



International Monetary Fund

The Future of EMU

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Several lessons for the EMU since the GFC

➤ **Problems get amplified with heterogeneity**

- Heterogeneity in shocks
- Heterogeneity in MP transmission
- Self-fulfilling crises

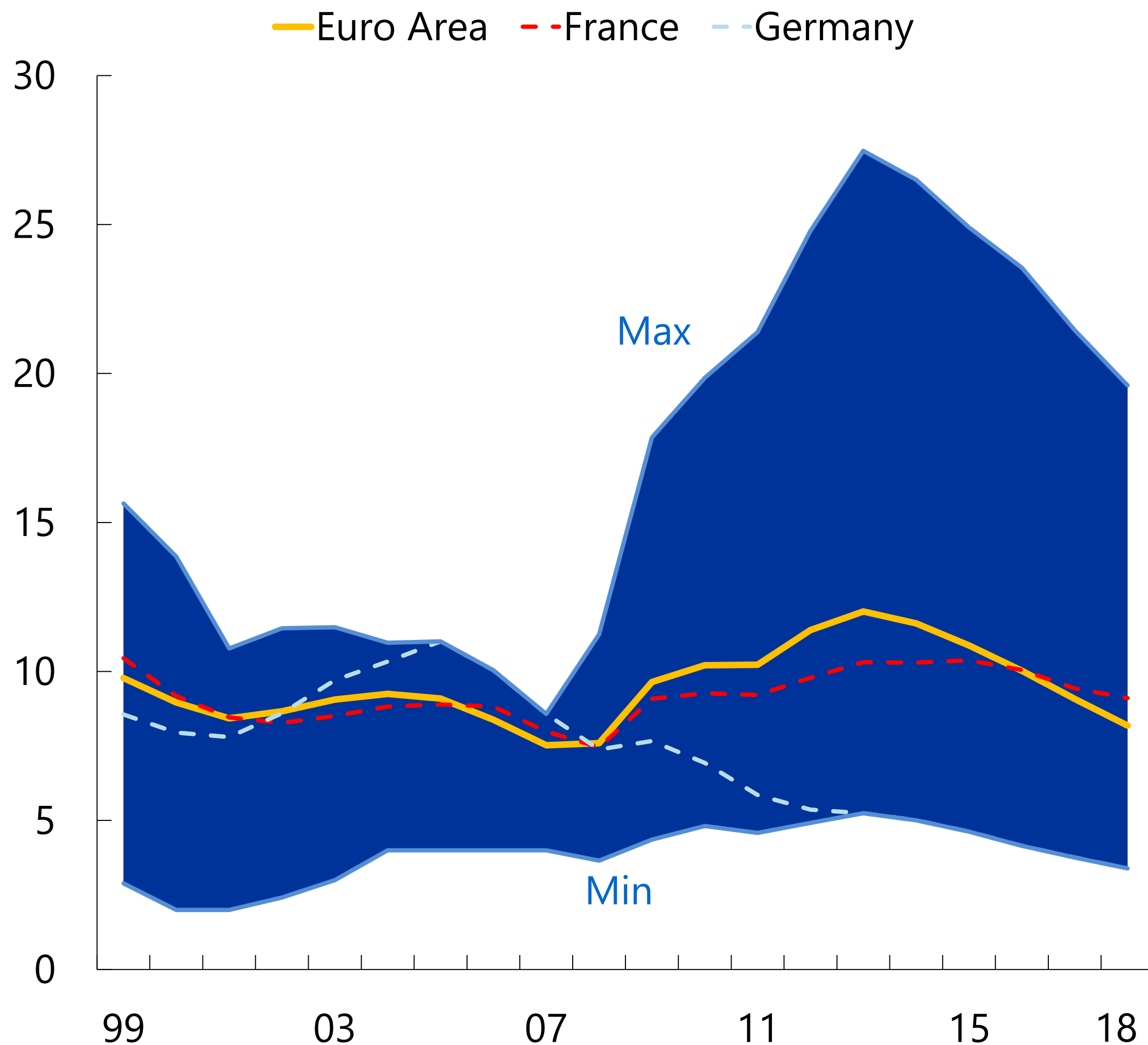
➤ **Two types of structural reforms needed to bolster resilience**

- Union-wide architectural changes
- National structural reforms

➤ **The international role of the euro**

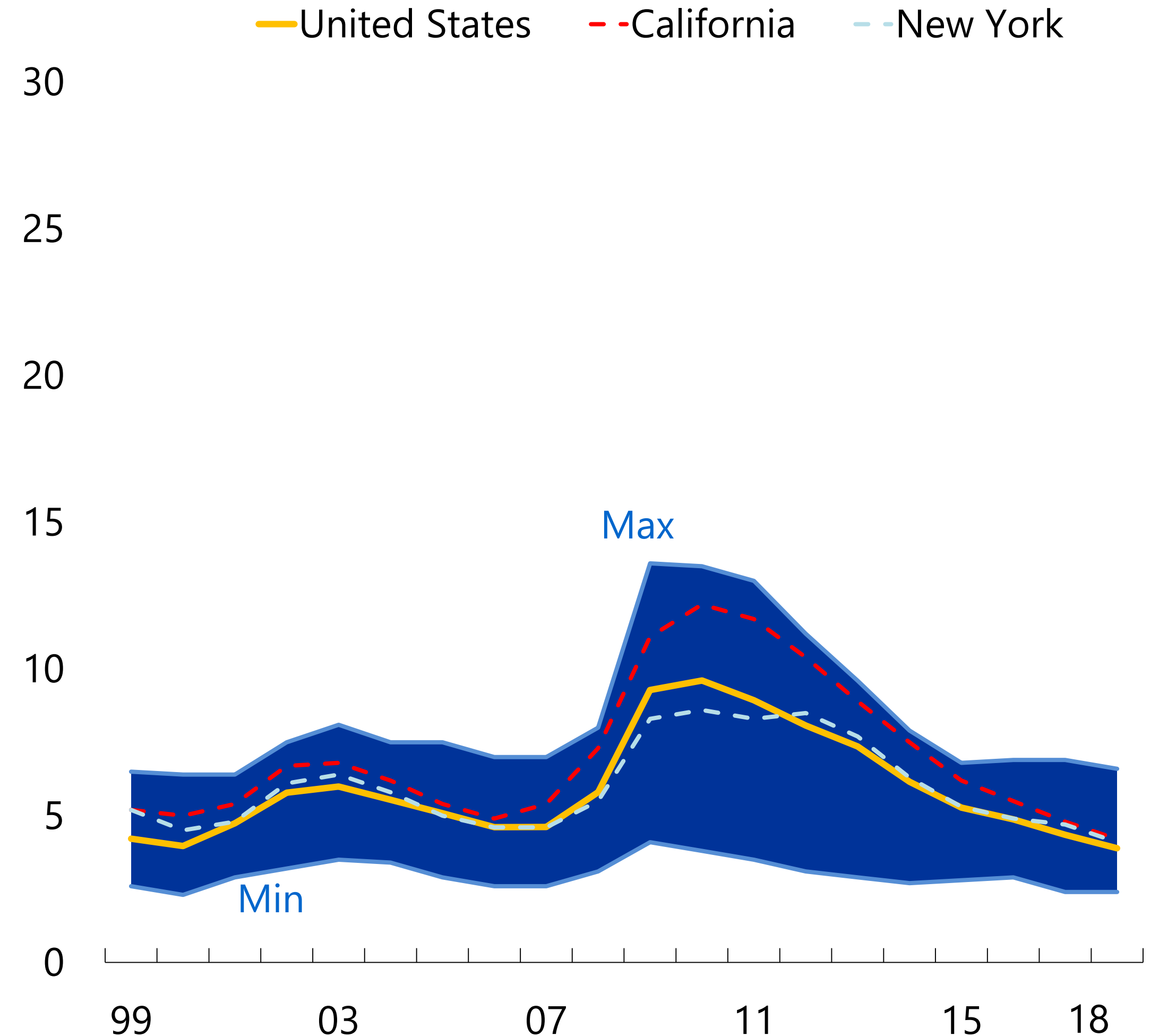
Heterogeneity in macroeconomic variables

Euro Area: Unemployment rate 1/
(percent)



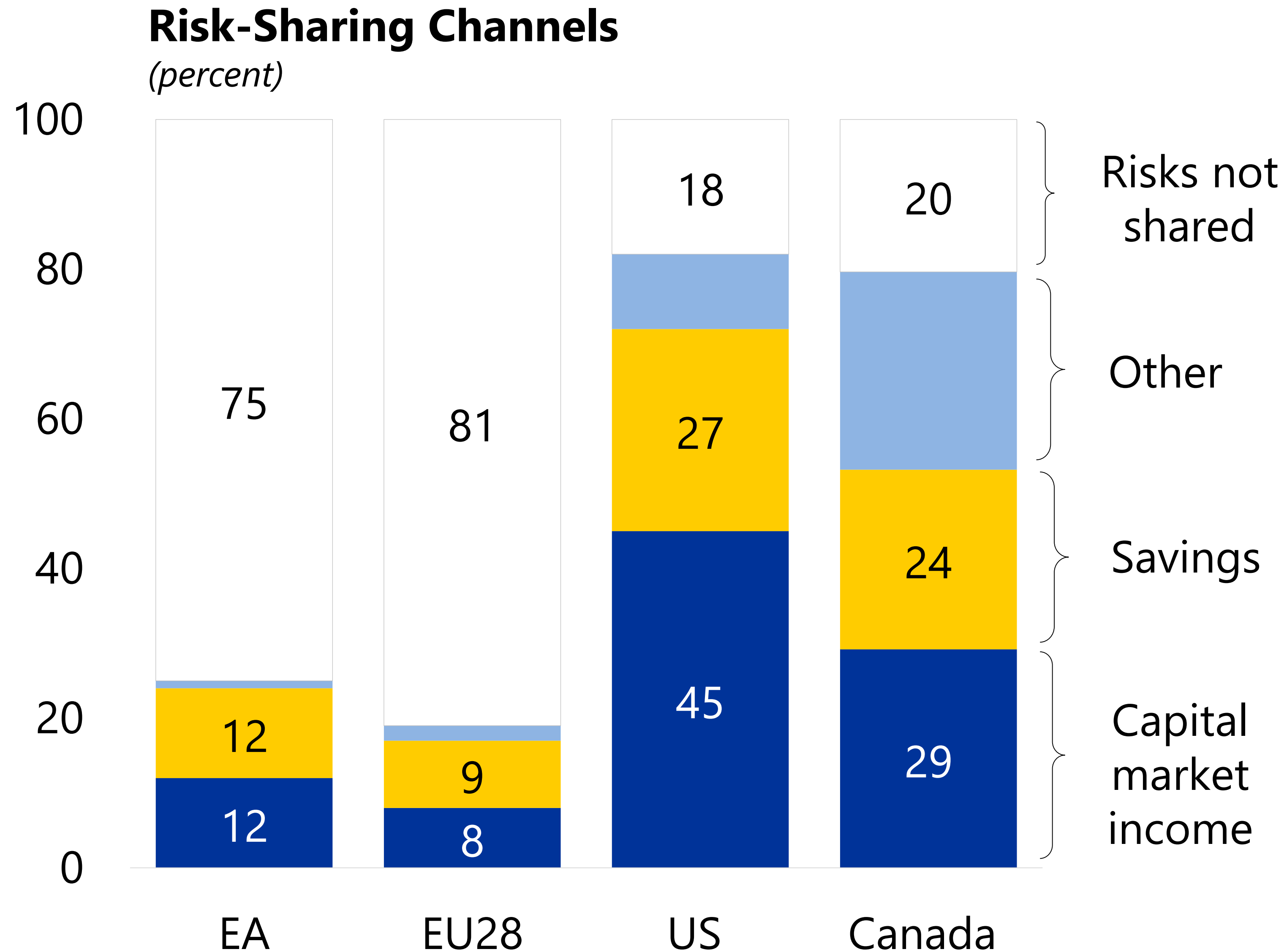
Source: IMF, *World Economic Outlook* database.
1/ Only countries that were part of the Euro Zone in each given year are included.

United States: Unemployment rate 2/
(percent)



Sources: U.S. Census Bureau; and US Bureau of Economic Analysis.
2/ 50 states.

Low degree of risk sharing

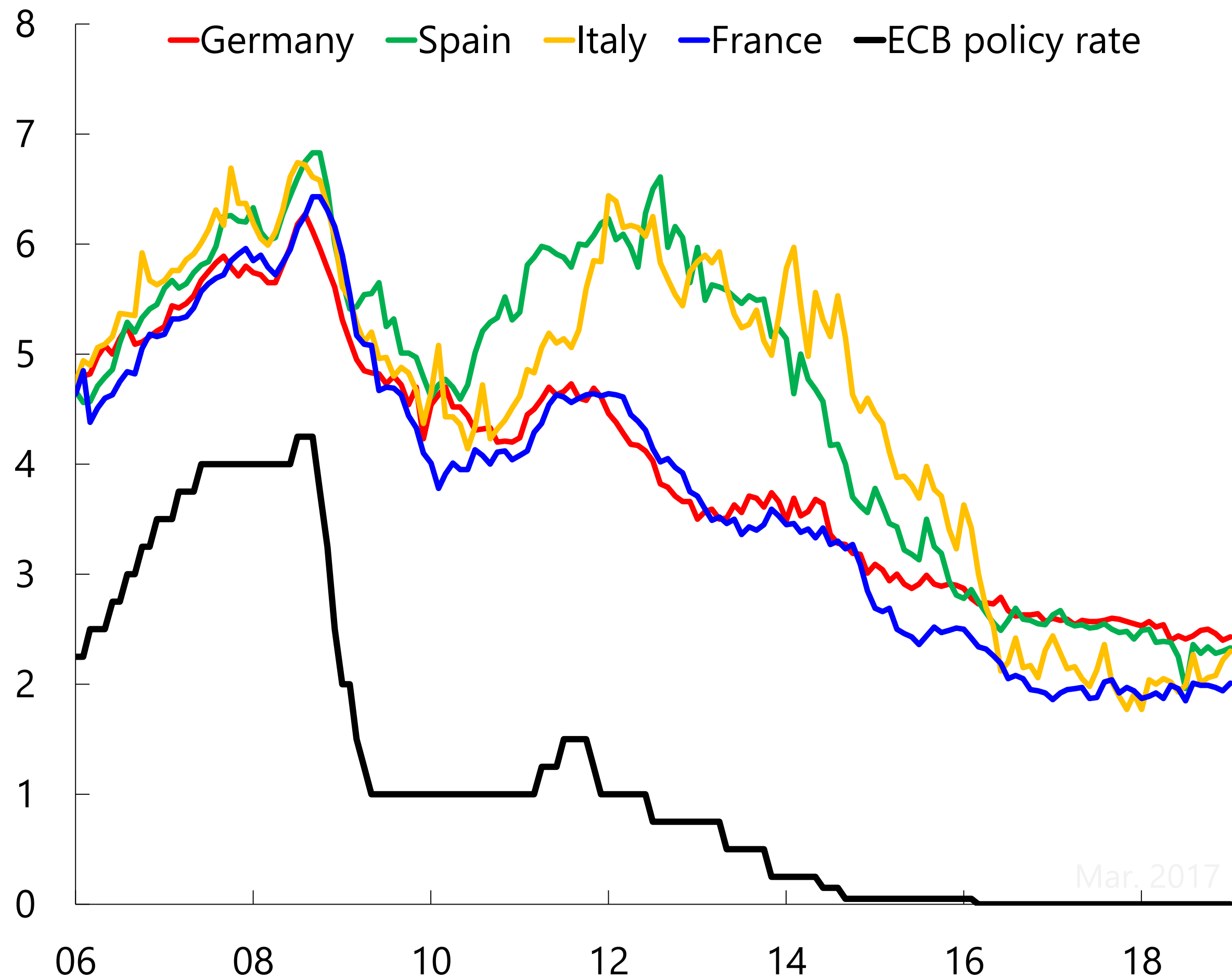


Source: European Commission (2016) for the US; Balli and others (2012) for Canada; and IMF staff estimates.

Heterogeneity in MP transmission

NFC lending rates and ECB policy rate

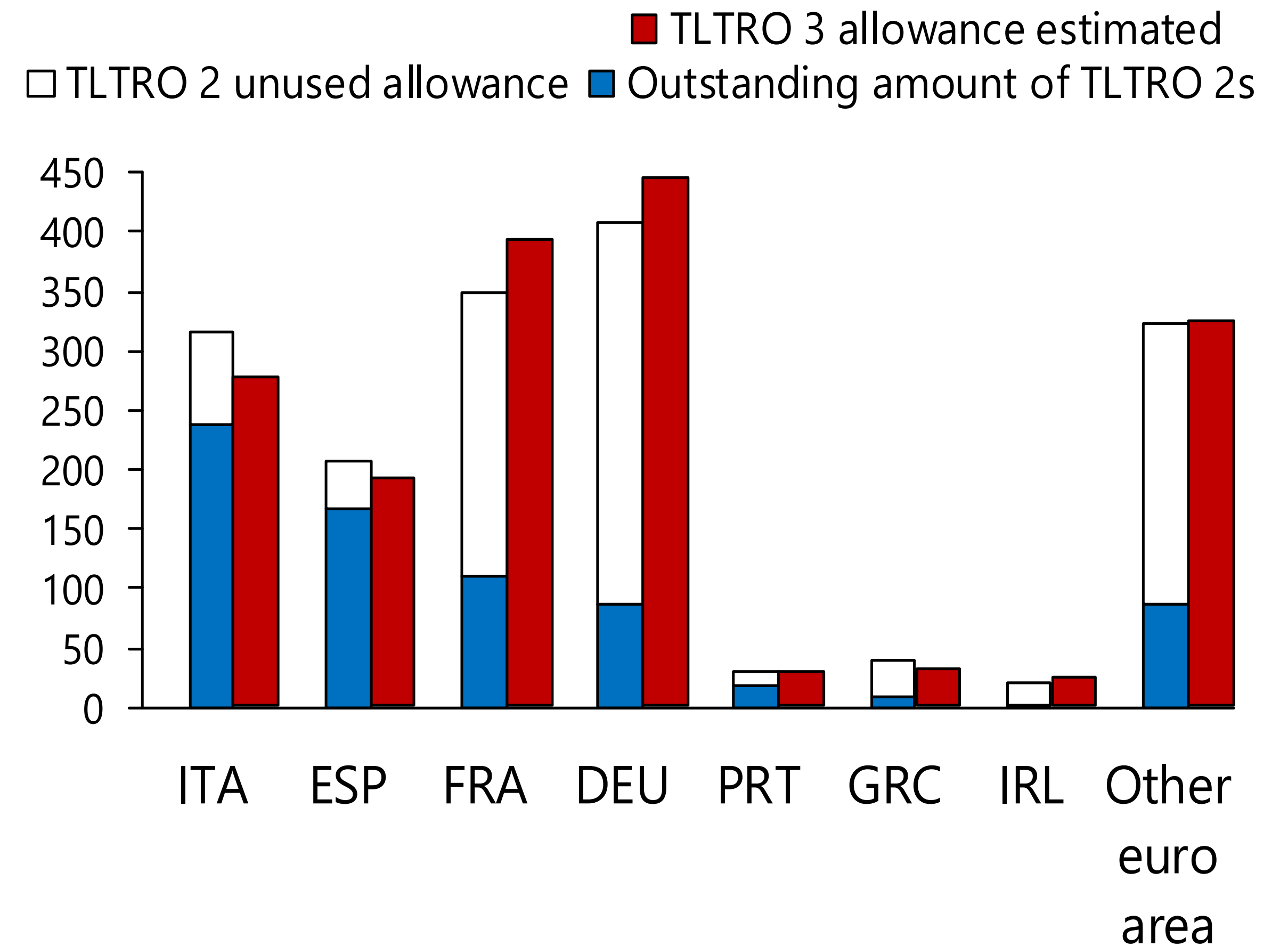
(percent)



Sources: Haver Analytics; and upcoming April 2019 IMF GFSR.

TLTROs Allowances and Outstanding Amount by Country

(percent)

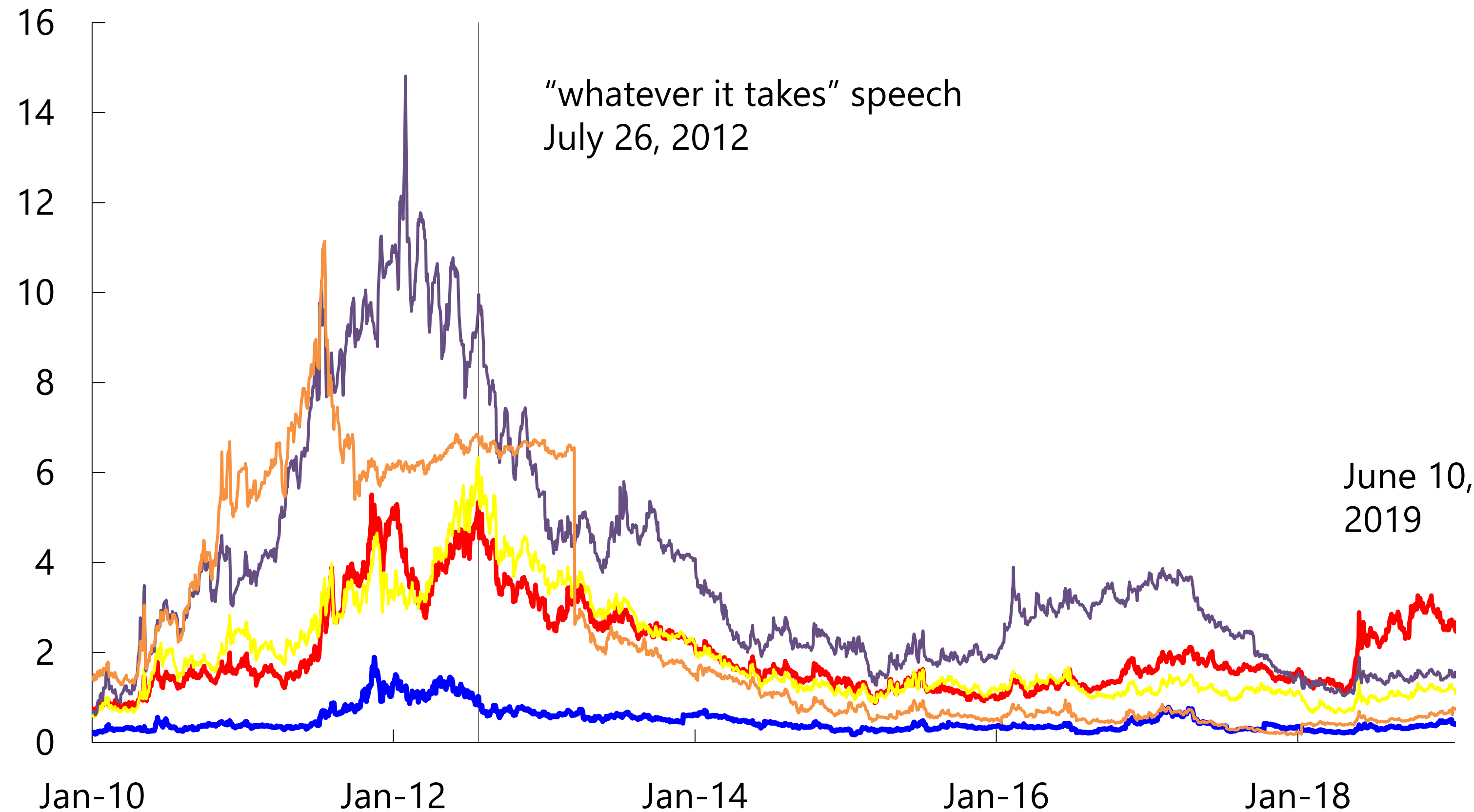


A need for a lender of last resort

European risk

(spread; 10yr sovereign vs. Germany bund)

—France —Italy —Spain —Portugal —Ireland



- Lender of Last Resort: Outright Monetary Transactions (OMT)
- European Stability Mechanism

Union Wide Reforms

Banking Union

- Strengthen Single Supervisory Mechanism
- Implement Single Resolution Fund with credible backstop
- Start European Deposit Insurance Scheme

Capital Market Union

- Minimum standard for insolvency regime
- Centralize supervisory power in some areas
- Improve transparency and disclosure of products

Central Fiscal Capacity

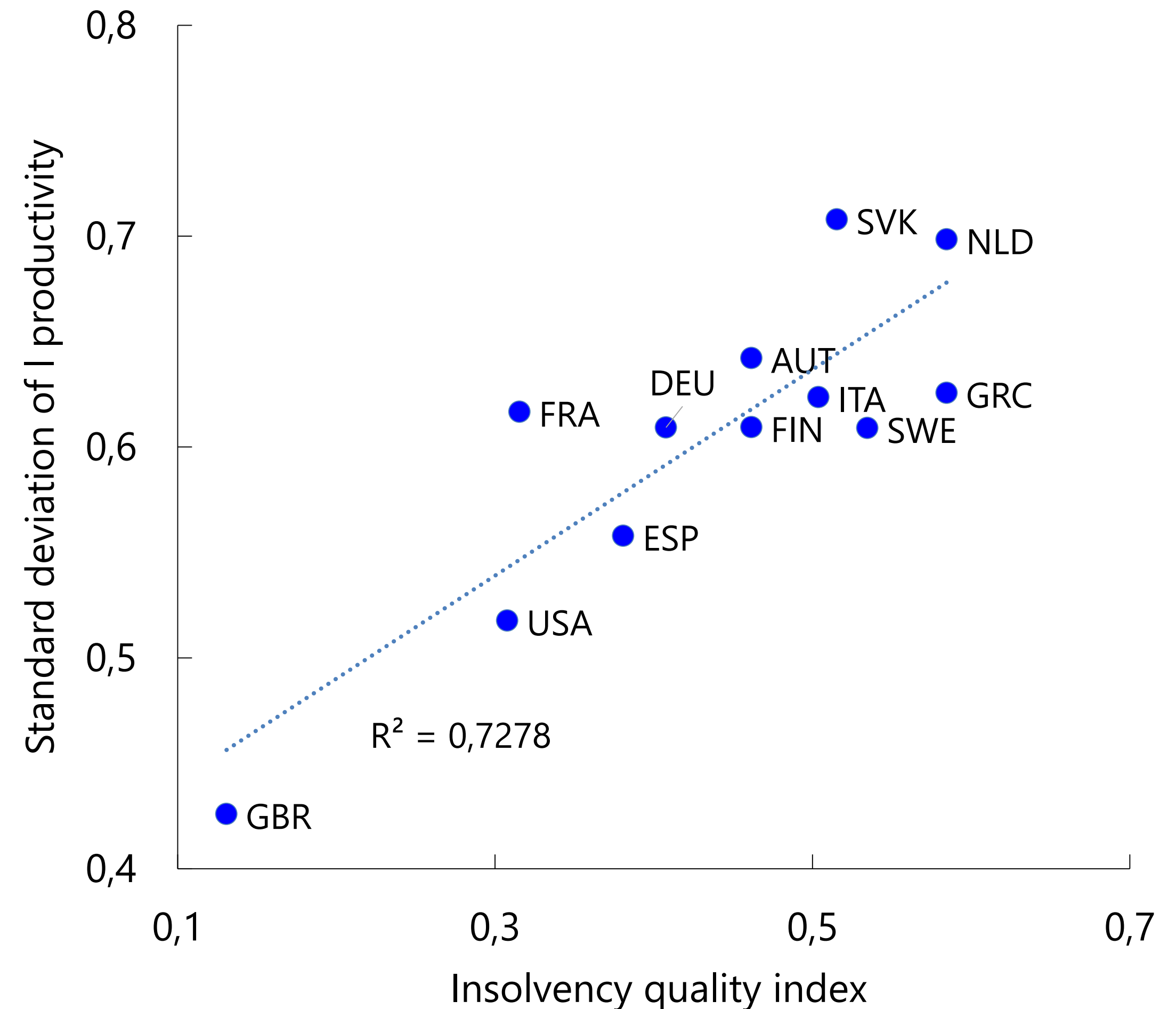
- Develop Euro Area Fiscal Stabilization Instrument

To do

National and euro area structural reforms are both needed

- **National structural reforms would reduce the burden on MP**
 - Lower likelihood of hitting effective lower bound and need for UMP
 - Less cyclical divergence across countries
- **National structural reforms would reinforce euro area architectural improvements**
 - Labor and product market regulations, as well as corporate insolvency regimes are key
- **Reforms would benefit internationalization of the euro**

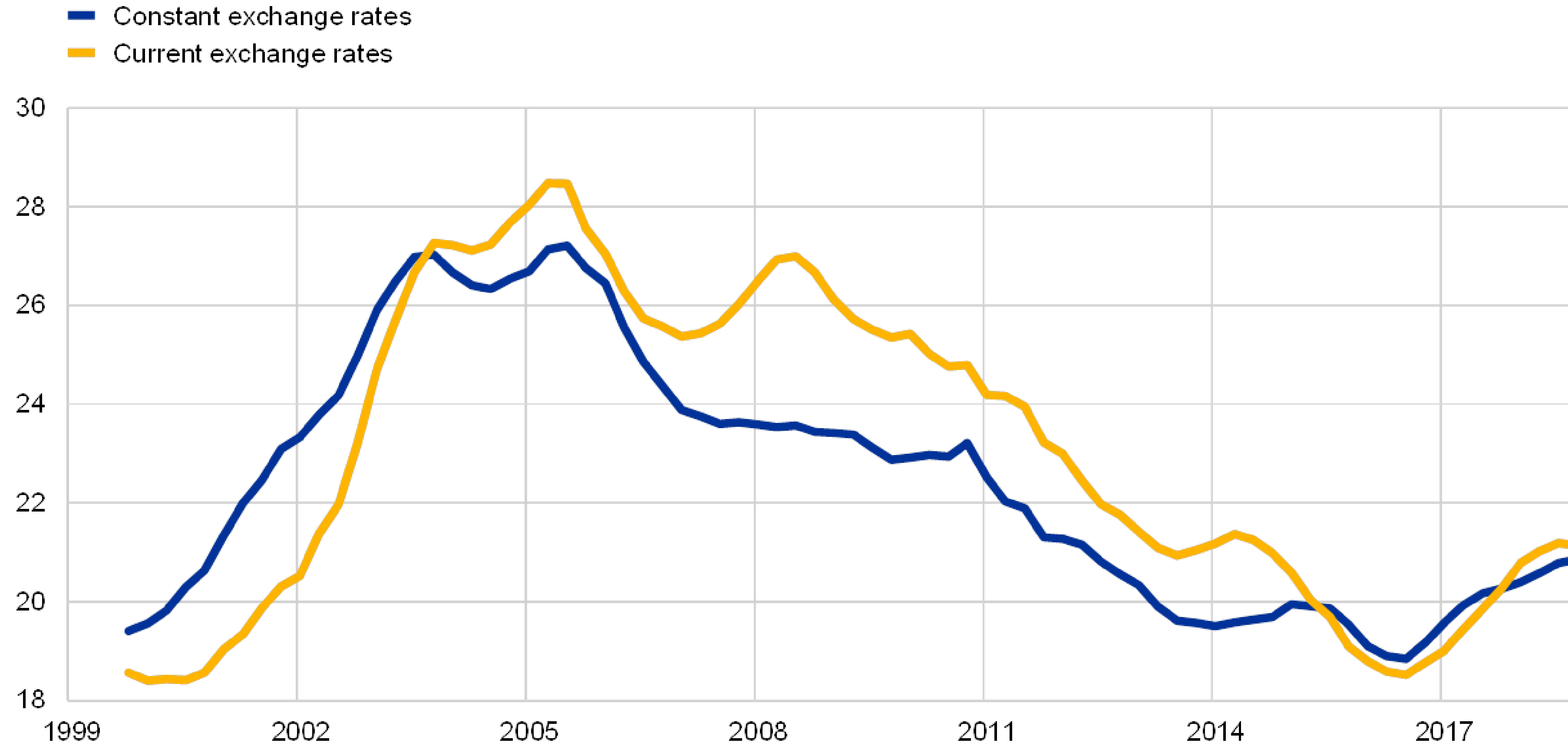
Insolvency regime and sectoral misallocation



Sources: SDN/XX/19, based on OECD Insolvency Indicators; EU KLEMS; and IMF staff calculations.

The international role of the euro

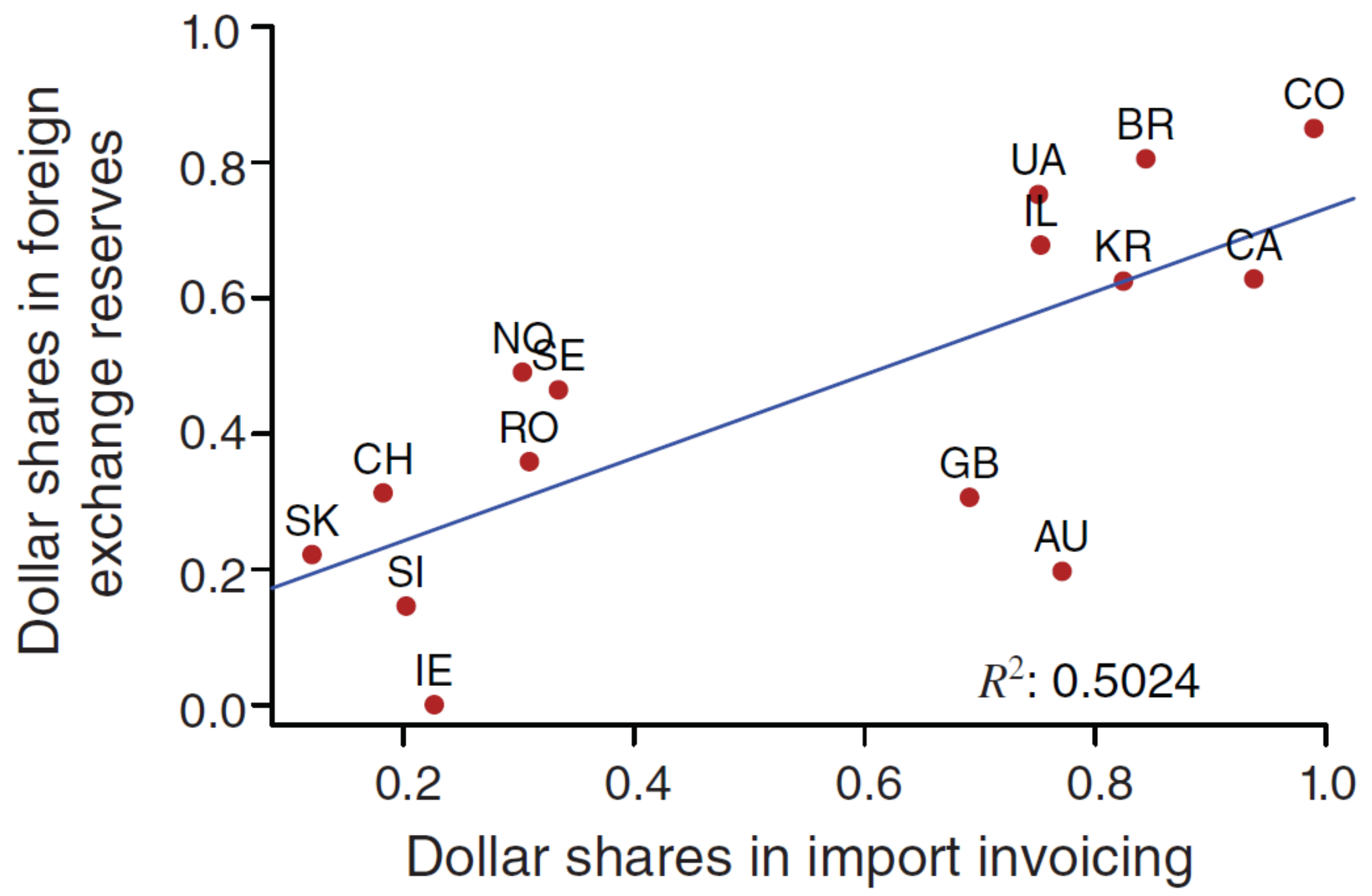
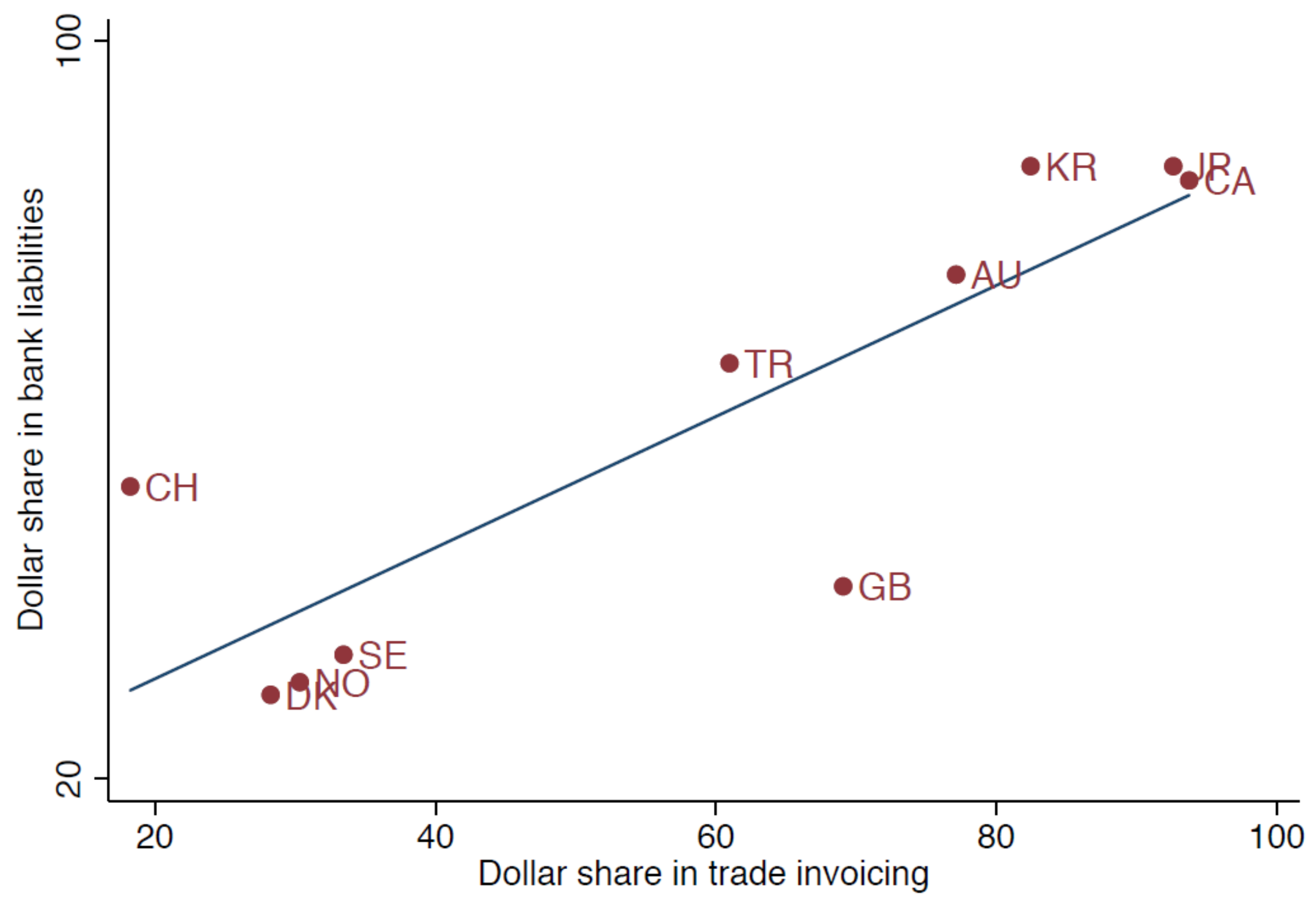
Composite index of the international role of the euro
(percentages; at current and Q4 2018 exchange rates; four-quarter moving averages)



Sources: ECB (2019).

A currency's role in trade, finance and reserve asset complement each other

Dollar Share in Trade Invoicing and Banks Local Foreign Currency Liabilities (in percent)



Source: Gopinath and Stein (2018).