

“The role of the ESM in a deepening EMU” - speech by Kalin Anev Janse

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Speeches

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Ladies and gentlemen,

It is a great honour for me to address you here today!

I have often spoken about Europe in the past year. Also in Japan – I was in Tokyo nine months ago. At first, I often met a sceptical audience. But now the idea of a European renaissance is widely accepted. So my job has become a bit easier!

Today, I want to look ahead. I’d like to answer the question: where is Europe heading. How can it still improve? But in order to look at the future, let me go back to the past – if only briefly.

A year ago, the rise of populism and Brexit had triggered fears that Europe could slide back into turmoil.

But that did not happen, as we all know. The election of President Emmanuel Macron in France was an important turning point. The people voted for his ambitiously pro-

European agenda.

This has brought political stability to Europe. More so than in the UK, which is still struggling with Brexit. And also compared to the US, where the Trump administration is also causing uncertainty.

At the ESM, we could tell the difference. After the French election, investors at roadshows started telling us they see the euro area as a safe haven. For those of you using Twitter, this was when the hashtag #EUROBOOM became very popular!

I believe this turnaround is no coincidence. I see three reasons for the change. First, Europe put in place a strong policy package to fight the crisis. Secondly, the European economy is more inclusive than other regions of the world – and yet it is still one of the most competitive. And finally, Europe is still working on a number of measures to make the monetary union more robust.

Let me first address how Europe tackled the crisis. Or really, there were two. First, there was the global financial crisis, which peaked in September 2008, when Lehman Brothers collapsed.

This was followed by the euro crisis, when a number of euro area countries lost access to refinancing markets. The main reason were unsustainable national fiscal and wage policies, which had led to a build-up of macroeconomic imbalances. But the crisis also brought to light a number of flaws in the design of the monetary union.

I will mention five key achievements that remedied both these shortcomings. First, euro area countries implemented massive reform efforts, particularly the programme countries. Spain, Ireland, Cyprus and Portugal are now reform champions, and have among the highest growth rates in Europe.

The second key achievement were the unorthodox policy measures by the ECB. Closer economic policy coordination between the countries of the euro area was the third.

Fourth, Europe put in place the first two pillars of the Banking Union. The Single Supervisory Mechanism now oversees the 130 systemically important banks at the European level. We also now have a Single Resolution Board to wind down failing banks. Before, these were purely national competences.

Last but not least, there is the ESM. My institution. This is a rescue mechanism for sovereigns that have lost market access. We were set up as a permanent facility in 2012, preceded by the European Financial Stability Facility two years earlier, which is temporary.

The two institutions have a combined lending capacity of almost €700 billion. We have disbursed €273 billion in loans, three times as much as the IMF over the same period. Unlike the IMF, we fund ourselves in financial markets. We have issued more than 100 benchmark bonds and 130 bills. We borrow at very favourable rates because of our paid-in capital of €80 billion, the highest of any International Financial Institution.

Those five key achievements would have been unthinkable only a few years back. As a result, the euro area economy is now back on track, and rapidly expanding. This brings me to the second part of my speech: Europe's economic strength.

The EU economy grew 2.4 percent last year and is expected to grow at 2.3 percent in 2018. At the per-capita level, the performance is even more impressive. And this is what citizens really feel in their pocket. Here, the EU is expected to beat the US for four years on a row – from 2016 to 2019.

And yet, Europe combines this economic firepower with a society that is more equitable than for instance the US or the UK. Income inequality is much smaller in Europe than in any other economic region in the world. This can be seen from the Gini-coefficient, which stands around 30 in Italy, Germany and France, but above 40 in the U.S. The closer the number is to 100, the greater the inequality.

More income equality helps the people who struggle to cope with the rapid changes that globalisation brings. I am convinced this helps explain why populist parties in Europe have not been able to push through their agenda as much as in other parts of the western world.

So there are many reasons to be upbeat about Europe. But we also know that a next crisis will happen at some stage. So there is no room for complacency. And this brings me to my final point: the next steps to bolster Europe's future.

European Council President Donald Tusk has now mandated work on a number of

steps to deepen the monetary union. Tangible results can be expected in the first half of this year.

First, we need to complete Banking Union. This means two things. The Single Resolution Fund (SRF) needs a financial backstop so that it is prepared even for a very large bank failure. There is now a growing consensus that the ESM could fulfil this role of a backstop.

A more controversial issue is a common deposit insurance for Europe. At the moment, this only exists at the national level. A European deposit guarantee would make the system safer, and prevent country-wide bank runs. But before this can happen, countries need to clean up the balance sheets of their banks. Otherwise there is the risk that healthy banks in one country will need to pay for past mistakes by their peers in other countries.

The second point on the agenda is the development of the ESM. A stronger ESM is not a goal in itself. But a wider mandate for the institution could help to make the monetary union more robust.

I already mentioned the role as a backstop of the SRF. The ESM is in the future also likely to play a bigger role in the assistance programmes.

This would mean that the ESM would design, negotiate and monitor the programmes together with the European Commission. This will happen without any redundancies, and fully respecting the roles of both institutions as laid out in the EU Treaty.

Other roles that the ESM could take on are those as an administrator of debt restructuring talks with private creditors in a sovereign default, if Europe were to put a framework in place for that. And if Europe were to put a fiscal facility in place for macroeconomic stabilisation purposes, the ESM could also house that.

Completing Banking Union, and developing the ESM are the two first goals to deepen the monetary union. I expect to see some real progress in these areas this year. At a later stage, the euro area could also think about further steps in the fiscal field. One example could be simplify the EU fiscal rules. They have become very complicated over the years, and are hard to understand - even for experts. But there is less consensus among euro area countries on such fiscal matters. So this will take more time.

Ladies and gentlemen.

Today, I have given you the economic arguments of the benefits of European integration. Speaking from the head is what we mostly do, in our daily lives. But I also like to speak from the heart.

So let me end on a personal note. I am a Dutchman born in Bulgaria. As a child, my parents moved to the Netherlands and subsequently I lived in Spain, England and Luxembourg. With my own eyes, I have seen the benefits that European integration can bring.

This is why I will never give up the belief that we must continue to build a strong Europe. I am happy that the economic data are underpinning that belief. I am even happier that politicians have started work on doing exactly that: making the monetary union more robust to protect the many benefits that the euro brings.

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