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*Committee on Economic and Monetary Affairs: Monetary Dialogue Preparatory Meeting*

# **Euro at 20: The Monetary Union from a Bird's-eye View**

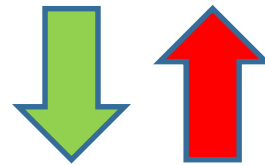
A concise critical assessment

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- Replicating the role model of the Bundesbank
  - » Capitalizing on the Bundesbank's hard-currency reputation
  - » Sharing decision competencies among affected countries
- Primary mandate: Price stability (⇒ inflation targeting)
  - » 1999: Inflation below 2-percent, two-pillar approach
  - » 2003: Inflation below but near 2-percent, downgrading monetary pillar
- Independence of the Eurosystem
  - » Strong legal framework
  - » Monetary-fiscal-asymmetry as a bonus (“gold standard without gold”)
- Fiscal firewalls
  - » Ban on monetary government financing
  - » No bail-out (neither by Member States, nor by EU/EMU institutions)
- Stability and Growth Pact
  - » Fiscal discipline via additional rules (not only via capital markets)
  - » Undermining no bail-out clause/fostering overconfidence

Consensus



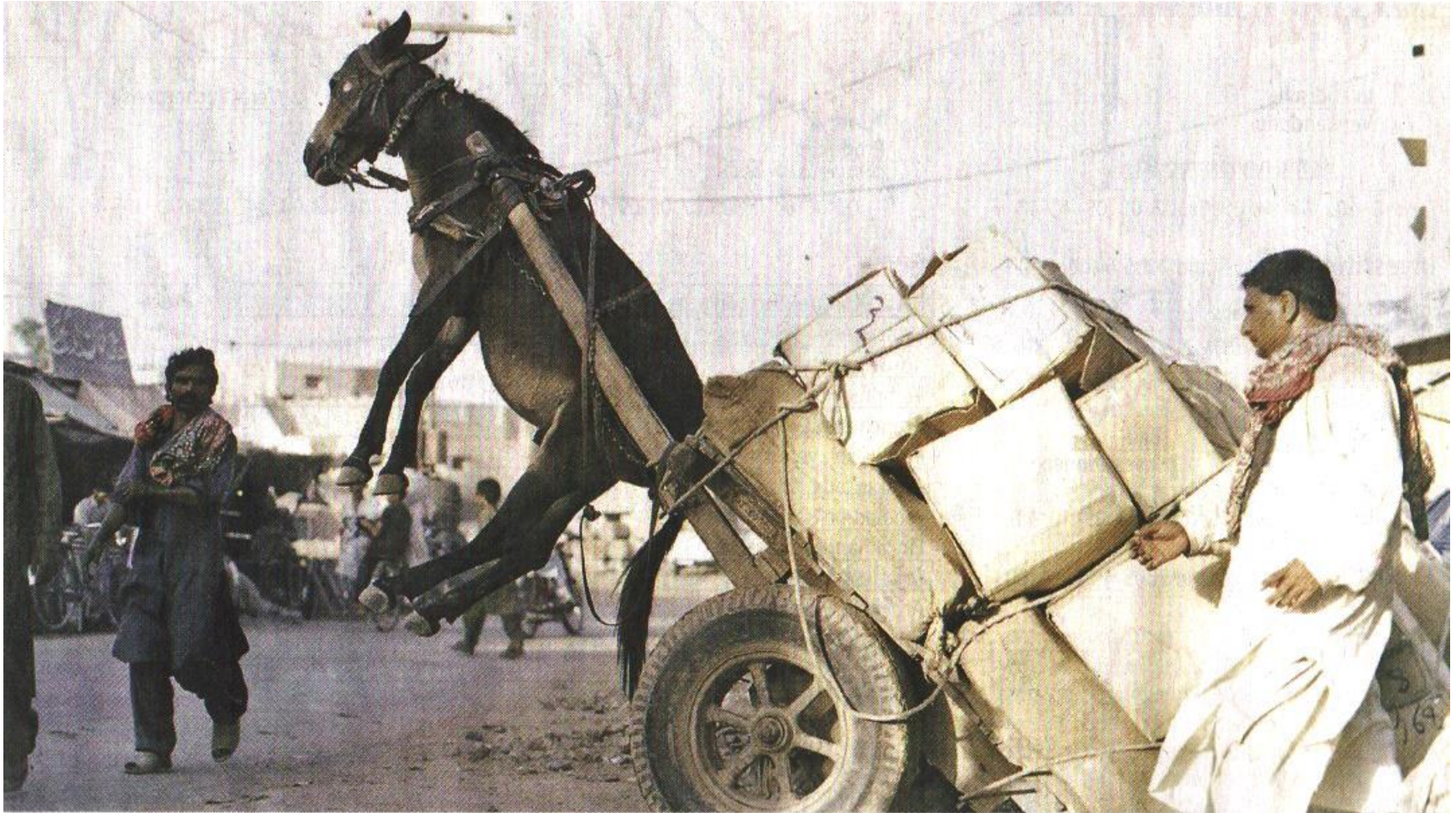
Institutions

Twenty years of common monetary policy ...  
... the half of which in crisis mode

- Ensuring the survival of the monetary union
  - » Monetary policy preconditioned on preservation of the currency
  - » Reducing risk premia/interest rates on government debt
  - ⇒ Lines between monetary mandate and fiscal policies blur
- Monetary balance-of-payments financing (T2-imbbalances)
  - » Refinancing distressed banks
  - » Asymmetric money creation, massive liquidity injections
  - ⇒ Damage to principle of liability (investors vs. tax payers)
- Prolonged ultra-low interest rate policy
  - » “Buying time” for structural reforms and fiscal consolidation
  - ⇒ Incentives for reforming and consolidating wane
  - ⇒ Retarding restructuring, new distortions (“zombification”)



# Monetary policy: Overloaded



Source: FAZ, 26th October 2011, p. 11

# Two ways forward

## ■ Maastricht 2.0

- » Rules
- » No bailout
- » Fiscal discipline via capital markets
- » Decentral macro stabilization by solvent member states
- » No monetary government financing

» Financial stability via bail-in buffers and de-privileging public debtors

» **Diversity, competition**

## ■ Monetary and Fiscal union

- » Discretion
- » Mutualized debt
- » Conditionality of fiscal support
- » Macro stabilization on EMU level
- » (Temporary) monetary government financing

» Financial stability via bail-in buffers and common backstops

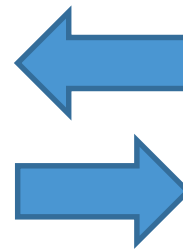
⇒ **Harmonization, deepening**



**Common ground: Banking Union/Capital Markets Union**

# The legacy-restart-nexus

**Restart**  
(new framework)  
requires  
**resolution of legacy problems**



**Resolution of legacy problems**  
(debt overhang)  
requires  
**consensus** on new framework



# Foundations matter



# Time for Q&A

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