Opening remarks on the euro by Klaus Regling

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Klaus Regling, ESM Managing Director
Opening remarks on the euro
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(*Please check against delivery*)

Good evening.

Ladies and gentlemen, the 6th "European Dinner" of the Munich Europe Conference is a good occasion to also say something about the euro. When Theo Waigel asked me if I wanted to do this, I accepted immediately.

One of my favourite tasks is to talk about the euro.

And there has not been as much talk or writing about the euro these days as there was six, eight or 10 years ago.

That is good on the one hand. It is a sign that we have left the euro crisis far behind us. And it shows that there are other problems at the moment.

On the other hand, it is regrettable that – especially in Germany – there is so little talk about the euro and our monetary union. In our neighbouring countries this happens much more.

I am also often asked by investors why the last important steps to make monetary union even more crisis-proof are not making progress.

A lot has happened in the last 10 years. And there is no doubt: **we have overcome the crisis.**

The response of the euro countries to the global financial crisis and the subsequent euro crisis has been comprehensive and effective. It consisted of four measures, which together ended the crisis.

First, deep and difficult reforms in the euro countries, which received financial support.

Second, the unconventional monetary policy of the European Central Bank (ECB).

Third, a stricter and more comprehensive coordination of economic policy at European level.

And fourth, a significant strengthening of the institutional architecture of Economic and Monetary Union (EMU).

With the start of banking union, the Single Supervisory Mechanism and the Banking Resolution Fund were created.

And last but not least, a gap in the architecture of EMU was closed with the establishment of the two rescue funds, the temporary EFSF and the permanent ESM.

The ESM was not part of the original institutional architecture of EMU. There was no lender of last resort for euro area countries, no so-called lender of last resort for states. At the start of EMU, it was inconceivable that a country in the currency area could lose access to the market once it had overcome the hurdles to joining the monetary union.

The ESM has proved to be a permanent institution with sufficient financial resources. Loans are only available against strict reform conditionality. On the one hand, this helps the countries to overcome the problems that caused the loss of market access. On the other hand, it helps them to return to long-term economic stability.

To finance the programmes, the ESM issues bonds on the markets. We do not use taxpayers' money, as has often been wrongly claimed, at least in the past.

Over the past eight years, both rescue funds have disbursed around €300 billion to five countries: Ireland, Greece, Spain, Cyprus and Portugal. This has provided governments with important financial resources, without which some of the countries would probably have been forced to leave the euro area. If this had happened, Europe would look different today.

Countries benefit from budgetary savings because our loans have very long maturities and very low interest rates. For example, the Greek budget saved around €13 billion last year, which is 7% of Greek economic activity. Greece will benefit from these savings for many years to come. And at no cost to the German taxpayer.

Today, the monetary union is better equipped for future crises than it was ten years ago. We have no significant macroeconomic imbalances in the euro area, there are new institutions, the ECB has additional instruments, we have economic policy coordination, and we have seen several years of good growth. The countries that have received loans from the ESM and have therefore implemented a particularly large number of reforms now have the highest growth rates in Europe.

We can therefore draw a clear, positive conclusion: safeguarding the euro, however bumpy and painful it was, has worked.

Why then should we think about further steps to deepen EMU? Just because the French President is proposing it? No, but because a few additional steps could make EMU even more resilient, even less crisis-prone. Because it would strengthen the international role of the euro. And because it would enable us to build some independence from the United States and China. European sovereignty could be strengthened. I think these are all good reasons.

On the one hand, the deepening of monetary union includes an extended mandate for the ESM. There is widespread agreement among the 19 euro area countries on this.

In the future, the ESM will be more closely involved in the design, negotiation and monitoring of crisis programmes. We will do this together with the European Commission.

The ESM will also provide a credit line for the Bank Resolution Fund - which is important for the completion of the Banking Union - and revise its credit instruments.

There is also agreement on the establishment of a small euro budget.

However, there are two other issues concerning the deepening of EMU that are still quite controversial. And it will be some time before we can reach a consensus.

First, we need a common deposit guarantee to complete banking union. With identical deposit protection throughout the currency area and a weaker link between banks and states, financial fragmentation would decrease, and with it the risk of banks falling into crisis. The risk of a bank run would practically no longer exist.

If we had had a European deposit insurance for the last ten years, all ESM programmes could have been much smaller. Of course, some banks' balance sheets first have to be further reduced to be able to take steps towards a common deposit guarantee.

Second, a fiscal capacity for macroeconomic stabilisation in the euro area would be very useful. This is a very controversial issue among euro area Member States. But I believe that this is a key element that is still missing in the architecture of EMU.

A fiscal capacity would be useful because the countries of a monetary union gave up two important macroeconomic policy instruments: monetary policy and exchange rate policy. This may require the use of the remaining instrument, fiscal policy, more frequently than before.

In addition, Europe lacks the stabilizing effect of a common tax and social policy from which the US benefits. This can be compensated for by new fiscal instruments.

There are several proposals on the table. A proposal to stabilise investment from the European Commission, a proposal for a rainy day fund from the International Monetary Fund, and also a proposal from the German Finance Minister Olaf Scholz, to set up a reinsurance of national unemployment schemes. Shorter-term ESM loans would also be conceivable.

These proposals sound very different, but they all have the same goal: a timely stabilisation of different economic cycles – so that small problems do not turn into big problems. And all these proposals can be designed in such a way that they do not lead to transfers.

I know the scepticism of the German public towards these proposals. But that does not discourage me. Eight or nine years ago there was even more scepticism about rescuing the euro and about the work of the ESM. Hyperinflation and huge budgetary burdens were predicted. That did not come true.

I find it very encouraging that today more than three quarters of the population supports the euro. The highest approval rate since the start of EMU. That is a good reason to complete EMU.

Thank you very much for your attention.

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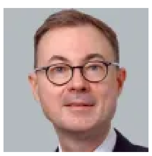
Author

[Klaus Regling](#)

Managing Director (2012 - 2022)

Contacts

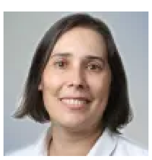


Cédric Crelo

Head of Communications and Chief Spokesperson

+352 260 962 205

c.crelo@esm.europa.eu

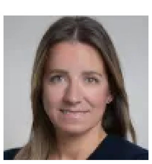


Anabela Reis

Deputy Head of Communications and Deputy Chief Spokesperson

+352 260 962 551

a.reis@esm.europa.eu



Juliana Dahl

Principal Speechwriter and Principal Spokesperson

+352 260 962 654

j.dahl@esm.europa.eu