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**The role of the ESM in a
deepening EMU:**
A comment to Rolf Strauch

Online Seminar
Florence School of Banking & Finance
2 May 2018

Outline

- Rolf Strauch's presentation → a number of stimulating suggestions:
 - (a) Role of ESM as 'lender of last resort';
 - (b) EZ 'Aid programs' → positive re-adjustments in the five countries involved;
 - (c) Remaining open problems in the EMU;
 - (d) Deepening EMU and strengthening ESM.
- My comment will focus on:
 - Firstly, two general points ← by (d) = 'Sovereign Debt Restructuring Framework' + EDIS;
 - Then, specific point ← by (c) = risk sharing in the EZ.

1. EDIS

- Strauch's thesis:
EDIS implementation = after banks' solution of their "legacy issues" and banks' "de-risking".
- My thesis:
 - Full EDIS \leftrightarrow reduction in the amount of NPLs + reduction in the national idiosyncratic regimes in BU's second pillar (transition process);
 - reduction in large exposures \leftrightarrow introduction of a 'safe asset' (buffer to banks' potential losses + stabilization of sovereign debt in EZ periphery);
 - ESBies = no 'safe asset', hence ESM involvement.

2. SDRF

- Strauch's thesis:
Sovereign Debt Restructuring Framework (SDR) = to create a predictable (that is, an *ex ante*) Private Sector Involvement (PSI).
- My thesis:
 - *Ex ante* sovereign debt restructuring → quasi-automatic PSI in case of aid programs → increase in macroeconomic instability as well as in redenomination risk (Deauville scheme);
 - Alternative possible solution: ex ante binding commitment + ex post possible SDR;
 - Case of Italy → MTO rule + ESM intervention to match the approach to MTO and the 'Debt rule'.

3. Risk sharing

- Strauch's thesis:
“to promote risk sharing” → completion of the Banking Union and strengthening of ESM.
Hence:
 - no need of a centralized fiscal capacity;
 - EMU does not need a Fiscal Union.
- My thesis:
Strauch's Fig. in Slide 10 tells an opposite story = main failure in EMU's risk sharing largely ← by Fiscal policy (worst performer) and not by Credit market (best performer).