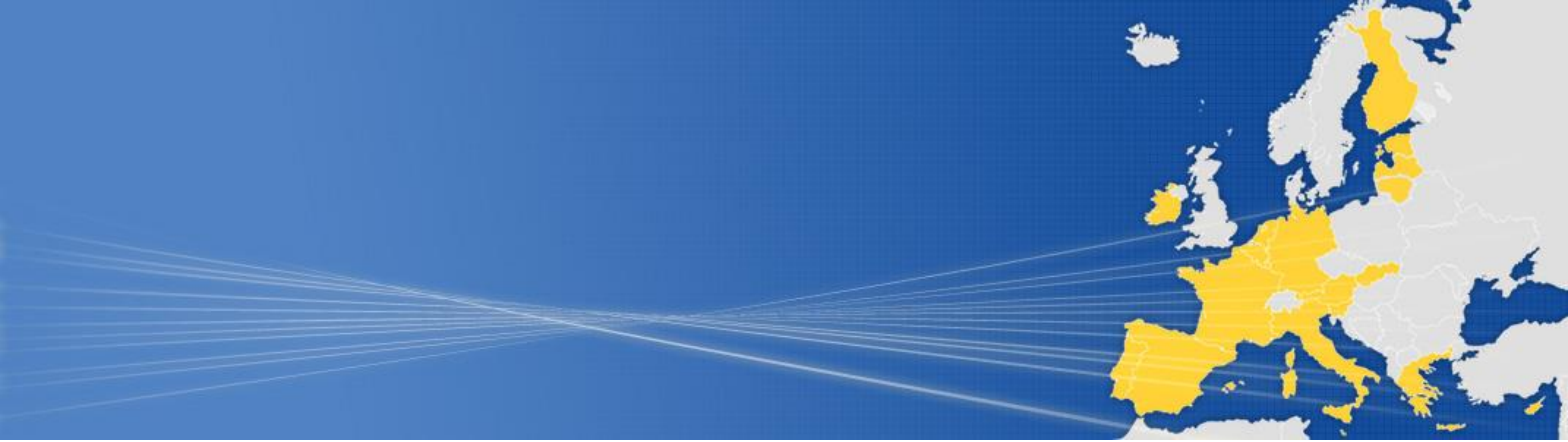


“Lessons from the crisis and the next steps for EMU”

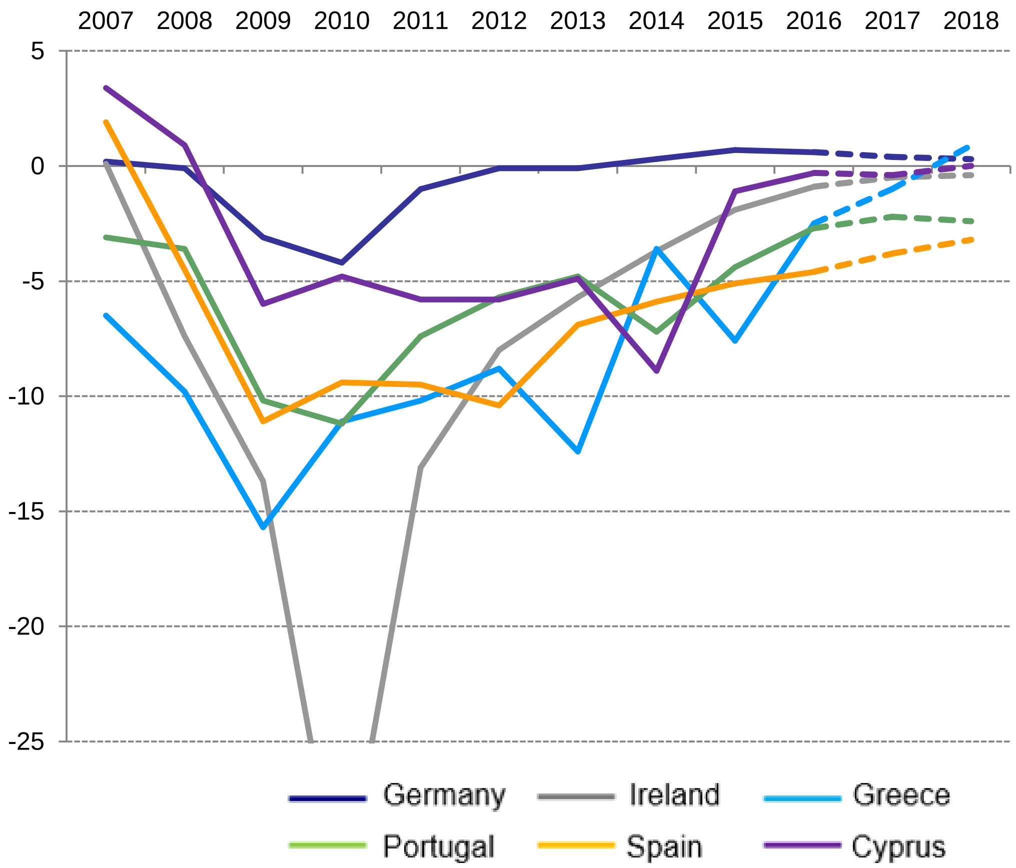
Klaus Regling, Managing Director, ESM

Helsinki, 9 December 2016

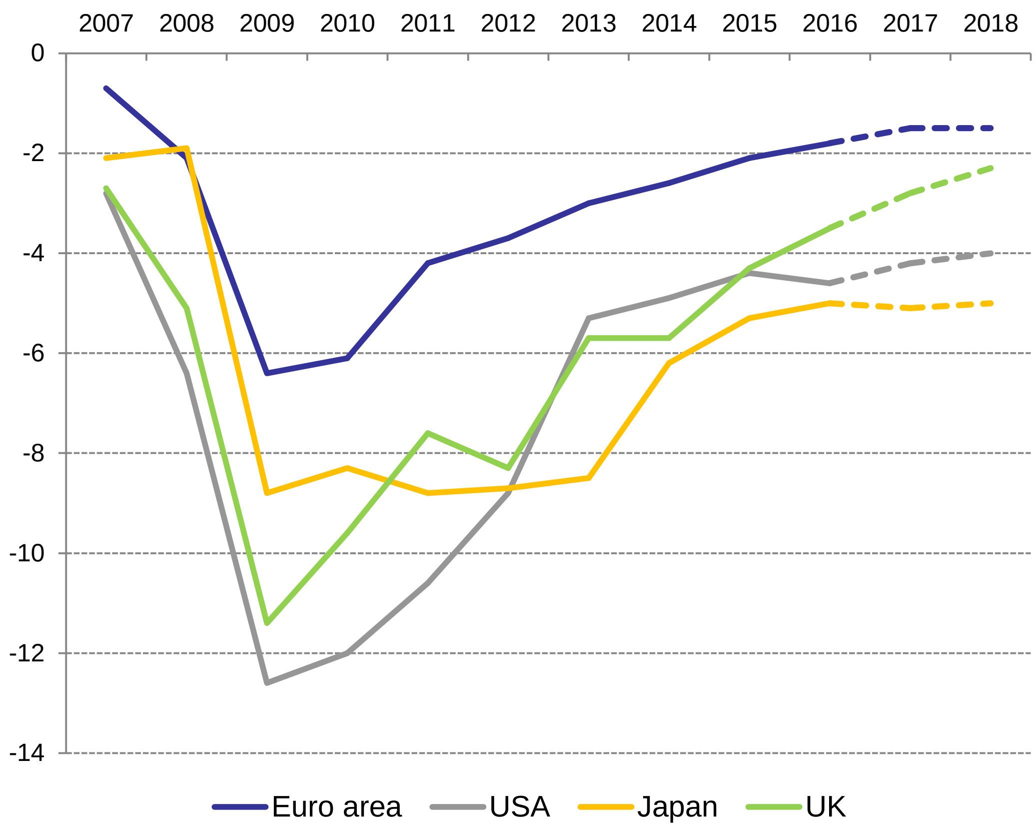
European Stability Mechanism
esm

Deficit reduction policies are paying off

Fiscal balance in programme countries (% of GDP)



Selected comparative fiscal balances (% of GDP)



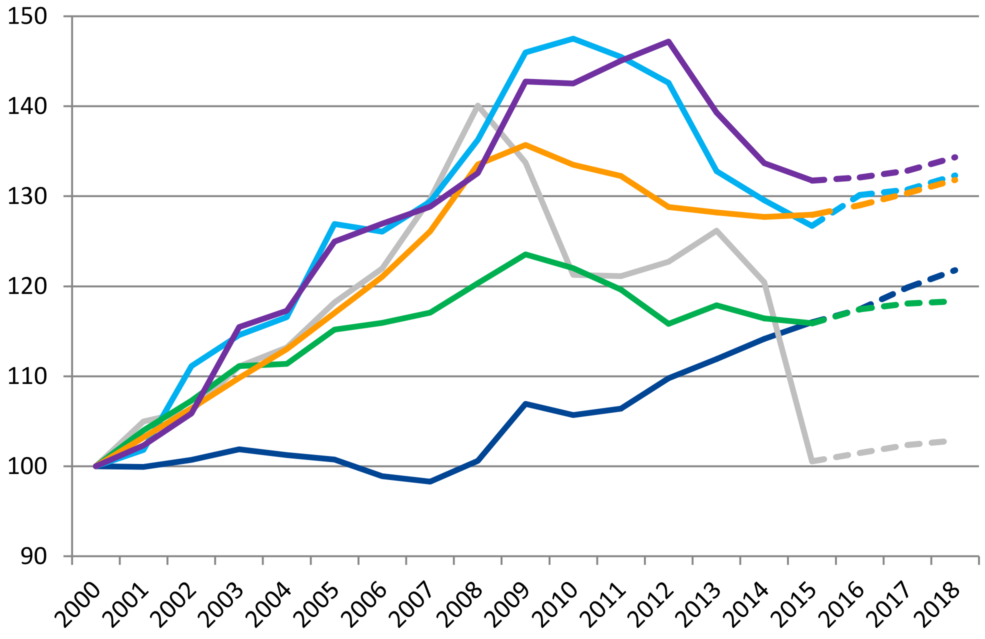
Source: European Commission, Economic Forecast – Autumn 2016

* Actual figure for Ireland in 2010: -32.4%

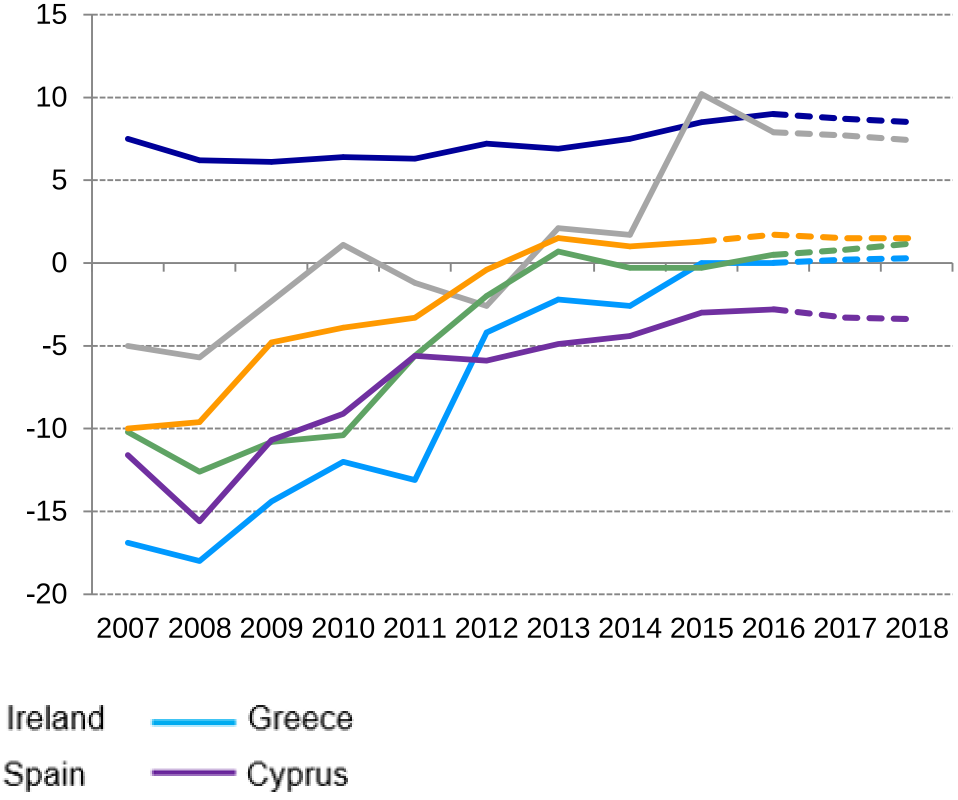
Internal devaluations are restoring competitiveness

- Thanks to the convergence in competitiveness, costly external imbalances in the periphery have disappeared

Nominal unit labour costs (2000=100)



Current account balance (% of GDP)



Source: EC European Economic Forecast – Autumn 2016

EFSF/ESM programme countries are the reform champions

- **Greece, Ireland, Portugal and Spain** are in top 5 of 34 **OECD countries** with regard to implementation of **structural reforms.**

Ranking in OECD report
1. **Greece**
2. **Ireland**
3. Estonia
4. **Portugal**
5. **Spain**

"Euro area countries under financial assistance programmes are among the OECD countries whose responsiveness [to the OECD's structural reform recommendations] *was highest and also where it most increased compared with previous period."*

- Going for Growth (OECD Report)

Source: OECD report *Going for Growth* for 2015
Ranking takes into account responsiveness to OECD recommendations on structural reforms in key policy areas

Firewalls against the crisis: ESM and EFSF

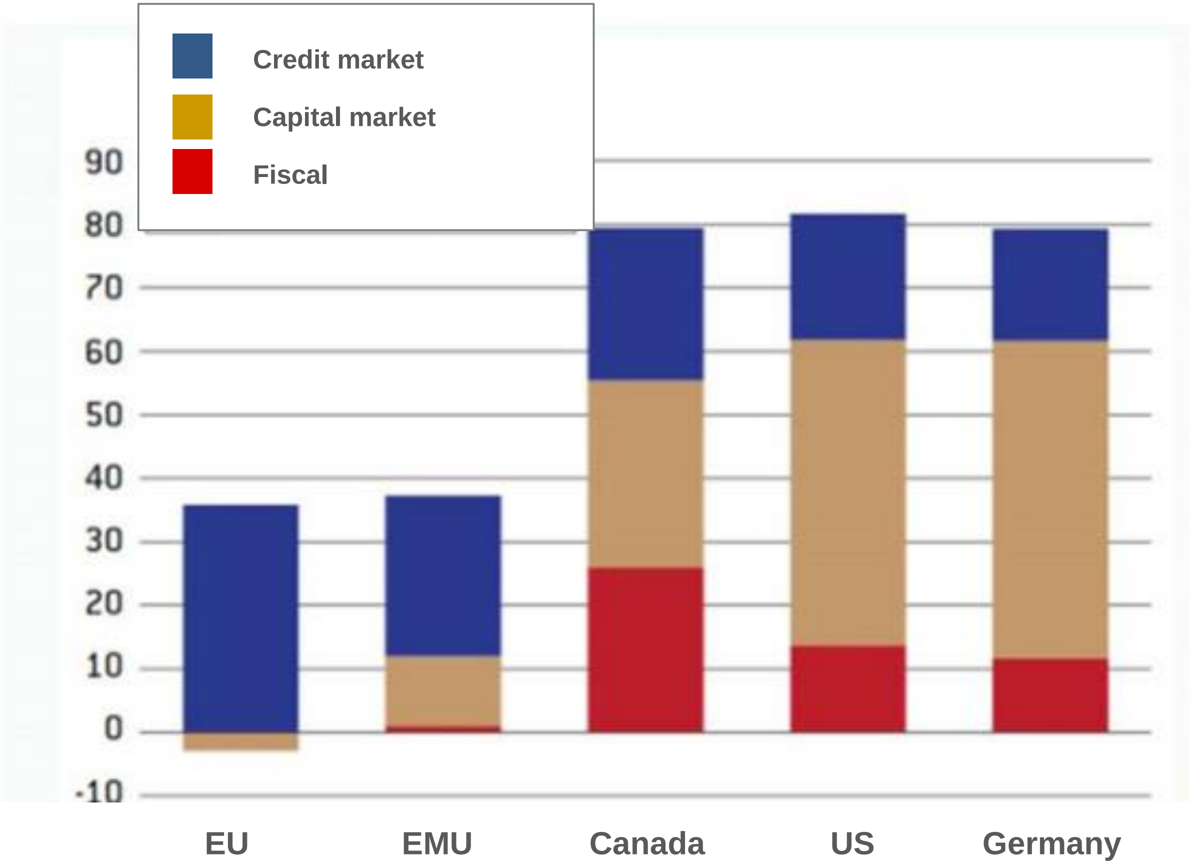
- Maximum lending capacity of €700 bn
  - Total disbursed to five countries so far: €264.8 bn
  - Ireland, Portugal, Spain, Cyprus, Greece

- Four success stories:
  - Ireland, Portugal, Spain and Cyprus have exited programmes
  - Greece is a special case
  - It entered a new programme of up to €86 bn last year

- Benefits:
  - Promote reforms
  - Help to return to debt sustainability

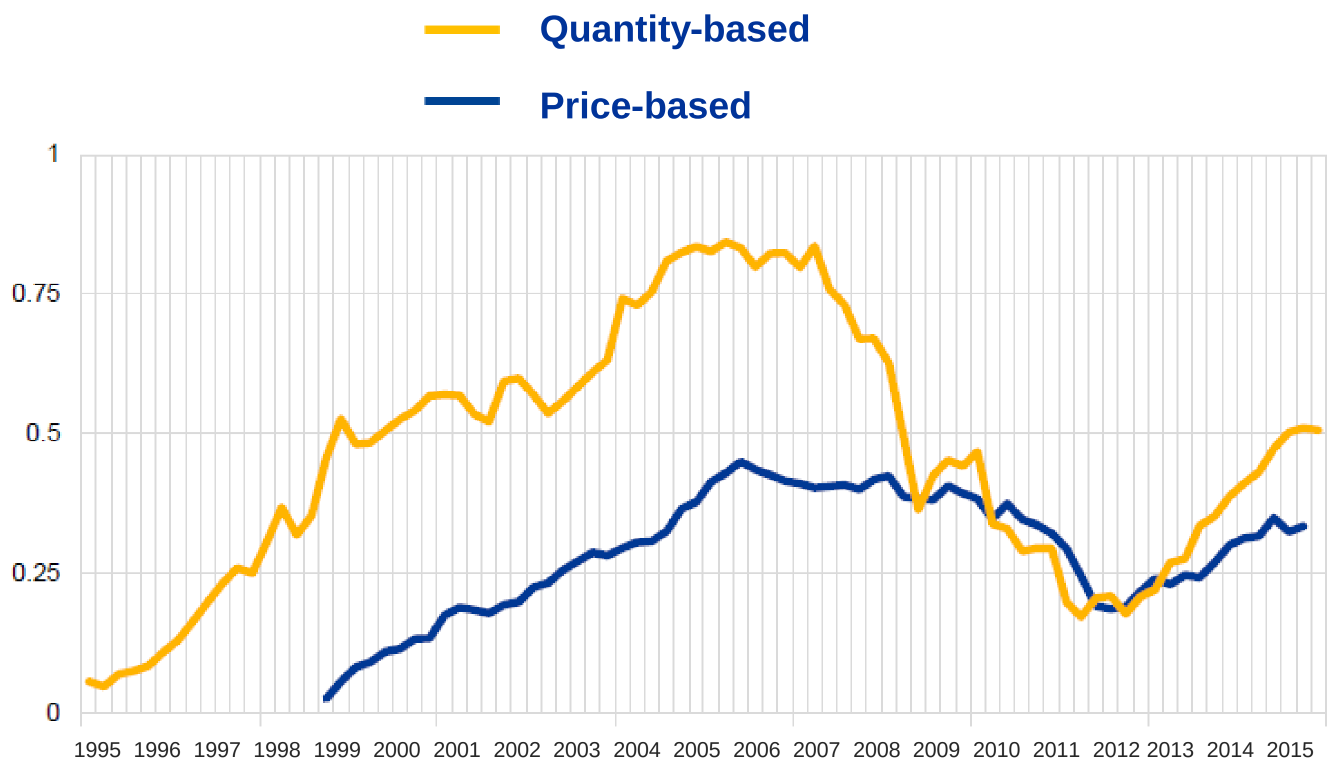
Insurance against income shocks in EMU remains low

Percentage of shock smoothed by different channels



Source: Bruegel and IMF

ECB indicators of financial integration in euro area



Note: The price-based indicator aggregates ten measures covering the main market segments such as money, bonds, equities and banking. The input series relate to price dispersion in EA countries. The quantity-based indicator aggregates five measures, covering intra-EA cross border holdings expressed as a % of EA total holdings. Both indicators are bounded between zero (full fragmentation) and one (full integration). Increases in the indicators signal higher financial integration. Source: ECB

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