Euro reform, financial and fiscal perspectives for the European Union - speech by Klaus Regling

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Ladies and Gentlemen,

I would like to thank Mr. Papakonstantinou for the interesting introduction. Indeed, this is the right moment to discuss the euro and the different elements of the reform agenda.

In December, the Heads of State and Government decided to further deepen the monetary union, complete banking union, to strengthen the ESM and to develop new fiscal tools. I will take the opportunity today to go through them with you in a bit more detail.

During the euro crisis, it became clear that during the first decade of monetary union, there had been some considerable failures of the Member States with regard to competitiveness, public debt, as well as real estate bubbles. In addition, the monetary union had institutional weaknesses and gaps.

Thanks to a broad package of reforms, including the creation of the rescue funds, the euro area is on much more solid ground today.

Since 2011, the funds - European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM) - have disbursed €295 billion to Ireland, Portugal, Greece, Spain and Cyprus.

Today, Portugal, Ireland, Spain and Cyprus are success stories as they are experiencing high growth and rapidly falling unemployment rates. And they can easily refinance themselves on the market again.

The recent upgrade of Portugal’s sovereign debt by rating agency S&P is another sign of optimism. The yield on Portugal’s 10-year bonds is now below 1.5%, which is an enormous feat if you remember it peaked around 17% in 2012.

Greece left its programme only last August. The extent and depth of Greek problems exceeded by far those of the other programme countries. But even Greece can be a success story, provided it continues its reform path. Greece’s positive growth outlook, its recent rating upgrade and its successful 10-year bond issuance this month are a testimony of that.

I will comment briefly on the reform of the ESM and then say a few words on the other decisions of the December summit. First, the ESM will take on the role of a backstop for bank resolution within the Banking Union. This backstop would only become active if the funds of the Single Resolution Fund (SRF) were insufficient in a crisis. If the ESM has to provide money to the SRF, the Fund will claim this money back through contributions from European banks and pay back the ESM within three to five years. By 2024 at the very latest, the backstop will be fully operational.

Second, the ESM will play a stronger role in future programmes and here I would like to emphasize that we work in close cooperation with the European Commission.

Together with the European Commission, the ESM will design, negotiate and monitor future programmes. In November, I agreed with Commission Vice President Dombrovskis and Commissioner Moscovici on our future cooperation and the Euro Summit confirmed this. So we work together, as a tandem, drawing strength from the complementarity of our expertise, and not in competition.

Third, the ESM's toolbox is currently being reviewed. Overall, the ESM has various financial instruments. So far, only two have been used: long-term loans under an ESM adjustment programme, disbursed to Greece, Ireland, Portugal and Cyprus, and one loan to Spain to recapitalise the banking sector. We also have precautionary credit lines in our "toolkit" but they have never been used. The Euro Summit decided to make the ESM precautionary credit lines more efficient and easier to use.

Fourth, the Euro Summit decided to strengthen the role of the ESM in matters of debt sustainability. It is the ESM's role to take a creditor's perspective. According to the ESM Treaty, the ESM can only lend to Member States if their debt is sustainable. In the future, the Commission and the ESM will jointly develop a debt sustainability analysis for programme countries. In addition, the ESM can facilitate future discussions between creditors and a government on a possible debt restructuring, if this is desirable and useful.

The intention is not to have more debt restructurings but to have more transparency and predictability.

In addition, the summit mandated the Eurogroup to work in two areas where Member States have very different views so far: A common European deposit insurance scheme and a euro area budget.

We know that a European deposit insurance is important for the completion of banking union; one can debate on the preconditions that have to be in place, but ultimately, it would be extremely beneficial. For instance, the ESM programmes of the last few years would have been much smaller if we had had a common deposit insurance.

Despite the divergent views in our Member States, I am confident that a European deposit insurance scheme will come eventually.

Regarding the euro area budget, the summit mandated "the Eurogroup to work on the design, the modalities of implementation and timing of a budgetary instrument for convergence and competitiveness".

This is a positive step as it will encourage structural reforms and strengthen competitiveness in the euro member states. This will enhance the resilience of the monetary union as a whole. Details of this budgetary instrument are currently being worked out, the amount is undecided for the time being and it is clear that it will be developed in the context of the EU multi-annual financial framework. The Eurogroup has until June to agree on the features of this instrument.

In my view, there are good reasons to also talk about a fiscal instrument for macroeconomic stabilization in this context but we are far from a consensus on this among Member States.

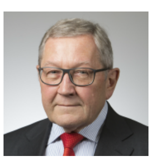
All of this is linked to another point, the international role of the euro, on which I will conclude my initial remarks. From the discussions the ESM has with investors around the world on our roadshows and during our market activities, it is very clear that investors are looking at this topic, they ask questions.

If we succeed in deepening monetary union further, that would certainly also help in strengthening the euro's global role and I believe the time is right to do so, not only to improve the functioning of the international monetary system, but also to protect Europe's interests.

Ladies and gentlemen, I will stop here as I am sure we will return to this topic during our discussion today.

I thank you for your attention.

Author



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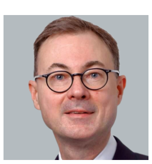

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