

Check against delivery

SPEECH BY EUROGROUP PRESIDENT MARIO CENTENO

"THE FUTURE OF THE EURO"

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Intro

Ladies and gentlemen,

Let me thank you for the kind invitation to close this flagship economic policy conference in Brussels. I'm honoured to speak at an event with such distinguished guests and qualified audience.

When one thinks that over 70% of the rules that govern the life of European citizens is drafted in Brussels, in the Commission and in the Council, one also realises that I am addressing today a powerful audience.

You do some of the invisible heavy lifting in European policymaking. I'm not only talking about policy design and

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economic analysis. The art of careful drafting is key to get everyone on board on controversial policies, and until the next stop.

Institutional design, touching upon incentives and mechanisms to align conflicting interests, is one of the most difficult tasks in economics. We need to move step-by-step, generating comfort among all decisions makers. But we must always evaluate to cost of inaction. Institutions are man-made, thus prone to errors and mistakes. Always be ready to correct and help to correct them.

History tells us that this can take time. Never, ever, become impatient. Impatience is the root of populism.

Crisis lessons

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The recent crisis was such an example. For years we took comfort in the strength of the euro versus the dollar, disregarding what was happening below the surface.

Fears of further integration led us to start off the euro without institutions that were common in all Economic and Monetary Unions.

The financial crisis exposed the flaws in the design of our economic and monetary union. We asked too much of our labour and financial markets. In hindsight, it became clear that the Maastricht architecture was fragile and needed to be completed.

Mistaken policies, lack of policy coordination, institutional gaps at the European level provided the poisonous backdrop against which imbalances grew.

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As the financial crisis hit, debt spreads widened sharply. Five countries asked for financial rescue and I'm particularly familiar with one of them.

What could have been "a" financial crisis, became a Great Recession. One which we were not ready to respond.

Crisis like these do not happen every decade. We hadn't seen one in 80 years.

Why am I telling you all this?

Mandate to reform EMU

In December last year, I was elected president of the Eurogroup. I was given a mission by President Donald Tusk to present a plan to reform the euro area in six months.

Good economic times, a fresh electoral cycle in several countries and memories of the crisis were key ingredients that

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would allow us to work fast. But you wouldn't believe how quickly the memories of the crisis can fade away.

The point I want to make to you today is that we have a choice. When our leaders meet in 3 weeks' time, here in Brussels, we have a choice to either remain vulnerable to next crisis and to political or market instability; or to be bold and decide to take the euro more seriously. Not as another good European project, but as our common currency.

Do you remember your old currencies? Were they to blame for everything that went wrong in our countries?

A currency is the reflection of its society. Macroeconomists even play with correlations between economic success and the people and images countries print on their bank notes. And they take this seriously!

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Today our discussion is not about designing banking notes, but instead protect the euro, as we defend the market economy, the welfare state, and the democratic system. All these things can be improved, but they are not up for bargain.

I may be preaching to the converted. But we all have a role to play. You are influencers in your fields. And you understand the European process, its complexities and how they have served our countries.

Crisis response

We have earned the power to choose our immediate future comfortably, not showing signs of impatience.

Because when markets questioned the euro, doubted our resolve to defend it, we were brave enough to put politeness aside and take decisions.

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- All countries took tough decisions, especially crisis-hit countries that adopted policies to correct their imbalances.
- We reinforced the economic and budgetary policy coordination through, among other instruments, the European Semester;
- We've set up a rescue fund with €500bn firepower to provide financial assistance to member states that run into financial troubles;
- We launched the banking union with institutions that coordinate the supervision and the resolution of banks under a harmonised legal framework.

In the face of real danger, we pooled a huge amount of resources together, implemented new policies and set up institutions at the EU level. We crossed the reddest lines of

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EU negotiations: power and money. In doing so, we defended the euro, as countries should defend their currencies.

We did it because we were forced to by the markets - some would say. That maybe so, but it worked.

And today our bravery is paying off.

The euro area has grown for 20 consecutive quarters. With strong job creation and the lowest unemployment rate in many years. And we did all this alongside a significant deleveraging.

We managed to synchronise the economic cycles: the standard deviation of fiscal balances and economic growth across euro area countries has never been so small. For the first time in many years (I might even say for the first time ever) all countries have public deficits below 3%.

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This is significant and remarkable by any standards, but the blunt truth is that our institutions are still incomplete.

Therefore, they can only yield incomplete results.

Incomplete is dangerous

We should wonder and reflect on why is it that, despite good economic results, many across Europe still doubt the European project? Is it a matter of distribution, lack of investment, insecurity over the future?

Recent economic progress cannot be taken for granted. The heavy loaded environment of the post-crisis is fertile ground for populist arguments, as we hear throughout the western world.

We must stand ready to move European integration forward in the benefit of our citizens. This is the best way to fight populist arguments. Governments and European Institutions

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are the sole suppliers of patience, and patience is best way to combat populism, which lives off seemingly simple, too simple, solutions.

Citizens need to see results. And politicians need to earn their patience to be able to deliver. Now it is high time to decide, not to procrastinate.

The current state of affairs not only leaves us vulnerable to future crises, it also fuels resentment against the European project.

Many claim the euro boosts free riders. Others see it as a financial straightjacket and blame it for their homemade imbalances. It is imperative that we take these views head on, especially as they take root and create a misguided split between the core and periphery, north and south, the rich and the poor.

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It puts European citizens against European citizens. We cannot afford it, we cannot accept it. Populism is based on underlying supposed differences and ignores the much we built together. And this is an artificial barrier to the decision making process.

The euro plays a symbolic role in the political process that brought the people of Europe closer. But the euro cannot be just a symbol.

It must meet its promise being an instrument that ensures financial stability, enhances real convergence among European member states and ultimately improves the well-being of our citizens.

EMU reform plan

This takes me to our plan to make the euro stronger.

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At the Eurogroup, we have been focusing on two areas where the consensus is deemed to be greater - the Banking Union and the reform of the European Stability Mechanism.

We were successful in launching a Banking Union. But we should recognise that the process is not complete. Our claim to protect taxpayers' money for reckless market behaviours needs to be fully credible. At the same time, we need to increase the role of financial markets in dissipating economic shocks.

In the US, around 70 percent of national and local asymmetric shocks are absorbed via financial markets. In Europe, only 25 percent of the local asymmetric shocks are dissipated through this channel.

In other words, national fiscal buffers absorb the bulk of the impact of the local asymmetric shocks. This hampers their resilience and makes the EMU more prone to crisis.

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The single supervision of banks was the first pillar of the Banking Union. We have also created common rules to resolve systemic banks that go bust. It is now the time to complete this construction.

SRF Backstop

Last month, we reached a political compromise on a package of measures that will improve resilience of banks by holding a buffer of bail-in able liabilities and protects depositors and taxpayers when things go wrong.

The approval of the so-called banking package paves the way for a larger pooling of risks in our banking system. At the top of our agenda is a proposal to introduce a backstop for the Single Resolution Fund.

There is a broad support among finance ministers for making the ESM the provider of the backstop, as part of a broader

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reform of the Mechanism. An agreement on this file is in sight for June. The backstop will become effective no later than 2024.

As in any decision to use public money we need to ensure accountability. At the same time, we need a swift and effective decision process.

This will show markets and investors we mean business. Pooling resources via the ESM will translate into further reduction of risks.

Risk reduction

The discussion on the sequence of risk reduction and risk sharing measure is a tough one. But we all understand that we have to promote a credible strategy to risk management.

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How far are we willing to trust each other? We need to always remember that trust is the flip side of reputation. We need to constantly feed this process.

There are strong views here. I say: let's look at the numbers.

It is important to build a common understanding of the progress achieved, especially in complex files such as the Banking Union. No matter how difficult the discussions are, facts and figures should enable us to speak the same language.

I have asked the European Commission, the Single Supervisory Mechanism and the Single Resolution Board to produce a report setting out measures we have taken to make banks shore up and clean their balance sheets, and gauging their impact.

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The report should be the basis for our discussions in the coming weeks. Our plan is to have an assessment made on a regular basis, using relevant set of risk indicators that we are going to choose.

As the speed at which we are moving to make our banks stronger becomes clear, we should be able to decide on how fast to move in pooling risks.

To be fair, we are not starting from scratch. Since the onset of the financial crisis, the EU has adopted over fifty legislative proposals to increase the resilience of the financial sector.

The measures we have taken are already yielding significant results. Take the stock of non-performing loans – one of the indicators we are going to look at.

NPLs are one of the bad legacies from the financial crisis. Not only do they cast doubt over the resilience of lenders, but

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they also act as a drag on new lending, therefore on economic growth. We are acting decisively to tackle them.

Since the peak of the crisis they have fallen by a third across the EU. It is no minor achievement. And they continue on a steady decline, especially in those member states where the stocks are higher.

EDIS

Looking further ahead, we could link these reports to a process for gradually introducing the European Deposit Insurance Scheme (EDIS), which is the third pillar of the Banking Union.

This is not something new, it is part of the 2016 roadmap we agreed where the sequencing is identified. Being complementary to national schemes, EDIS would reduce the

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risk of bank runs, further increasing the resilience of our system.

We all remember watching in disbelief to queues outside Northern Rock or later outside Greek banks during the peak of the crisis. These images would not be possible in a properly functioning banking union.

Are we ready to protect the people against this?

Soon we must start laying down the steps to gradually introduce EDIS, knowing that we will only see this through if we address all moral hazard concerns.

ESM

Our second priority in the reform of the EMU is to strengthen the ESM.

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The ESM is a success story of the crisis. An institution that has quickly become an established supranational issuer, providing programme countries with triple A rated cheap funds, and earning a greater say in programme design. It was the ESM that made the troika obsolete. And this was all before I became chairman of the Board of Governors.

We are reviewing the instruments that the ESM has, some of which have never been used, and discussing potential new tools. We plan to reinforce its role in the management of crisis. To acknowledge its new roles we may even change its name, although that is of little significance.

Fiscal capacity

There is one separate element of the reforms that will take centre stage. I am talking about building a fiscal capacity to the Euro Area.

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I think we could benefit much from having a tool to protect public investment in crisis times and promote convergence between member states that share the euro, going beyond the existing EU funds.

We should also find a way to complement national fiscal stabilizers in absorbing shocks, in other words to have an instrument that has a macroeconomic stabilization function. It could be managed within the EU budget or by the ESM. This is a powerful idea that from an economic perspective makes a lot of sense to me.

Conclusion

Let me conclude returning to a more political tone.

We have to stop treating the euro as an experiment. We went through hell and high water to set it up and later to defend it against all odds. We made it a symbol of Europe, which after

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all we have been through, is supported by 70% of its population.

This is our mandate. To be ready to improve the currency to serve our citizens, in particular the 30% that remain unconvinced.

I really believe that we are all net winners of our common currency. All options contemplated, the euro remains by far the cheapest track to prosperity.

In the next two weeks, we need to prepare the decisions to take another vigorous step to complete the EMU. We will go step-by-step. The process may be complex - it always is in Europe - but our end goal must be very clear.

Thank you,