



Economic Governance in the EU/euro area
- What lessons for Poland?

The new economic governance framework: Will the new MIP work?

by

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Brussels 28 June, 2012

Outline:

- Overview: An ‘evolving’ EU economic governance
- The new Macroeconomic Imbalance Procedure (MIP)
 - Merits
 - Limits
- Implications

An 'evolving' EU governance

- Several changes since the start of the crisis
 - Why?
 - The original EMU design and the aim of economic stability
- Until recently only focus on fiscal issues
 - On the nature of the crisis
- It failed to impact the current crisis
- Shift in recent weeks (Council of June 28)
- Still a lot to be done but move in the right direction

The new Macroeconomic Imbalance Procedure: Merits

- Learn from the crisis
- Problem not only fiscal indiscipline (Spain & Ireland)
- Monitor private sector behaviour
- Early warning system to recognized build-up imbalances
- Semi-automatic sanction mechanisms

The new Macroeconomic Imbalance Procedure: Limits (I)

- This system may be useful for future crisis
 - But crises will never be fully averted: risk will accumulate in a different place
- Scoreboard must be put into context and case by case assessment remains key
 - DEU, IT & FR have currently same ‘red-lights’ (with different size). Countries in adjustment looks highly ‘imbalanced’, e.g. IRE

The new Macroeconomic Imbalances

Procedure: Limits (II)

- How can imbalances in the private sector be redressed?
 - Is it consistent with single market rules?
 - Can misallocation of private resources be realistically averted?
- Pre-emptive action require huge political courage, unless sovereignty is surrendered. How can we ensure it?

Conclusions

- MIP good in intentions but impact may be limited
- It was oversold as solution to the current crisis
- Political will and courage at national level crucial to ensure MIP effectiveness as crisis prevention tool



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