

EUROPEAN STABILITY MECHANISM



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ECONOMIC AND MONETARY UNION



ECONOMIC AND MONETARY UNION (EMU): MORE THAN A CURRENCY UNION

- EMU is the result of an **integration process**, dating back to the collapse of Bretton Woods system in 1971
- EMU could be established only after a long process of economic convergence
- It has grown originally from 11 to now **19 countries**
- It is not only an economic project, but also a **political project**

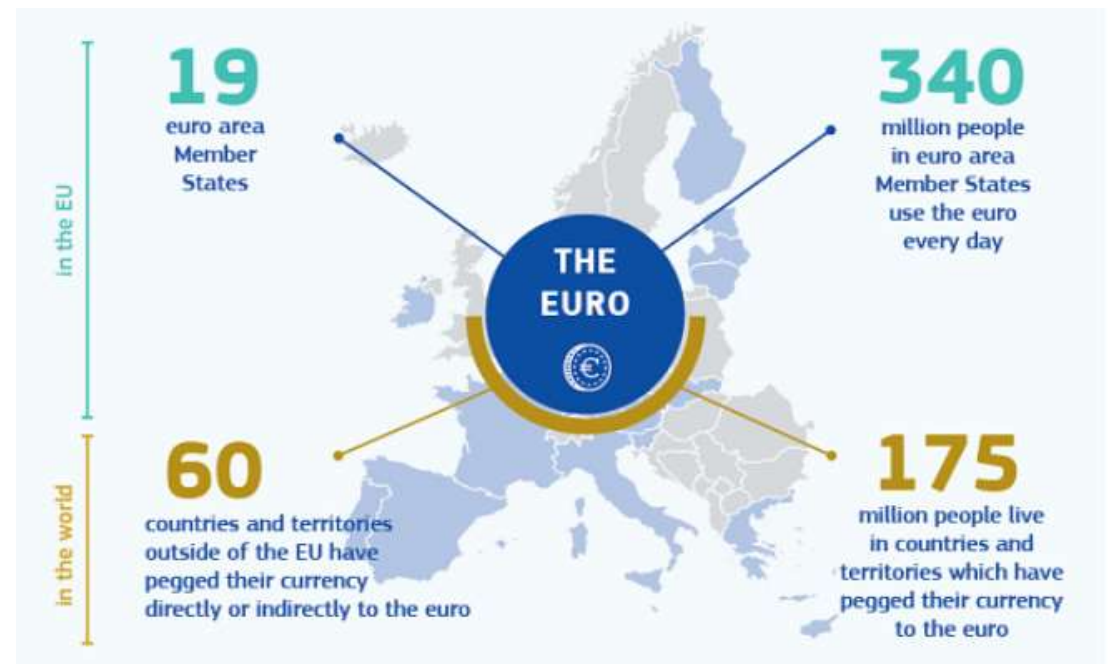


Diagram: European Commission

INSTITUTIONAL GAPS WHEN EMU WAS LAUNCHED

- Weak coordination of macroeconomic policy at EU level
- Banking supervision and resolution purely national
- No macroprudential supervision at European level
- Lack of common deposit insurance scheme
- No lender of last resort for sovereigns

CRISES AND REFORM



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EUROPE HAD TO CONFRONT TWO CRISES

Global financial crisis 2007-2009

- Crisis in the US real estate market
- Overly abundant liquidity
- Risk premia too low

The euro crisis 2009-2013

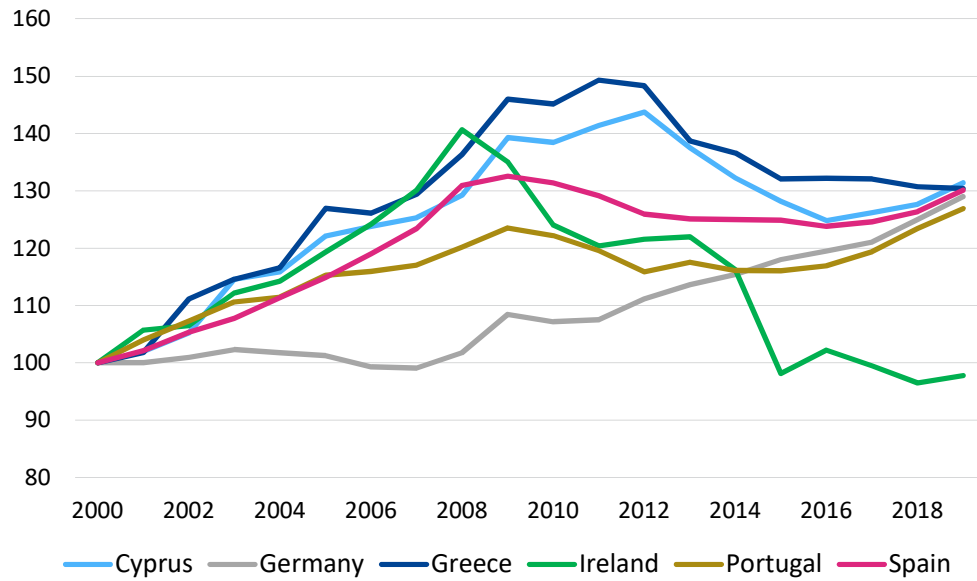
- Unsustainable budget deficits and debt levels, loss of competitiveness, real estate bubbles in several Member States
- Gaps in the EU's institutional architecture
- Insufficient supervision of the financial sector
- The unthinkable happened:
 - Several countries lost market access
 - Disintegration of the euro area became a realistic threat

EUROPE'S COMPREHENSIVE RESPONSE TO THE EURO CRISIS

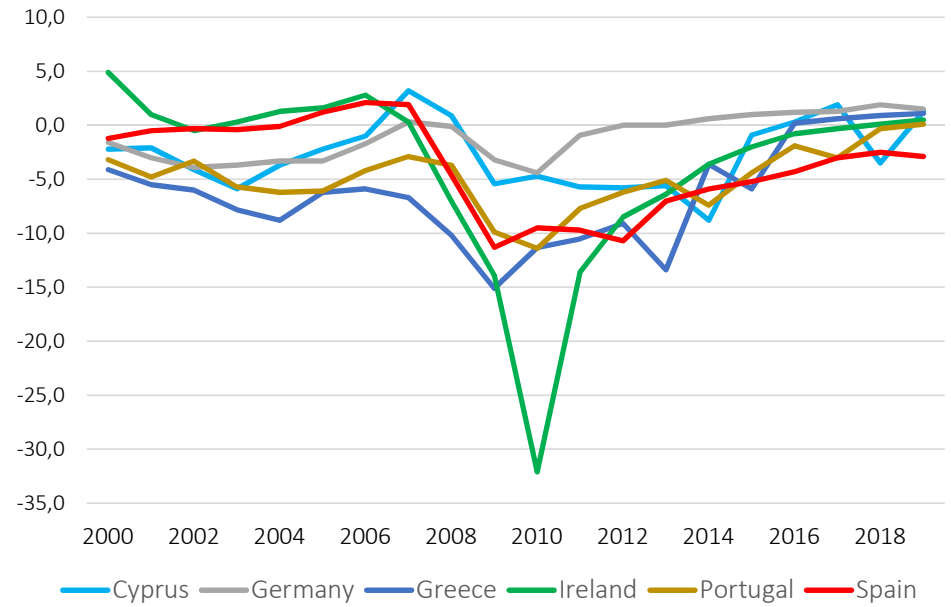
- Adjustment in affected Member States
- Unconventional monetary policy by ECB
- Macroeconomic surveillance broadened and deepened
- Beginning of banking union: Single Supervisory Mechanism (SSM), Single Resolution Board (SRB), Single Resolution Fund (SRF)
- Creation of the two rescue funds (EFSF, ESM)

IMPROVED COMPETITIVENESS; SMALLER FISCAL DEFICITS

Nominal unit labour costs (2000=100)

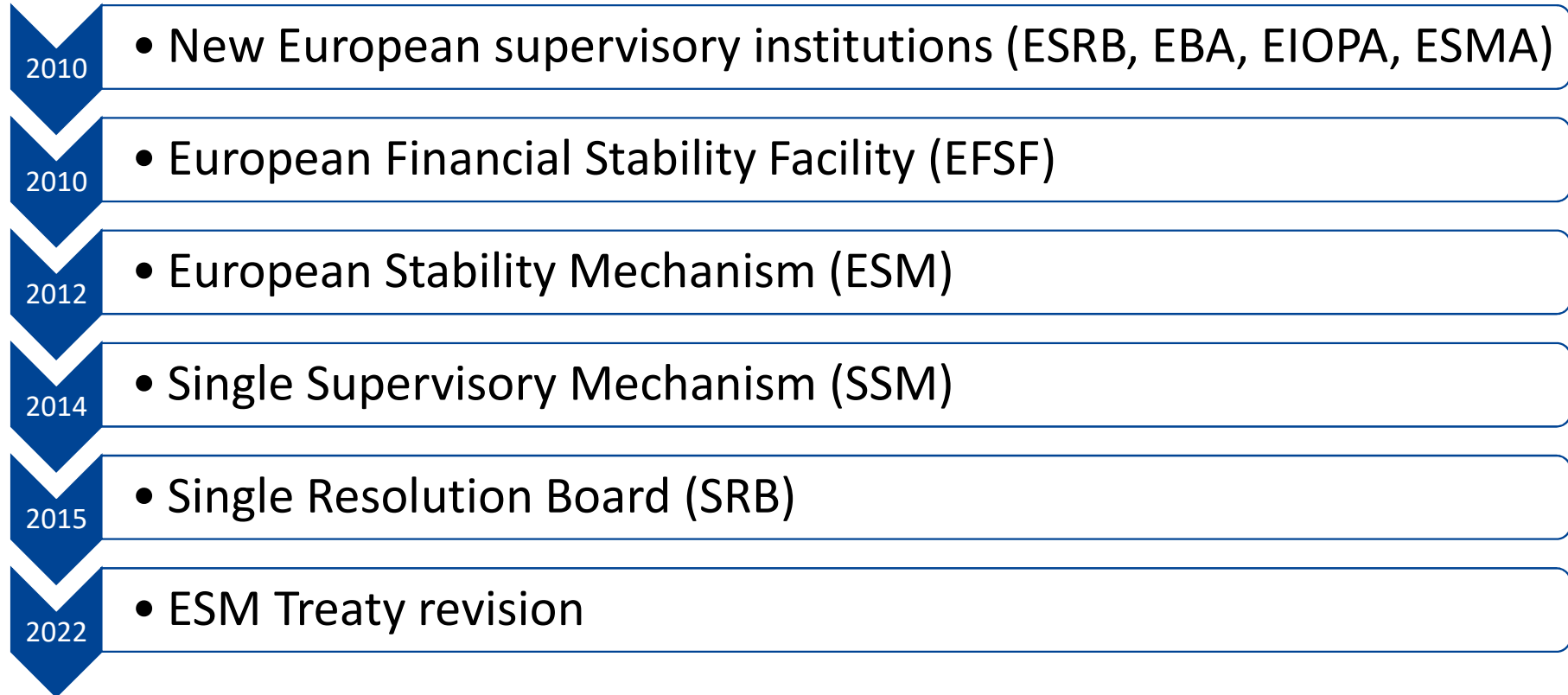


Fiscal balances (% of GDP)








Source: AMECO

SIGNIFICANT INSTITUTIONAL PROGRESS SINCE 2010



EFSF AND ESM PROGRAMMES

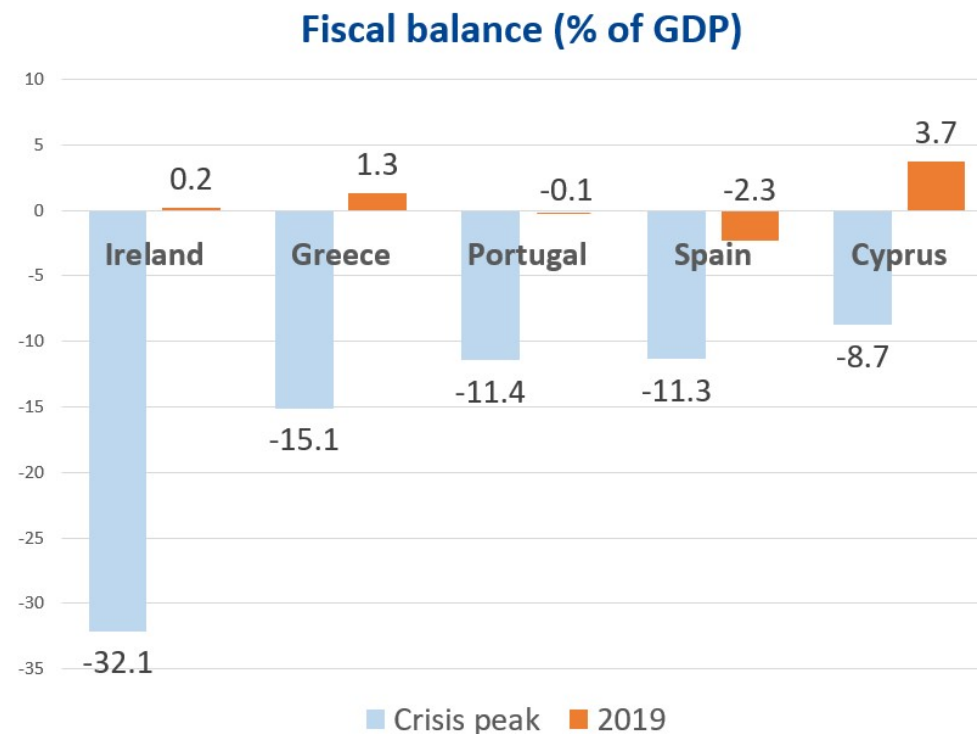
EFSF	ESM
 <p>Ireland (2010-2013) €17.7 bn</p>	 <p>Spain (2012-2013) €41.3 bn</p>
 <p>Portugal (2011-2014) €26 bn</p>	 <p>Cyprus (2013-2016) €6.3 bn</p>
 <p>Greece (2012-2015) €141.8 bn</p>	 <p>Greece (2015-2018) €61.9 bn</p>

Total amount
disbursed by
EFSF and ESM:

€295 bn

ALL FIVE EFSF/ESM PROGRAMMES WERE SUCCESSFUL

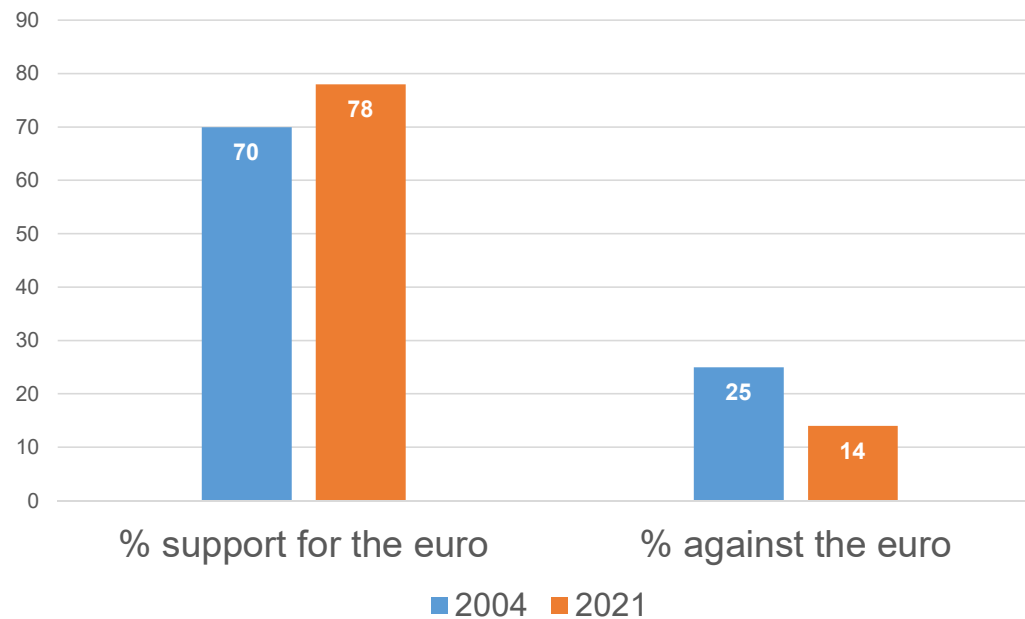
- EFSF and ESM financial assistance gave programme countries the time to implement **vital reforms**
- As a result, all programme countries were able to **regain market access**
- All five countries **returned to economic growth**, well above the euro area average, which continued until the pandemic crisis broke out



Source: AMECO

SUPPORT FOR THE EURO IS AT RECORD HIGH

Nearly 80% of respondents in the euro area support the common currency



Source: Standard Eurobarometer, December 2021

RESPONSE TO COVID-19 PANDEMIC



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IMMEDIATE EU RESPONSE TO THE CORONAVIRUS PANDEMIC

In May 2020, the EU Heads of State committed € 540 billion to fight the Covid-19 crisis



Support for workers

Up to €100bn in loans to EU member states under the **European Commission's SURE** programme in support of national unemployment schemes.



Support for companies

A pan-European **guarantee fund** by the European Investment Bank (EIB) of €25bn, which could provide around €200bn of financing for companies, especially SMEs.



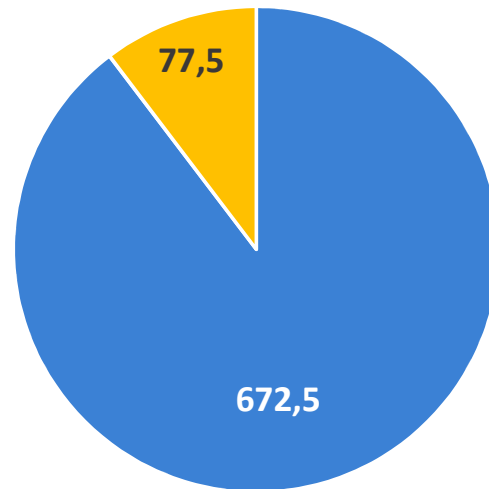
Support for countries

The **ESM's Pandemic Crisis Support**, a precautionary credit line with a total volume of up to €240bn, is available to all euro area countries until the end of 2022 to support healthcare-related costs of up to 2% of GDP.

LONG-TERM EU RESPONSE TO THE PANDEMIC: NEXT GENERATION EU

Next Generation EU recovery package (€ bn)

Total amount: €750 billion



- Recovery and Resilience Facility**
Grants (€312.5 bn) and loans (€360 bn) to make European economies more sustainable, resilient and prepared for green and digital transition
- Contribution to 2021-2027 MFF programmes**
Regional and rural development; climate neutrality; research and innovation

Figures expressed in 2018 prices

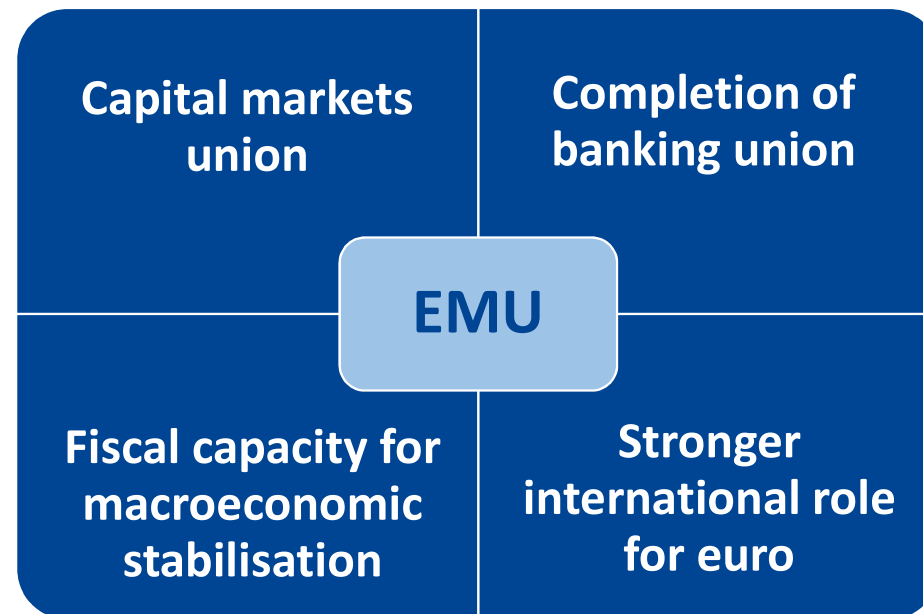
Source: European Commission

EMU: WHAT REMAINS TO BE DONE



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FURTHER DEEPENING OF ECONOMIC AND MONETARY UNION

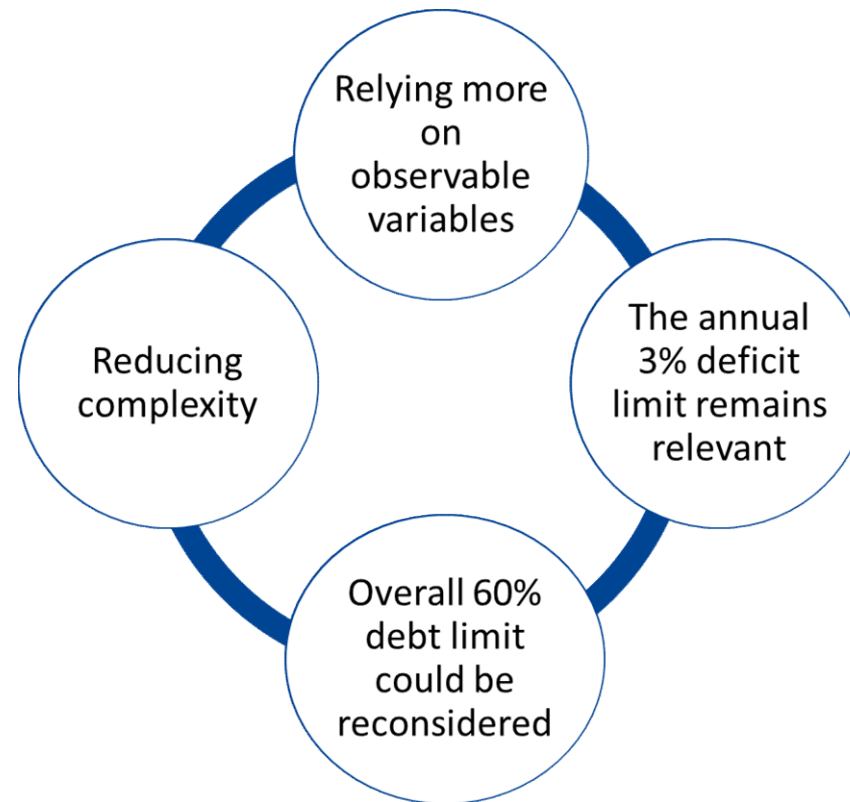


RISK-SHARING IN THE MONETARY UNION

- **Risk-sharing is underdeveloped** in the monetary union because there is no common revenue or social security system
- **Private risk-sharing** will be strengthened with banking union and capital markets union
- **Public risk-sharing** through EU budget, EIB, ESM and Next Generation EU
- New facility for **macroeconomic stabilisation**?
- **Trade-off** between private and public risk-sharing

REFORMING THE EU'S FISCAL FRAMEWORK

EU fiscal rules are suspended until 2022. Reform considerations should focus on:



ESM REFORM AND TREATY CHANGE

New tasks for the ESM:

Revised ESM Treaty expected to be ratified in H1 2022

