Members of the Shadow ECB Council see the integrity of the currency union still endangered

At the meeting of the Shadow ECB Council on 26 February 2015, it became clear that most members do not expect the agreement of the Eurogroup regarding Greece to lead to a sustained reduction of political tension and associated worries about the integrity of the euro area. The average forecast for inflation in 2015 was slashed to zero, yielding an unusually large discrepancy with the forecast of the ECB staff from

December. Compared to three months ago, the average forecasts for inflation this year declined very strongly by 0.9 percentage points to 0.0 percent. This is an unusually large 0.7 percentage points below the ECB projection from December, implying that the new ECB projections, which are due to be published on 5 March might need to be lowered very significantly. The Shadow Council's mean forecast for GDP-growth in 2015 increased by 0.2 points to 1.2 percent, for 2016 it stayed unchanged at 1.5 percent.

Several members noted that the upwardly revised consensus forecast of the Shadow Council for growth might still be too low, as low oil prices, a lower value of the euro and a positive impulse from improving credit conditions would likely have a powerful positive effect on economic activity.

Coninue with the minutes of the Shadow Council meeting on the Website of Handelsblatt ...

Individual members' statements to kick-off the discussion

Andrew Bosomworth
Monetary policy has done enough for now

The ECB's QE has improved the integrity of the currency union. But the improvement is temporary. While QE will support growth cyclically, growth will not endure without fiscal agents helping too. The Juncker investment plan is also cyclically supportive of growth and will complement QE, however, the extent of private sector co-investment assumed in the plan is optimistic. More public funds may be needed to meaningfully raise output.o raise and sustain growth over the long-term eurozone governments need to be more ambitious with structural reforms and completing monetary union with deeper fiscal integration.A number of eurozone member states rank poorly on public sector efficiency and labour market flexibility. Member states need to converge upward in these two fields toward higher standards. Promising initiatives to reform Italy's labour market go in the right direction.The absence of a common fiscal capacity for the monetary union has effectively resulted in a capital market confederation. National regulators of the bank and insurance industries retain home biases when they define risk-free and risky assets for regulatory capital and liquidity purposes. This home bias keeps capital and liquidity segmented in particular regions of the monetary union. Negative policy interest rates and QE reduce this segmentation, but they are not a sustainable solution and segmentation may increase again once these policies eventually end. Monetary policy has done enough for now. Where change is needed is in the realm of the fiscal agents.

Sylvain Broyer
There is no need for further easing measures, so far
As regards the ECB, I think there is no need for further easing measures, so far. The portfolio channel has

started working even before the ECB starts buying bonds. With the AQR and the stress tests, interests rates on corporate loans – especially for SMEs in the periphery - have diminished significantly. Should the portfolio channel and the drop in lending rates remain ineffective to boost credit volumes and corporate investment, I would suggest the ECB to buy corporate bonds in addition to the current QE program in a first step, and to facilitate the working out of NPLs in a second step.The second proposal may need regulatory measures. On Greece: With Tspiras' concessions made to the Eurogroup, the Greek case is off the table for the next four months. BUT Greece will not have regained full market access by the summer and the country will most likely need another bailout program. The conditions of this new program will have to be negotiated, this time with a better position of the Greek government. In other words, the real game which will start in four months. This is called going back to take a better jump forward.

Elga Bartsch

The beginning but not the end of restoring the integrity of the currency union

I think, the agreements reached so far are the beginning but not the end of restoring the integrity of the currency union. A considerable risk of a Greccident over the next few weeks remains. This could either be an exit from the euro or the introduction of capital controls, which in my view amounts to a temporary suspension of full euro membership. The Greek economy seems to be sliding back into a downturn and this deterioration in the economic outlook will also have repercussions on the banking system. The ECB is key to the situation of the banks, not just because of the collateral waiver and ELA (which are decided by Governing Council) but also because of the directives given by the SSM as a supervisor of the largest banks, notably on the amount of Greek government paper the banks are allowed to hold.

Merijn Knibbe

Intense discussions, yes, brinkmanship, no!

The integrity has not been saved for good. The Eurozone can't stumble from one crisis to the next (Italy? Belgium?). The point is not the crises - crises will happen, at unpredictable times. But we urgently need another, more democratic as well as more 'federal', way to resolve them. Very intense, heated and personal discussions: yes, please! We've had too little of that, Mr. Schäuble! But brinkmanship: no. The future? During the last decades Finland, Ireland, the Baltics, Portugal, Greece, Spain, East Germany and in fact Italy, too (the difference between 'broad unemployment' and normal unemployment in Italy is, contrary to the situation in Greece, much higher than in any other Eurozone countries) have seen unemployment rates of above 15%. Which is an unambiguous failure of economic policy. The first step seems to be that we have to agree on this: über-unemployment is not an unavoidable 'equibrilating' force which ensures 'discipline' but it destroys human capital, families and households, housing markets and banks and even the social fabric which is the very basis of any kind of modern economy.