

Jak rozwiązać kryzys zadłużenia publicznego w strefie euro?

Streszczenie

Kryzys zadłużenia publicznego występujący w strefie euro uwidocznił niedoskonałości w jej konstrukcji instytucjonalnej. Strefa euro to unia monetarna bez centralnej polityki fiskalnej. Mimo że w następstwie kryzysu zarządzanie gospodarcze w strefie euro zostało gruntownie zreformowane i wzmocnione, konieczne są dalsze reformy, w tym wprowadzenie elementów unii fiskalnej, by wzmocnić jej odporność na wstrząsy gospodarcze i zapobiec potencjalnym trudnościom gospodarczym i finansowym w przyszłości.

Bazując na teorii federalizmu fiskalnego, w artykule przeanalizowano reformy instytucjonalne mające na celu rozwiązanie kryzysu zadłużenia publicznego występującego w strefie euro i wskazano, które reformy są najbardziej pożądane. Główną metodą badawczą wykorzystaną w artykule jest analiza opisowa głównych reform zaproponowanych w literaturze przedmiotu. W artykule dokonano analizy następujących propozycji reform: Fundusz Amortyzacji Zadłużenia, obligacje europejskie, przyznanie Europejskiemu Bankowi Centralnemu roli pożyczkodawcy ostatniej instancji oraz stworzenie unii fiskalnej z budżetem dla strefy euro.

Słowa kluczowe: zadłużenie publiczne, strefa euro, polityka fiskalna.

Abstract

The sovereign debt crisis in the euro area (EA) highlighted shortcomings of its institutional framework – establishment of a monetary union without a central fiscal policy. Although the economic governance in the EA was substantially reformed in the aftermath of the crisis to address its weaknesses, further reforms including some elements of fiscal union are needed to increase resilience of the Economic and Monetary Union to shocks and prevent emergence of economic and financial distress in the future.

Based on the theory of fiscal federalism, the article analyses potential institutional reforms aimed at solving the sovereign debt crisis in the EA and indicates which proposals are desired and possible to implement. The research method used is a descriptive analysis of reforms proposed in the literature. In the article, the following reform proposals were assessed: the Debt Redemption Fund, European bonds, assigning the European Central Bank the role of the lender of last resort and a fiscal union with an EA fiscal capacity.

Key words: public debt, euro area, fiscal policy.

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How to solve the sovereign debt crisis in the euro area?

The euro area (EA) debt crisis commenced in 2009 revealed important deficiencies in the Economic and Monetary Union (EMU) institutional framework. The crisis was of systemic nature and resulted from the construction of the EA, i.e. establishment of a monetary union without a centrally conducted fiscal policy. In the EA, monetary policy was centralised, while fiscal and economic policies remained, mainly for political reasons, within the member states' competencies. However, coordination of fiscal policies proved to be insufficient, and disciplinary and supervisory instruments did not fulfil their functions. In the aftermath of the crisis, the economic governance in the European Union was substantially reformed to address its weaknesses.

The reformed framework became extremely complex and nontransparent. Additional reporting obligations were imposed on the member states, and certain requirements were repeated in several instruments. Moreover, some instruments apply only to the EA, while the others to the whole EU, and e.g. the Fiscal Compact applies only to the signatory countries. In addition, a diversified institutional framework and a heterogeneous decision-making process made the system legally complicated and characterised by democratic deficit – neither the European Parliament nor national parliaments exert surveillance over it. The system lacks enforcement mechanisms and needs to be supported by a stronger market-based fiscal discipline to be effective.

All these factors call for investigation into possible institutional measures which would ensure stability in the EA in the long-run and prevent build-up of public debt in the EA member states. The article is based on the theory of fiscal federalism. Its aim is to critically assess key proposals of long-term institutional reforms aimed at solving

the sovereign debt crisis in the EA. The article gives policy recommendations by determining which out of the proposed institutional reforms would ensure a long-term macroeconomic stability in the EA and most effectively reduce excessive indebtedness of the EA member states. The main research method used in the article is a descriptive evaluation of the main institutional reforms proposed in the literature. In the article, the following reform proposals were assessed: the Debt Redemption Fund, European bonds, assigning the European Central Bank the role of the lender of last resort and a fiscal union with an EA fiscal capacity. As new proposals still emerge, the list is neither closed nor exhaustive.

The Debt Redemption Fund

To prevent liquidity crises and motivate the EA member states to conduct fiscal consolidation, it was proposed to establish a Debt Redemption Fund in the form of a shared commitment of the EA countries, which would be obliged to reduce their public debts to 60% of GDP in the upcoming 20–25 years (Doluca et al 2012). As debt exceeding 60% of GDP would be transferred to the fund and guaranteed jointly by all the EA member states, debt servicing costs in the highly indebted countries would decrease. The participating countries would repay it gradually at a lower interest rate in the following 20–25 years, achieving every year predefined surpluses in the primary budget balance. After this period the fund would be resolved.

All the EA countries would be collectively responsible for the debt exceeding 60% of GDP, while each member state would be accountable individually for the remaining part of the debt, what would prevent growth of the debt not guaranteed by the fund above the 60% GDP limit. As a collateral, countries would be obliged to incorporate into their Constitutions a fiscal rule with a debt brake limiting growth of the structural deficit over 0.5% of GDP as set in the Fiscal Compact. If the “national” debt exceeds 60% of GDP, the excess would not be guaranteed by the fund. Countries would obligatory sign a binding agreement (similar to the one concluded in case of assistance programmes under the European Stability Mechanism, ESM) specifying a fiscal consolidation path and required structural reforms in the period of 25 years. In addition, each country participating in the fund would be required to pay in a deposit equal to 20% of the transferred debt. In case of non-compliance with the obligations, the country would lose its deposit. If a country transfers its debt to the fund, it could not be excluded

from the fund any more. The fund would be opened to all EA countries with the public debt exceeding 60% of GDP. Debts of the member states on adjustment programmes, which receive financial assistance from the ESM, could be transferred to the fund after conclusion of the programme.

At the request of the European Commission, an expert group prepared a report on advantages and disadvantages of the proposed mechanism and its possible implementation in the EA (*Final report 2014*). The experts¹ expressed a positive opinion on establishing the Debt Redemption Fund stressing out its favourable impact on financial stability in the EA and stabilisation of the government bond yields.

The fund is expected to strengthen the economic governance framework in the EA. However, it should be established only when the EA countries reduce excessive debt levels. As countries participating in the mechanism will be strongly interconnected, the moral hazard must be minimised, i.a. by specifying prerequisites for participation in the fund (a trial period, limited membership) or introducing a sanction system in case of non-compliance with its provisions. A major challenge will be to observe the predetermined rules and to maintain the specified levels of budget balance for many years. In addition, the member states which decide to transfer to the fund a part of their debt exceeding 60% of GDP will benefit from lower interest rates unevenly. The countries perceived by the market as stable with low government bond yields will lose, while bond yields of the most indebted countries will fall. There is a risk that they will not have enough incentives to maintain sustainable public finances, and the market will lose its disciplinary role, as the excessive debt will be under joint guarantees of all the fund's participants. Moreover, the part of the debt transferred to the fund will be treated differently to the one remaining within national competencies, as its reduction will be of top priority. Consequently, the risk of non-repayment of the "national debt" will increase, and markets will demand higher interest rates. Apart from this, the debt mutualisation is against the Treaty. Therefore, the fund might be established only in a form of an intergovernmental agreement, which would substantially reduce its force of law. One should also avoid creating a competitive system of economic governance beyond the EU legislation. As debt mutualisation enables buying insurance after the event, establishment of the fund may result in decreased incentives to improve competitiveness (Allard et al. 2013). There is also

¹ The Expert Group consisted of Gertrude Tumpel-Gugerell (the Chair), Vitor Bento, Graham Bishop, Lex Hoogduin, Jan Mazak, Belen Romana, Ingrida Simonyte, Vesa Vihriala, Beatrice Weder di Mauro.

the risk that the member states would prolong their participation in the fund to benefit from lower financing costs for an extended time period.

Despite the above mentioned risks, the Debt Redemption Fund still offers a secure way of reducing the debt burden. As it requires paying in a collateral upfront, the debt default and moral hazard are reduced. In case of default low-debt countries will not be called upon to share the costs, which will be covered from paid-in collateral. Nevertheless, due to low political support work on the proposal has lately lost its impetus.

European bonds

Another proposal aimed at solving the sovereign debt crisis is issuance of common government bonds jointly guaranteed by all the EA member states. A concept of issuing European bonds dates back to the report prepared by the Giovannini group published in 2000 (European Commission 2000). In 2010, in the turmoil of the sovereign debt crisis, one returned to the idea of common European bonds – an instrument that would stabilise tensions in the bond market.

Potentially, European bonds might be an instrument used for financing borrowing needs of the EA member states. However, possibility of incurring a common debt requires changes of the Treaty. Issuance of jointly and severally guaranteed bonds violates the prohibition of taking over commitments of other member states. Only issuance of bonds guaranteed by an individual country is in line with the article 125 of the Treaty on the Functioning of the European Union (TFEU). Thanks to European bonds, countries struggling with high debt servicing costs would benefit from better reliability of other EA members. On the one hand, the most indebted countries would gain easier access to market financing, and the risk of losing market access would decrease. On the other hand, government bond yields of countries with sound public finance would increase. Theoretically, yields of the common bonds would be more stable and less prone to credit rating downgrades. The bond market would become more liquid, what would encourage investors to diversify their portfolios. Consequently, the position of euro as an international reserve currency could be potentially strengthened. In contrast, issuance of common bonds may lead to moral hazard and weakened budgetary discipline, both in low- and high-indebted countries. That is why the issuance mechanism should provide financial incentives to pursue sound fiscal policies. Moreover, participation in the issuance mechanism shall be conditional to prior fulfilment of agreed macroeconomic

and fiscal conditions, i.e. obligations stemming from the reinforced fiscal framework or the Stability and Growth Pact. A penalty system for non-compliance with the principles, i.a. obligation to provide additional collateral, possibility to impose penal interests or reduce issuance rights, should be also foreseen.

The idea of issuing EA common bonds returned in 2012 (European Commission 2012). European bonds with maturity of one to two years were proposed as one of the medium term reforms aimed at strengthening the EA institutional framework. In the blueprint, it was underlined that for the instrument to be implemented and to become operational, it should be accompanied by a deeper fiscal and economic integration. In the next stage, at the request of the European Commission, an expert group assessed possibility of issuing EA common bonds. They analysed main advantages and disadvantages of this financial instrument and sketched out how the mechanism might look like in practice. The experts came to the conclusion that the system shall cover only the short-term debt with maturity of one or two years. To protect quality of common bonds, countries receiving financial assistance under the ESM would be excluded from the issuance. They might join the mechanism after conclusion of the programme (*Final report 2014*).

It seems that common bonds would contribute to better financial integration and market stabilisation, primarily to a reduced volatility in the debt market. They should also protect against liquidity crises and loss of market access due to a sudden risk increase or loss of investors' confidence. In contrast, some experts (Gros 2011, Kullas and Hohmann 2012, Sinn 2011, Veredas 2012) do not agree with the above mentioned advantages claiming that the effects would not be significant. First and foremost, structural and financial sector reforms are needed. They think that efficiency of the reformed fiscal and economic governance framework must be checked before one decides to issue common bonds. Moreover, in the most indebted countries common bonds cannot replace measures aimed at reducing public debt (i.a. disciplined public finance, maintaining surplus in primary balance, promoting GDP growth).

In case of the debt issuance with maturity of up to one year and *pro rata* accountability, moral hazard would be smaller than if the issuance covers a larger debt, and the member states are jointly liable. To minimise the risk, one should create a system of incentives and sanctions as well as define rules to exclude a country from the common issuance, if it does not comply with the requirements. Moreover, preconditions for participation in the common issuance or a trial period should be defined. Kullas

and Hohmann (2012) express the opinion that it would be difficult with the usage of political tools to minimise moral hazard and substitute the disciplinary function of the market. They fear that over-indebted countries would benefit from preferential conditions to borrow further, and a weaker market pressure may diminish their incentives to implement reforms. The euro introduction contributed to lower interest rates in the so-called southern European countries, and consequently led to excessive borrowing and consumption. The same situation may happen with the European bonds. Profits from lower interest rates may be consumed, and no fiscal consolidation or economic reforms carried out. According to Daniel Gros, common European bonds are dangerous not only for the member states with high credit rating, for which the debt refinancing costs will rise, but also for small countries such as Finland or Estonia, which will co-finance debt of huge economies like e.g. Italy (Słojewska 2011). It is also doubtful whether bonds would be rated AAA enabling raising funds at lower costs. In contrast, de Grauwe (2011a) believes that common European bonds shall improve creditworthiness of the EA countries and market liquidity. The high yield countries would gain easier access to financial markets. Ubide (2013) shares the opinion claiming that common bonds may restore investors' confidence in the EA and solidarity among the member states. They would deepen integration of the EA banking system. Although their interest rates would be potentially higher than those of the German bonds, they might improve investors' confidence and reduce financing costs, what would eventually contribute to the GDP growth. To motivate the member states to keep the market discipline, Ubide (2013) opts for division of the debt into a part jointly guaranteed by all the EA countries (blue bonds) and a part for which a country would be liable individually (red bonds). The blue bonds shall not exceed 30% of GDP. Among the EA member states, Germany openly expresses its reluctance to the European bonds. It opposes guarantying debts of other countries for fear of the free-riding problem. It also wants to avoid bearing costs in case of the system failure. The Chancellor of Germany, Angela Merkel, is against common issuance of the European bonds and lowering financing costs for the countries with undisciplined public finance. She stresses out that the European bonds are non-compliant with the EU legislation (Bershidsky 2017).

All in all, issuance of common European bonds shall improve creditworthiness of the EA countries and market liquidity, as the high yield countries would gain easier access to financial markets. The EA countries would be jointly and severally

responsible for the issued bonds, what would signal to financial market participants that they think seriously about the future of the single currency area (de Grauwe 2011a). In addition, the European bonds may become an alternative to the US Treasury bonds and would attract investors, who would like to diversify their portfolios. In contrast, there is a risk that issuance of common bonds would lead to the free-riding problem and moral hazard. Countries with excessive debt will have no incentives to conduct balanced fiscal policies and implement structural reforms. Using higher creditworthiness of other countries, they will be less motivated to adhere to the market discipline. They may borrow excessively benefitting from lower interest rates. The issuance of common bonds may create an illusion for the most indebted EA countries that they do not have to implement structural reforms or reduce debt. Furthermore, cost of the common bonds will be mostly incurred by countries with sustainable public finance, since the interest rate of the European bonds will be higher than of their national bonds.

ECB as the lender of last resort

The opinion claiming that the European Central Bank should become the lender of last resort in order to ensure stability of the financial system, and its role shall not be limited to maintaining price stability emerged in the political and economic debate along with the spread of the sovereign debt crisis (*Strefa euro* 2013). It was shared i.a. by Wyplosz (2011), de Grauwe (2011b) and Krugman (2011).

In the EA, the ECB is responsible for the monetary policy, and the member states issue bonds denominated in the currency out of their direct control, which creates risk of liquidity crises. When risk aversion in the market is growing, countries may face difficulties in acquiring funds for financing their borrowing needs, what in the absence of the lender of last resort may lead to insolvency of an indebted country. In addition, there is a risk of contagion, and a crisis in one member state of the single currency area leads to a loss of confidence and panic in other EA countries. This results in increased interest rates on bonds and difficulties to service debts (de Grauwe 2011b). If the ECB had acted in 2010 as the lender of last resort and had provided support to the EA authorities, the liquidity crisis might have been avoided and the self-fulfilling prophecy of liquidity shortage reduced. The non-existence of such a safety network and panic in the bond market of the EA countries coming from an insolvency threat of individual countries resulted in 2010 in a significant increase of bond yields.

The ECB informally took over the lender of last resort function through its non-standard anti-crisis measures (i.e. bond purchase programmes in the secondary market – the SMP and the OMT, the covered bond purchase programme – CBPP, long term refinancing operations – LTRO). By purchasing bonds of the EA member states in the secondary market, liquidity was provided, contagion effect avoided, and interest rates of bonds of the most indebted countries decreased. Consequently, the debt servicing costs of the concerned countries were reduced. Just the announcement of an unlimited bond purchase under the OMT programme in September 2012 resulted in declined bond yields and calmed down the situation in the market. Although the TFEU prohibits the ECB to finance fiscal policies of the member states, i.e. to directly purchase government bonds and take over commitments of other member states by the EU institutions or by the EU countries, the ECB circumvented this rule by buying bonds in the secondary market, and not directly from the EA countries (Grosse 2013). The ECB non-standard measures were officially targeted at improving transmission of the monetary policy to the real economy and boosting lending by financial institutions. As stated by the ECB President, Mario Draghi, the function of the lender of last resort was beyond the ECB competencies, and the main objective was to ensure a stable value of money in the medium term (Mahony 2011). The non-standard measures were crucial to reduce divergences in bond yields and ensure financial stability in the EA. The ECB did not violate the TFEU by purchasing government bonds in the secondary market under open market operations, as it did not grant loans to the EA governments, but only provided liquidity to market participants, which were mostly financial institutions. For this reason, the ECB actions shall not be interpreted as financing budget deficits, as their objective was to ensure price stability (de Grauwe 2013). However, most of the open market operations, in which government bonds are traded, have fiscal consequences. Even if they are aimed at ensuring proper transmission of monetary policy, they lead to increased demand for government bonds and indirectly finance budget deficits.

The crisis and the threat of bankruptcy of some EA countries encouraged the ECB to take non-standard measures, which gave governments time to undertake reforms. They also stabilised financial markets and reduced debt servicing costs. The ECB non-standard measures were indispensable to reduce discrepancies in bond yields of individual countries and ensure financial stability in the EA. They also prevented long term deflation caused by reduced lending of financial institutions. The measures taken by the ECB neither boosted economic growth, nor solved EA problems; they postponed them.

Taking over the role of the lender of last resort by the ECB was necessary, but insufficient to solve the problem of excessive sovereign debts in some EA member states. Structural reforms, stimulating economic growth and reducing public expenditure are needed. The ECB interventions stabilised financial markets and gave EA governments additional time to implement reforms.

Central banks can effectively stabilise financial systems. The informal takeover by the ECB of the function of the lender of last resort and promise of an unlimited purchase of government bonds calmed down the situation in the market and contributed to decreased bond yields. Even if it might be politically difficult, the TFEU should be changed so that the ECB could intervene in the primary market and fully act as the lender of last resort. In times of crisis, the member states would be offered an unconditional liquidity support. However, the ECB should support and purchase only government bonds of solvent countries struggling with temporary liquidity problems caused by loss of investors' confidence.

Fiscal union and EA fiscal capacity

The discussion about establishing a fiscal union in Europe dates back to 1970, when the Werner Report foresaw the creation of an economic and monetary union with a centrally conducted monetary and fiscal policy. In 1977, it was indicated in the MacDougall report that the process of economic integration in Europe leading to a federal union requires a central budget which should eventually amount to 20–25% of EU GDP (European Commission 1977). Although this proposal has never been realised, the idea of creating a fiscal union in the EA returned together with the sovereign debt crisis. In federal states, there are central budgets performing stabilisation function which decide about approximately 50% of national expenditures, complementing an integrated monetary policy. In the EU, mainly for political reasons, stabilisation function was left within national competencies. The recent crisis showed that such setup, i.e. a centralised monetary policy not supported by a federal budget fulfilling stabilisation function, did not work well. According to the theory of fiscal federalism, stabilisation and distribution policies should be assigned to the central level and supported by a relatively large budget in the amount of ca. 20–25% of GDP. The Five Presidents' Report also called for creation of a shock-absorption capacity at the EA level to complement automatic stabilisers of the member states.

Establishment of a fiscal union is one of the ideas to ensure a long-term stability in the EA. It may be noted that institutional reforms, which have been introduced in the EA since 2010, head towards fiscal federalism and a fiscal union. According to Fuest and Pechl (2012) a future fiscal union should possess such elements as (1) fiscal rules and rules of fiscal policy coordination with a central surveillance over them, (2) a crisis management mechanism, (3) a central budget with its own tax revenues fulfilling redistributive and stabilisation functions, and (4) a joint guarantee of public debt. These elements would enhance a variety of available countercyclical instruments, ensure a more effective coordination of fiscal policies and a better protection against adverse effects of economic crises. This opinion is also shared by Belke (2013), who thinks that central surveillance over national fiscal policies would ensure stability in the EA. According to him, a fiscal union should operate a transfer system to countries struggling with economic difficulties, and enable issuance of a common debt.

In the EA, there are already fiscal rules and coordination of fiscal policies in place. A crisis management mechanism was established as well. However, a central budget with own tax revenues performing redistribution and stabilisation functions is still lacking. A central budget with own resources independent from the member states' contributions and fulfilling stabilisation function could be used to mitigate negative effects of asymmetric shocks and enhance economic convergence among the member states. A central fiscal capacity could replace the ESM and take over its mandate. Financial assistance for countries experiencing economic difficulties would be funded from the budget, and its receipt would be subject to implementation of an adjustment programme as it is so far. Some national tax revenues would be transferred to the central level, what requires social support and political will. However, increased expenses at the central level for stabilisation policy would result in their reduction at the national level. According to the theory of fiscal federalism, tax policy should be assigned to the highest government level just to eliminate tax competition. In the EU, mainly for political reasons, it was left at the national level. To reduce tax competition, only indirect taxes were harmonised and coordination of national policies introduced. Moreover, fiscal federalism recommends that public goods such as defence, infrastructure, consumer protection, education or immigration policy are managed by central authorities in order to enhance efficiency of their allocation. Nevertheless, transfer of these competencies to the central level should be carried out gradually, together with the deepening of integration and broadening of the EU's role in these areas (Szeląg 2008). As stated by

Dąbrowski (2013), transfer of responsibilities in the area of defence, security and border protection, foreign policy as well as environmental protection would bring economies of scale and reduce externalities. However, a fiscal union would not solve the problem of excessive public debt in the EA, and it is not a precondition of its functioning. A fiscal discipline achieved by properly enforced fiscal rules is crucial. Kawalec and Pytlarczyk (2013) think that creation of a fiscal union in the EA is unrealistic, and an increased EU budget or a separate EA budget would not lower discrepancies in competitiveness across the EA economies. In contrast, Bastian, Begg and Fritz-Vannahme (2011) support closer integration and introduction of elements of a fiscal union into the EA. The last economic crisis showed that a centralised monetary policy in the absence of a federal budget fulfilling stabilisation function does not function well in an economic and monetary union. For the stabilisation function to be effective, it should lie within competencies of the central level (Pisani-Ferry, Vihriälä and Wolff 2013). According to Wolff (2012), a fiscal union would enhance functioning of the EMU. He opts for the creation of an EA budget, which would financially support regions affected by asymmetric shocks and ensure financial stability in the whole monetary union. Countries with the real GDP growth below the potential value would receive financial assistance from the central budget and would be allowed to temporarily record budget deficits. Vetter (2013) proposed a similar solution, i.e. a common EA budget providing financial assistance when decrease of the output gap exceeds a pre-defined limit. It must be noted that in the years 2009–2012 negative and declining output gaps were recorded in the most EA countries. Therefore, in such a case the system might prove to be financially insufficient. Additionally, the way of calculating potential GDP growth is controversial. It is an unobservable variable, and its values depend on the selected calculation method. As there is a threat that countries would defer pro-growth incentives just to receive financial assistance, it is necessary to make the receipt of financial assistance subject to the implementation of structural reforms.

An EA fiscal capacity with its own revenues and expenditures, fulfilling stabilisation function would enhance macroeconomic stability of the EA. However, its establishment must be accompanied by stronger political and economic integration of the EA countries (i.a. of economic, fiscal, tax and social policies). Although centralisation of some budget revenues and expenditures seems to be economically justified, from a political point of view, it will be a major challenge. As the EA members are not eager to transfer some national competencies to the central level for fear of limiting their sovereignty, estab-

lishment of a federal budget financed by European taxes seems to be a far reaching idea. However, changes require a gradual approach. Ongoing work on the financial transaction tax, discussions on reforming financing system of the EU budget and on introducing the European VAT or other own resources suggest that the process aimed at making the EU budget independent from member states' contributions has already begun.

All in all, establishment of a fiscal union in Europe would be challenging, both from the political and the institutional point of view. One should solve problems with power transfer, power legitimation or division of risks and financial burdens. Additionally, existing legislation require changes. Consequently, reforms must be implemented gradually and in an orderly manner according to a previously agreed plan. Although the sovereign debt crisis was not caused by lack of a federal structure, it might reduce current problems of some EA countries with over indebtedness and improve political cohesion of the EA. Nevertheless, it seems that due to political and social reasons transfer of wider competencies to the central level is nowadays unfeasible. Even if assignment of major fiscal expenditures or transfer of some competencies in the area of fiscal policy to the EU level would be beneficial from an economic point of view, the member states are not eager to limit their national competencies.

Conclusions

The sovereign debt crisis resulted in a reformed economic governance and an enhanced financial system. Moreover, works on transferring further competencies to the central level, finalizing creation of the banking union and discussions about necessity to establish an EA fiscal capacity are underway. It should be underlined that the crisis will have far-reaching consequences for the EA institutional framework. However, one cannot focus only on short-term measures, but also on reforms aimed at ensuring economic stability and sustainable growth in the long term.

In the article, the most broadly discussed proposals of institutional reforms were presented and assessed. Although they address some weaknesses of the EA institutional framework revealed during the crisis, they still seem not sufficient to solve all the problems of the EA member states and ensure a long-term macroeconomic stability in the EA. Even if some of them, such as assigning the ECB the role of the lender of last resort, or creation of an EA fiscal capacity, are desirable, they are not the universal recipe to lower over-indebtedness, reduce discrepancies in competitiveness across EA

member states and boost economic growth. Moreover, their implementation requires Treaty changes, which might be politically challenging to pass through.

The crisis can be perceived as an opportunity to deepen integration in the EA, since it gives political arguments to transfer further competencies to the central level and acts as an incentive to implement difficult and unpopular reforms. Moreover, Brexit negotiations and possible changes in distribution of political power in the EU may impact the dynamics and scope of the EA institutional reforms. The EA is still an incomplete project requiring changes of its institutional framework and long-term solutions, which would make it more resistant to asymmetric shocks and economic downturns. It seems that reforms should head towards closer integration of fiscal policies: creation of a fiscal union with a transfer system and a federal budget with own revenues. Despite numerous voices that closer coordination of fiscal and economic policies of the EA countries is essential to ensure EMU's stability in the long term and protect it against future crises, creation of a fiscal union in the EA is still a far reaching idea. Transferring some elements of the fiscal policy (such as budget creation or tax collection) to the central level seems to be impossible today, as it would be perceived as an excessive restriction of national sovereignty. Therefore, at the moment most taxes and government spending would remain in national competencies.

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