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KLAUS REGLING
Managing Director
European Stability Mechanism

MESSAGE FROM THE MANAGING DIRECTOR

Europe's leaders commemorated the founding of the European Union in Rome, the city where six countries tied their fate together 60 years ago, in March of this year. It is all the more welcome, then, that recent national elections point towards a continuation of pro-European policies, rather than the abrupt change in the opposite direction many were predicting a few months ago. The French election was the latest affirmation of the spirit of cross-border cooperation that underlies the 1957 Treaty of Rome.

This clear result shows that Europe's citizens have understood it would be a profound mistake to undo the work that has brought six decades of peace and prosperity to our continent. Europe's most urgent challenges – fighting terrorism, protecting our borders, making the euro area more robust, and climate change – can only be tackled if countries join forces. That does not mean we have to give up national identities. Nor does it mean a gradual move towards a federal Europe. But even when countries act purely out of self-interest, it means they often need to work with their neighbours.

At the same time, Europe should take the wave of criticism from so many voters seriously. Policymakers should ask themselves why people are dissatisfied, and act when there is the need to. It is equally important to point out the tangible benefits of cross-border cooperation and the euro. As the head of the ESM – an institution that defends the integrity of the euro – I see this as a crucial task.

In my frequent meetings with investors around the world, I am almost always asked about the European economy and the future of the euro. And while I admit that there are still problems and challenges, I also emphasise the many positive aspects of European integration. In this report, the 19 euro area finance ministers talk about the benefits of the euro, each from the perspective of their own country. It would be ill-advised to underestimate such an endorsement from the democratically elected representatives of the 340 million citizens of the euro area.

The euro eliminates the cost of converting currencies, it enhances price transparency across borders and boosts competition and thus productivity and growth. In plain terms, this means better and cheaper products and higher standards of living.

Damaging intra-European currency turmoil, which was common in the period from the end of the Bretton Woods system until the beginning of EMU, is no longer possible. And the euro area – the second-largest economy in the world – has much more influence around the world than its individual members, as new economic heavyweights such as China and India are gaining clout.

This report highlights such benefits. The euro area is fortunate enough in that its citizens agree. More than two-thirds of the people support the euro, and the trend is rising. A majority of the people in each individual euro area country also support it. This is helped by an economic recovery that is now well under way, and that is supported by Europe's reaction to the crisis.

It is often not sufficiently recognised that adjustments in the fiscal and competitiveness areas had a positive impact on growth and employment after some time, even if they were initially painful.

Greater economic policy coordination and the establishment of new institutions such as the ESM and banking union were other material improvements. The euro area has staged a sustained recovery as a result, with growth between 1.5% and 2%, well above trend growth. This means that the output gap is being closed and that unemployment is coming down. From a per capita perspective, Europe's growth is moving in line again with the United States. This had been the case for decades but the relation was interrupted during the crisis. Per-capita growth is an important indicator, as it shows how much wealth is created per individual, abstracting from demographic differences.

Additional strengths of the European economy are the fact that the employment rate is now higher than in 2000, whereas it dropped in the same period in the US Fiscal deficits across the euro area have been converging and, at the aggregate level, are now about one third of those in the US or Japan. Large current account deficits, one of the major contributing factors to the crisis, have largely disappeared. Banks are also slowly catching up with their peers in the US, although non-performing loans remain too high. This issue needs to be addressed, because it weighs down profitability and stands in the way of credit growth – and therefore economic growth – particularly in certain countries.

It is particularly gratifying to see that all former programme countries – Spain, Ireland, Portugal, and Cyprus – are among the growth champions of Europe. It shows that the ESM's approach of providing financial solidarity to euro area countries in return for strict economic reforms works. Greece remains the ESM's only active programme country, a sign of how far Europe has come since the peak of the crisis. The country had to tackle bigger problems than others to modernise its economy, and the interruption of this process in early 2015 was extremely costly. But Greece too can stand on its own as long as it implements the reforms agreed with creditors.

The ESM, a lender of last resort for sovereigns, fulfils an institutional role that did not exist in Europe before the crisis. From its humble beginnings, when a staff of eight people issued the first bond, I have seen the organisation grow to a headcount of 170 this year – still a low number in relation to the large sums of money that we deal with. And as the organisation grows, so does the number of tasks it is entrusted with. This year, the ESM completed an evaluation of its past programmes under the leadership of the high-level independent evaluator, Gertrude Tumpel-Gugerell. Dozens of stakeholders in Europe and the US provided input for the report, which contains important lessons for the future. With this first evaluation, the ESM has followed the normal practice at other international organisations.

The ESM also contributed to the debt sustainability analysis for Greece that the Eurogroup used for its decision on further debt relief. The Eurogroup mandated the ESM to design the short-term debt measures for Greece, which was envisaged to reduce the debt stock by 20 percentage points by the year 2060. This complex exercise required hard work from our funding and lending teams, who are implementing the measures.

In October 2016, the ESM was one of the organisers of the inaugural high-level dialogue of Regional Financing Arrangements, which exist on all continents, in Washington, DC. The ESM is by far the largest of these institutions, which play an increasingly important role in the Global Financial Safety Net.

Last but not least, I was honoured to be appointed for a second five-year term at the helm of the ESM. I will continue to manage the institution in an efficient way. Europe has clearly left the crisis behind it, but enough work remains to be done. I see it as the duty of the ESM to continue to make monetary union more robust, and the economy more resilient. This is what is needed for Europe to stay relevant, and for its citizens to receive the full benefits of the euro.