Europe beyond Brexit: what next?

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François VILLEROY de GALHAU, Governor of the Banque de France
Between 2011 and 2013 where budgetary surveillance led to procyclical adjustment, Banque de France has estimated that:

- the cost of lack of coordination of fiscal policy in terms of growth was between 0.8 and 1.9 GDP point
- the combined cost of the lack of coordination of fiscal and structural policies ranges between 2 and 3 GDP points

Source: BdF’s Bulletin, May/June 2017
Shock absorption in the US vs. Euro area: income and consumption-smoothing (comparable data; average breakdown in 1998-2013)

- The capital market channel plays a much larger role in the US than in the EA
- A large part of the shock remains unsmoothed in the euro area
- Consumption smoothing (essentially personal savings) accounts for 30% of shock absorption in the US

IMPLEMENTATION OF COUNTRY SPECIFIC RECOMMENDATIONS WITHIN THE EURO AREA

Implementation of CSR (MIP)
(euro area, number of CSR)

- Substantial progress
- Some progress
- Limited progress/no progress

Share of euro area member states concerned by MIP CSR


0%    |  10%   |  20%   |  30%   |  40%   |  50%   |  60%
IMF VIEW WITH A POLITICAL ECONOMY PERSPECTIVE

- EZ finance minister
- EDIS
- Safe asset
- SGP* reform
- Rainy-day fund

- EMF*
- EA budget line
- CCCTB*
- CMU*
- SRF* backstop

- Curbing sovereign exposures
- Rules-based sovereign debt restructuring

*EMF: European Monetary Fund
CCCTB: Common Consolidated Corporate Tax Base
CMU: Capital Markets Union
SRF: Single Resolution Fund
SGP: Stability and Growth Pact
FOUR ACCELERATORS OF THE ECONOMIC UNION

Macroeconomic accelerator:
- A collective economic strategy,
- A precautionary-oriented instrument,
- A euro area investment budget

Microeconomic accelerator:
- A Financing Union for Investment and Innovation

Fiscal accelerator:
- Euro area investment budget

Institutional accelerator:
- Euro area Finance Minister
A FINANCING UNION FOR INVESTMENT AND INNOVATION

Capital Markets Union

- Incentives for cross-border investments (equity): accounting, taxes, insolvency laws
- Long-term pan-European savings products; European venture capital

The microeconomic accelerator:
A Financing Union for Investment and Innovation

- Completion of Banking Union; Consolidation of European banks
- Control of vital financial activities and risks

- Innovation and digitalisation
- Scaling-up of SMEs
- Green finance and energy transition

Savings exceed investment by about €400bn, but fragmentation