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# The real economy matters – Europe from crisis to growth and reform

Seminar on the EU's Choice:  
Perspectives on deepening and differentiation

The Finnish Institute of International Affairs,  
Helsinki, 19 June 2017



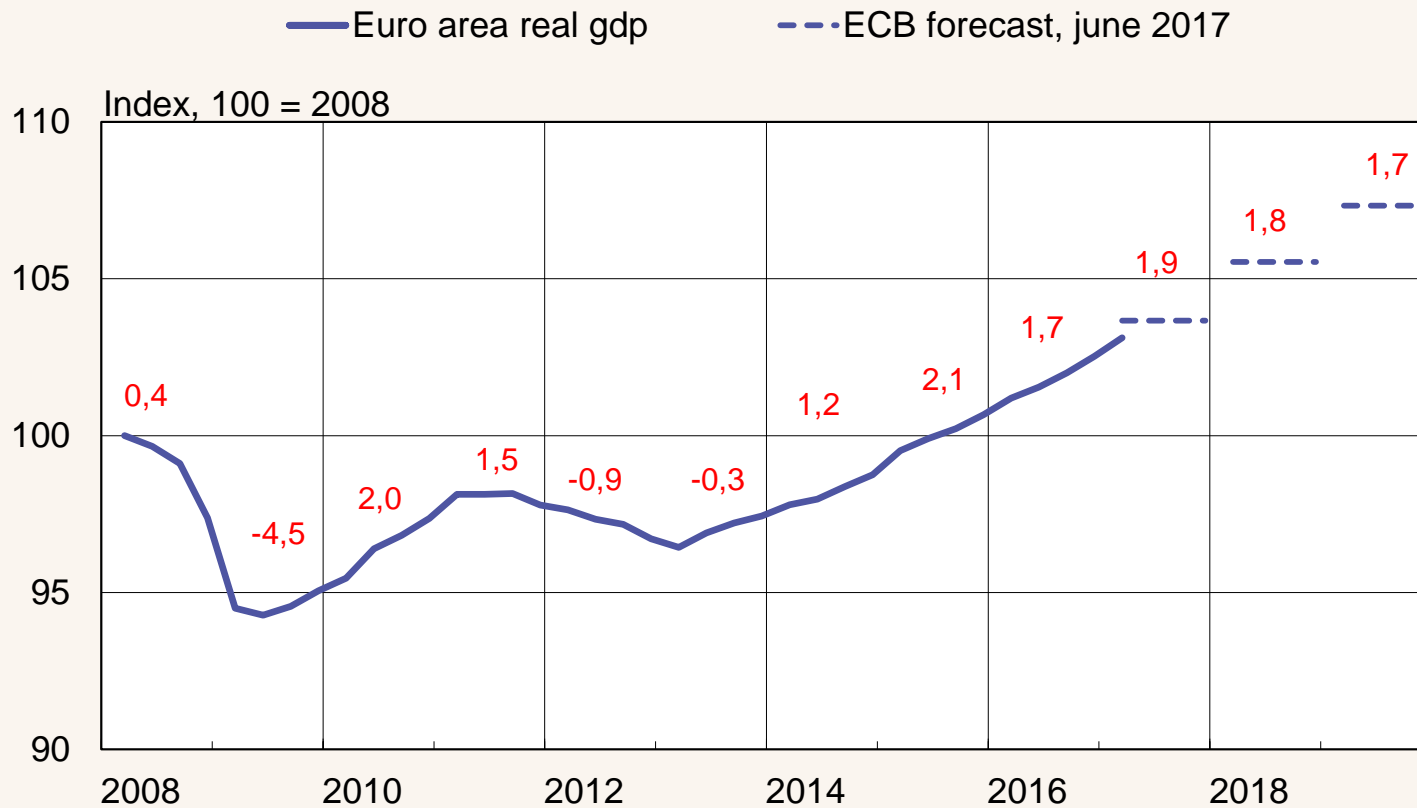


# Euro area: prospects are improving

- Europe's stress test: economic performance has been improving
  - Euro area GDP is growing for the 4th year in succession
  - Employment increasing steadily
- Recent euro area forecasts revised upwards, by the ECB and others
  - “Solid, broad-based growth”
  - “Substantial monetary accommodation still needed”
  - Underlying inflation still subdued, increasing only gradually
- The resumption of growth has been driven by several factors:
  - ECB's accommodative monetary policy, particularly since 2015
  - A recovery in global economic activity
  - Reforms already implemented in the euro area



# Euro area real GDP, 2008-2019



Figures next to the bar are annual growth rates.

Sources: ECB and Macrobond.

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# Lessons of the crisis for euro area reform

- Financial stability was initially underestimated, but is being remedied via the Banking Union.
  - Financial markets not always rational but prone to panic.
- Experiences from 2010-12: a ‘big bazooka’ is necessary to contain financial turbulence.
  - Currently composed of the ECB and the ESM together.
- Focus on the completion of the Banking Union.
  - Based on the bail-in principle = investor involvement.
  - Deal with the legacy issues, esp. the non-performing loans.



# Commission's roadmap for finalising EMU

- Two stages, 2017–2019 and 2020–2025, including:
- Financial Union
  - Risk-reducing measures for the financial sector
  - Common backstop for the Single Resolution Fund
  - European Deposit Insurance Scheme
  - Sovereign Bond-Backed Securities for the euro area
  - Finalization and implementation of the Capital Markets Union initiatives
- Economic and Fiscal Union
  - Strengthening of convergence between Member States' economies
  - Development of a common stabilisation function
  - New EU multiannual financial framework
  - Simplification of the rules of the stability and growth pact
- Democratic accountability and effective governance
  - Stronger dialogue with the European Parliament
  - Establishment of a euro area Treasury
  - Establishment of a 'European Monetary Fund'



## Euro area reform: a Finnish perspective

1. Once in the euro, we'd better make it work well.
2. Learn the right lessons from the crisis: financial stability is essential for sustainable growth.
3. Overcome the false contradiction between “either federation or death”. No transfer union, but a solid stability union. But next time the Euro area should do better than only ‘muddling through’.
4. Ultimately, the real economy matters – not only institutions. Each member state carries the prime responsibility for economic reforms and growth.

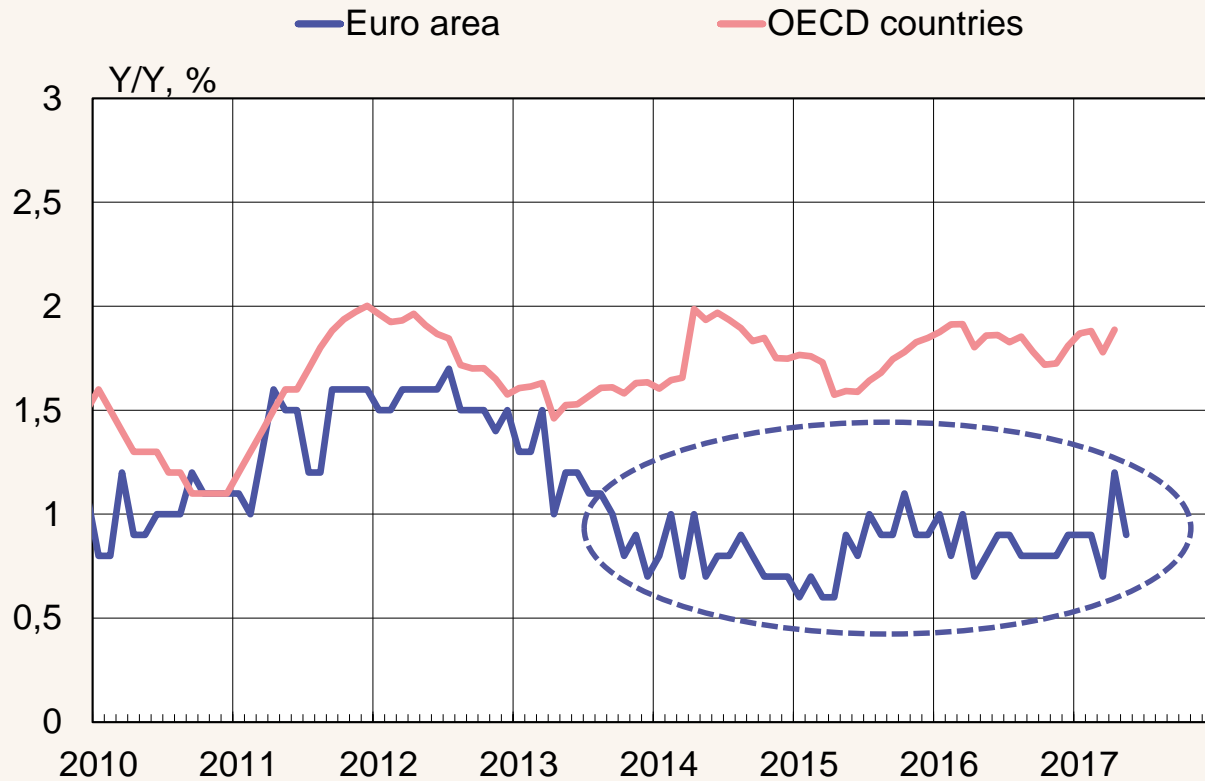


**Thank you**



# Euro area core inflation still subdued

Core inflation (CPI excl. food and energy)



Sources: Eurostat, OECD and Macrobond.

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