



Centrifuge forces in the European Union, the Euro Area and It's Enlargement

György Szapáry

Bucharest, National Bank of Romania

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Centrifuge forces in the European Union

- The centrifuge forces are not economic, but political and social in character.
- They are multidimensional, they go beyond the traditional East-West or North-South dividing lines.
- **Migration, Brexit, Greece, protectionism, Turkey, Russian sanctions.**
- The Great Financial Crisis has brought to the surface problems that constitute currently the main challenges for society: low growth, high unemployment, growing income inequality, which fuel anti-establishment and nationalistic views.



Centrifuge forces in the European Union

- The European founding fathers envisioned an **ever closer** Europe, a stronger political integration. The main motivation was to prevent once and for all the devastating wars between European nations.
- That resolve got diluted as the dominant political elite of second and third generations has no experience of the war.
- The several waves of enlargement, particularly of the CEE countries, were also a contributing factor. The rightly emphasised „70 years of European peace” sounds different for the 100 million people, who lived under the soviet communist dictatorship for more than 40 years under those 70 years.



Centrifuge forces in the European Union

- The CEE countries rightly feel that the bringing down of the iron curtain was their own doing, which opened their goods and capital markets for the Western countries.
- Their expectations were a rapid economic catch-up, which were too optimistic to begin with, but which were set back by the GFC.
- They feel sometimes that their legitimate concerns are not always taken into account.
- Frans Timmermans noted in a FT article: „*that is Europe, same destiny, different perspective*”.



Migration

- Migration is one of the most pressing problems that causes dissatisfaction within the EU. Three factors are worth mentioning:
- Different historical experiences and attitudes between countries which had colonies (UK, FR, IT, ES, PT, BE, NL) and the CEE-countries, which have had no such experience. This does not reflect a lack of compassion on the part of the CEEs.
- *Stock-flow* problem.
- Different problems and interests between the coastal and inland front countries.



Migration

- Europe is rich and unprotected, which attract migration, as in many parts of the world in history, where similar circumstances existed. Consider for instance the migration to North- and South America.
- Uncontrolled migration could lead to the collapse of Schengen, which is one of the most tangible and popular element of the EU project. See the increased border controls.



Brexit

- Brexit is the most obvious case of how migration can disrupt the European unity.
- The political discourse in the UK was about CEE immigration, but in fact people in the UK were concerned by the general phenomenon of migration. Most immigrants came to the United Kingdom from outside the EU.
- It is not possible to know yet how the negotiations will end, but „punishment” of the UK should be rejected, it is in no one’s interest.



Immigration to the United Kingdom

Immigrants in the United Kingdom (in percentage of total immigrants)			
1985		2014	
Ireland	16,50%	India	9,40%
India	13,50%	Poland	8,20%
Pakistan	6,90%	Pakistan	6,00%
Jamaica	5,10%	Ireland	5,00%
Germany	4,60%	Germany	4,30%
Total	46,60%	Total	32,90%

Newly arrived immigrants (in percentage of total arrivals)			
1985		2014	
United States	20,60%	India	9,80%
Ireland	10,60%	United States	6,70%
India	5,20%	Romania	6,20%
Pakistan	4,10%	Poland	6,10%
Germany	3,90%	China	5,70%
Total	44,40%	Total	34,50%



Brexit

- Theresa May talks about a hard Brexit.
- UK wants to have access to the single market.
- EU wants prior agreement on UK payment obligation to the EU (€100 billion?) and on settling the situation of the 3 million EU citizens residing in the UK, as well as the final location of EU agencies currently located in London.
- EU wants to avoid „à la carte” agreement to avoid creating precedent.
- Expect long and hard negotiations. PM May says that no deal is better than a bad deal.
- Fall out for non-EA member CEEs: attention is diverted away from eurozone enlargement.

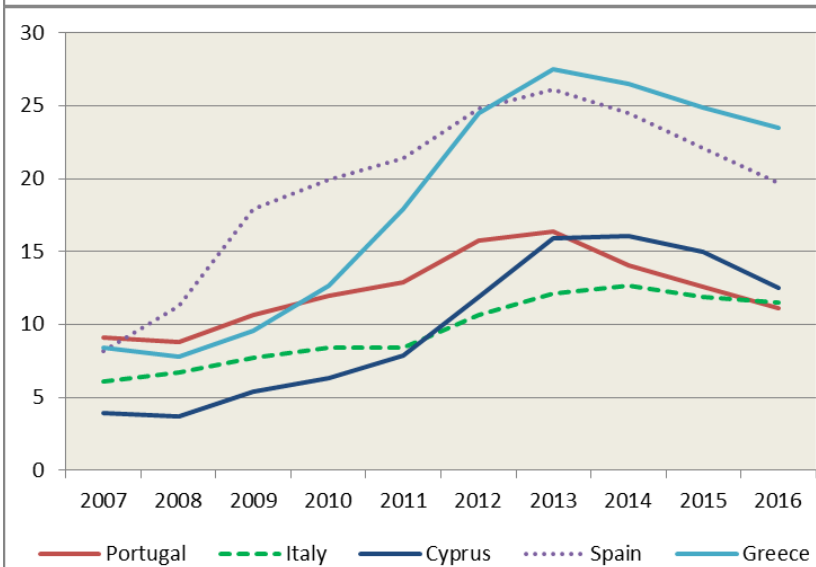
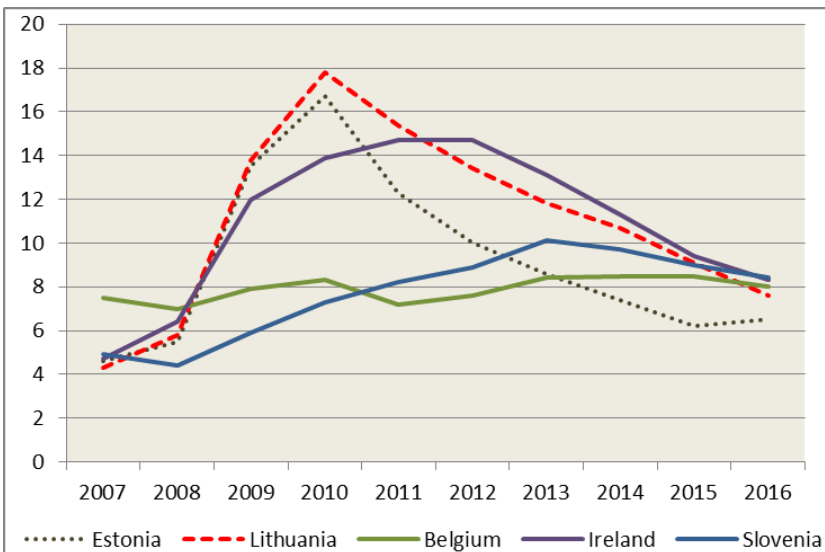
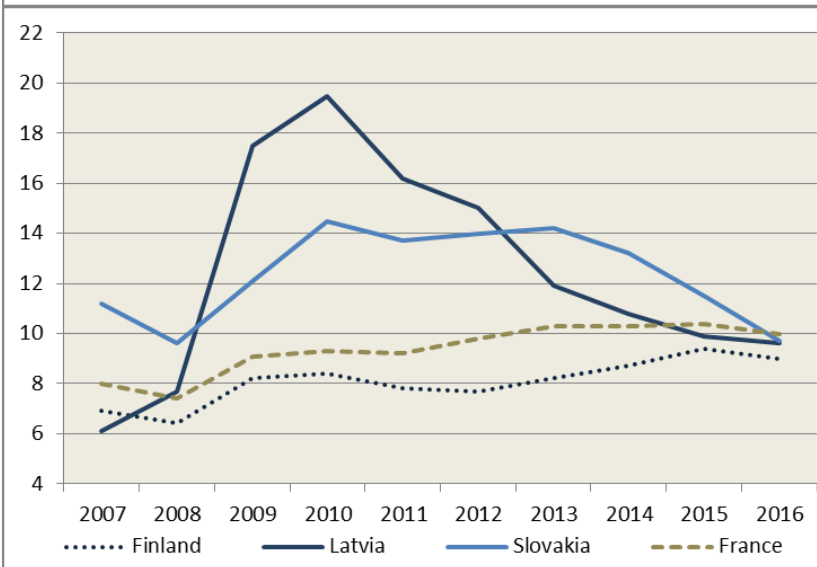
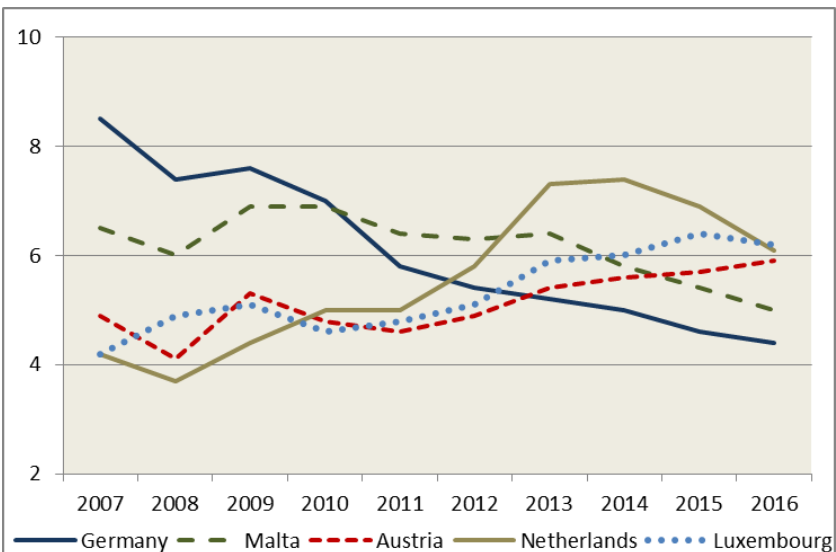


Euro Area

- Apart from Schengen and the single market, the euro is the other flagship achievement of European integration.
- Cohesion of the Euro Area is threatened by uneven growth and significantly different levels of unemployment: 20% or more GR, ES; 10% or more IT, PT, CY; barely under 10% FR, SK, while only 6% or less DE, NL, AT.



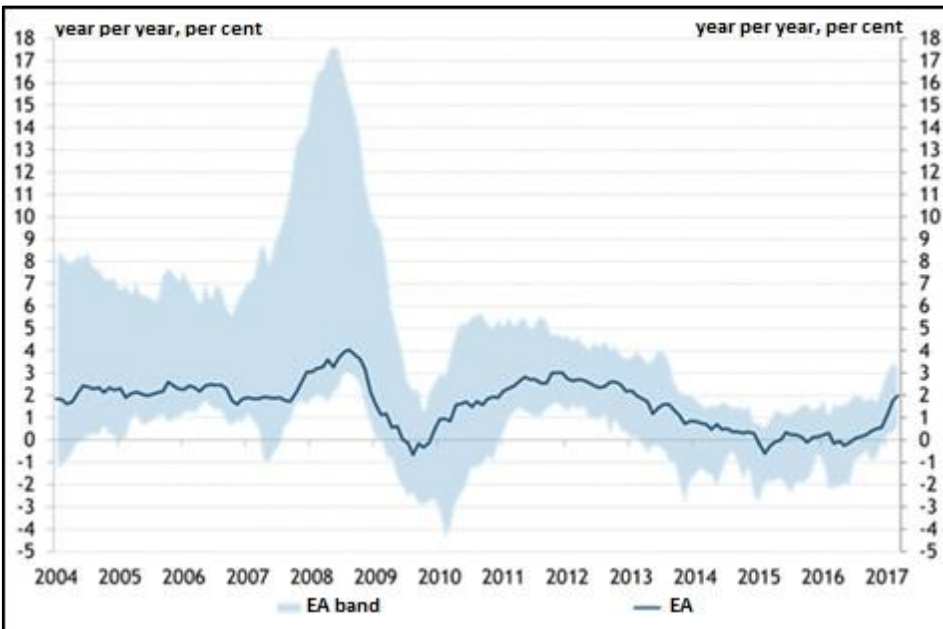
Unemployment in the Euro Area (2007-2016) *as a percent of active population*



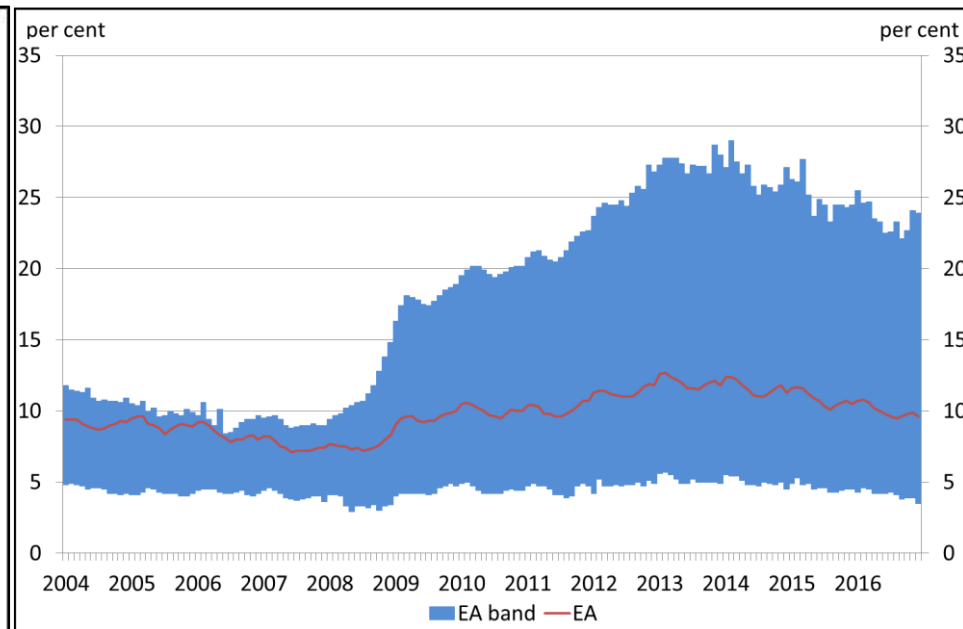


Inflation and unemployment in the Euro Area, 2004-2017

Inflation fan chart



Unemployment fan chart



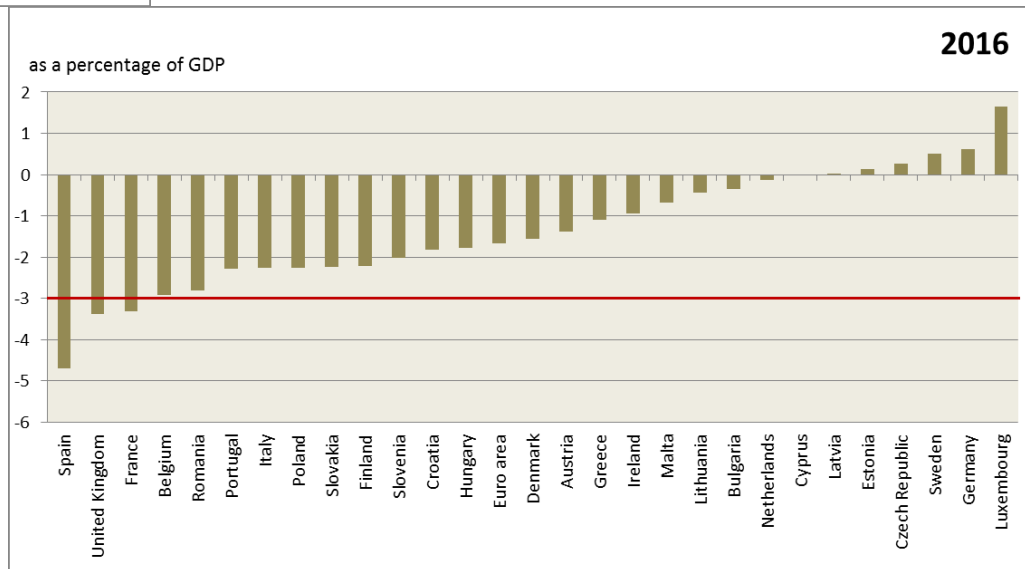
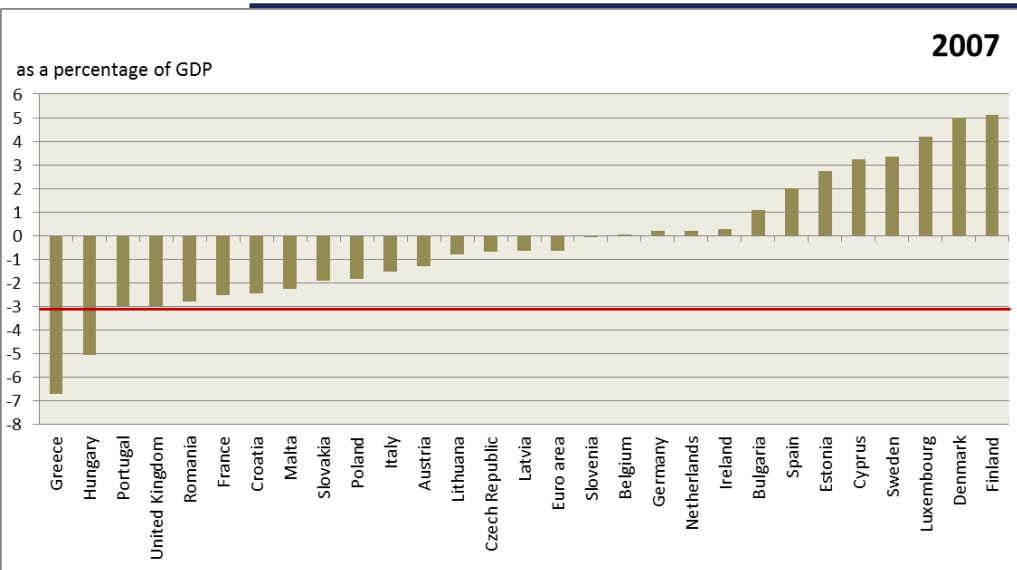


Euro Area

- Unequal fiscal space. While in 2007 only 4 EU member states' government debt exceeded significantly the 60% of GDP Maastricht threshold, in 2016 already 13 countries exceeded it.
- The alternative is worse. Between 1973 and 1993, 36 exchange rate adjustments had taken place. There were great differences in the interest rate levels.

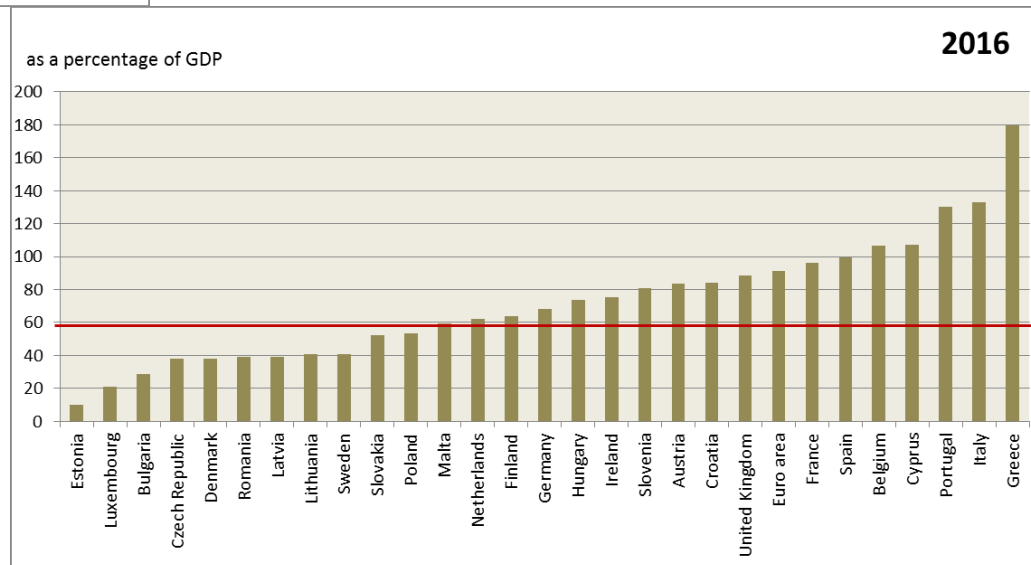
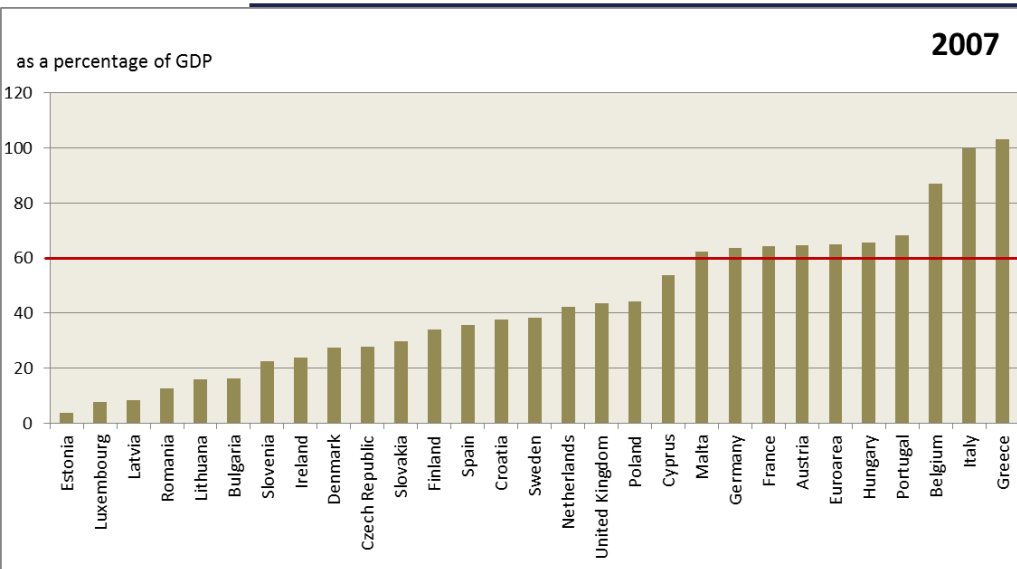


Budget balance in EU Member States (2007 and 2016)



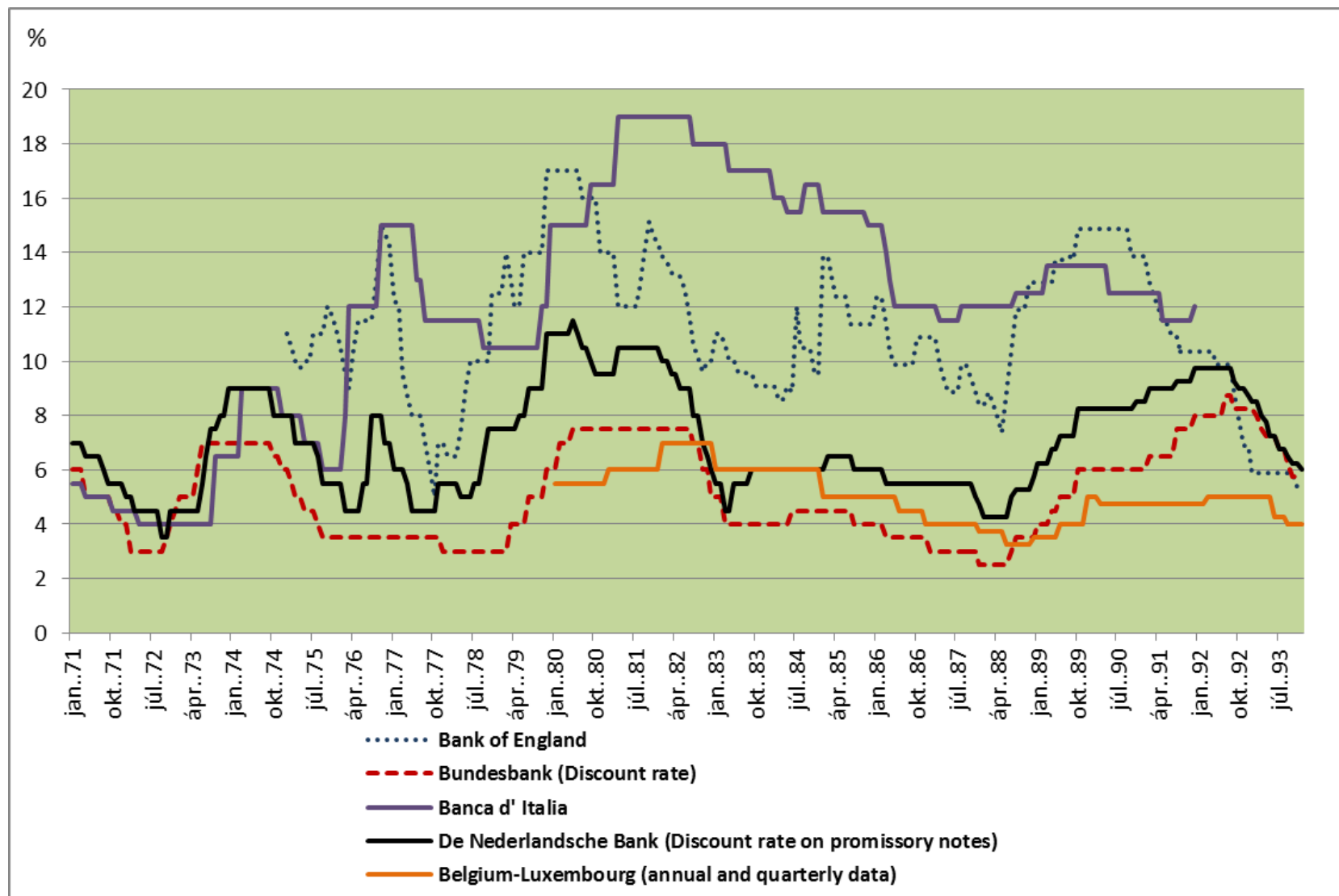


Government debt in EU Member States (2007 and 2016)





Policy interest rates (1971-1993) *in percent*





Measures since the crisis

- *European Stability Mechanism – Firewall. European Systemic Risk Board, Single Supervisory Mechanism, European Banking Authority, Single Resolution Mechanism, Single Resolution Board, Single Resolution Fund.*
- These are important steps taken to secure financial stability, but we have to wait and see how effectively they will work in practice.
- Further steps are still required for the efficient operation of the Banking Union: European deposit guarantee system, a credible backstop of the European Resolution Fund.



Banking Union

- Non-EA members adopted a wait-and-see attitude.
- However, to the extent that the Banking Union can prevent future financial crises, all EU member countries will benefit.
- The mother banks of many bank branches in CEEs are in EA countries.
- Mervyn King: „*Banks are international in life, but national in death*”.



Fiscal Union?

- The Fiscal Union seems to be far away, since most Member States are unwilling to give up the sovereignty over tax and spending policies.
- Rule-based fiscal coordination alone is not enough.
- Charles Goodhart: a numerical indicator ceases to be reliable once it is declared an official policy target or rule¹.
- **Simple** rules are needed, but they are only respected by strong and responsible governments.

¹George Kopits, IMF, IEO BP/16-02/07, p.7



Excessive Deficit Procedure (1999-2017)

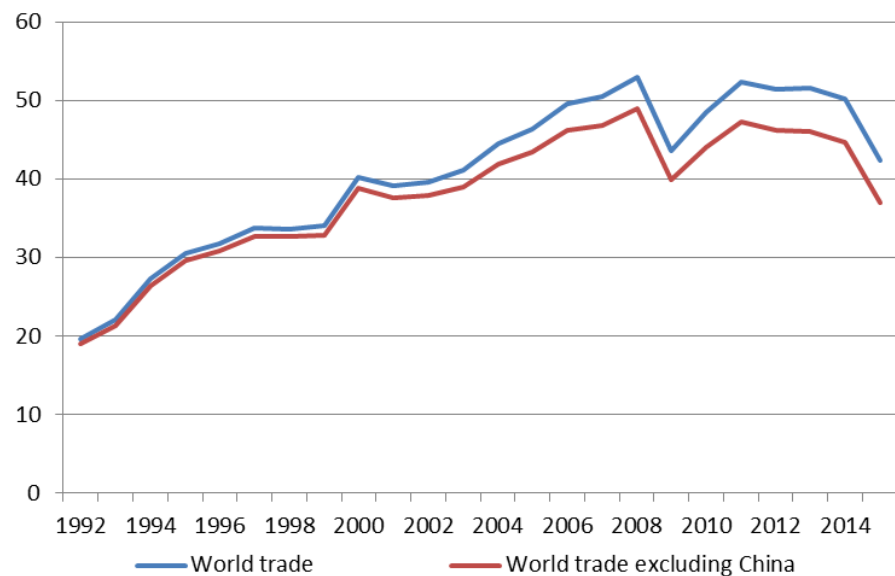
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Austria																			
Belgium																			
Bulgaria																			
Croatia																			
Cyprus																			
Czech Republic																			
Danemark																			
Finland																			
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United Kingdom																			

	Closed procedures
	Recommended for closing
	Ongoing procedures

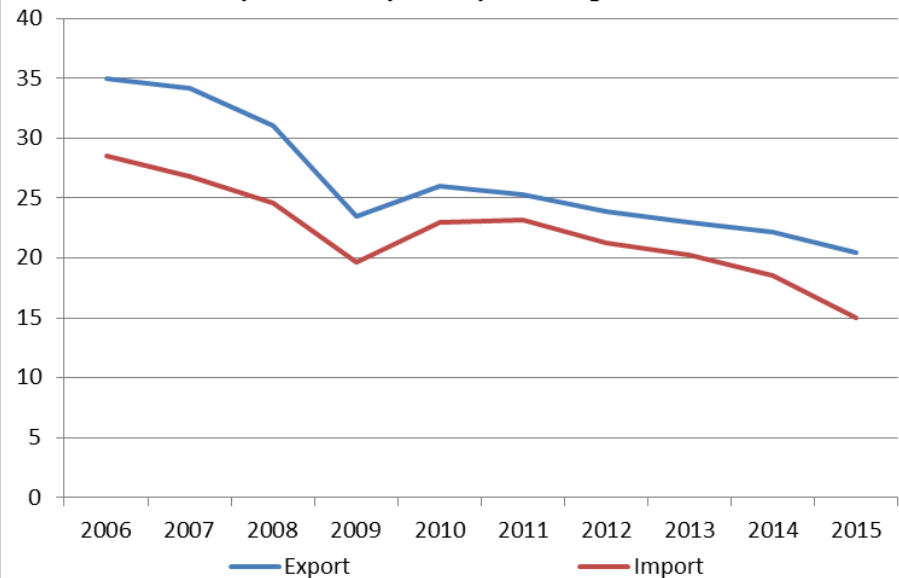


World trade

World trade in a percentage of world GDP



Chinese export and import in percentage of Chinese GDP





Protectionism

- Trade has contributed enormously to world GDP growth.
- In recent years, many associate free trade with job losses at home. Free trade is not about the equal distribution of income. Other means have to be used to compensate the losers of free trade.
- The US has backed out of TPP, wants to renegotiate NAFTA, TTIP is in limbo.
- If we only talk about the negative impacts and do not emphasize the positive effects of free trade, we can lose for decades one of the most important engines of growth.



Performance under Maastricht criteria by non-EA Member States

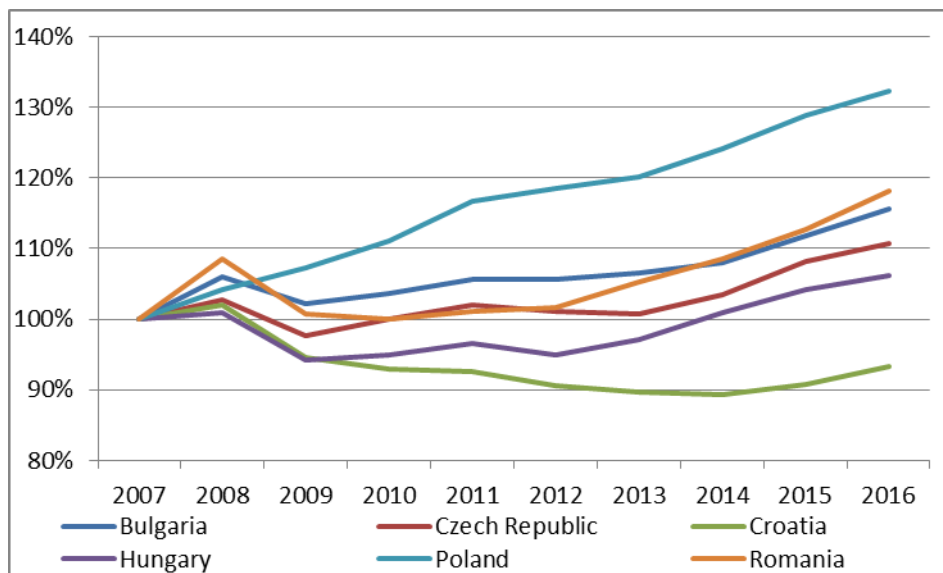
Indicator	Inflation (percent)	Budget balance (as a percentage of GDP)	Government debt (as a percentage of GDP)	10-year bonds interest rate (percent)	ERM II membership	Fulfilment of Maastricht criteria
Countries \ Date	May 2016 – April 2017	2016	2016	May 2016 - April 2017		
Bulgaria	-0,5	0,0	29,5	2,01	Not member	Yes
Croatia	0	-0,8	84,2	3,19	Not member	Yes*
Czech Republic	1,3	0,6	37,2	0,52	Not member	Yes
Hungary	1,2	-1,8	74,1	3,21	Not member	Yes*
Poland	0,5	-2,4	54,4	3,26	Not member	Yes
Romania	-0,2	-3,0	37,6	3,47	Not member	Yes
Reference value	2,29 (0,79+1,5)	-3	60	5,02 (3,02+2)		

* The Croatian and Hungarian governments' debt levels are over the reference value, but they show a downward trend. Croatian debt: 82.2% (2013), 86.6% (2014), 86.7% (2015), 84.2% (2016). Hungarian debt: 76.6% (2013), 75.7% (2014), 74.7% (2015), 74,1% (2016).

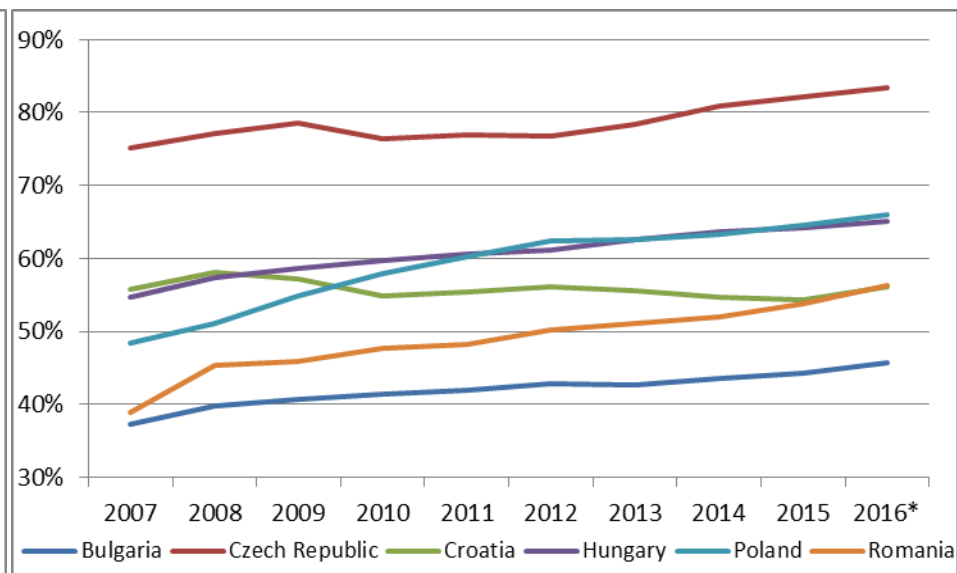


Gross domestic product: non-EA members relative to EA

GDP growth 2007-2016 (2007=100%)



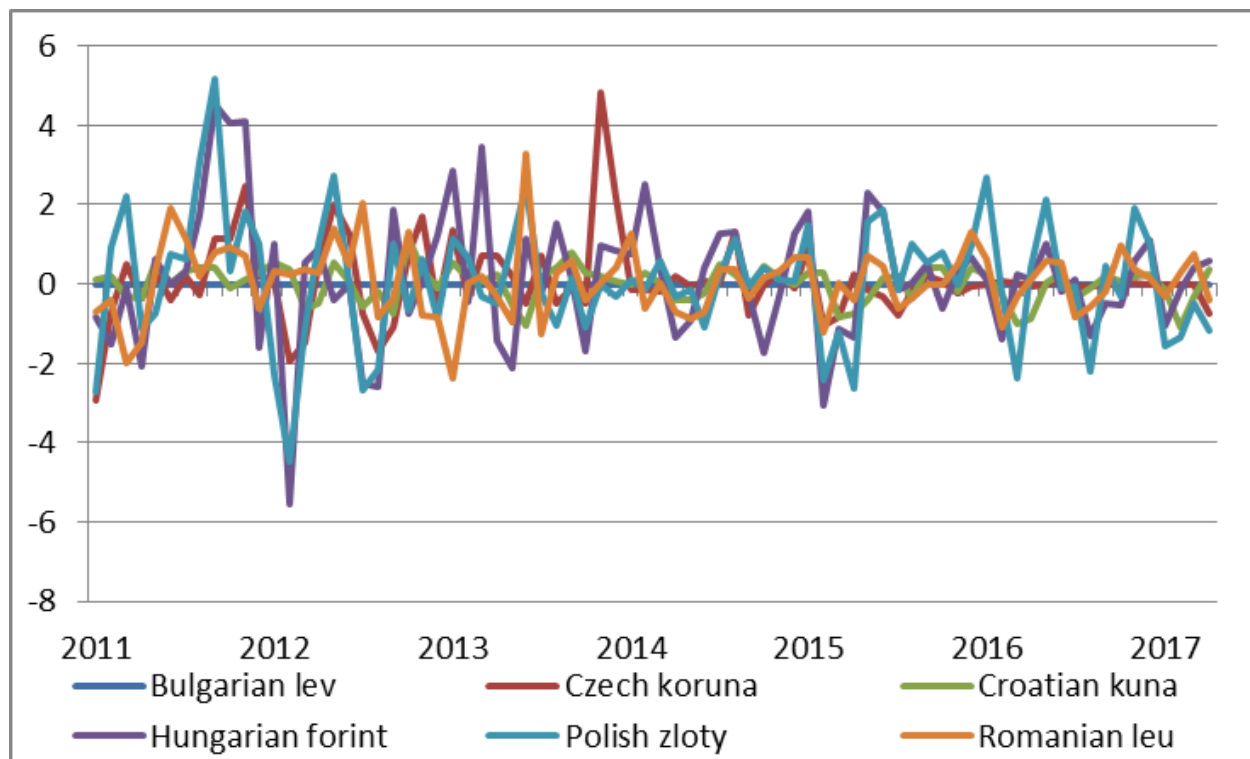
GDP per capita relative to EA (PPS), 2007-2016*



* 2016 data are estimates.



Exchange rate changes v-á-v the euro in non-EA countries, 2011-2017 (monthly change in percent)



All national currencies have floated against EUR within the +/-15 percent interval.



Fulfilment of Maastricht criteria by non-EA Member States

- Bulgaria, the Czech Republic, Poland and Romania fulfil all convergence criteria.
- In Croatia and Hungary the government debt level is over the reference value of 60 per cent of GDP, but they show a downward trend.
- In principle, all countries would be able to enter ERM II, since their exchange rates against the euro have fluctuated well within the $\pm 15\%$ band over the past seven years.



Two quotes

- **Henry Kissinger:** *„a continuing weakening of European relevance because of Europe’s loss of a sense of global mission”* (speech at the Nobel Peace Prize Forum, Oslo, December 11, 2016).
- **Angela Merkel:** *“The times in which we can fully count on others are somewhat over... We Europeans must really take our destiny into our own hands”*. (Munich, May 28, 2017).



Thank you for your attention!