Benoît Coeuré: The “fourth stage” of EMU – laying the foundations for a sustained recovery

Speech by Mr Benoît Coeuré, Member of the Executive Board of the European Central Bank, at the Interparliamentary Conference on “Economic governance of the European Union”, in the context of the European Parliamentary Week, Brussels, 21 January 2014.

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Mr President,

Mr Meimarakis,

Honourable Members,

Ladies and Gentlemen,

This month, we celebrate the 15th anniversary of the introduction of the euro, marking the start of the third stage of Economic and Monetary Union (EMU). We now know that this was not the final stage.

The crisis and subsequent adjustment have created considerable uncertainty and social hardship. Yet, there are encouraging signs that the situation is changing and that Europe is gradually moving towards recovery. Fragmentation has significantly receded in euro area financial markets. What we need now is to create the conditions for a sustained recovery.

And we all have a role to play.

First, in nurturing a still weak and uneven recovery. The ECB has a key role to play in this respect.

Second, in creating conditions for sustainable long-term growth.

And finally, in enhancing democratic accountability and developing a shared vision of the future of European integration.

The contribution of monetary policy and banking union

Improving the financing of the economy will play a vital part in the recovery.

The ECB had an essential key role in this respect throughout the crisis.

The ECB was faced with interrelated key challenges, namely deleveraging, fragmentation and a weak economic environment.

Like other central banks around the globe, we have taken decisive measures to ensure the proper transmission of our monetary policy.

We have reduced the key interest rate to a historic low. We have stated that, in view of the subdued outlook for inflation, we expect interest rates to remain at current or lower levels for an extended period of time. We are fully committed to maintaining price stability over the medium term, that is, inflation below, but close to, 2%, and we have been absolutely clear that our inflation objective is symmetric: low inflation is as bad as high inflation.

There are already indications that we are making significant progress in reintegrating financial markets. .

It is true that the improvement in financial conditions is not reflected to the same extent in all euro area economies.

The ECB is committed to fighting financial fragmentation. But there are clear limits to what monetary policy alone can achieve.

For banks to pass on to their clients the favourable financing conditions, trust needs to be re-established in the European banking sector and its capacity to finance the economy.

Here, the banking union with its first two main pillars, single supervision and resolution, will play a key role.

The creation of the Single Supervisory Mechanism (SSM) is a very big step in the European integration process – probably the biggest since the introduction of the euro.

At the ECB, we are very conscious of this huge responsibility that we have been asked to shoulder. Intensive preparations are under way in close cooperation with the national supervisors in order to have the SSM fully operational in November 2014.

As an essential part of that work, we will conduct – together with European Banking Authority – a comprehensive assessment of banks' balance sheets to create greater transparency in respect of the risks. I trust that the conditions set in the comprehensive assessment will be challenging and will contribute to the strong credibility of the exercise.

Yet, integrating supervision is not sufficient. An appropriate resolution framework is essential to deal with banks that are failing or likely to fail.

The agreement reached by the European Parliament and the Council on the Bank Recovery and Resolution Directive (BRRD) is an important step in this direction.

We now need to have an agreement between the Council and the European Parliament on an effective Single Resolution Mechanism (SRM) and a Single Resolution Fund (SRF).

Let me first say a few words on the institutional method chosen to set up the SRF. As a Union institution, the ECB supports, as a matter of principle, recourse to the Union method and thus to Union law. The recourse to an intergovernmental agreement should only be seen as a temporary solution.

As regards the main features of a functioning SRM, we need lean decision-making, particularly in emergency situations. This should allow for taking decisions over a weekend, if needed. Robust and common resolution financing arrangements are also required: in this regard, the period of ten years for moving towards a genuinely common SRF is too long and should be shortened, possibly to five years. Also, adequate common backstop arrangements need to be established, both for the transition period and the steady state, to guarantee the credibility of the SRF and avoid a persistent or re-emergent sovereign-bank nexus. Finally, the assessment whether a bank is failing or likely to fail should solely be in the hands of the supervisor.

The role of national policies and European economic governance

Further steps are indeed needed to create a favourable and stable environment for investment and job creation, notably structural reforms to make euro area economies fairer and more competitive, and stabilising public finances.

These steps have both a national and a European dimension. They are of relevance for the Union as whole but particularly pressing for the euro area, where the fates of economies are even more closely interrelated. Each Member State has to act in the knowledge that what happens domestically has direct implications for the rest of the monetary union, while recognising that what happens in the rest of the union will also impact on its own situation. This is the only way we can create the basis for shared responsibility and solidarity in EMU.

In spring 2010 the ECB was asked by Member States to join the troika. The finance ministers of the euro area decided to grant financial assistance to stressed countries, which in return committed to rebalancing their economy. The ECB accepted to act in liaison with the Commission and to provide advice and expertise in areas related to our mandate.

I am aware that the work of the troika has met with criticism, in particular from the European Parliament. It is fully legitimate to have an open debate on the matter, not least given the huge implications for the everyday lives of citizens in programme countries. It is part of the learning process to assess the European crisis response and to identify what has worked and what could be improved in the future.

When doing this, one should bear in mind the immensely challenging situation which European institutions and national governments had to cope with. Of course, it is always possible to say that with the benefit of hindsight things could have been done better or differently, and this contributes to the learning process. But advice is provided in a given context, based on given information and under given constraints. Let us also not forget that the adjustment would have had to take place in any case, with or without the troika. The economic and social costs would have certainly been much higher without the emergency assistance.

Finally, let us acknowledge what the EU/IMF programmes have achieved. The integrity of the euro area has been preserved and financial conditions are improving for programme countries, notably for Ireland, which has safely exited its programme. Spain too has exited its banking sector programme. Progress on fiscal and external rebalancing and on structural reforms has also been very significant.

Looking ahead, we need to prevent any return to the complacency of the past. This means that we must make fuller use of the tools at our disposal in the economic governance framework, at the EU and the EMU level.

The European Parliament and national parliaments have a key role to play in this respect, in the context of the 2014 European Semester. Let me reassert here that the Excessive Deficit Procedure (EDP) and the Macroeconomic Imbalance Procedure (MIP) are equally important and should be strictly enforced. The lesson of this crisis is that the cost of not intervening where imbalances are identified would be a more brutal adjustment later.

The role of parliaments in the "fourth stage" of EMU

The crisis revealed that national policies need to be a matter of common concern. Therefore, national policies need to be discussed at the European level and the European dimension needs to be brought into national debates. National parliaments and the European Parliament are the natural fora for such exchanges.

There is clearly a demand for this. The most recent Eurobarometer data (autumn 2013) indicates that an overwhelming majority of euro area citizens (79%) support a stronger coordination of economic policies among euro area countries and 63% support the EMU and the euro. At the same time, two-thirds of Europeans consider that their voice does not count in the EU.

At the ECB, we attach great importance to our accountability, as reflected in our close dialogue with the European Parliament and most recently in the Inter-institutional Agreement with the European Parliament on the accountability of the SSM. As regards monetary policy, the Governing Council of the ECB is examining how it can enhance the transparency of its decision-making processes by publishing an account of its discussions. I am personally convinced that this would help the public understand our decisions better.

At the same time, the European Parliament and national parliaments have a responsibility to engage with the public on the political and economic implications of Economic and Monetary Union. Above all, only in a truly European public space can common solutions emerge.

Let me now conclude. 15 years ago the third stage of EMU started. It was believed to be the “final” stage. The crisis made clear that we needed to embark on what I would call the “fourth stage” of EMU, as described in particular in the Four Presidents’ report[1].

In this process we should always ask ourselves: in 15 years from now, what will the people of Europe say when they look back at what we have done? Will they regard it as a decisive moment in paving the way for a stable European economy and sustainable growth?

I believe this long-term outlook should be our benchmark. And in this process, it is clear that further sharing of sovereignty has to go hand in hand with enhanced democratic legitimacy and accountability. I trust this year’s European elections will be the occasion for an important debate in this regard.

Thank you for your attention.

[1] *Towards a Genuine Economic and Monetary Union*, report by Herman Van Rompuy, President of the European Council, in close collaboration with José Manuel Barroso, President of the European Commission, Jean-Claude Juncker, President of the Eurogroup, and Mario Draghi, President of the European Central Bank, 5 December 2012.