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## The euro area budget will improve economic policy coordination in the Euro area

Economic policy coordination in the Euro area is essential for a well-functioning monetary union. It makes no sense over the long run for economies which share a currency to diverge too much. Although we have strengthened the Eurozone considerably since the crisis, it still has weaknesses and its biggest is perhaps that economies of the Eurozone continue to diverge. Deeper and earlier coordination of economic policies should help the Eurozone's economies converge over time.

Today, the state of public finances in Eurozone countries is extremely varied. On the one hand, some countries still have high debt levels in the aftermath of the crisis. They have little room for manoeuvre for fiscal expansion. On the other hand, other countries have more fiscal leeway and could use this space to support economic activity. It is even more the case when there also are high current account surpluses. Such surpluses reflect economic competitiveness but they also underline the weakness of domestic demand. Using this fiscal space is even more important at a time when there are clouds on the horizon and economic forecasts are more gloomy.

The differences between Euro area economies call for a genuine coordination of economic policies in the Euro area. In case of a more severe economic slowdown, such coordination could make a real difference to the speed of recovery in the Euro area. The objective should be for member states to define together an efficient and appropriate Eurozone macroeconomic policy with takes on board where countries are in the economic cycle and their specific structural situation. Four principles should prevail: (i) continuing to reduce the high levels of public debt, (ii) pursuing the most needed structural reforms (iii) making use of fiscal space where available, and (iv) coordinating actions among European partners to maximize their benefits.

We all know that implementing structural reforms is of utmost importance as it is what makes the biggest difference to long term growth and competitiveness. France has taken decisive steps in this direction and will continue to do so. The PACTE bill, which should see it final adoption by Parliament before the summer, will overhaul the business environment to encourage business growth. It will help our SMEs to grow into mid-caps. Other ambitious structural reforms are also on the agenda: transforming our unemployment insurance scheme and our pension system to make them more resilient and fairer over the long run.

However, it is equally crucial to use fiscal space where it exists in order to support household's purchasing power as well as investment. Policies to that end include reducing the income tax for low-income households, supporting a robust wage growth and increasing public investment, where the focus should be on digital infrastructure, education, R&D and innovation. Such policies will also help to reduce Euro area macroeconomic imbalances, not by eroding competitiveness but by strengthening domestic demand. It will be a win-win approach that delivers higher growth for all Member States and lower debt for the Euro area as a whole, and in particular in today's high-debt countries.

Last but not least, our reliance on national fiscal policies in cases of downturns will be alleviated by the implementation of a budget at the Euro area level. The principle of a budgetary instrument for the Eurozone was agreed by Heads of State last December. Now we need to agree on its modalities by June 2019. It needs to be a real Euro area budget with permanent resources and a Euro area governance, which finances permanent expenditure targeted on actions that enhance future potential growth. Designing the Euro area budget in this way will ensure it supports the competitiveness and convergence of Euro area economies. When we have such a common budget, and it should be operational by 2021, this will be a key step in helping finance Ministers decide together priorities for investments and thus also a big step towards greater coordination of economic policies.