

“Trade Wars: Impact on macro economy, monetary policy and challenges for Europe” - speech by Kalin Anev Janse

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Thank you for the kind words, Louis.

As a graduate, the **Francis Fukuyama “The End of History and the Last Man”** became very popular, contending that the end of the Cold War in 1989 and the fall of the Berlin Wall - exactly thirty years ago tomorrow - was the “end of history” and that Western liberal democracies and open market economics were the victors.

Thirty years on, events have proven not to be as linear nor probably as boring as portrayed by Fukuyama, as we are confronted with geopolitical tensions, disputes that threaten free trade: and challenges to economic sustainability posed by

climate change.

Nevertheless, I am optimistic about our future – certainly about Europe – and let me tell you why.

1. Europe has done a lot to reduce vulnerabilities

First, the euro area was able to overcome its worst crisis and is better positioned and works better today than ten years ago. This is the result of a broad package of measures, successful because of their combination. The most important were indeed the far-reaching reforms, in particular in member states with ESM-loans, which largely **eliminated macroeconomic imbalances**.

The European Central Bank's unconventional monetary policy was another crucial element to get out of the crisis. At the same time, the coordination of economic policies at EU level has improved significantly. And the institutional architecture of the currency area has been substantially strengthened by setting up banking union and the two rescue funds EFSF and ESM.

The **EFSF and ESM** disbursed **295 billion euros**, since 2011, to Spain, Portugal, Ireland, Cyprus and Greece. Today, four former ESM-countries Ireland, Portugal, Spain and Cyprus are experiencing high growth and rapidly falling unemployment rates. And they can easily refinance themselves on the market again. Greece is also on the right track to becoming a success story, provided it continues the reform path.

Second, as I mentioned, Europe has gone beyond quashing the crisis by tremendously **enhancing its financial architecture** to better manage macroeconomic, banking and market risks in the future.

Europe moved the supervision of the largest banks to the newly created Single Supervisory Mechanism and implemented a Single Resolution Mechanism for failing banks. Banks have also considerably reduced risk levels through improvement of non-performing loans and capital ratios and the build-up of liquidity buffers.

European citizens agree. Three quarters of people in the euro area are in favour

of the euro. The highest level of support since the creation of the single currency in 1999.

Furthermore, despite the advance of populist parties, the clear majority of pro-European parties in this year's European Parliamentary elections showed that most European citizens want more of Europe, not less.

But are we done? Certainly not.

The euro area is better equipped today, but more should be done to further strengthen the euro area's financial architecture.

2. Europe needs to finalise ongoing reforms.

We have great initiatives in Europe and we need to finalise and deliver on them.

Recently, the EU Member States agreed on a **reform package**. This involves initiatives, some of which will take longer to implement than others. The reforms include the completion of the banking union, the strengthening of the ESM, and more work on banking union and Capital Market Union (CMU).

Indeed, last summer, the Eurogroup broadly agreed to **enhance the ESM's role**. A firm decision could come in December. This entails the following changes for the ESM:

The ESM will provide the backstop to the Single Resolution Fund (SRF), making the crisis management of large banks more robust. It will play a stronger role in future economic adjustment programmes, and together with the Commission, the ESM will design, negotiate and monitor future programmes. The eligibility process for its precautionary lines will be made more transparent and predictable.

And finally, the ESM may, upon request, facilitate the dialogue between a euro area country and private investors if a debt restructuring is needed.

3. Longer term reforms

But we need to do even more.

Looking further ahead, there are several important areas where Europe needs to make progress in the coming years. They are controversial among member states but it is important to discuss them.

First, a **common deposit insurance**. Currently, the level of deposit protection still depends on national resources and conditions, which keep banks and depositors vulnerable to local shocks. With an identical level of depositor protection across the euro area and a weaker link between banks and sovereigns, financial fragmentation would decrease, and so would the risk of bank runs in a crisis. If we had such a mechanism in the last 10 years, the link between banks and sovereigns would not have played such a role in amplifying the crisis.

Second, a **fiscal capacity for macroeconomic stabilisation** is needed in my view and in the view of all European and international institutions. This is again a controversial topic. But it is a key element missing in the architecture of our monetary union. This could manifest as a complementary unemployment scheme on top of national schemes, rainy-day-fund, investment protection scheme or short-term ESM loan. Such a tool could be designed without creating additional transfers. Europe does not need an annual budget for macroeconomic stabilisation, but a revolving fund.

Progress in these two areas and in creating a **capital markets union**, I believe, would improve risk-sharing within the monetary union significantly.

Third, the creation of a **European Safe Asset would** increase the volume of highly rated assets that is crucial for investors such as banks, insurance companies and pension funds and is now limited to a few sovereign and supranational issuers, and is actually shrinking.

It would provide a **common benchmark** that could become a benchmark for issuers and buyers of European bonds. It would also allow Europe's banks to diversify their holdings of debt away from domestic sovereign bonds, and to attract more international investors to Europe. It would be a crucial step to integrate markets.

Finally, we need to boost the Capital Market Union to increase the **market-based financing** capacity and reduce the over-reliance on banking finance in Europe.

As part of this, policymakers have set as priorities. To develop equity markets (flow venture capital, to private equity to equity capital markets) in order to reduce the share of banking finance in the EU, ensure greater fluidity of financial flows between EU financial market places and develop debt, credit and forex financing tools to strengthen the international role of the euro.

A robust European financial architecture is key to ensuring **Europe's strategic importance** going forward.

So ... was Fukuyama right? I would say History is not at yet its end and am sure it can still surprise us, so ... I would not stop watching.

Thank you

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