

From Repair to Vision: the ESM - Speech by Rolf Strauch

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From Repair to Vision: the ESM

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(please check against delivery)

Ladies and gentlemen,

I am very happy to be here, and would like to give you the view from the ESM on the topic of the panel. “From Repair to Vision” – that title is chosen well. First, let me talk about repairs.

After the crisis, the euro area put in place massive repairs. I identify two quantum leaps. The first was the Banking Union, with the Single Supervisory Mechanism, and the Single Resolution Board.

The ESM is the other quantum leap. It is a lender of last resort for euro area countries that lose market access, or risk losing it. This function did not exist in the euro area before 2010.

Many other policy decisions also helped to put the crisis behind us. Structural reforms at the national level were the most notable. As a result, the economy of the euro area is thriving again. And its institutions are much stronger than before the crisis.

Now that we're done with the repairs, the question is: what is next? In my view, we still need to make the euro area more robust, so that it will be better able to withstand the next crisis.

But I would be careful with the word "vision". Yes, we need a vision for Europe, and the euro area. But we are not aiming for another major overhaul at this point in time. The remaining reforms will enhance and consolidate past achievements, and are limited compared to what has already happened.

The Franco-German Meseberg declaration provided important input for the euro area reform agenda, as did Jean-Claude Juncker's State of the Union last year. Mario Centeno, President of the eurogroup, has summarized the agenda repeatedly in public.

We can hopefully decide on two topics in December: completing the Banking Union and strengthening the ESM. Agreeing on a euro area fiscal capacity will require more time.

A public backstop for the Single Resolution Fund is one step to complete the Banking Union. It has been agreed that the ESM will provide a credit line, to make the SRF more robust. Before this can work in practice, some technicalities still need to be resolved.

A common deposit insurance for Europe is a more ambitious goal, given the current lack of trust between countries. Such an insurance, however, is a crucial plank of the Banking Union and would help to prevent bank runs during a crisis. Before it can exist, it is essential that banks reduce problem loans dating back to the crisis, and build up more shock-absorbing buffers to protect taxpayers.

Strengthening the role of the ESM – the second topic on the agenda – is not a goal in itself. But a number of new tasks to make the euro area more resilient could be given to this institution, which has built up important expertise during the crisis, in areas such as debt sustainability and market access.

I already mentioned the backstop to the SRF. In addition, it is envisaged that the ESM plays a more prominent role in future assistance programmes, together with the European Commission. Europe has built up enough expertise to no longer have

to rely on the IMF as much as it did at the start of the crisis. Moreover, IMF members are asking why it Europe needs supporting. The continent is rich compared to other regions, and has now its own rescue fund. So we will not be able to count on the IMF in the future as we did at the start of the crisis. Stronger ESM involvement would require that the ESM is well-informed about all euro area countries, and not only during a crisis. We will of course ensure that there is no overlap between the European Commission and the ESM, and that their legal competences are fully respected.

Politicians are also revisiting the toolkit of the ESM. Out of our six instruments, only two have ever been used. The precautionary credit line is a useful tool to prevent a small crisis from getting out of hand, and we want to make it easier to use, without attaching stigma.

Finally, the ESM could oversee negotiations with private creditors in a sovereign debt restructuring, if our member countries want to set up a framework to that end. This could help to make such negotiations more transparent and more predictable.

On a longer time horizon, I hope that the euro area can agree on a fiscal capacity for macroeconomic stabilisation. The ESM could also play a role here, for instance by providing short-term loans, with higher conditionality than in regular programmes.

I will leave it at that, as I am sure that we will have much more to say on these points during our discussion.

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