

The EU in the International Monetary and Financial Regime

Europe in World Economy 2017

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Next week

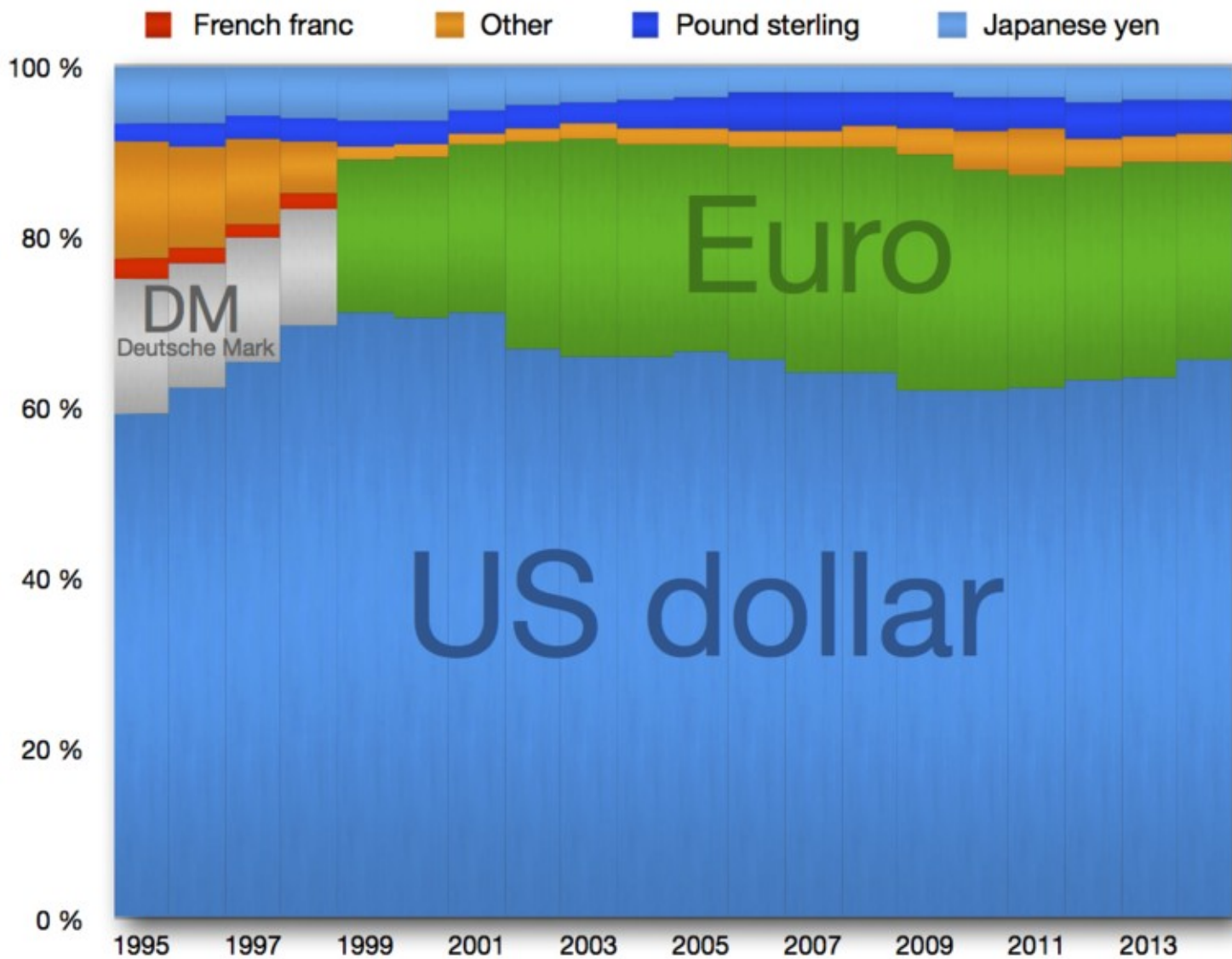
- Lecture by **Aleš Chmelař**, Chief economist at the European Section of the Office of the Government of the Czech republic
- Topic: **What's wrong with Europe's monetary union and how to fix it?**
- Readings: Baldwin and Giavazzi (2016) How to fix Europe's monetary union?

Position in financial institutions

- International Monetary Fund (to be reformed)
 - over 32% of votes, 7-8 seats on executive board
 - SCIMF (subcommittee on IMF matters under Economic and Financial Committee)
 - EURIMF – EU members states' representatives at IMF
- World Bank (to be reformed)
 - over 32% of votes, 7-8 seats on executive board
 - meetings, information exchange
- Bank for International Settlements
 - 11 out of 19 seats on board of directors (CB governors)
- G7
 - GB, Fr, Ger, It
 - ECB on selected issues, president of Eurogroup
- G20
 - GB, Fr, Ger, It, EU

Euro vs. USD

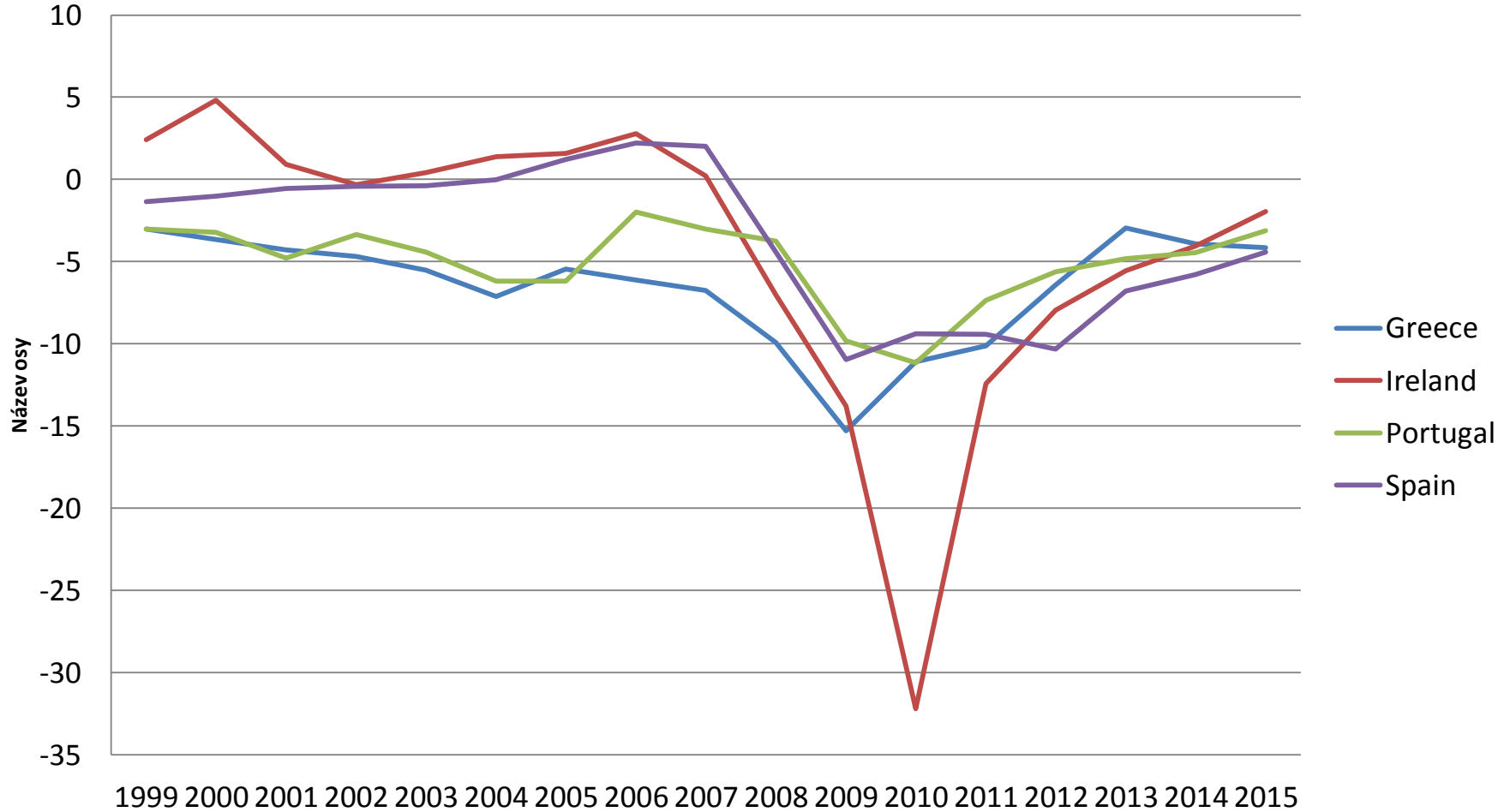
- International position of USD (2013)
 - 61% world reserves (euro 24%)
 - 87% of all forex transactions (euro 33%)
 - anchor for 13 countries with population over 1 mil. (euro 17 countries)
- Volume international financial transactions – over 5,3 trillions USD a day (!) in 2013, trade volume – 17,8 trillion USD a year
- Due to historical and power related reasons the USD considered the safest currency and US treasuries the safest asset in the world
- FED is the ultimate lender of last resort



Eurozone Crisis

- In 2010 Greece announced problems with financing its debt
- Later affected – Portugal, Ireland, Spain
- Reasons
 - Excessive budget deficits
 - Inefficient financial regulation
 - Intra-European imbalances
- Eurozone response
 - Austerity measures (ECB – EU – IMF)
 - Financial system bailed out
 - European Financial Stability Facility, European stability mechanism
 - But in reality – ECB is forced either to finance states or to let eurozone desintegrate

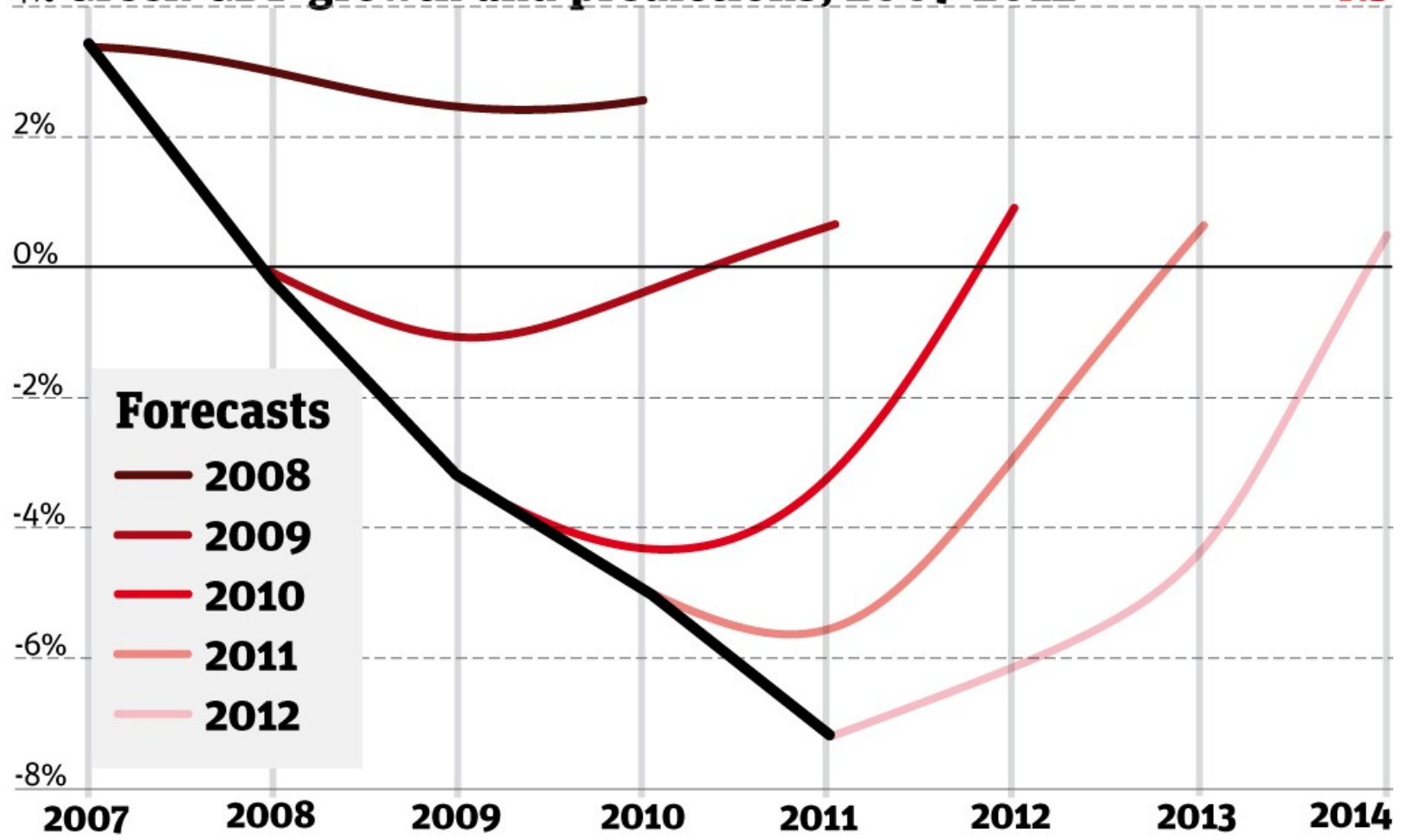
Government budget balance to GDP (%)



Source: IMF, World Economic Outlook Database

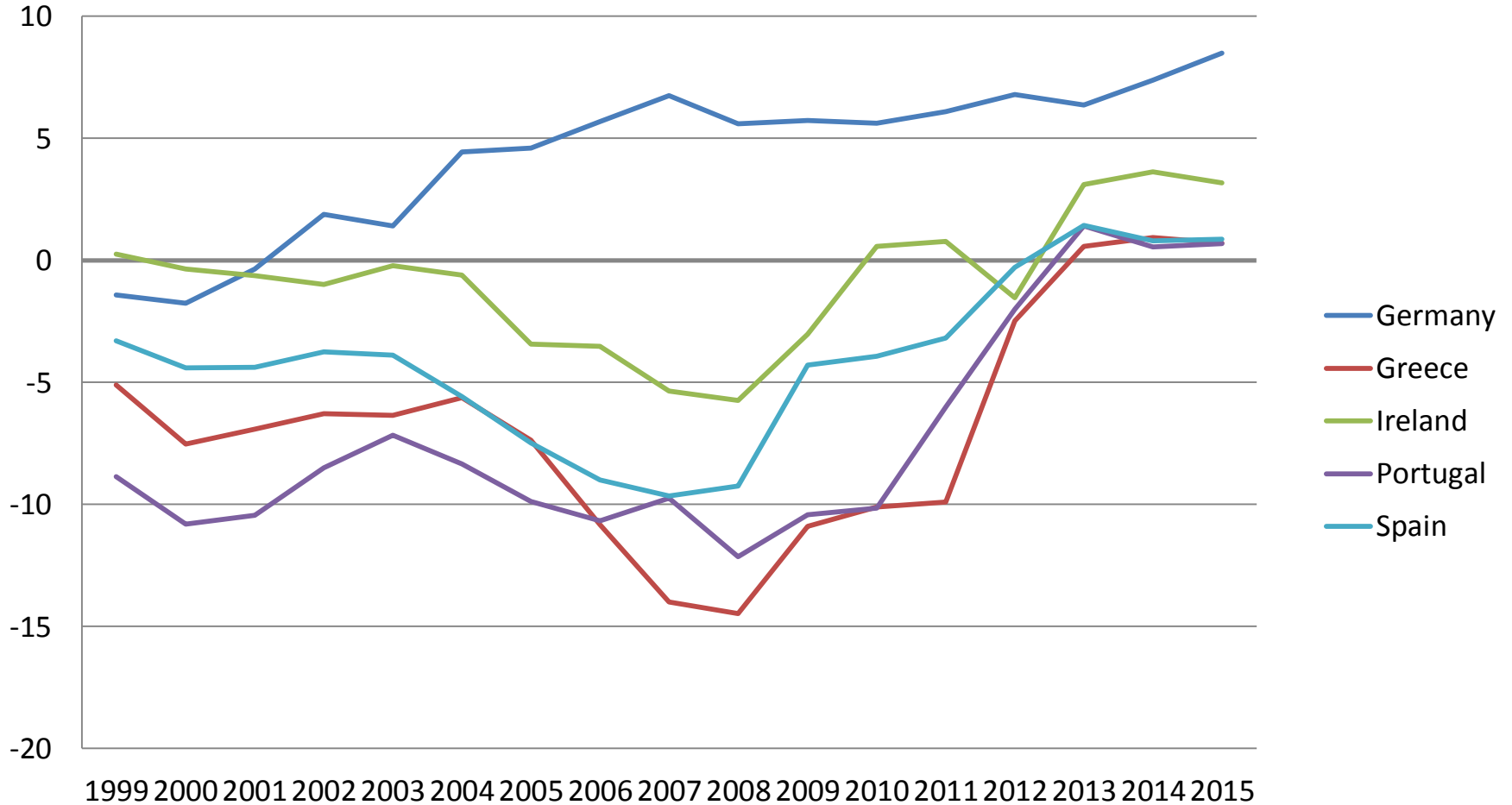
Greek GDP growth and predictions, 2007-2012

NS



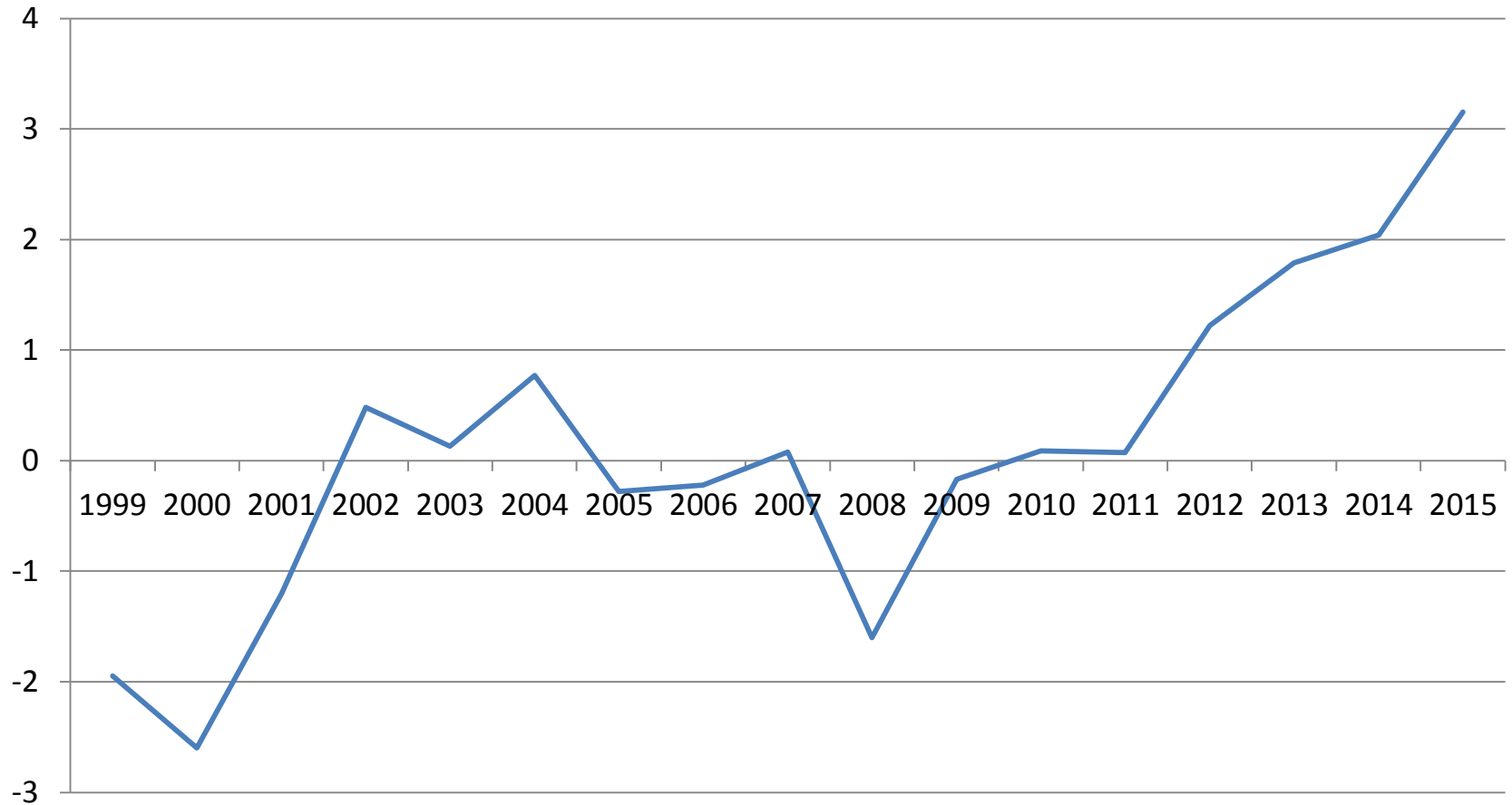
Sources: EC

Current account to GDP (%)



Source: IMF, World Economic Outlook Database

Eurozone, current account to GDP (%)



Source: IMF, World Economic Outlook Database

Reforms

- Financial oversight
 - European System of Financial Supervision (ESFS)
- Banking union
 - deposit insurance, supranational regulation, Single Resolution Mechanism (SRM)
- European Stability Mechanism (500 bn euro)
- Policy coordination
 - The European Semester
 - Fiscal Stability Treaty