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# DEEPENING OF THE EMU: ARE BANKING UNION AND FISCAL UNION SUBSTITUTES OR COMPLEMENTS?

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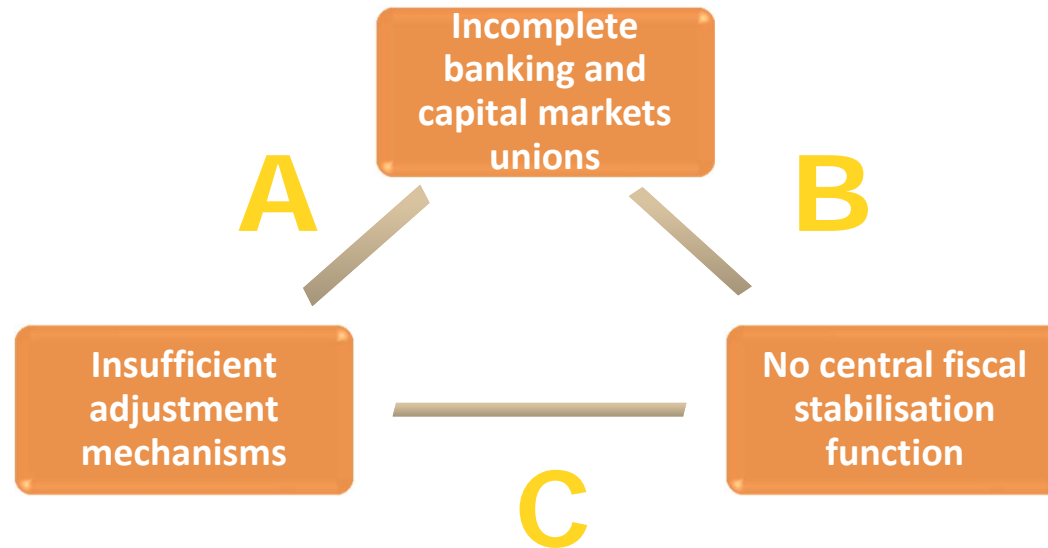
**Marco Buti**

**DG Economic and Financial Affairs, European Commission**

**20th Banca d'Italia Fiscal Policy Workshop  
Roma, 22-23 March 2018**



## *EMU today: An unstable equilibrium*



- Insufficient private and public risk-sharing
- Overburdening of monetary policy
- Risk of renewed financial instability

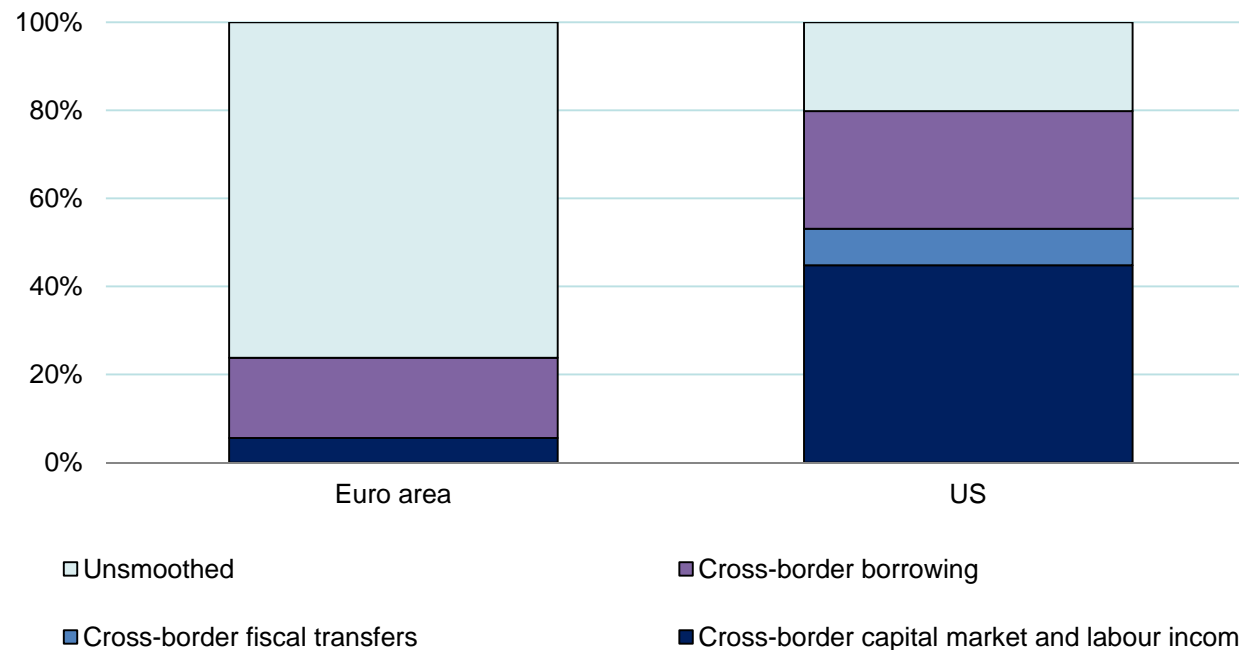
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## Financial union: the most urgent priority for EMU

### Smoothing income shocks via financial markets remains low

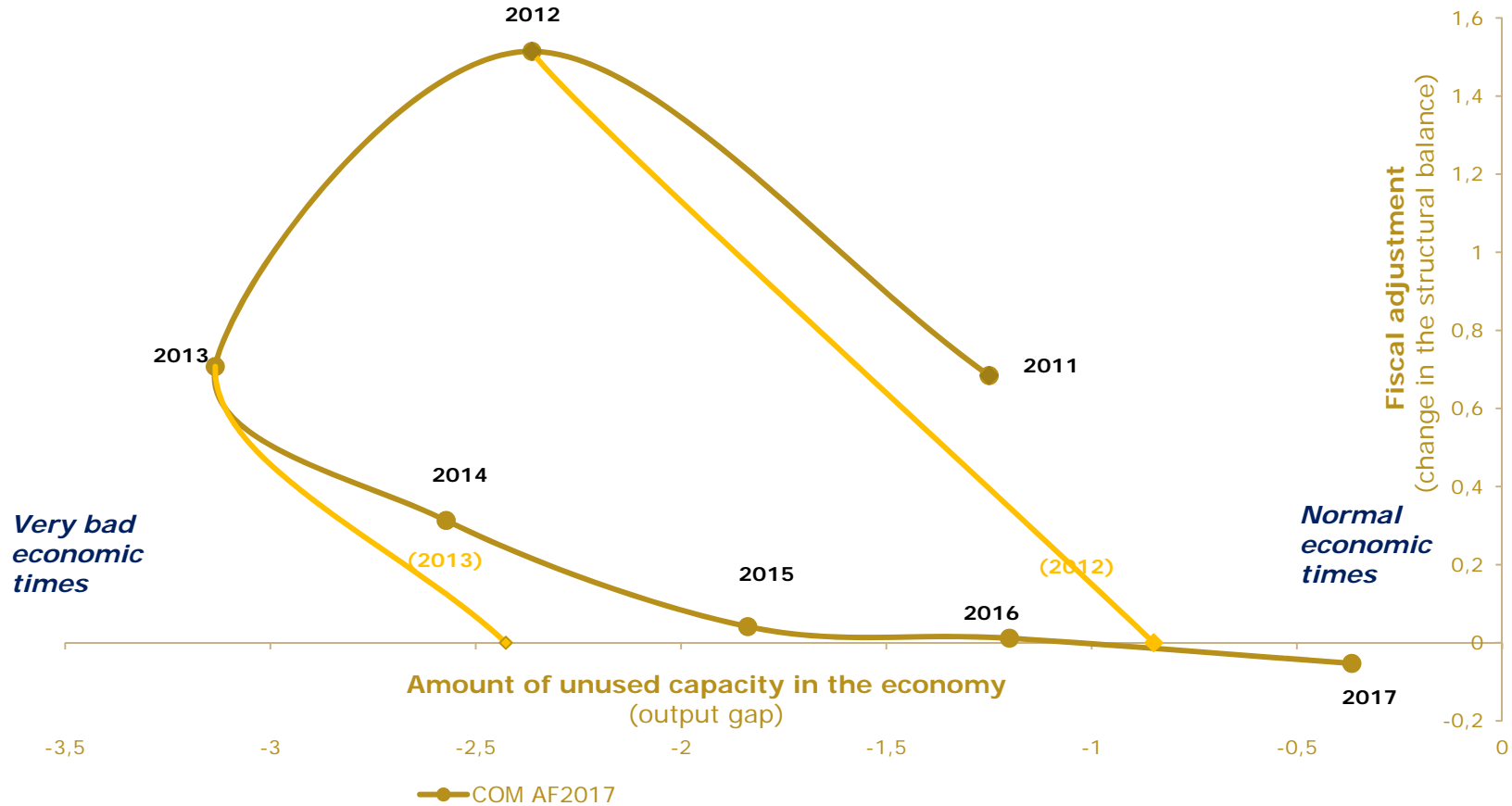
*Cross-border risk sharing through different channels, in % of total asymmetric shock to output*



Source: Buti et al. (2016). Smoothing economic shocks in the Eurozone: The untapped potential of the financial union, VOX August.



## Fiscal union Benefits of a central stabilisation capacity



### ARE FINANCIAL AND FISCAL UNION SUBSTITUTES OR COMPLEMENTS?

- Portfolio diversification and capital movement help absorb shocks in "normal" times but tend to be procyclical in "bad" times
- Central stabilisation can foster private risk-sharing (cross-border ownership of assets) by reducing country specific macro-risks (better smoothening of large asymmetric shocks and less need for state pro-cyclical fiscal adjustment)
- Fiscal insurance to tackle and reduce shocks arising from the real economy before they reach the financial sector
- EMU financial union unlikely to look like in the US in the medium-period (some degree of home-bias will stay, financial system to remain bank-centred)



## Next Steps: Financial Union

Advancing in parallel on risk-reduction and risk sharing

False dichotomy between risk-sharing and risk-reduction

### *Immediate priority*

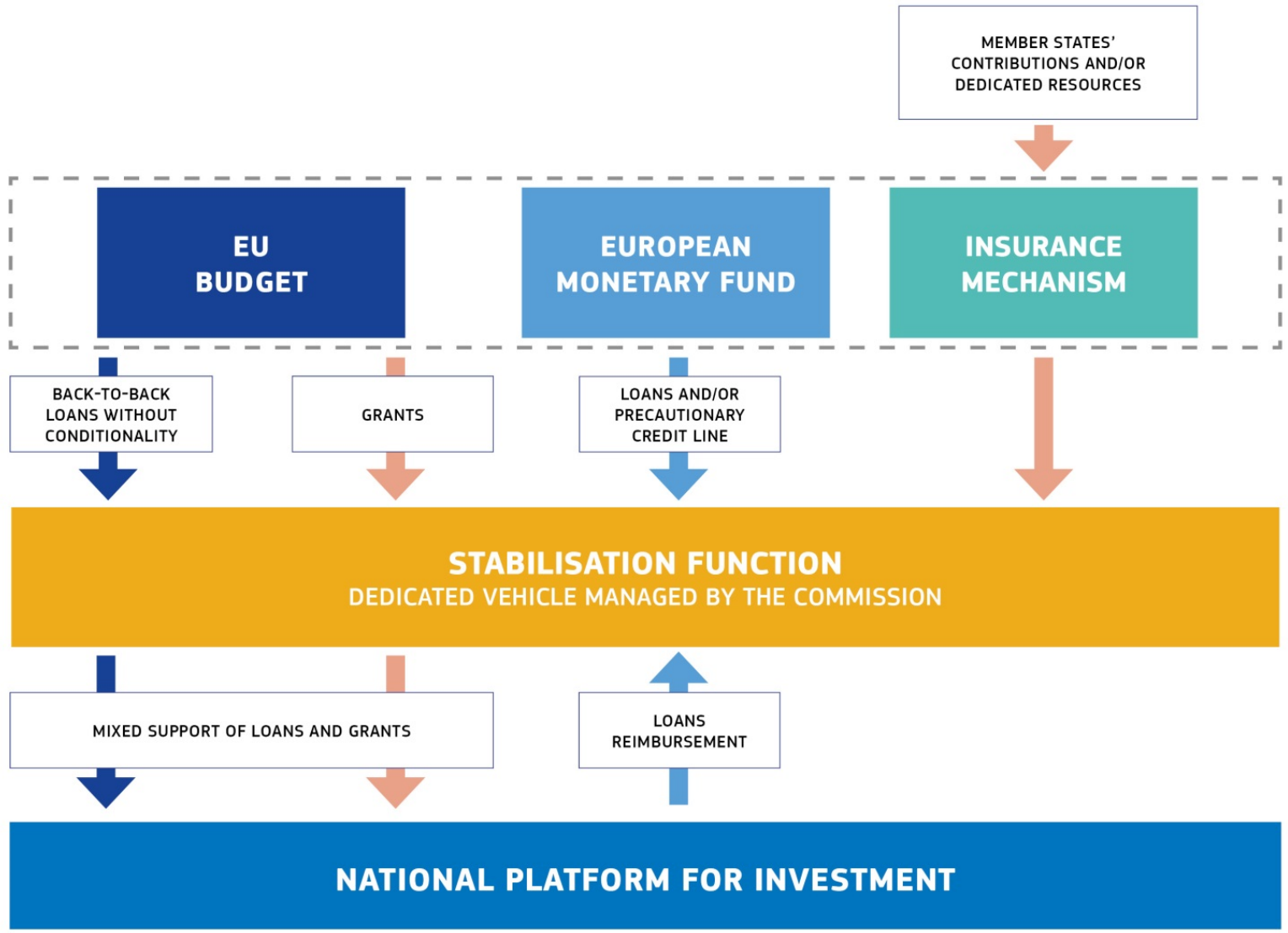
- Further reducing risks and building on banks' better capitalisation
- Setting up the backstop to the SRF
- Agree on EDIS
- Delivering on the Capital Markets Union (CMU)

### *Post-2019: possible additional successive measures*

- European Safe Asset
- Regulatory treatment of sovereign bonds

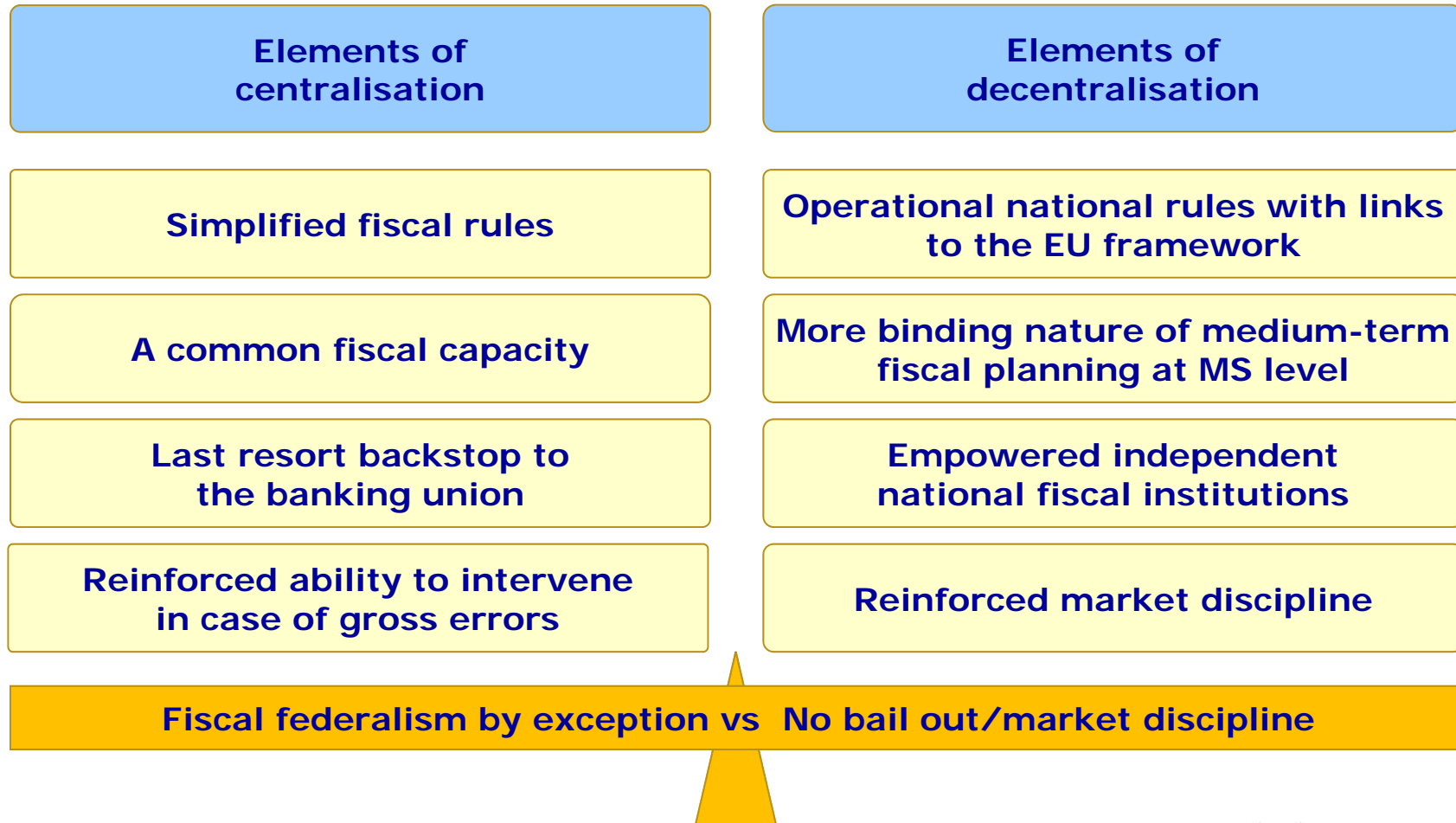


## Next Steps: A European stabilisation function to protect investment





## Future of EU Fiscal Governance: Searching for the right balance







**Thank you very much for your attention**