A Crucial Year for Europe - speech by Kalin Anev Janse

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Good morning ladies and gentlemen,

It has been quite a start of the year for Europe: changing geopolitical roles, trade war, elections renewing the entire European leadership, and uncertainty surrounding Brexit – while Europe maintains the ambition to deepen further Economic and Monetary Union (EMU).

Let me start with the recent **European Parliament elections.** This is the second largest democratic process in the world, following India, with 400 million citizens eligible to vote. This election opened a new political and institutional cycle for the European Union.

Europeans this year showed that they do care about elections. That they want to have a say. That their voice matters. And this resulted in the largest turnout since 1994.

Unsurprisingly, the two largest parties saw their share of the vote erode. This is not new, we also see this trend within EU countries: dominant parties are losing votes and smaller parties are gaining them. But the far-right fell short of overthrowing Europe's political mainstream. They won more seats than in prior elections but had a smaller gain than expected. Political parties in favour of European integration will continue to dominate the European parliament.

This, for me, is a clear sign that European integration is not set to derail, as some are forecasting. I would rather argue the opposite.

Think about it. If you take everyone who was born in 1991 or later, you have around 1/3 of the population in the euro area. They have never used any currency other than the euro. Imagine taking that experience away from your 17 year old. And having to explain that you would need to use three different currencies when travelling from the Netherlands to France, via Belgium and Luxembourg – a mere four hours' drive.

Thus it is not by chance that support for the single currency has never been higher. Three quarters of people in the euro area are in favour of the euro, and it is 81% in Germany. Around 340 million European citizens use our common currency every day. Almost 70% of Europeans consider that their country has benefited from EU membership. These facts stand in contrast to a perceived rise anti-euro sentiment in many countries.

And it does not look likely that the populist parties will be able to unite more than they already have, given their wide disparity of opinions. Although most are opposed to migration, they hold very diverse views on the best way to tackle it. This also holds true for other issues such as free movement in Europe, the euro, transatlantic relations, and NATO membership. It's fair to question whether or not they will be able to agree enough to pass legislation together.

Ultimately, Europeans understand the benefits of international cooperation very well.

Voters want more, not less, of Europe. People recognise that countries need each other to address issues such as sustainable growth, unemployment, migration, the threat of terrorism, and **climate change**.

One priority clearly shown by election results is that citizens want Europe to tackle climate change. Green parties were one of the winners, with the surge especially strong in Germany. And **environment, social responsibility, and governance** is not only a concern for voters but also for investors, as you will discuss later today.

With the two main parties short of a majority, decision-making will be more complex. Although the new European Parliament will largely remain pro-European, parties will need to find different allies for diverse issues. The ability of parties to work with opponents across the aisle will determine whether tangible results for EU citizens can be achieved.

The coming weeks and months are crucial. The president of the Commission and its 27 EU Commissioners need to be appointed. Choosing strong Commissioners is important as they will help to define Europe's direction in the coming half decade. A new European Commission will determine political priorities and policy going forward.

And there is more to come. The term of Donald Tusk, president of the European Council, as well as that of Mario Draghi, president of the European Central Bank (ECB), expire towards the end of this year.

A new – and fresh – group of leaders will be in charge of taking Europe forward through a tumultuous and unpredictable global landscape.

I am confident that together we will manage. We have proven in our recent past that we can tackle such complicated problems together. During the **euro crisis**, the European Union implemented a broad package of measures, which were successful because of their combination.

Far-reaching reforms – especially in member states with ESM programmes – have eliminated countries' most pressing problems. The ECB's unconventional monetary policy was indispensable to Europe emerging from the crisis. And the institutional architecture of the currency area was substantially strengthened by the creation of banking union and the two rescue funds.

In 2010, the temporary European Financial Stability Facility (EFSF) was established, and two years later the permanent European Stability Mechanism (ESM). Without the creation of the rescue funds, former programme countries such as Greece, Ireland, and Portugal would probably have been forced to leave the monetary union.

The rescue funds, although very young – merely nine years old –nevertheless have played a key role in keeping the euro area intact during the sovereign debt crisis and has become one of the largest euro-denominated bond issuers.

So coming back to sustainable policies, although the ESM does not currently issue green or social bonds, it does help euro area countries in crisis situations to become growth champions.

The ESM disburses loans only if beneficiary countries implement extensive reforms. The principle of “loans for reforms” has been used effectively for decades at the IMF. And despite what some people claim, ESM programmes are not funded by taxpayers’ money.

The two rescue funds raise financing for loans on the market through bill and bond issuances. Programme countries have to fully repay their loans with interest.

As shareholders in the rescue fund, the 19 euro area countries do face risks because national budgets are liable for loans that are not repaid. The ESM has the highest paid-in capital of all international financial institutions with €80 billion. The capital serves as a security for investors.

This security is why the ESM has an excellent rating and therefore pays low interest rates in the market. The ESM passes on its favourable financing conditions to the beneficiary countries. The low interest rates lead to significant budgetary savings. In the case of Greece, this amounted to around 12 billion euros in 2017, which is almost 6% of Greek economy output. We will soon publish the figure for 2018 and it looks like it is even going to be slightly higher.

We have €**300 billion worth of outstanding bonds** with participation from **1,600 investors**, and this year we are planning to raise over €32.5 billion.

In the years following the sovereign debt crisis, Europe continued to demonstrate its capacity to overcome difficulties and to generate sustainable growth. Europe is now in a much stronger position to face economic and financial uncertainty and risks than before the crisis.

There is good news – and we can be proud of that. **We have enjoyed more than 20 quarters of continuous growth**, which means that even throughout the crisis, the euro area as a whole grew. The unemployment rate in the euro area is expected to fall below pre-crisis levels in 2020. We have also seen debt levels go down – while US debt levels are rising. But we need to keep an eye on the risks, such as the trade tensions between the US and China, and Brexit.

There is no room for complacency. Citizens ask us to focus on the economy, growth, and youth unemployment. A lot still needs to be done to prepare the euro area for the next crisis.

We saw the market reaction to the re-escalation of trade tensions between the US and China. Since then we have observed an increase in risk aversion globally. I was in Asia two weeks ago and this is definitely a concern. This is also true beyond Asia, as an escalation of protectionism would have significant consequences for Europe as well.

And, of course, the uncertainty around Brexit is not helping. While the impact is the biggest for the UK, it will still hit countries strongly connected to the British economy. Simply put, the process to strengthen EMU needs to continue. We need to push reforms forward.

To prepare the euro area better for the future, the Heads of State or Government at the **last euro summit** adopted a **reform package to deepen monetary union**. This involves the completion of banking union, fiscal issues, and the further development of the ESM. What do these changes mean for the ESM?

First, the ESM will take on the role of a **backstop in bank resolutions** in banking union. This backstop would be used only when the resources of the Single Resolution Fund (SRF) are insufficient. 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 a business cycle. Therefore, there will be no use of taxpayers’ money. By 2024 at the latest, the backstop should be fully operational.

Second, the ESM will play a **stronger role in future financial assistance** programmes. In collaboration with the European Commission, the ESM will design, negotiate, and monitor such programmes.

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.

The ESM may **examine** for internal purposes the **macroeconomic and financial situation** of its Members including the sustainability of their public debt.

Third, the **ESM's toolbox is currently under review**. 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, without attaching stigma for the requesting country.

The Summit also mandated the Eurogroup to work in two areas where the discussions are still controversial: a common European deposit insurance and a euro area budget.

Some elements of this agenda are expected be decided or endorsed already at the next Euro Summit in June 2019. Others, in particular the completion of banking union, may require further discussion.

I believe that as the results of these decisions become more tangible, this will help to boost sentiment in financial markets towards Europe further.

So what comes next you may ask me. I would say there are four developments to watch going forward.

First, **Capital Markets Union** needs to be a top priority. Europe needs to tackle the fragmentation of financial markets across the currency union and to create a single European financial market. The degree of financial market integration in Europe today is far below the level it was 10 years ago. There are 19 national financial markets in the monetary union, not one integrated market.

This prevents risk-sharing across the markets, which works so well in the US and ensures a quasi-automatic macroeconomic stabilisation.

Second, the EU needs to be attractive for private investors without undue barriers that make it difficult for money in one country to be invested in another.

One concrete outcome could be the start of a **European Debt Issuance Instrument** for public institutions. The European Central Bank has just started a public consultation to discuss the issue. Let’s first look at the rationale behind this project.

The primary bond market infrastructure looks today as it looked in the 1990s. People still work on the phone, personal contacts between funding staff and banks and their “market feeling” play a major role. There are many system breaks in communication, data, and settlement processing. The book-building process is rather inefficient.

The idea would be to build a stable and efficient chain of processes for the entire issuance process on the European bond market.

A single and synchronised system from the front to the back end would make the issuance process for issuers, banks, and investors much more efficient. That starts with the announcement of a bond deal and it would continue up through the settlement of the entire transaction.

This would increase standardisation in the currently fragmented market for public debt in the euro area, and finally ease investor access to the primary market. With this new service, we would get a deeper and more liquid market.

This would also lead to greater resilience, which is a big advantage in times of crisis or when political tensions affect markets.

Third, the creation of **safe assets** would be another important step forward to integrate markets, and to render the euro more attractive for international investors.

There are academic proposals, which are very creative, that mimic a safe asset through financial engineering. But, so far, these ideas have not convinced the rating agencies. In the end, there may be no other way than to strengthen trust in budget policies in the countries of the euro area. Once this happens, parts of national debt could perhaps be mutualised in a decade or two.

Creating a more liquid and deeper euro area market for securities would also strengthen the international role of the euro and this brings me to my fourth and last point.

With Europe's greater resilience and independence, the euro has the potential to play a bigger part on the global stage. And let me be clear: it should not be our ambition to replace the dollar but to contribute to a **multi-currency system**.

Let's do a little test. Who knows what the world's reserve currency for much of the 17th and 18th century was? Hardly anybody remembers – it was the Dutch guilder. The Netherlands was one of the world's largest economies. The Dutch East India Company held the biggest ports and trade routes globally and the Bank of Amsterdam created a fiat currency. If you wanted to trade, you needed the guilder. By the 19th century, the British pound replaced the guilder because of England's rapid industrialisation and growing empire.

Several decades later, when Europe was devastated by two World Wars and the US became the world's biggest economy, the dollar quite naturally became the world's reserve currency.

According to most forecasts, China will become the largest economy in the world by 2030, followed by India. If history teaches us anything, the renminbi may have the best odds. But should we not try to wait with the pen and make sure we help write history?

If we want to design a fairer, equal and more balanced global financial system, then a multi-currency world would be the right answer for the 21st century. A world in which several currencies have a comparable role, including the dollar, the euro, and the renminbi.

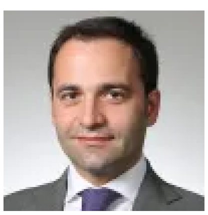
This may sound unachievable to most of you, but we need to look beyond what is in front of us if we want to stay relevant.

I do believe that if the challenges ahead are handled well, **Europe will grow stronger**. And that is important. Because cooperation between European countries protects the values we hold dear, such as solidarity and tolerance, a fair and prosperous society — as has become clear after an unprecedented 70 years of peace at the core of the continent and the security of its citizens.

Policy makers need to make sure they can keep this promise and live up to the expectations of European voters going forward.

Thank you.

Author



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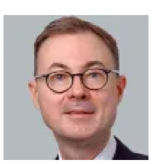

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