

Commissioner Olli Rehn  
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## **Foundations for sustainable growth and job creation: safeguarding financial stability and reinforcing economic governance in Europe**

President, Honourable Members,

Ten days ago, the European Union took bold and necessary decisions to safeguard financial stability in Europe. It was a dual response to the pressing crisis, which had turned to a systemic challenge to the euro. It was a response that I would call a Consolidation Pact: first, we agreed on a European Financial Stability Mechanism that provides backstop for up to 500 billion euro; second, we agreed to accelerate fiscal consolidation in the those member states this is most needed now.

With these decisions Europe came up with a credible package that shows to our citizens, the markets and the wider world that we shall defend the euro, our common currency, whatever it takes.

We are not doing it for the sake of the mystical market forces, but for the sake of sustainable growth and job creation in Europe – by ensuring that the threats to financial stability will not kill the economic recovery that is now in progress, but still modest and fragile. That is our responsibility.

And we are delivering, in very concrete terms: yesterday, on behalf of the euro-area member states, we delivered 14.5 billion euro for Greece, which the IMF has complemented by 5.5 billion euro. We said we would be ready to meet Greece's need, and we delivered in time.

Beyond that, our Member States have understood the paramount importance of fiscal consolidation to ensure the sustainability of public finances and thus preconditions for sustainable economic growth.

Last week, Spain and Portugal presented significant new measures of fiscal consolidation, which clearly go into the right direction. These are important and difficult but necessary steps to reduce the public deficits in 2010 and 2011. We shall present a comprehensive assessment of the adequacy of these measures in the course of the next two weeks.

Let me underline that a faster reduction of the public deficit is an essential component of the financial stability package that was agreed on the 10<sup>th</sup> May. It is equally important that both countries adopt such structural reforms that will contribute to increase potential growth, especially reforms of the labour markets and pensions systems.

While an accelerated fiscal consolidation indeed is an immediate priority over Europe, at the same time we need to coordinate our economic and fiscal policies by applying differentiation among the member states. In other words, the efforts of fiscal consolidation need to be differentiated according to fiscal space and economic vulnerability. Countries with no or little fiscal space will need to frontload and accelerate measures, while others with better fiscal space should maintain their less restrictive fiscal policy stances, for the sake of growth and jobs in Europe.

But it would of course be a mistake to stop our efforts here. Let us recall that the first ten years of the euro have been a success story. But the crisis has shown that we need to acknowledge its systemic shortcomings: Peer pressure has lacked teeth. Good times were not used to reduce public debt. Macroeconomic imbalances were ignored.

This is why last week the Commission presented an ambitious set of proposals to reinforce economic governance in Europe. We want to strengthen preventive budgetary surveillance, address macro-economic imbalances and set-up a permanent and robust framework for crisis management. I count on the Parliament's support for these proposals. They are at heart of making Europe 2020 a success in the coming years.

Our proposals are based on two principles: First, prevention is always better than correction – not to speak of letting it escalate into a crisis. Second, stronger fiscal surveillance should be accompanied with broader macroeconomic surveillance, to go to the roots of sustainable growth.

Our proposals are made of three building blocks.

**First**, we must reinforce both the preventive and the corrective arms of the SGP. The **essential cornerstone** of reinforcing economic governance is to coordinate fiscal policy in advance, in order to ensure that national budgets are consistent with the jointly agreed European policies and obligations, so that they don't put at risk the stability of the euro-area as a whole and/or that of the other member states.

Let me be clear about one thing: This will not mean scrutinising national budgets budget-line by budget-line. Instead, it will mean analysing and peer reviewing the broad budgetary guidelines and fiscal balance, before the submission of the draft national budgets by the government, with the legal right to make recommendations and expect corrective action.

Some have criticised this as a breach of parliamentary sovereignty. I am myself a former member of a national and of the European Parliament, and I am fully aware of the sensitivities of parliamentary fiscal powers.

But everyone can see that this is not about breaching democracy, but ensuring that the member states respect those very same rules that they have themselves decided on – to practice what you preach!

We need to introduce a **truly European dimension** to economic policy making in Europe. It is not enough to look only afterwards into national decisions. In the EU, in particular in the EMU, we know only too well that national decisions have an impact far beyond national borders. There will have to be coordination at European level before those decisions.

**Second**, we must go beyond sheer budgetary surveillance, to broaden and deepen surveillance to address macroeconomic imbalances.

The divergences in competitiveness and the gap between the surplus and deficit countries of the euro area has widened in the past ten years. This has been a root cause of why the financial crisis hit the EU so hard. We should prevent and tackle emerging problems before they escalate.

Therefore, we propose to define indicators and a scoreboard, agree alert thresholds, and give recommendations and early warnings, if necessary. These indicators can include, e.g., the current account developments, productivity trends, unit labour costs, employment rate, etc.

It is self-evident that this does not mean to weaken export performance of any country. Instead, it aims at reinforcing export competitiveness, where needed, and domestic demand, where needed and possible. This is the best way of balancing economic growth in the Europe as a whole.

**Third**, we need to be very clear to whoever is watching the euro-area: we will never be defeated. To discourage anyone from even trying our

vigour, we need **a permanent and robust framework for crisis management** for the euro-area member states. The temporary mechanism established on 9 May is a bold first step to that direction. But for the medium-to-long term, the Commission will propose a more permanent mechanism, subject to strict policy conditionality, and drawing on the lessons of the recent experience.

Yes, we need to avoid moral hazard – that's why we must make the mechanism so unattractive that no one is voluntarily tempted to resort to this system. But the recent experience has shown that it is better to have a fire brigade ready for a possible bush fire than only start building it up when it has turned into a forest fire. It is better to be safe than sorry.

President, Honourable Members,

These Commission proposals pave the way for a quantum leap in the economic governance of Europe. But I want to also draw your attention to another, immensely important decision of the same day: to the Commission proposal for Estonia to become a member of the euro-area, on its own merits. This sends an important signal to all: the euro-area will stand pressure and sustainable economic and fiscal policies carry fruit.

All in all, the Commission's initiatives, once adopted, will lead to a substantial deepening of economic governance in Europe, and to a prudent widening of the euro-area.

Indeed, in the E.M.U, it is high time to fill the E with life!