

The European sovereign debt crisis and the future of the euro

Peter Bekx

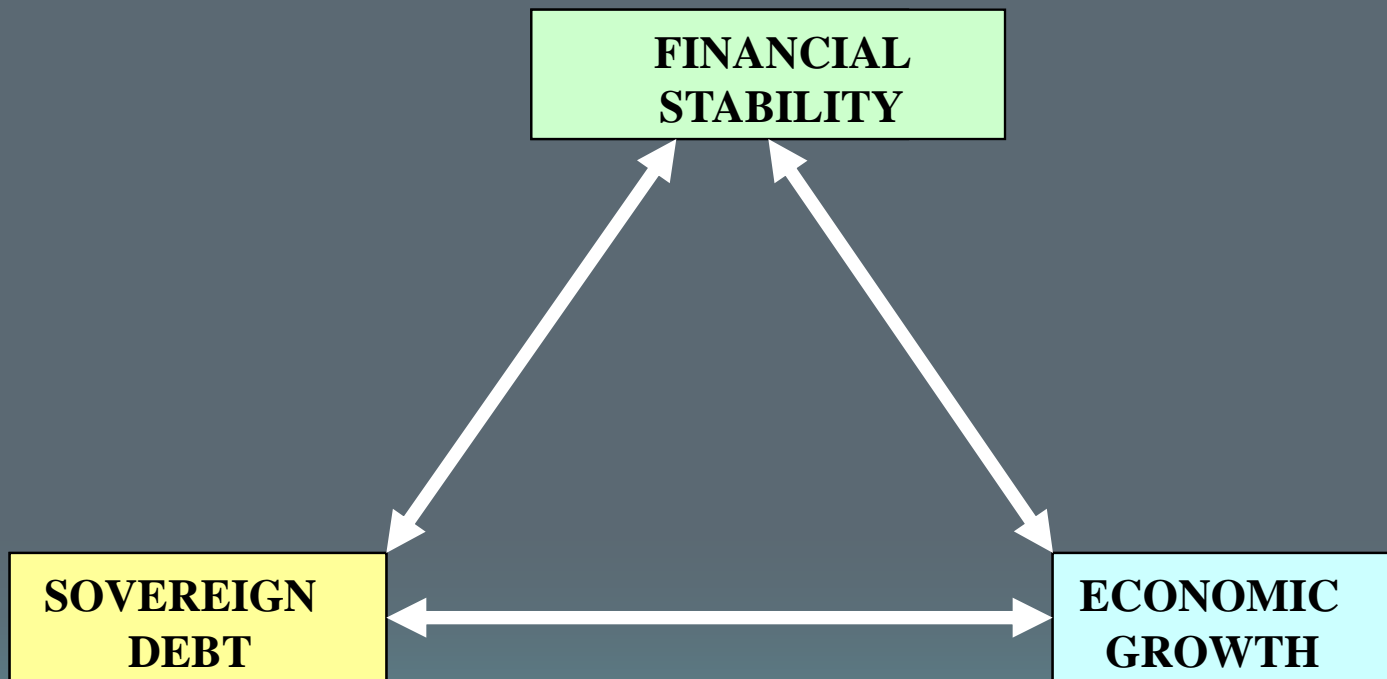
European Commission

Tokyo, 30 November 2012

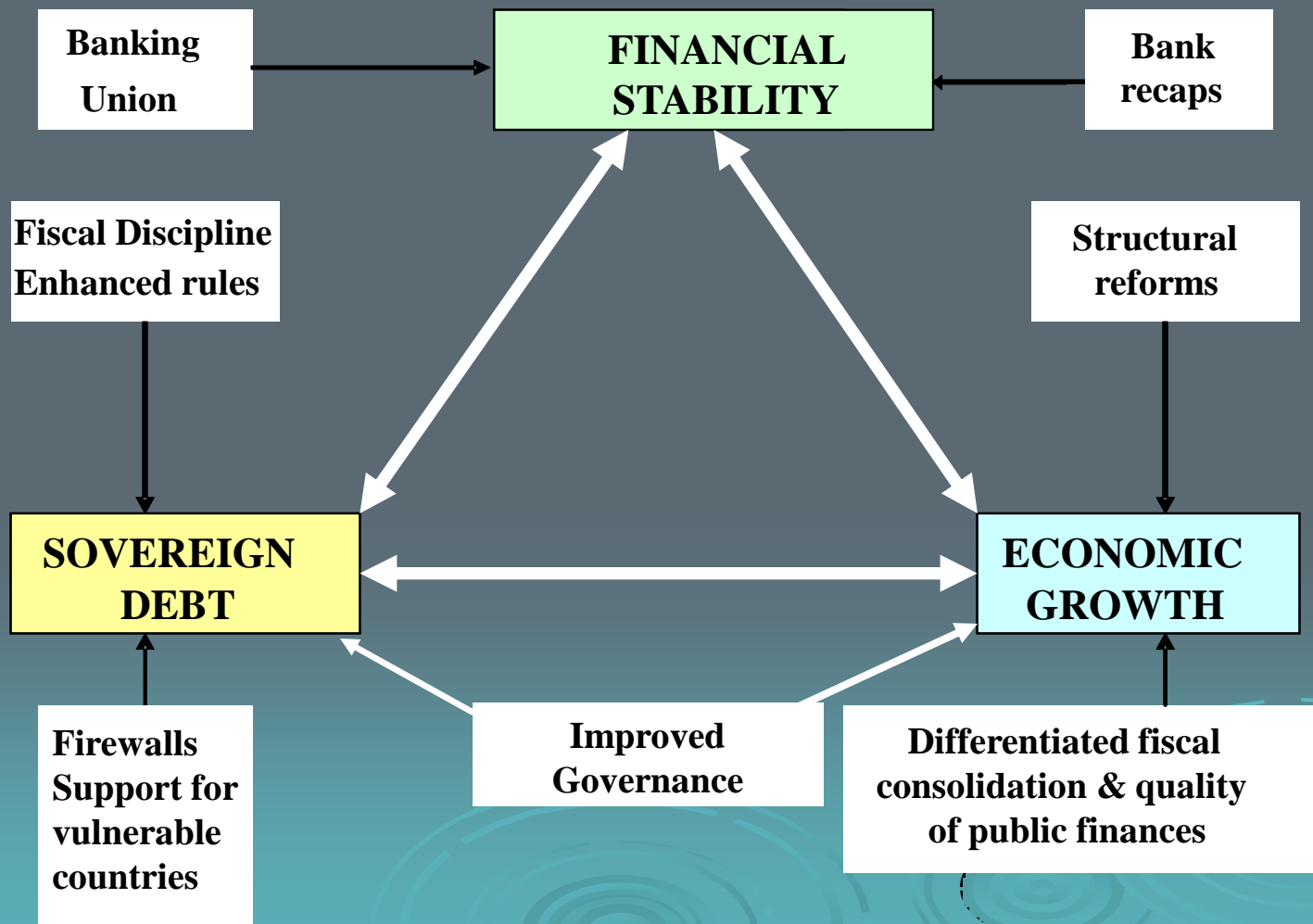


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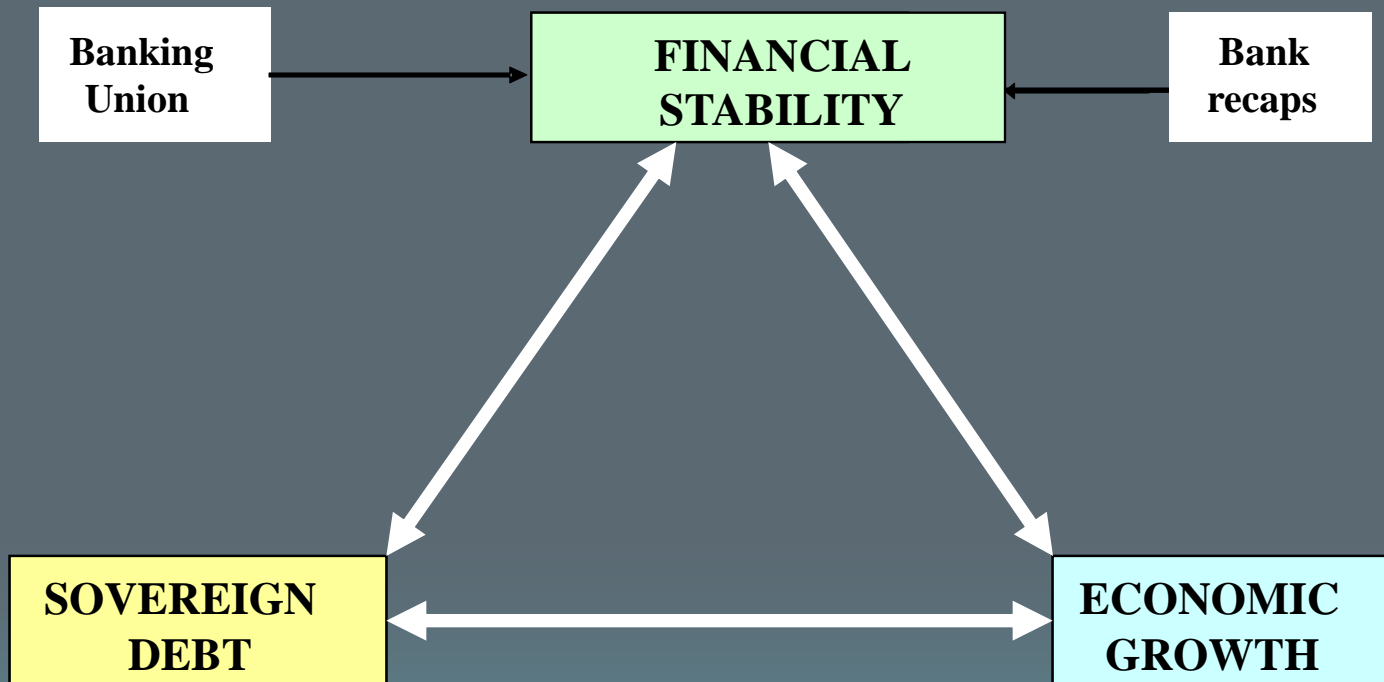
A Vicious circle



Breaking the negative feedback loop



Breaking the negative feedback loop



Reinforcing the banking sector

- Restore confidence
 - ➔ 9% capital ratio
 - ➔ submit plans to deal with shortfall
- ECB measures
 - ➔ easing of collateral requirements
 - ➔ reduce reserve requirements
 - ➔ LTRO with 3-y maturities
- SSM

Recent Summit Decisions

- Single banking supervisor
- Direct recapitalisation of euro area banks
- No preferred creditor status to EFSF/ESM support for Spain
- Use of the EFSF /ESM in a flexible way to stabilise markets

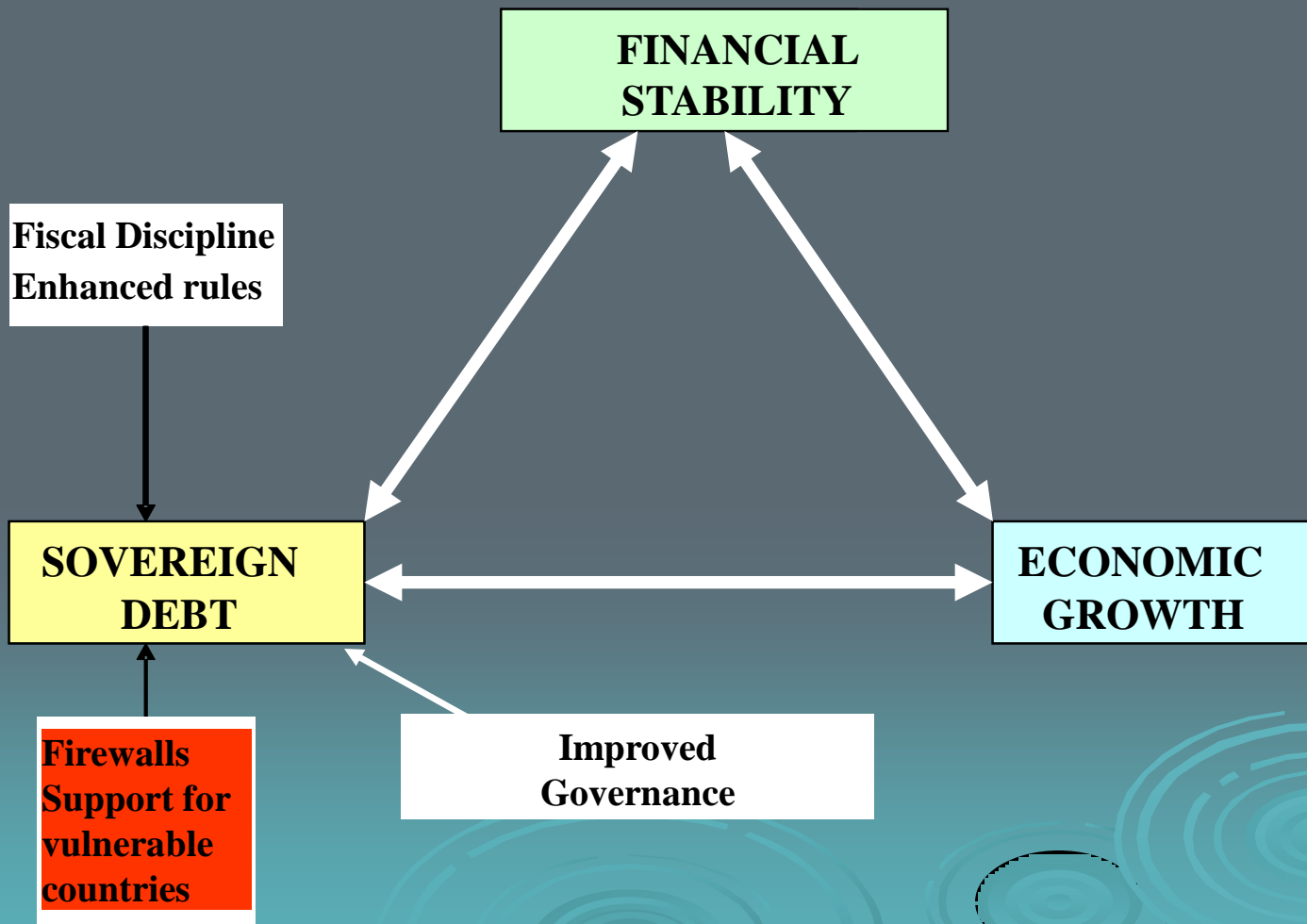
SSM: legislative proposals

- Supervisory tasks shifted to European level by 1 July 2013
- Defining the role of the EBA
- Next step: proposal for a Single Resolution Mechanism



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Greece

- Early 2010: confidence lost
- May 2010: € 110 bn package
- Mid-2011: new € 130 bn package, easier conditions for existing loan
- End-2011: upward revisions deficit, slower growth

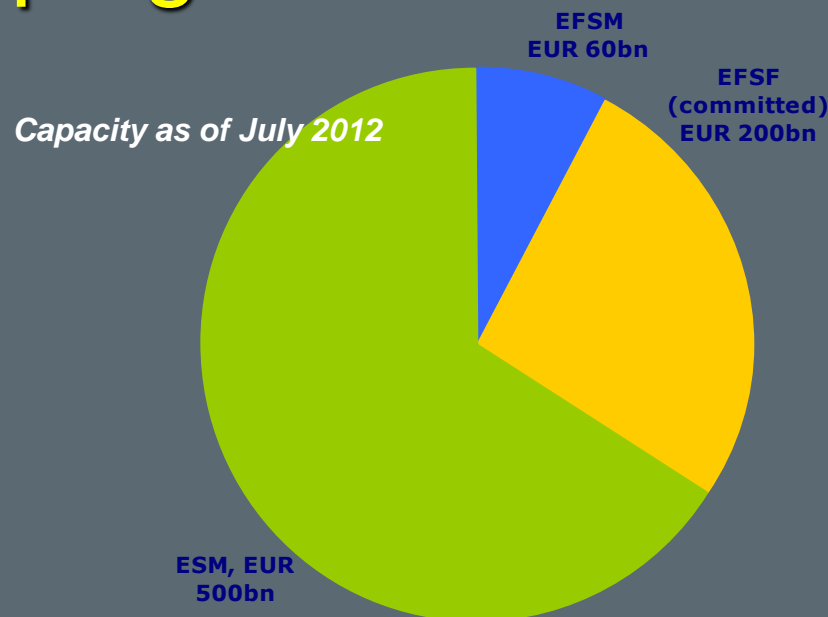
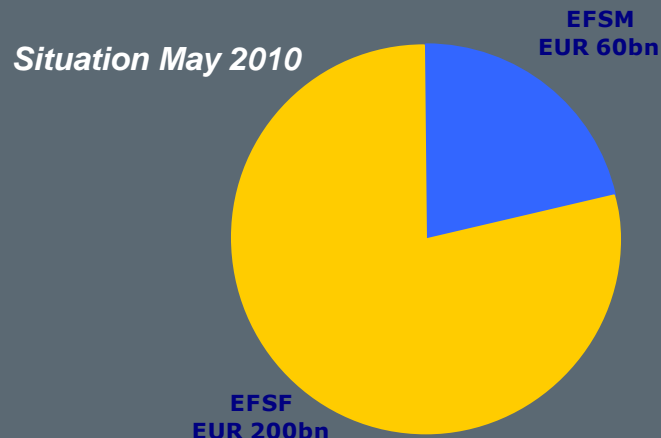
Action on vulnerable Member States

- Ireland: good programme implementation → market confidence is returning
- Portugal: structural reforms aim at switch from consumption to exports
- Italy: government adopted package to address twin challenges
- Spain: government adopted structural reform packages and package for fiscal reform at all levels of government. Banking sector is in difficulties



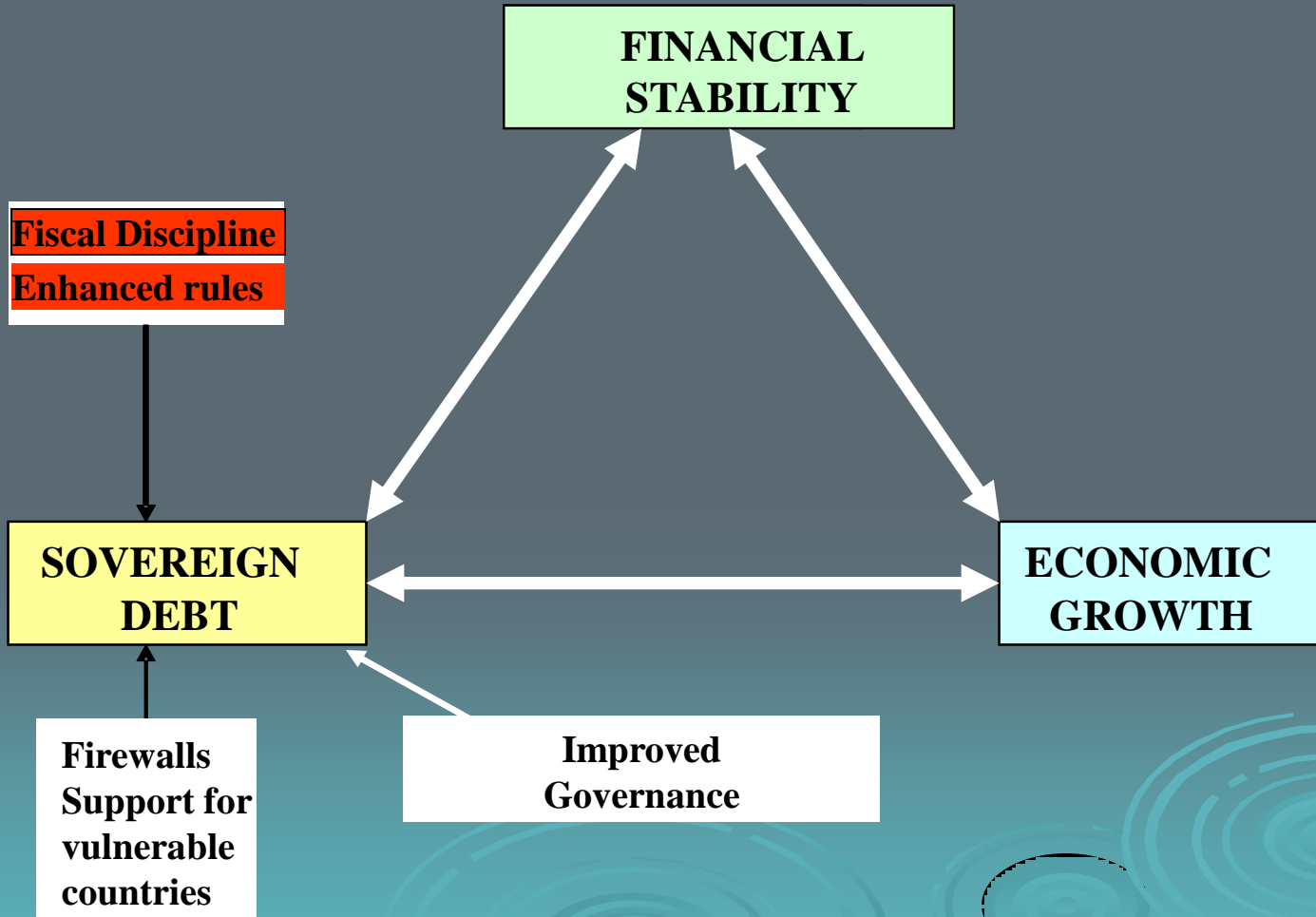
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Further developing firewalls



- *ESM the main instrument to finance new programmes as of July 2012:*
 - As of mid-2013 the maximum lending volume will be EUR 500bn
 - The EFSF will remain active in financing programmes before July 2012 and during a transitional period (until mid-2013) also finance new programmes to ensure a full lending capacity of EUR 500bn
 - The ceiling for combined ESM/EFSF lending will be EUR 700bn
- *Total firewall more than EUR 800bn - combining ESM/EFSF, EFSM and bilateral loans of EUR 53bn to Greece*
- *European firewalls acting in conjunction with IMF support*

Breaking the negative feedback loop



Reform of the SGP

- More focus on public debt
- Strengthening Enforcement
 - Wider range of sanctions
 - Triggered at an earlier stage
 - More automaticity

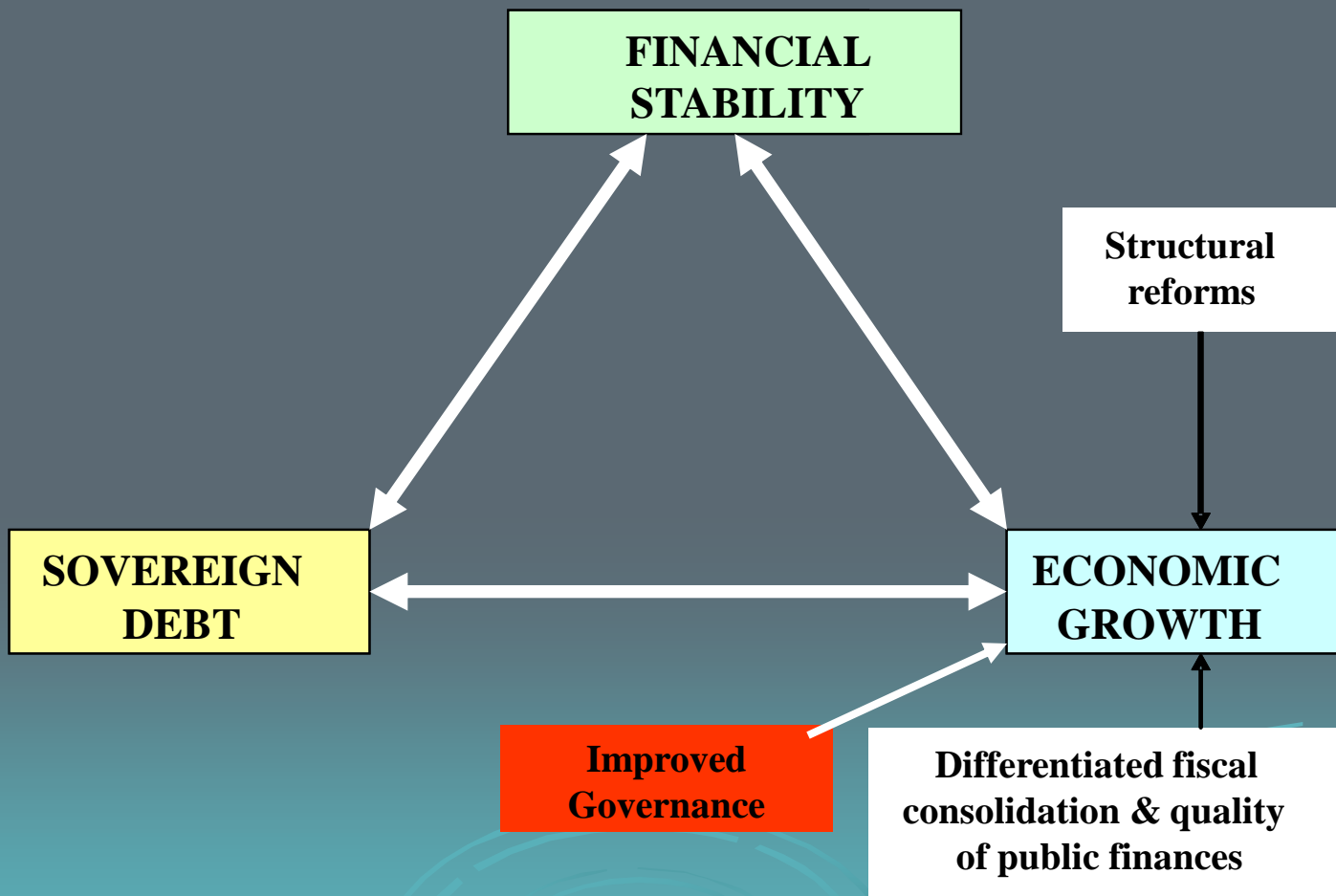
Fiscal Compact

- Legally binding balanced budget rule
- Automatic correction mechanism
- Ex-ante coordination of debt issuance
- Ex-ante coordination of major economic policy reforms
- Euro Summit meetings



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Governance Reform

- Strengthening the SGP
- Fiscal compact
- Preventing and correcting macroeconomic imbalances through reinforced economic surveillance
- Towards a genuine EMU

Macroeconomic Surveillance

➤ Preventive arm:

- Alert mechanism – scoreboard
- In-depth country analysis
- Recommendation on how to tackle imbalances

➤ Corrective arm:

- Excessive imbalances position
→ stricter surveillance

Europe 2020

Structural reforms to raise potential growth

- Smart consolidation
- Reforms with low costs for the budget
- Priority to growth-stimulating reforms

Towards a genuine EMU

➤ Short term

- Progress with banking union
- Two-pack

➤ Medium term

- Complete banking union
- Develop fiscal capacity

Compact for Growth and Jobs: MS Action

- Re-confirm objectives of Europe 2020
- Re-confirm differentiated growth-friendly consolidation
- Complete restructuring of banking sector
- Promote growth and competitiveness through structural reforms
- Tackle unemployment
- Modernise public administrations

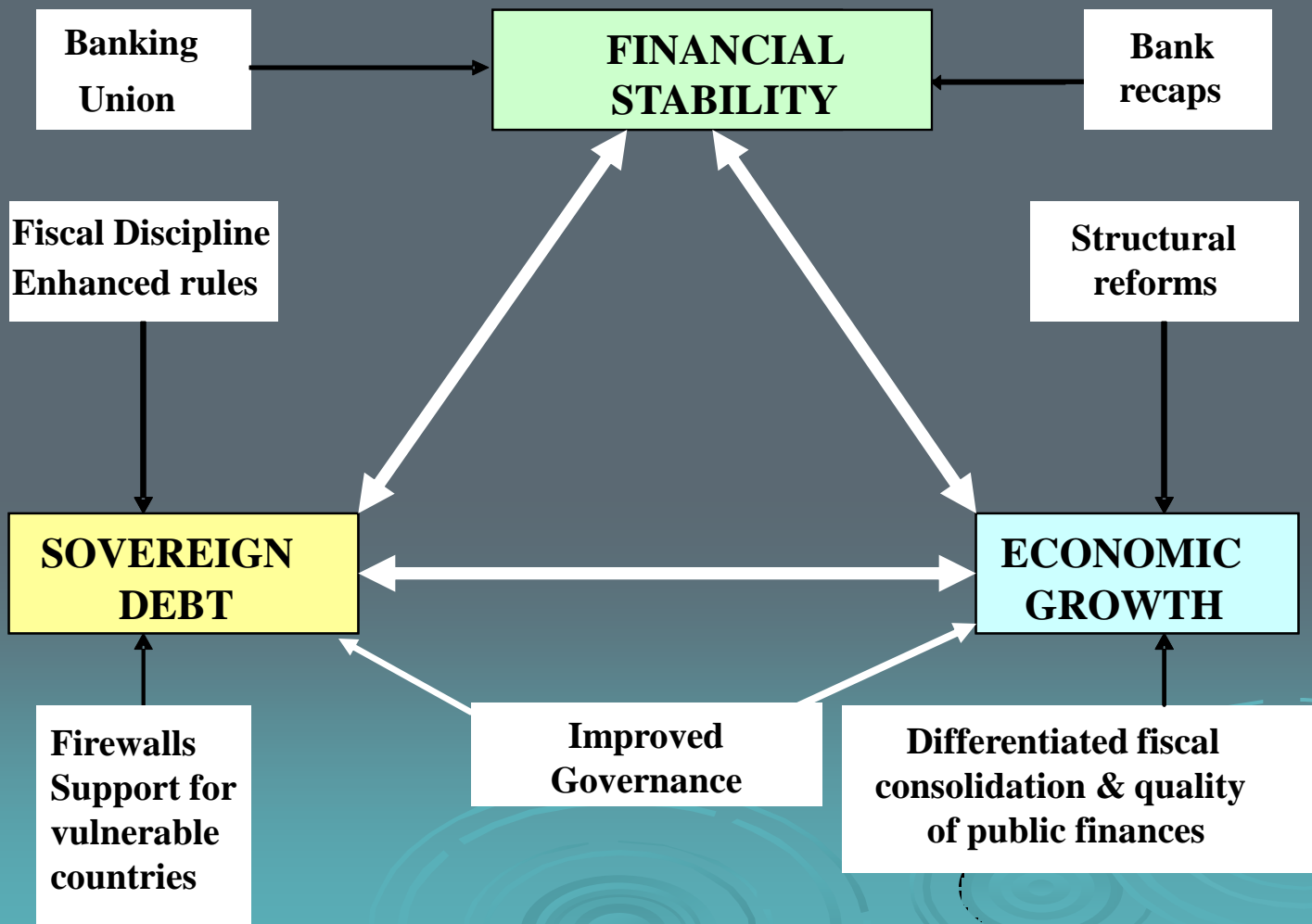
Compact for Growth and Jobs: Contribution of EU Policies

- Deepening the Single Market
 - Digital
 - Energy
 - Unitary patent
- Financing
 - EIB capital
 - Project bonds
- Taxation
- Employment package
- Trade



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