

# "Strengthening the euro zone" - speech by Klaus Regling

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Speeches

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**Strengthening the euro zone**

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*(Please check against delivery)*

The topic of today's conference is "strengthening the euro zone". Let's not forget that we have already made the monetary union a lot more robust since the euro debt crisis in 2010-12. The European Union – and the euro area in particular - came up with a comprehensive policy response. As a result, monetary union is now much stronger than before the crisis.

Let me mention five important steps that were taken in response to the crisis. In the first place, countries did their homework by removing macroeconomic imbalances. Budget deficits have clearly decreased everywhere. Competition has been restored through lowering nominal wages and salaries and through structural reforms, particularly in programme countries.

Secondly, the EU fiscal rules have been made tighter, with greater powers for the Commission.

Third, the ECB played a crucial role through its unorthodox policy measures, at a time that the markets needed it most.

Fourth, the EU set up Banking Union, with a single supervisor for the 130 most important banks, and a Single Resolution Mechanism to wind down banks during a crisis.

Last but not least, the euro area now has a lender of last resort for sovereigns in the form of the ESM. This function did not exist before the crisis, and it is an important addition.

My institution has disbursed €272 billion in emergency loans to five countries: Greece, Ireland, Portugal, Spain and Cyprus. Four of these countries have now successfully ended their programmes. They are among the euro area growth champions, and have modernised their economies by more than others.

And yet, the ESM does not spend any taxpayer money. We fund ourselves by issuing bills and bonds in the capital markets.

We can do this at very favourable rates, because of our strong credit rating. This constitutes substantial budget savings for programme countries and helps them to regain debt sustainability.

For instance, we have calculated this saves the Greek budget €10 billion each year, or almost 6% of GDP.

Let me now list the future euro area reforms that are still needed. They are small in comparison to what has already happened.

Banking Union needs to be completed. The Single Resolution Fund needs to get a backstop, to make it more credible in the eyes of financial markets. This is a role the ESM could take on.

Europe also lacks a common deposit insurance, though this can only be put in place once legacy issues in a number countries have been tackled.

Secondly, Capital Markets Union should be implemented through a harmonisation of bankruptcy, tax and corporate law. That is not an easy job, but it will be very important to improve economic risk-sharing, something that is underdeveloped in

the euro area.

Simplifying the EU fiscal rules is now also on the agenda. They have become too complex after the financial crisis.

A limited euro area budget is under discussion. In my view, this could serve to create a facility to deal with asymmetric economic shocks. There is a real need for that in the euro area – the ECB cannot fight asymmetric shocks within the monetary union.

The fund would not lead to permanent transfers or debt mutualisation, because countries that receive funds during the bad times would need to pay them back once they recover.

Examples in the U.S. show that this can work, for instance through rainy day funds or complementary unemployment schemes.

Finally, many have proposed developing a European Monetary Fund. The IMF is unlikely to participate in any future crises in Europe, and so the ESM could take over certain tasks from the Fund.

Such steps would have a significant impact on the monetary union, making it more robust, and the economy more resilient.

Thank you for your attention.

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