JEAN MONNET CENTRE OF EXCELLENCE (2024-27),
Cultivating Our European Resilience and Evolution,
Project ID: 101176336

Working Group

Deep Integration; Economic and Monetary Governance

Research Plan and Directions

Prepared by Prof. Dr. Peter Halmai

Objectives

- Identification of the main dimensions and impact mechanisms of resilience in the European economy.
- Defining the European and national structural reforms necessary to strengthen resilience.
- Exploring the main directions for building EMU 2.0.

Background

1. **Profile of the Research Group**

The main direction of research to be implemented within the framework of the working group is to review and analyze the main theoretical questions of the comprehensive, systemic reform of the Economic and Monetary Union (EMU), as well as to identify the main strategic directions of European and national reform processes. Representing an innovative approach, the working group addresses this exceptionally complex area from the standpoint of resilience, a cardinal aspect of the reform process. Through this approach, the planned research can provide significant added value in terms of expected outcomes.

2. **Resilience and European Integration**

Resilience is a fundamental characteristic of deep economic integration. The efficiency of interactions and synergies within the system of deep integration is determined by the interrelated mechanisms of convergence and resilience. The low level or absence of resilience in a member state can exert significant and lasting effects on other member states and the entire system of deep integration through multiple channels. It may expose member states to common shocks that they cannot control. A primary requirement is for reforms to strengthen convergence towards resilient economic structures among member states.

Convergence towards resilient economic structures involves three main elements: reducing vulnerability to economic shocks, increasing shock absorption capacity, and enhancing the ability to recover quickly from shocks. These characteristics are essential for the smooth operation of the European economy, and more broadly, the EMU. Exchange rates cannot be used within a currency union to mitigate macroeconomic shocks. The capacity of individual national economies to swiftly and effectively adjust to shocks is crucial in preventing unsustainable disparities and divergences among the union's members.

Economic resilience relies on specific, country-specific characteristics. At the EU level, the single market and effective macroeconomic stabilization policies (the system of deep integration) can promote resilience and strengthen growth potential. Stronger competition, increased cross-border trade and investment, easier access for suppliers and consumers, more innovation, and faster technological development can become possible. The convergence of member states toward resilient economies is crucial for the functioning of the Economic and Monetary Union (EMU). The lack of resilience in one or more euro area member states can have significant and lasting effects not only on those affected but also on other member states and the entire euro area.

3. Deepening and Resilience

Interpreting economic resilience in three dimensions (vulnerability, absorption, recovery) can help identify the factors influencing impact and possible supportive policy areas. Further deepening in the markets of goods and services – through diversified export markets and intermediate resources – can reduce member states' vulnerability to shocks. Deepening economic integration strengthens the flexibility of relative prices. It can curb business cycle fluctuations in output and employment. Therefore, the shock absorption capacity of member states may increase.

Shock events require reallocating resources from unsustainable growth areas towards areas with more sustainable growth potential. Further deepening is expected to strengthen the economy's capacity for rapid post-shock recovery through faster reallocation of resources.

Deepening the internal market for goods and services necessitates follow-up in additional submarkets (capital and labor markets). Fully implementing the banking union and significant progress in the capital market union are particularly important. Further strengthening of the labor market and social policies along the lines of flexicurity principles is also crucial. Simultaneously, it can support the social acceptability of the program.

Preventive policies are necessary to minimize exposure to shocks and promote their advancement. Promoting them is also a fundamental goal in the context of the macroeconomic imbalance procedure (MIP) and the preventive branch of fiscal rules. Immediate reaction minimizing the impact of shocks is necessary (through the state, financial and non-financial sectors). It underscores the possibility of smoothing imbalances through automatic stabilizers of consumption savings and borrowing. Policies that promote adjustment or reallocation processes are also essential for more sustained shocks. However, these processes are closely related to the member states' institutional structure.

There are significant differences among euro area member states in terms of economic resilience. A “one size fits all” approach cannot be applied. The development of country-specific policy solutions and the sharing of best practices is possible across a broad spectrum.

The most recent financial and economic crisis clearly demonstrated the vulnerability of the euro area. The shortcomings in member states’ shock absorption and adaptation capacities were striking. The extent of the downturn was primarily determined by these capacities, as well as issues related to the balance of payments and real estate bubbles. After severe and complex shocks, large and persistent output declines followed. Addressing the resulting imbalances typically increased public debt. This process, through the feedback loop between states and banks, caused spillover effects among member states, threatening the stability of the euro area as a whole. Divergence began to emerge among member states across multiple dimensions.

The crisis highlighted the importance of strengthening economic resilience within the Economic and Monetary Union (EMU). Resilient economic structures can prevent economic shocks from having significant and lasting effects on income and employment levels. In doing so, they can reduce economic volatility.

JEAN MONNET CENTRE OF EXCELLENCE (2024-27),
Cultivating Our European Resilience and Evolution,
Project ID: 101176336

This is particularly important in a monetary union, where limited economic policy tools are available to manage the effects of significant economic events. Inflation differences between individual member states can increase differences in real interest rates. These disparities can amplify shocks by overheating economic recovery.

Resilient economies are capable of avoiding dangerous vulnerabilities. They can manage shocks more effectively. This can contribute to preventing unsustainable booms and mitigating the depth of recessions. It can also effectively reduce the strong spillover effects observed in the euro area during the recent crisis.

In the EMU system, economic resilience is a necessary but not sufficient condition for (cyclical, real, and social) convergence. With resilience, affected member states only sink into recession for a relatively short time and can continue to grow along their potential path in the long run. In the short term, real convergence depends on the flexibility and adaptability of economies. In strengthening resilient economic structures, various policies can lead to similarly strong performance in key areas such as labor markets and the market for competitive goods and services. Country-specific solutions can be important.

In the medium and long term, the factors that determine growth—labor, physical and human capital, etc.—are of decisive importance. The fewer disruptions to trend growth caused by shocks, the faster economies grow and catch up with their economic partners. A key condition for the sustainability of this convergence process is a socially acceptable distribution of income.

Resilience strengthens cyclical convergence and the effectiveness of the single monetary policy. Preventing unsustainable booms and the subsequent deep, prolonged recessions can help synchronize business cycles across member states. The single monetary policy in the monetary union is less effective when member states are at different phases of the economic cycle or—related to the more restrictive behavior of some states—when their inflation rates differ significantly. Some countries experienced strong booms before the crisis, which were followed by deep recessions. Nevertheless, business cycles in the euro area have become increasingly synchronized. Due to political convergence and real economic integration, member states now more frequently find themselves in the same phase of the cycle than before.

Resilient economies are capable of better long-term growth performance. Member states lacking sufficient resilience may face persistently negative trends in both long-term growth and social cohesion. The recent lack of real convergence in the euro area clearly indicates that the resulting effects are significant not only within individual member states but also in terms of convergence among euro area countries. Resilient economic structures can help mitigate the social consequences of deep recessions. The positive employment effects of efficient labor and product markets, combined with active labor market policies, new opportunities such as lifelong learning, and effective social safety nets, can all help foster positive social outcomes.

4. European and National Reforms

Resilient economies are capable of withstanding temporary shocks (credit crisis, supply disruptions). However, in the case of permanent shocks (e.g., a lasting weakening of the external competitiveness of domestic sectors), rapid adaptation requires mobilizable resources—namely labor and capital.

Labor and product market regulation is crucial in both dimensions. According to research conducted by the IMF, over the past four decades, deep recessions have resulted in smaller and less persistent output losses in economies that reformed their labor and product market regulations, compared to those that did not undertake such reforms. Flexible national labor market policies, product market regulations, and corporate insolvency regimes can strengthen the economic resilience of the euro area. More flexible regulation can allow for faster labor market adjustment. At the same time, well-designed unemployment insurance systems, complemented by job-seeking support, can provide security for workers. Similarly, in product markets, lower administrative barriers and startup costs create opportunities for faster adjustment. Flexible regulation of labor and product markets plays a greater role in economic resilience than the absence of independent national monetary policy and nominal exchange rates in monetary union member states.

More effective labor market policies do not necessarily imply general deregulation or lower protection for everyone. Individual member states can design various policy packages reflecting their social preferences. For example, both the less regulated (Anglo-Saxon) and the Scandinavian institutional approaches to labor markets can provide the necessary resilience. Both are characterized by limited job protection, though they result in different levels of employment protection and fiscal costs. The Scandinavian model relies on more generous unemployment benefits and strong job-search assistance. Following the global financial and economic crisis, resource allocation developed less favorably in countries with less effective and resilient national insolvency systems compared to those with higher-quality regimes.

By enhancing the economic resilience of individual member states, structural reforms implemented at the national level can also reduce the burden on counter-cyclical (national fiscal or common monetary) policies in stabilizing euro area economies. Greater nominal and real rigidities alone make the affected economies more sensitive to shocks. This increases the need for counter-cyclical policies. However, if a member state has limited fiscal space—e.g., due to a high debt burden—then the need for fiscal expansion may weaken confidence. This, in turn, may neutralize the expected expansionary effects of fiscal stimulus while further increasing the debt burden. All of this highlights not only the need for further structural reforms in euro area economies but also the importance of creating fiscal space.

Strengthening structural reforms is key to the European economy. These reforms can improve productivity, growth, and economic convergence. In addition—and in connection with the above—they help build macroeconomic resilience against possible negative future trends. This is also a fundamental goal in times of increasing uncertainty and rising global and domestic risks.

Similar performance among euro area member states in shock absorption and recovery promotes the effectiveness of common policies, such as monetary policy. Such structural convergence not only increases the stability of income and employment but also enhances long-term growth potential. It limits hysteresis effects, such as persistent unemployment or limited use and accumulation of capital.

Research Questions:

1. How can resilience be interpreted from an economic perspective?
2. What could be the main effects of deepening the internal market on the resilience of European and national economies?
3. How could the establishment of the Capital Markets Union impact resilience?
4. What preventive policies strengthening resilience are possible within the framework of European economic governance, and what could be their potential effects?
5. What are the main impact mechanisms of resilient structures in the European economy?
6. What European and national structural reforms are necessary to promote the objective of increasing resilience?
7. What could be the main directions of a comprehensive EMU reform in the current and upcoming period?

Co-funded by
the European Union

Methodology

The research will be both theoretical and empirical. Based on an in-depth analysis of the literature, a comparative analysis will be conducted. The empirical part will rely on statistical methods and document analysis. Case studies will be developed, and quantitative analysis will also be carried out. Both quantitative and qualitative methods will be applied in the research.

Outcomes

The research findings will be discussed at workshops and conferences. The main results will be published in academic journal articles and collected volumes.

JEAN MONNET CENTRE OF EXCELLENCE (2024-27),
Cultivating Our European Resilience and Evolution,
Project ID: 101176336

Bibliography

Aiyar, S.–Bluedorn, J.–Duval, R.–Furceri, D.–Garcia-Macia, D.–Ji, Y.–Malacrino, D.–Qu, H.–Siminitz, J.–Zdzienicka, A. (2019) Strengthening the euro area: The role of national structural policies in building resilience. *IMF Staff Discussion Notes* SDN/19/05

Álvarez, L. J.–Dhyne, E.–Hoeberichts, M. M.–Kwapil, C.–Le Bihan, H.–Lünnemann, P.–Martins, F.–Sabbatini, R.–Stahl, H.–Vermeulen, Ph.–Vilmunen, J. (2005) *Sticky prices in the euro area: a summary of new micro evidence*. ECB Working Paper No. 563.

Amador, J.–Cappariello, R.–Stehrer, R. (2015) Global value chains: a view from the euro area. *ECB Working Paper Series* No. 1761.

Arpaia, A.–Kiss, Á.–Palvolgyi, B.–Turrini, A. (2015) Labour mobility as an adjustment mechanism. *Quarterly Report on the Euro Area* 14(1), 19–25.

Bakker, B. B. (2015) Employment and the great recession: The role of real wages. *IMF Working Paper* 15/229.

Balleer, A.–Gehrke, B.–Lechthaler, W.–Merkl, C. (2016) Does short-term work save jobs? A business cycle analysis. *European Economic Review* 84, 99–122.

Berti, K.–Meyermans, E. (2017) Sustainable convergence in the euro area: A multi-dimensional process. *Quarterly Report on the Euro Area* 17, 3.

Brinkmann, H.–Harendt, Ch.–Heinemann, F.–Nove, J. (2017) *Economic Resilience. A new concept for policy making? Inclusive Growth for Germany*. 11, Bertelsmann Stiftung https://www.bertelsmannstiftung.de/fileadmin/files/BSt/Publikationen/GrauePublikationen/NW_Economic_Resilience.pdf

Bundesregierung (2017) *Priorities of the 2017 G20 Summit.* Berlin, 1 December 2016

Caldera Sánchez, A.–de Serres, A.–Gori, F.–Hermansen, M.–Röhn, O. (2016) Strengthening economic resilience: Insights from the post-1970 record of severe recessions and financial crises. *OECD Economic Policy Paper* No. 20.

Canova, F.–Coutinho, L.–Kontolemis, Z. (2012) Measuring the macroeconomic resilience of industrial sectors in the EU and assessing the role of product market regulations. *European Economy Occasional Papers* No. 112.

Canton, E.–Mohl, P.–Reut, A.–Ward-Warmedinger, M. (2016) How to make the economic and monetary union more resilient? *Quarterly Report on the Euro Area* 15(3), 7–18.

Canton, E.–Petrucci, M. (2017) Ease of doing business in the euro area. *Quarterly Report on the Euro Area* 16(2), 21–29.

Culiuc, A. - Kyobe, A. (2017) Structural Reforms and External Rebalancing, IMF Working Paper WP/17/182, Washington

Cochrane, J. (1994) Shocks. *NBER Working Paper* No. 4698.

Dhyne, E.–Konieczny, J.–Rumler, F.–Sevestr, P. (2009) Price rigidity in the euro area – An assessment. *European Economy Economic Papers* No. 380.

ECB (2015) Comparisons and contrasts of the impact of the crisis on euro area labour markets. *ECB Occasional Paper Series* 159.

EC (2016) Proposal for a directive of the European Parliament and of the Council on preventive restructuring frameworks, second chance and measures to increase the efficiency of restructuring, insolvency and discharge procedures and amending Directive 2012/30/EU, COM(2016) 723 final.

EC (2017) *Economic Forecasting. Autumn,* Brussels, DG ECFIN

Frankel, J.–Rose, A. (1999) The endogeneity of the optimum currency area criteria. *The Economic Journal* 108(449), 1009–1025.

Frohm, E.–Gunnella, V. (2017) Sectoral interlinkages in global value chains: Spillovers and network effects. *ECB Working Paper Series* No 2064

Gilchrist, S.–Schoenle, R.–Sim, J.–Zakrajsek, E. (2015) Inflation dynamics during the financial crisis. *Federal Reserve Board Finance and Economics Discussion Series* No 2015–2012.

Giudice, G.–Hanson, J.–Kontolemis, Z. (2018) Economic resilience in EMU. *Quarterly Report on the Euro Area* 17(2), 9–15.

Gorodnichenko, Y.–Talavera, O.–Sheremirov, V. (2005) Will e-commerce make prices more flexible? *VoxEU*

IMF (2017) Euro Area Policies, Selected Issues, Real Income Convergence in the Euro Area, pp. 4–14

Jolles, M.–Meyermans, E. (2018) Economic resilience, the Single Market and EMU: a self-reinforcing interaction. *Quarterly Report on the Euro Area* 17(1), 7–22.

Juncker, J.-C.–Tusk, D.–Dijsselbloem, J.–Draghi, M.–Schulz, M. (2015) The five President's Report: Completing Europe's Economic and Monetary Union. *Background Documents on Economic and Monetary Union.*

Krugman, P.–Venables, A. (1996) Integration, specialization, and adjustment. *European Economic Review* 40, 959–967.

Lehndorff, S.–Voss-Dahm, D. (2005) The delegation of uncertainty: flexibility and the role of the market in service work. In Bosch, G.–Lehndorff, St. (eds) *Working in the Service Sector – a Tale from Different Worlds.* Routledge, London and New York, 289 –315.

Mankiw, N. (1985) Small menu costs and large business cycles: A macroeconomic model of monopoly. *Quarterly Journal of Economics* 100(2), 529–539

Martin, R.–Sunley, P. (2014) On the notion of regional economic resilience: conceptualization and explanation. *Journal of Economic Geography* 15(1), 1–42.

Meyermans, E.–Uregian, C.–Van Campenhout, G.–Valiante, D. (2018) Completing the Capital Markets Union and its impact on economic resilience in the euro area. *Quarterly Report on the Euro Area* 17(4), 27–39.EC DG ECFIN, Brussels

Pelkmans, J.–Acedo, L.–Maravalle, A. (2008) How product market reforms lubricate shock adjustment in the euro area. *European Economy Economic Papers* No. 341

Pelkmans, J. (2016) What strategy for a genuine single market? *CEPS Special Report* No. 126

Praet, P. (2014) The financial cycle and real convergence in the euro area. *Speech at the Annual Hyman P. Minsky Conference on the State of the US and World Economies*. Washington DC.

Rose, A. (2016) Measuring economic resilience to disasters: An overview. In *IRGC Resource Guide on Resilience* Edited by EPFL International Risk Governance Center. Lausanne. v29-07-2016.

Sauner-Leroy, J.-B. (2003) The impact of the implementation of the Single Market Programme on productive efficiency and on mark-ups in the European Union manufacturing industry. *European Economy Economic Papers* No. 193

Sondermann, D. (2016) Towards more resilient economies: the role of well-functioning economic structures. *ECB Working Paper* 1984

Sutherland, D.– Hoeller, P. (2013) Growth-promoting policies and macroeconomic stability. *OECD Economics Department Working Papers* No 1091.

Tirole, J. (2017) *Economics for the Common Good.* Princeton, University Press

Valiante, D. (2016) Europe's Untapped Capital Market: Rethinking financial integration after the crisis. *CEPS Paperback,* London: Rowman & Littlefield International

Vermeulen, Ph.–Dias, D. A.–Dossche, M.–Gautier, E.–Hernando, I.–Sabbatini, R.–Stahl, H. (2012) Price setting

Co-funded by
the European Union

JEAN MONNET CENTRE OF EXCELLENCE (2024-27),
Cultivating Our European Resilience and Evolution,
Project ID: 101176336

07 May 2025