



Adjustment Anchors and Fiscal Frameworks in the EA after the crisis

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Moody's and PIIE conference

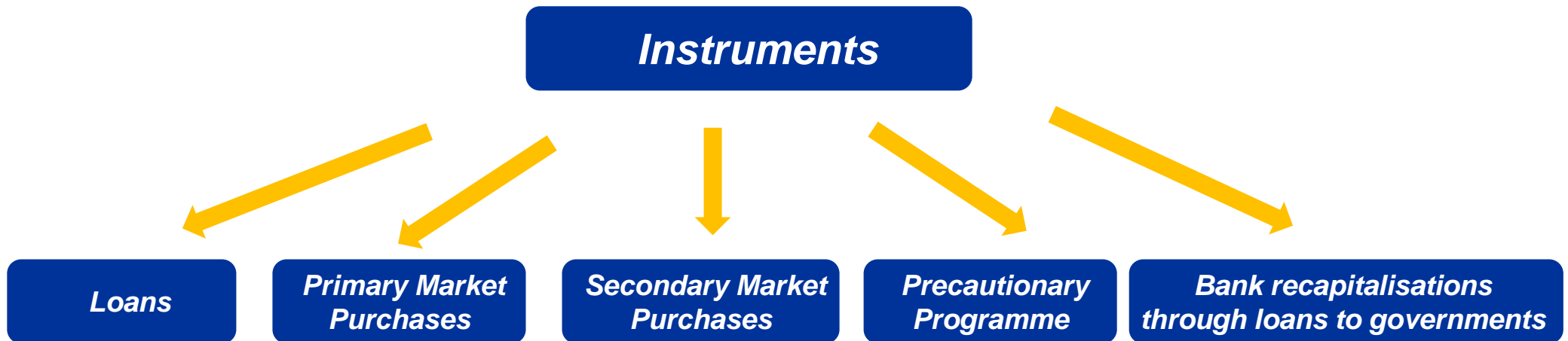
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Improved economic policy coordination in the euro area

- Euro governments adopted **more comprehensive and binding rules** for national economic policies
 - **Stability and Growth Pact** has stricter rules on deficit and debt
 - **Less room for political interference** by national governments
 - **Balanced budget and debt rules** now also in national legal systems
 - **European Semester**: yearly cycle of economic policy coordination
 - Stronger emphasis on **avoiding macroeconomic imbalances**
 - **Eurostat** authorised to verify national data

EFSF and ESM: mission and scope of activity

Mission : to safeguard financial stability in Europe by providing financial assistance to euro area Member States



ESM assistance is linked to appropriate conditionality and debt sustainability

Progress towards Banking Union

Banking union necessary to:

- Break the vicious link banks/sovereigns
- Avoid potential weaknesses of national supervisory structures in a monetary union with internationally operating banks

Elements of the BU (towards a real single banking market in the Eurozone):

- **Regulation :**
 - Lowering probability of failure: “Basel III” (CRDIV/CRR). More capital and loss absorbing capacity.
 - Addressing impact of failure: New recovery and resolution framework (BRRD). A uniform framework to enforce bail-in and improve financial stability.
- **Institutional architecture:**
 - **Single Supervisory Mechanism (SSM)** for euro area banks (operational in November 2014).
 - **Single Resolution Mechanism (SRM)** with **Single Resolution Fund (SRF)** financed by the industry.
 - **ESM Direct Recapitalisation Instrument** available once SSM enters into force and euro area MS unanimously approve.