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)

- Euro Area
- France
- Germany

**United States: Unemployment rate 2/**

(percent)

- United States
- California
- New York

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

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

**Risk-Sharing Channels (percent)**

- **Risks not shared**
  - EA: 75%
  - EU28: 81%
  - US: 18%
  - Canada: 20%

- **Other**
  - EA: 12%
  - EU28: 9%
  - US: 27%
  - Canada: 24%

- **Savings**
  - EA: 12%
  - EU28: 8%
  - US: 45%
  - Canada: 29%

- **Capital market income**
  - EA: 12%
  - EU28: 8%
  - US: 45%
  - Canada: 29%

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)

- Germany
- Spain
- Italy
- France
- ECB policy rate

TLTROs Allowances and Outstanding Amount by Country
(percent)

- TLTRO 3 allowance estimated
- TLTRO 2 unused allowance
- Outstanding amount of TLTRO 2s

Sources: Haver Analytics; and upcoming April 2019 IMF GFSR.
A need for a lender of last resort

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

European risk
(spread; 10yr sovereign vs. Germany bund)

- France
- Italy
- Spain
- Portugal
- Ireland

“whatever it takes” speech
July 26, 2012

June 10, 2019
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
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 chart]

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