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Staying the course: implementing policies for recovery

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

CESE Conférence - 'Rien n'est joué! Sortons de la crise ensemble, vers le progrès!'

Brussels, 17 March 2009

Ladies and gentlemen,

Let me begin by thanking Mario Sepi and the Economic and Social Committee for inviting me to close this important conference.

Once again, the Economic and Social Committee is providing a very useful platform to exchange ideas, share experiences and shape policy responses. Today's conference has been a very clear demonstration of this and it is reassuring to see a range of interests represented this afternoon.

We are living in difficult times. Therefore, partners from all spheres – business, employment and policy - need to pull together to overcome formidable challenges. To cope with this severe crisis, we need more than ever to strengthen social dialogue.

Indeed, we are not dealing with a normal downturn. What began as a financial crisis is now hitting every segment of society; businesses, employees and households. We need the insight and engagement of social partners if we are to manage this impact and find solutions that will restore growth and employment to our economies and progress to our societies.

We knew back in September 2008, when financial turmoil transformed into a full blown crisis after the bankruptcy of Lehman Brothers, that there would be tough times ahead. That's why we moved quickly, mobilising a coordinated European response that combined unconventional actions for the financial sector with unprecedented support for the real economy

But tough times are now here and they are hitting harder than many expected.

We are currently witnessing the first truly synchronised global economic downturn since the Second World War. Neither advanced economies nor emerging markets have escaped the impact of falling confidence, collapsing trade and steep declines in industrial activity. There is no decoupling; in this crisis the economy is truly globalised.

Europe is suffering from a severe recession alongside the US, Japan and other G7 countries. In the Commission's January forecast we projected a drop in growth of nearly 2% for this year. Since then, downside risks have increased. Judging by the latest data, the outlook for the economy continues to worsen. More precisely, the latest forecasts of the European Central Bank or the IMF paint a gloomier picture than our own scenario.

Yet the EU has not stood by as this crisis unfolded. Over the last six months we have made important advances with our European economic recovery plan. For the first time in EMU's history we have used powerful, expansionary fiscal policies. But it is clear that we must now swiftly implement our decisions; adapt to new challenges that have emerged during the crisis and, especially important, step up European coordination to address them.

This afternoon, I will highlight three areas in particular where we need to narrow our focus, three areas which are critical to economic recovery: repairing the financial sector, implementing fiscal stimulus plans; and cushioning the impact on people and jobs.

Let me start with the financial sector, because I believe that persistent problems in financial markets currently pose the most urgent obstacle to remove before we can kick start a recovery.

In saying this, I don't wish to undermine the important progress we have made to restore financial stability. The massive support that Member States have channelled into the financial system - by the last count 300 billion euros in recapitalisation operations and 2,500 billion in guarantees – have prevented the full scale collapse of the banking sector. Interbank lending rates have also come down considerably. Other signals indicate further partial improvements in the functioning of the financial markets.

But the overall situation is still very fragile. There is a severe lack of trust between financial actors and there is real concern about the strength of some banks' balance sheets.

We need to restore transparency. In particular, we need to clean out the impaired assets that are undermining confidence among financial players.

This is causing a serious contraction in lending, denying much needed credit to economic activity and as such, creating a serious risk to economic recovery. If families have difficulty accessing credit, then demand falls. If businesses can't get financing to buy equipment and grow their businesses, then investment falls. All this compounds rising unemployment and declining growth.

Clearly we need to deal decisively with impaired assets, within the framework put forward by the Commission. Our guidelines allow member states to choose whether a 'bad bank' or insurance scheme is most appropriate to their situation. And in some cases, governments may even consider that nationalisation is the only viable solution.

But whatever the concrete decision of national authorities, by setting guidelines for the valuation and eligibility of assets, we can ensure that a level playing field is maintained among banks in the Single Market.

And by imposing stringent conditions on the industry, we ensure that taxpayers' money is used to best effect. Where necessary, a restructuring of individual banks may have to be considered.

Rest assured the Commission will closely monitor the treatment of impaired assets as well as the continued implementation of bank rescue packages. If these actions are carried out swiftly and effectively, we should see their positive impact in the coming months, including a marked improvement in banks performance and a pick up in lending.

However, confidence in the financial sector as a whole has been deeply shaken by the crisis. Rebuilding that trust will require deeper reforms that tackle the causes of this crisis at their root.

We are ready for this approach. The Commission will come next month with legislative proposals on hedge funds, private equity and executive remuneration. We will follow this up in June with initiatives to further strengthen the Capital Requirements Directive and to address derivatives and the other complex structured products. And these are just a few of the steps in a roadmap of actions which stretches to the end of this year.

Crucially, our roadmap includes a new set of initiatives to strengthen supervision for European financial markets broadly following the recommendations of the De Larosière report. After having discussed the report's recommendations, we are ready to move from analysis to action. We are currently working on a financial supervision package that we will present in May, which will set out a two tier system for stronger supervisory arrangements at both the macro and micro level.

Our proposals comprise first, establishing a European body to oversee the stability of the European financial system as a whole. We need this macro-prudential supervision to work at European level.

And second, we want to put in place a European System of Financial Supervision that would coordinate the action of national supervisors to provide oversight of individual companies. Provided these ambitious measures are agreed at the European Council in June, we aim to have them up and running in 2010.

The epicentre of this global crisis is the financial sector. But the full force of its impact is being felt in the real economy and therefore our response must be directed here too.

Significant monetary and fiscal stimulus have already been mobilised in the EU. Regarding the monetary policy tool, the European Central Bank has cut interest rates by a considerable 275 basis points since October and there are signs that those reductions are now starting to be passed on to the real economy.

On the fiscal side, stimulus plans are now underway. EU Member States have taken significant actions to support demand in the last 5 months. If we count national fiscal stimuli, automatic stabilisers and other budgetary measures then total support equals at least 3.3% of GDP spread over 2009 and 2010. That's around 400 billion euro being channelled into initiatives to help industry and businesses, to support public investment projects or to give a direct boost to household purchasing power. That's a huge stimulus indeed.

All efforts now must be focused on resolutely implementing the announced measures in the most effective way to counter the downturn.

They should be timely: Member States should not delay. Measures need to be implemented as soon as possible if they are to have a positive impact on confidence and demand.

They should be temporary: Member States should devise effective exit strategies for when growth returns. Today's policies to manage the crisis must not become the source of tomorrow's problems.

In this vein, let me say that the Stability and Growth Pact remains as important as ever. Perhaps more so in these times of crisis than usual. The need for credible and sustainable fiscal policies has not diminished with the downturn. On the contrary, sound fiscal policies will be vital to sustain credibility and confidence in government budgets and underpin the recovery. And sound management of budgets will be crucial in the longer term, to safeguard public finances in the face of population ageing.

So the Pact remains central to EU budgetary surveillance and Excessive Deficit Procedures will be opened when deficits jump above 3% of GDP. Nevertheless, during the downturn budgetary discipline is not about sanctions. It is about providing sound guidance to steer Member States on a credible adjustment path towards medium to long term sustainability. However, the Pact will be applied flexibly. In determining deadlines for adjustment we will consider all mitigating factors, including the impact of the downturn on budgets, any discretionary fiscal policies announced, and planned strategies for fiscal consolidation.

Thirdly, fiscal stimulus measures should be targeted: they should be focused on those areas where they can have maximum impact. And to optimise the potential for positive spillovers between Member States, they should be coordinated.

Reassuringly, this has largely been the case up to now and we have seen a good convergence of national actions. Take measures to support companies. Practically all Member States have launched steps to alleviate financing constraints on businesses and SMEs. Twelve have set up special public SME support services. And substantial progress has been made by many Member States to reduce administrative burdens.

This good work must continue and the Commission has recently presented proposals to reduce accounting burdens on micro-enterprises. The potential saving for businesses of this initiative alone is around 6 billion euro.

Of course, when it comes to direct support for crisis hit industries, Member States should adhere to the Commission's guidelines on state aid spending. State aid must not compromise the Single Market. Because European companies need open, competitive markets to prosper and grow. And if state aid does not boost economic growth, if it cannot guarantee jobs in the long term, then it is money down the drain. The car industry for example, has to change and invest in green technology if it wants to remain competitive. Support during the crisis should be an investment in Europe's future.

The crisis offers the opportunity to combine emergency action with important structural reforms that can unleash long term growth potential and boost the resilience of our economies. Indeed, this is a central tenet of Europe's recovery strategy.

We must seize this opportunity and make lasting reforms that will equip our economies to achieve stronger, cleaner and fairer growth.

And speaking of fairer growth brings me to the third and final element for recovery. This is a financial and economic crisis. But it also has the potential to become a serious social crisis if we do not act quickly.

Labour markets have yet to feel the full force of the economic downturn but we know that unemployment in the EU could near 10% in 2010. Job losses are already beginning to rise. Indeed, figures released just yesterday show employment in the fourth quarter of 2008 fell by 0.3%.

Member States have moved to counter the deterioration with a range of initiatives. Several countries have or are in the process of introducing flexible working time arrangements which can be valuable to prevent mass lay offs during times of crisis. Many are reducing taxes on labour, including cuts in social security contributions, which can boost labour demand and supply. A wide range of reforms are underway that focus on easing transitions in the labour market through increased training opportunities.

All this is encouraging. But with the situation in labour markets deteriorating, we now need to double our efforts. We need to develop new strategies and put in place concrete plans that will contain the social costs of this crisis, ease the hardship of job losses and lay the ground for renewed employment growth.

I know that responsibility here lies largely with Member States. Nevertheless, the EU is doing its part. We will renew the Globalisation Adjustment Fund and increase the European Social Fund by 1.8 billion euros. And we are providing guidance to Member States to help them design the right labour market policies for these difficult times.

For example, we encourage the use of financial support for temporary flexible working time arrangements as a means for Member States to keep people in employment. Adequate income support should be available for those that do lose their jobs and opportunities for re-training increased. Member States should identify those skills that are likely to be in future demand, and target training for those working in declining sectors. Not only will this cushion the impact on workers today, it will equip them for the years to come.

Reforms to labour markets over the last years have served us well. Before the crisis unemployment stood at its lowest level in decades and the last years have seen unprecedented job growth.

Now, the downturn must not be used as an excuse to roll back those advances. We need to see further efforts to implement labour market policies based on a flexicurity approach of lifelong learning, active labour market policies and modern social security systems.

All in all, we are drawing on a powerful set of tools to counter this crisis. However any measures we take in Europe will only realise their full impact if they are coherent with international action to stabilise financial systems and stimulate growth.

This is why Europe must put forward its position at the G20 summit in London in 2 weeks time with a unified voice. We need to see a global commitment to regulatory reform and improved supervision. We need to see a reformed, more inclusive IMF play a stronger surveillance role for the global economy. And we need to restore sustainable growth to the world economy, through implementing fiscal stimuli in a coordinated way, keeping markets open and launching an initiative on trade finance.

The April Summit in London will be crucial to build consensus and cement international coordination on these and a range of far reaching measures. I am encouraged by the results of last weekend's ministerial meeting where G20 ministers reiterated their commitment to supporting growth, open trade, and financial reform. However, we have set ourselves an ambitious agenda, one that will not be achieved overnight. More than ever, we must draw on a European platform of solidarity to ensure progress at the global level.

Conclusion

Ladies and gentlemen, let me conclude.

There is no doubt this will be an extremely difficult year for the EU and for the world economy. Progress on our ambitious recovery plan is underway and should deliver results in the next months, paving the way for a recovery in 2010. But we should be realistic. We face formidable challenges. When exactly we exit this crisis will depend a great deal on the actions we take today.

We need a determined effort to cleanse banks balance sheets and restore confidence in financial markets; we need a concerted and coordinated implementation of fiscal stimulus measures; and we need to protect jobs and livelihoods while safeguarding our single market and our future prosperity. Moreover, we need to see our efforts at EU level reflected world wide.

We are fortunate to have at our disposal a Union with enormous potential for unified action. By drawing on our combined strength, we can effectively promote our position in the G20 Summit in April. And by embracing deeper coordination and a commitment to solidarity within Europe we will overcome this crisis quicker.

I hope you leave this conference with a renewed sense of determination and resolve to work hand in hand with partners represented here today – employers, social partners, businesses and policymakers – to build a recovery and a common, stronger and fairer future for Europe.