Benoît Cœuré: Exchange of views on the ECB's role in the troika

Remarks by Mr Benoît Cœuré, Member of the Executive Board of the ECB, before the Economic and Monetary Affairs committee, Brussels, 13 February 2014.

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Madam Chair,

Honourable Members,

Let me first of all thank you for your invitation to this exchange of views.

The adjustment programmes implemented in recent years in several euro area Member States were an unprecedented answer to an unprecedented crisis. This crisis has affected the lives of millions of EU citizens – hence it is only natural that you, as their directly elected representatives, assess what has happened. This crisis has revealed major shortcomings, mainly in domestic economic policies, but also in the architecture of EMU – thus the European Parliament as an institution with a truly European perspective is an appropriate forum to discuss what can be learnt from this experience.

It is against this background that I am grateful for the opportunity today to explain the role of the ECB in the troika, to discuss our assessment of the adjustment process in the programme countries and to draw with you some key lessons from the last four years.

The ECB's role in the troika

Let me start by recalling the circumstances under which the troika was set up. When a sovereign debt crisis erupted in spring 2010 in the aftermath of an unprecedented global financial crisis, the euro area was caught unprepared.

The Maastricht architecture had failed to prevent the build-up of excessive imbalances and unsustainable fiscal positions by a number of countries. Europe was then ill-equipped to handle a crisis of such magnitude stemming from these developments. There was no framework for dealing with Member States losing market access. There was no governance foreseen for such cases. There was no instrument to provide funding.

Under these difficult circumstances, the Member States decided to grant financial assistance subject to appropriate conditionality as part of an adjustment programme. The Eurogroup sought to avail itself of the best available expertise to support it in designing and reviewing these programmes. The IMF and the European Commission in liaison with the ECB with their complementary experience in crisis management, country surveillance and financial stability were asked to take on this difficult task – this is what we know today as the troika.

The particular expertise and euro area focus of the ECB, in other words, the views we have on the systemic consequences of the decisions under discussion, were compelling reasons for requesting our participation. Moreover, we made it clear that the ECB would retain its full independence, as mandated by the Treaty.

By accepting the Eurogroup's request, we accepted a clearly defined advisory role: the troika institutions provide the necessary input for the Eurogroup to take its decisions. In liaison with the other institutions, we analyse the situation on the ground, assess policy options in close cooperation with the respective Member State and later support the review of their implementation.

Today, this set-up is codified in the ESM Treaty and in the two-pack, which was jointly adopted by this house and by the Council. In its Pringle judgement, the European Court of Justice established the EU ground rules for the Commission's and the ECB's participation in the troika, holding that the tasks assigned to the ECB under the ESM Treaty are fully in line with the EU Treaties. Hence, the ECB's participation in the troika is based on solid legal grounds.

The design of the adjustment programmes

Turning to the design of the adjustment programmes, let me emphasise that, despite the substantial differences across the programme countries, the troika had to overcome four challenges common to them all:

- First, unsound national policies, which the Maastricht framework failed to prevent, led to an extremely difficult economic situation at the start of each programme. In fact, the ECB had warned publicly – and even in this house – about the unsound fiscal positions and loss of competitiveness of many of these economies.
- Second, there was immense time pressure, while the information available was often incomplete and sometimes even misleading.
- Third, economic considerations, notably debt sustainability concerns, and political circumstances put constraints on the amount of funding provided by European and international partners.
- And fourth, there was little experience with large adjustments in a short timespan within a monetary union context. A high risk of contagion across euro area Member States made the task more challenging and constrained the policy options.

The troika operated under these constraints. While our advice was tailor-made to the situation in each of the Member States, it followed one overarching objective: to create the conditions for sustainable long-term growth, high levels of employment and hence help the Member State to regain market access. This meant that three main policy areas needed to be addressed: first, consolidating public finances; second, repairing and restructuring the financial sectors to put them on a healthier footing; third, regaining competitiveness by pursuing structural reforms.

When giving advice as part of the troika, we always attached importance to ensuring social fairness. This meant, in particular, an equitable sharing of the adjustment burden across society and overcoming powerful vested interests.

I am acutely aware of the social hardship in the programme countries. Many citizens have suffered and are still suffering from policy mistakes in the run-up to the crisis and the subsequently unavoidable adjustment process. These are real people losing their jobs. Real people getting their wages or pensions cut. This concerns all of us.

But we should not jump to the wrong conclusions and blame the fire brigade for the fire damage. Let us always keep in mind what would have been the alternative.

A disorderly default would have resulted in a meltdown of the financial sector and in a collapse of the real economy. Social hardship would have hit the citizens of the programme countries much harder. And let us also not forget that in one case there was an extensive debate on the potential exit from the euro area.

Instead, what have we experienced these last four years? Tremendous efforts have been made to repair financial sectors, improve the functioning of the economy and consolidate public finances. That Ireland has just exited from its programme and regained market access is a demonstration of this hard-won achievements. In all the programme countries we have seen major progress, especially as regards fiscal adjustment and the stabilisation of banking systems. Cost and price competitiveness are being regained step by step; structural reforms are showing first results. Market access has improved.

Nevertheless, unemployment remains unacceptably high and the recovery is fragile. Therefore, governments should not undo the progress made. Instead, they should keep going down this difficult path. Incidentally, this applies not only to the programme countries, but to all euro area Member States.

Lessons to be learned

I would like to draw three conclusions from what I just explained. First, the programmes were the necessary answer to some Member States finding themselves on the brink of default. Second, the troika was the best available instrument in the given circumstances. And third, with hindsight and taking into account the difficult situation as well as the imperfect information available at the time, the troika has provided sound advice.

Where does this leave us? I believe the experience of the last four years offers some important lessons.

The best insurance against having to endure swift and painful adjustment in the face of imminent danger is to conduct sound fiscal and structural policies. This means building up buffers and efficient structures in good times so that a Member State never ends up in such a situation again. This is, first and foremost, the responsibility of the Member States themselves. It also means that the Excessive Deficit and the Excessive Imbalances Procedures must be enforced thoroughly.

More generally, we saw that the lack of an adequate governance framework at the European level considerably narrowed the policy options available once the crisis hit. Only when a new institutional set-up was built up, step-by-step, did more and more options become available again. This leads us to an important lesson: to collectively *retain* sovereignty, Member States need to *share* sovereignty. We have come a long way since 2010 in this regard, in particular with the step-by-step establishment of a banking union, but we are not there yet. I am sure that your institution will continue to play an essential role in this process, as it repeatedly has in recent years.

The troika in its current form will not be there forever. I am convinced that in the long term, Europe's crisis management framework should be brought under the single umbrella of Community law. But there is no short term alternative and as long as it is sought, we will continue to contribute our candid advice, learning from experience.

I thank you for your attention and I am now looking forward to your questions.