



How Europe is Overcoming the Euro Crisis

Klaus Regling, Managing Director, ESM
Beijing Financial Street Forum
5 September 2013

Economic and Monetary Union (EMU): more than a currency union

- EMU is the result of **a long integration process . . .**
- . . . with **sustained economic convergence**
- EMU is **also a political project**
- The **institutional set-up of EMU** is unlike any other currency area
- The original EMU set-up contained **institutional gaps**
- The first decade of EMU revealed **home-made problems** which were compounded by the 2008-2009 global financial crisis

Europe reacts to the euro crisis at national and EU level

1) **Significant fiscal consolidation and structural reforms at national level**

- Macroeconomic imbalances are disappearing

2) **Improved economic policy coordination in the euro area**

- More comprehensive and binding rules for policy coordination

3) **Financial backstops and OMT**

- EFSF and ESM have disbursed €213 bn to Ireland, Portugal, Greece, Spain and Cyprus
- Potential concerted ESM – ECB intervention possible

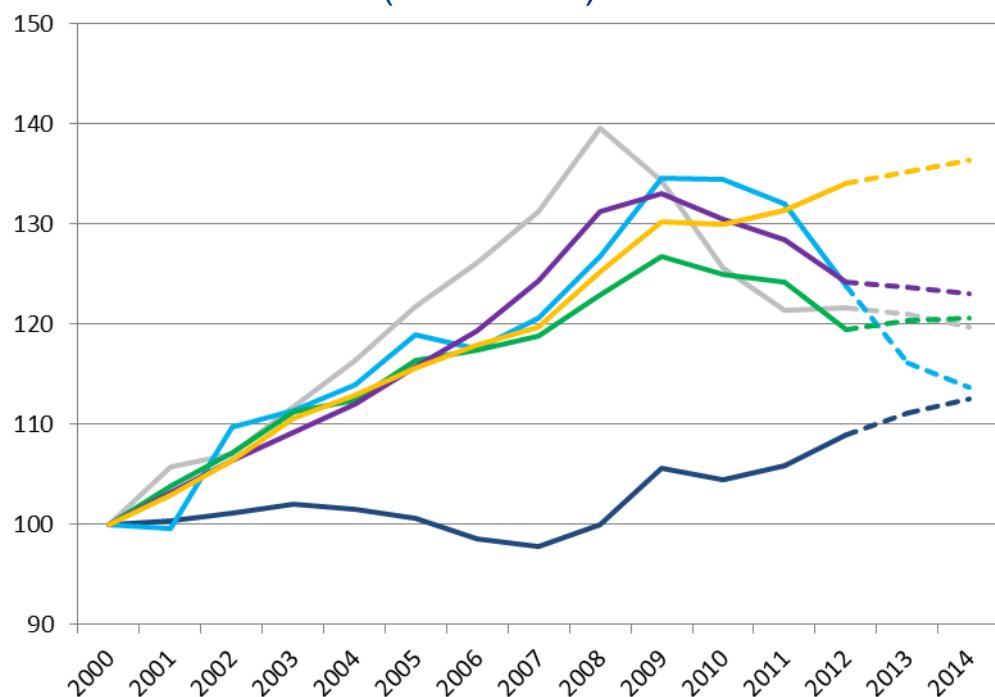
4) **Reinforcing the banking system**

- European banks have Core Tier 1 capital ratio of 9% or more
- Steps towards Banking Union have been adopted

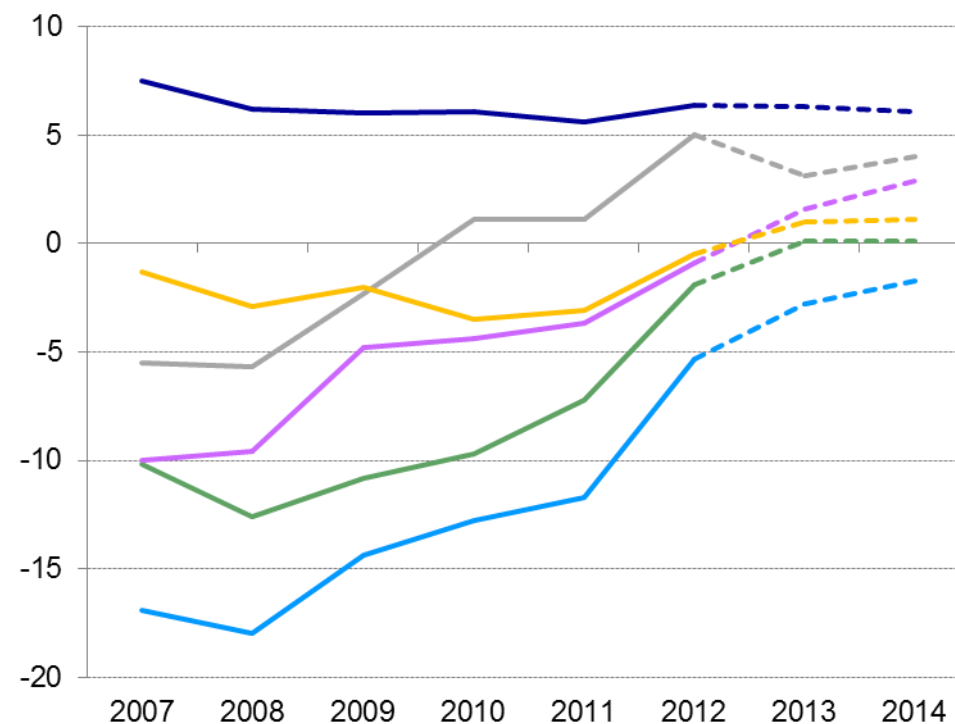
Divergences within EMU are declining

- Competitiveness is improving in all Southern European countries

Nominal unit labour costs, whole economy
(2000=100)



Current Account Balance (as % of GDP)



Germany Ireland Greece
Portugal Spain Italy

Source: Eurostat,
EC European Economic Forecast - Spring 2013

The crisis strategy is working . . .

- Borrowing countries are reducing fiscal deficits and eliminating current account deficits as **competitiveness is restored**
- **Interest rate differences** between Northern and Southern Europe have been **cut by more than half**
- Ireland, Portugal and Spain issued **10-year government bonds** in 2013
- The euro area moved **out of recession** in Q2 2013
- Unemployment has stopped rising, industrial production is growing and confidence indicators are up

. . . but risks remain

- Borrowing countries need to continue their **difficult adjustment**
- Some of them need continued **financial support**
- **Financial markets** in Europe are **fragmented**
- Potential growth in Europe will be **limited**

Yet we should keep in mind that . . .

- History shows that crises generally trigger positive changes
- This is also true in Europe: monetary union **will emerge stronger** when the crisis is over