“10 Years After the Crisis: A Forward Look at Today’s Bubbles and Risks” - speech by Kalin Anev Janse

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“10 Years After the Crisis: A Forward Look at Today’s Bubbles and Risks”

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It is a great honour for me to be here today and to be part of this roundtable. I am a big fan of the OMFIF events, I always find them very thought provoking. I hope you agree with me – in any case I’m sure you’ll be ready for a drink after this panel.

10 years after the crisis, what is the most important news for me, coming from the other side of the channel? It is that Europe is booming – and particularly, the euro area economy.

This impressive comeback is no coincidence. It involved a lot of hard work by many players. And before we turn to today’s bubbles and risks, I want to remind you of the fundamentals we built over the last years that underpin today’s success.

I met some 150 of our investors over the last year, all over the world. Increasingly, they see Europe as a safe haven. This has partly to do with the political uncertainties in the US and UK, but the main reason is the political achievements in the euro area. For those of you on Twitter, hashtag #EUROBOOM is still relevant.

So what did Europe do? Firstly, euro area countries implemented massive reform efforts. Some of the countries that received financial assistance from the EFSF/ESM, such as Spain and Ireland, have among the highest growth rates in Europe today. Secondly, the unorthodox policy measures by the ECB played a key role. Also on the list is the closer economic policy coordination between the euro area counties. This makes it harder to repeat the mistakes that led to the crisis. Next are the first two pillars of Banking Union – the Single Supervisory Mechanism, which now oversees the 130 systemically important banks at the European level, and the Single Resolution Board, which was set up to wind down failing banks across Europe.

Last but not least, the ESM, my institution, serves as a rescue mechanism for euro area countries that have lost market access. We were not there at the beginning of the crisis, but the ESM is a permanent institution, so we will be ready to fight the next crisis when it comes. We have disbursed a total of €279 billion to programme countries. Funding these programmes has made us a key market player: we have issued more than 100 benchmark bonds and 130 bills over the last seven years.

These achievements would have been unthinkable only a few years back but, as a result, the euro area economy is now back on track and rapidly growing again. The reduction in political risk after the French elections last year certainly supported this recovery.

Understanding how we dealt with the last crisis is important also for thinking about today's risks. In my view, there are three main sources of risk: cyclical risk, complacency, and new icebergs.

So, cyclical risk first. The euro area economy grew 2.4% percent last year and is due to grow 2.3% this year. This is well above the potential, so at a certain moment growth will slow down. Some countries, like Germany and the Netherlands, may already be close to moving to full employment. At the same time, asset prices - like stocks, alternative investments, and real estate – are at record highs. Some of these bubbles may be small, but you do want to be on time to spot which of these smaller bubbles has the potential to become big and cause greater damage to the economy.

The second source of risk lies in the fact that not all our policy responses are complete. These are the areas where complacency might kick in. Completion of the Banking Union is the first that comes to mind. The Single Resolution Fund (SRF) needs a financial backstop so that it can handle even the largest bank failure. The SRF's war chest will reach its final level of €55 billion in 2023. A backstop that would roughly double that amount through an ESM credit line of about the same size seems reasonable.

A more controversial issue is a common deposit insurance for Europe, which would make the banking system safer because it would prevent country-wide bank runs. 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 made by their peers in other countries.

Further steps to deepen Monetary Union are also on the political agenda at the moment. One is developing the mandate of the ESM, and possibly turning it into a European Monetary Fund.

European integration has often accelerated the most during a crisis, and because the economy is doing well now, there is a risk of complacency and a delay of the reform efforts. Leaving some unfinished business will make us weaker to cope with future crises.

The last source of risk is what I call new icebergs. Crises often emerge when and where we least expect them. Therefore, we ought to be on the lookout for new unknowns. What areas are we not paying enough attention to today? Let me give you a few candidates.

The first and most important one is cyber-security. This is a threat not only to the financial industry, but also to our global supply chains. The iceberg here is that while executive teams have a very good understanding of traditional market, credit, and operational risk, few are tech natives. You can't blame them though, because the average Darknet attacker or crypto-currency trader is between 15 and 25 years-old. They can bring companies down, and even entire banking or government systems. Recently, this happened in the Netherlands when the website of the tax authority was brought down for several hours. An 18 year-old hacker was later arrested over the crime. Do today's top managers have the knowledge to prevent such events?

Another iceberg is formed by unregulated financial services and protectionism, and their implications for global economic trade and growth.

But let me conclude on a positive note: Europe has some unique assets that we can be proud of – great human talent, strong educational systems, and cities that continuously rank as the best places to live in the world. We are leading on ethics, social mobility, and democracy, so there is hardly a better place to live in the 21st century than Europe. What gives me most optimism about Europe is our track record over the past 70 years of successfully dealing with crises, and coming out of them even stronger.

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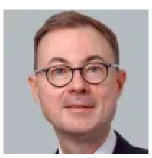

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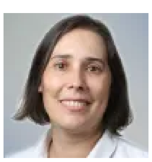

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