"The Next Steps to Make Monetary Union More Robust" - speech by Klaus Regling

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13/10/2017
Speeches
Washington, DC

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The Next Steps to Make Monetary Union More Robust
Washington, 13 October 2017

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Ladies and gentlemen,

When I looked at the programme, I noticed that the title of this session is the most positive of the day. The other sessions talk about “uncertainty” and “the quest for normality”. The organisers were right, in my view, to choose this title. Yes, there is a European spring.

I spend a good part of my job travelling around the world to talk to investors, who buy our bonds. And they are telling us that they have begun to see Europe as a safe haven for their money.
Brexit is making the outlook for the UK uncertain. And in the U.S., it remains to be seen what impact the Trump administration will have on the economy. But in Europe, the political landscape is comparatively quiet after the French elections. The economy is doing well. The euro area grew at a faster pace than the US in five of the past eight quarters.

The crisis is well behind us. It has strengthened monetary union in particular. Not only economically, but also institutionally. A lot of work was put in place to achieve that. But we need to continue to make steps to make the monetary union more robust. The resilience of the economy to withstand future shocks can still be increased. So I will give you my vision on the agenda for euro area reform, which ministers have now started to discuss.

I'd like to start by mentioning the things we do not need, in my view, to make monetary union work better. We do not need full fiscal union, nor a full political union for the proper functioning of monetary union.

We also do not need additional transfers between countries. The EU budget already provides for substantial transfers to poorer countries, of up to 4% of a receiving country's economy. But I agree that the use of these funds could become more effective.

A large additional budget to counter deep symmetric crises isn't needed either. Europe successfully fought the global financial crisis of 2008/09 through a simultaneous increase in fiscal deficits. Between 2007 and 2010, the aggregate euro area fiscal deficit-to-GDP ratio increased by almost 6 percentage points. An exception clause in the fiscal rules allow this during a severe crisis.

Let me use this example to make a side-remark on the policy mix in Europe. One often hears that monetary policy has done the heavy lifting to fight the euro debt crisis, and that there is too much pressure on the ECB to provide accommodation.

But the numbers I just gave show that fiscal policy also made a very important contribution to the recovery in Europe. It is true that the ECB played a crucial role in calming markets, at a moment it was most needed. But it wasn't the only important actor.

Being on a panel with two central bankers, I thought it was important to point that out. What is especially good, of course, is that fiscal discipline has returned after the crisis. The aggregate euro area deficit now stands at 1.5% of GDP, much better than in the U.S. or Japan. Importantly, this means that the countries of the euro area have more fiscal space in case there is a next economic crisis.
So much about the policy mix. Let me return to the reform agenda. I have said what

is not needed for a better function of monetary union. Now let me turn to the steps that I think we do need to take.
First, 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. This will only materialize after legacy issues in a number countries have been tackled.

Secondly, Capital Markets Union should be put in place. This entails a harmonisation of bankruptcy, tax and corporate law. 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 also 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 – inside the monetary union, the ECB cannot fight asymmetric shocks.

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.

A number of institutional steps is also under consideration. A permanent president of the Eurogroup could be useful for coordination and representation purposes. President Emmanuel Macron has proposed creating a subgroup of the European Parliament to deal with euro area matters. As you know, the Parliament has no say over this at the moment, so this could improve accountability from their point of view.

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.
I believe that the likelihood that these reforms will happen is better now than it has been in a long time. This year's elections in the Netherlands and France had a pro-European outcome. Germany is possibly facing difficult coalition talks. But Chancellor Merkel's pro-European policies will continue, whatever the outcome, in

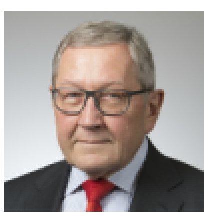
my view. I expect that the German-French twin engine will again be driving integration, particularly in the monetary union.

The situation in Catalonia is worrying, politically. The departure of companies from the region could also hurt the economy. In the bond market, however, the impact on Spain seems rather limited. Nevertheless, I hope – and expect - that we will see a sensible solution there from all the parties involved.

Of course, national elections are a constant phenomenon the EU. That is inevitable, because 28 independent countries have tied their fate together, and are sharing parts of their sovereignty. The European Union is not the United States of Europe. And the same is true in the euro area, where 19 countries have pushed integration even further by sharing a currency.

Fortunately, the popularity of the euro is at record highs, and is supported by a large majority in each euro area country. And that gives politicians a clear mandate to continue to reform the monetary union, and to take the next steps to improve it.

Author



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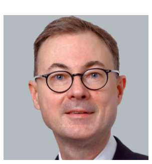

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