EUROPEAN INTEGRATION 13.11.2017 | Pierre Moscovici

The future of the European stability mechanism

European finance commissioner, Pierre Muscovici, lays out his vision for the ESM, the agency that loans money to Eurozone countries facing severe financial difficulty

As we open a new chapter in the history of the euro area, we need to adapt the tools we developed to weather the economic and financial crisis – including the European stability mechanism (ESM).

The ESM was born of the political will of the member states to stand by the side of the European Central Bank in doing '*whatever it takes*' to protect the integrity of the European monetary union (EMU). And it served its purpose well, in the heat of the worst economic and financial crisis since the 1930s.

Five years after the creation of the ESM, however, the situation in the euro area has changed. The euro area has stabilised and is now growing strongly. International investors' confidence has returned. Greece, the last of the five euro area member states that benefitted from financial assistance, will conclude its support programme next summer.

These developments call for a new role for the ESM. Euro area finance ministers, who form its board of governors, have started reflecting on its future set-up and responsibilities. And so has the European Commission, whose president Jean-Claude Juncker has called for a 'graduation' of the ESM into a European Monetary Fund. But what would this actually entail?

My vision for the future of the ESM is simple: its role as a central stabilisation mechanism for the euro area must be developed and strengthened. That implies taking three decisive steps.

Firstly, we must expand the ESM's toolbox to include a new credit line, providing a public backstop to the single resolution fund (SRF), which exists to allow us to resolve failing banks in an orderly manner. Such a backstop would not require any new financing. The financial capacity for

the ESM to take over this important function already exists today.

Clear rules are in place requiring bank shareholders and creditors to contribute to the costs of orderly bank resolution, but the single resolution fund also plays a key role in this process. In times of crisis, all parties need to be confident that the SRF has the means to cover the potential cost of several resolution operations at once. A robust resolution fund with credible backing in case of need, is thus the best way to minimise the risk that it will be needed.

A backstop provided by the ESM would be fiscally neutral, given that the single resolution mechanism regulation stipulates that the banking industry must repay any potential disbursements from the SRF. It would need to be of an adequate size to ensure it can meet its objectives. And its governance must be robust, enabling it to be used swiftly and effectively.

The political commitment for such a backstop has existed since 2013 and was most recently reiterated in October by euro area finance ministers meeting in Luxembourg. Now, years after this concept was also enshrined in European banking legislation, the work has to be completed. The rapid establishment of such a strong backstop would be a major milestone towards the completion of a banking union and would significantly strengthen the euro area's financial stability architecture.

The second step we must take is to be ready to operate in a world where the International Monetary Fund will no longer play the same role in the euro area as it did in the last crisis. This implies that we must intensify the collaboration between the Commission and the ESM, in particular on post-programme surveillance and the management of possible future support programmes.

Today, ESM staff is already associated with the monitoring missions by the Commission services in member states that have exited a programme. The purpose of these missions is to review the progress of reform implementation and assess possible repayment risks to the ESM. In the future, we could take further pragmatic steps to join forces for effective crisis prevention and where necessary, intervention.

However there is an obvious red line that cannot be crossed: the Commission is and must remain at the core of any programme work in Europe. The EU treaties assign a clear role to the Commission – and to the Council – in the areas of economic and fiscal surveillance as well as in the design and negotiation of possible programme conditionality. These fundamental prerogatives have to be respected. Nobody has an interest in duplicating existing structures and wasting European tax payers' money.

The third step we must take is to firmly anchor the future European monetary fund in the European Union's rules and competences.

Today the ESM is an inter-governmental financing organisation governed by a managing director and a board of governors consisting of the finance ministers sitting in the Eurogroup. *De facto*, all major decisions are taken collectively by the Eurogroup. But ministers are accountable for these decisions only individually, to their national parliaments, if at all.

Integrating the ESM into the EU legal framework would bring benefits in terms of efficiency, consistency and legitimacy of the euro area's institutional set-up and the EU as a whole. This would not only safeguard the ESM's basic business model and capital structure, it would actually strengthen its role as a complementary actor in a consistent European governance framework. And anchoring the ESM in the European legal framework would not be any more difficult than opening negotiations on a possible revision of the ESM treaty with ratifications by national parliaments.

Some feel tempted to give the ESM, or a future European monetary fund, responsibilities over fiscal surveillance. They think that if a technocratic body largely outside the control of governments and parliaments were entrusted with the economic and budgetary control of member states, fiscal discipline would be enforced more effectively.

Such views are both illusory and erroneous as long as the ESM or its successor remains inter-governmental. Firstly, today the ESM is directly dependent on the good will of national capitals and does not enjoy the same institutional independence as a European institution, such as the Commission. The managing director is directly answerable to the board of governors: the 19 euro area finance ministers. Secondly, it lacks the transparency and accountability vis-à-vis the European *demos* which guides the Commission in all its political actions.

Economic and fiscal surveillance, not to mention the design of reform conditionality for a country in need of financial assistance, is inevitably subject to difficult economic and political choices and trade-offs. Striking the right balance is a matter both of technical expertise *and* accountability, not just to national governments but also to European taxpayers. It also requires the appropriate institutional standing, which the Commission enjoys.

The economic and financial crisis is behind us. Our priority now is to re-energise economic and social convergence in Europe and make the euro

more resilient to shocks. European Council president Donald Tusk has therefore called for a euro area summit in December to debate the completion of the EMU. Ahead of this summit, the Commission will contribute to this debate with a set of concrete proposals in the coming weeks, with a view to delivering on these objectives.



Pierre Moscovici

Pierre Moscovici is European Commissioner for Economic and Financial Affairs, Taxation and Customs. Previously, he served as France's Minister of Finance (2012 to 2014) and as Minister for European Affairs between (1997 to 2002).