THE FUTURE OF THE EUROZONE

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two legacies of the crisis

- all policies considered and debated with the prism of their distributive / risk sharing effects

- different approaches to economic policies come in full light: "the Euro and the Battle of Ideas"
  - rules vs discretion
  - solvency vs liquidity
a balanced strategy to overcome the consequences

- keep one eyes on the long term ambitions (more macro stabilization tools at the euro level)

- do not succumb to the "pessimism of impatience" (common deposit insurance and resolution fund are not so urgent)

- work actively to strengthen the ability to absorb shocks
• Euro is not an OCA (nor are China or India...)

• but can get closer through more robust cross border financial intermediation

• Five components of ambitious CMU:
  1. harmonized legal environment
  2. the debt regime
  3. banking sector consolidation
  4. cross border financial instruments and safe assets
  5. efficient crisis management: the European Monetary Fund
no change in the regime of sovereign debt

Rationale:
- market discipline
- give sovereigns some flexibility to absorb shocks

Great danger for financial stability:
- debt should not be information sensitive
- shortage of safe assets
financial instruments with no country risk

two categories:

- public (European Safe Bonds)
- private (multi country ABS)

many benefits

- good collateral
- risk sharing
- flight to quality less disruptive
a European Monetary Fund

- with monetary resources ("big bazooka")
- an IMF type governance
- a necessary and positive debate on
  - solvency vs liquidity
  - financing vs adjustment
  - conditionality