Monetary union in an ever-changing world - speech by Klaus Regling

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Speeches
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70th anniversary of Börsen-Zeitung
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(Please check against delivery)

Good evening,

First, a belated but heartfelt congratulations to the Börsen-Zeitung on its 70th anniversary.

My congratulations go to the entire editorial team and all employees. Over the past decades, I have had contact with many Börsen-Zeitung staff members, and their accurate reporting has always impressed me.

On 1 February 1952, Börsen-Zeitung published its first issue. At the time, the paper argued that due to the high “interest in the securities market – and in the capital market in general”, another stock market journal needed “no special justification”.

Having managed one of the world's major issuers of euro bonds for the past ten years, I can only confirm that interest in the financial markets has increased greatly in recent years. So, the work of the Börsen-Zeitung really needs no special justification.

1952 was an important year, also for Europe. Six EU countries, among them Germany and Luxembourg, followed the idea of the then French Foreign Minister Robert Schuman. Schuman said, “Those who no longer have free access to energy and steel can no longer declare war”. Thus, the European Coal and Steel Community was born, the founding community of today's European Union. In view of the current geopolitical situation, Schumann's statement seems more relevant than ever.

Apart from problems arising from the pandemic, we are now experiencing a war in Europe. It has terrible consequences for the people and seriously affects the economy. The war probably poses even greater challenges to Europe than the pandemic.

Both crises weigh on growth and make economic development difficult to predict. The European Commission will publish its spring forecast next week and will give a first assessment of the impact of the war on the economic situation in the EU.

But the war in Ukraine also presents us with major challenges on a geopolitical level. The question is whether we are in transition to a new world order: a trend towards disintegration and de-globalisation with potentially serious political and economic consequences.

There is a group of countries that does not want to side with either the US or China. In some respects, this seems comparable to the “non-aligned states” during the Cold War. The voting behaviour in the UN General Assembly gives some indications of geopolitical alignments, and of new regional blocs that could emerge. It shows which countries want to remain neutral. With countries like India, Indonesia, Brazil, and South Africa, we are talking about almost half the world's population.

As Larry Fink, founder of BlackRock, recently put it, the war marks “a turning point in the world order of geopolitics, macroeconomic trends and capital markets”. The war in Ukraine is likely to accelerate the trend towards de-globalisation, towards a less economically integrated world. This is a trend that has been taking shape since the great financial crisis.

What does this mean for Europe and for our monetary union?

In my opinion, it is quite clear and simple: if Europe wants to play a role in the world in 10, 20 or 30 years, it will have to cooperate more closely and integrate more. Europe’s contribution to the world economy was almost 30% in 1950, is now around

15% and will fall to less than 10% by 2050.

Some argue that European integration only advances in crises. If that is so, then now is the right time.

For the European Union, we need EU treaty change in the next few years to strengthen Europe's strategic sovereignty. And perhaps to move towards “pragmatic federalism”, as proposed by Italian Prime Minister Mario Draghi in the European Parliament last week.

But I want to focus tonight on our monetary union, on measures that are possible without Treaty change.

Sensible measures for the monetary union

If we look at the euro area, we see that thanks to the reforms and new institutions implemented and created after the euro crisis, the monetary union is more capable of coping with crises today. The euro area functions better today, is more resilient thanks to the start of the banking union with European banking supervision and the bank resolution fund – and thanks to the creation of the two rescue funds EFSF and ESM.

The fact that we can manage crises better today was also demonstrated in the pandemic: When the pandemic reached Europe, the European institutions created aid programmes worth billions to secure jobs and provide support to businesses. The speed, scale and good coordination of the various comprehensive European measures reassured the financial markets. And these European measures came on top of national measures. All these measures helped to limit the economic damage of the pandemic. And they also demonstrated an unprecedented level of solidarity.

A call for more integration: Banking union and capital markets union

After the successful crisis management during the pandemic, the question is: how can we protect the euro area even better against crises?

Looking ahead, risk-sharing, which allows for a broader and better response to shocks, should be strengthened in the monetary union.

Compared to the US, risk-sharing in Europe is extremely low. We do not have – and will probably never have – a common tax and social security system. And we do not have an integrated banking and capital market.

In the US, these balancing mechanisms ensure that regional economic cycles do not lead to major economic divergences within the US. In the euro area, on the other hand, asymmetric shocks – problems that affect only one country or region – can lead to divergence and fragmentation. This is harmful for the single market and the monetary union, for all member states.

Measures to make Economic and Monetary Union more resilient through more risk-sharing have been on the agenda for some time. Banking union, a single market for financial services, capital markets union – these are the relevant keywords. They would also contribute to stronger potential growth in Europe through a more efficient distribution of capital and strengthen the international role of the euro.

The next important step in the banking union is the backstop to the Single Resolution Fund, provided by the ESM. The backstop will help to ensure that banks can be resolved in an orderly manner even in a major crisis, without taxpayer money having to be spent. This is certainly also an interesting topic for Börsen-Zeitung.

A capital markets union is the other big project to strengthen risk-sharing in the monetary union. We need progress in the unification of market supervision and in the tax base for companies, in the partial harmonisation of national insolvency procedures and in the settlement of trades.

To illustrate, the euro area currently consists of 19 individual capital markets, each with its own regulatory, tax and insolvency law rules. An investor outside the euro area must hire 19 experts in prudential, tax and insolvency law to make investments in all euro area countries. This cannot be good for the international role of the euro.

With a full banking and capital markets union, risk-sharing within the monetary union would become much stronger – similar to the United States, where the integrated financial and capital market helps to ensure that regional cyclical differences do not become too big.

In addition, risk-sharing can also take place through fiscal mechanisms. This has long been done through the EU budget and through loans from the European Investment Bank, for a decade through ESM loans, and more recently through the European Commission’s recovery fund.

A stability fund to further strengthen resilience

The further strengthening of risk-sharing in the euro area could be achieved through a stability fund – a fiscal capacity for macroeconomic stabilisation. The ESM published a proposal by its economists for such a fund last week.

A stability fund could provide additional financial resources to countries affected by a significant asymmetric shock – for example, a pandemic, a war or even a natural disaster – when national fiscal space is insufficient.

Proposals for a stability fund have been around since the beginning of the monetary union and all European and international institutions support it. Now, after the crises of the last few years, when all countries were forced to take on a lot of additional debt, such a stability fund could prove particularly useful.

The ESM could set up such facility as a revolving fund. That would be compatible with our mandate. We also have sufficient lending capacity and more than 10 years of experience in crisis management.

Let me conclude.

Conclusion

You only have to talk about Europe and the euro for a quarter of an hour and it becomes clear that there will be much to talk about – even in the next 70 years!

Jean Monnet, one of the founding fathers of the European Union, wrote in his memoirs: “Europe will be forged in crises and will be the sum of the solutions adopted for those crises”. Unfortunately, he was right. Every crisis brings suffering, but past crises have not been in vain. We have learned lessons from them and moved on.

But there are still gaps the architecture of the EU and the euro area. And the transition to a new world order requires decisive action to strengthen the resilience of the monetary union and consolidate Europe’s sovereignty.

Europe is much more than the sum of its member states. Further progress in integration is feasible. And I am confident that it will be achieved in the coming years.

Thank you.

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