



How to make the euro a lasting success?

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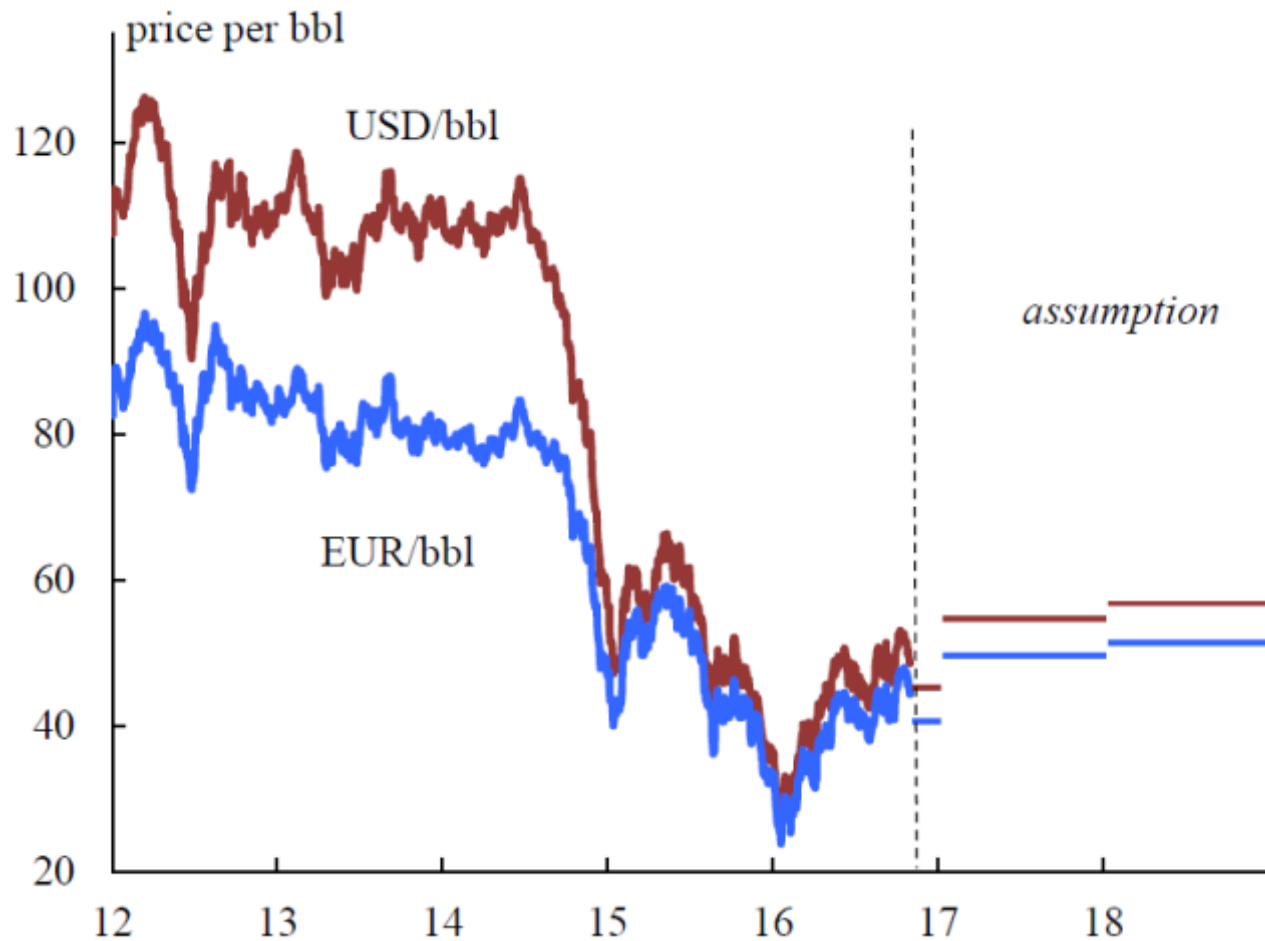
The Context:

Factors supporting and hindering Europe's growth

Global growth and geopolitical risk

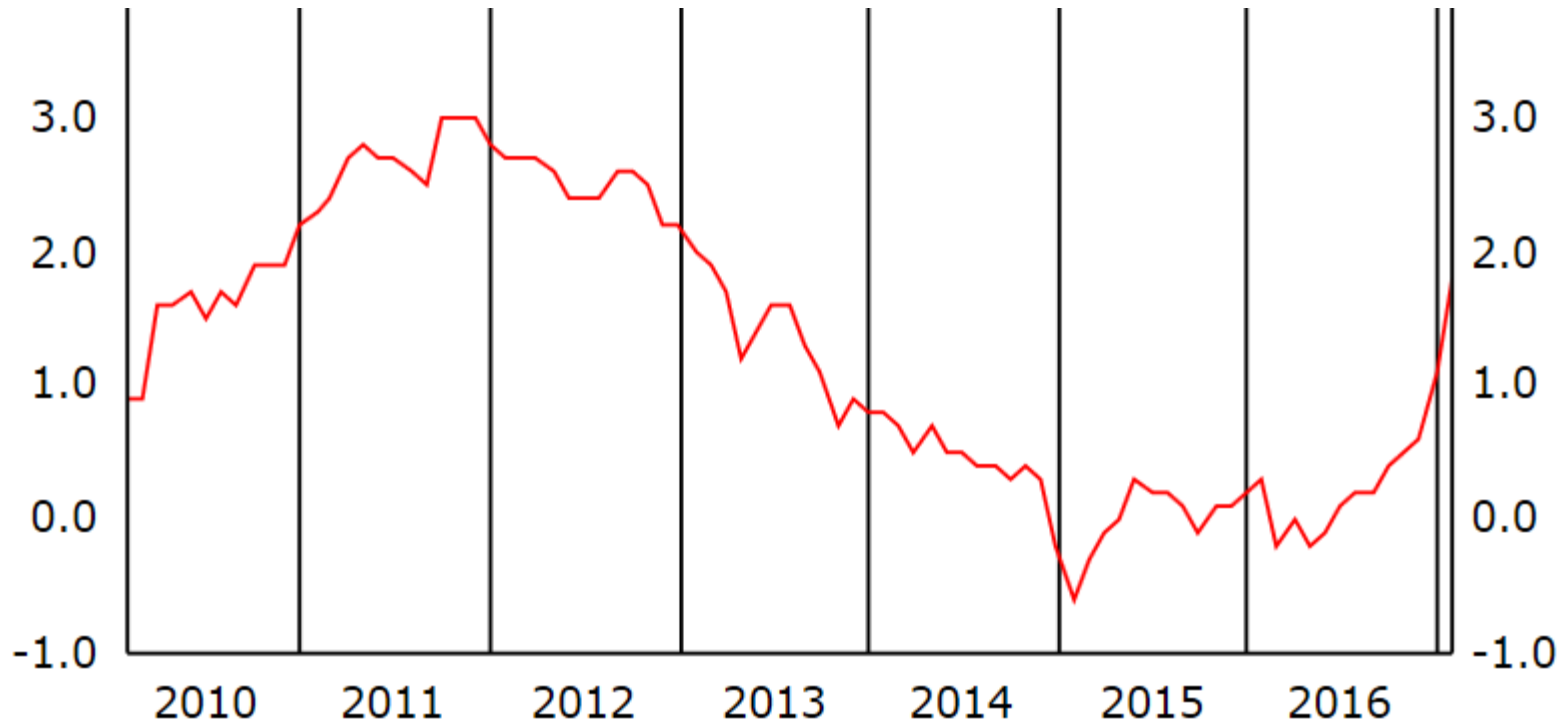
- **Global growth rates rising again**
 - Only 3.0% in 2016, lowest global growth since 2009
 - Rebound expected, 3.4% in 2017
 - USA bounces back after weak first half of 2016
 - Brazil and Russia returning to growth
 - Slowdown and restructuring of Chinese economy
 - 2016 trade growth slowest since financial crisis
- **Tense (geo)political climate**
 - Instability in the Middle East and North Africa;
 - Russia – Ukraine conflict
 - Refugee crisis
 - Rising populism and risk of protectionism

Oil prices: low, but set to rise



- World Bank foresees oil prices rising by 25% this year

ECB's expansionary monetary policy



- **More than before, growth will have to come from *domestic demand***

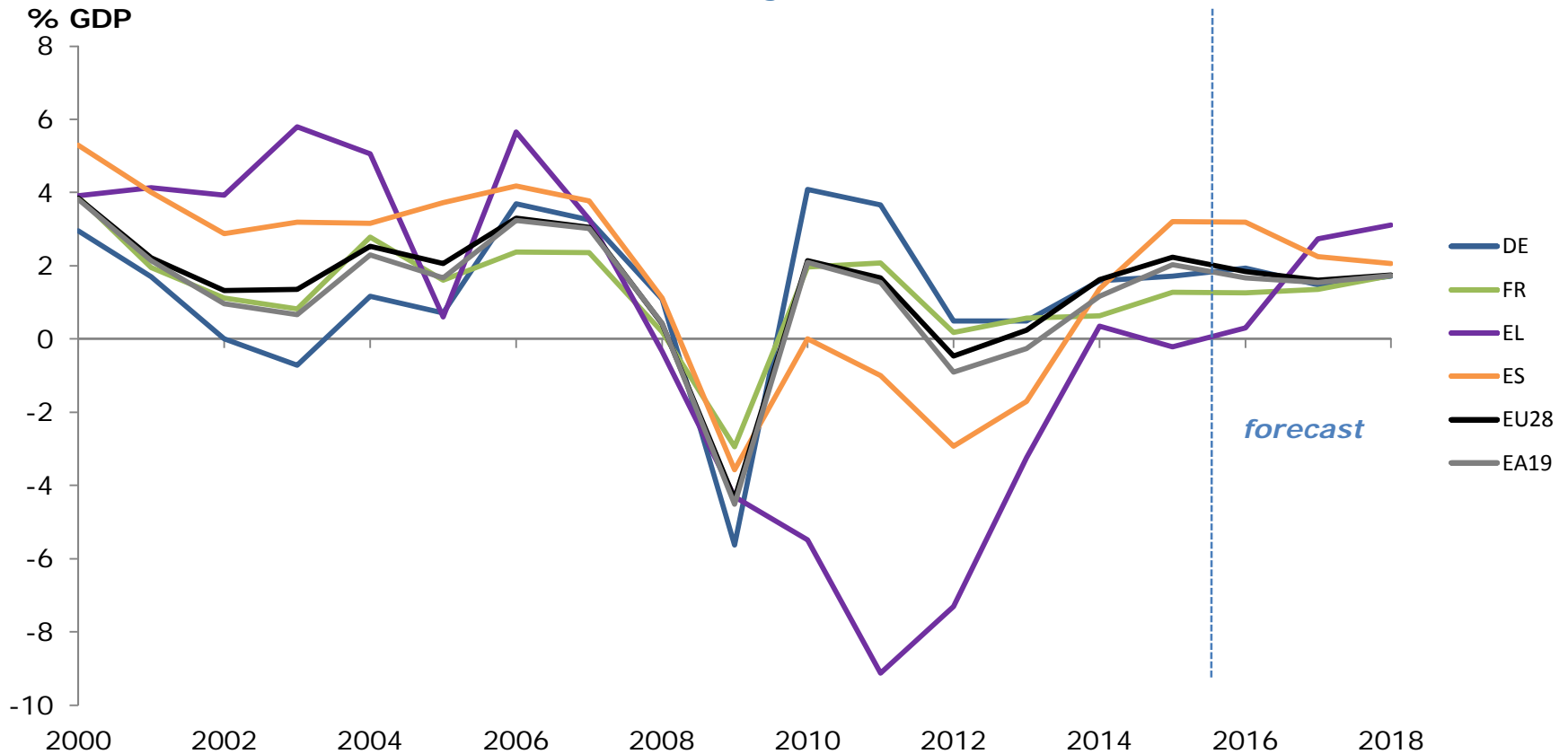


Today's challenges:

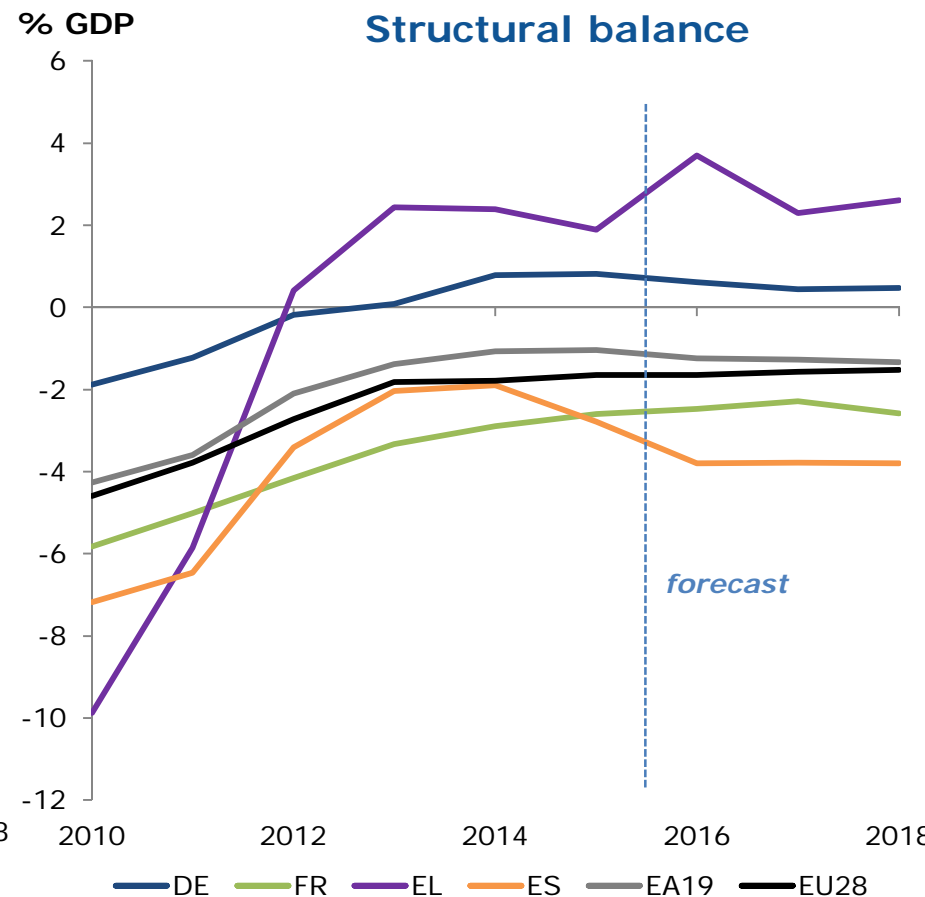
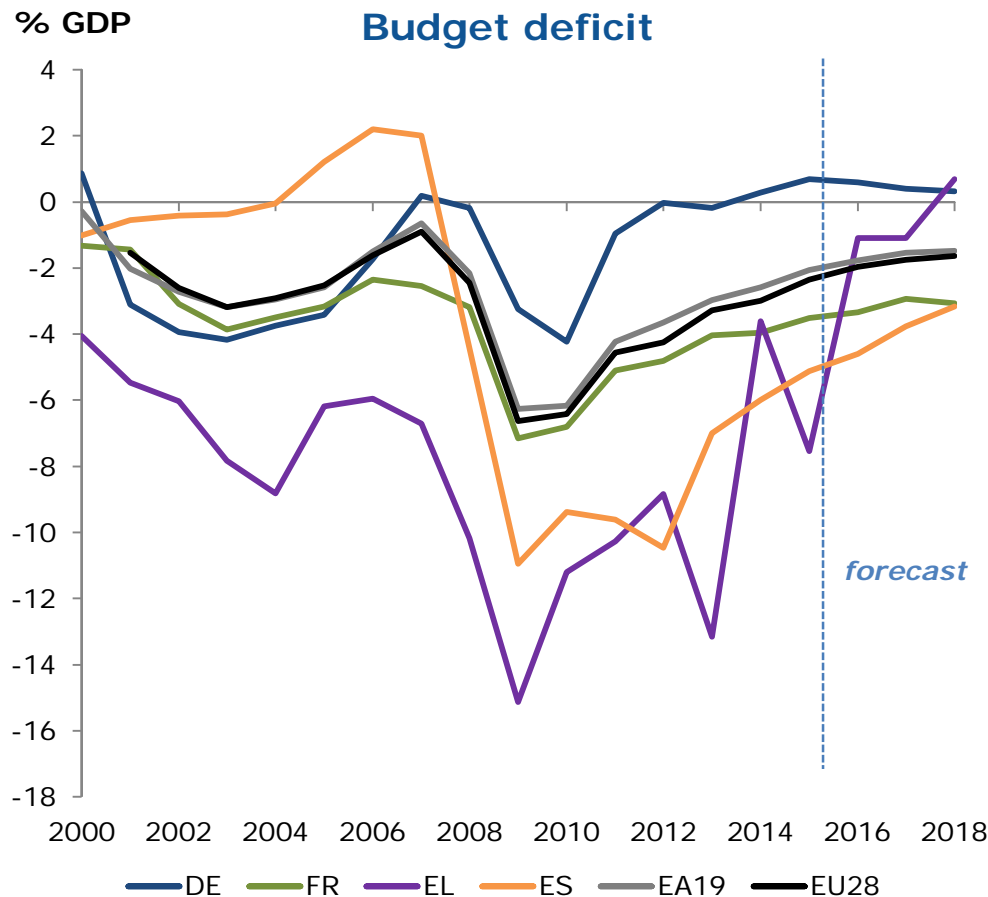
A moderate and uneven recovery

Growth is better (but needs to be sustained)

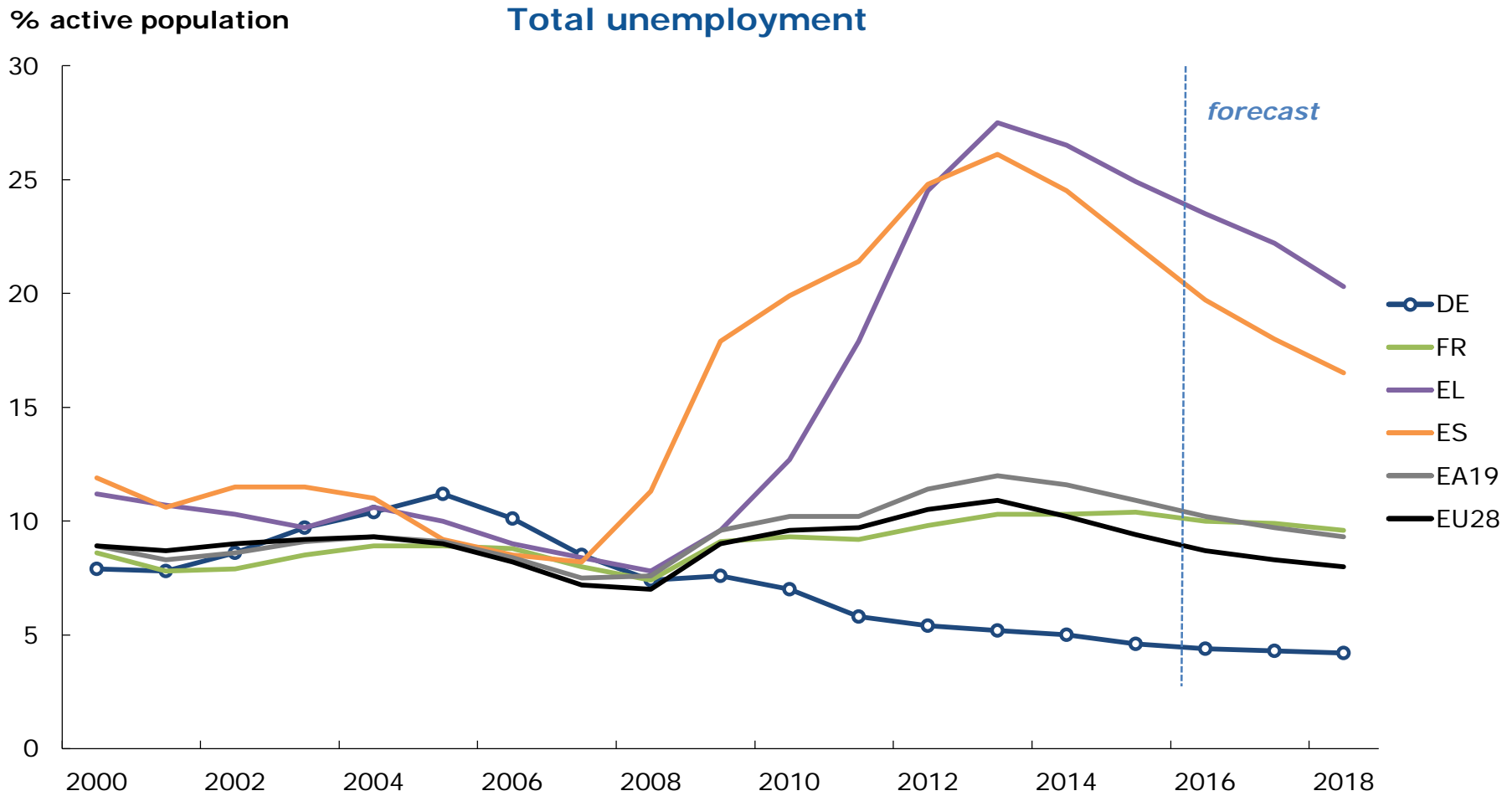
GDP annual growth rate



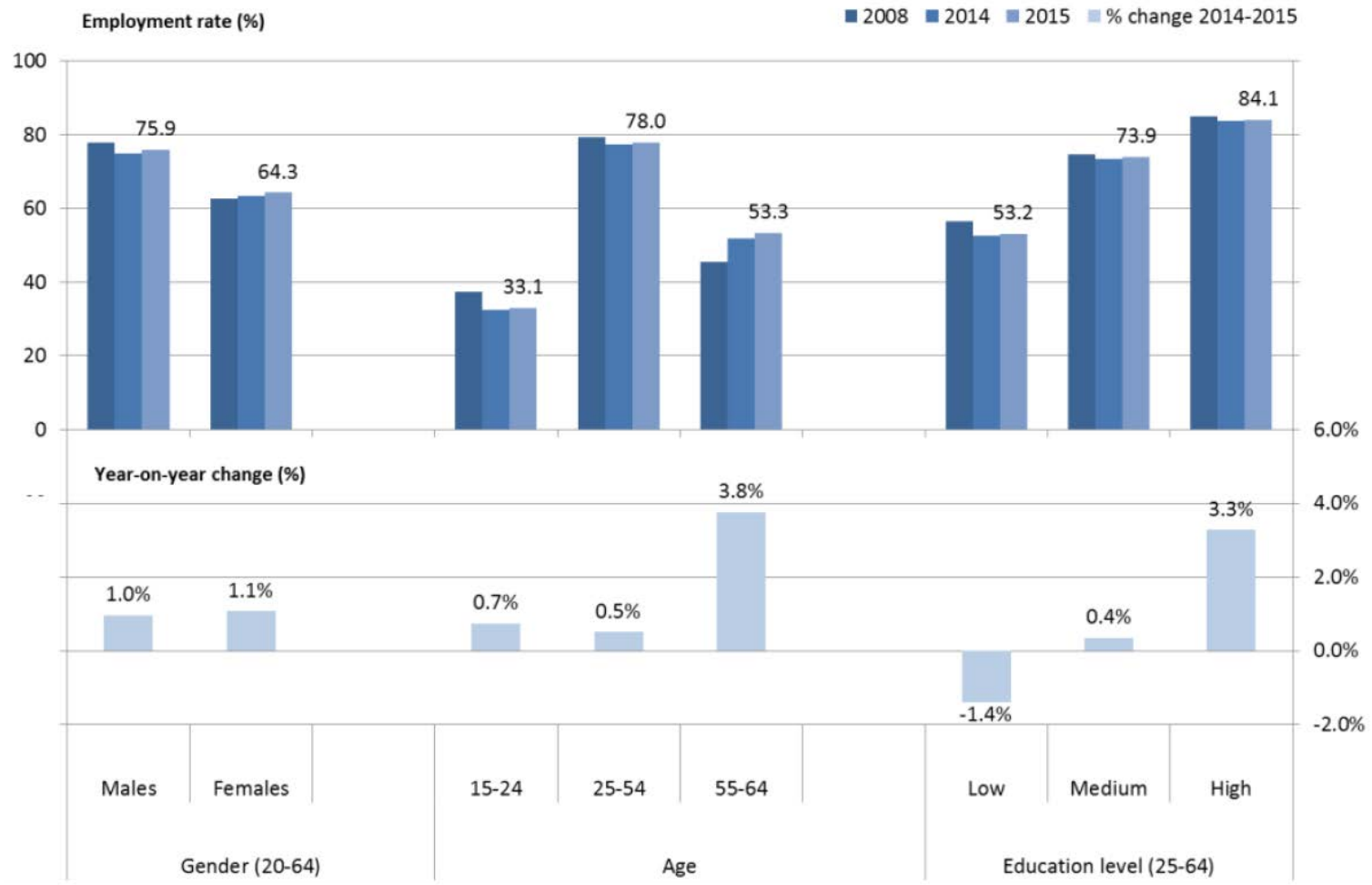
Deficits are down (but balanced stabilisation and consolidation needed)



Unemployment decreasing (but still high)



EU employment rates are up (but uneven)



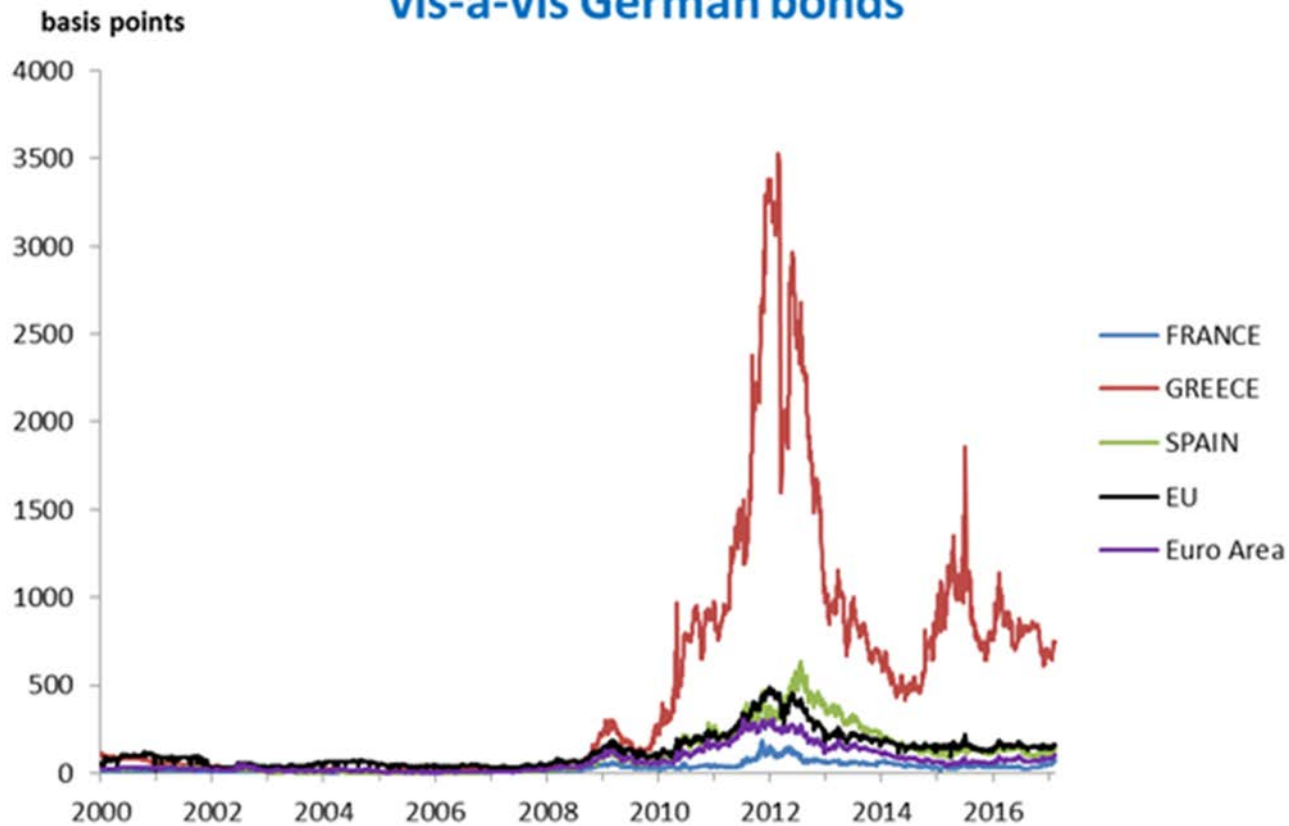
- **We are on the right track,
but we *still have a long way to go***



Convergence and fragmentation: We are one, but we're not the same

Spreads as indicator of (mis)trust

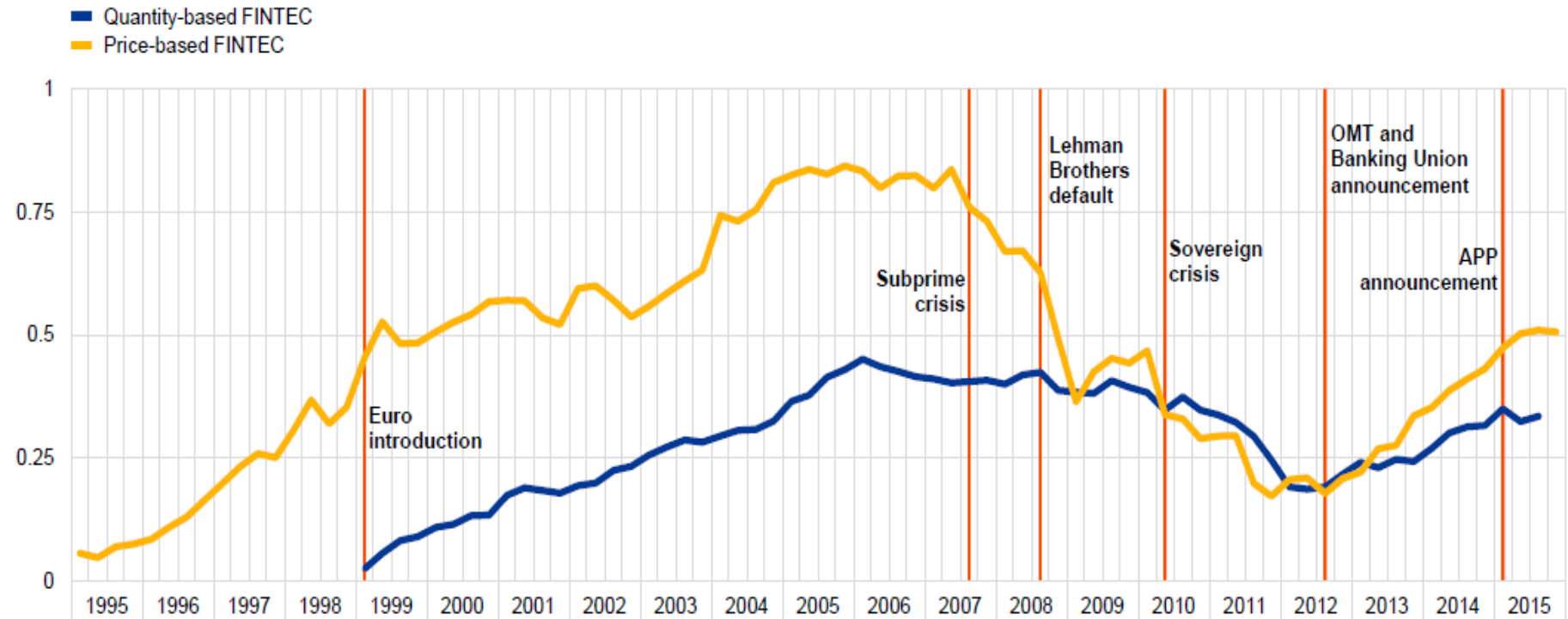
10-year government bond yield spreads vis-a-vis German bonds



Financial (re)integration of the euro area

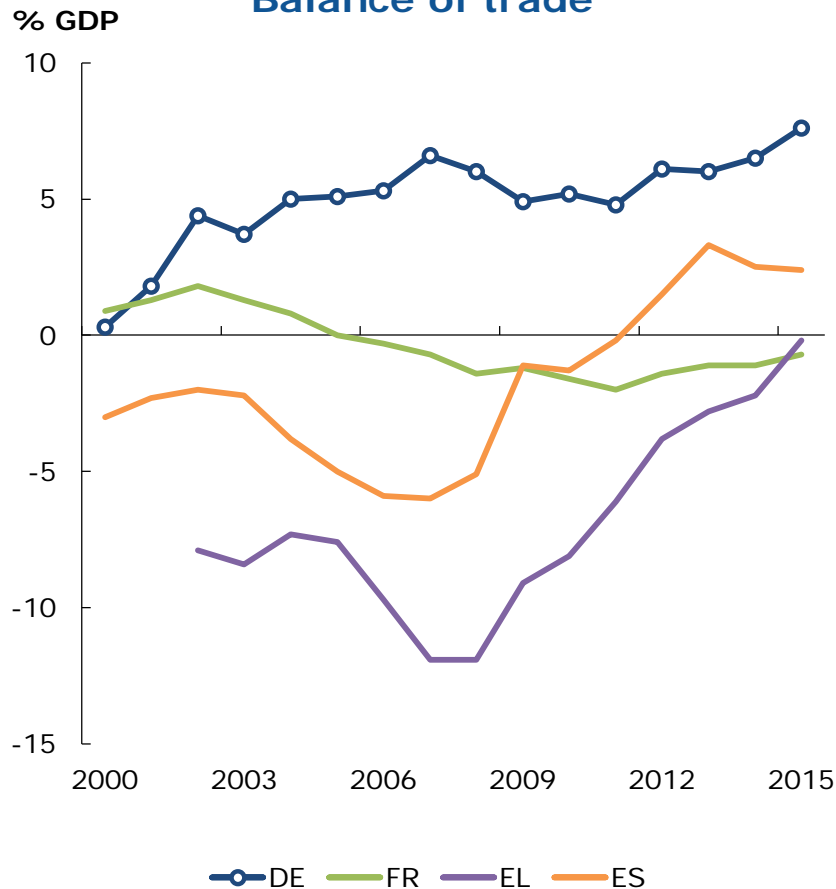
Price-based and quantity-based Financial Integration Composites (FINTECs)

(percentages per annum)

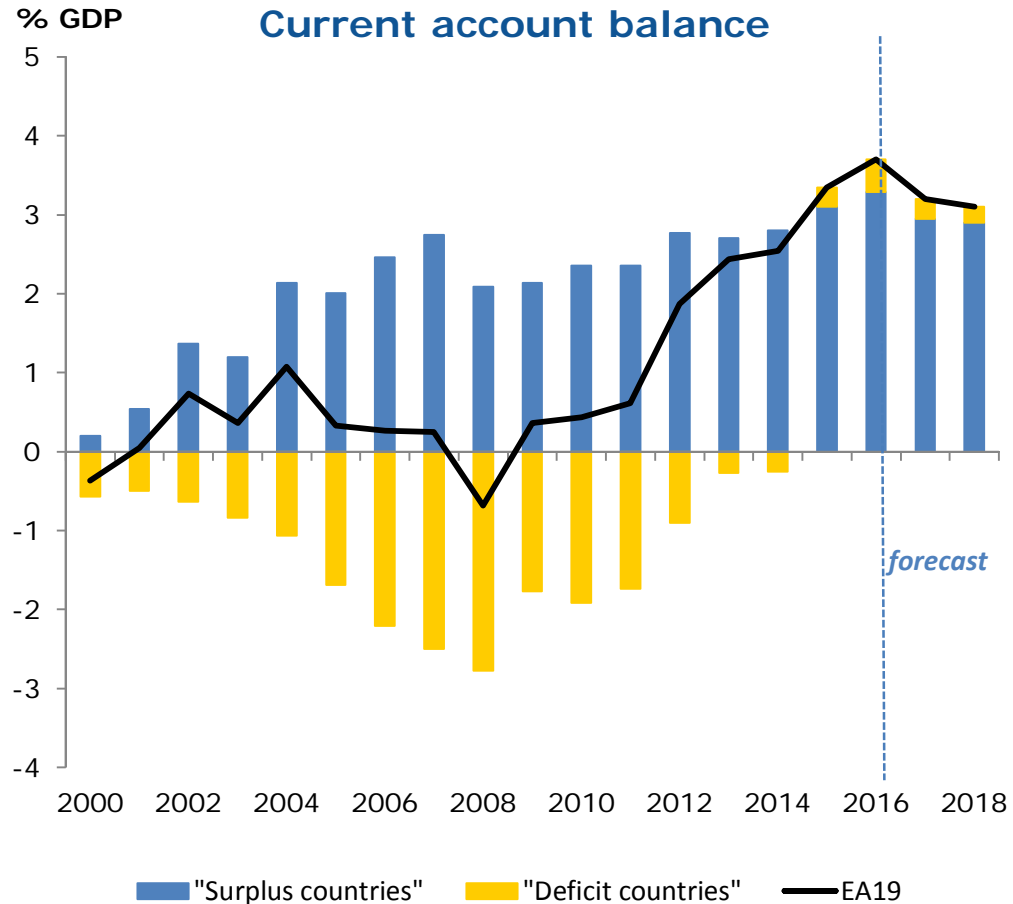


Hard-hit countries gaining ground

Balance of trade



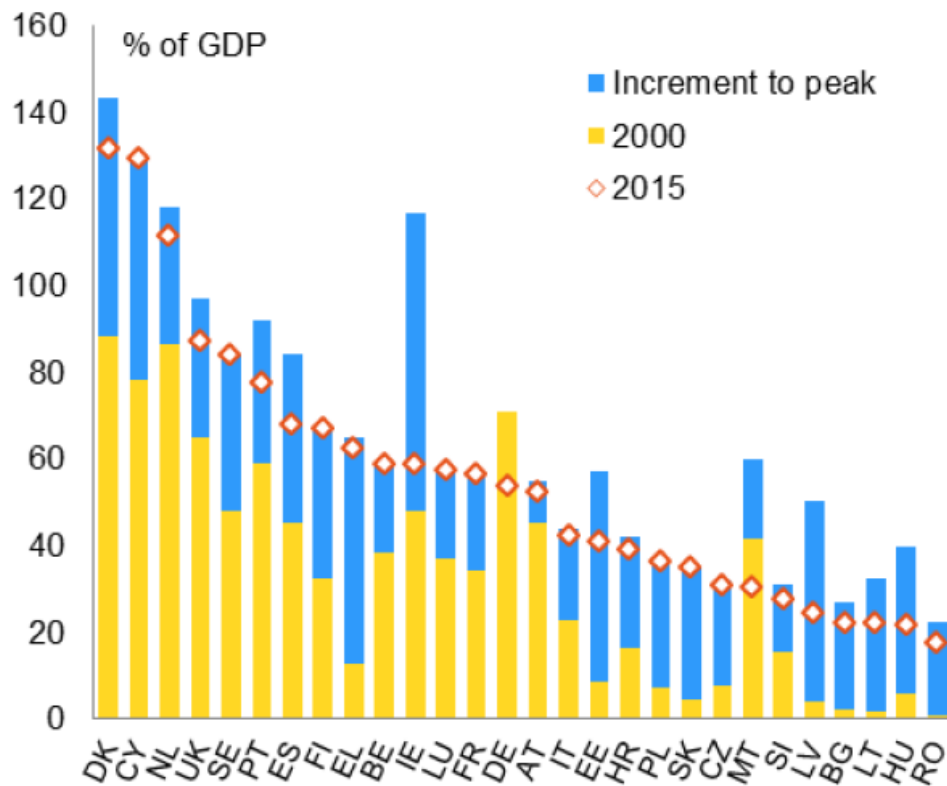
Current account balance



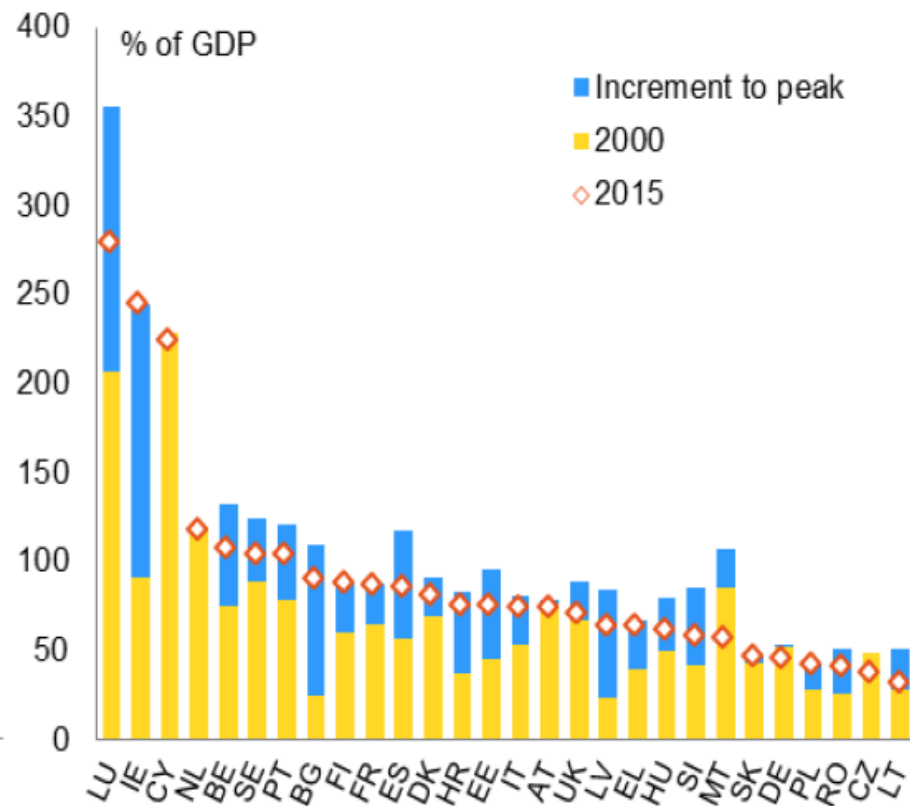
Surplus countries: BE, DE, LU, NL, AT, FI
 Deficit countries: other EA MS

Private debt deleveraging, but slow and uneven

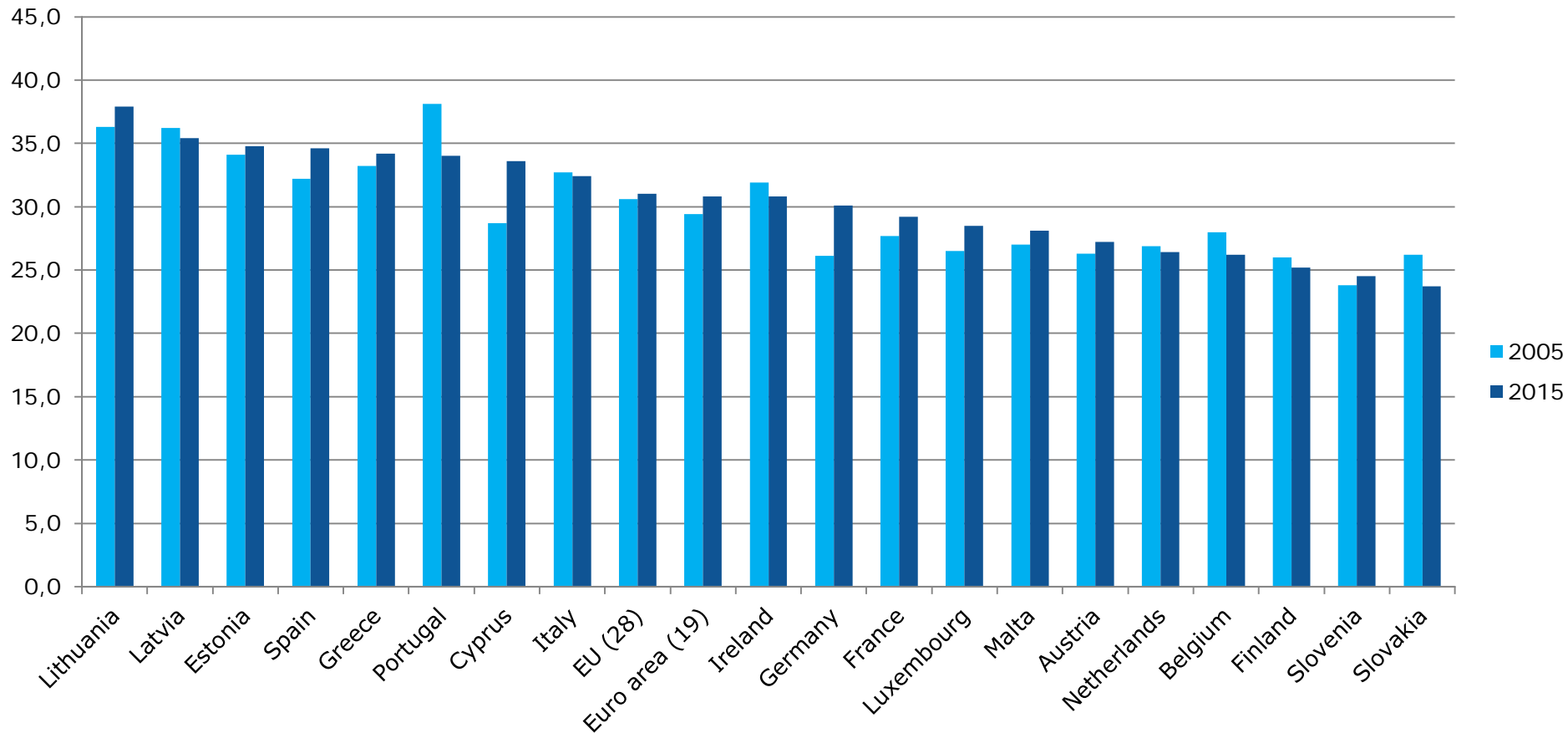
Consolidated household debt



Consolidated debt of NFCs



Income inequality is diverging



➤ Gini coefficient for **EU28** has been stable for the past 10 years

- **Nothing can replace *reform and responsibility***
- **Economic and Monetary Union works if and only if we *make it work...***



But if we don't...

"Monetary Union without a sufficient degree of convergence of economic policies is unlikely to be durable and could be damaging to the Community"

Jacques Delors

President of European Commission

1985-1995



The tools we have:

Improved economic governance since the crisis



European Semester

- Economic crisis highlighted need for closer economic and fiscal policy coordination between Member States
- Economic policy priorities supporting economic growth and job creation:
 - **Boosting investment**
 - **Structural reforms to strengthen competitiveness**
 - **Fiscal responsibility**



European Semester cycle

1st phase (November – January): EU

- Annual Growth Survey
- Macroeconomic Imbalances Procedure
- Commission opinion on draft budgetary plans (presented in October)
- Euro area recommendations

2nd phase (February – April): Member States

- Country Reports
- Stability/Convergence Programmes
- National Reform Programmes

3rd phase (May – July): EU

- Country Specific Recommendations

**February 22 – Commission's
economic analysis of EU
Member States due
("country reports")**



Investment (I)

- **Investment Plan for Europe**
 - European Fund for Strategic Investment (EFSI)
 - Mobilising €315 billion of public and private investment in 3 years
 - Supporting investment projects in real economy
 - Creating an investment-friendly environment
- **Better and more effective use of EU Structural and Cohesion Funds**



Investment (II)

- **EFSI extension** to €500 billion by 2020
- Commission also plans to:
 - **Improve geographical coverage** - stronger emphasis on local technical assistance in Member States
 - **Simplify combination of EFSI funding with other EU funding sources**, eg European Structural and Investment funds.

Structural reforms: EU level

- **EU Internal Market**
 - Goods and Services
 - Digital Single Market
 - Energy Union
 - Capital Markets Union
- **Better regulation for jobs, growth and investment**

Structural reforms: national level

- Robust labour market, creating jobs
- Upskilling and re-skilling working people of all ages
- Shift tax burden away from labour
- Adequate social security systems in flexible and ageing society
- Flexibility in goods and services markets
- Enhancing R&D, both quantity and quality
- Improving governance

Fiscal Responsibility

- **Maastricht Treaty (1992):** fiscal rules and procedures
- **Stability and Growth Pact (1997):** strengthening surveillance and coordination of national fiscal and economic policies
 - **Preventive Arm**
 - Medium-Term Budgetary Objectives
 - Stability and Convergence Programmes
 - **Corrective Arm**
 - Excessive Deficit Procedure
 - **Sanctions**

EDP: Position of Member States

EURO AREA

NON-EURO AREA

Corrective
Arm

Portugal



Spain



France



Greece



United
Kingdom



Croatia



stability support
programme

Preventive
Arm

Luxemburg



Germany



Finland



Netherlands



Ireland



Estonia



Austria



Belgium



Latvia



Slovenia



Malta



Italy



Slovakia



Lithuania



Cyprus



Poland



Denmark



Bulgaria



Sweden



Czech
Republic



Hungary



Romania



Macroeconomic Imbalance Procedure (MIP)

- To identify imbalances early on and ensure necessary reform
- Alert Mechanism Report, In-depth review, Enhanced surveillance for countries with excessive imbalances

MIP Indicators

External imbalances and competitiveness	Internal imbalances	Employment indicators
<ol style="list-style-type: none"> 1. Current account balance 2. Net international investment position 3. Real effective exchange rate 4. Export market share 5. Nominal unit labour cost 	<ol style="list-style-type: none"> 6. House price index 7. Private sector credit flow 8. Private sector debt 9. General government gross debt 10. Unemployment rate 11. Total financial sector liabilities 	<ol style="list-style-type: none"> 12. Activity rate 13. Long-term unemployment rate 14. Youth unemployment rate



European Commission

MIP: Position of Member States

EURO AREA

Italy 	France 	Portugal 	Cyprus 
Slovenia 	Germany 	Ireland 	
Netherlands 	Finland 	Spain 	
Belgium 	Estonia 	Austria 	Latvia 
Slovakia 	Lithuania 	Luxemburg 	Malta 
			Greece 

NON-EURO AREA

Croatia 	Bulgaria 	
Sweden 		
Romania 	United Kingdom 	Hungary 
Czech Republic 	Denmark 	Poland 

Excessive imbalances

Imbalances

No imbalances

stability support programme



Strengthening the Euro Area

- **Tighter macroeconomic & fiscal supervision**
 - 6-pack, 2-pack, Fiscal Compact
- **European Stability Mechanism**
- **ECB monetary policy**
 - Outright Monetary Transactions
 - "Whatever it takes!" (M. Draghi)
- **Banking Union**
 - Single Rulebook to reduce risks
 - Single Supervisory Mechanism
 - Single Resolution Mechanism (from 1 January 2016)
- **Capital Markets Union**

- *A lot has already been done* to make the euro more resilient
- Our governance structures and policies have been upgraded... but the work continues



Consolidating and completing the EMU: The tools we need



Five Presidents' Report on completing EMU

- **Towards Economic Union - Convergence, Prosperity and Social Cohesion**
 - Recommendation on National Competitiveness Boards
 - Revamped European Semester
- **Towards Financial Union - Integrated Finance for an Integrated Economy**
 - Legislative proposals on EDIS and Risk Reduction
 - Capital Markets Union Action Plan
- **Towards Fiscal Union - an Integrated Framework for Sound and Integrated Fiscal Policies**
 - European Fiscal Board
- **Improved Political Union - Democratic Accountability, Legitimacy and Institutional Strengthening**
 - Stronger engagement with European and national parliaments

The bigger political picture

- 60th anniversary of the Treaty of Rome
 - **Commission White Paper on the future of Europe, and reflections on deepening of the Economic and Monetary Union**

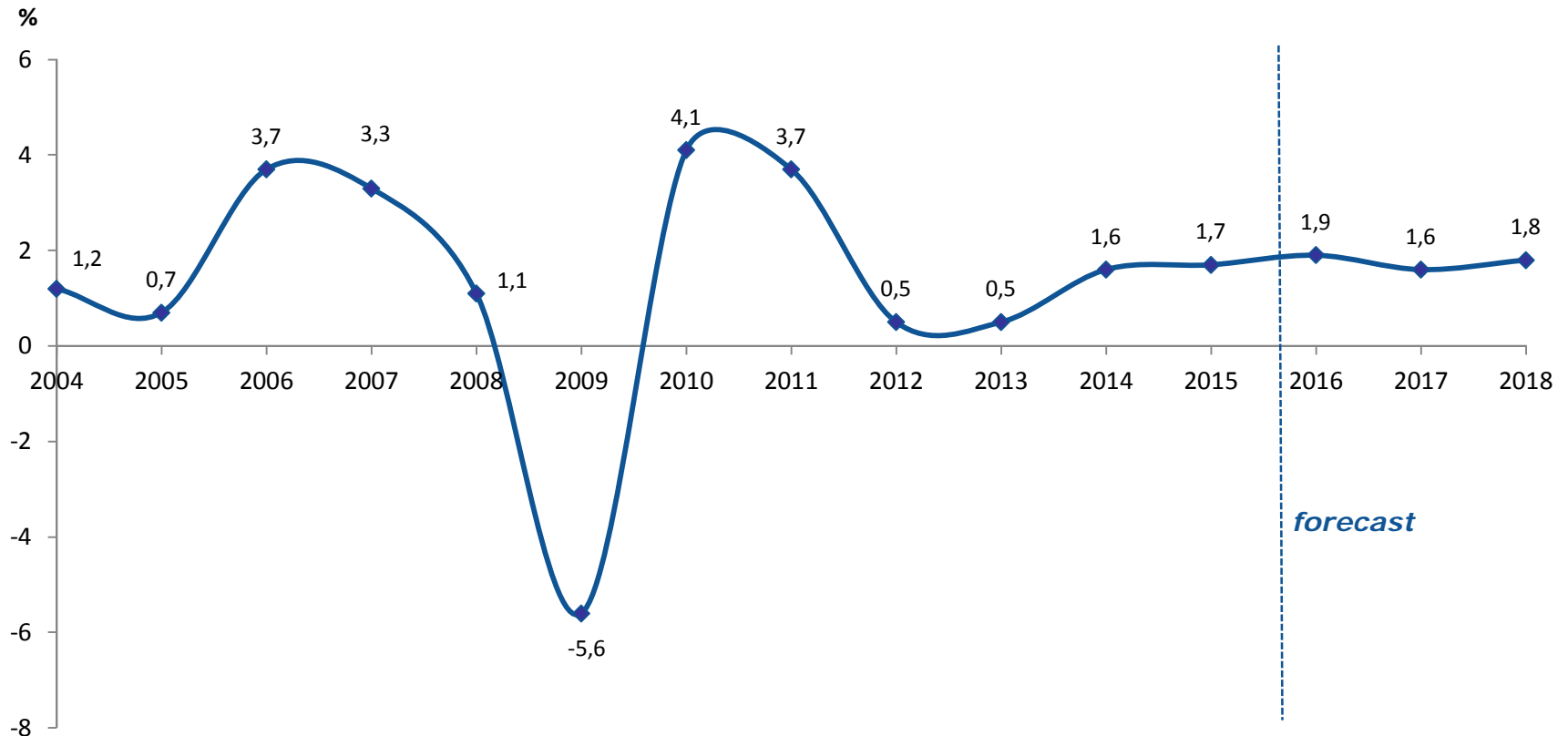
- **The work continues, but further steps on EMU depend on the credibility of the current system and the political will to make it work**



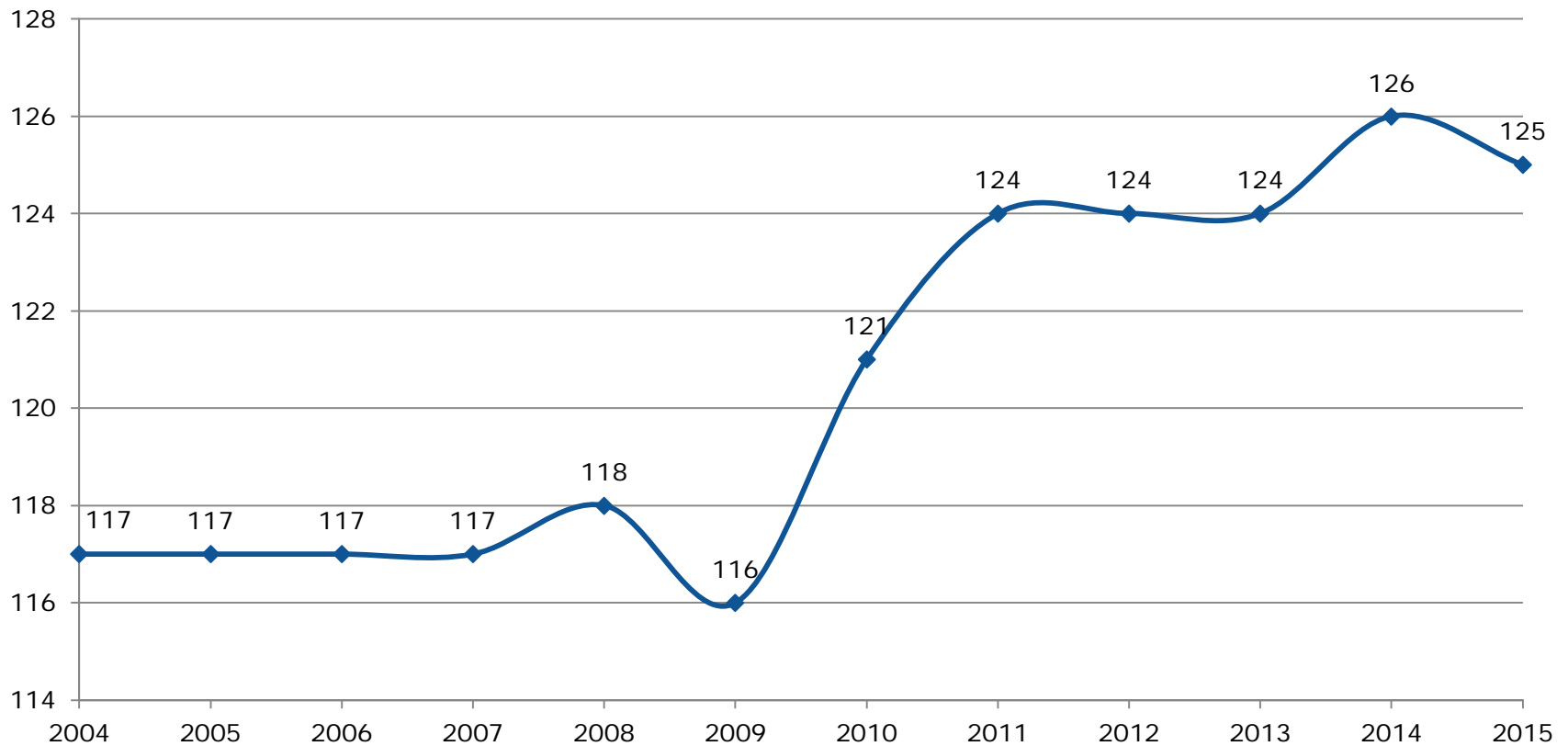
Germany's performance

Economic growth in Germany

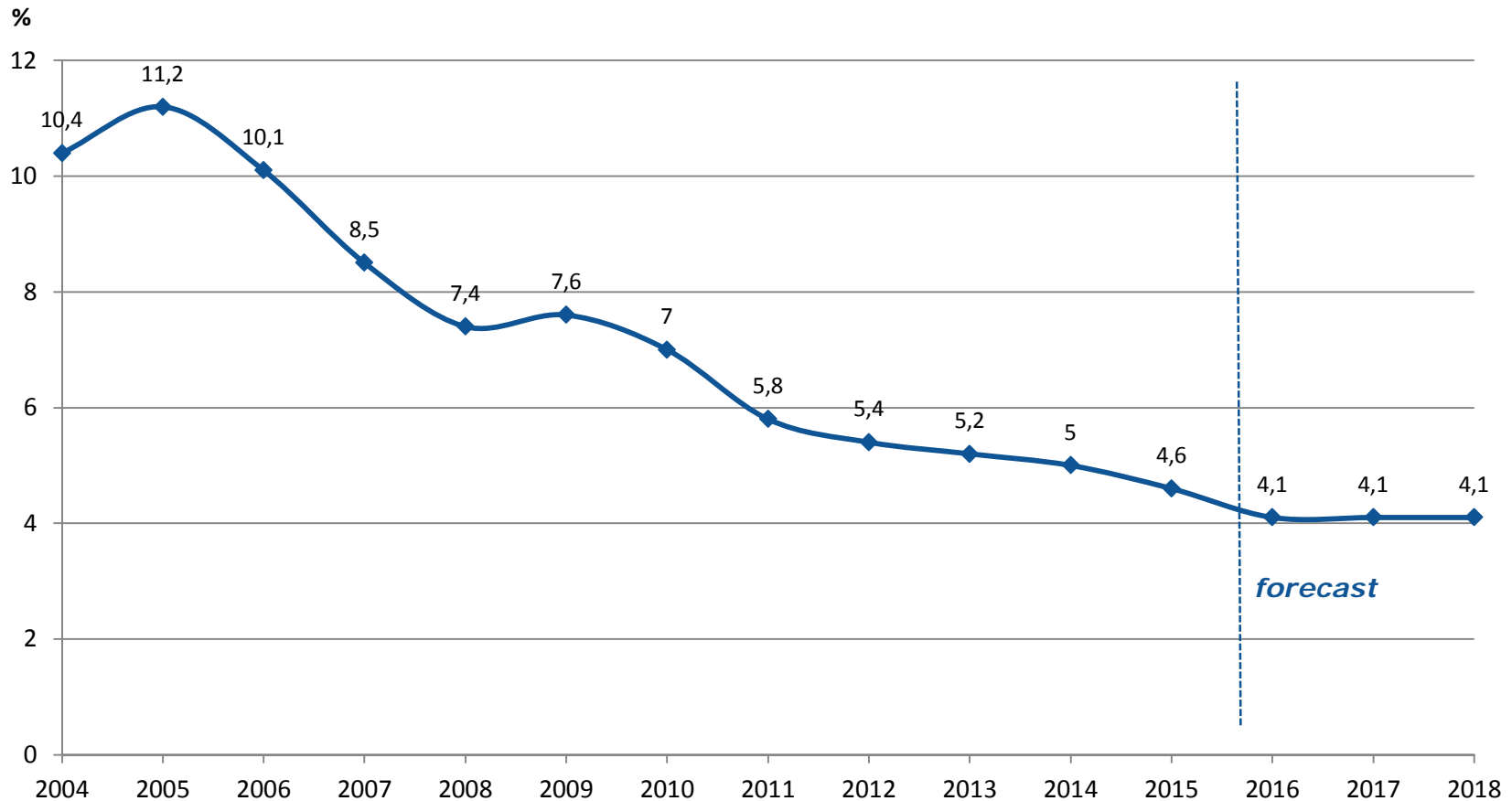
GDP growth



GDP per capita in PPS (EU28=100)



Unemployment in Germany



Fiscal performance in Germany

- Budget of 2017 **fully compliant** with SGP requirements
- In the **preventive** arm of SGP

	2012	2013	2014	2015	2016*	2017*	2018*
Gross debt (% of GDP)	79.9	77.5	74.9	71.2	68.2	65.5	62.9
Budget balance (% of GDP)	0.0	-0.2	0.3	0.7	0.6	0.4	0.4



Investment in Germany

- Contributed €8bn to EFSI through KfW
- Strengthening of federal, states' and municipalities' investment: €8.5 billion annually for 2016-2018
- Assistance to states and municipalities for social spending and asylum expenses
- Reform of federal fiscal relations from 2020



Country Specific Recommendations

1. Achieve a sustained **upward trend in public investment**, especially in infrastructure, education, research and innovation, while respecting MTO.
2. Reduce **inefficiencies in tax system**; especially reviewing corporate taxation, local trade tax, modernise tax administration, review rules for venture capital. Step up **measures to boost competition in services sector**, in particular – business services and regulated professions.
3. Increase **incentives for later retirement + reduce disincentives to work for second earners**. Reduce high tax wedge for low wage earners and facilitate transition from mini-jobs to standard employment.



Thank you for your attention