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Action for Growth, Stability and Jobs

Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort

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Distinguished speakers, Ladies and Gentlemen,

Let me welcome you to the 2012 edition of the Brussels Economic Forum. I am delighted about the large participation in this forum today. The topic of this year's forum is indeed most relevant to the citizens of Europe:

How can Europe overcome the intertwined sovereign debt and banking crisis? How can we return to recovery and move towards a path of sustainable growth and job creation?

These are the critical questions of today, immensely important for our fellow Europeans. The critical dilemma is that there are no easy answers to these questions. There is no easy fix or single issue movement to the complicated problems of the complex eurozone that alone will do the trick – be it a fiscal compact or, say, stability bonds.

We will not be able to overcome our problems by focusing only on a joint issuance of public debt without simultaneously ensuring fiscal sustainability. Nor will we be able to anchor a stability culture in the eurozone without significantly pooling the burden of adjustment.

Putting these two poles by force against each other is a false debate. Instead, we need both a genuine stability culture in the eurozone and its member states and a much upgraded common capacity to contain financial contagion and reduce the borrowing costs for its members. This is the case at least if we want to avoid a disintegration of the eurozone and instead to make the euro survive and succeed, for the sake of its member states and their citizens.

From the organisers' standpoint, these are the kind of issues I would want to be discussed today. As well as the following questions:

How to overcome yet another false debate between fiscal consolidation and sustainable growth? How do we combine smart consolidation with growth-boosting structural reforms and strengthened investment?

What are the challenges to and opportunities for growth in the world economy and global trade, and what can we do to better capitalise on them through global governance, such as the IMF and G20?

What could be the roadmap towards a longer-term perspective of a genuine economic and monetary union; that is, EMU Mark II?

I know this is a very challenging agenda, but I trust that we can approach it today in an analytical and open-minded way, which has become the standard operating procedure of the Brussels Economic Forum.

Ladies and Gentlemen,

Today's discussion could not take place at a more timely moment, as yesterday the Commission provided extensive and, I dare say, also intensive analytical input and policy advice into the EU economic policy debate. We have screened and analysed fiscal and economic policies of all EU Member States, including in the light of the excessive deficit procedure. In 12 cases we also conducted in-depth studies on macro-economic imbalances. The results of our work are reflected in the country-specific recommendations under the European Semester.

All of this should be seen against the difficult economic situation at the current juncture. For the EU on average, the economic contraction seems mild for now, but the average cannot hide the fact that growth is very uneven across Member States. While recent hard data indicate a somewhat better outcome than expected for the first quarter of 2012, our Economic Sentiment Indicator, published yesterday, points clearly to downside risks in the short-term.

Like GDP growth, unemployment rates have diverged across Member States: in some member states, labour markets have been recovering towards virtually full employment, while others are suffering from rising unemployment. The recent and ongoing turbulence in financial markets, especially sovereign bond markets, is further threatening the recovery.

Ladies and Gentlemen,

Thus, we are still in the troubled waters, despite the fact that over the past 2½ years, the EU has taken unprecedented action to safeguard financial stability and economic recovery in Europe. Just to illustrate:

Vulnerable member states have stepped up fiscal consolidation and structural reforms. We have built financial firewalls with robust firepower. In addition, the European Central Bank has played an important role to ensure not only monetary but also financial stability.

The banking sector is being recapitalised, and in many countries, restructured. We have strengthened European financial regulation and supervision. We have reformed economic governance in a way that anchors a stability culture in EMU and facilitates lasting growth.

All in all, we have made solid but uneven – and seeming insufficient – progress. The EU's comprehensive strategy has contained the crisis – but not tamed the crisis, not to speak of overcome it. Yet, the counterfactual scenario, that of defaults and disintegration, would have quite likely been lead to a terrible depression in Europe and in the world.

So there is more to be done – and will be done, in three building blocks.

First, sound public finances are a necessary condition for sustainable growth. The Commission has encouraged the Member States to focus on the quality of public finances and urged them to protect spending that is key for growth, e.g. research and education, energy and green growth.

According to our analysis, fiscal deficits in the EU fall from around 6% of GDP in 2009-10 and 4½ % in 2011 to around 3½% in 2012. The stability and convergence programmes confirm that member states plan to stay the course on consolidation, implying that on aggregate, the deficit for the EU should fall below 3% next year. This should alleviate some of the market pressures, if confirmed by the 2013 budgets. The stability programmes of the euro area imply that the debt would stand at around 90% of GDP in 2013 and start declining thereafter.

The reinforced Stability and Growth Pact gives the EU the rules-based, strong policy instruments it needs to ensure sound public finances. Central to the implementation of the rules is the assessment of the budgetary measures taken by the Member States in particular in structural terms, thus allowing for differentiation across Member States according to their fiscal space and macro-economic conditions. This is reflected in the country-specific recommendations under the Semester and the on-going excessive deficit procedures.

Yesterday, we concluded that Bulgaria and Germany have corrected the excessive deficit in a durable manner, so we proposed to the Council to abrogate their EDP. For Hungary, we consider that effective action has been taken to correct the deficit by 2012, so we proposed the lifting of the suspension of the cohesion funds.

Spain has already taken strong action to pursue the necessary structural reforms in product and labour markets and in its pension system. It is in the process of restructuring and recapitalising its banking sector, especially the savings banks. These are very important steps to solve Spain's underlying structural problems. On the condition that Spain can convincingly control the excessive spending at sub-national level, especially by the autonomous regions, and assuming that presents a solid two-year budget for 2013-2014 to further substantiate the medium-term path of fiscal consolidation, we are ready to consider proposing an extension of the deadline to correct the excessive deficit by one year.

Second, we are witnessing a rebalancing of macroeconomic imbalances and divergences of competitiveness.

Large current account divergences had been building up since 2000 and they reached their peak in 2007/8. This was not sustainable, as we have learnt the hard way. Since then, they have been gradually narrowing, and the rebalancing is moving on.

However, more adjustment is still to come. I am fully aware that an orderly unwinding of intra-euro area imbalances is crucial for sustainable growth and stability. Since this is a matter of common concern, we addressed the following recommendation to the euro area:

"The urgency of actions to correct the imbalances is greater in deficit countries, where reforms are necessary to improve competitiveness and facilitate resources allocation towards tradable sectors. At the same time, surplus countries can contribute to rebalancing by removing unnecessary regulatory and other constraints on domestic demand, non-tradable activities and on investment opportunities."

Indeed, the 12 country-specific in-depth reviews we published yesterday show that remaining accumulated stocks of internal and external imbalances continue to pose a formidable challenge.

Current account deficits have, in general, decreased significantly. In many Member States they are now broadly consistent with keeping the net foreign assets and liabilities constant. However, the high levels of external liabilities are an important source of vulnerability for several Member States, not only related to sovereign debt but also cross-border exposures of their banks. This is particularly the case for Spain, Cyprus, Hungary and, to some extent, for Bulgaria. The supply of credit to the private sector is affected by the need for deleveraging process of the financial sector, with inter-linkages to sovereign debt.

In several Member States, the boom in housing markets came hand in hand with overinvestment in the construction sector, with a bias towards the non-tradable sector with generally negative implications for productivity and, thus, competitiveness. The downsizing of the construction sector has triggered an upsurge in unemployment.

Deficit countries have been improving their competitiveness, measured in unit labour costs. Many of our recommendations deal with conditions for higher employment. There is a particular focus on fighting youth unemployment, reducing early school leaving and improving training, including vocational training and apprenticeships.

Trade performance is also impacted by non-price competitiveness. Member States such as Belgium, Denmark, Cyprus, Italy, France, Spain, Finland and the United Kingdom can only improve their export performance with difficulty, given that export sectors are concentrated on products for which there is slower growing global demand.

Surplus countries are also adjusting and creating the conditions for wages to grow in line with productivity. We have recommended this to Germany, as well as to use its fiscal scope for increased growth-enhancing investment in education and research and enhance the participation of women into the labour force through fulltime day-care and all-day schools.

All in all, we need to maintain the momentum of the wave of reforms that is currently moving in Europe, especially in the countries that need them most. Italy and Spain are taking decisive action in this regard.

Getting more out of the Internal Market is one of the most effective ways of rewarding structural reform and flexibility in product and labour markets. An immediate boost for innovative companies would come from a decision to finally adopt the EU patent. In view of their own and our common economic challenges, and in a true European spirit, I urge Italy and Spain to join the EU patent.

Dear Friends,

Let me here make a personal observation on the issue of imbalances and their discovery by the "dismal science".

When the EMU was being designed some 20 years ago, the economists' discussion was, first and foremost, focused on the theory of optimal currency areas and asymmetric shocks due to distinct production structures. Back home we were only concerned about Finland of its green gold not becoming another Texas of black gold.

Then the cavalry came to rescue in the form of the theory of endogenous convergence, based rather on the created competitive advantage and diversified intra-industry trade than the inherited comparative advantage and inter-industry trade.

The jury is still out on this matter, though it seems that the industrial structure of a member state matters less to its success in the monetary union than its policy choices and institutional evolution.

Meanwhile, I do not recall that much attention 20 or even 10 years ago would have been paid to the eventual accumulation of macro-economic imbalances and their seriously harmful impact to the functioning of the economic and monetary union. This concerns both divergences in competitiveness and especially the capital inflows and outflows. I recall some substantive reports on the matter, though, by the Commission services around 2007-08.

I admit that I may have missed something along the way. But now finally the economics profession has woken up – and take this as a comment from a "policy entrepreneur", or an "innocent bystander" – as even Paul Krugman points out to the detrimental build-up of imbalances.

Let me quote :

"What's interesting is that the euro itself created the asymmetric shock that are now destroying it [via the capital flows it engendered]. Not only have they created something incapable of dealing with shocks but the creating engendered the shocks that are destroying it".

But to counterbalance and put things into perspective, let me quote what Krugman wrote on the euro in 1990:

"I find it quite reasonable to guess that Europe is too large, diverse, and poorly integrated to benefit economically from a single currency. I also think that a single currency for Europe is an excellent idea. Economic efficiency is not everything. A unified currency is almost surely a necessary adjunct of European political unification, and that is a more important goal than the loss of flexibility in the adjustment."

Against this backdrop, I would find it very valuable to hear Krugman's views on the long-term future of the EMU in next year's edition of the Brussels Economic Forum, which should be considered an invitation – I leave it to Marco Buti to decide whether to send one shortly to him.

Ladies and Gentlemen,

The third building block is the very strong case for more investment. The single market is our main engine for growth, but we definitively need extra fuel to boost that engine.

The main problem we are facing at the current juncture is the fragile banking system that cannot provide the funds needed for the structural change. The prevailing risk aversion of investors has resulted in fewer and fewer new projects. This is why we need creative initiatives. Therefore, the Commission proposed project bonds, and I am glad that the co-legislators have acted quickly to enable the EIB to roll out pilot projects this year.

Given the social returns to infrastructure, our key idea is that we must use public banks better. For the EU, this is the European Investment Bank, or EIB. The EIB and the EU budget can be used more effectively to achieve major leverage through limited risk-sharing with private investors. In this regard, the Commission proposal for the multi-annual budget for 2014-2020 is an instrument for growth and investment in the EU. Almost €500 billion of the budget would go to fund research, trans-European networks, investment in human capital and cohesion policy.

For full effect, the Commission has been urging the member states as the EIB shareholders to agree to a capital increase. The EIB could then expand its lending volume, which is a quick and effective way of channelling financing to the real economy.

Ladies and Gentlemen,

There is no silver bullet for economic growth. If there were, it would have already been fired.

The build-up of debts, deficits and imbalances in our economies did not happen overnight, but over many years.

And the readjustment we are now going through won't be concluded overnight either. That is why it is so important to stay the course and pursue sustainable and sound public finances.

Looking beyond the immediate horizon, a longer term perspective on the future of the EU's economic and monetary union is needed. The Commission will advocate an ambitious and structured response.

Building on what has been achieved to date, we need to map out the main steps towards full economic and monetary union. Demonstrating the political commitment of Member States to the euro will be part of restoring confidence in the euro area.

Mapping out the main building blocks could include, among other, moving towards a banking union, including an integrated financial supervision and a single deposit guarantee scheme.

This will require a wide ranging process that will take account of legal issues. It must include a political process to give democratic legitimacy and accountability to further integration moves.

This process must respond and balance the concerns of all citizens across the EU. It must respond to citizens in countries which undergo protracted structural adjustment and where unemployment is high. But it must also dispel the concerns of those citizens, who are concerned about financing a supposedly perpetual flow of transfers.

Finally, it would make economic sense to create a deep, liquid and stable market for government bonds with the joint issuance of public debt – Eurobonds. But any step in the further sharing of risk can only be taken under the condition that it is balanced by provisions to avoid free-riding on the consolidation efforts of others. Interests must be balanced out, which would require a fundamental debate about fiscal sovereignty.

The pace and sequencing of these developments will need to be worked out, including a roadmap and a timetable. But an early confirmation of the steps to be taken will underscore the stability and solidity of the euro, and help restoring confidence even in the short term.

So let me conclude by saying that I wish that today's forum will discuss both immediate challenges and the longer term perspective.

Ladies and Gentlemen,

It gives me great pleasure to welcome now Mario Monti, Prime Minister of Italy, for the 2nd Tommaso Padoa-Schioppa lecture. Mario has devoted much, may I say most, of his professional life to European integration. He joins us directly from Italy due to the earthquakes. My thoughts – and I am sure I speak for all of us on this matter – are with the victims.

I now leave the floor for the introduction to Marco Buti, Director-General for Economic and Financial Affairs.

I would like to take this opportunity to express my sincere thanks to him and his staff for the very good organisation of this event – but even more so, for the excellent work over the past years and their readiness to make sacrifices to overcome the current challenges to the economic and monetary union, on which yesterday's package is but one fine example.

Thank you very much!