



United in Diversity ?

Rebalancing, structural convergence and the deepening of EMU

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**Policy Perspectives for
European Integration**



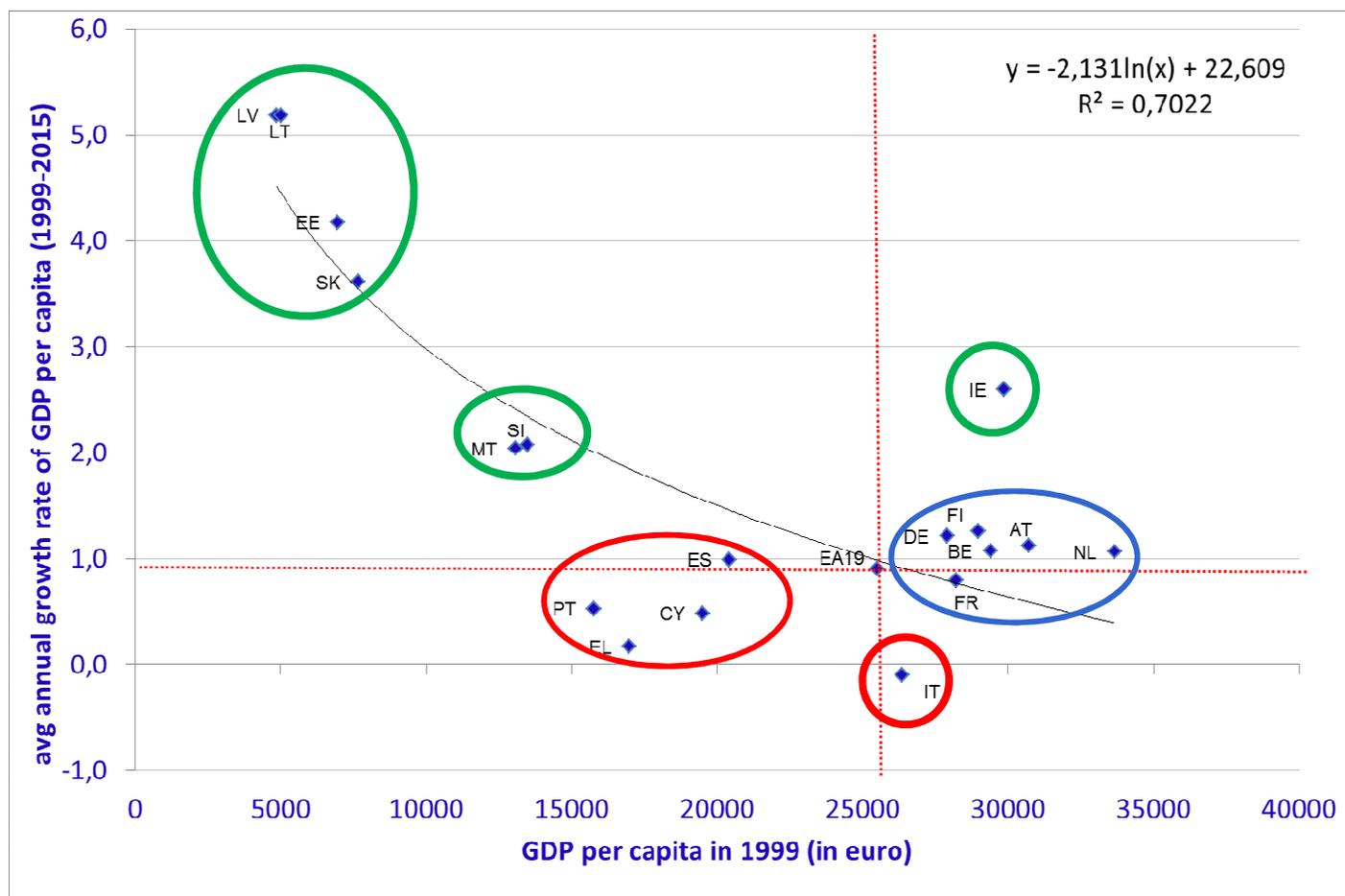
Vienna, March 2015





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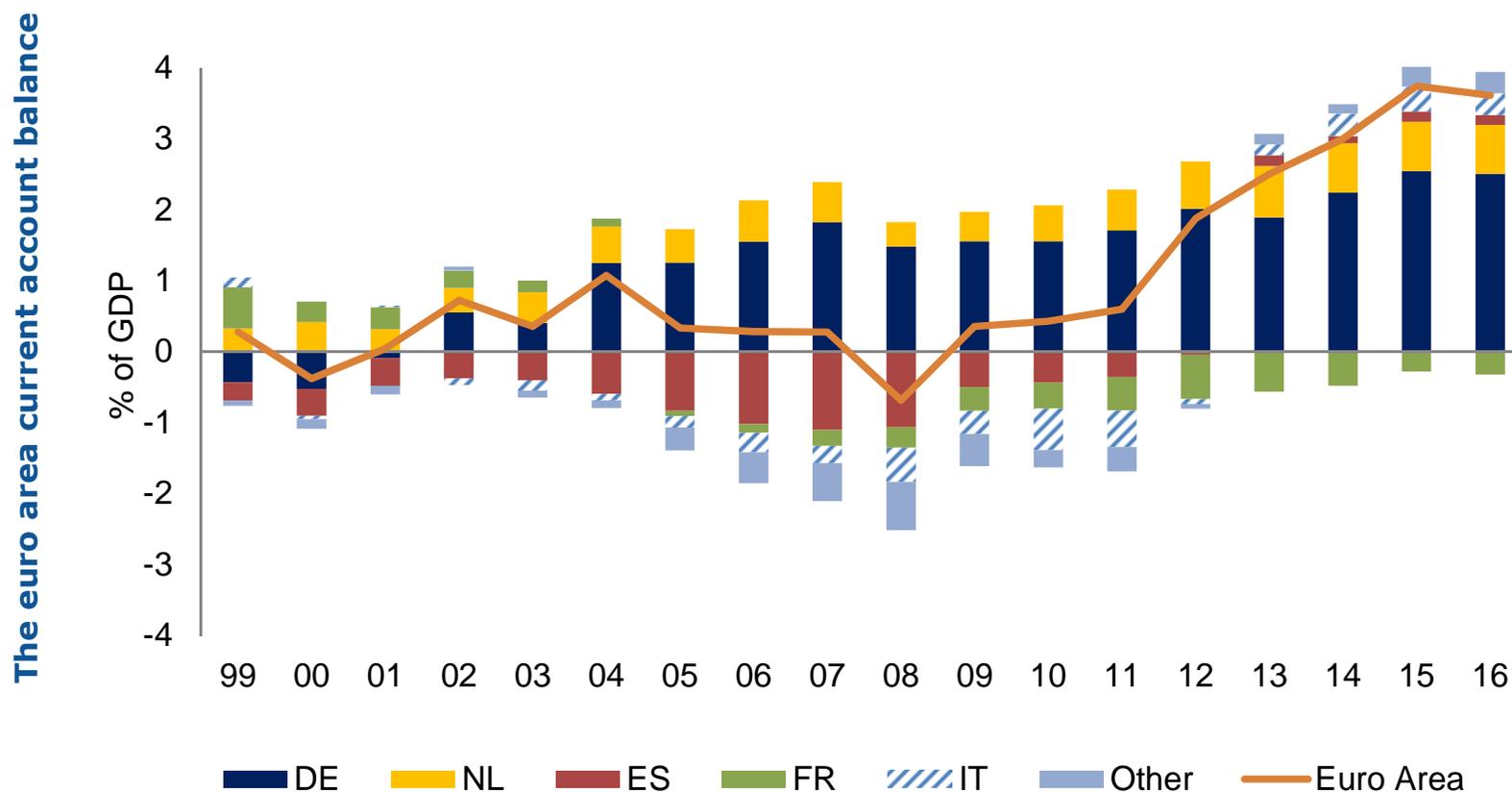
Convergence and divergence patterns in the EA



Source: DG ECFIN, 2015

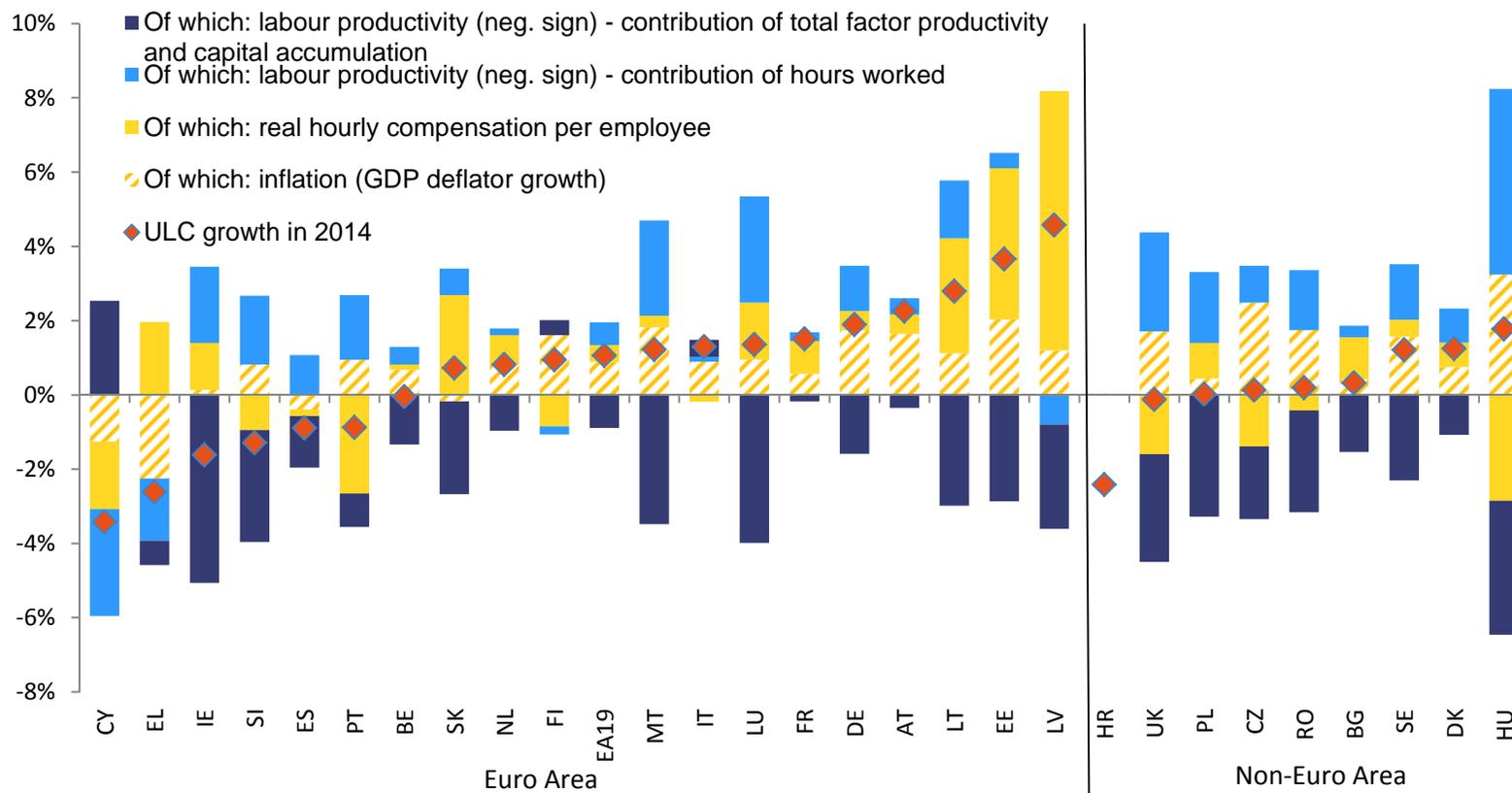


Unsustainable current account deficits have adjusted, while large surpluses persist



Cost competitiveness developments have been broadly consistent with adjustment needs

Decomposition of ULC growth in 2014

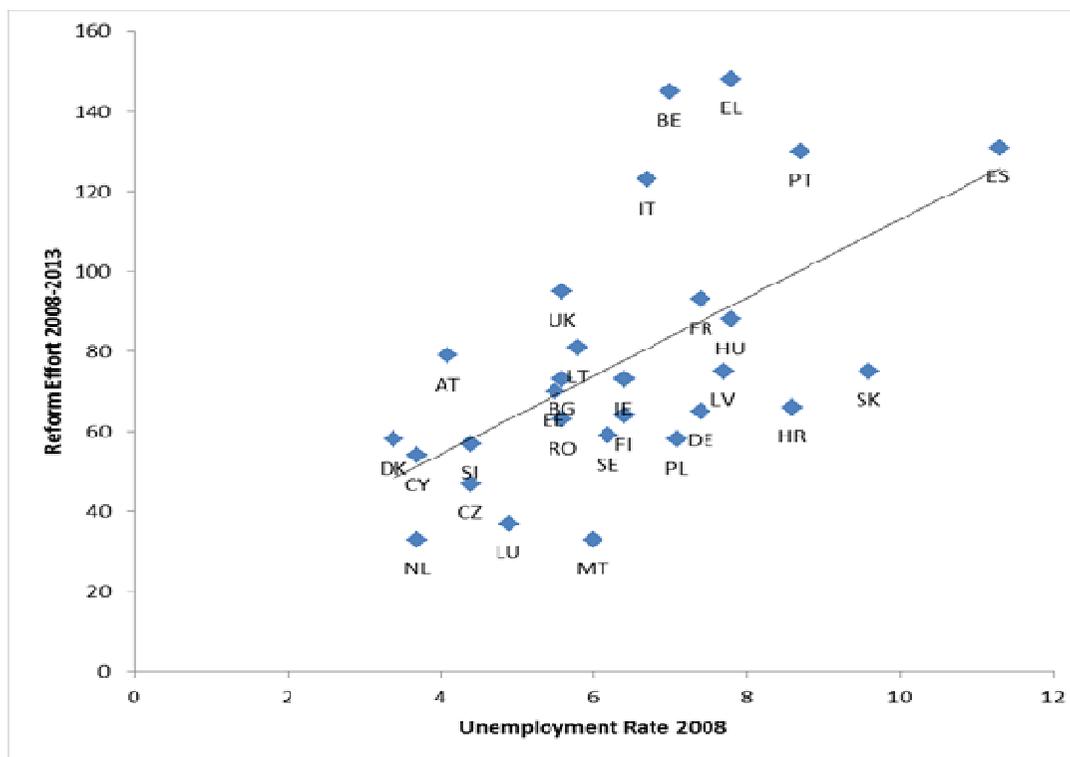




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Imbalances and structural reform efforts

Labour market reforms

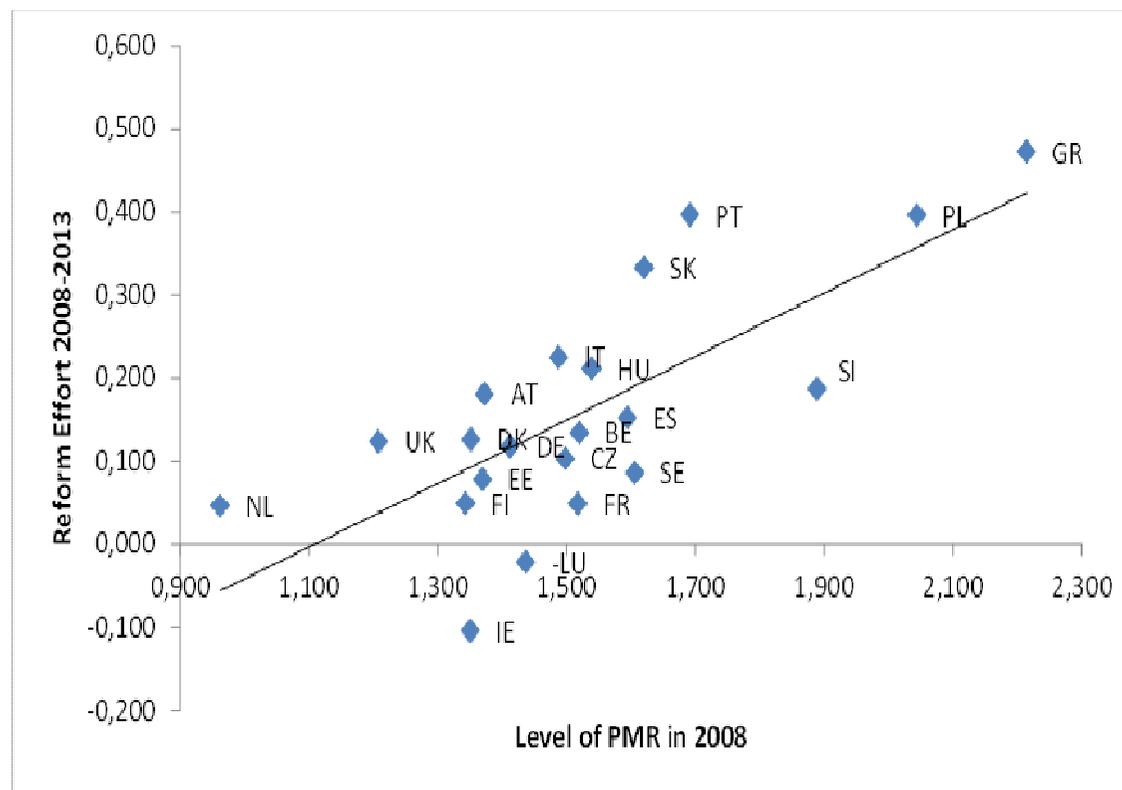


Note: LM reform effort measured as the number of labour market reform measures by country and year from the LABREF database. Pension reforms are excluded. **Source:** Computations based on the LABREF database.



Imbalances and structural reform efforts

Product market reforms



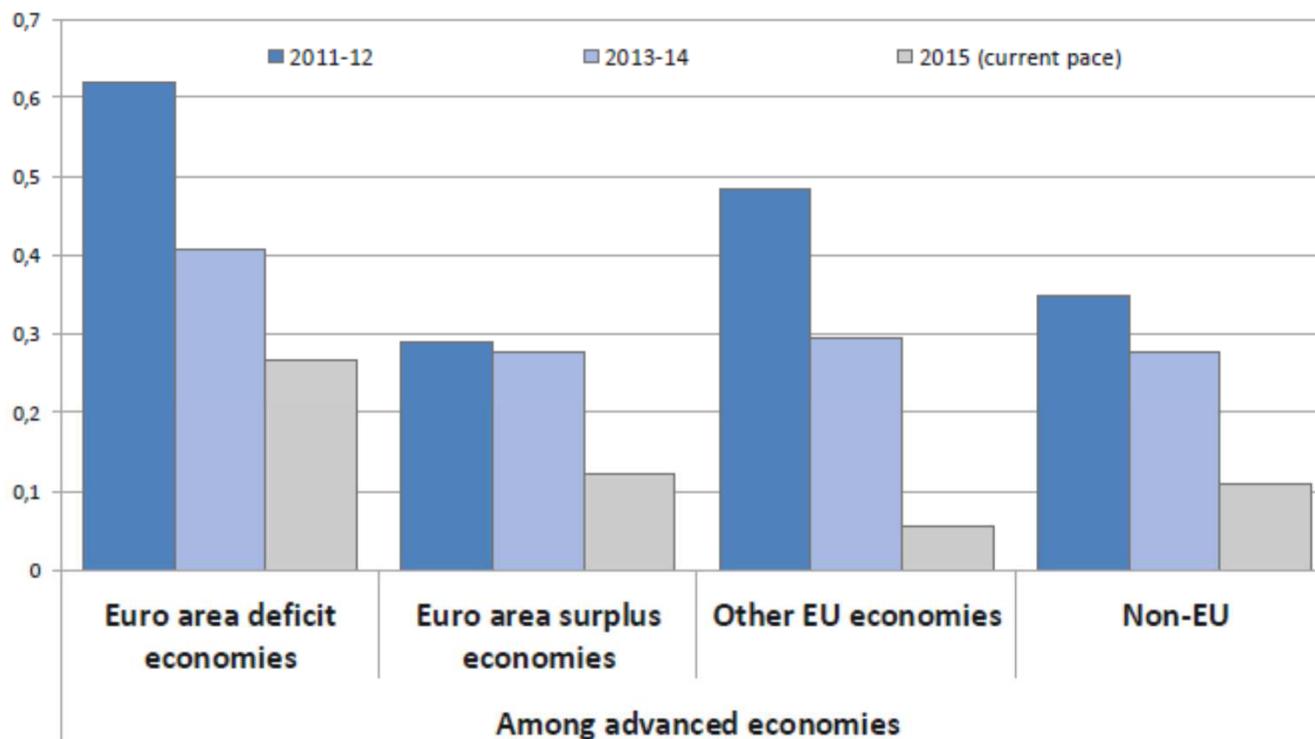
Note: Reform Effort is defined as the change in PMR from 2008 to 2013 (positive value means the level of PMR has declined). **Source:** own computations based on OECD PMR.



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Pace of reforms is slowing down

Fully implemented measures as a share of Going for Growth reform recommendations



Note: The chart illustrates the pace of reform in previous periods captured by the indicator of reform responsiveness (RRI) and the hypothetical level of responsiveness in 2015 based on different scenarios. See the Going for Growth 2010 issue for an explanation on RRI, and the main text on how the hypothetical RRI is computed. Following Ollivaud and Schwellnus (2013), the euro area surplus economies are defined as the euro area members for which the current account surplus was on average larger than 1% of GDP over the period 2000-05 (Austria, Belgium, Germany, Finland, Luxembourg and the Netherlands). The euro area deficit economies include the remaining members of the OECD euro area (France, Estonia, Greece, Ireland, Italy, Portugal, the Slovak Republic, Slovenia and Spain).

Source: OECD calculations.



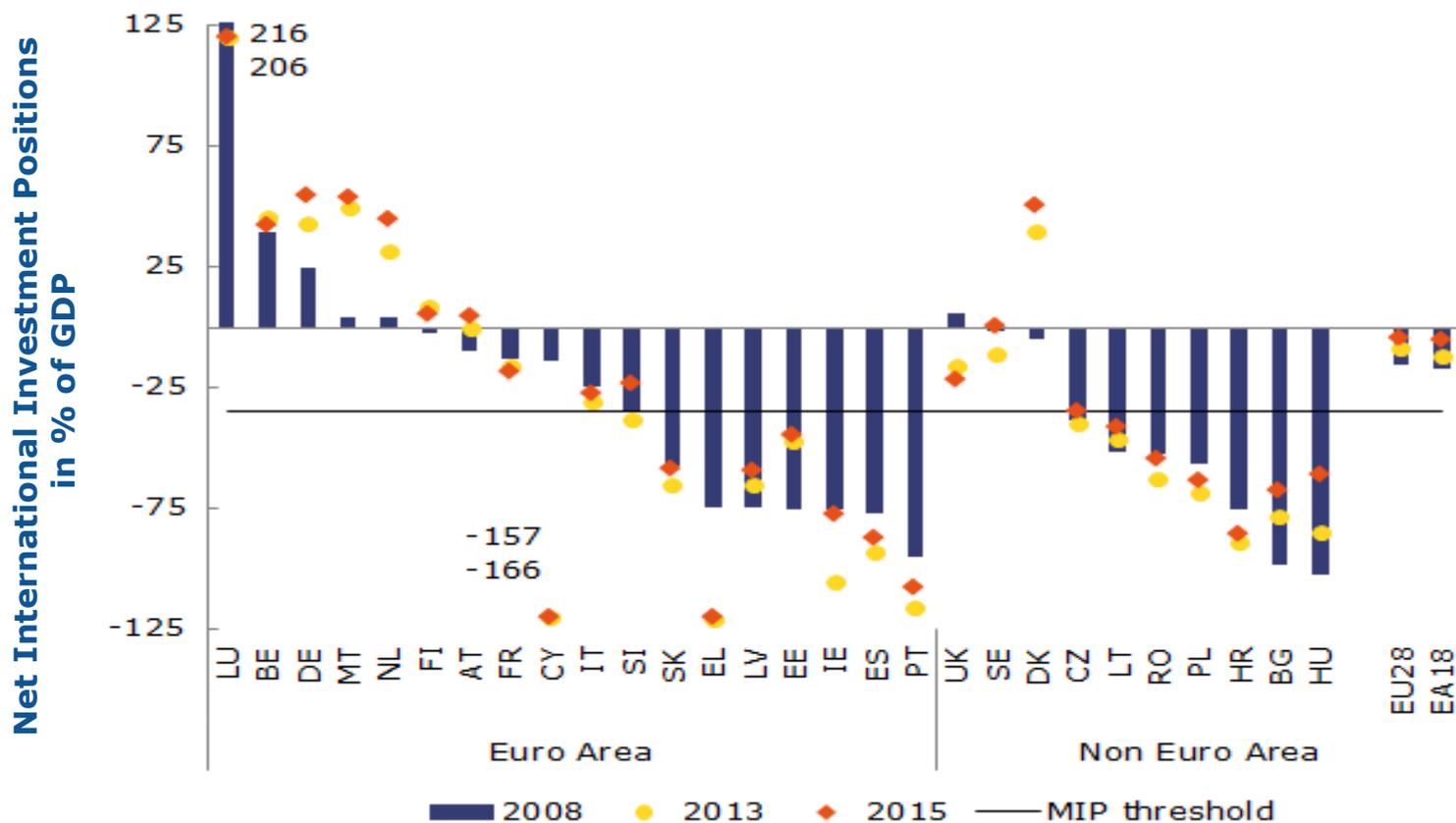
Challenges vary significantly across Member States

- **Large stocks of net liabilities concerning a wide range of sectors, both external and internal:**
 - PT, ES, CY, EL, IE, SI, HU, HR, BG
- **Large and persistent current account surpluses:**
 - DE, NL
- **Combination of high public debt and declining trend in potential growth or competitiveness:**
 - IT, FR, BE
- **Vulnerabilities confined to a particular sector:**
 - NL, SE, UK, AT, EE, FI (DK, LU, MT)
- **Risks associated with large negative NIIP:**
 - RO (PL, LV, LT, SK, CZ)



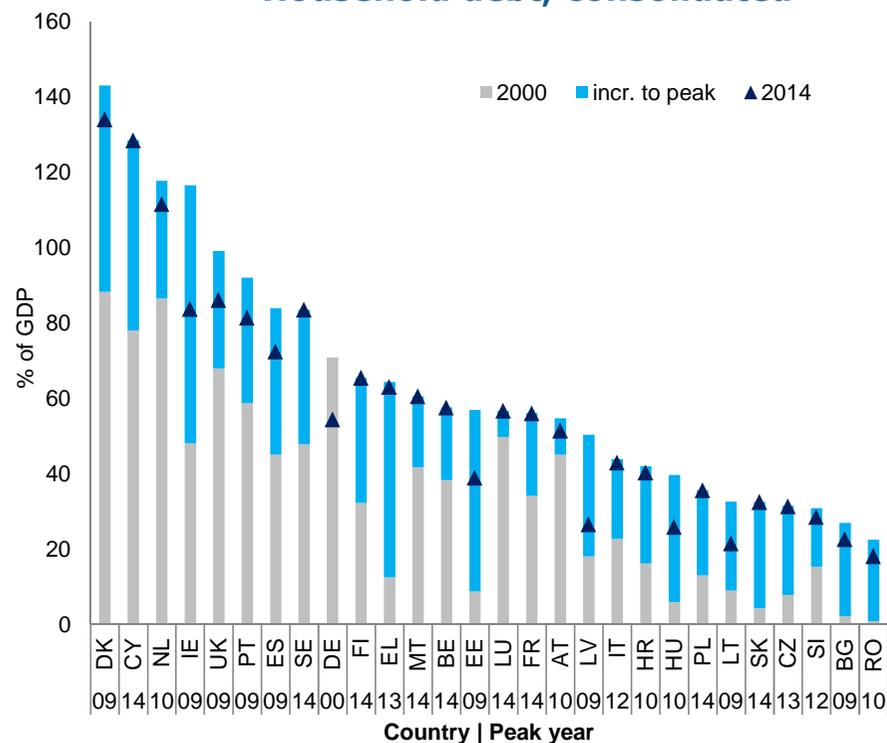
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Net external liabilities remain very high despite the adjustment in flows

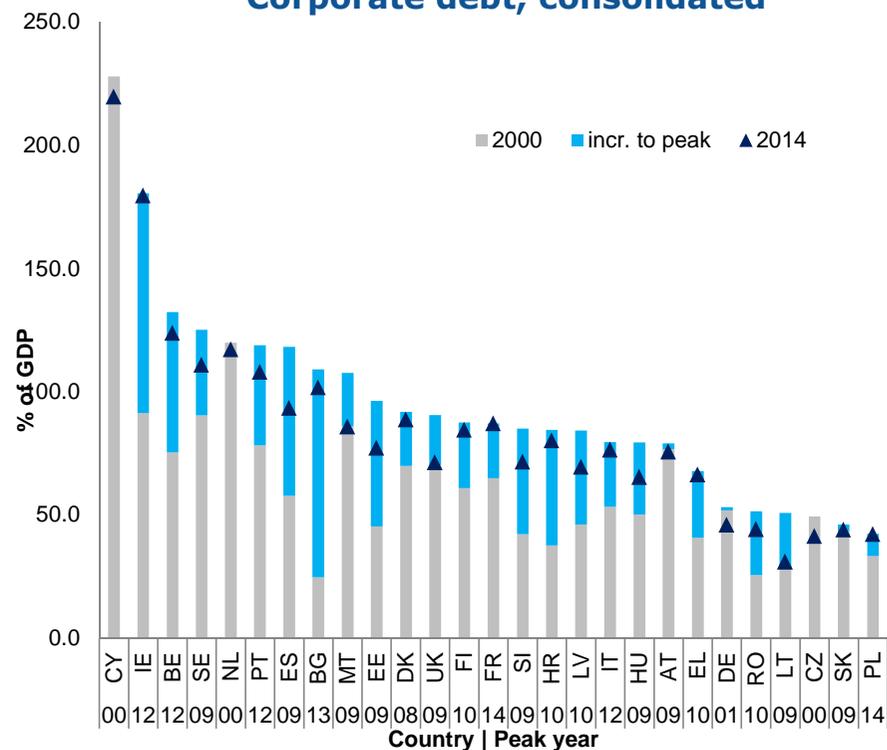


Private debt reduction is dwarfed by pre-crisis accumulation

Household debt, consolidated



Corporate debt, consolidated

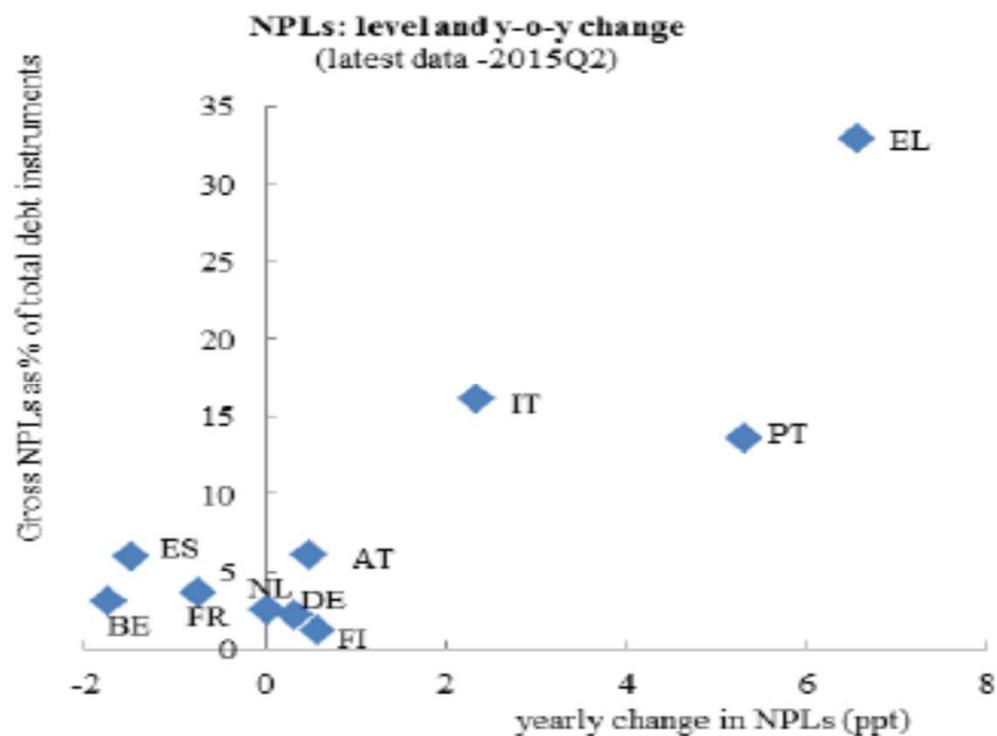




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Vulnerabilities in the banking sector persist

Non-Performing Loans (NPLs)

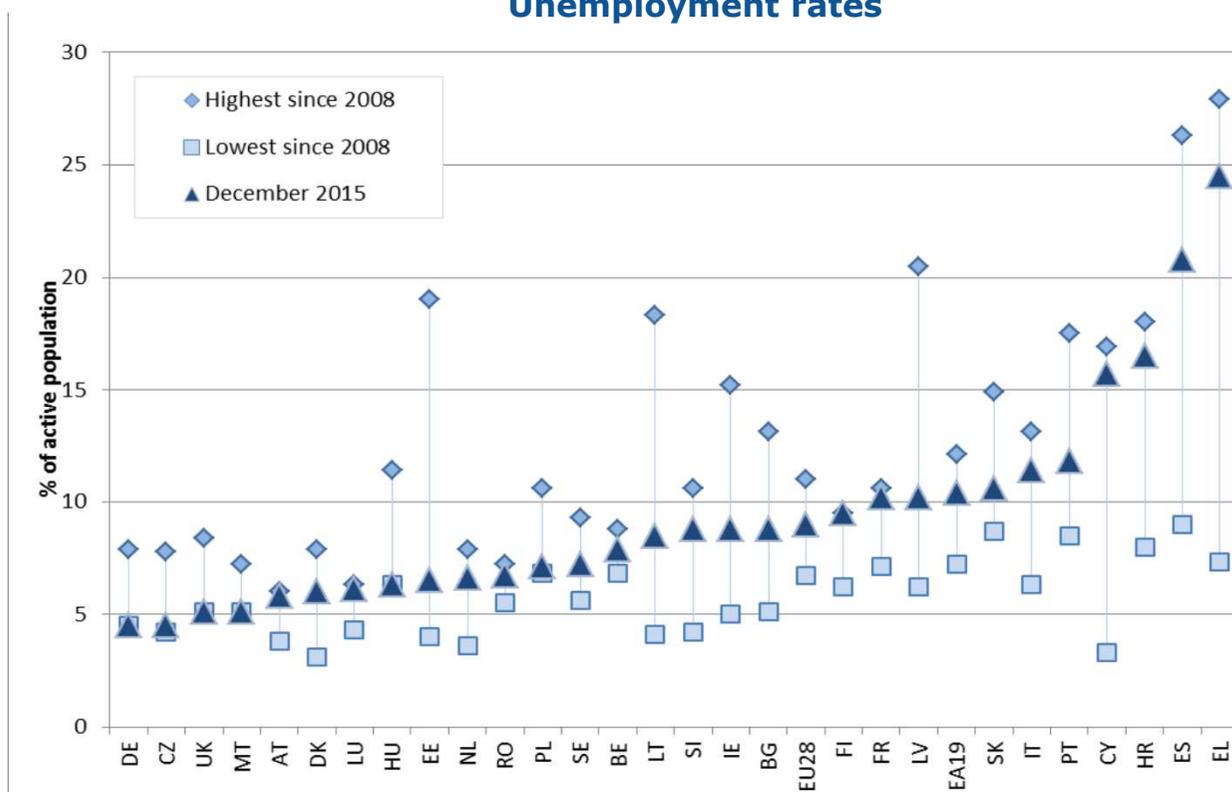




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Labour market conditions are improving, but social distress remains too high

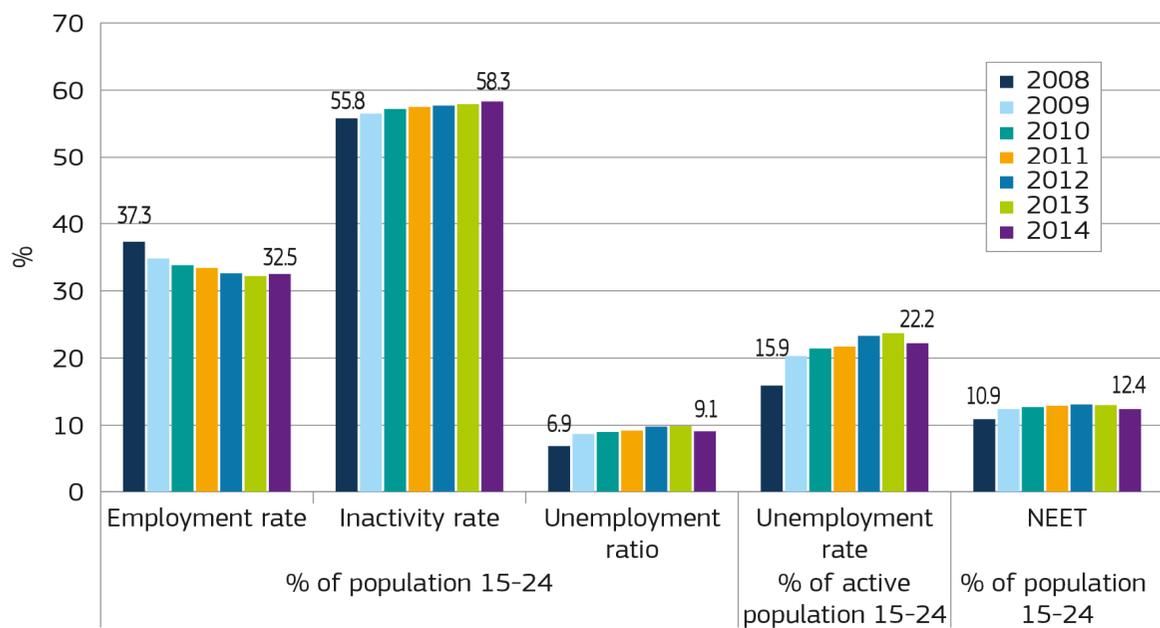
Unemployment rates





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Labour market indicators for youth



Source: Eurostat, LFS.

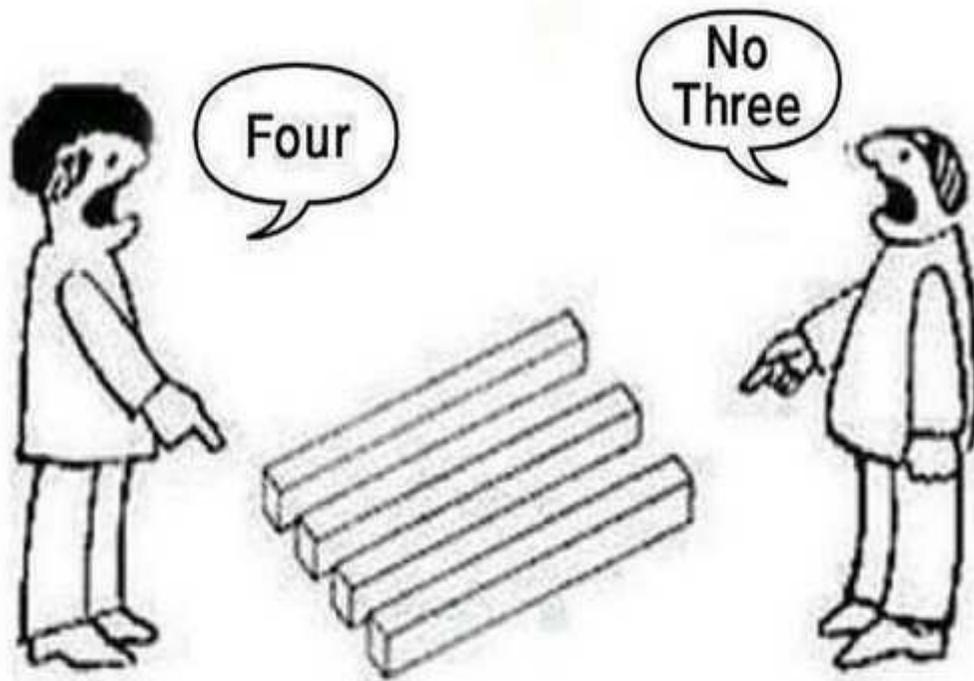




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Progress in rebalancing euro area economies

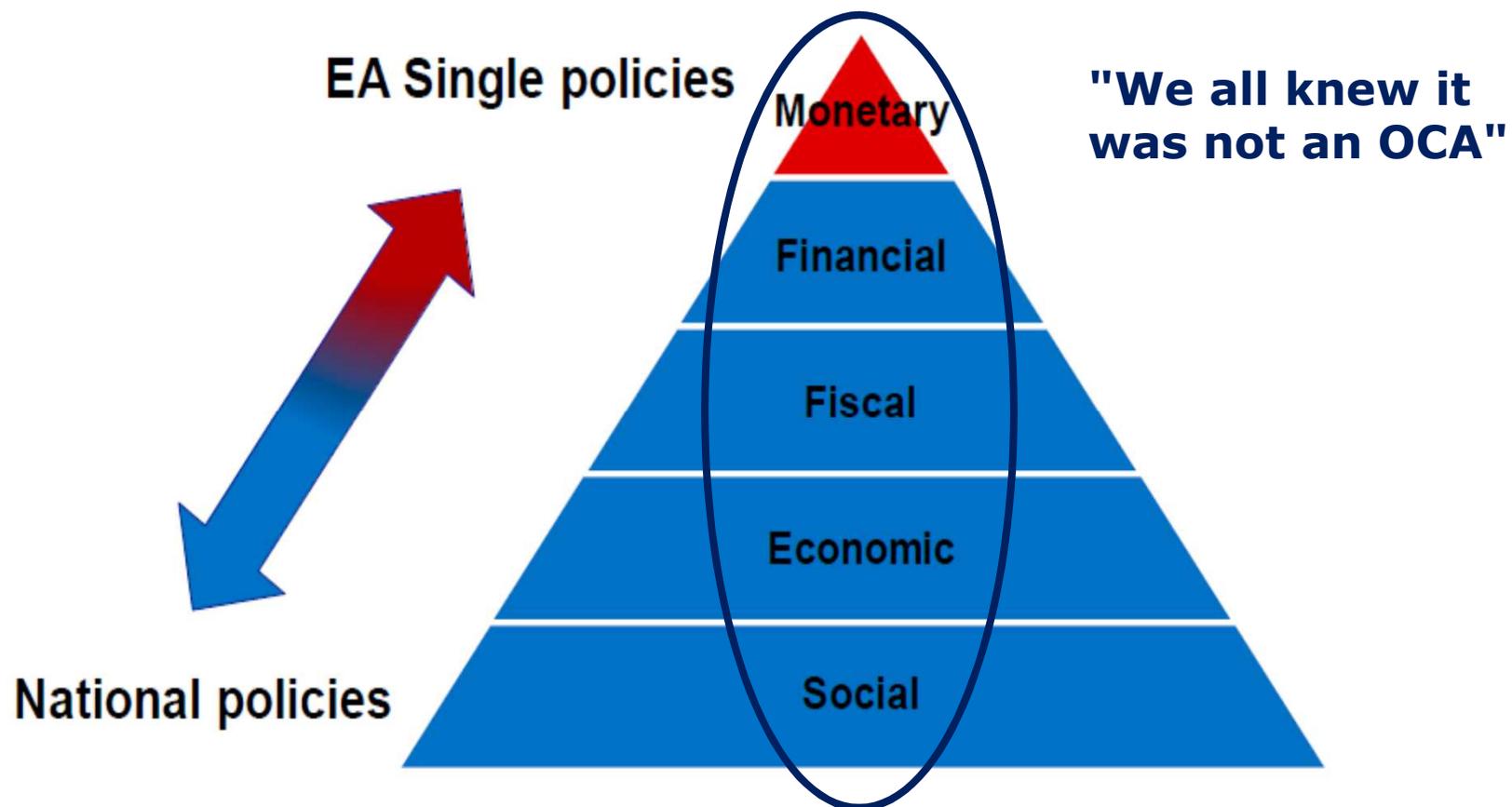
A matter of perspectives?



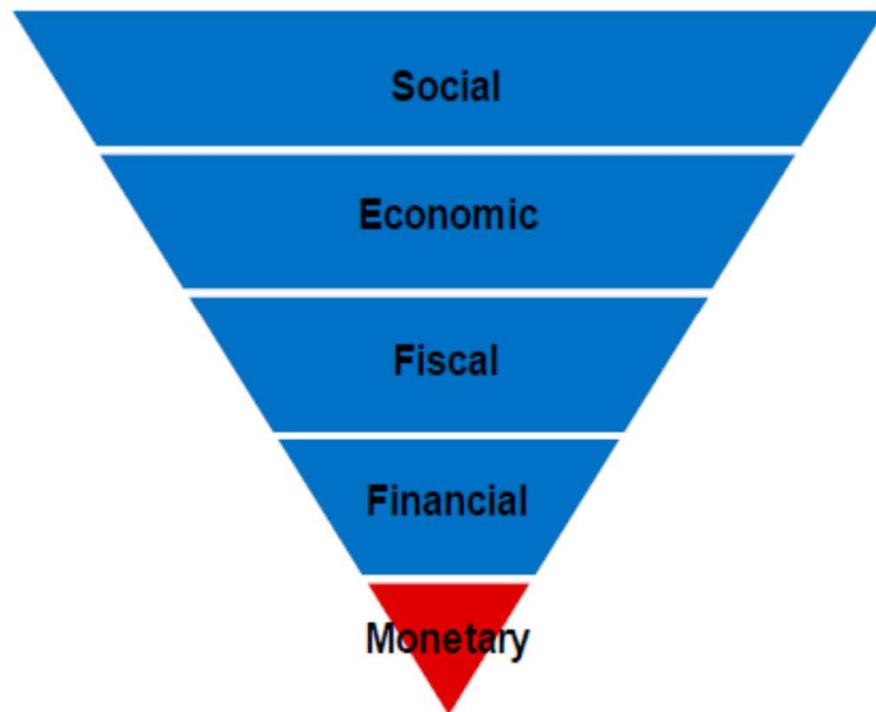


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Structural/institutional convergence and integration



Structural/institutional convergence and integration

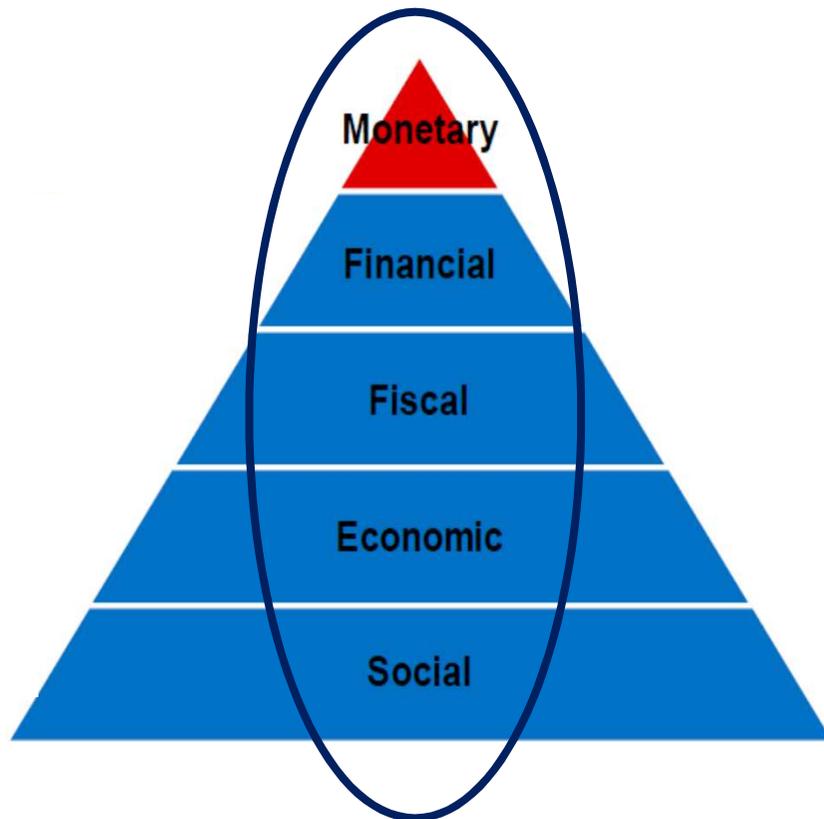


Is the status-quo sustainable?

Monetary policy is taking on most of the burden



Structural/institutional convergence and integration



Is the status-quo sustainable?

Monetary policy is taking on most of the burden

Completing the banking union

Launching capital market union

What are the minimum fiscal union requirements for the sustainability of the euro area?

- Fiscal backstops
- Fiscal stabilisation at central level
- Benchmarking fiscal, economic and social policies

What way forward?



Roadmap Towards a Complete EMU

Stage 1: July 2015-30 June 2017

Economic Union

- A new Boost to Convergence, Jobs and Growth

Financial Union

- Complete Banking Union;
- Launch the Capital Markets Union;
- Reinforce the European Systemic Risk Board

Fiscal Union

- A new advisory European Fiscal Board

Democratic accountability, legitimacy and institutional strengthening

- Revamp the European semester;
- Strengthen parliamentary control as part of the European semester;
- Increase the level of cooperation between the European Parliament and national parliaments
- Establish a system of national Competitiveness Boards
- Reinforce the steer of the Eurogroup;
- Take steps towards a consolidated external representation of the euro area;
- Integrate into the framework of EU law
 - the Treaty of Stability, Coordination and Governance
 - the relevant Parts of the Euro Plus Pact; and
 - the inter-governmental Agreement on the Single Resolution Fund

Stage 2: Completing the EMU Architecture

Economic Union

- Formalise the convergence process and make it more binding

Fiscal union

- Set up a fiscal stabilisation capacity for the euro area

Democratic accountability, legitimacy and institutional strengthening

- Integrate the European Stability Mechanism (ESM) into the legal framework;
- Set up a euro area treasury accountable at the European level.

Final State at the latest by 2025



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**Thank you very much
for your attention!**

