Resilience through solidarity in Europe - speech by Pierre Gramegna

View PDF
28/03/2023
Speeches
ESM
Kyoto, Japan

Pierre Gramegna, ESM Managing Director
“Resilience through solidarity in Europe”
Keynote speech at Nomura Central Bank Seminar
Kyoto, Japan, 28 March 2023

(Please check against delivery)

Good afternoon. I am greatly honoured to speak to this distinguished audience here in Kyoto, the historic and cultural capital of Japan. I have a special place in my heart for Japan, having served as Luxembourg’s ambassador to this country from 1996 to

2002. [*Translation of paragraph read in Japanese*]

Apart from my normal duties as ambassador, I initiated an annual photography competition for foreign diplomats in Japan. I'm pleased to see that more than 20 years later, the competition has become an established tradition that still continues.

In later years I maintained close ties with the Japanese government, business sector and financial institutions when I was Director General of Luxembourg's Chamber of Commerce, and afterwards as Minister of Finance. I valued these ties enormously, considering that Japan is a major economic power - the third largest economy in the world[1] and a strategic partner of Europe.

Today, I am very happy to be back in Japan in my new role as Managing Director of the European Stability Mechanism (ESM). The ESM was established by member states of the euro area in 2012 to help avoid and overcome financial crises and to maintain long-term financial stability and prosperity. You may recall that during the euro crisis, the ESM played a crucial role in safeguarding the integrity of the euro area by providing nearly €300 billion in loans[2] to five countries. After their programmes, all these countries had a good economic performance with stronger growth and employment creation than the average of the euro area.

One may say that, in a sense, the Managing Director of the ESM is an ambassador of the euro area. My predecessor, Klaus Regling, was certainly seen in such a way. I will do my best to uphold this role, and it should be said that the ESM Managing Director is well-positioned in this regard, leading an institution that acts for the benefit of all 20 euro area countries.

I work closely with the euro area ministers of finance in the Eurogroup. Having 20 different countries agree on certain issues may seem like a challenge. But the fact that we share the same underlying values makes things easier. One of the most important of those values is solidarity.

I believe solidarity is what makes Europe unique among other regions of the world. It is a value that lies at the core of many EU policies and institutions. Solidarity in crisis times is particularly important: Member States, as well as EU citizens, are not left unprotected if things go wrong.

The ESM is an expression of such solidarity. When the euro was launched in 1999, no one had envisaged that a member state could lose the ability to refinance its debt. A lender of last resort for sovereigns was needed, and the creation of the European Financial Stability Facility and then the ESM filled that gap in the euro area's institutional architecture. ESM members provided over €80 billion in paid-in capital to support the ESM's creditworthiness as a bond issuer. This is the highest paid-in capital of any international institution. This allowed us to secure the best credit ratings. In the same vein, it allows us to raise the necessary funds from investors at very competitive rates, from which beneficiary countries benefit.

The response to the euro crisis also strengthened other aspects of Economic and Monetary Union. Banks were required to increase their capital and liquidity. The supervision and resolution of the largest banks was moved from national to European level. A macroprudential authority and new regulatory authorities were created.

As a result, euro area banks are more robust and less vulnerable when cases of banking sector turbulence do occur – as we have seen recently with the collapse of Silicon Valley Bank in the US and Credit Suisse. The spillover effects for euro area banks were very limited, but we remain vigilant and monitor the situation closely.

I would like to highlight that the euro area's framework for crisis management is much stronger today than in the past. This makes a banking crisis turning into a sovereign crisis, as it happened during the euro crisis, less likely. Apart from the institution that I manage, the European Central Bank has at its disposal two instruments designed to support countries if they are faced by excessive borrowing costs.

The first is the Outright Monetary Transactions programme (OMT), created in 2012. A necessary condition for the use of OMT is the implementation of an appropriate ESM programme. The second is the ECB's Transmission Protection Instrument (TPI), introduced last year. Both instruments can effectively guard against market speculation.

Thanks to the wide range of measures deployed since the euro crisis, Europe increased its resilience. It was thus in a better position to withstand the double shock of the Covid pandemic and the economic consequences of the war in Ukraine. However, a strong and coordinated response was needed to address the unprecedented challenges arising from these shocks.

Soon after the Covid pandemic broke out, the EU created a safety net worth €540 billion for sovereigns, workers and businesses. The ESM participated in this package by creating a new credit line to support euro area countries in financing health care costs.

This was followed by the largest stimulus package ever financed in Europe: NextGenerationEU (NGEU). It was designed, on the one hand, to help the countries most affected by the pandemic in their economic recovery. But, on the other hand, it also aims to help invest in the green and digital transition of the European economies.

The total amount available to Member States exceeds €800 billion. About half of the funds are made available in the form of non-repayable grants; the other half in the form of loans. To finance this huge amount, the EU is issuing bonds that will be repaid from the EU budget. This is another compelling example of EU solidarity at work.

According to estimates, NGEU will increase the level of real GDP in the euro area by up to 1.5% by 2026.[3] This impact may even be higher in the main beneficiary countries. The expected increase will come through investment and structural reforms, which are required from countries in order to receive disbursements.

In 2022, in response to the energy market disruptions sparked by Russia's invasion of Ukraine, the EU announced a plan – known as REPowerEU – to make Europe independent of Russian gas and oil. This will be achieved by diversifying energy supplies, saving energy, and accelerating the transition to clean energy.

In this context, it is worth highlighting that Europe is the global leader in mitigating climate change. EU countries are required by law to cut greenhouse gas emissions by at least 55% by 2030. Furthermore, European leaders agreed an ambitious goal for the EU to achieve climate neutrality by 2050. Such measures also represent a form of solidarity; that is, solidarity with future generations. Our planet will become uninhabitable for them unless decisive action is taken now.

Europe is also a world leader in green and ESG issuance. The euro is the global currency of choice for sustainable finance, with 50% of global sustainable capital markets denominated in euro compared to the US dollar's 27%. And Europe leads the way in setting standards for sustainable finance, thanks to its "Green Taxonomy" - a classification system, establishing a list of environmentally sustainable economic activities. It has the potential to become the gold standard for global investors in green finance.

Climate change action, stronger resilience, more effective instruments – the common link between all these elements is Europe’s capability to work together to address common challenges. When new threats occur, Europe is in a stronger position to withstand them. It often overdelivers in the sense that its economic performance exceeds expectations.

This was the case with GDP growth following the recent energy price shocks. Last year, euro area GDP growth amounted to 3.5%, outperforming many other, seemingly less affected economies. And this year, GDP is expected to grow by 0.9%[4] – in contrast to some forecasts from few months ago which predicted a recession for the euro area.

While the economic recovery is still fragile, there are strong grounds for confidence in the euro area. One example of this is the fact that a new member state – Croatia – joined the euro on 1 January this year. And just a few days ago, Croatia became a Member of the ESM. This strengthens our capacity to safeguard financial stability for euro area countries, which also strengthens the euro as an international currency.

Support for the common currency in euro area countries is at record levels. Nearly 80% of the population express their support, and I believe it would be unthinkable for most people to be using any other currency.

In conclusion, the euro area has shown increasing resilience over the course of its history. Economic and monetary integration gives far greater leverage than if its Member States had to act individually. Working together, in the spirit of solidarity, supporting each other, addressing common threats and challenges: this is the source of our strength. Thank you very much.

---

[1] The fourth largest, if the euro area is treated as one economic bloc.

[2] Joint amount with the EFSF.

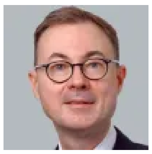
[3] ECB calculations, April 2022.

[4] Both figures according to EC Winter Forecast 2023.

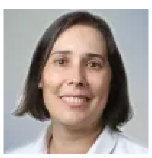
Author

Pierre Gramegna
Managing Director

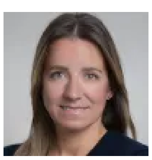
Contacts



Cédric Crelo
Head of Communications and Chief Spokesperson
+352 260 962 205
c.crelo@esm.europa.eu



Anabela Reis
Deputy Head of Communications and Deputy Chief Spokesperson
+352 260 962 551
a.reis@esm.europa.eu



Juliana Dahl
Principal Speechwriter and Principal Spokesperson
+352 260 962 654
j.dahl@esm.europa.eu