

“10 years after the Global Financial Crisis” - Speech by Klaus Regling

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Speeches

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Klaus Regling, ESM Managing Director
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Ladies and gentlemen,

It is the role of the ESM to safeguard the financial stability of the euro area. And likewise, the research of the Institute for International Monetary Affairs - and the debate it fosters - contribute to the stability of your region. That is why I happily accepted the invitation to speak here today.

As we discuss the decade after the global financial crisis - the subject of this symposium - let me remind you that Europe went through two crises during this period, not just one. The global financial crisis rapidly spread to Europe, but started in the U.S. This was followed by the euro debt crisis - entirely of Europe's own

making - which brought to light a number of design flaws in the monetary union.

Europe came up with a broad policy package to fix these shortcomings. Many innovations took place that would have been unthinkable only a few years earlier. The main examples are the Banking Union – with the Single Supervisory Mechanism and the Single Resolution Fund – and the ESM, a lender of last resort for sovereigns, a function that did not exist before the crisis.

That crisis period is now firmly behind us. The euro area has come out of the crisis stronger than it was before: economically and institutionally. Now the euro area is thriving again, which would not have been possible without these efforts.

In the fourth quarter of last year, the economy expanded by 2.7 percent compared to a year earlier. This is a very good rate, given our poor demographics. At the per-capita level, the euro area is now forecast to grow at a faster pace than the U.S. for four consecutive years, from 2016-2019. Growth is well-balanced, driven by private consumption and investment. All 19 euro area countries are expanding. The world economy, experiencing its broadest synchronized upsurge since the crisis, is, of course, helping.

At its current speed, euro area growth is nearly twice as high as potential growth, and will therefore inevitably slow. There is some evidence in a few euro area countries that labour and housing markets already risk overheating. Still, forecasts project only a gradual slowdown and above-potential growth into 2019.

Will politics throw a spanner in the wheels? I do not believe so. The election of President Emmanuel Macron in France marked a decisive turn against populism, in favour of Europe. It is true that Europe has seen a rise of populist parties across the board. Most are Eurosceptics. They will not disappear any time soon and that has made politics more complicated. Soon, elections in Italy will be a next test. But such moments will always occur in our democracies. Personally, I am heartened by the popularity of the euro. Support for the euro is at the highest level since 2004. I think politicians throughout Europe will take good note of that.

Let me say a few words on Brexit. I regret the departure of Britain from the EU. Politically, it is a severe loss. Economically, Europe may also feel some impact, but the UK will suffer far more. Already, the uncertain outcome of the negotiations with

the EU is casting a shadow over the UK economy.

And so - as always - a few risks remain despite the bright outlook. That is why it is good to think ahead and to better prepare for when the next crisis hits. And Europe is doing that, through promoting investment and structural reforms in all countries and through fiscal consolidation. With an aggregate fiscal deficit of less than 1 % of GDP the euro area has more fiscal space than most other countries and regions in the world. Finally, our work on deepening monetary union will make the euro area less vulnerable. Politicians have agreed to work on two issues during the next four months: completing Banking Union, and developing the ESM. Fiscal policy issues will be looked at later, because so far there is less consensus there.

To complete Banking Union, two further steps are needed. The Single Resolution Fund, which I already mentioned, needs a financial backstop, so that it has enough firepower to be prepared for even a very large crisis. This is a role that the ESM will probably play.

The other step to complete Banking Union is a common deposit insurance for banks. This is a controversial topic, because existing national deposit insurance schemes differ substantially and because banks in some countries suffer from legacy problem. These national asymmetries need to be dealt with first. Once that is done, a European-wide deposit insurance is the best guarantee against the risk of devastating nation-wide bank runs.

Now let me turn to developing the ESM. A stronger, more powerful ESM is not a goal in itself. But it can be an element to make monetary union more robust, and for Europe to take on more responsibility to solve its own problems.

I already mentioned a possible new role as a backstop for the SRF. There is also a growing consensus that the ESM should play a bigger role in euro area assistance programmes, and we are reviewing the toolkit of the ESM.

One possibility could be to provide new fiscal facilities, such as a macroeconomic stabilisation function. There are also ideas for a Sovereign Debt Restructuring Framework, to make debt negotiations with private creditors more predictable, without introducing rigid rules. The ESM could be tasked with organising these negotiations. But this requires more work and won't be agreed by June.

Finally on the fiscal side, there are also more far-reaching ideas, ranging from an annual budget for public goods like defending our common borders, fighting terrorism and climate change or defence, to a euro area budget for investments, revolving funds to tackle asymmetric shocks, reforming the fiscal rules, and a euro area finance minister. Like I said, this debate is still controversial and will require more time.

Ladies and gentlemen. The euro area economy is thriving today. Still, we know that one day, there will be a next crisis, and we can prepare for when that moment comes. More financial stability in the euro area is important for Europe, but also for the world economy. Since the crisis, Europe has travelled a long road towards that goal. A few small steps would complete it.

Thank you for your attention.

Author



[Klaus Regling](#)

Managing Director (2012 - 2022)

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