Economic and Monetary Union: Consolidating Growth and Fixing the Euro

Veronica De Romanis
Luiss, Rome

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1. Europe: more or less fiscal rules?

2. Italy: more or less flexibility?

3. Risk-reduction and risk-sharing: a possible compromise?
1- Europe: more or less fiscal rules?
Fiscal Rules: the starting point

- **1992: Maastricht Treaty**
  - deficit 3%
  - debt 60%

- **1997: Stability and Growth Pact (SGP)**
  - Medium Term Objective
2005: first reform of the SGP

After the breach of Germany and France:

Fiscal Rules have been made LESS stringent:

- account for the cycle
2011: second Reform of the SGP

After the crisis and the experience with Greece:

Fiscal Rules have been made MORE stringent:

➢ Fiscal Compact

Goal: restore TRUST!
2015: “Flexibility”

Need for growth-friendly policies:

Better use of the “flexibility” (in the Treaties)
- more time to respect national fiscal objectives
- more deficit to finance productive expenditures

Goal: restore GROWTH!
2- Italy: more or less flexibility?
Structural primary budget

IMF, Fiscal Monitor, October 2017

**Fiscal Austerity Monti Government**

**No Fiscal Austerity Renzi Government**
2015-2018: 40 billion euro

Moscovici, “Italy, all types of flexibility”:  
•structural reforms  
•investment  
•earthquakes…

Impact of flexibility?
Limited impact on Italy’s growth so far: 2017, the lowest...

European Economic Forecast, Autumn 2017

Italy: 1.5
Greece: 1.6
Euro Area: 2.2
Portugal: 2.6
Spain: 3.1
Ireland: 4.8
Italian debt, second highest after Greece and not falling

European Economic Forecast, Autumn 2017
Impact of fiscal policy on the Italian economy in the last 3 years

• higher price for future generations
• higher systemic risk

➢ need for a “new strategy”
3- Risk-reduction and risk-sharing: a possible compromise?
Strengthened Financial Coordination

Italy should

• ask: true risk sharing (ESM $\rightarrow$ EMF)
• offer: stronger debt reduction

…but because of the elections
  ➢ unclear positions
Completing the Banking Union

Italy should
• ask: common deposit guarantee (EDIS)
• offer: continuous reduction of NPL and banks' government bond holdings

…but because of the elections
➢ unclear positions
Conclusion

Asking for more flexibility might lead to the opposite results:

- lower trust
- lower risk sharing