

Economic and Monetary Union: Consolidating Growth and Fixing the Euro

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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)

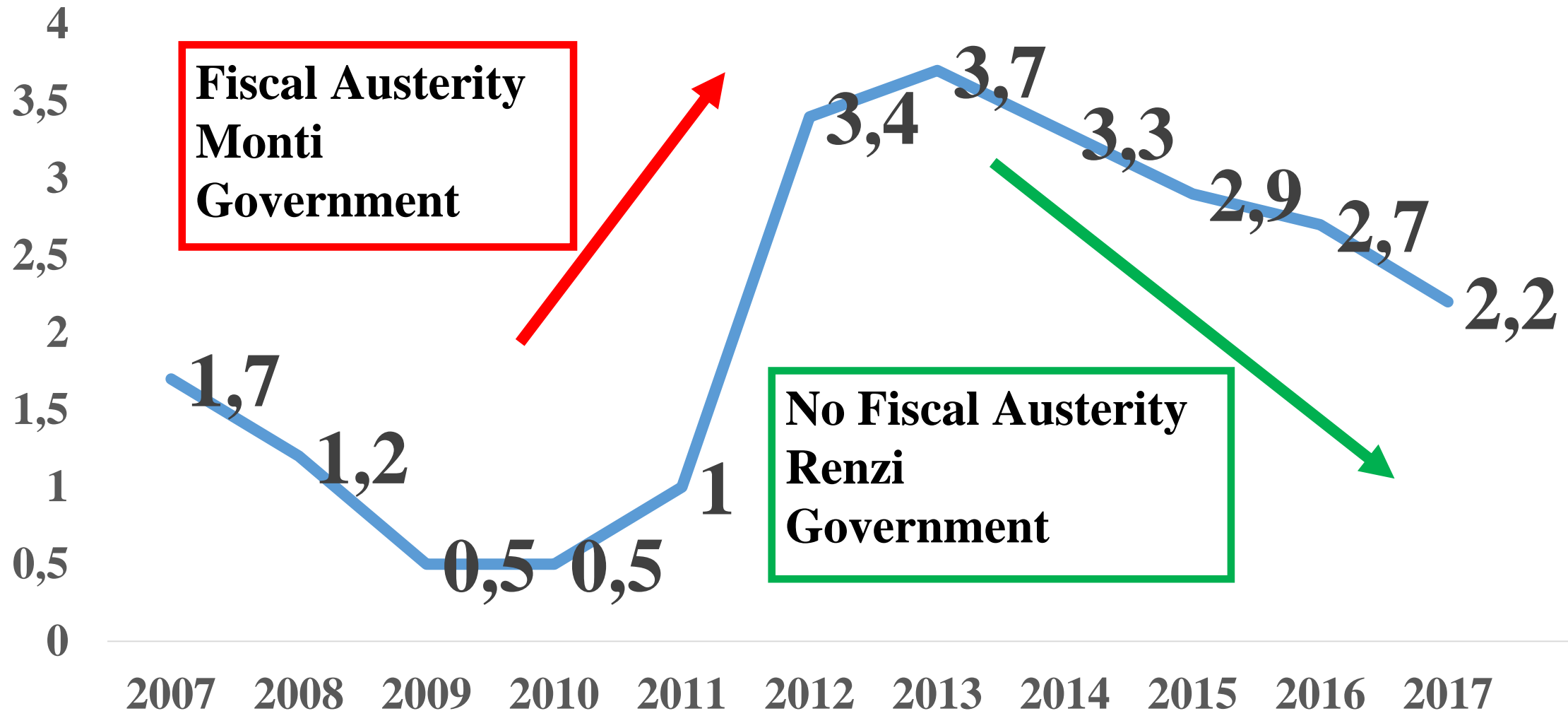
- more time to respect national fiscal objectives
- more deficit to finance productive expenditures

Goal: restore GROWTH!

**2- Italy:
more or less flexibility?**

Structural primary budget

IMF, Fiscal Monitor, October 2017



2015-2018: 40 billion euro

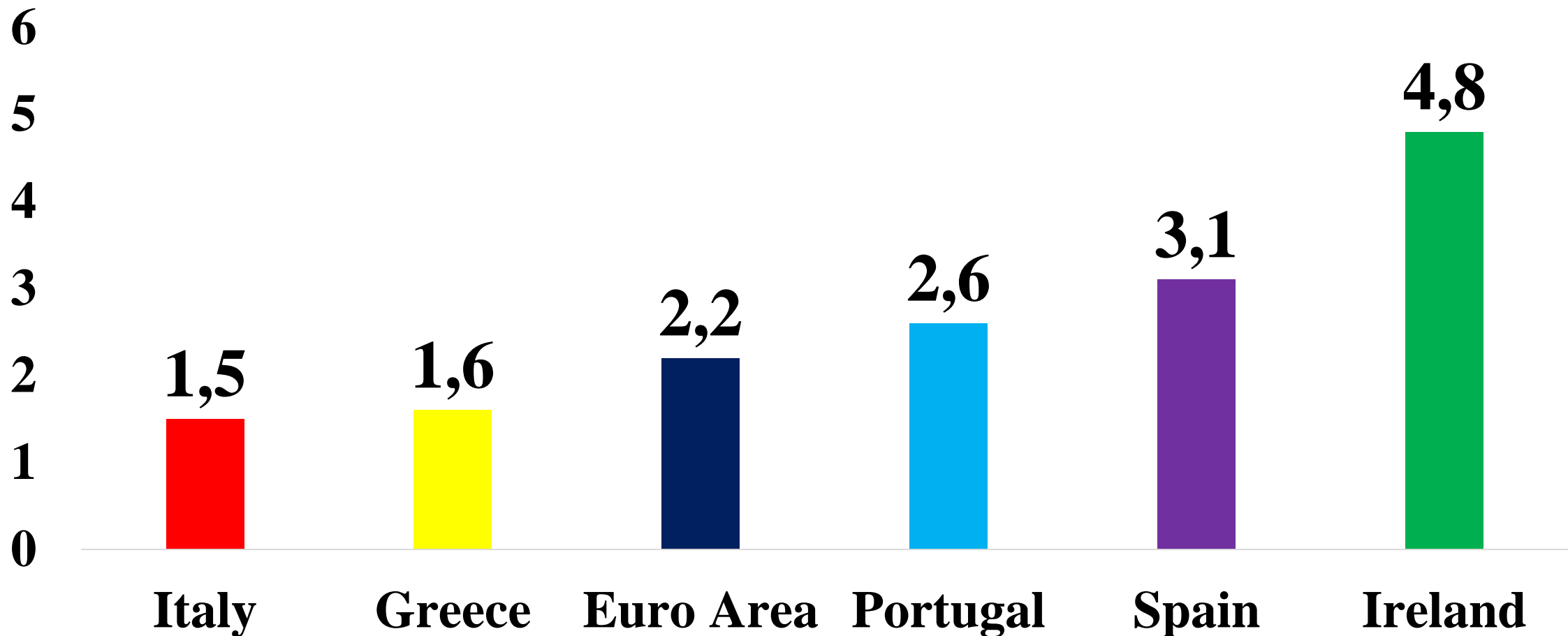
Moscovici, “**Italy, all types of flexibility**”:

- structural reforms
- investment
- earthquakes...

Impact of flexibility?

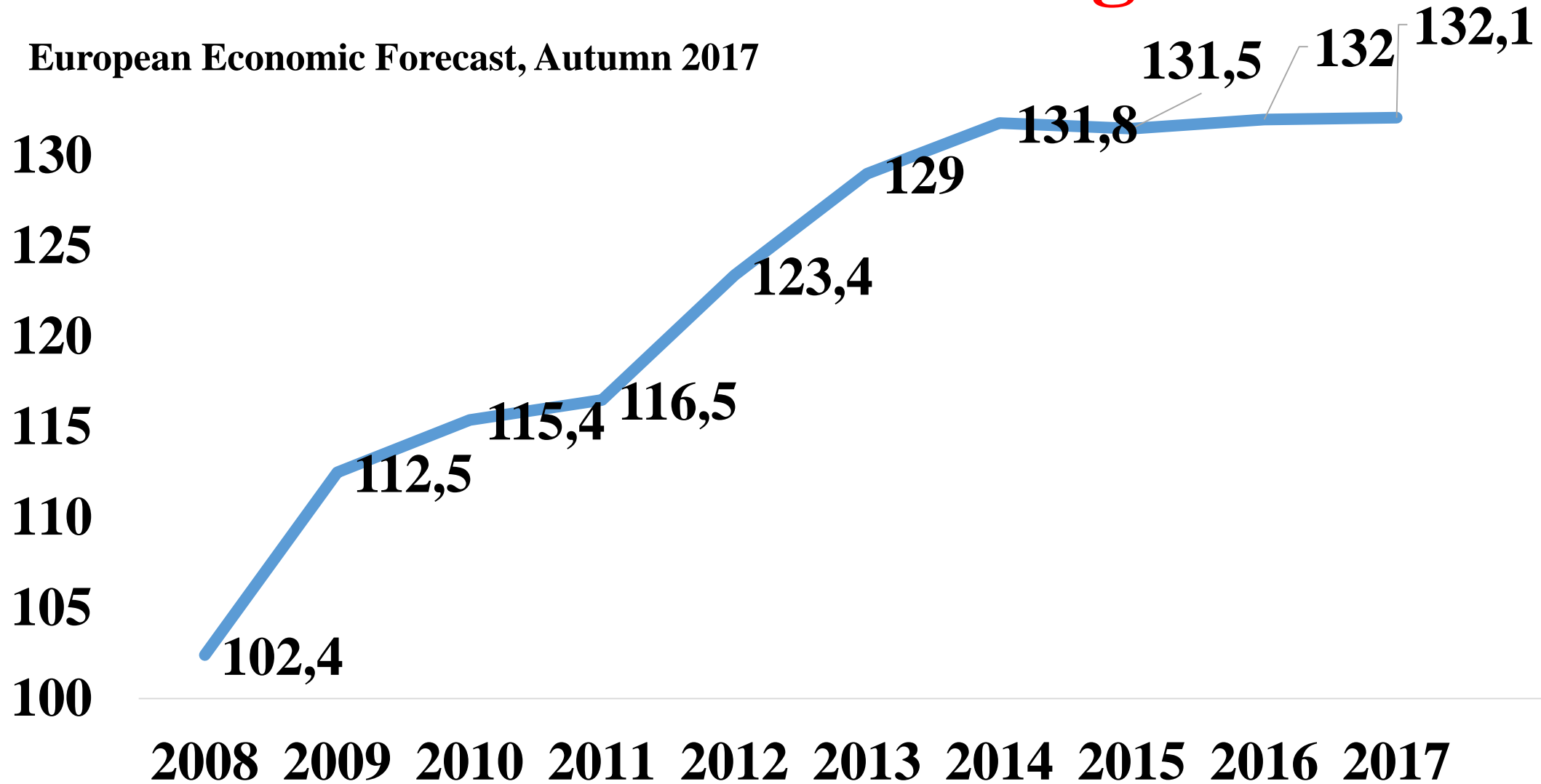
Limited impact on Italy's growth so far: 2017, the lowest...

European Economic Forecast, Autumn 2017



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  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**