



## Hartwig Löger

Federal Minister of Finance, Austria

### Tackling structural weaknesses in the Euro area: time to move ahead

The euro area is a political project to establish lasting peace in Europe and an economic project with the aim to improve the well-being and prosperity of its citizens. The straight line towards convergence that we have once believed to be an automatic result of the internal market and liberalisation of society has turned out to be a more tortuous path than expected. Due to the Great Recession the economic project experienced a significant setback, which sometimes is dubbed the “lost decade”. In political terms, the crisis has swept many governments out of office and populist parties emerged and play a stronger role in Europe.

It is to remember that the crisis led to the immediate emergence of solidarity and risk sharing in the euro area by establishing the EFSF and then the ESM, with significant firepower alongside the IMF, which got more resources from Europe. The principle of the ESM is solidarity, shelter and buying time in order to fix the structural problems of a country in times of severe economic distress. Fixing structural problems does not go without some pain, but ten years after the start of the crisis no country continues to be under a programme and all have regained access to financial markets. Notably, all former programme countries have much more resilient and fit-for-the-future structures than before the Great Recession.

This is not to say that structural problems in the economies are a thing of the past. While citizens tend to evaluate progress by their immediate surroundings, little seems to be known about the big leaps forward at the European and euro area level.

The new European architecture of the banking system and the financial markets is certainly a major achievement since the past crisis. Under the headings of “banking union” and “capital markets union” many of the weaknesses of the past could be resolved. In the second half of 2018, the Austrian EU Presidency made significant progress concerning financial services, including such complex issues as the banking package on risk reduction measures or the pan European pension product. Deepening financial integration in the Eurozone is an important contributor to economic growth. Protecting taxpayers’ money and reducing risks in the EU banking system will lead to a more resilient euro area. By establishing a stronger and more unified European capital market we will bring together investors and innovators, including on new financial services such as FinTechs, and thereby lay the ground for higher productivity growth in Europe.

We have not yet resolved all problems and legacy issues of the crisis put a burden on the debate. But these sometimes lengthy, repetitive and emotional debates allow us to develop a better mutual understanding and visions about the future of the euro area. I’m deeply convinced it is a path that is worth following, an effort that is absolutely required from us in order to build a better Europe.

Populist movements tend to question basic institutions of Europe. One topic in this field is central bank independence. For us it is a core value of institutional stability, which must never be put into question. Without any doubt a well-functioning state has to guard and protect central bank independence and it is a matter of concern to us that this appears to be coming under threat even in Europe.

In the absence of a political union, the rule of law forms the basis of the European project. It is necessary for all European Member States to stick to our common rules. As a minister of finance and from a European perspective this first and foremost applies to our common fiscal rules. These rules are not only needed to avoid negative spill-overs to other Member States, but are essential for not excessively burdening the national future generations, as those are at the same time the future generations of Europe.

This brings me to the euro area budget. With the same argument in place, it cannot be based on extra credit-financing and it should finance structural reforms of euro area Member States. Austria is willing to contribute to lessening the pain of structural reforms by means of a euro area budget.

The Treaty on the Functioning of the EU has left many important competences at the national level. There is no lack of ideas on reasonable and useful structural reforms. With the European Semester, Europe has developed a useful device to detect structural problems in the Member States. Let’s reinforce this instrument via the euro area budget. ●