



50th Anniversary Conference of SUERF

The Financial Reconstruction of Europe: Enhancing European Governance

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- A sequence of events ...
 - global financial crisis and recession (2007-09)
 - public finance crisis in Greece (2009-10)
 - spreading of tensions to weaker euro-area countries (excessive public/private debt, foreign trade deficit, poor competitiveness, low economic growth; 2010-11)
 - announcement of Greek PSI (2011)
- ... leading to a crisis of confidence in the survival of the euro

- Yield spreads between government bonds in the euro area reflect two factors
 - National: weaknesses of some countries' economies and public finances (sustainability risk)
 - European: incompleteness of European construction and fears of a euro break-up (redenomination risk)

- The (2010-12) response has thus been two-pronged
 - prudent budgetary policies and structural reforms to support competitiveness at the national level
 - a process of far-reaching reform of EU economic governance (since 2010) and political commitment to strengthen the Union (June 2012)

- The reform is part of a process aiming at rebuilding trust among member states
 - commitments on public finance were reinforced (ex ante coherence checks on objectives and policies and more automatism of sanctions; rules recognized in national legislation)
 - new surveillance procedure on macroeconomic imbalances
 - tools for financial management of sovereign crises (EFSF/ESM: total lending capacity €700 bln)
- Not all elements of the reform have been tested yet



- Implementation of complex reforms requires time
- Persistent market distortions and fragmentation can undermine monetary policy transmission and jeopardize the entire process
- ECB's unconventional measures were introduced to counter such distortions
- OMTs, announced in the summer of 2012, provided a “bridge” over the implementation of reforms
- Conditionality is a key feature
- The announcement produced immediate benefits

- The crisis confirmed the enormous risks arising from the incompleteness of the European construction
- Lack of political union and a federal budget resulted in
 - exacerbated market demands for fiscal consolidation in individual member states
 - impossibility to smooth their contractionary effects and impact on citizens' welfare
- Progress made so far must now be followed by a further, deeper reinforcement of EMU, building on a renovated mutual trust and a longer-term vision

- The process has been set in motion
- Building an effective Banking Union will be the first test of our resolve ...
 - all its components (not just the single supervision) are necessary to sever the link between sovereigns and banks
 - the rules of the game for the forthcoming comprehensive assessment of banks must be based on analytical rigour and equal treatment of all banks across countries
 - we must apply wisely the rules on bail-in and State aid
- ... but success requires that discussions on fiscal and political union are soon followed by concrete actions