

A European Stability Fund for the EMU

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Objectives

- To design a robust crisis management mechanism within the EU that will simultaneously provide risk sharing and fiscal stabilisation
- To evaluate how the crisis would have developed had such mechanism been in place
- To suggest a realistic mechanism for its implementation

There are two related issues currently on the EMU agenda: the need to strengthen the European Stability Mechanism “as a robust crisis management mechanism” (European Commission 2017a), and the need to enhance the EU’s capacity to provide risk sharing and fiscal stabilisation (Junker et al. 2015). Building on our ADEMU work “On the optimal design of a Financial Stability Fund” (Ábrahám et al. 2018), my co-authors and I show that the most efficient design would be to merge both functions into a European Stability Fund (ESF), which would effectively transform current risky debt liabilities into safe fund contracts, taking the form of long-term state contingent bonds subject to endogenous constraints, to avoid undesired redistribution or implicit bailouts and moral hazard problems. With this design as a constrained efficient mechanism, the ESF should also confront two additional pending issues: the ‘debt overhang’ problem, and the development of EU safe assets. Furthermore, the ESF can be implemented with minimal changes to the current structure and legal status of the ESM.

Further reading

To read the full paper which accompanies this policy brief, see chapter two (pages 25-32) of the ADEMU e-book published by VoxEU.org:

www.voxeu.org/The-emu-after-the-crisis

You can see a short video summary of this topic by the author at:

www.ademu-project.eu/a-european-stability-fund-for-the-emu-with-ramon-marimon

This topic also relates to the policy brief 'Lessons from the euro crisis and dealing with the debt overhang':

www.ademu-project.eu/policy-brief-lessons-from-the-euro-crisis-and-dealing-with-the-debt-overhang/

There are 47 working papers related to this topic. See the full list:

www.ademu-project.eu/ademu-working-papers-related-to-work-package-1

www.ademu-project.eu



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