



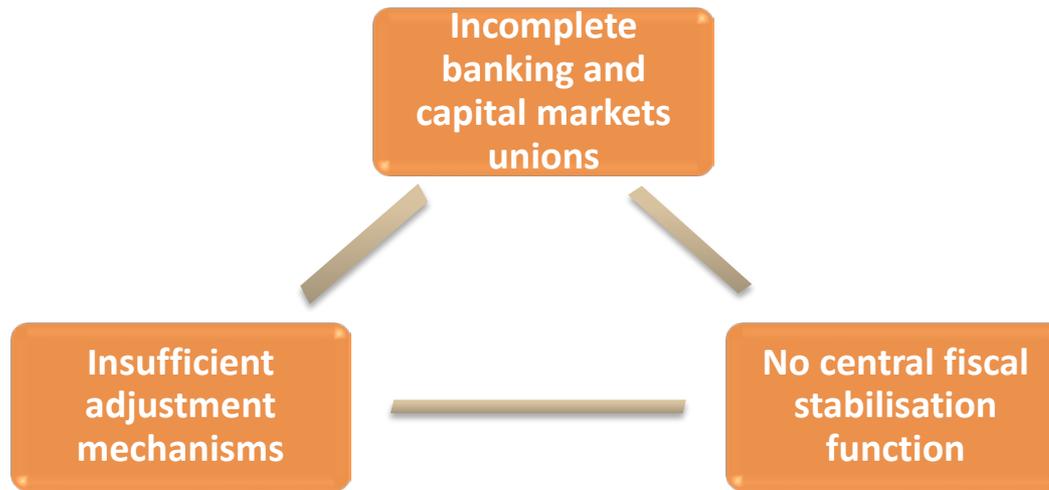
# A New Fiscal and Monetary Framework for the EMU

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# *EMU today: An unsustainable equilibrium*



- Insufficient private and public risk-sharing
- Overburdening of monetary policy
- Risk of renewed financial instability



## ADEMU proposals

- **A central fiscal stabilisation capacity is vital for the EMU sustainability**
- A common unemployment insurance system goes back as far as 1975 (Marjolin Report) and was reassessed again recently
- The **EUIS proposal meets the key criteria**: sizeable stabilization; no permanent transfers; no change to existing national labour markets/unemployment insurance policies
- The **ESF proposal is timely and ambitious** given current discussions on developing the ESM and integrating counter-cyclical stabilisation into the crisis management framework
- The proposal shows how financial contracts can be designed **in theory** to achieve the above objectives but there are questions on how they would work in practice



## The Commission proposals

### 1) Central fiscal stabilisation: yes, but aimed at maintaining the public investment base

- Unemployment will be the trigger for support
- Start with cheap loans, insurance instrument later

### 2) Strengthening the ESM: yes, but not with a contract

- Precautionary instruments to avoid loss of market access
- Cheap loans with light conditionality

**➔ BUT POLITICAL HURDLES REMAIN...**



## *Debunking Four Myths*

- ↪ Lack of fiscal discipline shows that the EU fiscal rules don't work
- ↪ A central fiscal stabilisation function isn't necessary if countries rebuild their fiscal buffers
- ↪ With a sovereign debt restructuring mechanism we will be finished with the bailout culture
- ↪ Completing Banking Union is all that is needed

➔ **A COMMON NARRATIVE NEEDED FOR A SUCCESSFUL EURO AREA SUMMIT IN JUNE**

***Thank you***