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Introductory remarks

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Honourable Members of Parliament, Ladies and Gentlemen,

Thank you for inviting me to take part in the European Semester Conference of this year's European Parliamentary Week. It is my first appearance in this house as President of the Eurogroup. I am glad to do so in an event that brings together National Parliaments. It is a pleasure and an honour to be here.

In the last few years, in the face of adversity, we have boasted economic policy coordination in Europe. The European Semester is one of our major achievements and a good example of a European initiative. It delivers better national *and* European outcomes, which are consistent with a smooth functioning of the monetary union. All this in a democratically accountable process.

It is a complex process involving member states and institutions. But there is no other way to build Europe. I have been working intensively with my colleagues to deepen the euro area and searching for solutions to make it stronger and more resilient. To make it work better for the many and not the few. We cannot and will not forget to discuss our policy goals and how to get there with representatives of both the European Parliament and the national parliaments.

You have already discussed a number of important aspects of the deepening of the EMU earlier today, and have heard different perspectives – from the Commission, the ECB and from parliaments. We share a common view on the benefits and merits of the EMU and on the need to complete it. This brings us together.

Today, I would like to add to these perspectives, in my capacity as President of the Eurogroup. After having been focused - for many years – on crisis management, the Eurogroup is finally able to turn its full attention to completing the EMU architecture.

In a way, this is both fitting and gratifying. I see this as an acknowledgement of all the hard work that the euro area Member States and institutions have individually and collectively done to overcome the worst crisis since the Great Depression. During the crisis, citizens never lost confidence in their currency: the Euro. Even during the hard times, our currency continued its path to consolidate itself as a global reference.

Now, after nineteen consecutive quarters of growth and steady job creation, the euro has come to be regarded as an engine of global growth. And we have managed to strengthened the recovery despite a number of serious shocks in 2015 and 2016.

Yes, accommodative monetary policy has play its part the recovery. But this isn’t the whole story. To me, the euro area's solid and broad-based growth performance shows that our economies are becoming increasingly resilient - perhaps more than they are given credit for.To me, the euro area's solid and broad-based growth performance shows that our economies are becoming increasingly resilient - perhaps more than they are given credit for.

The euro is arguably the most important project of European integration in the last decades. Through national reforms and institutional innovations in Europe, we have shown our steadfast determination to make the single currency a lasting success story.

What matters now, is to see this determination through. The Euro is a means to an end, not an end in itself. It exists to help day-to-day life of millions our citizens. It exists to strengthen our firms, which work in the largest single market of the world. It exists to increase the resilience of our economy, to share growth more widely, so more jobs and more opportunities can arise. It exists to serve the political project that brings our countries, our citizens, together.

It’s easy to understand: the Euro is very important. Our job is to keep making it stronger.

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We need to continue modernising our economies so that they are able to withstand the next crisis, and to adapt to the challenges brought by technological and demographic change.

At the national level, this calls for a carefully calibrated set of policies. A mix that balances the objectives of ensuring sustainability and supporting growth and above all, lifting our growth potential.

It is clearly important that we keep going the current positive feedback loops in our economies. And by doing so, we will increasingly leave the crisis legacy behind us.

We are experiencing good times now. The favourable economic outlook and political calendar provide a unique window of opportunity for Member States to act, not just individually, but also collectively.

My point is that Member States will be more resilient and prosperous if they make full use of the single market in all its facets. This brings me to what the Five Presidents' Report called a financial union that offers integrated finance to an integrated market.

I firmly believe that a financial union, comprising a banking and a capital markets union, is an indispensable building block of a well-functioning Economic and Monetary Union.

An integrated financial system should be the mirror image of the common monetary policy. Without it, it is not possible to reap the full benefits of the single currency.

The crisis taught us how vulnerable the euro area was to the sudden stop in market access by banks and governments and a reversal of cross-border financial flows.

Financial fragmentation became a major concern. Things have improved since then, but only gradually, and we are still not where we would like to be.

There are hence good reasons to be ambitious and make headway towards a fully-fledged financial union. It is encouraging that our leaders have identified the completion of the banking union as a top priority, on which they expect to take concrete decisions in June. I am also optimistic that this will be possible.

Why is this important? Because what worries me is that fragmentation increases costs for everyone. It limits options to firms and to citizens. It makes it harder to finance a good business. It makes it more difficult to find a good insurance.

When I talk about concrete decision in June, I am not talking of yet another roadmap. I am talking about deciding on concrete steps to take.

Discussions on the completion of the banking union revolve around the balance and the sequencing of risk reduction and risk sharing.

We have achieved a lot during the crisis years in terms of risk reduction.

As finance minister of Portugal, I know this very well. We have forcefully corrected our imbalances.

- We currently run a trade surplus;
- Our budget deficit has come down to close to 1%;
- We repaired and recapitalised our banking system;
- We are enjoying a positive trend of robust growth and falling unemployment;
- Finally, all crisis leave us a toll to pay and this is being addressed. Non-performing loans are receding and public debt is falling sharply.

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In other words, we are keeping our house in order, having learned our lessons from the crisis.

When I look at the levels of private or public risk sharing in comparable areas of the world, let's say the US, it is clear to me that the euro area has some catch up to do.

Risk sharing is important because it smoothens economic fluctuations in a given region. Furthermore, it increases resilience by cushioning the impact of economic downturns.

Risk sharing can happen via private markets and fiscally as well. In both cases, the euro area lags behind the US. At the same time, the more risk sharing we allow the private sector to do, the less fiscal risk sharing may be needed.

In the coming weeks and months, I will be working with my colleagues to take the euro area forward on this.

This should not be an insurmountable challenge. After all, we are not starting from scratch. The European Central Bank has been tasked with the supervision of banks and we have put in place rules that force the creditors of failed banks to pick up the bill before taxpayers.

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Significant progress has also been made to reduce risks. Banks have strengthened their balance sheets by increasing their capital resources and reducing the stock of non-performing loans.

Once we reach a common understanding of where we are today, it will be easier to agree on refinements that may be needed to address concerns about the moral hazard, arising from risk sharing. I assure you that I take these concerns seriously.

Let me be very blunt about this. Firstly, no one is asking for permanent transfers. No one envisages to create a system to be exploited by free-riders.

The banking union serves to make all our economies more resilient through risk pooling. 'Risk pooling' probably captures better the mutual insurance concept underlying the banking union than 'risk sharing'.[]

I am convinced it will be possible to respect the Council's 2016 Roadmap, adding detail on all aspects of the banking union.

There are two key aspects to this.

As in most other currency unions, this should include a common deposit insurance scheme. Having such a system in place will improve the protection of savers, reducing the risk of a bank run in a euro area country.

We should also aim for a swift set-up of a common and credible backstop for the single resolution fund. Again, allow me to compare with the US, where the Treasury provides a backstop to the FDIC.

An integrated banking system with pan-European banks is a necessary, but not a sufficient condition for a well-functioning EMU. So let me now turn to the second component of a financial union: the capital markets union.

The CMU is necessary for mainly two reasons.

First, it enhances the allocative efficiency of the single market- in layman's terms it helps to match savers with borrowers and funnel funds to where they are needed. This should spur investment and innovation, and in turn, increase our aggregate growth potential, in particular if the funding is directed to sustainable transnational infrastructure projects.

Second, a capital markets union is a means to reduce the prevailing overreliance on bank lending. Developing a capital markets union is thus very much a stability-oriented project.

This is clearly a win-win undertaking. It brings tangible benefits not just to businesses, but also to citizens. The citizens of Europe will profit from higher growth and job creation, and will be able to diversify and get better returns on their savings.

The capital markets union is of course a broad project that requires action on several fronts. For instance, to be able to process and oversee capital flows better, we need to put in place the proper financial architecture.

In addition, we have to remove cross-border barriers to such flows. This touches upon issues such as information asymmetry, taxation, insolvency law, and, more generally, the quality of domestic institutions.

It is not easy. It is a long-term project but it deserves a renewed impetus and must feature more prominently in the discussions on EMU deepening.

There are also obvious synergies between the capital markets union and the banking union. The sooner progress is made in both of these areas, the less difficult it will be to find common ground on other important issues such as a the further development of the ESM, a common fiscal capacity and better fiscal rules.

I believe that, given the right balance between fiscal solidarity and fiscal responsibility, the euro area would benefit from a facility that partly replicates the stabilising features that the central budgets of other mature currency unions have.

It would provide temporary relief to countries experiencing severe economic downturns, and thereby reinforce the private risk sharing mechanisms. It would also support the transmission of ECB's monetary policy.

The array of acronyms and reports – like EMU, Five Presidents Report, 2016 Roadmap – should not shield us from the obligation to openly set out our goals. I have made clear when I ran for Eurogroup President that we, as political officials, have a duty to explain to citizens the reforms we are implementing. ~

So, when we talk about Capital Markets Union we must explain that we're

- making it easier for start-ups from Finland to find financing in France.
- for an Irish pensioner to place his savings in Germany.
- for a Spanish mid-cap company to raise capital in the Netherlands.

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This is a day-to-day opening up of opportunities to citizens and to firms. This is how we expand our growth potential.

This brings me to the last point: we need to ensure that the process of deepening the EMU is accompanied by democratic accountability.

This is not window dressing. The recent political cycle in Europe revealed a strong support for the European project and the euro, in particular. Targeted opinion polls concur. We have a clear mandate to deliver.

We need to be pragmatic in our solutions as we have been during the crisis but that cannot come at the expense of democratic arrangements. Treaty provisions and legal requirements will be respected, but they must not prevent us from finding creative solutions to meet our citizens' expectations.

Inter-parliamentary meetings, like the one here today, are a good example of our commitment to bring everyone on board and continue delivering successful and democratic initiatives like the European Semester.

Thank you for your attention.