



# **Deepening EMU: Ambition and Realism**

**Klaus Regling, ESM Managing Director**

**Bruges, 14 November**

# Deepening EMU: Ambition and Realism

---

- I. The comprehensive response to the euro crisis
- II. The euro area economy today
- III. Further steps to deepen EMU

# Deepening EMU: Ambition and Realism

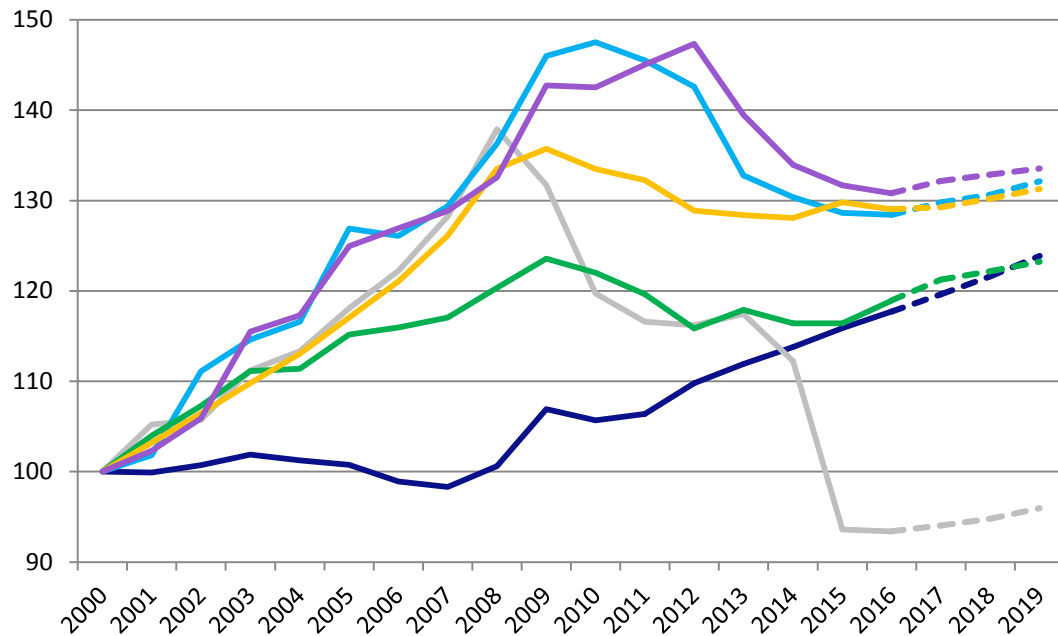
---

- I. The comprehensive response to the euro crisis

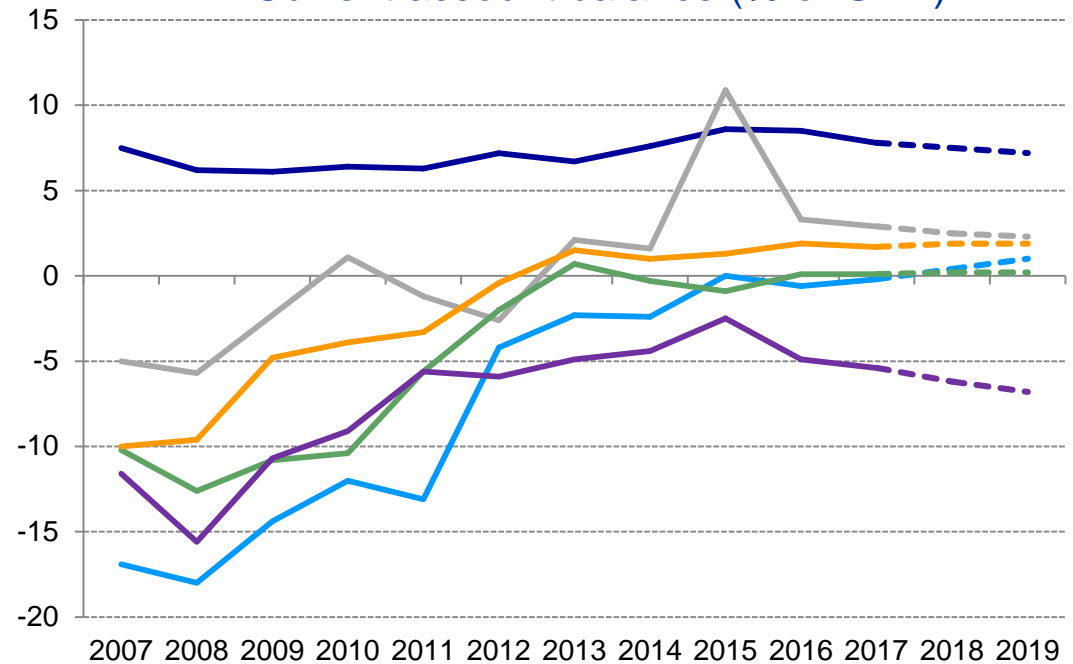
# Competitiveness is back, current account deficits disappeared

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

Nominal unit labour costs (2000=100)



Current account balance (% of GDP)

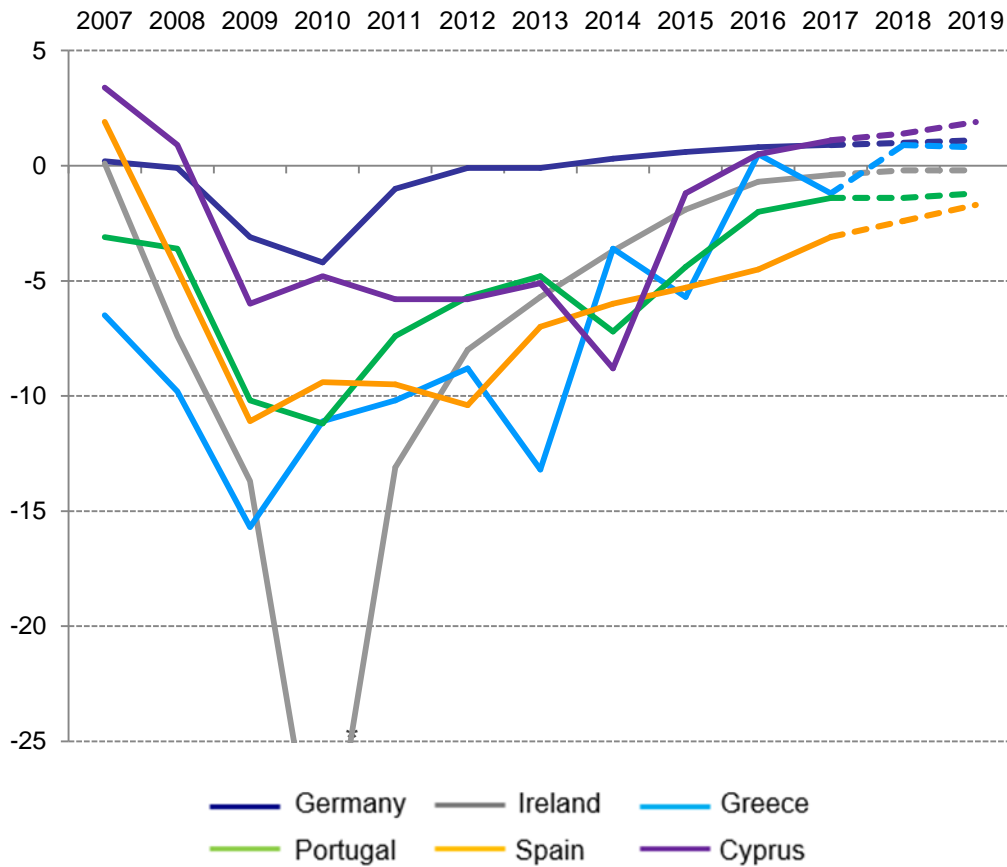


— Germany    — Ireland    — Greece  
— Portugal    — Spain    — Cyprus

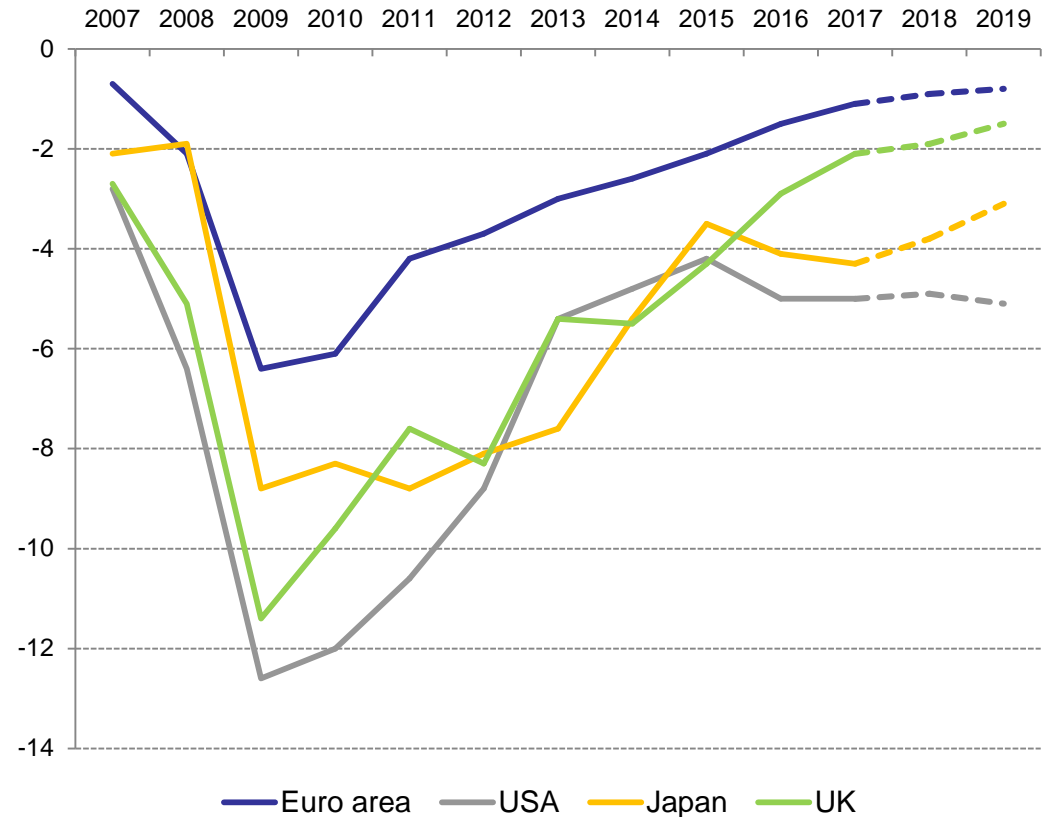
Source: EC European Economic Forecast – Autumn 2017

# Public deficits continue to improve

## Fiscal balance in programme countries (% of GDP)



## Selected comparative fiscal balances (% of GDP)



Source: European Commission Economic Forecast – Autumn 2017

\* Actual figure for Ireland in 2010: -32.4%

# The ESM, the euro area sovereign rescue fund

---

- ESM is a rescue fund for sovereigns that have lost market access (or risk losing market access)
- Before the crisis: no lender of last resort for sovereigns in the EMU
- Total lending capacity (EFSF and ESM) €700 billion
- Five programme countries, four success cases
- €273 billion disbursed since 2011
- Strict conditionality. Programme countries are reform champions.
- ESM has largest paid-in capital of any International Financial Institution
- Funding via markets (unlike IMF)
- Favourable lending conditions because of strong credit rating, backed by shareholders

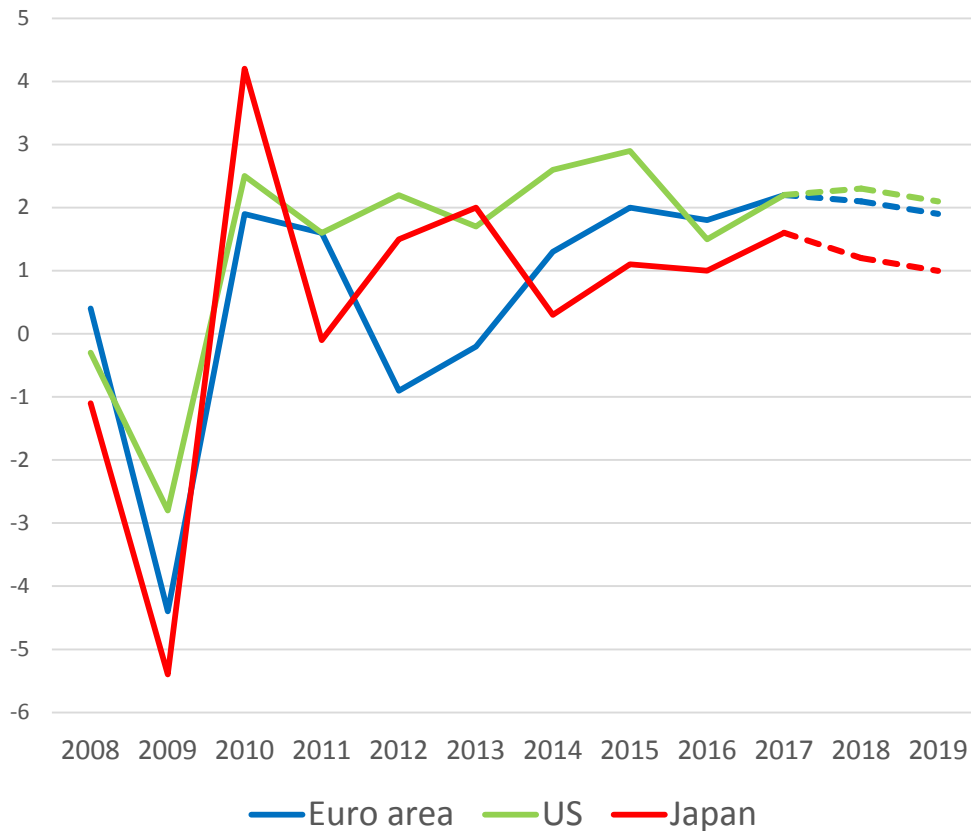
# Deepening EMU: Ambition and Realism

---

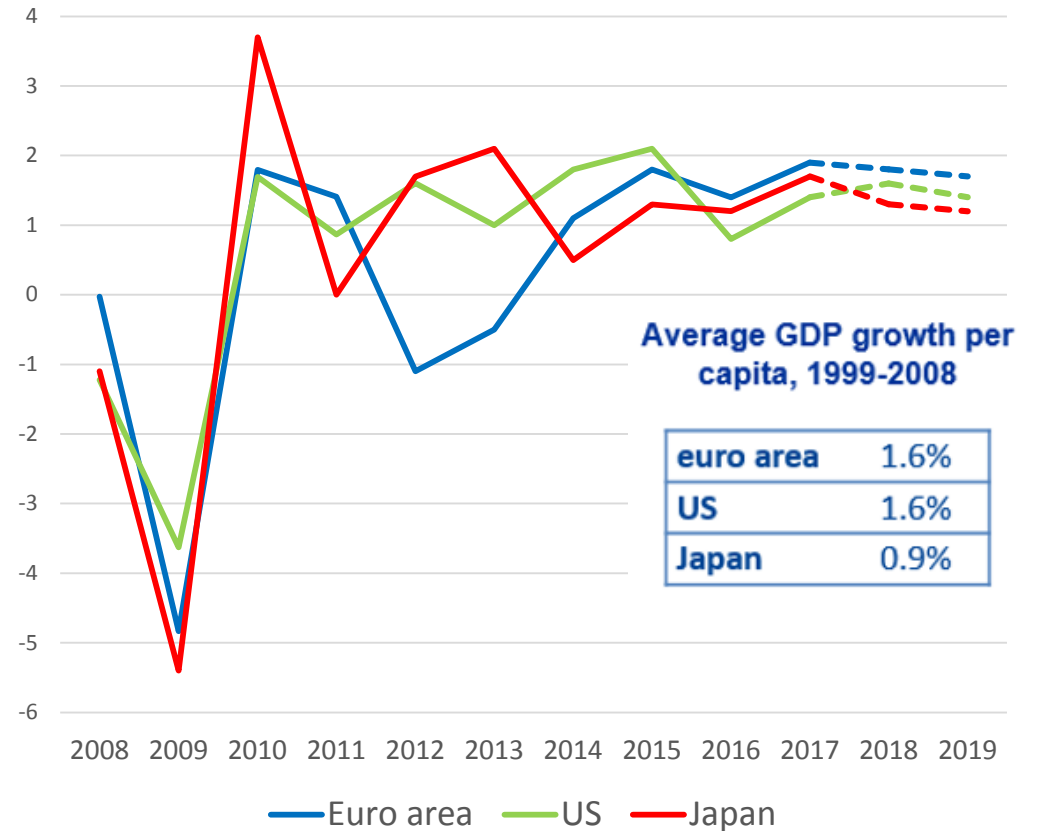
## II. The euro area economy today

# Per capita growth is in line with the U.S. again

Annual GDP growth (%)



GDP per capita growth (%)



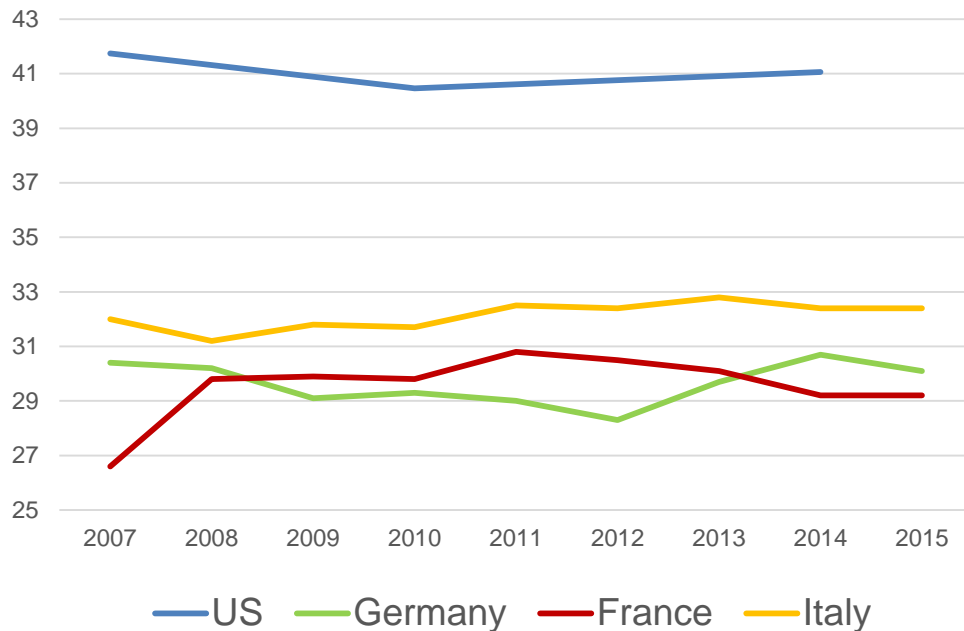
Source: EC European Economic Forecast – Autumn 2017, AMECO



# Income distribution much better than in the U.S.

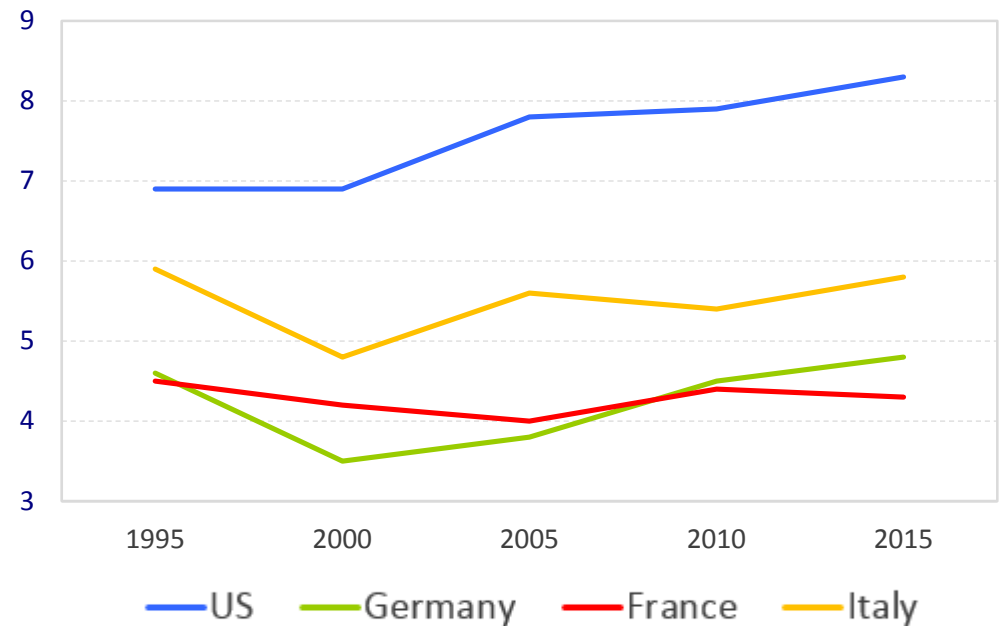
## Gini coefficient

(0 = perfect equality; 100 = maximal inequality)



Source: Eurostat, World Bank

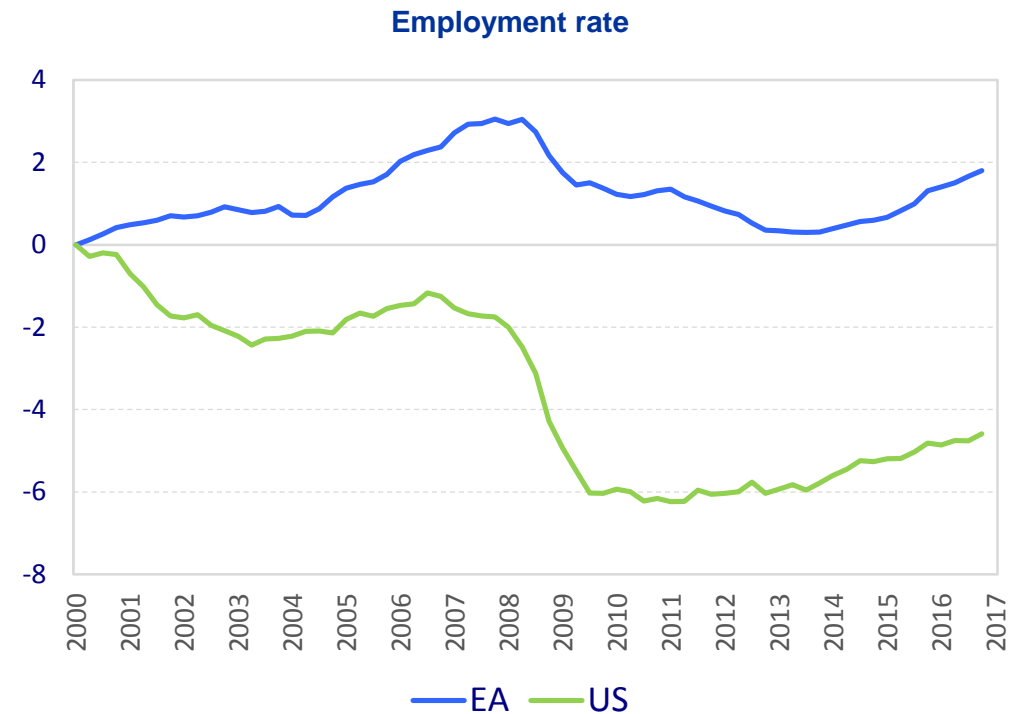
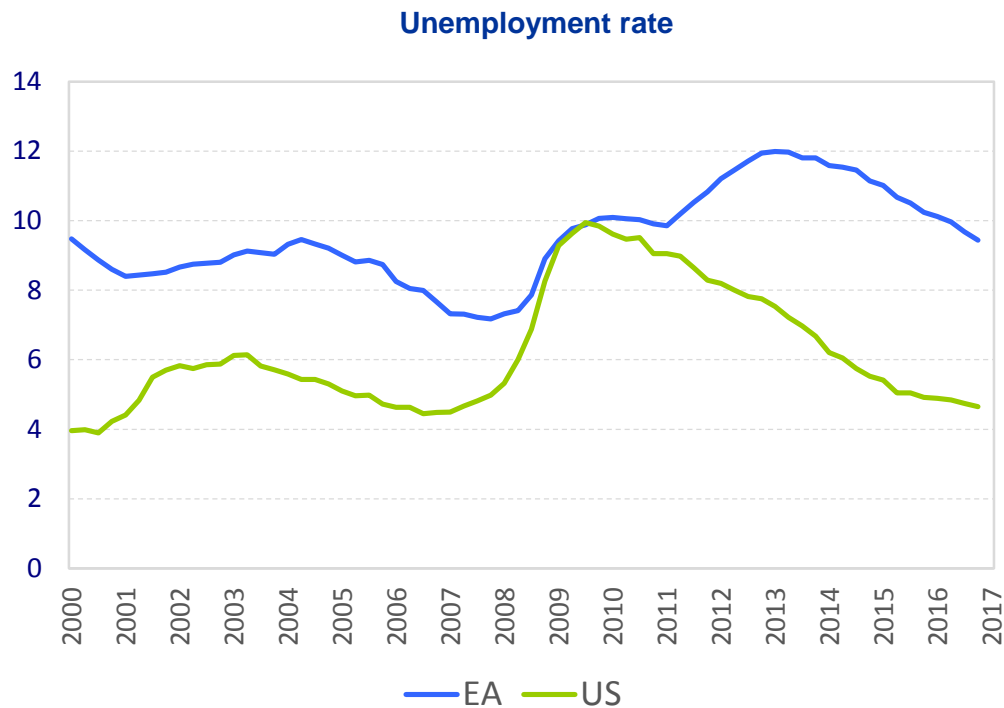
## After-tax disposable income of top quintile share to bottom quintile share, US and selected European countries



Source: EU-SILC survey for EU countries and OECD statistics for the US.

# Labour markets in Europe better than recognised

## Unemployment and employment rate in euro area and US since 2000



Percent (left chart)

Cumulative change in percentage point (right chart)

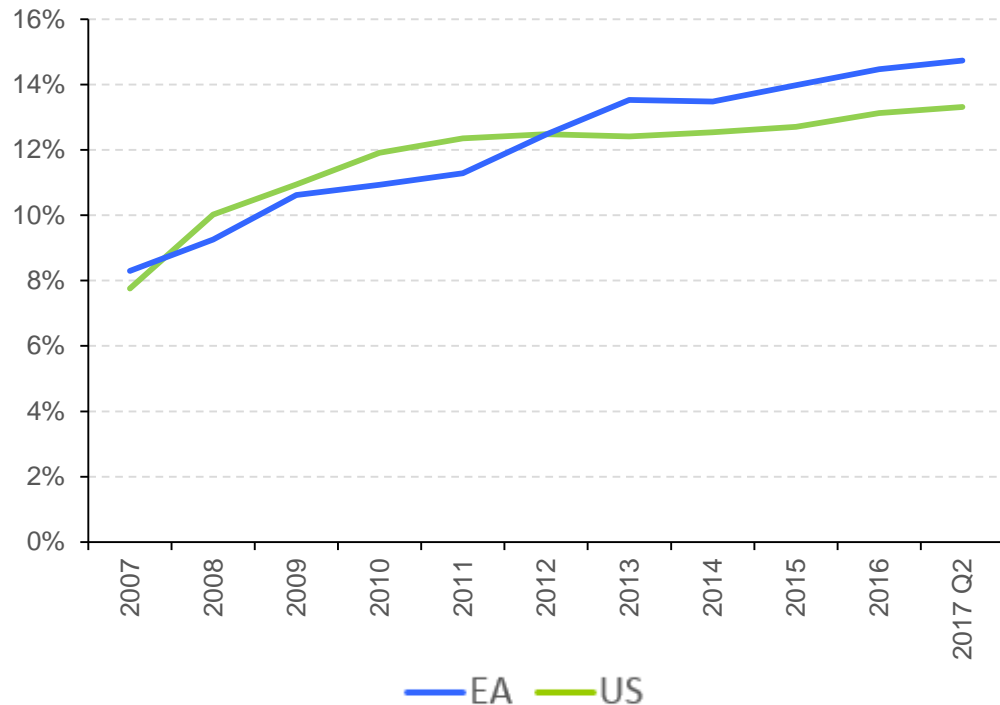
Age group: 15+ for euro area, 16+ for US

Latest observations: Q1 2017 for euro area, Q2 2017 for US

Source: Eurostat and BLS

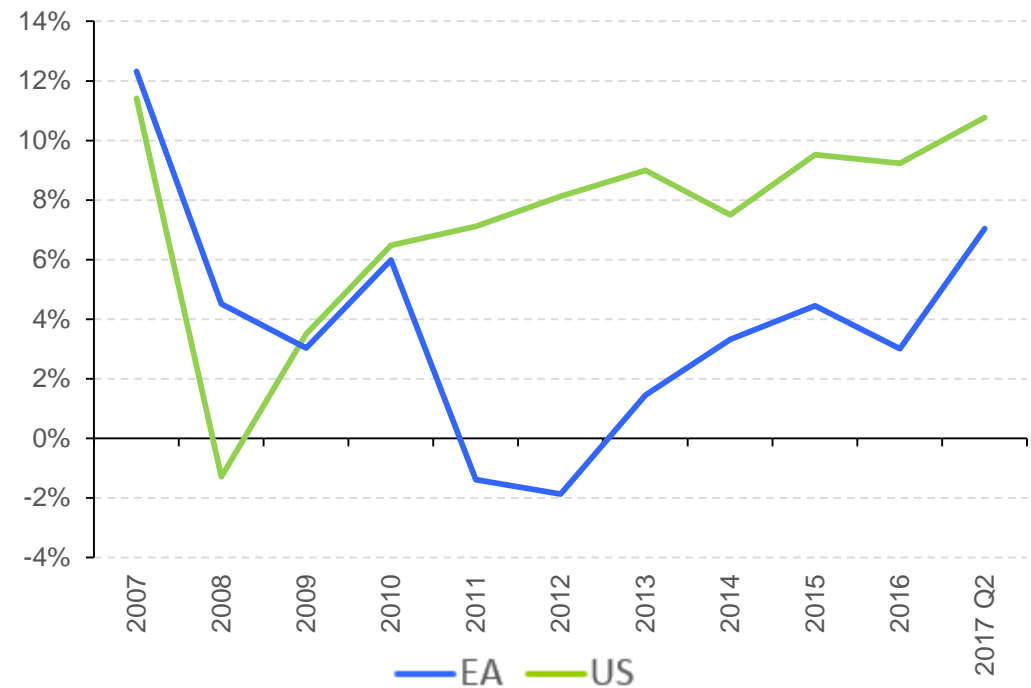
# European banks are catching up with the US

Capital ratios have continued to increase ...



Tier 1 Ratio. Source: Standard & Poor's (SNL Financial), banks' annual reports, ESM calculations

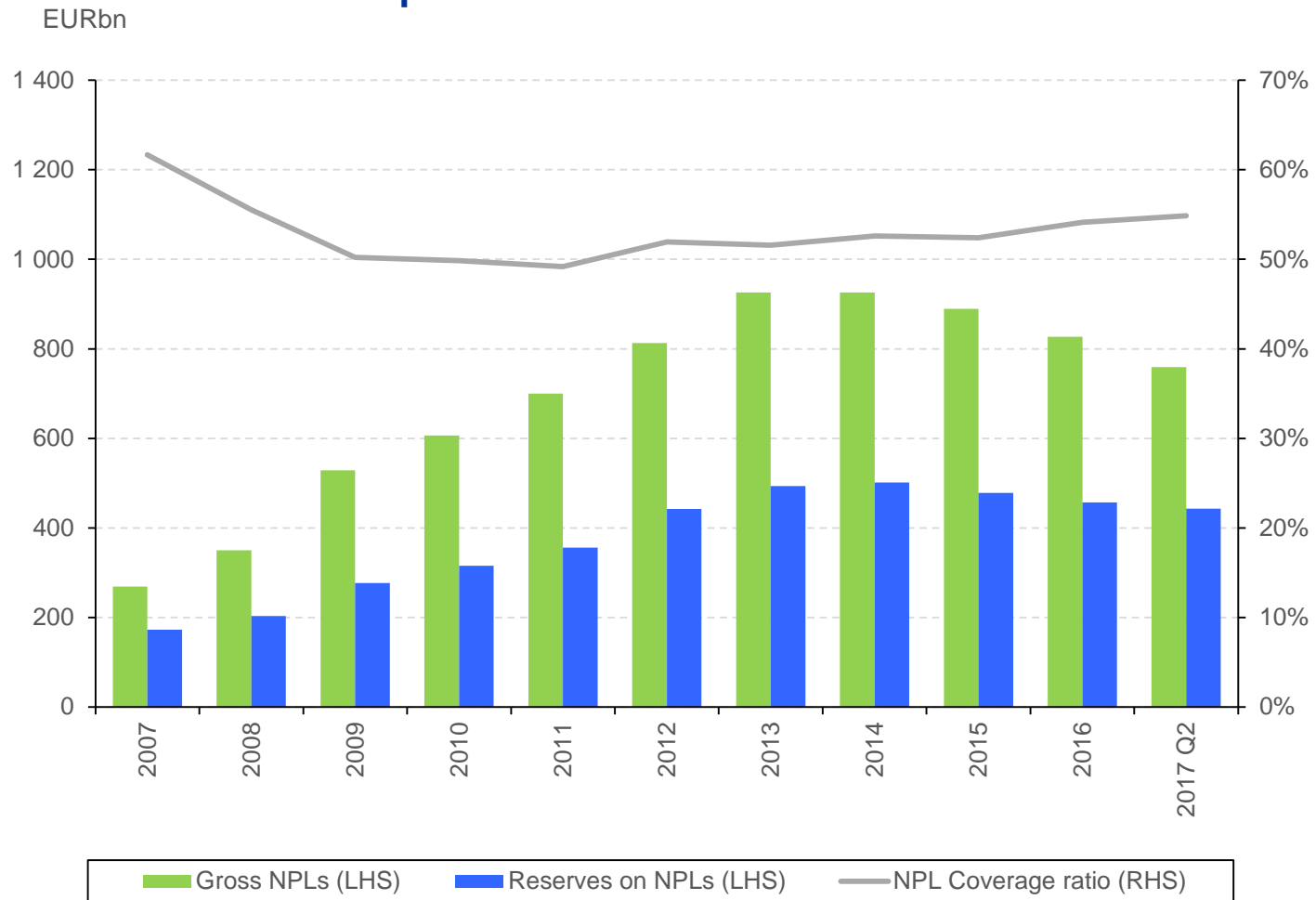
... but profitability is still low



Return on Equity. Source: Standard and Poor's (SNL Financial), banks' annual reports, ESM calculations

# Non-Performing Loans are gradually coming down...

... while provisions cover more than half

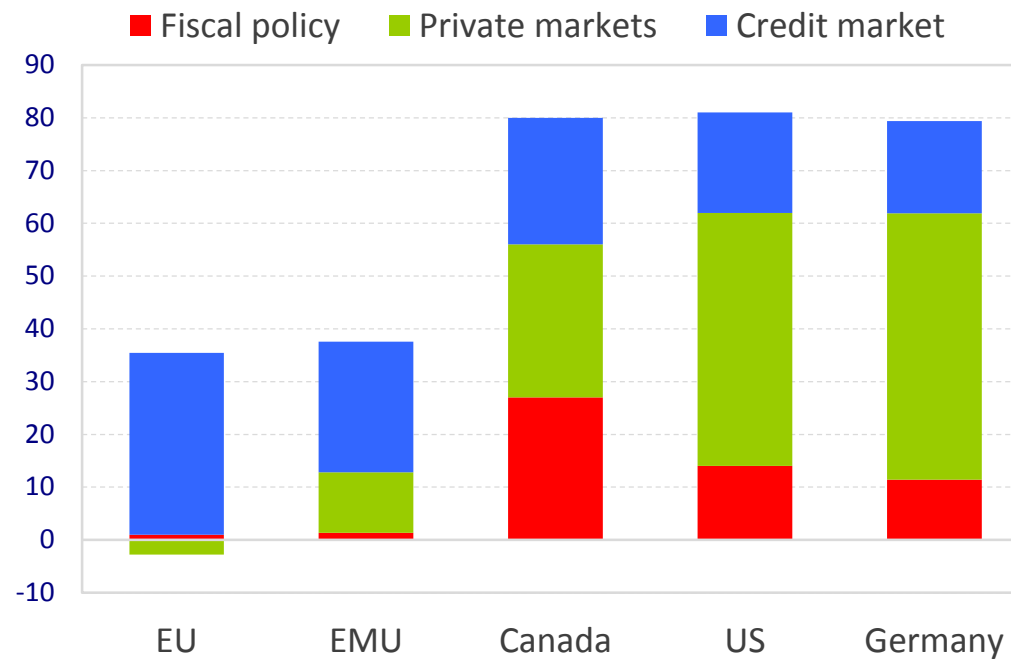


Source: Standard & Poor's (SNL Financial), banks' annual reports, ESM calculations

# Risk sharing is underdeveloped in the EU and euro area

- Economic risk sharing in euro area is lagging behind US

Percentage of shock smoothed by different channels



# Financial integration remains well below pre-crisis levels

## 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

# Deepening EMU: Ambition and Realism

---

## III. Further steps to deepen EMU

# How to strengthen the monetary union further?

---

## ■ **Financial**

- Complete Banking Union: Backstop SRF, European Deposit Insurance
- Capital Markets Union

## ■ **Fiscal**

What we don't need:

- Larger transfers
- A special facility for symmetric shocks

What we do need:

- Simplify the fiscal rules
- Facility for asymmetric shocks and macroeconomic stabilisation
- Make sovereign debt restructurings more predictable

## ■ **Institutional**

- European Finance Minister
- European Monetary Fund



# Media enquiries

---

## **Wolfgang Proissl**

Head of Communication / Chief Spokesperson

Phone: +352 260 962 230

Mobile: +352 621 239 454

[w.proissl@esm.europa.eu](mailto:w.proissl@esm.europa.eu)

## **Luis Rego**

Deputy Spokesperson

Phone: +352 260 962 235

Mobile: +352 621 136 935

[l.rego@esm.europa.eu](mailto:l.rego@esm.europa.eu)

## **Douwe Miedema**

Financial Press Spokesperson

Phone: +352 260 962 236

Mobile: +352 621 562 764

[d.miedema@esm.europa.eu](mailto:d.miedema@esm.europa.eu)

**Website:** [esm.europa.eu](http://esm.europa.eu)

**Twitter:** @ESM\_Press

**YouTube:**

<https://www.youtube.com/user/esmvideochannel>

**LinkedIn:**

<https://www.linkedin.com/company/european-stability-mechanism>