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Ewald Nowotny
Governor
Oesterreichische Nationalbank

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EMU Forum 2016 – Completing Economic and Monetary Union

Opening remarks, day 1

Ladies and gentlemen,

Welcome to today's and tomorrow's Forum with the title "Completing Economic and Monetary Union," hosted by the *Oesterreichische Nationalbank* and organized in cooperation with the *Euro50 Group*, a network of leading experts and policymakers in the field of European monetary integration and the *Vienna Institute for International Economic Studies (wiiw)*.

While the agenda of the Forum looks similar to last year's Workshop – "Toward a Genuine EMU" – the **circumstances have changed dramatically**. The EU is about to lose one of its most important Member States. At first glance, monetary union does not seem to be much affected, since the United Kingdom had opted out from the common currency anyway. But if we look at the situation a bit more closely, the negative consequences of a likely "hard" **Brexit** could be huge, given the substantial exposure of the City of London's financial sector to the euro area. For instance, clearing houses and financial institutions could be repatriated from London to the continent. As a case in point, the *European Banking Authority* will need to relocate and it would be welcome to set up shop in Austria. In terms of growth, the harm brought on by this separation will be felt more strongly in the long run, and probably more so in the UK than in the euro area. For the EU, Brexit does not only mean bad news, as it could facilitate dealing with off-shore tax havens or regulating shadow banks.

More worrying are the **political consequences**; not so much in the sense that Brexit might find imitators very soon. Opinion polls suggest that, quite on the contrary, the EU has regained some of its lost popularity in many Member States as a result of the Brexit referendum. Also, citizens' trust in the euro remains high. More important, however, is the fact that the Brexit vote has reaffirmed a general **skepticism** against any reforms, including those we are going to discuss here. Brexit has revealed a **paradox**: It points to weaknesses of current EU arrangements, whose improvement would require "more Europe." But at the same time Brexit is strengthening those populist and Eurosceptic political forces who are opposed to any deeper integration.

There is even greater concern that the rise of **populism** in the U.K. as well as in the U.S.A. and on the European continent signals a general refusal of rational arguments and a deep **mistrust** and anger against what is perceived as the "elites" or the "establishment." Facts have been substituted for feelings. Experts are accused of being biased and lacking compassion. Indeed, empathy is a virtue, but economists also need to stick to careful analysis. Apparently, the described sentiments are linked to actual and perceived trends in **inequality** and insecurity, probably due to globalization, technological change, ageing and migration. The sluggish recovery from a severe crisis amid weak investment has been dampening productivity, employment and wage growth. Consequently, **inclusive growth** should be at the top of the political agenda in Member States and European institutions. The ECB is actually doing "whatever it takes" to stimulate activity; yet fiscal and structural policies need to follow. If well-designed, an institutional reform of EMU could also support confidence and thus trigger growth.

Still, Europeans think more "European" than we are sometimes led to believe; populists are only louder. They must be confronted with a clear **commitment to the euro** and a vision of reform. In order to smooth the functioning of EMU we need as little centralization as possible, but as much as necessary. The basis for such a reform along the subsidiarity principle is the so-called **Five-Presidents' Report** "Completing Europe's Economic and Monetary Union," presented by the five Presidents of the European Commission, the European Council, the Eurogroup, the European Central Bank and the European Parliament. The report proposes an *economic union* to promote economic convergence; a *financial union* to regulate banking and capital markets; a *fiscal union* to sustain public households; and a *political union* to strengthen democratic accountability.

The implementation of the vision outlined in the report will, however, require patience. After the elections in France and Germany, we need to build a broad consensus, prepare well and carry on step by step. To find a compromise on a complete EMU was never an easy task. In their recently published book "The Euro and the **Battle of Ideas**," Markus Brunnermeier and Harold James from Princeton University together with Jean-Pierre Landau highlight philosophical differences between the founding countries of the euro area, particularly France and Germany: centralism vs. federalism, discretion vs. rules, solidarity vs. liability, Keynesianism vs. ordo-liberalism etc. They also show that ideological positions reflect **interests** through the lens of ideas and that these have changed over time. For instance, *laissez faire* liberalism, is today more popular among German economist and policymakers than in France, where it had originated. Essentially, I agree with the authors of the book that all these differences can be reconciled to ensure a crisis-proof EMU and EU.

Basically I see two strands of opinions on how to deal with the current situation: The first group thinks that we should postpone EMU deepening. Meanwhile, the EU ought to solve urgent challenges and develop strategies on migration, security and development cooperation, EU-wide investment and tax harmonization. The second group thinks that actually the multitude of challenges provides an opportunity for a bold agreement, given the multitude of bargaining chips on the table. Taken on their own, individual solutions are even less probable. We must not delude ourselves: none of these strategies will be a smooth and easy route.

Luckily, EMU is in much better shape today than five years ago, thanks to many reforms: surveillance is stronger and broader; we have several new institutions and frameworks such as the *European Stability Mechanism* (ESM) or the *banking union*. Most stressed countries in the euro are periphery have regained market access. The ECB has a much broader monetary policy tool-kit to counter speculative attacks and deflation risks. But with massive unemployment remaining in many regions we must avoid the temptation of complacency; the euro's future depends very much on its capability to provide **prosperity** to all member countries.

Our event today will start with **two keynote lectures**, one by ECB Executive Board Member Peter Praet and one by the head of the ESM, Klaus Regling.

The subsequent **Policy Panel**, led by Professor Landesmann, will offer outside perspectives on EMU reform needs from *pre-in* and *opt-out* countries, given the topical challenges I have mentioned already.

Let me use this occasion to stress the **advantages** for non-euro area Member States to **join banking union**: access to the future common fiscal backstop mechanism, better information on parent banks, an improved quality of supervision, and more effective home-host coordination. Of course, there are some costs; yet I believe they are rather of a symbolic nature. In any case, opt-in would help non-euro area countries prepare for future euro introduction. Whatever its imperfections, the **euro** is a great **achievement**. EMU has anchored price stability, increased trade and financial integration. Our single currency has not only become a major player in the global economy, but also a symbol of a peaceful Europe and political unity.

Ladies and gentlemen,

Our first keynote speaker is **Peter Praet**, Executive Board Member and Chief Economist at the European Central Bank. Before joining the ECB, he was Executive Director of the National Bank of Belgium, Chief of Staff of the Belgian Minister of Finance, Chief Economist of Fortis Bank, professor of economics at the Université Libre de Bruxelles, and economist at the International Monetary Fund. Peter Praet is a strong advocate of a comprehensive policy agenda to improve the environment for growth by combining structural and institutional reforms with a supportive macroeconomic policy mix.

We are glad to have you with us again, Peter. The floor is yours.

Thank you Peter for a very insightful lecture.

Our second keynote lecture will be held by **Klaus Regling**. He heads one of the most important European institutions born during the peak of the crisis, the Economic Stability Mechanism (ESM). Before, he was Director General at DG ECFIN at the European Commission, economist with the IMF and a high-ranking official in the German Ministry of Finance, where he prominently contributed to the preparations of EMU.

Dear Klaus, the ESM is seen by some as a core element of a possible future “European Treasury” or “Finance Minister” or “European Monetary Fund.” We would be interested to hear whether you are content with its current role and to get your view on the upcoming euro area governance.

Thank you, Klaus, for sharing your thoughts with us.

Now I would like to pass on to **Michael Landesmann,** who will moderate the policy panel. He is a Senior Research Associate at wiiw, the Vienna Institute for International Economic Studies, where he has been Scientific Director for over 20 years. He is also Professor of Economics and department head at the Johannes Kepler University in Linz, where I also started my academic career. He was a member of the Group of Economic Policy Advisors led by Romano Prodi. Having graduated at Oxford University, he also worked at several international universities, including Cambridge and Harvard.

Thank you, Michael, for contributing to this event, the floor is yours.