Klaus Regling's speech at Eurofi seminar, Malta

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Economic governance for a more stable EMU
Intervention by Klaus Regling at the
Eurofi High Level Seminar:
“Improving economic convergence to deepen the EMU”
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(*Please check against delivery*)

The notion that EMU would need some mechanisms to assure a degree of convergence was clear when the Maastricht Treaty was signed. But convergence can mean different things to different people. So today’s panel offers a good opportunity to discuss the question: “What do we mean when we talk about economic convergence?”

Countries can successfully function in a monetary union even with very different income levels, as long as they avoid excessive macroeconomic imbalances. Preventing imbalances is more important for a well-functioning monetary union than nominal or real economic convergence, even though these are desirable in general. In my view, therefore, convergence should be understood as achieving more balanced economic growth paths and more policy convergence. What do I mean by that?

First: As long as we don’t have an economic government for the euro area, we need a rules-based approach with the Stability and Growth Pact, the Macroeconomic Imbalances Procedure and the European Semester.

Second, the euro in itself cannot solve the countries’ respective structural problems. That is the reason why it is important that governments see structural reforms as ongoing tasks.

Since the crisis, excessive macroeconomic imbalances and divergences have largely disappeared, not least because of ESM programmes.

Do we need transfers to promote convergence? Transfers are provided by the EU budget from richer to poorer countries for that purpose up to 3% of GDP for poorer countries. I see no need to add to that. But a small fiscal capacity in the form of a stabilisation fund or an insurance scheme could strengthen risk sharing and tackle asymmetric shocks without creating permanent transfers or debt mutualisation.

Risk sharing through financial markets can be promoted through completing Banking Union, by setting up a backstop for the Single Resolution Fund, and a common deposit insurance once legacy issues have been sorted out and general de-risking has progressed. Capital Markets Union would be another way to ensure greater financial integration, and thus more economic risk sharing.

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