



THE FUTURE OF THE EUROPEAN MONETARY UNION

Antti Ronkainen, 20.11.2017



EURO CRISIS RESPONSE

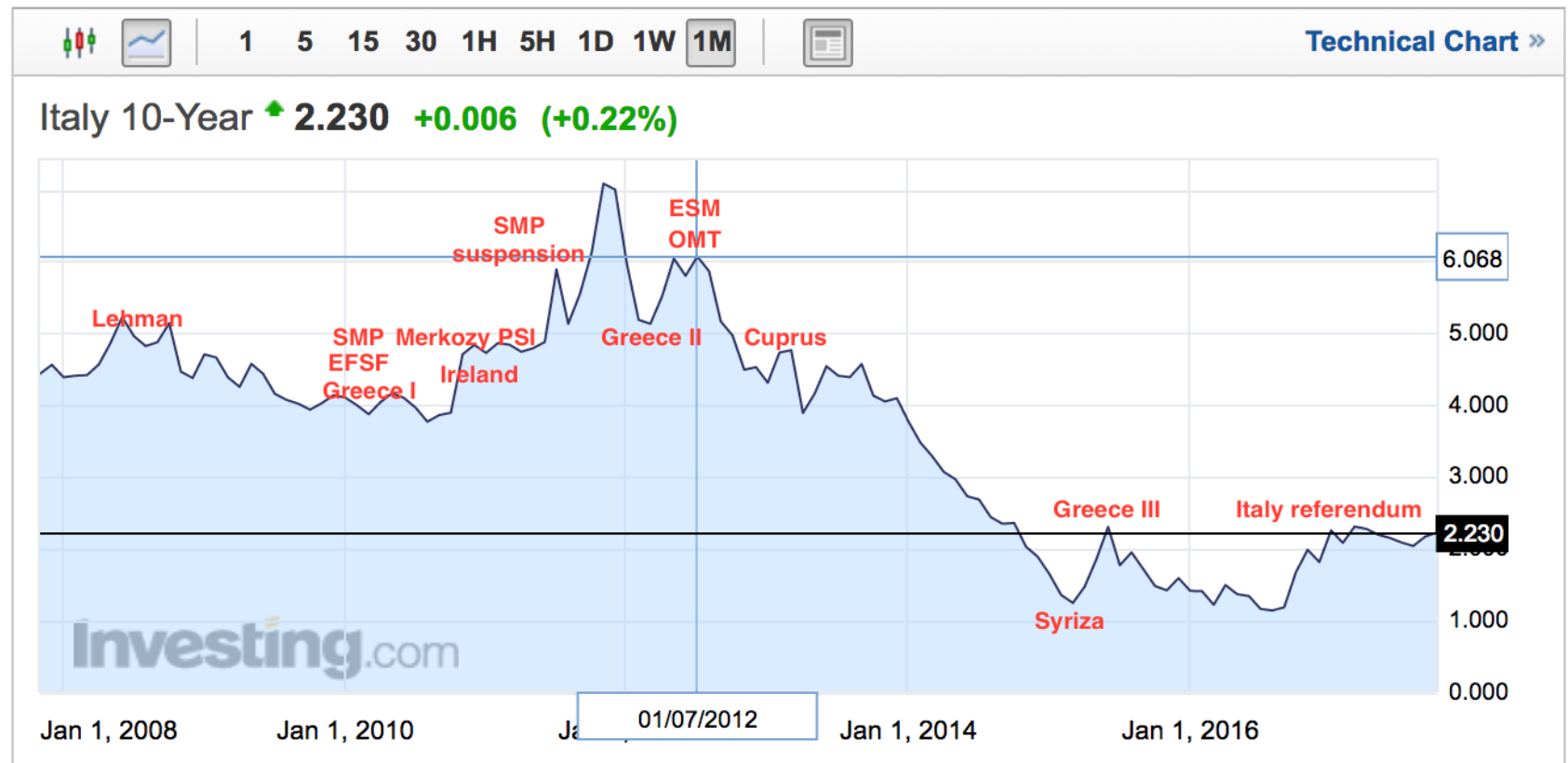
1. Reinterpretation of no-bailout-clause (ESM + bailouts)
 2. Strengthening of fiscal coordination (Semester, budget contract & fiscal consolidation programs)
 3. Extraordinary interventions of ECB (SMP, OMT & QE)
 4. Banking Union (crisis resolution mechanism)
- EMU has survived by violating its own rules
→ questions the credibility of rule based currency union



"WITHIN OUR MANDATE, THE ECB IS READY TO DO WHATEVER IT TAKES TO PRESERVE THE EURO. AND BELIEVE ME, IT WILL BE ENOUGH."

– MARIO DRAGHI 26/7/2012

Italy 10-Year Bond Yield Overview

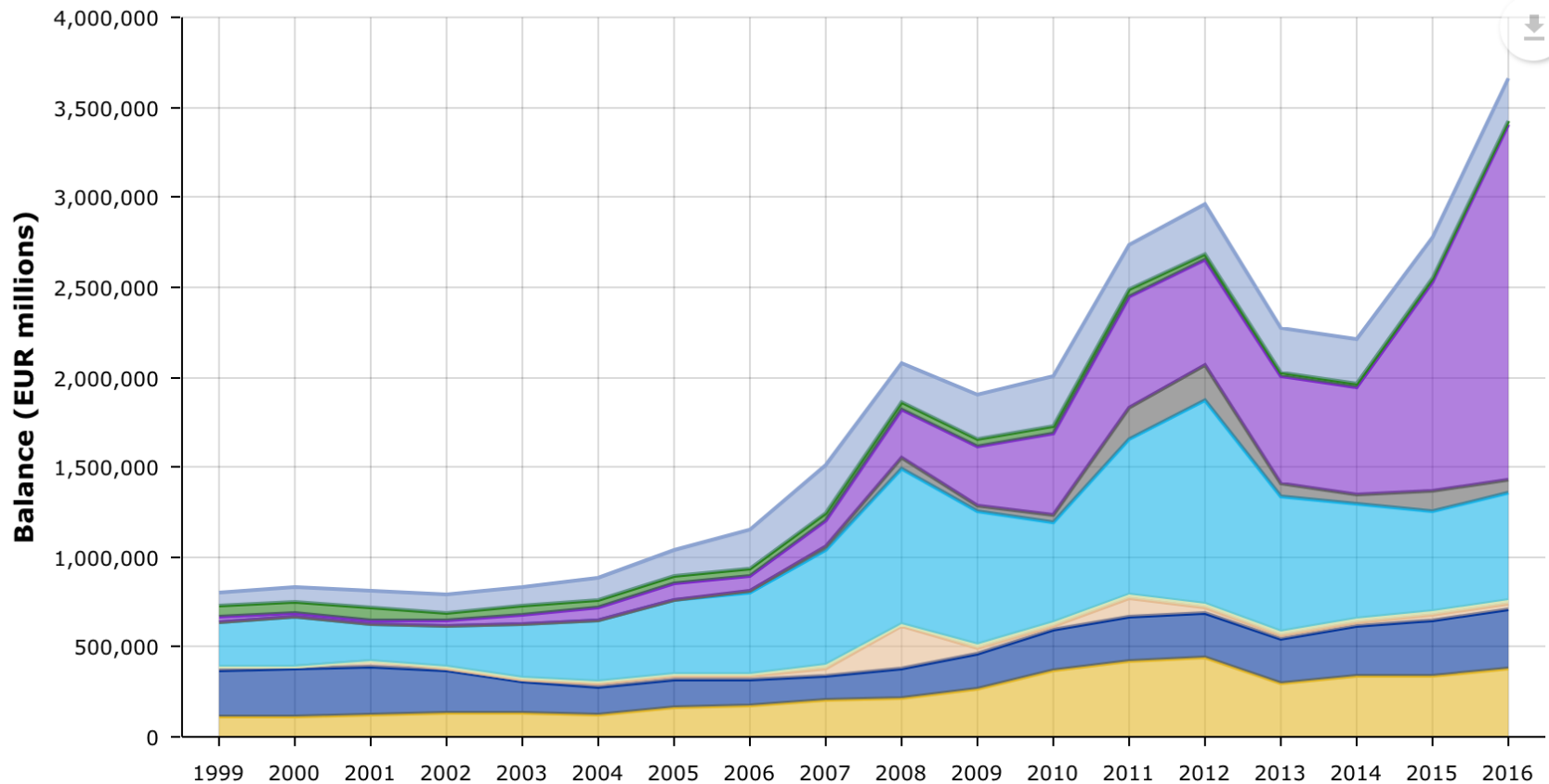




ECB'S BALANCE SHEET

Assets | Liabilities

Chart | Table



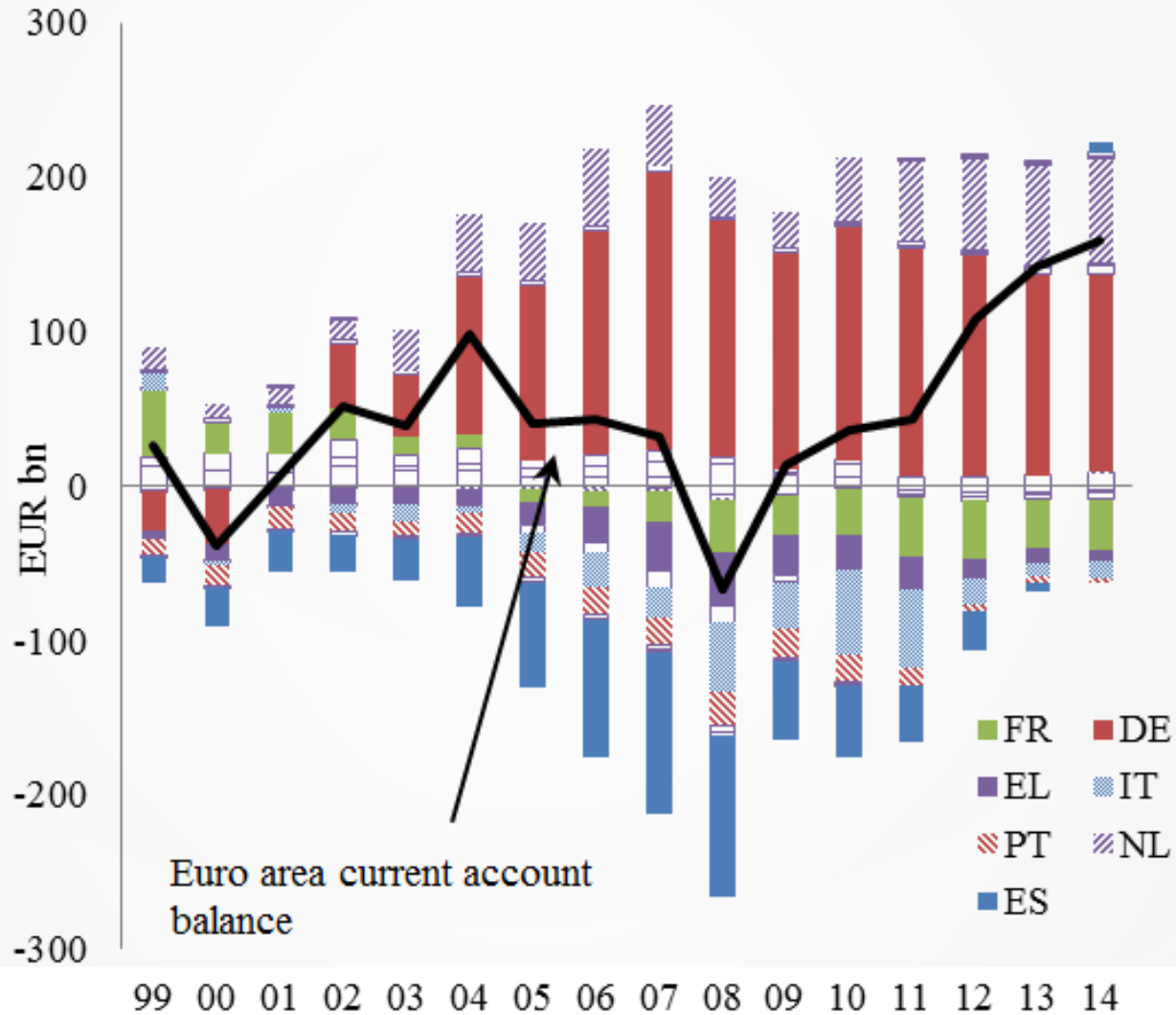


POLITIZATION OF ECB

- **National fiscal policies & supranational monetary policy**
 - Passivity of EZ countries increased the responsibilities of ECB
 - ECB's most vocal critics Bundesbank & BVerfG, but not Merkel!
 - **Purchases help EZ countries**
 - Decreases interest rates & debt service payments (slashes market discipline)
 - Cheapens euro (promote exports & growth)
 - Isolates political crises
 - No need to bailout Italy
- Question the political independence of ECB



ASYMMETRIC DEALING OF ECONOMIC IMBALANCES





HEADWINDS OF EMU

- **Brexit & anti-EU-bias in Eastern Europe**
 - Multispeed Europe → EMU core lead by Germany & France
 - Italy and Berlusconi's comeback?
- **Rise of far right parties in Western Europe**
 - France exception thanks to its 2-step electoral system
 - Elections in Netherlands, Germany & Austria have smashed the moment for big reforms → Treaties won't be opened
- **Intergovernmentalism**
 - Modification of ESM & Fiscal compact
 - European monetary fund → IMF exit
 - More power to "grey zone" outside EU legislation



BERLUSCONI'S COMEBACK



Europe Elects
@EuropeElects

Italy, Index poll:

M5S-EFDD: 28%

PD-S&D: 25% ↓

LN-ENF: 15%

FI-EPP: 15% ↑

Fdl-*: 5%

DP-S&D: 3%

AP-EPP: 2%

SI-LEFT: 2%

6:37 PM - 17 Nov 2017

In Sicily Forza Italy, Lega Nord & Fdl
allied for supporting Nello Musumeci

Currently FI+LN+Fdl-coalition has 35 %



PROBLEMS FOR EMU

- **Current solutions don't...**
 - Clarify responsibilities between EZ countries & ECB
 - Remove economic imbalances (rather opposite)
 - Remove opposing national intresses (rather opposite)
- **What happens in the next crisis?**
 - EZ countries willingness to act?
 - ECB's ability to save common currency?
 - Italy politically & economically?



SHORT & LONG TERM RESPONSES

- **Short term: can't get market discipline, rule-based system & EZ countries responsibilities at once**
 - If EZ countries don't want fiscal solidarity and permanent income transfers, need to drop fiscal rules immediately
 - Completion of banking union is not possible without breaking fiscal rules & banking union rules
 - Exit mechanism without EU exit! (intergovernmentalism)
- **Long term: changing the treaties**
 - Changing/eliminating Stability & Growth Pact?
 - ECB's mandate? Monetary financing?
 - No-bailout?



THANK YOU!

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