The European Reform Agenda: Investment For Growth

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Three questions

1.Is there a need to reform?

2.How to reform?

3.Is it possible to reform?

1.Is there a need to reform?

1- Is there a need to reform?

European governance has been improved in 2011:

- better coordination:
  - ➤ European Semester

- more stringent fiscal rules:
  - ➤ Six Pack, Two Pack, Fiscal Compact

- macroeconomic surveillance
  - ➤ Macroeconomic imbalance procedure

Results not sufficient

- moderate **economic growth**:
  - ➢ real GDP expected to rise from 1.9% in 2015 to 2% in 2016

- **unemployment rate still high** even if decreasing:
  - ➢ from 9.2% in 2015 to 8.9% in 2016

- rise of **populist parties**

…more has to be done

2. How to reform?

2- How to reform?

Two different goals:

1. <u>More flexibility</u>: UK
➢economic union

2. <u>More integration</u>: Eurozone
➢political union

Euro countries: same goal, different approaches

- **"Risk sharing"**

➢Italy and France: greater fiscal flexibility

- **"Risk reduction"**

➢Germany: flexibility only if leads to a more stable and competitive Union

3. Is it possible to reform?

3- Is it possible to reform?

Two goals:
- political integration
- economic flexibility

Two instruments:
- fiscal discretion
- fiscal rules

Compromise among 28 countries: possible

➢ **Euro countries all agree** that UK should stay in the EU

> Wolfgang Schäuble: "Brexit would be a disaster for the UK and for Europeans"

➢ **Red line for Germany**: limits on mobility within the EU

Compromise among 19 countries: difficult

➢ additional **priorities**:
- immigration
- terrorism

➢ **political** constraints:
- rise of populism in France and Italy
- loss of trust in Germany

Risk: **immobility**

Compromise on long-term goals: desirable

- **Italy and France**: more risk sharing (common deposit guarantee)

- **Germany**: more cooperation on immigration (binding refugees quotas, secure Europe's external borders)

<u>Conclusion</u>:

asking for more flexibility on budget is myopic