

Klaus Regling, ESM Managing Director
The next steps to make the euro area more resilient
Munich, 16 February 2017

(Please check against delivery)

Ladies and gentlemen,

It is a laudable idea to discuss the biggest challenges that Europe is still facing. But we should be careful not to give the impression that Europe is in perpetual repair mode. On the contrary, the crisis is well behind us, and we have come out of it stronger than before.

It is important to say this publicly, because many people may still have their doubts about how we handled the crisis. The period has – understandably - damaged their trust in banks and in politicians. It has added to an erosion of trust in the elites that you see in almost all Western democracies. And as all of us on this panel are part of the establishment, it is worth asking: could we have done better?

Euroscepticism is one of the biggest risks in the eyes of the financial markets, because of this year's elections in the Netherlands, France and Germany. Populist movements have sprung up throughout the world, but mostly in Western countries. And I think that, yes, we could have done more to prevent this.

Firstly, income inequality has risen more than is healthy for a society in the past 25 years. The excess of greed at the top of our society is an important factor to explain the rise of populism. It is true that Europe is doing much better in terms of income equality than the United States. But the gap is widening in Europe too, and more can be done to compensate those who are falling behind in the race.

I already alluded to the second criticism, which is that we haven't done enough to explain how well Europe has handled the crisis. The euro is now on a much more stable footing than before the crisis, and the euro area economy more resilient. The fact that not enough people are aware of that carries a risk. It means people may think that money has been wasted, without much improvement. It could also mean that many people do not trust Europe to deal with the next big challenges, such as immigration and security, global competition and climate change.

So let me address this communication issue and share my more optimistic view on Europe. After the crisis, countries did much-needed homework to restore competitiveness and reduce budget deficits. Macroeconomic imbalances have now largely disappeared.

The EU has also made great strides by setting up two new institutions as part of Banking Union, the Single Supervisory Mechanism and the Single Resolution Fund.

Last but not least, the ESM, which I manage, is a lender of last resort for sovereigns, a function that did not exist before. We have disbursed €265 billion to five programme countries. These loans are

tied to strict conditions for economic reform. Four out of five countries have now exited their programmes through decisive reform action. They have left the crisis behind, and regained investor trust. Of these, Spain and Ireland are the economic growth champions of Europe.

Greece is a special case. Nowhere the extent of the problems was as large as in Greece, and the administration as weak. But Greece can also turn the corner and regain the trust of the market, as long as it implements the agreed reforms with determination.

In short, Europe has made major strides in its macroeconomic policy and institutional architecture. Much of the progress that was made would have been unthinkable only a few years ago. The economy is reacting accordingly, and grew above its potential rate last year, at a faster pace than the US. This is good news indeed.

So does the building that houses monetary union need more construction work? Yes, but it is minor compared to what has been done. I would urge establishing a European system for deposit insurance to complete Banking Union, as long as important legacy issues are dealt with first. A limited euro area fiscal capacity could be another valuable addition, to strengthen the foundation of monetary union even further. I know that this proposal often triggers a defensive reflex in Germany. So let me stress that a limited fiscal capacity is possible without debt mutualisation of euro area members, and without further permanent transfers.

Countries need to continue with structural reforms, some more than others. In the private sector, banks need to work hard to become more profitable, which would be beneficial for financial integration and for greater macroeconomic risk-sharing. The Capital Markets Union is a worthwhile initiative to support those efforts.

You will agree that this is a relatively modest priority list compared to 2010, when monetary union faced an existential crisis. I am not of the opinion that we need a full fiscal union for a proper functioning of monetary union, let alone a full political union.

It is telling that people don't worry about the state of the economy so much any more. Now immigration and security are the top concerns in opinion polls. By their very nature, these are cross-border issues, and populists should not pretend that they have the answer in the form of protectionism. Only international cooperation can address these issues, and there is no better platform to do so than the European Union. The best evidence for that is the recent strong performance in fighting the euro debt crisis.

Thank you, and I look forward to our discussion.