

# **Euro Area: Which reforms for better economic governance?**



**European Economic and Social  
Committee**

**January 26, 2016**

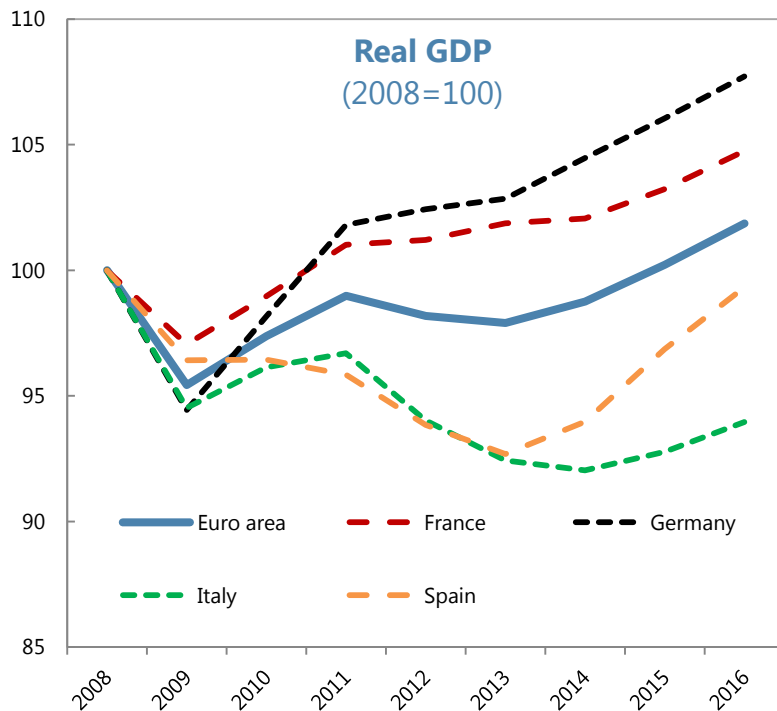
**By Jeffrey Franks**

**Director, IMF Europe Office in Paris  
and Brussels**

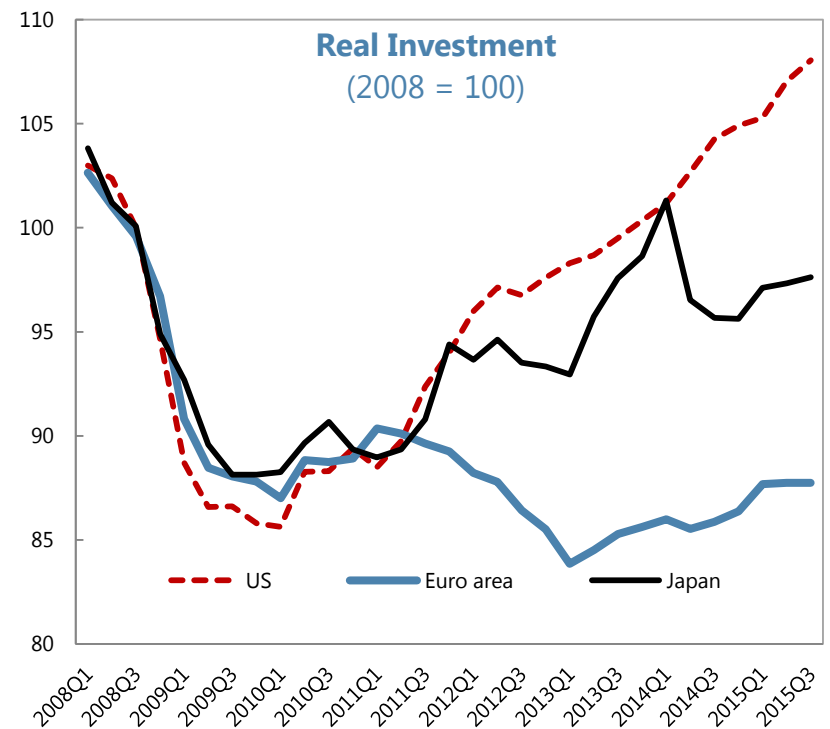
# A modest cyclical recovery



Domestic demand is strengthening ...



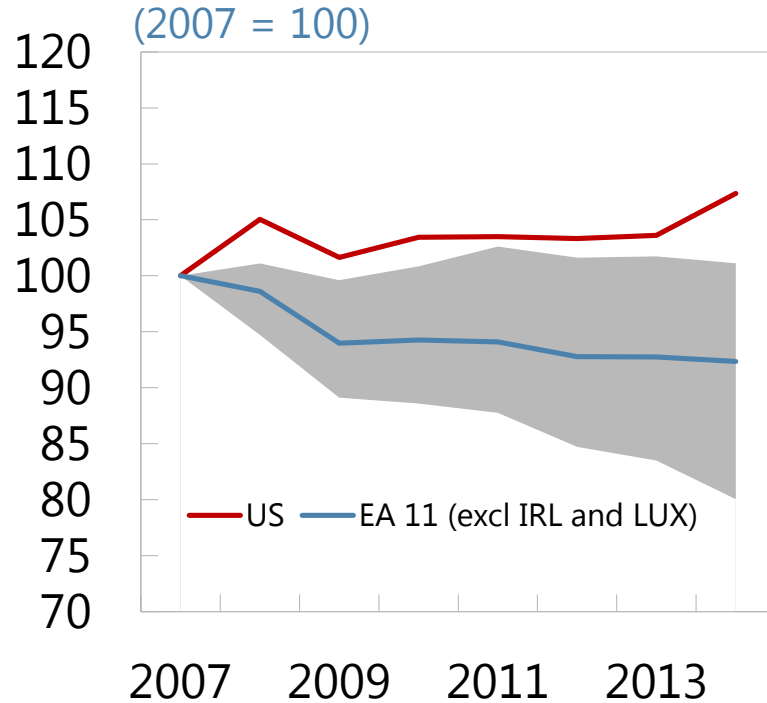
... but investment remains weak.



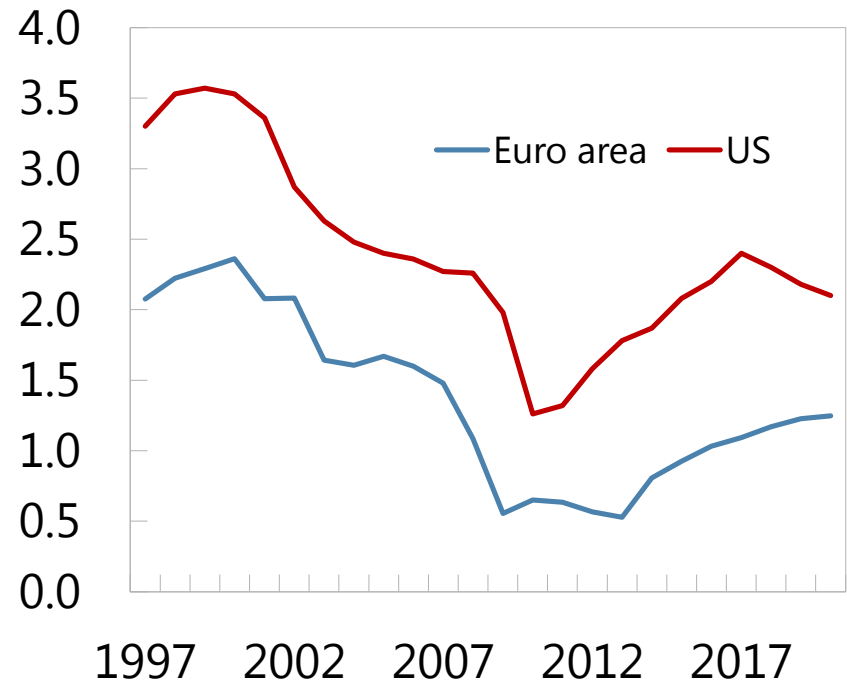
# Medium- and long-term shortcomings



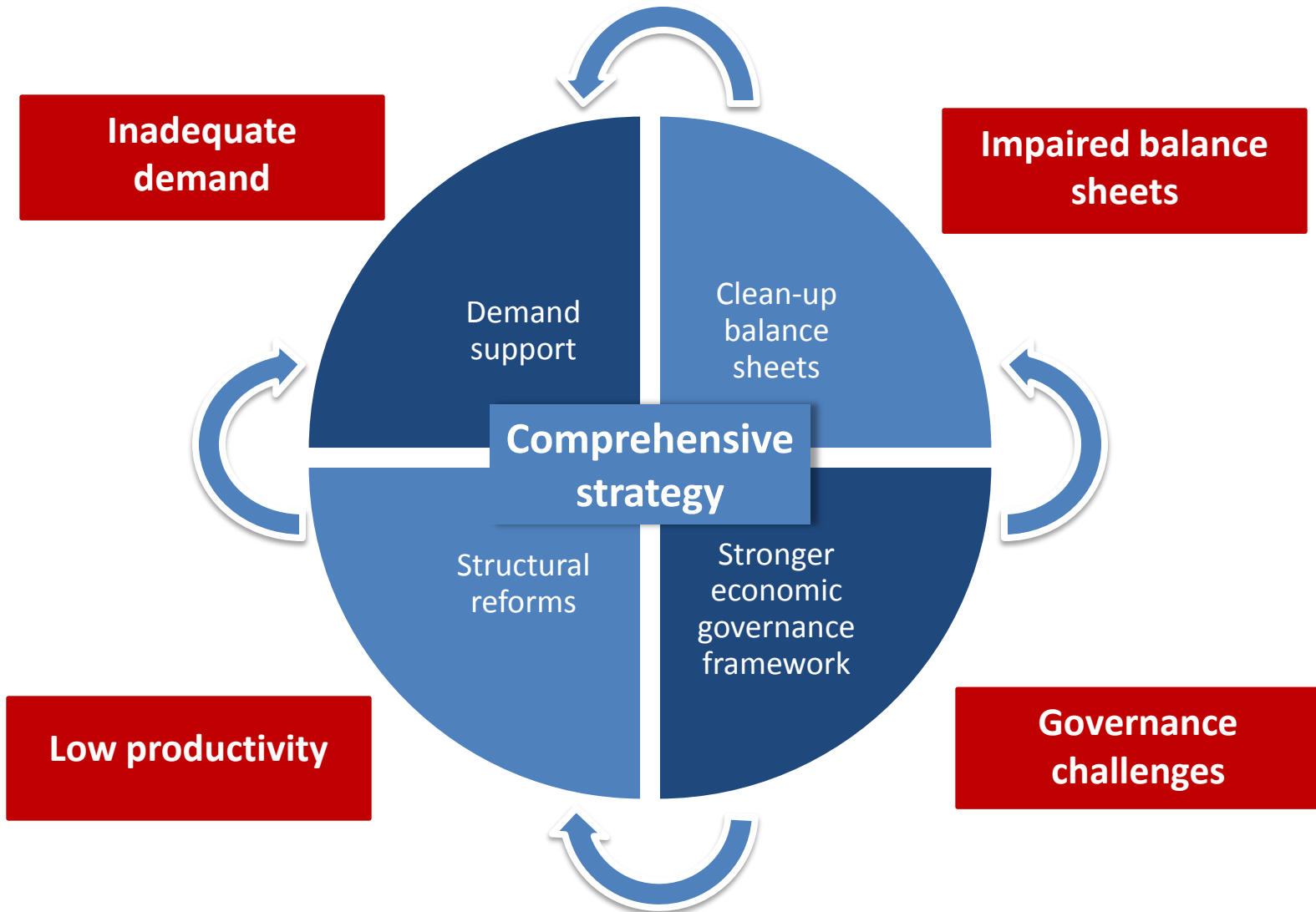
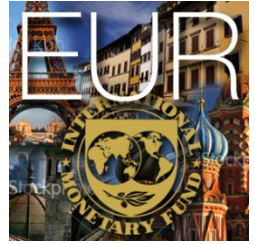
## Service Sector Productivity: US, EA, and EA range (2007 = 100)



## Potential GDP Growth (percent change)



# Underlying challenges





- QE
- SGP flexibility
- EFSI
- Public investment where possible

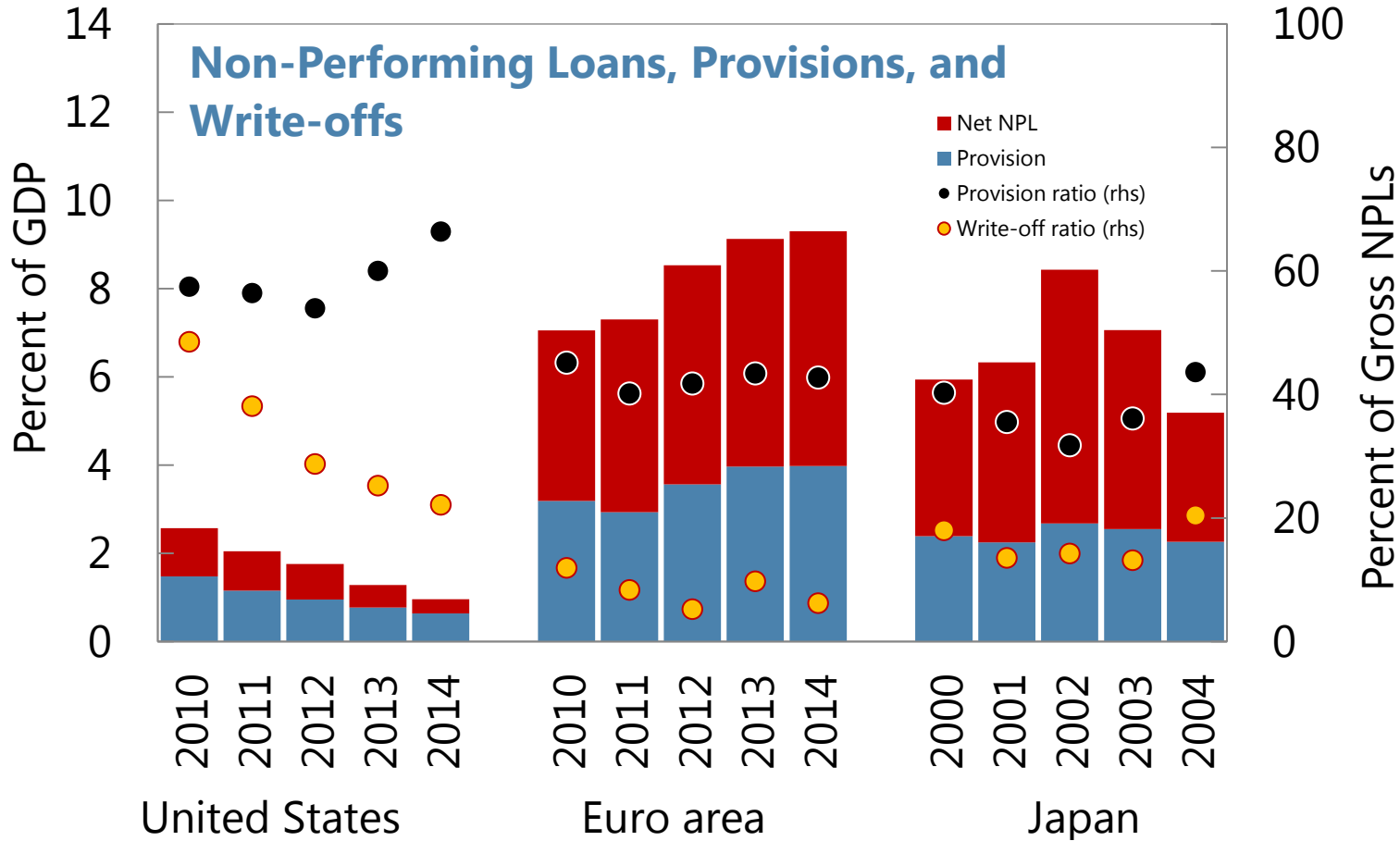
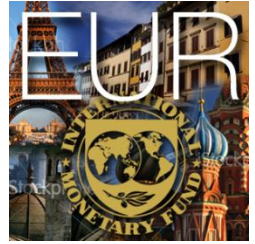
Demand support

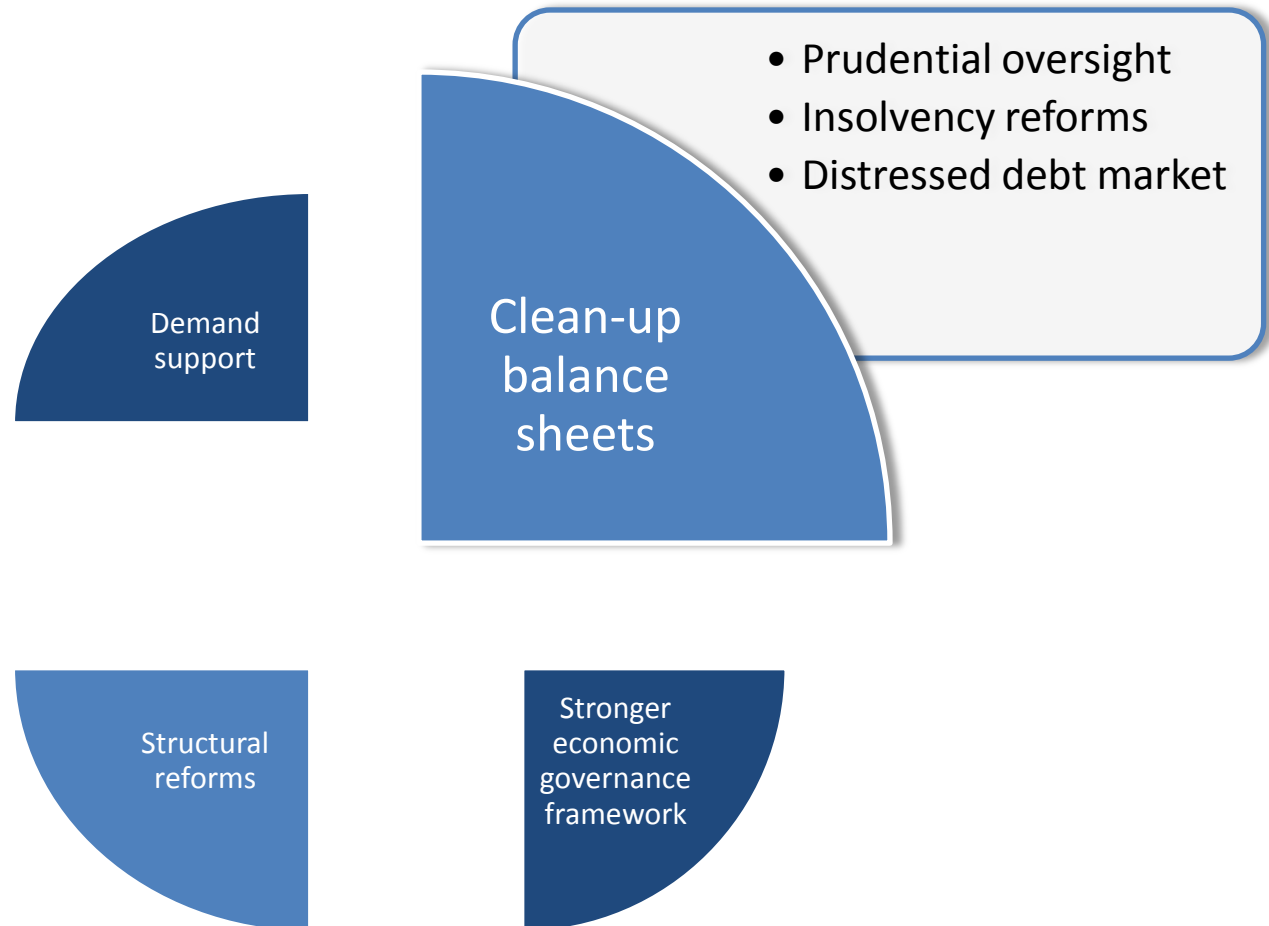
Clean-up balance sheets

Structural reforms

Stronger economic governance framework

# High non-performing loans





Demand support

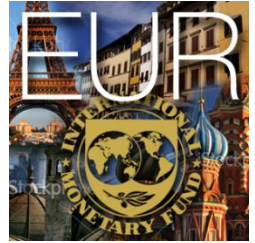
Clean-up  
balance  
sheets

- Prudential oversight
- Insolvency reforms
- Distressed debt market

Structural reforms

Stronger economic  
governance  
framework

# Closing Structural Reform Gaps to address low productivity



## National level

Labor market reforms:  
reduce rigidities and  
duality

Product market reforms:  
insolvency frameworks,  
efficiency, access to credit  
(esp. SMEs)

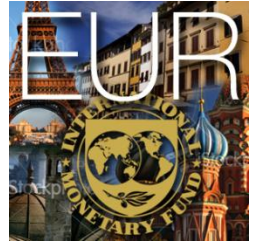
## Regional level

Service Directive  
implementation;  
Completing the Single  
Market

Capital Markets Union:  
High quality securitization

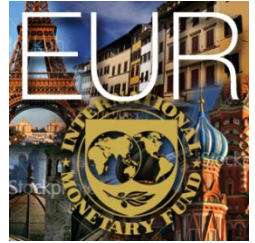


# The case for stronger economic governance



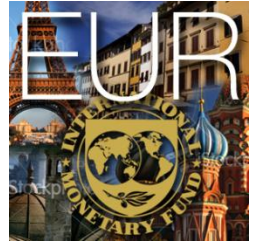
- Stronger structural reform governance
  - “Outcome-based” reform benchmarks
  - More effective use of EU legislation
  - Incentivizing reforms
- Simplified fiscal framework
  - Single anchor: public debt to GDP
  - Single target: expenditure growth rule

# Euro area representation at the IMF



	Before 2010 reforms	After 2010 reforms
Number of EDs from advanced Europe		-2
Euro area countries' percent of quota	23.33	21.22

	Before SDR review	After SDR review
Euro weight in SDR	37.40	30.93



**Thank you!**