The credit crunch and shrinking savings – how to break the vicious circle to kick-start recovery?

SPEECH

by

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OPENING SESSION

6 June 2013

Seul le texte prononcé fait foi

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CES4127-2013_00_00_TRA_DISC

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Dear friends, I would like to welcome you to this conference being held by Group III on a key issue in today's European economy, which is crucial if we are to have any chance of finding a way out of the destructive vicious circle of economic recession into which Europe has now been plunged for too long.

In the light of our successful seminar a few days ago in Thessaloniki, where we talked about the impact of the crisis on the Greek people and ways of facilitating recovery with a very wide range of stakeholders, this question has emerged even more clearly as being of central strategic importance.

- Group III of the European and Economic Committee has today brought together a wide range of the actors it represents, in order to examine and discuss questions concerning access to credit for economic operators and households, and protection of savings.
- People – understood as consumers, families and entrepreneurs of all kinds – are currently trapped in a vicious circle by the economic situation: **consumers no longer know how to save money securely and productively, and businesses experience enormous difficulty in starting up, operating and growing – access to credit being the second-greatest cause of difficulty for all types of SMEs**.
- We are especially honoured today to host a number of prominent representatives of European civil society organisations who have agreed to come here and discuss the real situation their members face, put forward their proposals and best practices that could help to break the vicious circle triggered by the crisis, launch a process of recovery, and give **fresh impetus** – the kick-start to the European economy included in the title of the conference.
- The key points of today's debates will be summarised in a final document to be presented to the representatives of the various European institutions who will attend the closing session today, so that they can listen to us and report to use on their working priorities for the coming months. You are all welcome to contribute to the document today either in writing or by joining in the debates.
- Today, by listening to representatives of consumers, SMEs, banks, families, cooperatives, the professions and organisations standing up for the public interest, we will see that **all these players, even if highly diverse, in fact share the same needs**: more transparency, more help from sector organisations in making the right investment choices, more training, new ways of interacting with financial institutions when seeking loans, new ways of obtaining loans and guarantees, new ways of investing savings, and at the same time helping society to grow and conserve the environment, for example.
- **We are convinced that all these stakeholders could join together** as they have a major common interest – a **fairer and safer credit system, that can meet the needs of individuals, families, different types of businesses such as the professions, SMEs or cooperatives – in other words, a system that is close to day-to-day life and the real economy**.
- In its recent half-yearly report on access to finance for SMEs in the euro area (October 2012 – March 2013), the ECB points to some **timid but encouraging signs** compared to the previous six months: external financing needs increased at a steady rate, while the rate at which the availability of bank loans contracted has almost halved, from -22% to -10%. The rate of refusals of applications for financing is down too, falling from the previous 15% to

11%, and a slightly lower percentage of SMEs report access to credit to be their main problem (16%).

- The report also suggests, however, that conditions for lending to SMEs continue to vary significantly within the euro area, and that they are generally stricter than those applied to larger companies. Getting a loan is also much harder in some countries than in others.
- **So, difficulties persist**: the monetary policy introduced by the ECB has not yet produced the hoped-for results – the fall in interest rates has simply failed to reach people in some parts of the euro area – and national austerity policies have certainly not generated the expected benefits.
- If the banks do not lend at reasonable rates, the consequences are catastrophic: businesses close, investment and consumption stagnate and the real economy grinds to a halt, paralysed by the **lack of confidence** on the part of investors and lenders in the efficiency of the financial sector.
- As I said earlier, the situation varies widely between countries and among the many business sectors, ranging from individuals to the social economy, but it is clear **throughout the euro area households and businesses**, faced with the threat of a third round of credit crunch, are less confident about spending (consumption) and investing. This has had an immediate impact on GDP throughout Europe which, it must be remembered, draws 80% of its total value from personal consumption and investment in its own businesses. That is why large parts of the euro area are now suffering severe and constantly worsening deflation, precisely because credit and inflows are continuing to shrink.
- Taking **my country, Italy, as an example,** a few weeks ago the President of Confindustria opened the organisation's general meeting by warning of a third wave of credit shrinkage, estimating that in Italy alone, turning off the taps had reduced liquidity by EUR 50 billion. These figures were confirmed yesterday by Standard&Poor's data for 2012. Figures from the authoritative Tagliacarne Institute (Lexjus Sinacta SME observatory) confirm that only 50% of SMEs were granted the loans they had requested, 21% were refused any credit and 31% of start-ups, from all categories, had received no credit.
- **Measures are being taken at EU level** to counter the risks for the financial sector and to fill the existing gaps in our regulatory and supervisory systems:
    - risk evaluation in the banking sector and bank recapitalisation;
    - European banking union, including a single supervisory mechanism designed to monitor 80% of the euro area's bank assets, in turn backed up by a single resolution system intended to prevent the burden of bank failures falling on tax payers;
    - monitoring private debt levels and related financial risks, such as property bubbles, by means of the European Systemic Risk Board (ESRB) and the new EU procedure for preventing macroeconomic imbalances.
- All measures aimed at protecting the public and rebuilding trust in the financial markets, securing "**a sustainable and diverse EU banking culture which primarily serves the interest of the people**", as called for by European Parliament Vice-President Othmar Karas in the May 2012 resolution on the activity of credit institutions and the prudential supervision of credit institutions and investment firms.

- **At national level**, as pointed out by the European Commission in its 2013 annual growth report, **the Member States could do more** to promote alternative sources of financing, increase liquidity and reduce companies' traditional dependence on bank financing – and there is no lack of examples:
    - boosting the role of banks and public guarantee bodies in funding SMEs;
    - encouraging new sources of capital, including inter-company loans;
    - offering greater opportunities for issuing company bonds and facilitating access to venture capital;
    - cutting late payments by public administrations;
    - introducing personal insolvency arrangements so that mortgage loan conditions can be adjusted to avoid home repossessions;
    - allowing banks to contract loans at lower rates if they increase the number of long-term loans to businesses or grant less costly and more accessible loans to SMEs.
- It is also encouraging to see that **existing or new financial instruments in the EU** can be used to mobilise targeted investment such as the recent EUR 10 billion increase in EIB capital which, as emphasised in the conclusions of the March 2013 European Council, will allow the bank to lend an additional EUR 60 billion to support growth and employment and, together with the European Investment Fund, will provide a boost to projects of a value of up to EUR 180 billion over the 2013-2015 period.
- All this, however, while helpful, is still not enough. In a recent study, the Commission **calculated that a vigorous policy of improving access to credit and a significant reduction in the costs of starting up new businesses could generate a roughly 1.5% increase in European GDP**. EESC President Henri Malosse has frequently pointed out that Europe's nearly three million SMEs possess strong "sleeping" potential for growth and innovation which, if awakened, could create **15 million new jobs** if each SME was to take on five people. Such is the scale of the challenge facing us, and of the enormous potential being wasted.
- It may help our meeting today to know that at that same March European Council where the 2013 Member State and European Union economic policy guidelines were laid down, a debate was held, attended by President Draghi, on access to credit for businesses as an engine for growth, competitiveness in all its aspects, and the functioning of the labour market, especially for young people. **The answer to the question *"What generates growth?"* was - trust, credit and competitiveness. Even more important though, is the need for a more employment policy specifically geared to more labour-intensive growth**.
- In order to understand the consequences of any lack of such trust and the accompanying financial stability, we need only look to the economic and financial structure of the euro area economy, as revealed by the recent ECB analysis of domestic finances and consumption for April: 43.7% of households have (some kind of) debt; 23.1% have a mortgage, while 29.3% have a non-mortgage debt; 96.4% of households have their own funds (current or savings accounts), while 33% subscribe to private pension or life insurance schemes – all other forms of financial activity belong to less than 15% of households.

- **Trust, stability, security, performance, competitiveness**. These are the key factors for recovery – backed up by a series of alternative arrangements for access to credit and savings, some of which we will be looking at today, bringing in all stakeholders from the institutions, banks and private investors as well as companies, consumers, households, young people – all of whom should work from a new perspective, geared to sustainability and a fairer society geared to the well-being of its members.

- That is why I believe that a **powerful alliance between households and businesses, between consumers and entrepreneurs of every kind** is both possible and increasingly urgent in order to bring about healthier, more secure management of savings and credit that is open to all.
  There is wealth, as the data show: what we need is for a greater share of the money in circulation to be shifted away from unearned income and towards the real economy, rewarding risk with suitable forms of guarantee and insurance, which are also just as available.
  By giving impetus to the many best practices that are already in place, the vicious circle can be broken and paths towards a future for Europe's economy can be opened up.