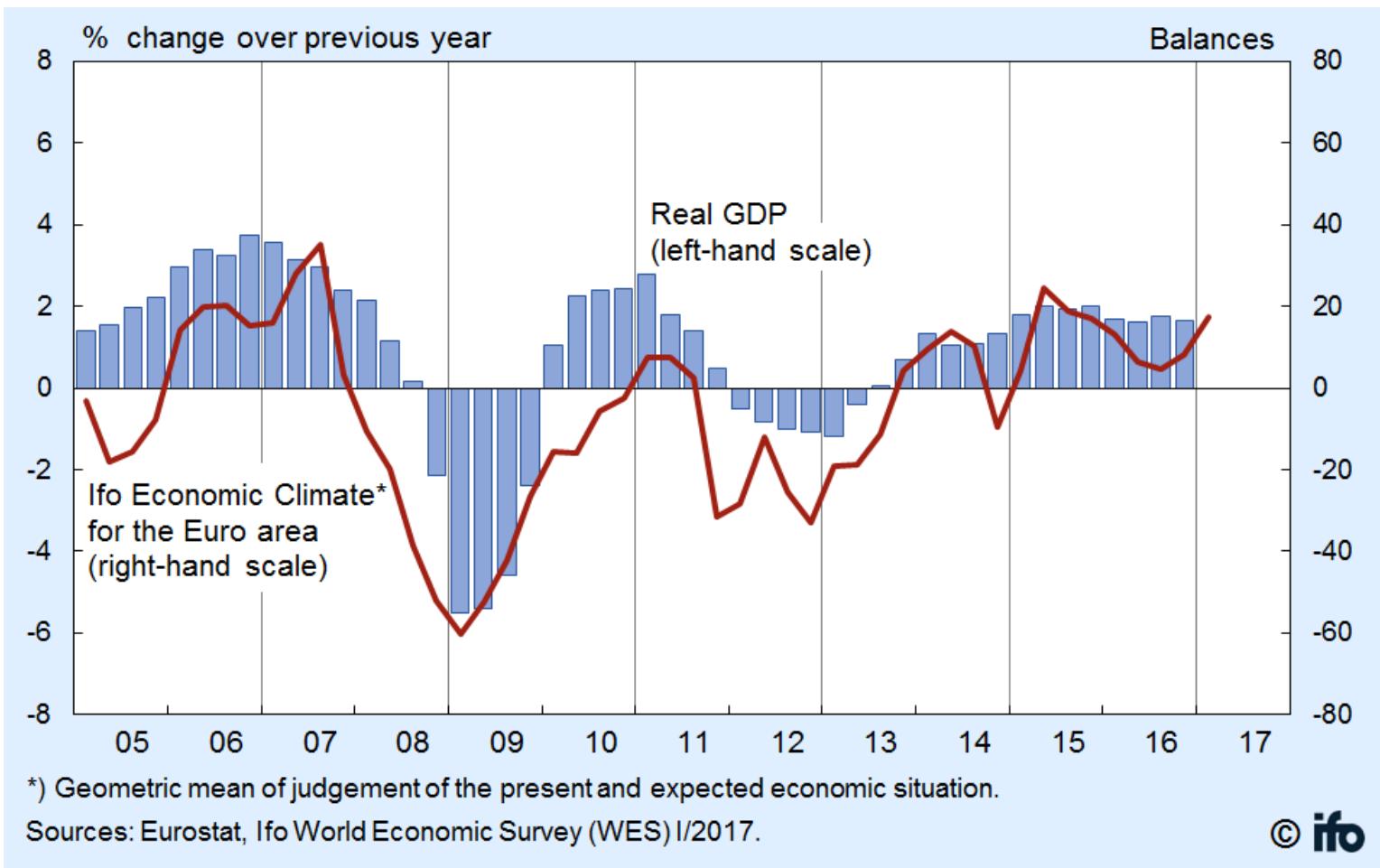
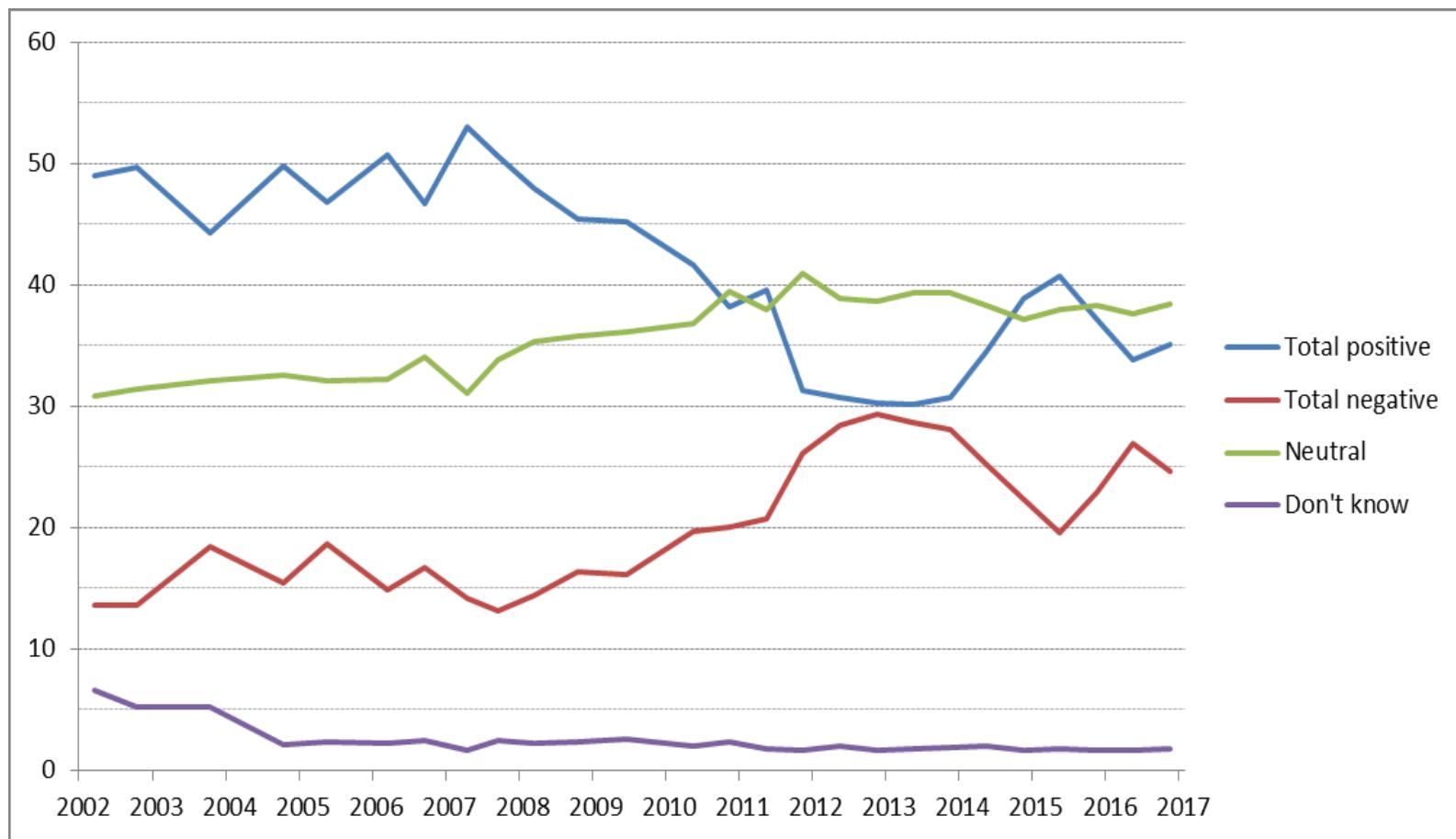


Image of the EU



Source: Eurobarometer November 2016, In general, does the European Union conjure up for you a very positive, fairly positive, neutral, fairly negative or very negative image? (in %)

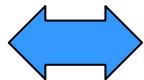


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This is how we started EMU

Monetary policy



Economic policy

ECB
Institution based system

- Target: price stability (- 2% inflation)
- Limit: no monetary financing

Coordination of national policies
Rules based system

- 3 % deficit target
- 60% limit public debt/GDP
- Economic Policies as matter of common concern

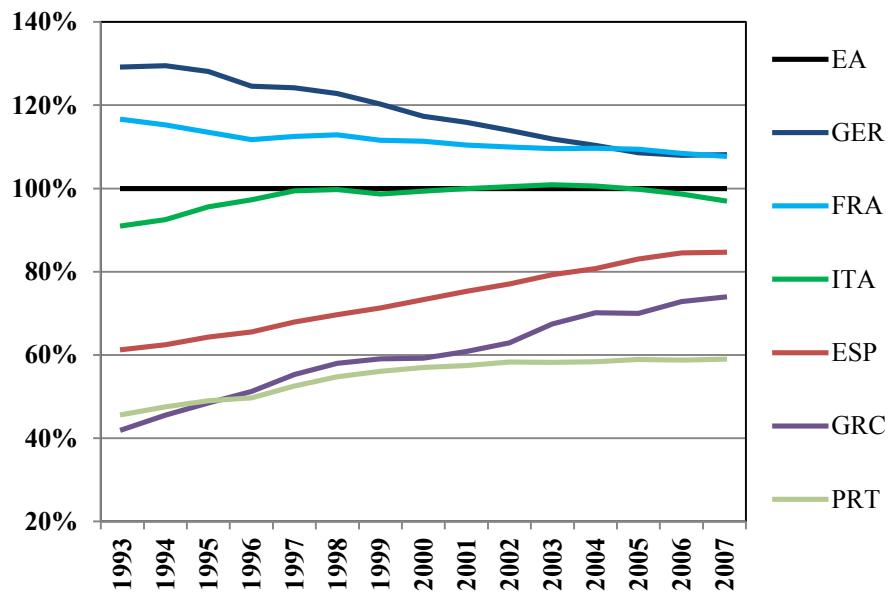
Political union

Missing!

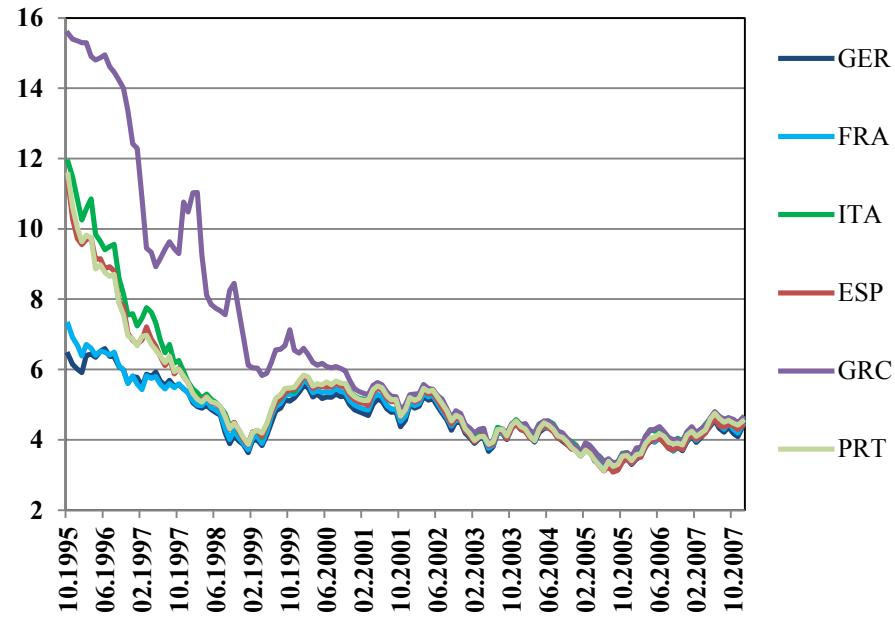
- Greater integration in security, justice and home affairs, asylum, financial, fiscal and economic policies
- Stronger EU-institutions

Years of convergence

GDP per capita (% of EA)



Yields: 10yr government bonds (in %)



Optimal Currency Area

Ex-ante criteria:

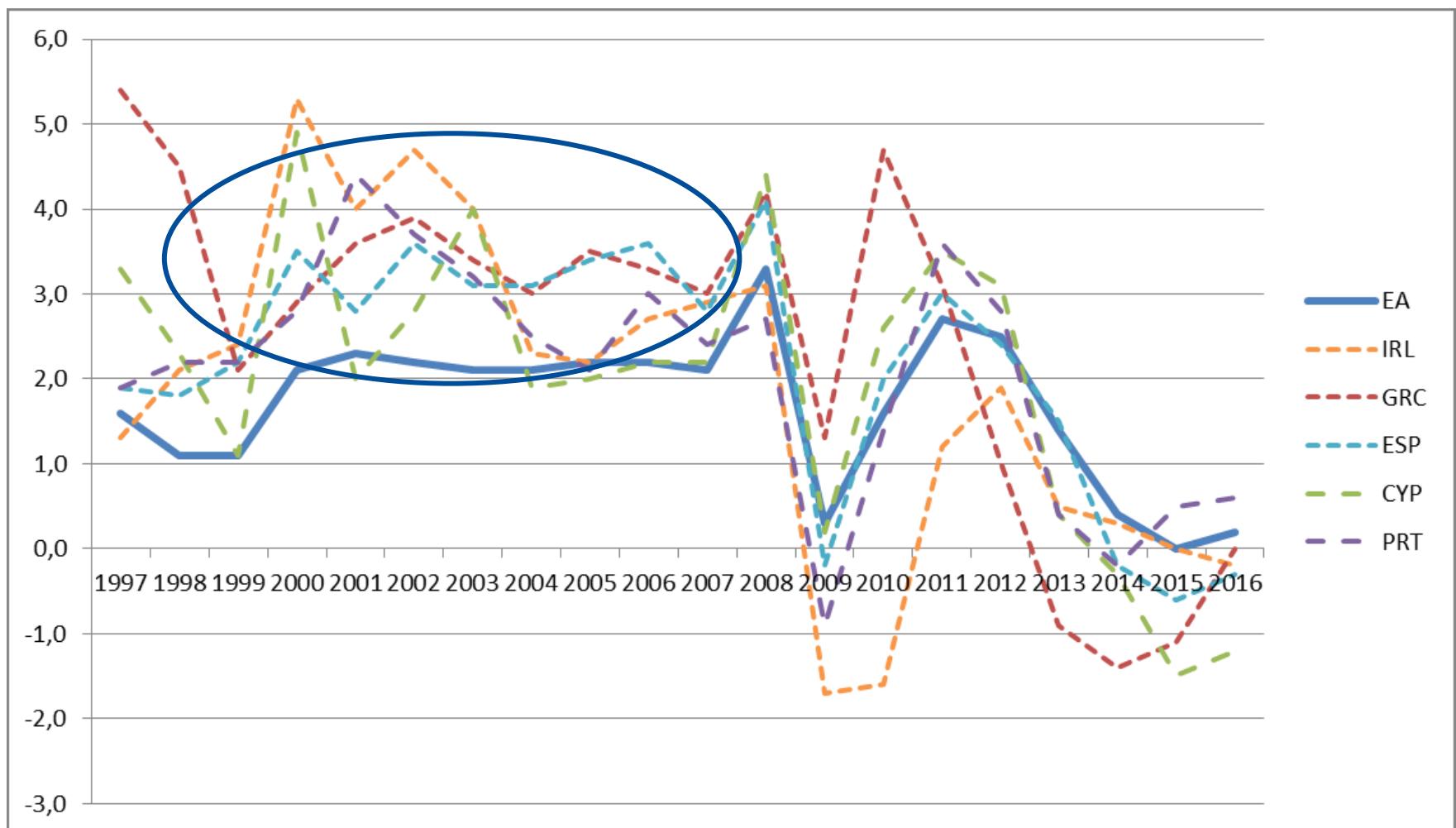
- Flexible prices and wages
- Factor mobility
- Financial market integration
- Open economy

Optimal Currency Area

Ex-post criteria:

- Trade integration
- Commitment = stability FDI
- Institutional effects

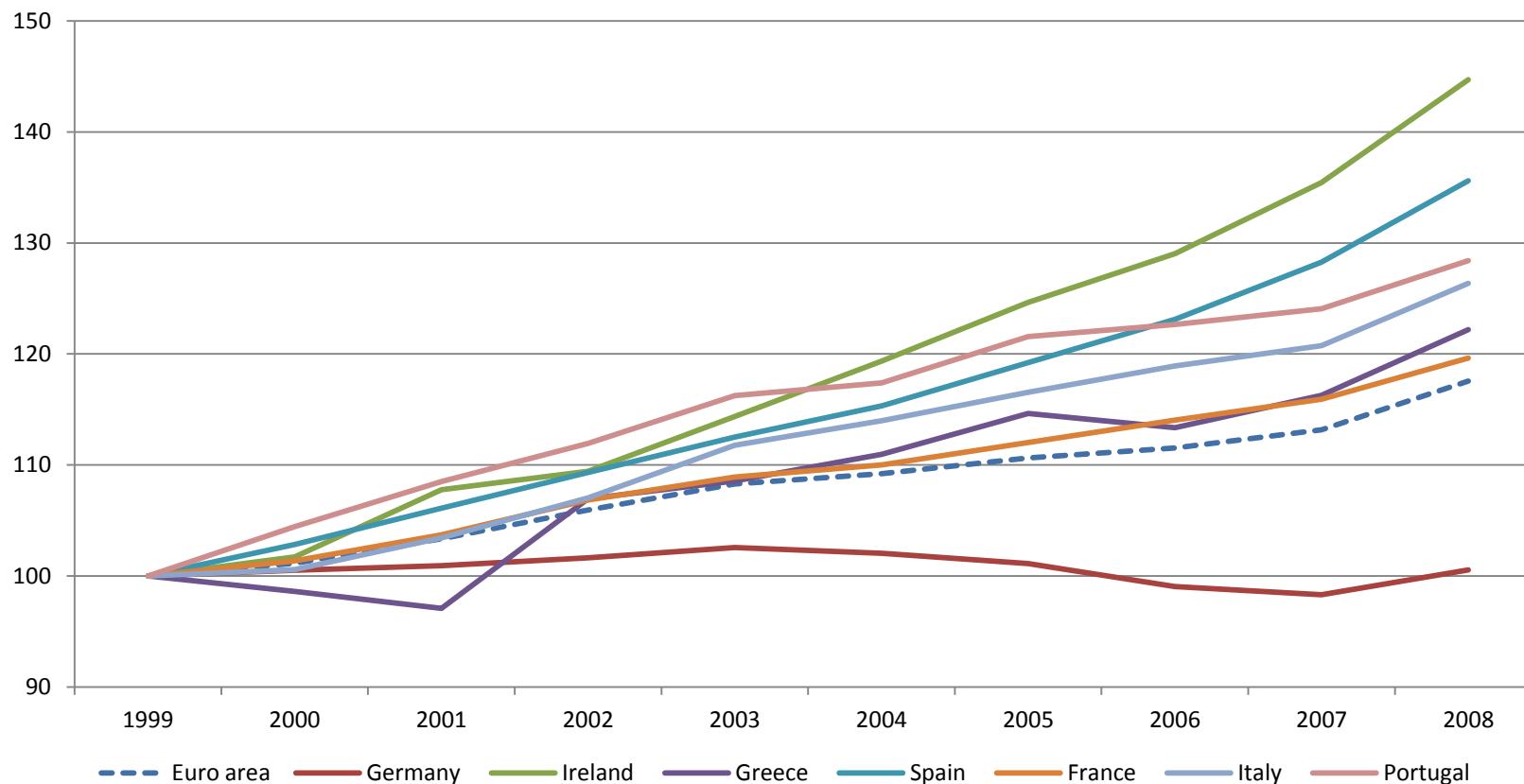
Inflation divergences



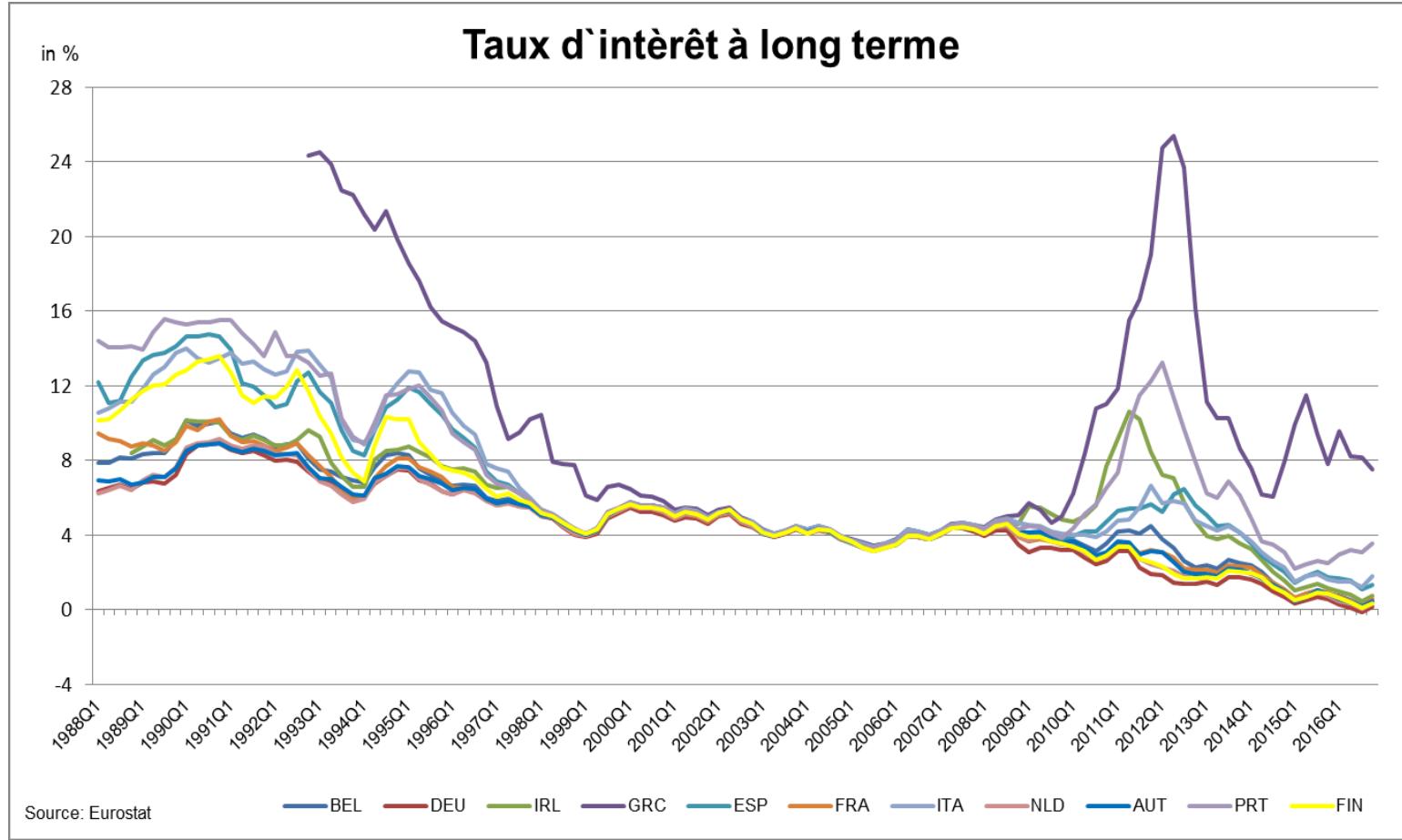
Building-up of imbalances

Unit labour costs before the crisis

Index: 1999=100



EMU countries lost market access!



Crisis response

Member States

Reforms to improve competitiveness; fiscal consolidation

Financial markets

Banking union; European Supervision; serious regulation

EMU-Governance

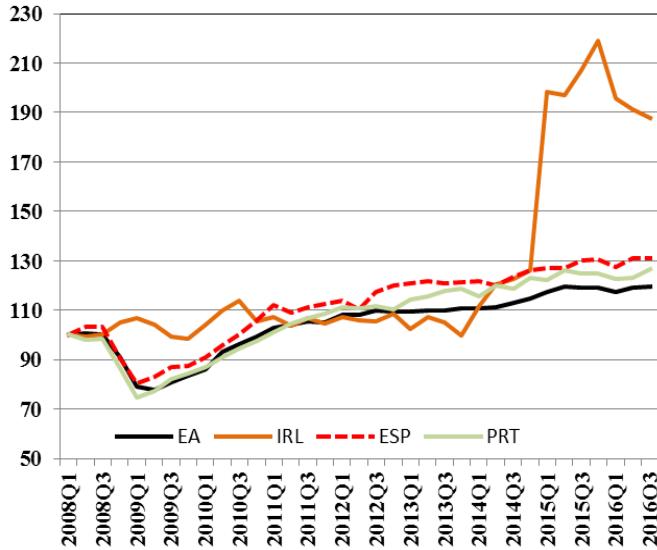
Re-enforcing SGP; Macro imbalances procedure

Crisis mechanism:

EFSM; EFSF; ESM

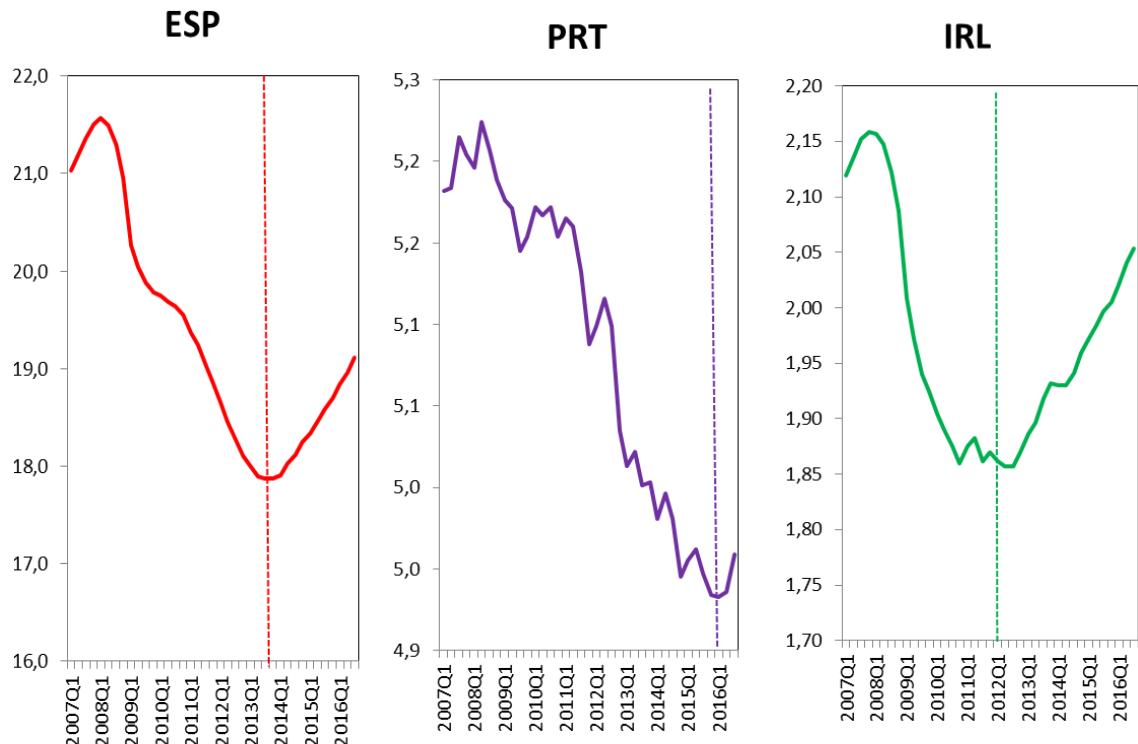
Successful crisis policies

Export of goods since 2008 (2008Q1=100)



Source: Eurostat

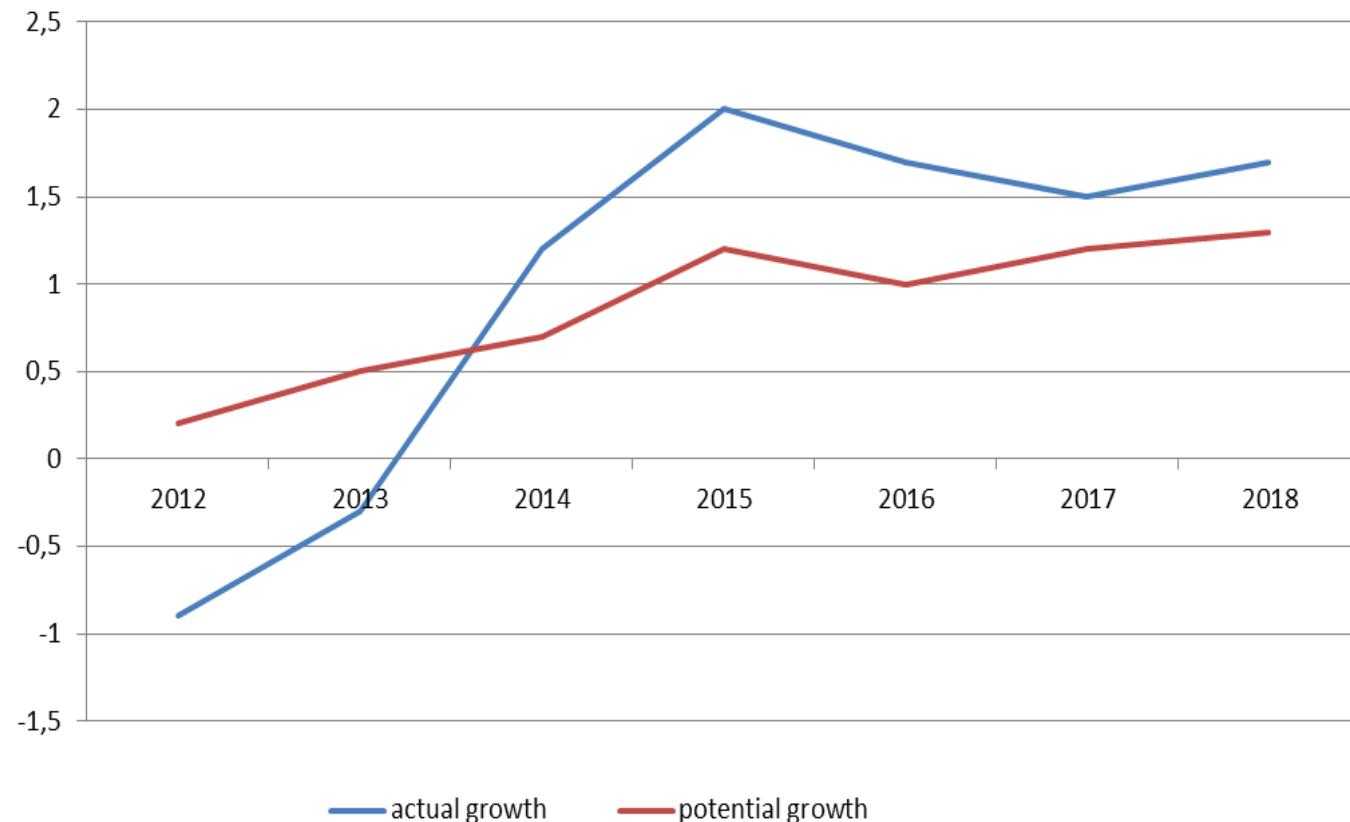
Total employment in million prs. (2007Q1 – 2016Q3)



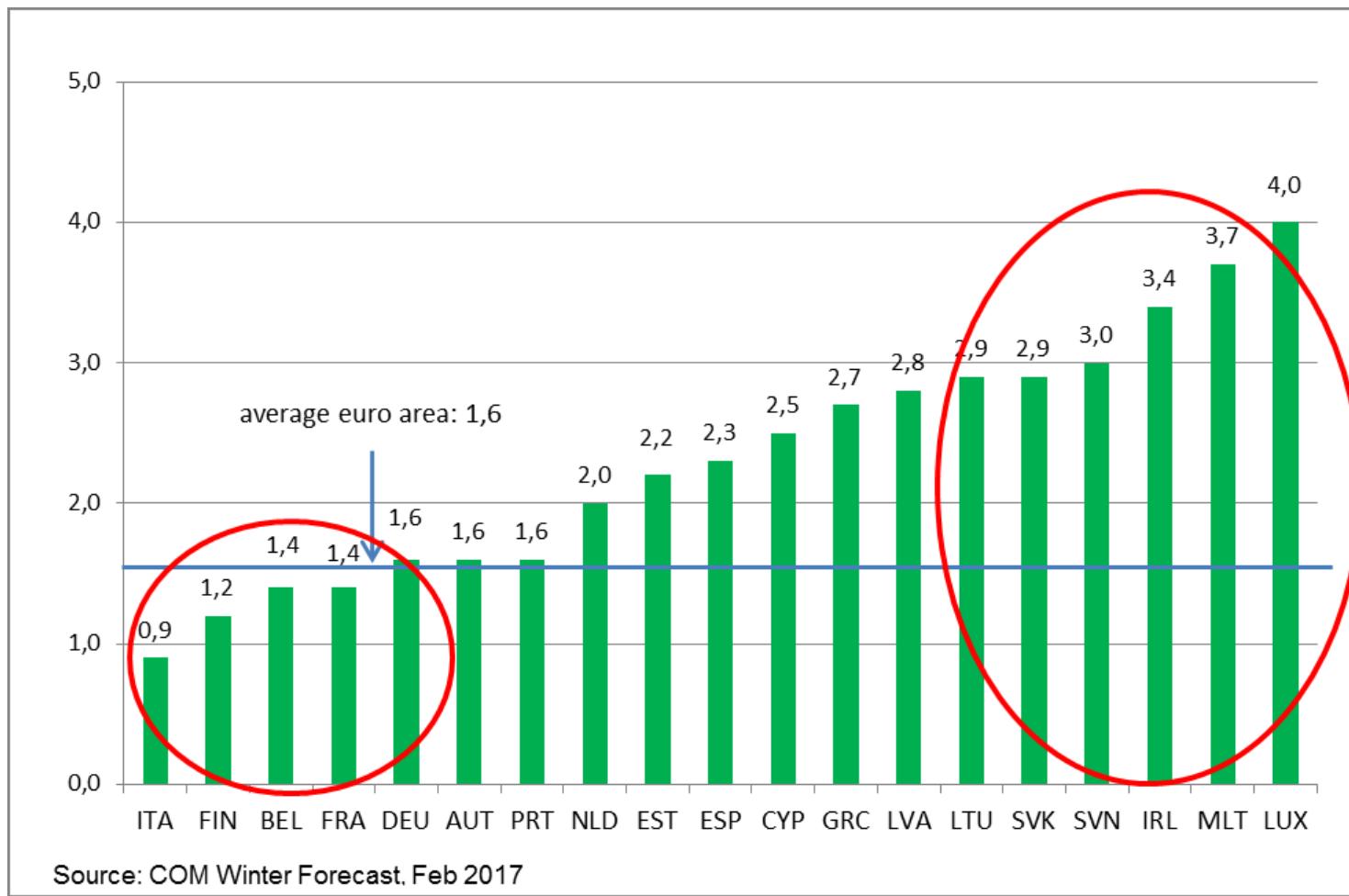
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3. **Solutions at the aggregate level?**
 - **aggregate fiscal stance**
 - **one size fits all/European solution for national problems**
4. A policy proposal

Euro area: real GDP growth

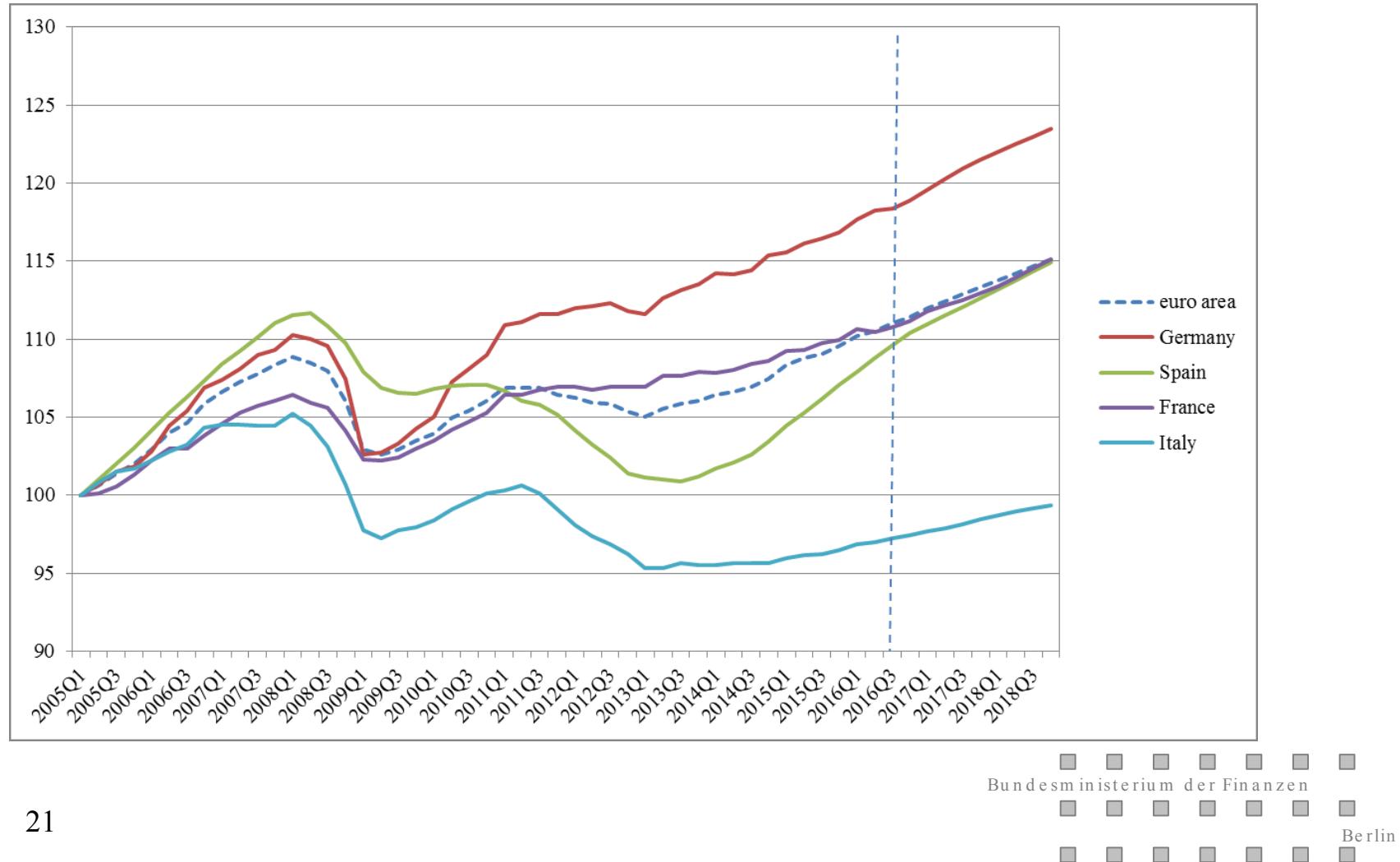


GDP growth in 2017

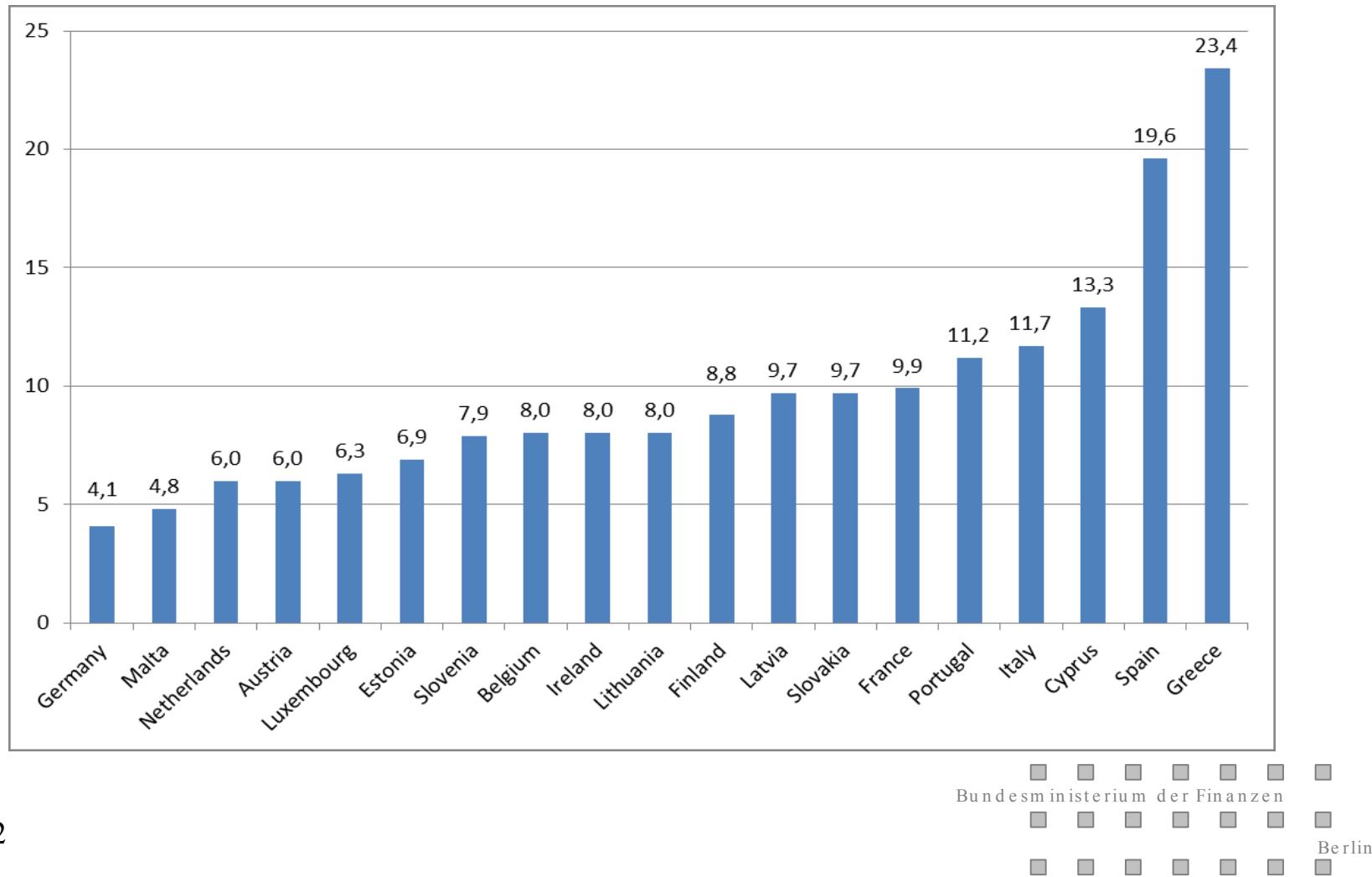


Real GDP in the euro area

index: 2005Q1=100

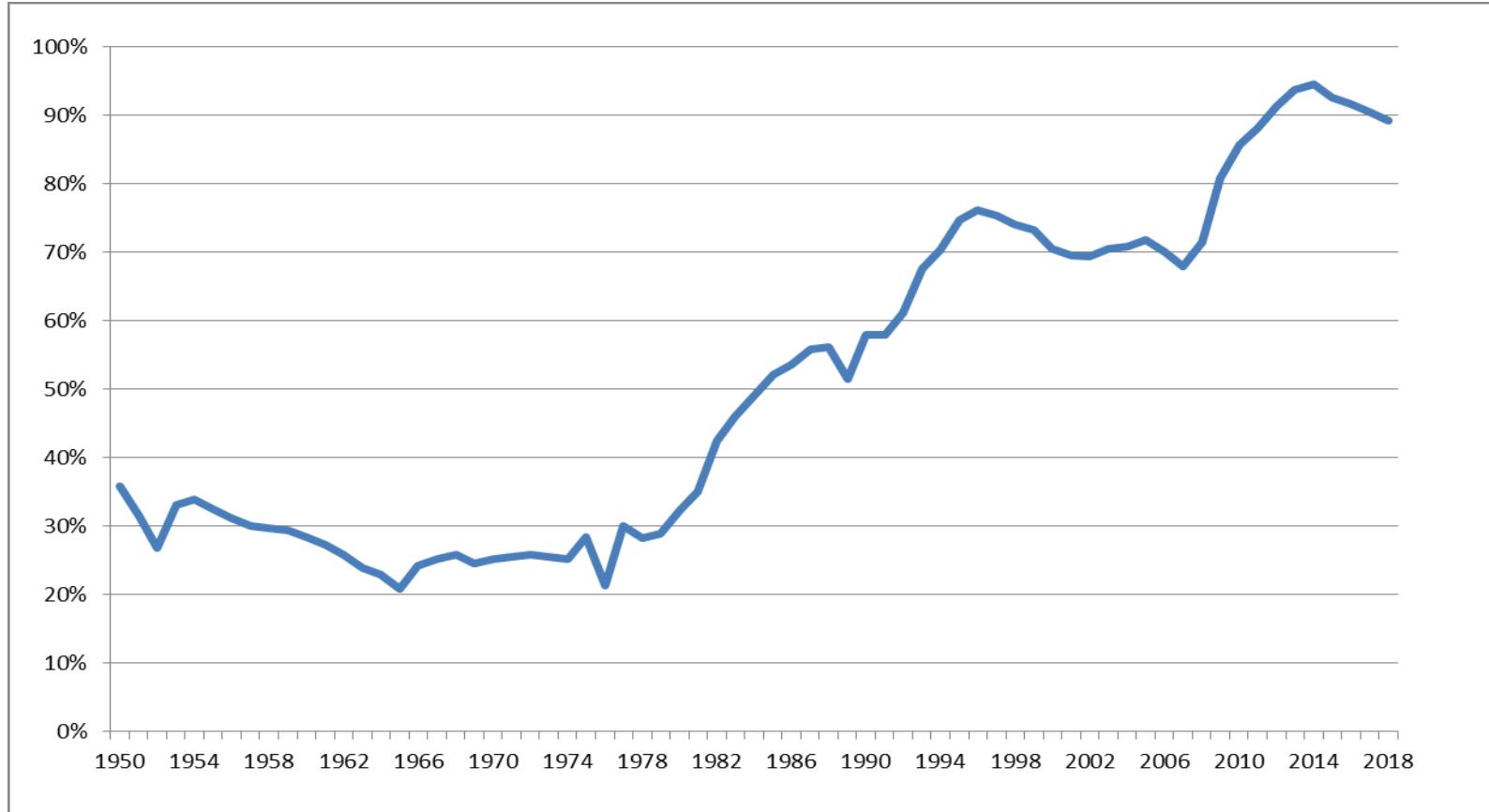


Unemployment rates in 2016 (in %)



EMU has a debt problem

Public debt euro area in % of GDP

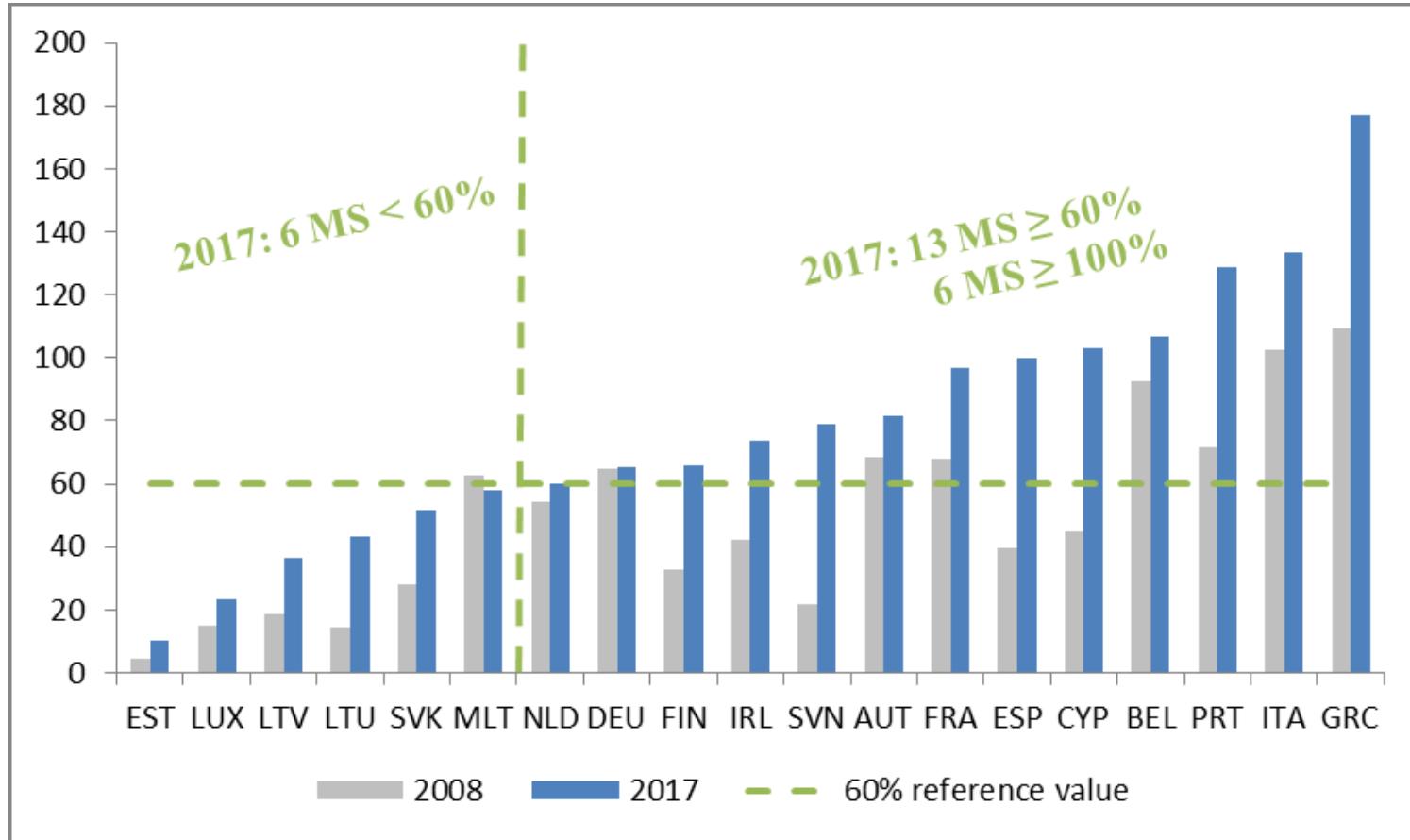


Sources: IMF historical public debt database, Angus Maddison Project, BMF staff calculations, COM Winter Forecast 2017. Note: Euro area covers a subset of 8 MS until 2011 (Austria, Belgium, France, Germany, Italy, Netherlands, Portugal, Spain).



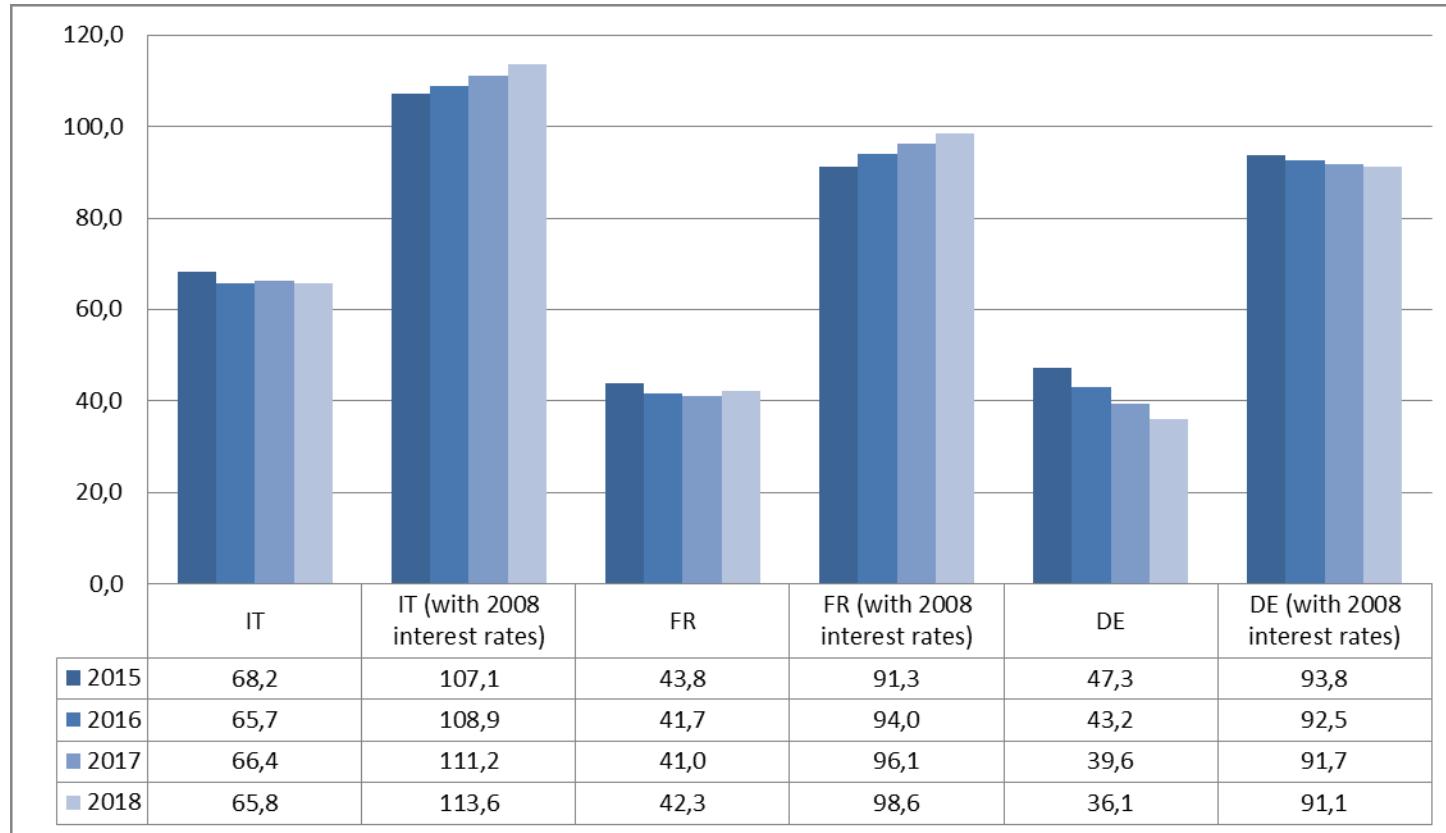
EMU has a debt problem

Government debt 2008 vs. 2017 in % of GDP



Significant windfall profits

General government interest payments in bn. Euro



Source: COM Winter Forecast 2017, BMF staff calculations. IT, FR, DE: MS with highest nominal debt in 2016, 2008 reference period with highest implicit interest rates in the last 10 years.

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 - **Sound analysis allows successful policies**

The wrong way!

underperform



oversell



Silo policy



Economic policy

restart convergence!
growth, jobs

Integrated
reform
policy

Economic
policy
coordination

CSR to identify
main challenges

Action:
EU-semester
as central
instrument for
coordination

Cohesion
policy

CSRs define
funded
projects

Action:
MS present
projects to
implement
CSRs

EU-
budget

EU-
budget
supports
national
reforms

EU-
budget
finances
EU-
policies

EU-
budget
finances
European
public
goods

Fiscal policy

Objective: Room for manoeuvre; Stability

Action: respect MTOs

Debt rule respected;
Debt ratios decline
towards 60%

- Independence from market volatility
- Allows lower taxes/improved public services

Structural balanced budget creates room to react in crises.
Automatic stabilisers can work.

Financial market policy

Objective:
stable financing
of the economy

Reduce risk in the sector

Action:
Harmonise
legal
framework

Action:
Reduce
sovereign
exposure

Thank you for your attention

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