

Luis de Guindos: Euro at 20 years - the road ahead

Address by Mr Luis de Guindos, Vice-President of the European Central Bank, at the European Parliamentary Week, Brussels, 19 February 2019.

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I would first like to thank the European Parliament and the Parliament of Romania for this opportunity to reflect together on the first 20 years of the euro and discuss the road ahead.

The euro's first two decades saw the outbreak of the great financial crisis, which caused a permanent loss in output in all major economic regions around the globe, and of the sovereign debt crisis in the euro area, which posed an existential threat to the single currency.

Steady advances in convergence and financial integration in the euro area had been made before these crises. However, as a result of the incompleteness of Economic and Monetary Union the impact of these shocks reversed some of the progress made towards integration, just when they were most needed.

Thanks to a collective effort by European citizens and their leaders, the existential threat to the euro has been overcome. Several euro area countries have gone through a substantial adjustment phase, macroeconomic imbalances have been unwound, and price competitiveness has improved. We have seen an impressive correction in current account deficits and fiscal deficits have declined.

Also thanks to the support of the ECB's monetary policy measures, the euro area has been on a broad-based recovery path, which has been reflected in improved labour market conditions and job creation. Monetary Union is now more resilient to shocks thanks to the economic expansion, a reduction in imbalances, as well as the significant institutional reforms that have been adopted in the post-crisis period. Nevertheless, there is more work to be done: the journey ahead to complete the Economic and Monetary Union (EMU) is challenging.

This forum allows me to discuss the important role played by parliaments on that journey. Parliaments already have a significant role to play in the governance of the euro area. And I believe that we can further build on their contribution to improve the functioning of Economic and Monetary Union.

Rather than focusing on what we need for a better functioning of EMU, I will stress today why and how parliamentary involvement can enhance the legitimacy of economic decisions at national and European level and make them more consistent with participation in a single currency.

Answering EU citizens' legitimacy concerns

Our Union is founded on the value of democracy. And, following the tradition of liberal democracies, it is based on principles, rules and institutions that protect freedoms, rights and the rule of law to avoid abuse of powers.

On the one hand, legitimacy in such a system requires that all European citizens, our demos, have a choice and a voice. On the other, it is grounded in fundamental rules that form the basis of our social contract. Nevertheless, ensuring legitimacy is not a one-off activity; it requires an ongoing effort by institutions.

Let me look at the example of the ECB, of which I have the honour to be Vice-President.

The ECB's democratic mandate is laid down in the EU Treaties, which were ratified in all Member States according to their constitutional requirements.

Within this mandate, and to fulfil the euro-area wide objectives assigned to the ECB, the ECB has discretion to use its instruments as necessary. And its independence is protected, precisely to ensure that the legitimacy of its decisions is not undermined by accusations of political interference for short-term electoral gains.

As a necessary counterpart to that independence, the ECB is accountable to the European Parliament, which represents the people of the EU. This is complemented by judicial review of the ECB's decisions by the Court of Justice of the EU and the audit of the operational efficiency of the management of the ECB by the European Court of Auditors.

All these elements allow us to show that we are acting in accordance with our mandate and not arbitrarily.

We take our accountability to the European Parliament very seriously. Over the years, we have developed a strong and comprehensive accountability framework, which goes beyond the Treaty requirements. We can affirm that the European Parliament has been very diligent in its regular and in-depth scrutiny. As one should expect, the intensity of this scrutiny was stepped up during the crisis.¹

The role of parliaments in fostering a better functioning EMU

The ECB's experience shows how a well-functioning EMU requires strong institutions, strong rules and strong accountability. They are complementary and mutually reinforcing in pursuing input and output legitimacy, i.e. ensuring that institutions function smoothly and perform well.

Any discussion on what should be done requires us to look at how we can ensure democratic legitimacy and accountability. This is particularly true for decisions on economic and fiscal matters, which are highly political; though enshrined in national democracies, they are subject to common European rules.

In these matters, both national parliaments and the European Parliament already bear an important responsibility. National parliaments adopt the national government budget and structural reforms.

At the same time, the European Parliament, as co-legislator, has a key role in the design of an effective and efficient EU governance framework. It needs to consider the cross-border spillovers from national policies, as well as the impact of European policies at national level.

The European Parliamentary Week can play a very useful role here as it allows us to learn from each other's experiences. In fact, there has been no lack of successful reforms in different policy fields across EU countries.

Let me take a concrete example.

In the area of financial services, the completion of the banking union is essential for improving the functioning of EMU. Looking back at what we have achieved since the crisis, the result is quite impressive.

European banking supervision, which marked its fifth anniversary last year, has brought a more uniform approach to how banks are supervised. We have also created a new EU resolution framework, which ensures that banks can fail in an orderly manner and that the cost of bank failures is shifted away from governments and onto the financial sector.

Thanks to these achievements, the banking union is helping to make European banks safer and sounder and more able to support the European economy. We have made good progress, but we are not done yet.

On the one hand, we need to complete the banking union by operationalising the common backstop to the Single Resolution Fund and advancing political discussions on banking union's missing third pillar: a European deposit insurance scheme.

To complete the banking union reform agenda substantial risk reduction has already been achieved and the process is ongoing and should continue. But further progress also depends on having a more harmonised regulatory framework.

This entails, among other things, undertaking a serious effort to harmonise options and national discretions (ONDs), some of which lie in the hands of national legislators, limiting opportunities for regulatory arbitrage, and ensuring a level playing field at European level.

This can only be achieved through European legislation and common institutions, which bring national competent authorities closer together.

Conclusions

In conclusion, allow me to use a metaphor. National and European parliaments should be like two runners in a relay race. They are both essential in passing on the baton of legitimacy: in other words, they should cooperate as one team to ensure the legitimacy of the greater sharing of sovereignty that underpins EMU.

In running this relay race, we need to discuss the optimal allocation of responsibilities between the national and European level. But for this not to happen through the back door, we need to open it up to public debate. The yearly European Parliamentary Week offers a perfect forum in which to bring it forward.

Thank you very much and I look forward to today's debate.

¹ See "[The evolution of the ECB's accountability practices during the crisis](#)", Economic Bulletin, Issue 5, ECB, 2018.