INTERVENÇÃO DE MÁRIO CENTENO, MINISTRO DAS FINANÇAS E PRESIDENTE DO EUROGRUPO

"Keeping the momentum in the euro area - 2018 and beyond"

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Check against delivery

Minister Altmaier - Dear Peter, Honourable Members of Parliament, Ladies and Gentlemen,

It is a great pleasure to be here in the capital of the euro area's largest economy, for what is my first public appearance as President of the Eurogroup. I am grateful for the opportunity to participate in this dialogue with you today, and to present how I see the way forward for the euro area.

Let me first present myself.

If I had stood here two years ago and told you that Portugal would win the European football championship and the Eurovision song contest, you would surely have had understandable doubts. If I had told you that Portugal, under a centre-left government, would in 2 years reduce the deficit from 4.5% to 1.2% in 2017, generate primary surpluses close to 3%, reduce the debt/GDP, lower unemployment by more than 30%, grow above the euro area average and recover investment grade status by key rating agencies, you probably wouldn't have believed it.

Well, here I am today as the finance minister of a country that grew out of the crisis through hardship and effort and is now a success story. My election as President of the Eurogroup is also a recognition of these achievements. I can promise you the same energy and commitment to deliver on the crucial mission we face in the euro area.

This exchange of views could not have come at a better time. The deepening of our Economic and Monetary Union is at the heart of the current debate on the future of the EU.

This is a must do task. We need to combat scepticism and value our past achievements. We need to build on what we share – which is a lot - and better manage the risks we face. As you certainly know better than I do as successful decision makers and entrepreneurs, the major risks always come from "No Action".

Determining the right course of action for the EMU in the coming months and years has kept us busy for some time. The discussions have intensified in recent months.

But before we look ahead, let me look back for a moment to consider where we currently stand and what we have achieved. The euro area went through a rough ride in the early years of this decade. Which were also its early years since formation. However, it has resisted and is now stronger.

The euro is the most important project in the European construction in recent decades. It is an institution, and as most institutions it was built through a rough landscape defined by the existing heterogeneous national economies and regulations. We have probably underestimated the gaps in the EMU's institutional architecture. The coordination of Member States' economic and fiscal policies had not been truly effective. We did not have tools to deal with a sovereign debt crisis, nor to manage risk resulting from systemic banks. Our nations' starting position in the euro was very different. And under the protection of a stable euro, many failed to spot the growing imbalances until it was too late.

When the Great Recession hit us, prompted by the global financial crisis, it spilled over into a profound and protracted crisis. We were not well equipped to deal with it. As such, we lost time to reap the full benefits of the single market and the common currency. A financial crisis entails a severe confidence crisis and an employment-less recovery.

Unfortunately, we had to learn the hard way. But we did learn from our experience, and we have gone a long way to correct our position.

Today investment is back, confidence is at the highest levels of this century. This is the result of the great deal of action our Governments have implemented in the last five years.

Through their actions, often unpopular, the Member States and the institutions of the euro area have demonstrated their unwavering commitment to the single currency. Today, the euro area economy is in a much better shape. What started as a fragile recovery in 2013 has finally turned into a solid economic expansion.

So far, we have seen eighteen successive quarters of positive GDP growth, which has become increasingly broad-based across Member States. This underscores the robustness of the current upswing. And is the longest stream of positive growth ever recorded in the euro area.

Growth has translated into solid job creation as well as decreasing public deficits and a more balanced external position. All this is very encouraging - all the more so because our economies proved to be resilient and a safe harbour given the heightened political risk we see outside the euro area.

Those nations that have embraced the need to reform and adapt faster to the crisis mode have laid the ground to address macroeconomic imbalances. They are now being rewarded with greater investor confidence, and stronger growth levels.

Former programme countries, thanks to their efforts during and after the crisis, are seen as reform champions by independent studies of institutions such as the OECD and the IMF.

Also Greece seems now to be on its way to turn the page and conclude its third programme this year. We will need to make sure they can stand on their own feet with sustainable market access at the end of the programme. And for the day-after Greece will benefit from incentives to stay on course with their nationally-owned reform process and sound policy-making.

The remarkable turnaround in the euro area's fortunes is, to a large degree, the result of our joint determination and hard work. We have every reason to be proud of this achievement, and we should take credit for it. It is the result, I believe, of an acute sense of shared solidarity and shared responsibility among all euro area countries.

While the economic outlook for the euro area is bright for the years ahead, we still have quite some work to do in order to keep up the current positive momentum. This is not only in our common interest, it is also our common responsibility.

We need to make sure that our economies become structurally stronger and remain competitive. Structural transformation - with labour-saving technologies and increasing competition - is here to stay. At the same time, the benefits of growth have to be shared more widely. Growth has to become more inclusive. Our citizens must be included in this process. We need to make sure that all our nations are aware of the benefits from the economic model of the euro area. Otherwise, this prosperous trend will not be sustainable.

This reform agenda is about investment and improving education policies in order to increase productivity.

It is also about sound fiscal policies that reduce public debt, ensure a growth-friendly composition of budgets, and protect vulnerable groups in society. These are challenges that all the euro area countries are facing, although the reform priorities do, rightly so, differ across countries.

Some will have to focus squarely on lifting productivity and further reducing unemployment, in particular among young people. Others may additionally want to focus on increasing the quality of certain groups' participation in the labour market.

In a closely interlinked economy such as the euro area, national policy initiatives have effects that go beyond national borders. That is why I believe we should aim to gradually establish - within the Eurogroup - an optimal aggregate policy mix for the euro area.

We should not just deepen our discussions on the appropriate fiscal stance for the euro area, but also put more emphasis on the common euro area dimension in other policy domains. In my view, this should include not only structural and labour market policies, but also issues related to taxation.

In the process, we must ensure that our fiscal rules are clear to our citizens. Economic and fiscal surveillance needs to be made less complex, more transparent, predictable and accountable.

With a well-designed policy mix in support of balanced growth, countries will be able to continue to grow out of their remaining debt. This, in itself, will provide a further impetus for potential growth and further support the trust that we have been re-establishing among ourselves.

But, as I mentioned on other occasions, it takes time and patience before reforms, in particular those that concern the supply side of the economy, deliver their full benefits and compensate their short-term costs. I don't need to convince a German-based audience of this.

Against this background, it should be possible to make gradual progress with further integration of the euro area. There is still quite some unfinished business. And we should use today's unique window of opportunity to make determined progress with the deepening of the EMU.

This unique window of opportunity is established in terms of a coordination of political cycles in major European countries, a mature recovery translated into record confidence levels and strong support for the European construction.

Moreover, if we are able to agree on the proper sequence of different steps, we can – and should – be ambitious. "Quick fixes" would soon prove counterproductive. It is better to get things right from the start. The key is sequencing, not curtailing.

We need to decrease the dependence on the banking sector through the further development of the capital markets union. We need a more diversified funding structure.

Completing the banking union should be a top priority. The euro area remains vulnerable to financial fragmentation. Indeed, today's euro area financial sector is less integrated than before the crisis. A resilient and productive euro area requires cross-border investment flows that provide for an efficient allocation of stable funds throughout its constituent economies. This is key for a larger, more efficient single market, with more economic opportunities. This is also important in a context where firms need more diversified access to finance across Europe.

In a banking union, it also makes sense to envisage a common deposit insurance. This is a controversial topic in this country. I know. I am convinced that this would benefit all citizens and firms and provide a safety net to our banking system, as well as prevent bank runs that may have systemic repercussions across the euro area. We already have a process established for EDIS. This process does not need to come with a cost for domestic insurance schemes, but needs to be seen in a complementary way. EDIS would be responsible for establishing a European level playing field. Compatible with the common supervision and resolution systems.

I believe a first step of a long, step-by-step controlled process will be enough to generate a new wave of confidence in the markets. And that would make it easier to take the next decisions to reduce legacies and risks. In two words: manage risk.

As an economist, in particular when I compare the euro area with the US, I see a scope for further risk management tools.

I like indeed to portray this discussion as “risk management”. Risk management embodies the link between risk sharing and risk reduction. We should, first and foremost, take stock of what we have done in these two dimensions.

Let’s take a closer look on the amount of risk reduction first.

We launched the Banking Union, we set up a single European supervisor, we empowered European regulation authorities, we reinforced capital requirements, banks across Europe have raised capital to the tune of over €560 billion after the crisis hit, we established bail-in instruments that are to be applied before using public funds. In several countries, there has been a pronounced reduction of non-performing loans and the flow is positive. A lot has been done and we should pat our backs for that. In short: today we are clearly able to differentiate stock (which is a legacy issue) from flow (which is already the result of our common policies).

I can agree that overcoming investors' home bias requires more than further risk sharing, whether in existing or new institutions. I understand the need to do further work on risk reduction and risk control to address moral hazard.

This touches upon many areas - the home bias, for instance, is due to more factors than just banks’ holdings of sovereign debt.

Moral hazard by financial institutions, no doubt, has to be minimised, but we also need to be practical. We need to strike the right balance in the trade-off between the stabilising benefits of risk sharing on the one hand, and controlling risks to contain the costs of moral hazard on the other hand.

Then, if you look at risk sharing instruments – for instance a common backstop to the Single Resolution Fund – you understand that these are the result of risk reduction measures and reinforce them. In a Monetary Union they reinforce themselves because we have, today, the common rules and common instruments of monitoring. We need to reinforce confidence in these common tools.

In crisis management we also learned a couple of things in recent years. The IMF will lose relevance in future euro crises. This invites us to consider an upgrade to the European Stability Mechanism.

We should also broaden the scope of the ESM and arrange for it to swiftly become the common backstop for the Single Resolution Fund.

I am confident that, in coming months, we will be able to find sufficient common ground and to reconcile the different views that are out there on the completion of the banking union and the future role of the ESM.

We should also continue discussing other ideas, which have a longer-term horizon, such as a common fiscal capacity of a reasonable and realistic size.

To be clear: a common fiscal capacity does not entail permanent transfers – there are no proposals aiming at that. And it has to be designed in a way to avoid moral hazard. I find the recent proposals quite interesting, especially those related to keeping investment levels throughout the business cycle, those supporting potential growth.

Indeed, such an instrument could, under certain conditions, be useful to temporarily reinforce the national policy responses to exceptionally severe external shocks. It would also help increase the effectiveness of the ECB's common monetary policy in such circumstances. Let me stress this: by implementing such a common instrument, we would be relieving the ECB from a role it has been doing alone.

Let me conclude by saying that I am fully committed to the common cause of our Economic and Monetary Union.

In the next two and a half years, I will do my utmost to further improve the functioning of the EMU, in the interest of all the 340 million citizens that share the single currency.

This is a joint effort, with strong political leadership. I look forward to working with all of you. My task is to build consensus and cooperate constructively with all euro area countries.

To this end, I will make the best possible use of my dialogue skills and my economic preparation. Depicting myself as a European, as I always considered myself to be, I am the part of me that resides in Berlin today and all over Europe tomorrow.

This was my pitch for you. Some may think this is too shy, others overly ambitious. I hope I can come back in two years, or even less, with some more impressive results.

Thank you for your attention.