

Economic and Monetary Union Reform

and the White paper on Future of Europe

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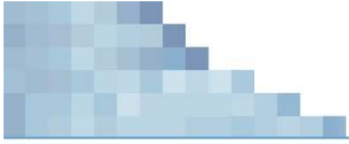
7 April 2017, Brno



1. Introduction
2. Legacy of economic crisis
3. EMU reform (**White Paper on EU Future**)
4. Conclusions



- The EU is currently facing a number of **challenges**:
 - **Socio-economic**: ageing population, migration, security...
 - **Structural**: **EMU reform**, Brexit...
 - **Economic**: low growth, high debt levels/deleveraging, ...
- 
- Investment gap, innovation gap, climate change, single market +, energy...
- For policy interventions, **public resources limited (!)**:
 - EU level: budget capped at 1% of GDP;
 - limited "fiscal space" in a number of (euro area) Member States - SGP, markets...;



Legacy of the crisis

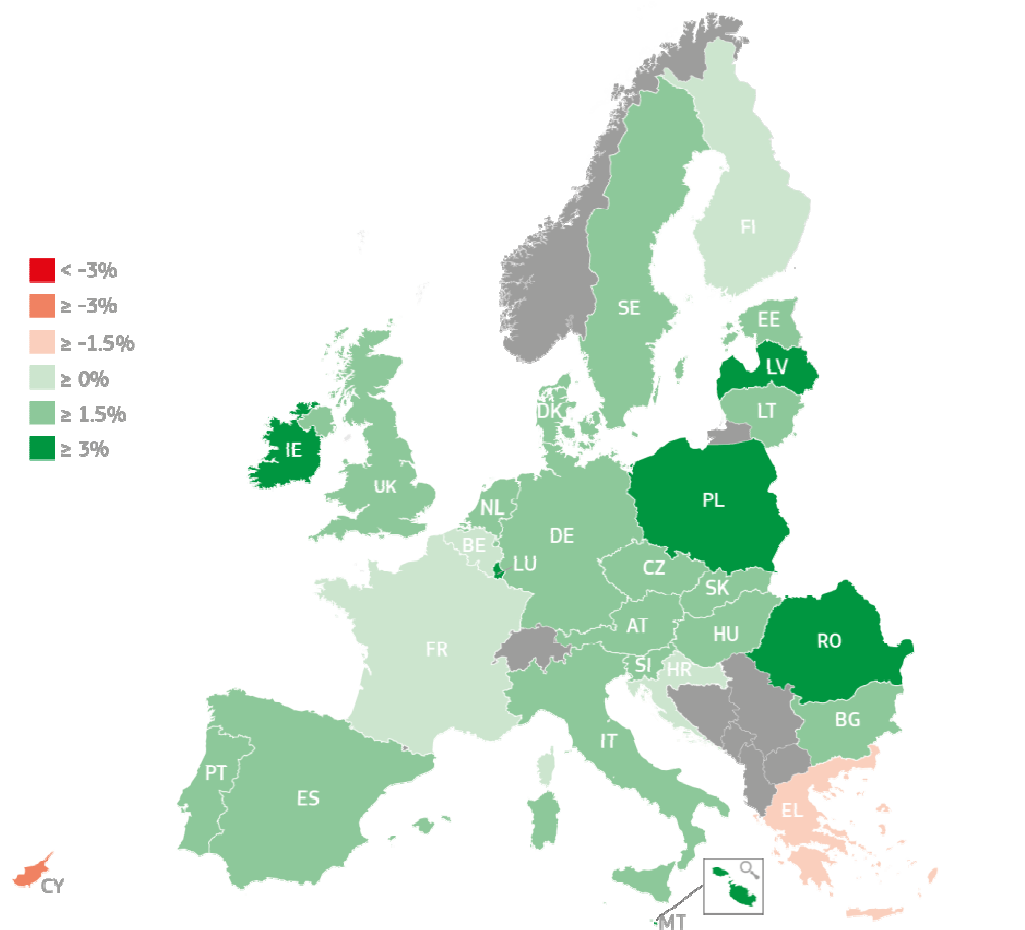
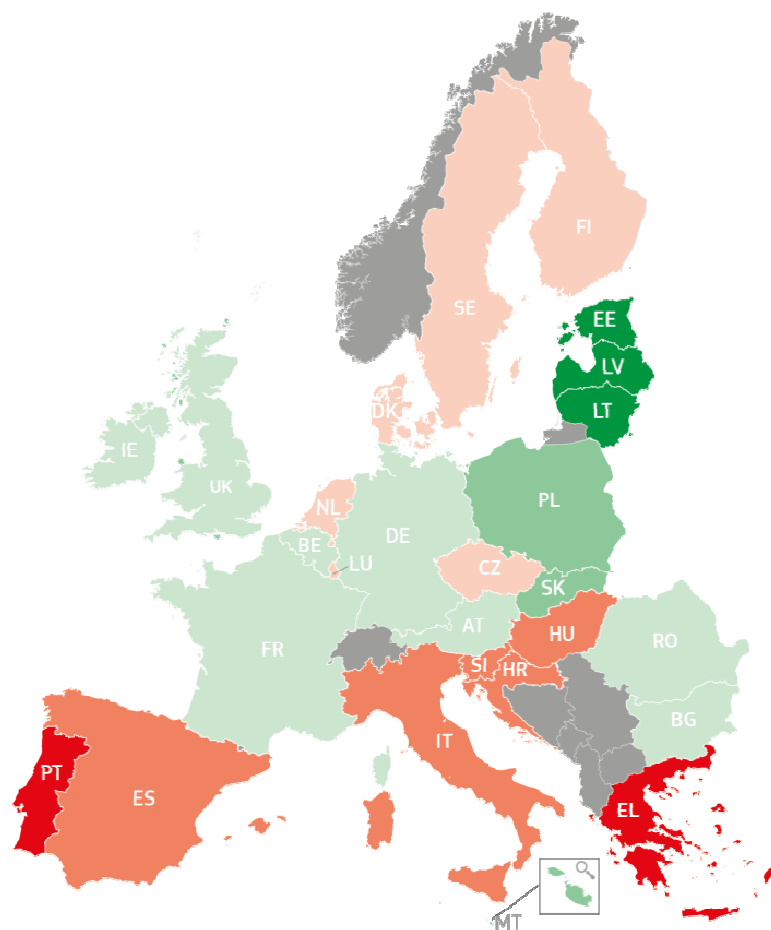
EU's economic challenges – introduction (1/3)



ECONOMIC SITUATION IN THE EU IS IMPROVING...

EUROPEAN GROWTH MAP 2012

EUROPEAN GROWTH MAP 2016 (FORECAST)



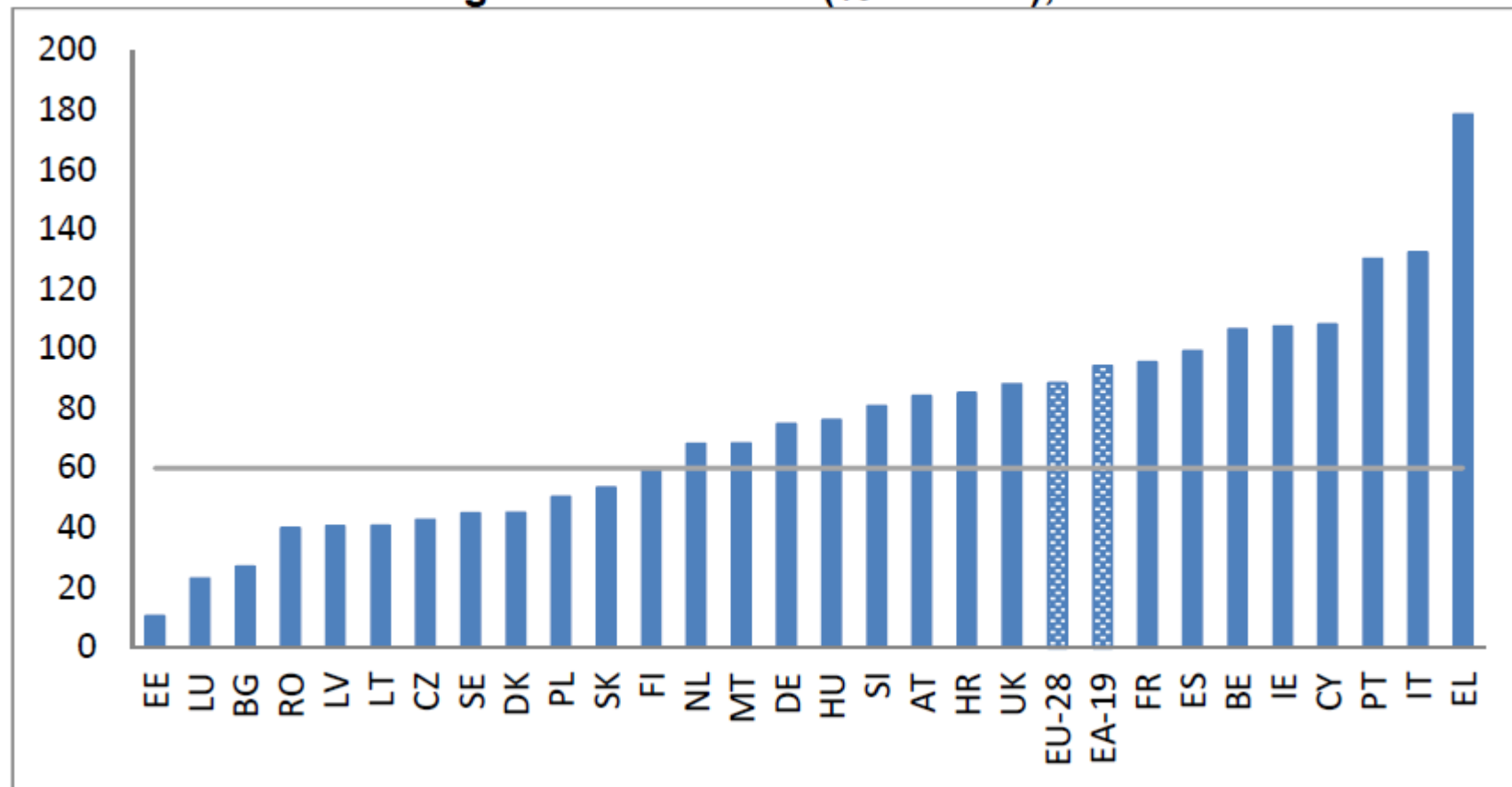
Source: European Commission Winter 2016 Forecast

1 - EU's economic challenges (1/3)



- The general government debt hovers at a high level (> 60% of GDP) for most Member States

Chart 1: General government debt (% of GDP), 2014



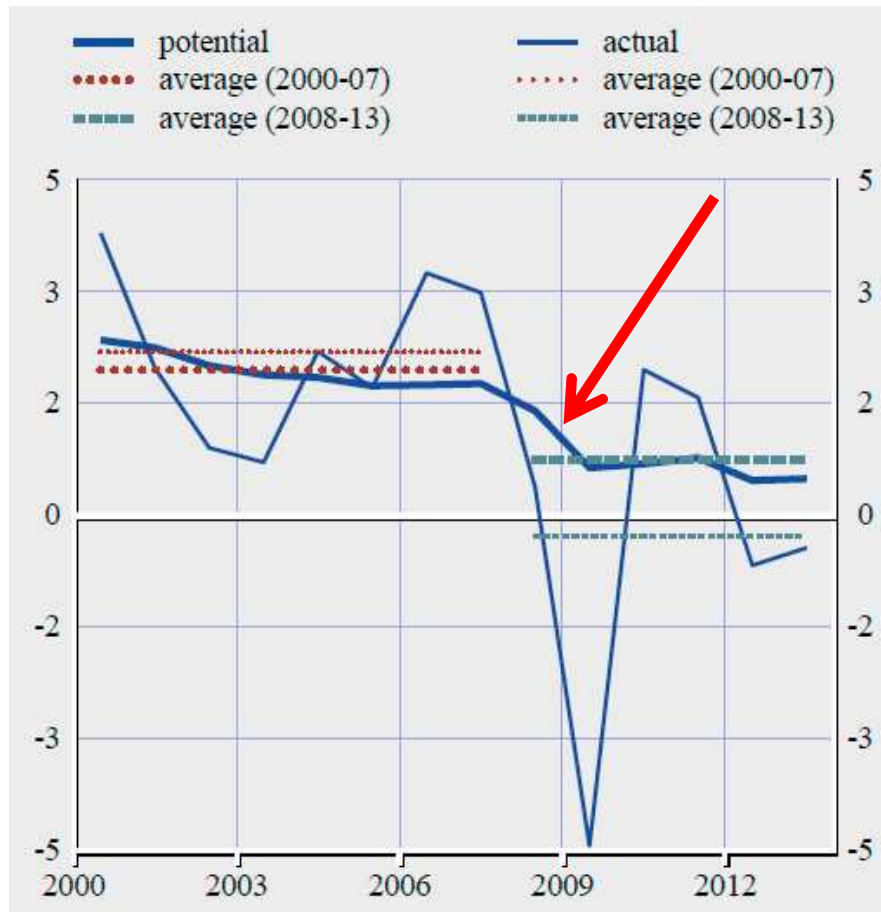
Source: Commission services (Ameco).

EU's economic challenges – introduction (2/3)



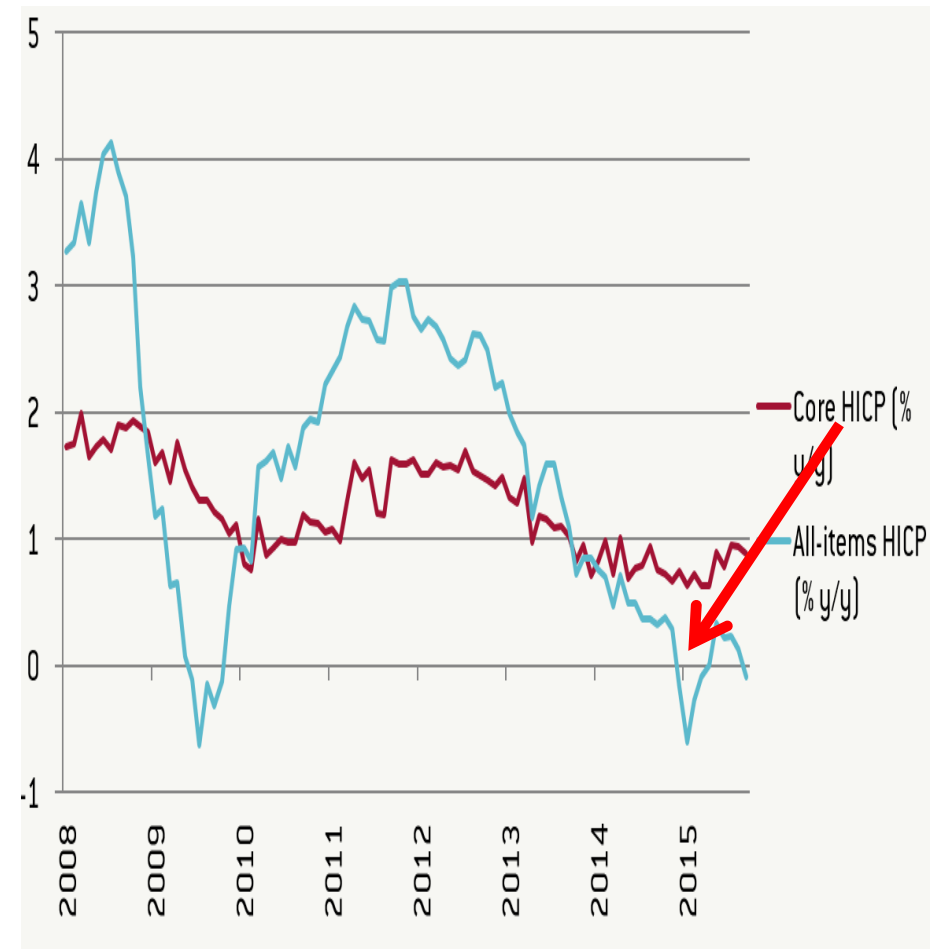
- But potential growth significantly declined from about 3% in the 1990s to around 1% now.
- Very low inflation

1. ACTUAL VS. POTENTIAL GDP GROWTH (euro area)



Sources: European Commission estimates (CIRCABC) and ECB

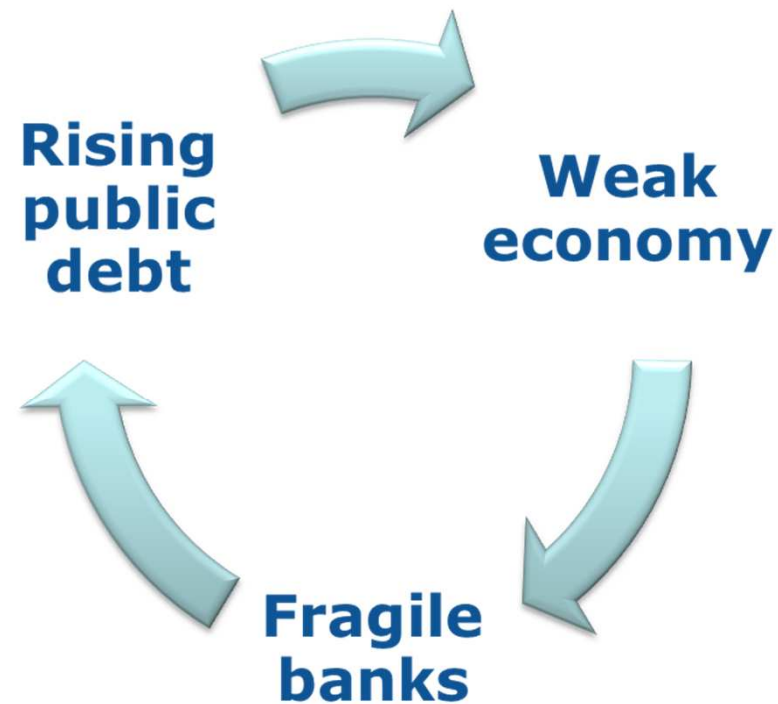
2. HICP INFLATION (euro area)



Source: <https://www.ecb.europa.eu/pub/pdf/scpops/ecbop156.en.pdf?12f64165c5623d34b98b978cbe614ed9>



Where we are(were)? "Vicious cycle" ...





**...but also weaknesses of (unfinished)
EMU architecture**

EMU reform



European Commission (2015) - the "**Five Presidents' Report**" and its proposal for the EMU Reform :

- Strategic document /a longer-term vision;
- Three stages to complete "genuine" EMU – 2nd stage by mid 2017, 3rd by 2025;
- Recognition of failures in the EMU architecture → **need for shock absorbers, flexibility (OCA conditions) and financial backstops for large shocks;**
- Building blocks – unions: economic, financial, fiscal and political.
- Strong **banking union** and risk sharing by private sector a key pre-condition of successful EMU;
- Proposals for improvements in EMU functioning (first phase):
 - **(1) system of competitiveness authorities,**
 - **(2) European fiscal board,**
 - **(3) Consolidation of euro area representation at the IMF,**
 - **(4) Finalization of the banking union (EDIS...)**
- Step-by-step approach: first stage → convergence benchmarks → pooling of national resources.

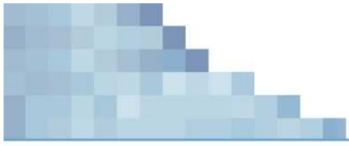


The **White Paper (1 March 2017 by J.C. Juncker)**

"As we mark the 60th anniversary of the Treaties of Rome, it is time for a united Europe of 27 to shape a vision for its future."



- sets out **five scenarios**, each offering a glimpse into the potential state of the Union by 2025:
- The White Paper is the European's Commission contribution to the Rome Summit, the moment when the EU will discuss its achievements of the past 60 years and its future at 27.
- The White Paper marks the beginning of a process for the EU27 to decide on the future of their Union. EC will contribute to the debate in the months to come with a **series of reflection papers** on e.g. deepening the EMU on the basis of the Five Presidents' Report (May).



Five Scenarios



Carrying On

The EU27 focuses on delivering its positive reform agenda



Nothing but the Single Market

The EU27 is gradually re-centred on the single market



Those Who Want More Do More

The EU27 allows willing Member States to do more together in specific areas



Doing Less More Efficiently

The EU27 focuses on delivering more and faster in selected policy areas, while doing less elsewhere



Doing Much More Together

Member States decide to do much more together across all policy areas



What's next?



The floor has to be given to this Parliament, national parliaments, governments, civil society – in brief, citizens... This Commission wants to listen before deciding.

Jean-Claude Juncker, President of the European Commission



**Future of Europe
debates in national
parliaments, cities
and regions**



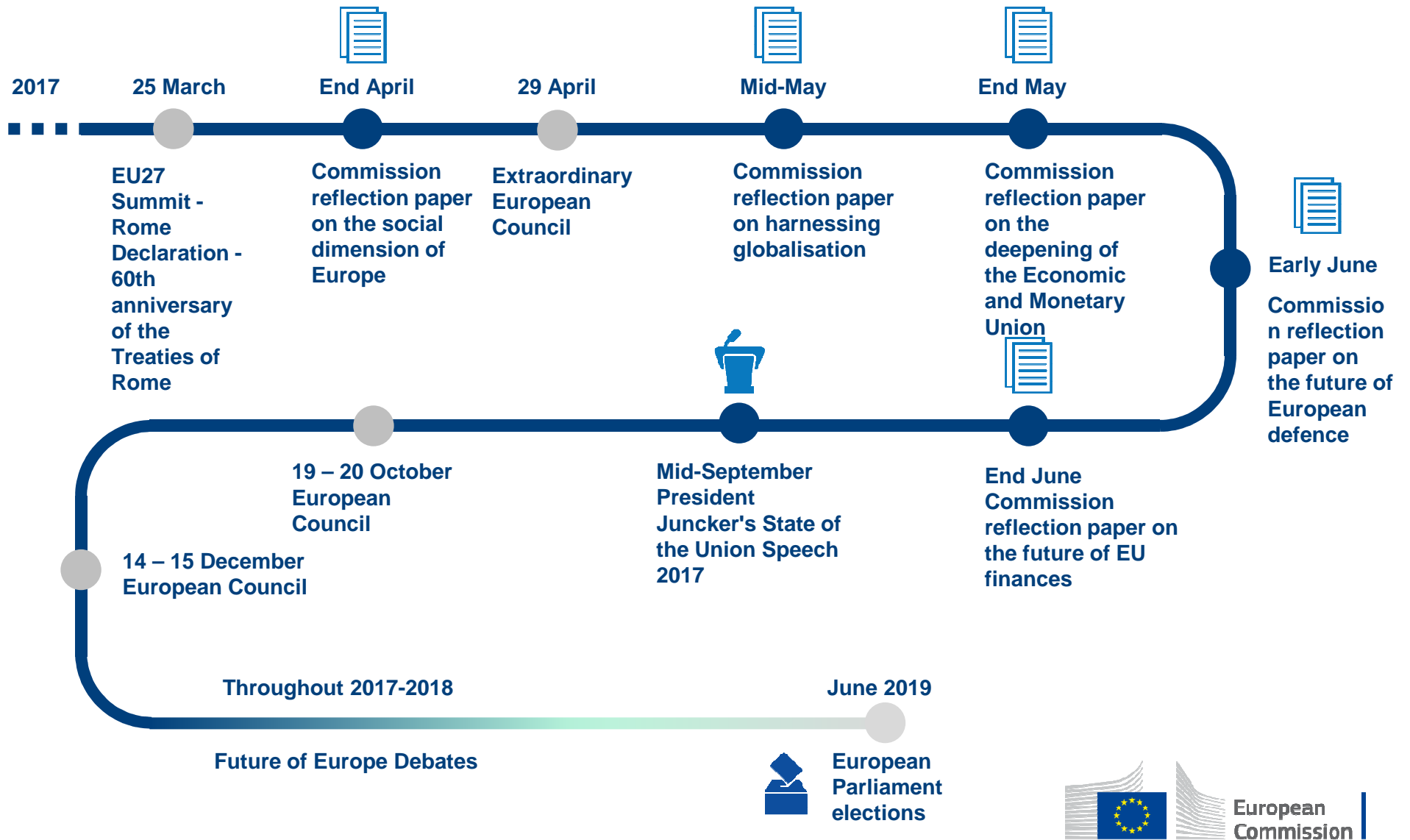
**Debate on social
media:
#FutureOfEurope**



**Citizens' Dialogues
with Commissioners**



The way ahead



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FIND OUT MORE

Future of Europe

ec.europa.eu/future-europe

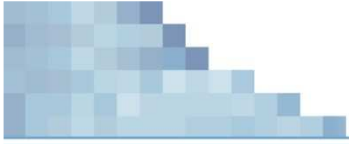
The European Story

ec.europa.eu/epsc/publications/other-publications/european-story---60-years-of-shared-progress_en





BACK UP SLIDES



Other challenges

Other challenges...?



➤ (Costs of) non-Schengen

- the Schengen is a key achievement of the EU integration (EC Spring 2016 forecast)
- "value of time" estimates: impact on EU cross-border workers and travellers, road freight transport at about EUR 5 to EUR 18 billion per year;
- QUEST simulations indicate that import price increase of 1-3% would generate a negative impact on cumulative GDP of around 0.2%-0.5% for the euro area by 2025

➤ Migration

- European Commission (Autumn Forecast 2015) estimates on macroeconomic impact of the refugee influx (rather small, about 0.2-0.3% of GDP above the baseline by 2020 – but hinges heavily on assumptions;
- Short-term impact via higher public spending, the labour market integration matters most in medium run.

➤ Ageing of the population

- the Europe will 'turn increasingly grey' in coming decades. The old-age dependency ratio (people aged 65 or above relative to those aged 15-64) is projected up from 27.8% to 50.1% in the EU by 2060.
- it will have significant implication on output, fiscal positions, labor markets...

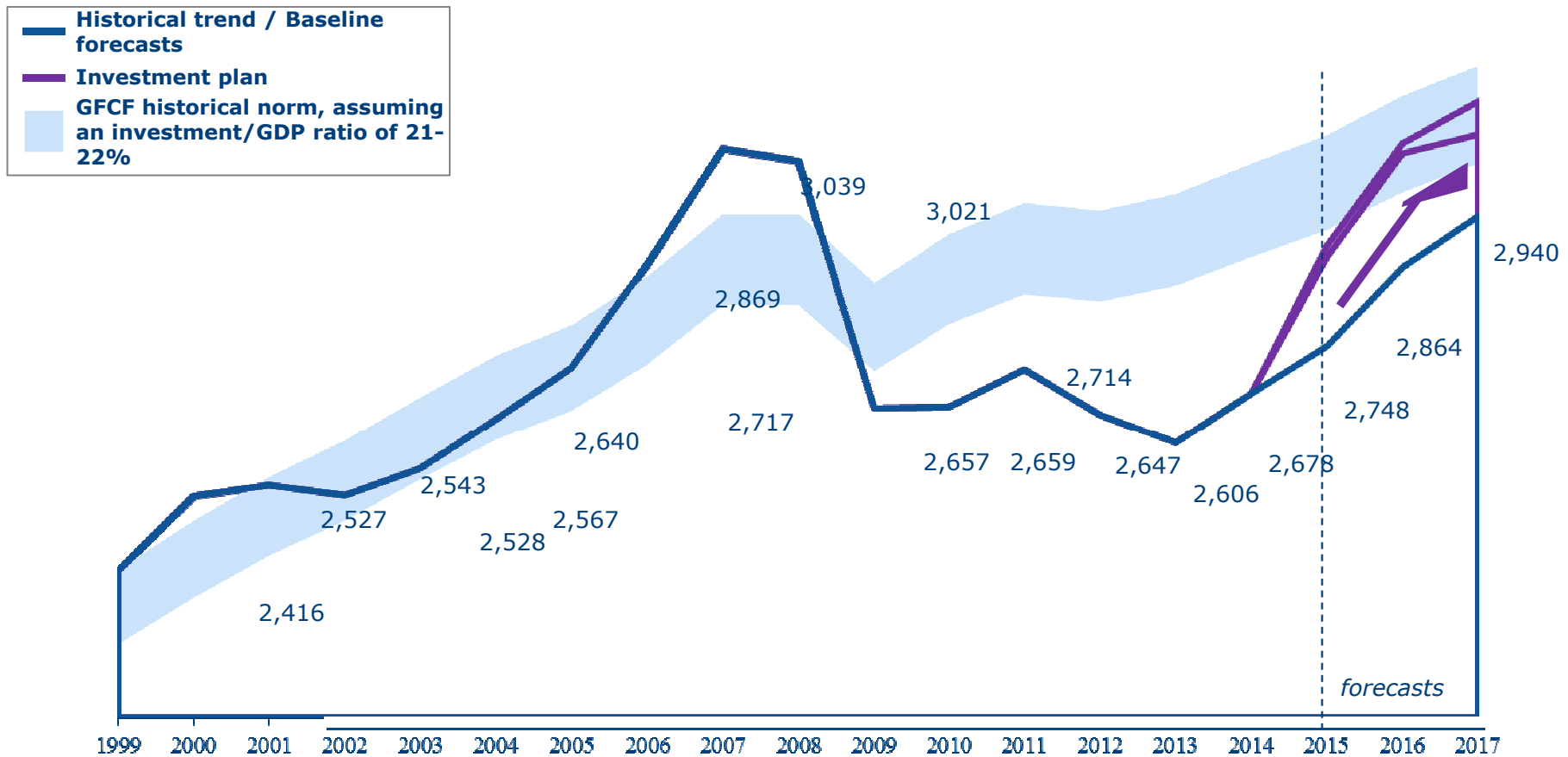
➤ UK referendum – fall out (?)

- EC Vice-president Dombrovskis (Sep 2016): preliminary assessment is that UK's GDP could be cut by 1 to 2.75 percentage points by 2017. In the other 27 Member States, the impact could be 0.2-0.4pp
- http://europa.eu/rapid/press-release_SPEECH-16-2993_en.htm

An investment gap in the EU, after crisis...(3/3)



Real gross fixed capital formation – Baseline trend vs. historical norm vs. investment plan EU-28, in 2013 prices, € bn



Note: The EU investment plan attempts to bring investments back in line with historical norms → chart



Investment gap: some figures...

- + € 130 mld - R&D to achieve goal of 3% GDP
- + € 100 mld – energy networks
- + € 80 mld – transport networks
- + € 65 mld – achieve goals of Digital agenda EU
- + € 10 mld – upgrade of education facilities
- + € 90 mld – environment and water
- + € 35 mld – financing venture capital up to the US level