

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 eye 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