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The future of the euro area

Ladies and gentlemen,

It is an honour to be here with you today in this beautiful city of Vienna. I am grateful to Eurofi for the kind invitation.

Over the past ten years, we implemented significant reforms at both national and European level and the economy is growing in a more sustainable way. Against this backdrop, one can ask if the Economic and Monetary Union is already sufficiently equipped to withstand future shocks.

In today's increasingly complex and unpredictable environment, aren't there more important problems to solve?

• I believe we need to continue to reform the Eurozone because our EMU remains incomplete:

• A number of structural elements to improve its ability to withstand external shocks and crises is still missing

• An effort to improve its financial and fiscal architecture is still needed;

• We also need reforms to increase integration of financial, product and labour markets.

Without these, the economic and monetary union can only yield suboptimal results. We need a different Euro Area, an improved institutional landscape. A smoothly functioning environment that allows businesses and people across Europe to fully reap the benefits of our shared currency. The Economic and Monetary Union is working better today, but we cannot afford to take these achievements for granted when we are just halfway. We cannot afford to procrastinate until the next crisis catches us off guard. The question we are asking ourselves is no longer if we should reform the eurozone, but rather how we can do it together and in the best way possible. We have been exposing our recovery to unnecessary tests. Despite the current expansion, risks and uncertainties are mounting. Escalating trade and political tensions and Brexit are some of the clouds on the horizon. They should prompt us to carry on the reforms we have started with a sense of purpose and urgency. Following the leaders' mandate from December last year, the Eurogroup has been focusing on the completion of the banking union and the revamping of the European Stability Mechanism. We have also looked at a fiscal capacity for the Euro Area. Let me briefly walk you through this work.

Banking Union

Starting with the banking union, the euro area remains vulnerable to financial fragmentation.

To become truly resilient and increase its productivity, it needs stable cross-border investments that would ensure funds are efficiently allocated throughout the economy. For this, it needs a fully integrated and more resilient financial sector.

The banking union, launched back in 2012, was key to the successful response to the crisis. Its results are evident — and you are in a privileged position to see that. Banks across the euro area have significantly strengthened their balance sheets by increasing their capital and reducing stocks of non-performing loans. But that is not enough.

SRF Backstop

The discussion on reducing the financial sector's risks and sharing those risks among euro area members is complex and politically sensitive. The Ecofin Council in May agreed on the 'Banking Package' – a number of legislative proposals to reduce risks in the banking sector

The package paves the way for another important decision: the European Stability Mechanism to become the provider of a common backstop to the Single Resolution Fund. The backstop would be extremely useful to shield our economies in the context of a systemic financial crisis, by ensuring banks can be put under resolution even if SRF funds are fully used. The Eurogroup has been tasked with working out the final details by December, in particular the conditions for implementation before the end of the transitional period and the governance model. We already agreed that the backstop will be introduced no later than in 2024. The question is whether we can make it earlier.

EDIS

Completing the banking union also requires us to put in place a European Deposit Insurance Scheme, known as 'EDIS'. This is a key step to complete the monetary union: the safety of deposits should, to some extent, not depend on the bank or member state where they are held. An EDIS could complement national deposit guarantee schemes, thus enhancing the robustness of our banks in case of a future financial crisis. We need to acknowledge and address the many concerns surrounding EDIS.

To the extent that it would provide confidence to depositors and reduce the risk of bank runs, the implementation of an insurance scheme would have a positive effect on the system. Its benefits would materialize prior to, and in the absence of, a single euro being spent. Under the proposals being discussed, the contributions banks would pay into the scheme would be calibrated according to the risks they carry. In other words, risky banks would pay more, as a result of their higher probability of failure. This way EDIS would create incentives for banks to reduce their risks and improve the quality of their balance sheets. The Eurogroup has got a mandate from the European Council to begin working on a roadmap to launch political negotiations. We should make some progress by the end of the year.

European Stability Mechanism

Preparing the euro area for future challenges also requires us to improve crisis management procedures. The European Stability Mechanism has eight years' experience in successfully providing support to adjustment programmes. The Eurogroup will build on that. Leaders asked the Eurogroup to strengthen the ESM's role on the design and monitoring of financial assistance programmes. Let me now briefly touch on other relevant work streams.

Capital Markets Union

A well-functioning banking system is indispensable, but it is not enough by itself. The Eurogroup needs to continue working on the second component of what will become the financial union — the capital markets union. The capital markets union is necessary for two main reasons. First, it would enhance the allocative efficiency of our single market, igniting investment and innovation.

Second, it should help to reduce the current over-reliance on bank lending. This task will require action on many different fronts, from the removal of cross-border barriers to financial flows through taxation to improved insolvency frameworks.

Fiscal capacity

Finally, I will say a few words on creating a fiscal capacity for the euro area. The euro area, compared to other large monetary and economic areas is lagging behind when it comes to the mechanisms and the levels of risk sharing. Greater risk sharing would help to dissipate the impact of economic shocks. Risk sharing can be achieved through private and public channels. Often, it is a combination of the two.

In the US, around 70 percent of national and local asymmetric shocks are absorbed via financial markets – that is the private channel. In Europe, only 25 percent of the asymmetric shocks are dissipated through this channel. Consequently, fiscal buffers, which remain at national level, must absorb the bulk of the impact of downturns in Europe. This feature severely hampers the resilience of our monetary union and makes it more prone to crisis. A fiscal capacity for the euro area can be designed with a number of complementary objectives in mind. It could support the euro area's competitiveness, promote convergence and provide a stabilisation function, notably by protecting investment in crisis times. We need to achieve this by taking seriously the incentive structure – which includes moral hazard considerations –and with a view to improve economic efficiency – two principles that are shared by us all.

Closing remarks

Let me now conclude. Euro area reform is a crucial project for us and for the generations to come. It is our common responsibility to take it forward. I am glad to see the interest of the financial sector in this project. Building the Economic and Monetary Union is no small task, and it will require time and patience. In short, we should not rush into hasty decisions, while being fully conscious of the cost of inaction.

Thank you.