Strengthening the euro area: benefits for global financial stability

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Rolf Strauch, ESM Chief Economist
"Strengthening the euro area: benefits for global financial stability"

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(*Please check against delivery*)

Good evening,

It's a pleasure for me to speak again at the Delphi Economic Forum. Since I was last here, in March 2017, the global economic environment has changed to the downside, and we are witnessing now a moderation of economic growth in many countries. This has to be broadly seen as the result of the maturing global economic cycle and the trade dispute between the US and China.

The euro area shows internal strength to weather the headwinds emerging on a global scale. Domestic demand is still rather supportive and labour markets in many economies are performing well, and in fact showing signs of labour scarcity in major euro area countries, which should support inflation in the coming period.

Moreover, during the past decade, countries most hit by the crisis have managed to overcome important imbalances. Needless to say that for Greece, but also for us at the ESM, the exit from the third adjustment programme after 8 years of financial support was a great step and clearly a symbol of leaving the crisis behind us.

We cannot, of course, close our eyes to the vulnerabilities that still exist in the euro area, and that are tangible in Greece. There are legacies of high private and public debt and remaining fragilities in the banking sector. The task to improve the robustness of the euro area and its economies remains. For Greece, this means first and foremost to keep a prudent fiscal path and strengthen its long-term growth potential. For the ESM, by far the largest Greek creditor for many years to come, this is a key concern. On that account, we can only ask the government not to roll back on the policy reforms of the programme.

At European level, the key task is to complete the steps taken during the crisis to improve the institutional setup of Economic and Monetary Union (EMU). This setup has been significantly strengthened by two quantum leaps: first, the Banking Union, with the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM).

And second, the crisis resolution mechanisms EFSF and ESM. The ESM is the lender of last resort for euro area countries. It is the rescue fund for euro area countries in severe financial distress. This function did not exist in the euro area before 2010.

Last December, the Heads of State and Government endorsed a package of reforms to further strengthen the resilience of the euro area. The further development of the ESM is a major part of the reform package.

The ESM will provide a backstop for the Single Resolution Fund (SRF) that will be introduced at the latest by 2024.

Furthermore, in close cooperation with the European Commission, the ESM will also take a stronger role in the design, negotiation and monitoring of financial assistance programmes.

In addition, the eligibility process for the ESM's precautionary credit lines will be more transparent and predictable. We want to make them easier to use, without attaching stigma for the requesting country.

Finally, the ESM will be able to facilitate the dialogue between a euro area country and private investors when there is a debt restructuring.

Thanks to the measures I've described, the euro area has now stronger institutions to deal with a potential future crisis. But the reform agenda needs to be advanced so that we are all better prepared for a potential new crisis.

We should work towards the completion of Banking Union. The creation of the third pillar – the common deposit insurance scheme – and the conditions for taking this step are currently being discussed. In the same vein, further efforts are needed to create a Capital Markets Union in Europe. This would increase and diversify sources of funding, enhance private risk sharing, create new opportunities for investors, and make markets work more effectively, especially across borders.

For the longer term, the creation of a common European "safe asset" could be another step to promoting financial integration in Europe, as well as strengthening the euro's role internationally. However, such an asset would have to be devised in a way that avoids the mutualisation of debt and permanent transfers among euro area Member States.

This brings me to my concluding argument: A globally stronger euro would improve the resilience of the international financial system, and would provide market participants around the world with additional choice and make the international economy less vulnerable to shocks linked to the strong reliance of many sectors on the US dollar.

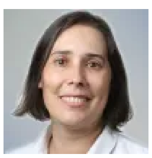
It is impossible to predict the exact nature of the next crisis. But if policy makers in Europe focus their efforts on completing the agenda of reforms for strengthening EMU and the international role of the euro, we will be much better prepared to weather any threat that such a crisis might bring.

Author

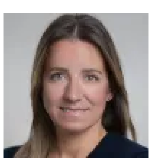
Rolf Strauch
Chief Economist and Management Board Member

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