



## **Speech by the President of the Eurogroup**

### **Oslo, 15 June, conference on "The financial crisis and the future of the euro"**

It is a great pleasure to be here in Oslo today with you in order to discuss the future of the euro. Some commentators would have you believe that this will be the shortest speech ever, as in their opinion the euro has no future. I, on the other hand, believe that this is nonsense and that it is the kind of nonsense that blatantly disregards both the economic and political realities of European integration.

It is certainly true that these are turbulent times and that the cohesiveness of the euro area is put to the test. It is also true that we had our differences on how to deal with this crisis in the most efficient way. But in a union of 16 – and soon 17 – member states, differences of view are inevitable. Differences of emphasis will always persist. But what determines the success of our enterprise in creating this single currency, and in using it to best effect, is how we manage our differences. It is how we demonstrate the vision and determination to pursue our common interests, how we organise our individual actions for the collective good, and how we choose to meet the challenges that confront us all, both separately and together.

The financial crisis has certainly heightened those challenges. It has also raised some extremely serious questions about the extent to which our institutional framework helps us to define common solutions, and the extent to which it forces us to face those challenges alone.

I personally am a firm believer in the European Union being at its best in responding to crises. I am a firm believer in our response to adversity demonstrating our true character. And thus, in the midst of the crisis – and make no mistake, we are still very much in the midst of this crisis – even now I am optimistic about our prospects.

My optimism rests on two main foundations, and they are the foundations of our economic and monetary union. Firstly, the monetary side of EMU – we have a common monetary policy framework that has served us extremely well over more than a decade. Our central bank has consistently, unfailingly delivered on its primary objective of price stability. And through doing this, it has gained the credibility and the stature in the markets that has made its less orthodox actions throughout the financial crisis so successful in protecting the financial stability of the euro area.

I do not think it is an exaggeration to say that we could not have asked for more from our Central Bank during the crisis. It's also true that even if we had asked, it probably would only have inspired our very independent ECB to tell us off for interfering. So I think we should give the ECB a great deal of credit.

The second reason for my optimism is the economic side of EMU. I think you'll be hearing a lot about how the economic side of EMU is insufficient and has been part of the reason that the crisis has affected the euro area so severely. And I think much of what you hear will be right.

A one-size-fits-all monetary policy, along with the removal of exchange rate adjustments, places a huge burden on economic policy to manage adjustments between the national economies within EMU. And so far, as we have seen brutally demonstrated in recent weeks and months, our European economic policy framework and our national economic policy ambitions have simply not been up to the task.

This may not sound too optimistic. It is not easy to sound positive when you have spent a large amount of time organising a fund of over 100 billion euro to secure the viability of one Member State and establishing a further facility of up to 750 billion to make sure the rest of the eurozone is protected.

But I do see a cause for optimism – we got these things done; we responded when we really needed to respond, and the experience we have gone through has brought a very clear consensus that has been lacking before. There is now a sense of collective responsibility for and collective desire to tackle the failings of our economic policy coordination. We have strong political momentum in favour of fundamental changes to make the economic leg of EMU much more effective.

For the first decade of EMU, the weaknesses of the economic coordination framework were masked by a largely benign economic environment. That environment was especially deceptive in those Member States where there was room for wages to increase, particularly in light of the more accommodating financial environment of the single currency.

This enabled us to get away without making the hard choices we should have made to equip our economies for the competitive environment of the 21<sup>st</sup> century. Cheap money and easy growth were taken for granted, and very few of us had the courage to rein in overheated sectors of our economies, and to take unpopular decisions regarding long-term financing.

We didn't see the urgency of reforming labour markets, or of tackling the huge liabilities we were storing up in pay-as-you-go pensions and health care systems. And when trouble comes, it comes very quickly indeed, as we have learned.

So why do I remain positive? Well, I said a minute ago that very few of us took the courageous decisions necessary. But there were a few countries, some of them not too far from here, who did take those decisions. On budgetary policy, they did not take the easy approach of targeting a deficit just below 3%. They didn't even take the option of aiming for balanced budgets. They actually targeted significant surpluses, and they put those surpluses into specific funds to meet future liabilities in pensions and healthcare expenditures.

In short, they showed the way in long-term planning, with multi-annual budgetary plans and with the vision to look at the implications of their own demographic developments. Freed from the narrow vision of finding a way to borrow for today, they could instead focus on strategic plan for the future.

They imposed extraordinary discipline upon themselves, beyond anything that the EU as a whole was bold enough to envisage collectively. And they were able to do this because they had survived their own financial crisis, and out of the shock and hardship of that crisis, had managed to build a political consensus in favour of the measures necessary to prevent it happening again.

This does not mean that they are not hit by the current crisis, nor that they do not have further work to do to ensure they remain competitive in the changing global economy. But it does mean that they can take sensible strategic decisions, based on coherent analysis, rather than being driven by the day-to-day need to fend off disaster.

And the cause of my optimism is that, finally, we in the eurozone (and I hope in the EU as a whole) have come to the realization that it is no longer time to talk about “they” and “their economic policies” – to come out of the crisis, we need to address “us” and “our economic policies”. We need to emerge from our crisis as strongly as the Nordic area emerged from its crisis in the 90s, and we have to be as honest and realistic with ourselves as our Nordic friends in the EU have always been with themselves.

There are several steps to achieving this.

First, we need to acknowledge the realities of our economic and monetary union. This means that we do share a destiny in common, and that we do have responsibilities towards each other in the eurozone. We don't have to be identical – that would be extremely dull, a great shame and detrimental to our economic and cultural interests. But we do have to be cooperative, coherent, and honest with each other. Without this, there really is no basis for EMU.

The essential reality we need to address is the fact that a single monetary policy, with a single interest rate, is designed to address the aggregate position of the euro area. We all knew this coming in, and we should all be capable of calculating our relative weight in that aggregate and adjusting our expectations of what monetary policy will do for us accordingly.

Some have said that one-size-fits-all can never work, or that it can't work without fiscal federalism. But I would disagree with that, and disagree strongly. Many of our countries lived with currency arrangements very close to *de facto* monetary unions for a long time before the advent of the euro. And many of us now are benefiting from EMU rather than seeing it as a burden. We have known about the pressures for a long time, and we have known what economic policy measures we need to pursue to compensate for the lack of interest rate and exchange rate adjustments.

This leads me to the second step, and that is taking our responsibilities seriously. We need to take our responsibilities towards ourselves as Member States and our citizens seriously – we can not go on pretending that they can retire in their fifties with generous state pensions and first-rate, state-funded healthcare. We can not go on employing people for life, with guaranteed career advancement and annual pay adjustments, with bonuses in the form of thirteenth and even fourteenth month payments, and generous pension provisions. We have to be realistic about what that costs and about who is going to meet those costs.

We also need to take our responsibilities towards the other members of the euro area seriously. It is no longer acceptable to free ride on the fiscal responsibility and strict wage control of others. We should not be able to gain a short-term boost at the expense of our long term inflationary and competitiveness development. It does not serve our own countries well, and it does not serve the euro area well.

We have already embarked in the euro area on a review of competitiveness developments and imbalances in individual Member States in the Eurogroup. I fully intend to ensure that this is developed into a central exercise with a formal framework, akin to the surveillance of budgetary policies.

Coming back to what I was saying a minute ago about taking responsibility for your own problems, I can just say that Finland was the first volunteer to undergo such a detailed assessment, and it was its own harshest critic. Spain has also volunteered for the first round, which I take as a very positive signal, and we will be completing those reviews soon.

If we are going to get the economic balance right and cope with the lack of country-specific monetary policy instruments, we will need better economic policy engagement. Some will say we had a full ten years of the Lisbon agenda, and we have had the process of the annual Broad Economic Policy Guidelines to show the way. Some might add that we now have Europe 2020 to pick up where Lisbon left off. And some might say that our efforts under Lisbon produced a lot of fine words and not so much determined action.

I agree. But we now recognise that we are in a crisis. And we recognise that those who did do their homework under Lisbon are better placed to emerge strongly from the crisis. And that those that did not do their homework are under pressure, and are putting the entire eurozone under pressure. The only logical conclusion is that we need to develop a framework that ensures that everyone does their homework.

Formal competitiveness review must be one part of that framework. A determined commitment to the key policy changes that will limit the tensions within the euro area is essential. More broadly, a strong commitment to the Europe 2020 goals, and to policing efforts to meet them, will be indispensable.

It is a fact that in order to help each other, we need to be prepared to be stricter with each other, and more openly critical of each other. And in order for this approach to be effective and not to give way to damaging and unproductive arguing, we need a framework which sets the terms for the disagreements to be handled, and which provides for a procedure for reaching common views.

It will not be easy. But we have two strong and independent institutions in the Commission and the European Central Bank – they will lead the analysis. They will have a clear mandate from Member States to say what needs to be said. And with the experience of the crisis and of what we have had to do to avert an even graver outcome for the euro area, I think we as Member States will be prepared to follow through and tell each other very clearly what needs to be done.

A few of the concrete things that we will need to do, and very soon, will be:

First, to ensure that all the data we submit for budgetary analysis are reliable and on time. For too long, we have been working with figures that we could not guarantee were accurate, and which many suspected of being open to political interference. We need independent statistical offices providing objective and accurate data.

Second, we need to talk about our budgets in good time, in advance of final decisions. We need a sensible discussion up front, so that we have a clear view of what the overall fiscal position of the euro area is, and what the part of each Member State in that overall position is.

Fiscal policies have a very clear impact on monetary policies, and as we all have to live with one monetary policy, we all have a stake in ensuring that the overall fiscal policy makes sense.

I'm very clear as the Prime Minister of a Member State that national parliamentary procedures are paramount, but as President of the Eurogroup I'm equally clear that we need a debate in advance about key fiscal variables. This debate must leave scope for a change in national budgetary plans – otherwise its use is strictly limited to *ex post* critique, rather than useful *ex ante* discussion and advice.

Third, we need to be clear that the objective of our budgetary policy strategies should not just be surviving this year, or next, or until the next elections. And on this point, we need to recognise that it's always an election year for three or four eurozone Member States. What we really need are long-term strategies that ensure the sustainability of our public finances, that stabilise debt levels, that provide for future liabilities and take account of the fluctuations of the economic cycle. In short, we need to plan ahead responsibly.

So far, we have unfortunately demonstrated that we are not all capable of doing so. We need to reform the framework to help us to do this. That means better review of long-term debt-related budgetary issues at the EU level, and the incorporation of multi-annual budget objectives into national frameworks. We simply can't secure sustainability any other way.

This means that the focus of our review in the EU should not be the 3% deficit threshold. It should be also the debt level, and the structural deficit or surplus needed to ensure sustainability.

Fourthly, we need to be able to enforce our budgetary policy recommendations to our partners. So far, enforcement has, for a number of reasons, been weak. The "nuclear option" sanctions of the excessive deficit procedure were meant, to be effective without being used. Their use represents a failure for everyone, and doesn't necessarily lead to a more productive future.

So what we need are sanctions that look a bit more like diplomatic pressure and conventional forces, with a graduated application that tackles problems when they start rather than when they are already out of hand.

Fifth, we need a strong review of economic as well as budgetary policies, as I have already described. And we need that review to have formal procedures and binding requirements, to ensure that we all have the right incentives to take the hard decisions that have so far been avoided.

We will need to rebuild our capacity for economic growth, and we will have to do this without throwing money at the problem – quite the opposite.

If we have all these five elements, then I think it becomes much easier to agree on a sixth element, which we have already established on a temporary, emergency basis, but which we need to decide on as a permanent feature of our framework. That is a mechanism for dealing with sovereign debt crises within the euro area.

We have seen that, *in extremis*, there is solidarity at the heart of the euro area. We have also seen that there is some reluctance to support those who are perceived not to be playing their part in solving their own problems. We need to get the balance right.

I believe that we will be able to agree on a permanent crisis support mechanism that is linked to performance under the framework I have set out for budgetary and economic policies. The euro area has shown great solidarity. It will continue to do so. But solidarity goes both ways – it requires responsible behaviour to justify support in the event that things go wrong.

I also believe that a more comprehensive and coherent policy framework should encompass much better communication of what the euro is and what it is about. It is difficult for the euro area to assert itself on the international stage when people struggle to differentiate between the Members and the whole, and struggle to understand the institutional set-up.



The institutional framework is complex, of course, but the confusion could be reduced by an internal commitment to coherence, and by a uniform and unified external representation of the euro area. This is another point on which we will need to work.

If we do not get our house in order, we will continue to struggle. If we patch up our framework to see us through the next few months, hoping that the crisis will go away, we will fail. We will just postpone our problems in the same way that monetary union without accompanying economic reform postponed, and even aggravated, them.

So I am expecting to see, between now and the time the European Council President's Task Force on Economic Governance reports in October, a real shift in the level of cooperation and coordination. I expect to see a revolution in the governance of the euro area, with a much higher level of both individual and collective responsibility.

We will see much stronger budgetary coordination, and alongside it for the first time an effective and biting procedure for economic policy coordination. If we do not see these things, we will have failed – failed our citizens and failed in our commitment to build a strong and stable euro.

It is clear that many commentators think we will fail. But as I said at the outset, I am a firm believer in the European Union being at its best in times of crisis.

We will work our way through this crisis, and while the progress may at times appear painful and slow, we will emerge, I am convinced, stronger and better-equipped for future challenges. Nobody is taking the situation lightly. We are all working step-by-step to find a way through the difficulties we face.

Some of our solutions are short-term and ad hoc, but there is a current of serious reflection on the future of the entire single currency project running through everything we do. The level of engagement in that process, and the level of determination to make it succeed, leaves me, even in the seriousness of the current crisis, optimistic for our future.

Thank you.