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NOTE

from:	General Secretariat of the Council
to:	Delegations
Subject:	Summary record of the meeting of the European Parliament **Committee on Economic and Monetary Affairs (ECON)**, held in Brussels on 24 and 25 April 2013

The meeting was chaired by Ms McCarthy (S&D, UK), Mr Stolojan (EPP, RO), and Ms Bowles (ALDE, UK).

1. Adoption of the agenda

The agenda was adopted.

2. Chair's announcements

Ms Bowles (ALDE, UK) informed the committee that agreement had been reached on 22 April on the Mortgage Directive, in respect of all open issues but one which concerns the explanations to be provided by Member States about the application of the directive.

Ms Bowles also mentioned that during the second trilogue, on 23 April, good progress had been made on the Market Abuse Regulation.

3. Reconsultation of the Committee: Rule 70 of the Rules of Procedure

The committee agreed by a majority to table the two Single Supervisory Mechanism (SMM). both texts for vote in plenary.

4. Gender balance among non-executive directors of companies listed on stock exchanges

ECON/7/11273 2012/0299(COD)
Rapporteur for the opinion: Mr Olle Schmidt (ALDE)
Consideration of draft opinion

In his introductory remarks, Mr Schmidt (ALDE, DE), expressed mixed views on the Commission proposal. While he shared the general aim of the exercise, he regretted the lack of ambition in the methods proposed by the Commission. He explained that self-regulation had actually achieved a lot in Scandinavian countries and that gender imbalance was not just caused by business attitudes. He proposed an alternative European model comparable to that in Denmark. Amongst other things, he said that companies should set individual targets and have a gender policy in place to help women advance in their career. He suggested that sanctions should be applied to companies that had failed to meet their objectives. Furthermore, he argued in favour of target-based measures to encourage better gender balance at senior management level. He also mentioned that the ECB and the EU institutions needed to do more to bring gender perspectives to the fore He concluded by noting that a blocking minority of Member States made quotas a non-viable proposal.

In the ensuing discussion, all speakers agreed that efforts in the private sector should be matched by efforts in public, and in particular European, administration. Ms Wortmann Kool (EPP, DE), Ms Kleva Kekuš (S&D, SL), Ms Thyssen (EPP, NL), Ms McCarthy (S&D, UK) and Mr Ludvigsson (S&D, SE) supported the Commission's quota proposal. They argued that while quotas were not the only possible instrument of change, they were the most effective. Ms Wortmann Kool highlighted the importance of ensuring that women are provided with adequate development opportunities in the workplace. Ms McCarthy, on the other hand, took the view that voluntary action was significantly less efficient than legislative measures. Mr Fox (ECR, UK) dismissed the idea of EU-wide legislation to tackle an issue which, he argued, remained rooted in national culture.

Mr Giegold (Greens/EFA, DE) argued in favour of an approach that would encompass both binding rules and voluntary actions. He reminded participants that the Treaty was very clear on gender equality and that therefore there were good reasons for taking strong action. Ms Lulling (EPP, LU) suggested waiting for the ruling on the proposal's legal basis before moving forward, and expressed concern about the blanket approach taken by the Commission and the rapporteur which she felt did not reflect the diversity of the European business landscape. Moreover, she stressed that affirmative action could be taken on the basis of existing legislation.

In response, Mr Schmidt cautioned against the tendency to want to harmonize everything in Europe.

5. Union programme to support specific activities in the field of financial reporting and auditing for the period of 2014-2020

ECON/7/11560 2012/0364(COD)
Rapporteur: Mr Theodor Dumitru Stolojan (EPP)
Exchange of views with Philippe Maystadt, Special Adviser on enhancing the EU's role in promoting high quality accounting standards

In his opening remarks, Mr Maystadt explained that Commissioner Barnier had asked him to look at the current system for adopting international accounting standards in the EU with a view to enhancing the EU's role in advocating global high-quality accounting standards. Commissioner Barnier had also tasked him with evaluating the current governance structures of the EU bodies advising the Commission during the endorsement process, in particular the Accounting Regulatory Committee and the European Financial Reporting Advisory Group (EFRAG). He reminded participants that his mandate was in line with the Council recommendations which confirmed the EU's commitment to the International Financial Reporting Standards (IFRS). He stated that the Council had also raised questions about EFRAG's legitimacy and accountability, which would prompt him to ask whether cooperation among standard-setters and with EFRAG could be reinforced and if the views of national standard-setters could be better taken into account. He intended examining the preparatory phase leading up the adoption of new standards by the International Accounting Standard Board (IASB), the endorsement process in the EU and the potential impact following the implementation phase. He assured participants that he would seek to ensure that the public interest was properly taken into account when formulating common technical positions towards a draft standard, and to guarantee that the common European position best reflected all relevant views expressed by the Member States (MS) and best influenced the IASB.

Finally, he told the committee that he would present his final recommendations to Commissioner Barnier and to Finance Ministers at the ECOFIN Council meeting of November 2013.

In the debate that followed, the committee welcomed Mr Maystadt's appointment. Some considered the current situation far more complex and less benign than a decade ago. All speakers agreed that there was the need for common international financial reporting standards, though some, including Ms Berès (S&D, FR) said they would be difficult to achieve. Mr Klinz (ALDE, DE) suggested that in the field of global accounting rules, ambition and reality collide, and Mr Kamall (ECR, UK) said he remained convinced of the impossibility of establishing convergence between the European and American models. This led him to ask which model should prevail. Ms Thyssen (EPP, NL) pointed out that the adoption of an external system by the EU would amount to wholesale arrangements concluded by private bodies with no democratic legitimacy, following very little political debate. Meanwhile, Ms Berès viewed the current situation as an opportunity for the EU to regain some control over the setting of accounting standards. She mentioned that the EU would have to steer clear of any framework that ran contrary to its legal system. Mr Kamall stressed the need for the IASB to comply with European law. Ms Thyseen asked if the IFRS defended European interests. Some MEPs, including Mr Giegold (Greens/EFA, DE) called on the international standard-setting bodies to promote European values. He also asserted that accounting standards should respect the principles of sustainability and fair value whereas Mr Sánchez Presedo (S&D, ES) called for more transparency and fewer conflicts of interest in accounting. Several speakers questioned the role of EFRAG. Mr Giegold stressed EFRAG's lack of transparency with regard to the European Parliament (EP). Mr Kamall suggested assessing EFRAG's performance whereas Ms Berès thought that EFRAG seemed to be advocating the International Accounting Standards Board's interests in the EU instead of defending the EU interests in the IASB. As a result, Mr El Khadroui questioned whether the EU should continue to fund EFRAG. Many MEPs also raised the issue of representativeness and democratic legitimacy. Mr Giegold wondered about stakeholder participation relative to their degree of representation in the system. Furthermore, he asserted that European members in the international standard setting bodies should be democratically elected. Ms Thyssen considered that SMEs ought to be adequately represented.

In response, Mr Maystadt added that the mandate and make-up of EFRAG needed to be clarified to make sure that SMEs were adequately represented. He expressed surprise at the extent to which the EU had delegated powers to a private institution He promised to take on board remarks about democratic values and agreed with suggestions on the need to avoid conflicts of interests.

4. Insurance mediation (recast)

ECON/7/10012 2012/0175(COD)
Rapporteur: Mr Werner Langen (EPP)
Consideration of amendments

Mr Langen (EPP, DE), noted that under the Commission proposal, the scope of the directive would include intermediaries and others with limited derogations (e.g. for car hire firms and travel firms in the case of premiums under EUR 600). He remained sceptical about the possibility of finding an accurate method of calculation. He argued that alongside third-party liability cover should not be extended further and that the Commission should reconsider the issue of solvency. In the light of his insurance experience in France and Spain, Mr Langen thought the publication of insurance conditions was vital. He said it was generally agreed that the definition of insurance intermediary extended to websites. With regard to professional and organisational requirements, he explained that the Commission wanted intermediaries to have proven qualifications and continue their training, and was looking at delegated powers. He was not convinced that this should be dealt with at European level. He noted that remuneration and publication remained controversial. He was convinced that instead of being dealt with by delegated act, this needed to be set out in the directive. He was concerned that a desire for greater transparency could lead to competitive distortion and underlined the importance of that data protection rules. He suggested taking amendment 461 as a basis for compromise and examining Article18 on standardised product information and standardised perspectives. He also referred to the need to distinguish between product information for insurance and insurance investments. He felt that liability should remain, not with the intermediary, but with the issuer of the insurance. Concerning insurance investments, he stressed the need to distinguish between traditional and alternative investment products, as the latter cannot be traded at all times. While acknowledging that independent advice was vital, he said that the practicalities of ensuring a range of product choice were tricky, given the diversity of insurance intermediaries on the market. He rejected the idea of banning all forms of commission, and was optimistic that agreement could be reached on setting levels of remuneration for certain insurance investments. He thought linked products could also be problematic because banning them could leave consumers unprotected. Lastly, he disagreed with the proposed five-yearly review.

In the discussion that followed, Mr Schmidt (ALDE, BE) stressed the need for strong protection of investors.

Mr Schmidt supported the idea of expanding the scope to all distribution channels, but not the Commission's proposal to extend the scope to firms handling claims on behalf of insurance undertakings such as loss adjusters. He expressed concern at the proposed exclusion of the concept of independent advice, introduced in the Markets in Financial Instruments Directive (MiFID). He suggested that independent advice could be offered for a fee or alternatively that full advance disclosure of commission could be provided for. In his opinion, non-life insurance products should be distinguished from investment products. For the former, he suggested a transition period of three years within which intermediaries would have to adapt their business model, and following which consumers would be entitled to receive information upon request. He supported that approach agreed in MiFID which saw sale standards applied to insurance investments. Finally, he stressed that all investment products must receive the same treatment.

Mr Sánchez Presedo (S&D, ES), welcomed the Commission proposal. He argued for the need to maintain minimum coverage and market neutrality. He had no objections to linked products, provided there was sufficient transparency for the consumer. He thought that remuneration was important to prevent conflicts of interest, and that the amendments needed to be more ambitious. He stressed the fact that the advice should only be given by a professional, who would give prior information about what it would cost. He recommended maintaining a certain level of consistency across products and reminded colleagues that a similar issue had arisen with the Mortgages Directive.

Mr Gielgold, (Greens/EFA, DE) stressed the need to ensure consistency. Although he acknowledged that some areas of the insurance market were not cross-border in nature, and had nothing to do with MiFID, products with an investment component should be subject to the same set of rules.

Mr Fox (ECR, UK) supported the rapporteur's opinion. He argued that for tied products, the approach should mirror that taken in MiFID so that consumers would be informed whenever products could be bought separately. He opposed the amendments suggesting that advice should be mandatory and rejected calls for standardised key information documents for insurance products, for which he claimed there was no consumer demand. Regarding remuneration, he noted that too much information risked being misleading, although such information should be available to consumers who wished to have it.

Mr Gauzès (EPP, FR) supported the rapporteur’s approach of avoiding overregulation and shared Mr Giegold’s concern for consistency. He also noted that an excess of information was misinformation, but was unconvinced about the idea of selling insurance products without information.

Mr Gauzès suggested using the approach adopted in MiFID where a distinction was made between independent advice and other advice by salesmen. Finally, Ms Lulling (EPP, LU) supported Mr Gauzès' remarks and stressed the different types and concerns of intermediaries across Europe. She argued that all requirements had to be applied equally across all levels of insurance product distribution and that action should be taken at European level only when an issue cannot be decided at national level. She argued that disclosure of costs was going to be counterproductive and that excessive red tape and transparency requirements should be avoided.

5. Key information documents for investment products

ECON/7/10045 2012/0169(COD)
Rapporteur: Ms Pervenche Berès (S&D)
Consideration of amendments

In her opening address, Ms Berès (S&D, FR) pointed to the link between her report and Mr Langen's (EPP, DE) report on insurance mediation and called for consistency between them. She disagreed with proposals to exclude insurance companies from her report and proposed sticking to the Commission text and to the term 'investment product'. She stressed that there should be a special focus on consumers and small investors who ought to be better protected in order to promote long-term savings and the real economy. She listed four issues of contention: the scope of the directive, information to investors, risk indicators and the competences of the European Supervisory Agencies (ESAs). She explained that the scope of the text which included insurance products, Undertakings for Collective Investment in Transferable Securities (UCITS), did not cover shares, bonds, savings and pension schemes. For this reason, she felt the scope was too narrow and suggested extending it. She therefore opposed the 44 amendments tabled by Mr Kamall (ECR, UK) which recommended replacing the term 'investment products' by 'structured products'. In her opinion, all products including the simplest ones should be included to ensure comparability and to avoid distortions. She explained that some MEPs had proposed changing the structure of the key information document (KID) from questions into titles but that she preferred to keep the question structure proposed by the Commission. She also indicated her wish to include information on the social and environmental impact of the products and pointed out that most political groups opposed performance scenarios. Finally, she recommended creating an annex with information on costs, distribution and taxes.

In the ensuing debate most speakers supported the rapporteur.

Nevertheless some differences remained on the scope, content and structure of the KID. Ms Pietikaïnen (EPP, FI) agreed with calls to ensure consistency between the different ongoing pieces of legislation in the interests of transparency and comparability among products.
Similarly, Mr Giegold (Greens/EFA, DE) favoured a unified approach and one general piece of information. However, Ms Pietikaïnen thought the scope of the directive should not include savings accounts and government bonds. Ms Bowles (ALDE, UK) viewed the KID as a comparison tool and thought that the issue of cross-reference should be addressed in the KID and insurance mediation recast. She was in favour of including corporate bonds and structured deposits in the scope of the text but felt some products could be excluded because they would have their own separate document. Mr Giegold informed the meeting that his group wanted to include only voluntary pensions. He added that government bonds were not risk-free and that, as witnessed in Cyprus, neither were deposits. Mr Kamall (ECR, UK) wanted to have bonds dealt with elsewhere and suggested a step-by-step approach, starting with structured products. Mr Händel (GUE/NGL, DE) suggested extending the scope even further to include capital market pension schemes.
Ms Pietikaïnen considered that issuers and intermediaries should both be responsible for drawing up the KID but that there should be a differentiation between them. She also believed that the cost structure should be included. Ms Bowles said she preferred signposts to annexes. She also noted that the competent authorities had to carry out a significant number of spot checks. She expressed concerns about waivers which could result in miss-selling and urged caution on waivers for more-sophisticated retail investment products. Mr Giegold called for a unified approach to disclosure and suggested a roadmap as a means of achieving this. He stressed that information on risks should be clear and simple. He believed the KID should make investment in sustainability more attractive and therefore proposed a common European standard regarding the sustainability criteria. Mr Kamall favoured enhanced transparency and acknowledged that complex products shouldn't be made more attractive.

6. European Central Bank Annual Report for 2012

ECON/7/12316
Rapporteur: Mr Gianni Pittella (S&D)
Exchange of views following the presentation of the Annual Report by ECB Vice-President, Vitor Constâncio

In his opening remarks, Mr Constâncio read the speech set out in Annex I.

In the debate that followed, several MEPs, including Ms Gáll-Pelcz (EPP, HU), congratulated the European Central Bank (ECB) for its pro-active approach. MEPs queried Mr Constâncio on a number of subjects, including the soundness of the adjustment programmes (Mr Feio -EPP, PT-) and the ECB's position regarding the ongoing austerity measures (Ms Ferreira -S&D, PT-), the distribution of the ECB's profits (Ms Matias -GUE/NGL, PT- and Mr Hoang Ngoc -S&D, FR-), monetary policy transmission (Mr Pitella -S&D, IT-), the management of the financial crisis in Cyprus (Ms Podimata -S&D, EL-), differences in interest rates across the EU (Ms Goulard -ALDE, FR-), the pace and modalities of the banking union (Ms Wortmann-Kool -EPP, NL-), Eurobonds (Mr Mitchell -EPP, IE-), and democratic accountability (Mr Gauzès -EPP, FR-).

In response to these queries, Mr Constâncio noted that the Outright Monetary Transaction (OMT) programme which aimed at safeguarding an appropriate monetary policy transmission had impacted on interest rates across the euro area and also depended on the yields paid by the state. He outlined the measures taken by the ECB to boost lending to the real economy, including loosening collateral rules to encourage banks to use pooled small business loans as collateral in ECB operations. Nevertheless, he admitted that the transmission mechanism continued to be impaired because of banks and 'sovereigns'. In his opinion, the lack of lending by banks to the real economy stemmed mostly from a lack of demand. He explained that the ECB remained committed to correcting the monetary transmission mechanism, stressing that the ECB could provide liquidity but could not force banks to lend. He also mentioned that one of the objectives of the policies pursued by the ECB was to create conditions for countries under stress to re-enter markets. He acknowledged some flexibility regarding the pace of the adjustment programmes but rejected any shift in the direction and objectives. He mentioned that stressed countries had achieved considerable progress in their adjustment programmes, which in turn had led to lower interest rates, and that the ECB's interest rates on sovereign bonds were lower than those of the markets. He signaled as well that the markets had judged the ECB's backstop credible and that the adjustment programmes had already been revised upwards and that more time had been granted to Portugal and Ireland. Moreover, he mentioned that it was up to the Commission to decide on the revision of the adjustment programmes. He explained that the ECB could not distribute directly part of its profits on the Securities Market Programme (SMP) to Greece because it would go against the treaties, underscoring that Member States could do so. He also noted that the ECB's balance sheet was prepared to face problems regarding toxic collateral.

Mr Constâncio held that the International Monetary Fund (IMF) had not changed its position on austerity and claimed that the ECB did not have a formal position on Eurobonds, which in his opinion could only be envisaged once a fiscal union was in place. He mentioned that the ECB was in favour of bringing forward the date of entry into force of the banking union (2015 instead of 2018) and supported democratic scrutiny and accountability. Finally, he considered the case of Cyprus to be unique and stressed that the ECB stood ready to act on bad economic data.

****** Voting time ******

9. Annual Tax report: how to free the EU potential for economic growth

ECON/7/11579 2013/2025(INI)
Rapporteur: Ms Ildikó Gáll-Pelcz (EPP)
Adoption of draft report

The draft report was approved, with 37 votes in favour, 1 against and 1 abstention.

10. Fight against Tax Fraud, Tax Evasion and Tax Havens

ECON/7/11580 2013/2060(INI)
Rapporteur: Ms Mojca Kleva Kekuš (S&D)
Adoption of draft report

The draft report was approved, with 29 votes in favour, 1 against and 2 abstentions.

****** End of vote ******

11. Economic Dialogue and exchange of views on macro-economic imbalances with Olli Rehn, Vice-President of the European Commission and Commissioner for Economic and Monetary Affairs and the Euro.

ECON/7/00023

In his opening address, Vice-President Rehn read the speech set out in <u>Annex II.</u>

<u>MEPs</u> across political groups criticised the Commission on the pace and policy mix of fiscal consolidation, although for different reasons. On behalf of political groups, Mr Gauzès (EPP, FR) noted that either the Commission had chosen the right recipe, and then it had to be pursued, or it had chosen the wrong one, and that meant it had to be stopped. He considered that slowing down the process was not the right answer. He referred to a letter by the German Finance Minister, Mr Schaeuble, and criticised the policy followed by the French government.

Ms Ferreira (S&D, PT) considered that the policy mix included in the recommendations of the troika had blatantly failed, as the figures showed, and that this austerity policy ought to be fully reviewed before it was too late. Mr Klinz (ALDE, DE) expressed concerns at the lack of attention paid to implicit debt, i.e. pension and social schemes and private indebtedness.
Ms Swinburne, ECR, UK claimed that the financial sector was still a threat to the real economy and that the scoreboard should include an indicator on the financial sector's liability rate. Mr Lamberts (Greens/EFA, BE) mentioned that although he was a firm advocate of low public debt levels and sound public finances, the Commission recipe of fiscal consolidation was a complete failure even by the Commission's own standards. He noted that poverty, which was rising in the programme countries, was also a component of national debt. Mr Chountis (GUE/NGL, EL) echoed previous colleagues and sharply criticised what he described as the sometimes irrational behaviour of the troika, notably on the issue of the merger of the two Greek banks Eurobank and Ethniki. Mr Terho (EFD, FI) stressed that the only result was more red tape and regulation and that that the Stability and Growth Pact (SGP) was not followed properly. Individual MEPs also called for more transparency and accountability in the decision-making process of the Eurogroup and Troika decisions. Ms Wortman-Kool (EPP, NL) believed that high taxes and slow structural reforms might explain the poor economic performance of certain countries. Mr Bullmann (S&D, DE) considered the Youth Guarantee scheme insufficient to tackle rising unemployment.

In response to criticism by some MEPs of the lack of specific responses to certain questions, the chair Ms Bowles (ALDE, UK) asked the Commissioner to provide his answers in writing. She also proposed designing a mechanism to address the Troika's decision-making process, which she considered opaque.

Commissioner Rehn, in response to criticism of the fiscal consolidation policy mix, agreed on the need to ensure that the process was growth-friendly and socially equitable, which he admitted was not easy to achieve. In response to criticism of the decision-making process on euro area issues, he welcomed the chance to discuss on 8 May both the Eurogroup and the Troika decision-making processes. He underscored that the Troika decisions required the unanimity of twenty stakeholders (the 17 Member States representatives plus the Commission, the European Central Bank and the International Monetary Fund) and that changing the policy mix for countries under adjustment programmes required more money from the 'creditor Member States', which in turn required the consent of 14 national Parliaments. He stated that this process made it very difficult to reach decisions, which had resulted in decisions which were not perfect.

Mr Rehn mentioned the reform of the SGP, which he considered would help prevent future crises similar to the one that had occurred in 2008. He acknowledged the need to strengthen the social dimension of Economic and Monetary Union (EMU) and called for active labour market policies. He concluded by saying that an improved decision-making process would require 'more' community method.
Ms Bowles asked the Commissioner to refer to 'guaranteeing Member States' and not 'creditor Member States', to avoid any confusion in the minds of EU citizens that some countries of the EU were paying for the others, which was not the case, to which the Commissioner responded that it was indeed more correct to refer to Member States providing credit backed by guarantees.

12. Date of next meeting

The next meeting will be held in Brussels on 7 May 2013.

ANNEX I

Speech by Mr Vitor Constâncio, Vice-President of the European Central Bank

Madam Chair,

Honourable members of the Committee on Economic and Monetary Affairs,

It is a great pleasure to present to you the European Central Bank's Annual Report for 2012. The ECB has always stressed that its independence must be accompanied by the highest standards of accountability. The Annual Report is central to discharging this obligation.

In my introductory remarks, I will first give an overview of the economic and monetary developments in 2012. I will then set out our assessment of economic policies and governance. Finally, I would like to make some comments on future steps towards establishing a banking union.

1. Economic and monetary developments in 2012

Last year we were faced with a very challenging environment for monetary policy in the euro area. The sovereign debt crisis kept financial market stress high.

This confidence crisis has adversely affected growth and employment. Following two years of growth, GDP declined by 0.6% in 2012. Private consumption declined and investment faltered. Unemployment increased to unprecedented levels.

In this context, monetary and loan dynamics have been subdued. M3 growth strengthened moderately to 3.0% in 2012. But it essentially de-linked from credit creation, which instead became increasingly weak, with annual loan growth to the private sector turning negative over the course of the year to stand at -0.2% in December.

Annual HICP inflation reached an average of 2.5% in 2012. Inflation developments have been driven by high energy prices and increases in indirect taxes – which have been one element of well needed fiscal consolidation plans As we had forecast consistently throughout 2012, inflation rates have since declined rapidly standing at 1.7% in March this year.

The Governing Council remains strongly committed to its price stability mandate. Long-term inflation expectations have remained firmly anchored in line with price stability. Over the course of 2012 decisive measures were taken to support the transmission of the historically low key interest rates to the real economy. The three-year LTROs launched at the turn of the year have prevented that funding stress in interbank money markets led to a disorderly unwinding of bank balance sheets, which could have had serious consequences for price stability.

Towards the middle of 2012 unfounded fears of the reversibility of the euro led to a sharp increase in sovereign bond and bank lending rates in some countries.

In order to safeguard the singleness of monetary policy and ensure a smoother transmission of interest rates to the real economy, the Governing Council announced in August its readiness to undertake Outright Monetary Transactions (OMTs) in secondary markets for sovereign bonds.
The announcement of OMTs has proven to be an effective backstop against unfounded fears of reversibility. However, the transmission channel cannot be fully repaired if governments do not address the root causes of the crisis; this includes ensuring sustainable public debt levels, improving competitiveness, strengthening bank resilience and further improving the institutional setting of EMU.

2. Economic policies and EMU governance

The financial and sovereign debt crises left significant scars on public finances in the euro area. The government debt ratio increased by around 25 percentage points between 2007 and 2012. This reflected the workings of automatic fiscal stabilisers and discretionary expansionary measures to sustain incomes in times of falling economic activity, the sizeable public support to the banking sector, and, in some cases, the continuation of unhealthy fiscal trends.
Since 2010 a number of euro area governments have embarked on a determined consolidation path. As a result, government deficit ratios declined significantly from their peak levels. In 2012, the euro area government deficit-to-GDP ratio was about 3 percentage points lower than the deficit recorded in 2009.
Fiscal adjustment has been particularly strong in countries under market pressure. In Greece, for example, the structural primary balance is estimated to have improved by more than 14 percentage points of GDP between 2009 and 2012. The improvement was 5.7 percentage points for Portugal, 4.3 for Ireland, 3.9 for Spain and 3.6 for Italy. Past and current consolidation efforts are gradually bearing fruit. Economic adjustment, both internal and external, has been significant, has implied high costs in terms of unemployment and should not put into risk of unravelling now. This will allow debt ratios to stabilise and subsequently to decline to safe levels. In order to generate growth and reduce unemployment, continued efforts to consolidate public finances should be accompanied by determined structural reforms, thereby promoting a mutually reinforcing process between restored fiscal sustainability, financial market access and future economic growth prospects.
The structural reforms should be ambitious, broad-ranging and with long-lasting effects. They should address product markets, network industries, labour markets, and the modernisation of public administration. To support employment, wage-setting should become flexible and aligned with productivity. These reforms will help to regain competitiveness, increase employment, set the foundations for sustainable growth and support the return of confidence.

It is worth noting that several stressed countries already did significant reforms which are reflected in the competitiveness gains since 2008 in terms of relative unit labour costs (UCLs). In fact, since then and in relation to other Euro Area members, Ireland reduced its unit labour costs by 19.4%, Spain by 9.5%, Greece by 8.9% Portugal by 6.6%and Italy by just 0.1%. The reductions achieved against their more significant 36 trading partners were even higher and, more importantly, the gains since 2008 sizably reduced the cumulative evolution of their ULCs since 1999. The significant losses of competitiveness from the inception of the euro and the beginning of the crisis in 2008 have been meanwhile corrected. In fact, relatively to the other Euro Area members from 1999 to the end of last year Greece reduced its ULCs by 5.8% and Portugal by 2.4% whereas Spain increased theirs by only 2.9% and Ireland by 1.6%.

These improvements in competitiveness were also reflected in significant reductions of the external accounts of all the stressed countries. The latest Commission economic forecast indicates that for 2013 all stressed countries will have an external surplus with the exception of Greece with a deficit 2% of GDP well below previous results.

The adjustment efforts of the countries under market stress have been positive and certainly have also contributed to the improved financial market conditions.

Looking back at 2012, reforms at the European level implied that significant progress has been made in putting in place the necessary building blocks for a deeper and more stable EMU. Europe's leaders recognised the need to complement EMU with a banking union, a fiscal union, a genuine economic union and eventually a deeper political union. We now have an ambitious agenda and a clear long term vision. The progress towards sound public finances has been underpinned by institutional reform. New rules were applied to strengthen oversight of budgets and to monitor emerging macroeconomic imbalances more effectively. The signature of the fiscal compact was a significant milestone in this regard.

Looking ahead we need to remain ambitious, with the ultimate aim to secure stability and prosperity for the euro area. This year should be aimed toward putting these decisions into practice by focusing on their proper implementation.

3. Completing banking union

I would now like to make some remarks on further steps towards establishing a banking union. The recent agreement in the trilogue on the single supervisory mechanism (SSM) represents a very important step. It is of crucial importance for the efficient functioning of the euro area and represents a major step forward in European integration. The necessary preparations for the SSM are underway at the ECB.

However, key organisational decisions can only be taken once the legal text has entered into force and the Supervisory Board has been set-up. Therefore the timely adoption of the Regulation by early summer is crucial.

We look forward to constructive discussions with the European Parliament on the agreement covering the modalities of accountability and confidentiality on supervisory matters. We are confident we will be able to strike the right balance between thorough democratic accountability, confidentiality, operational effectiveness and the respect of the ECB's independence.

Another priority is the establishment of a single resolution mechanism. This is a necessary complement to the SSM and fundamental to the creation of a banking union. I see three key features of a single resolution mechanism which I want to emphasise today: a set of instruments, an authority and a fund.

First, the single resolution mechanism requires a comprehensive set of enforceable resolution tools and powers. The Bank Recovery and Resolution Directive provides a harmonised resolution framework for Europe and a clear tool-kit of powers and instruments in all Member States. It should include provisions on bail-in and introduce depositor preference. This will contribute to predictability, avoid disruption to essential banking services and shield taxpayers from excessive exposure. The urgent adoption and implementation of this Directive is therefore of paramount importance.

Second, the single resolution mechanism requires a strong authority at its centre. Mere coordination between national authorities is not sufficient for cross-border resolution in crises. This single resolution authority should have independent decision-making powers that would enable prompt and decisive action. It should ensure that we re-shift the balance between bail-outs and bail-ins, where the private sector is held responsible for its risk-taking decisions. Those that benefit from the gains should also pay for the losses. The single resolution authority should ensure a resolution strategy that takes account of all relevant factors, notably financial stability, the impact on the real economy and a least cost principle for the taxpayer.

To do this, the single resolution authority should ensure costs are first borne by shareholders and creditors. However this may not be sufficient, therefore the single resolution authority should have a privately-funded European resolution fund at its disposal. Only then, and as a last resort, should it have access to a temporary and fiscally neutral public backstop, the contributions to which should be paid by the private sector either via *ex post* levies or, more normally, as a result of the reprivatisation of the intermediary institutions (e.g. bridge banks) or other good assets resulting from the resolution process.

Progress in these elements of a future banking union is very important in the present economic environment of low growth. Part of the European problem has to do with the situation of the banking sector: pressed for capital, intending to deleverage and risk averse in managing credit risk. Consequently, credit is being contained although it is virtually impossible to disentangle the contribution of supply restrictions versus weak demand in explaining the average decline of credit to the economy.

In the markets there is the suspicion that banks' balance-sheets need more repair with full recognition of potential losses and that is also affecting the lending behaviour of banks. No one has provided clear evidence that this is true and that is why the balance-sheet assessment that the SSM has to conduct before actually starting supervision is so important to re-establish market confidence in our banks to reduce their funding costs.

Therefore, the establishment of the SSM, the possible use of direct European recapitalisation and the creation of a single resolution mechanism will decisively contribute to the desirable separation of banks and sovereigns. To regain market confidence, restoring full banking sector health must be a priority in order to create improved growth prospects. This is why the banking union project is crucial at this particular moment.

Economic growth in Europe is now essential to complete the adjustment and the rebalancing that have been going on. Therefore, it is of paramount importance that the momentum is maintained towards implementing structural reforms at national level and towards building a stronger Economic and Monetary Union through European institutional reforms. I trust that the European Parliament will continue to play an active and positive role in this process.

I thank you for your attention and stand at your disposal for questions.

ANNEX II

Speech by Mr Olli Rehn, Vice-President of the European Commission and member of the Commission responsible for Economic and Monetary Affairs and the Euro

Dear Chairwoman, dear Sharon, Honourable Members,

I am glad to be back here today for our economic dialogue to discuss macro-economic imbalances in the EU and next steps of rebuilding the EMU with you.

In my opening remarks, I will focus on the in-depth reviews the Commission presented two weeks ago, and the Communications on the coordination of major economic reforms and their financial support.

Let me begin with the in-depth reviews and macroeconomic imbalances procedure, which are essential elements of our reinforced economic governance. But I want to focus less on procedure and more on policy. The European Parliament is a political institution and macroeconomic imbalances call for a political debate on policy orientations.

On April 10, the Commission presented In-Depth Reviews for 13 member states. While the challenges that are analysed and discussed in the IDRs tend to differ from country to country, some policy issues are common to several countries. These are:

1. External adjustment, both of the current account and of the trade balance, is proceeding, but external financial liabilities remain a risk for several countries.
2. Both structural and cost competitiveness remain crucial concerns in a number of economies.
3. Deleveraging is moving on in the private sector, but debt levels remain high. This translates into low consumption and investment, which weighs negatively on growth.
4. Housing markets are adjusting, but there is more to go still.

Our conclusion is that there are macroeconomic imbalances in all Member States for which IDRs were prepared, but their nature and gravity differ. Each of them requires policy action and monitoring.

For Spain and Slovenia, we consider that the imbalances are excessive.

In Slovenia, which is in a still manageable economic situation, excessive macroeconomic imbalances have been building up. In a context of negative economic trends, the risks for financial stability that stem from corporate indebtedness and deleveraging are substantial. These risks are compounded by limited adjustment capacity in labour and capital markets and in an economic structure dominated by state-ownership.

In Spain, despite significant progress in 2012, there are still excessive macroeconomic imbalances. Very high domestic and external debt continues to pose risks for growth and financial stability.

While there have been improvements in competitiveness and visible adjustments of flows, notably the current account deficit, challenges remain.
Very high unemployment and excessively tight financing conditions have exposed the vulnerabilities represented by those imbalances.
The Commission works in partnership with the Slovenian and Spanish governments, as well as with other governments. We want to support these countries in their reform efforts.
In the case of Slovenia, in order to reverse the negative trend, it should complete the reforms it has started and include comprehensive and concrete policy measures in its forthcoming National Reform Programme and Stability Programme.
In the same vein, Spain should maintain the reform momentum by including comprehensive and concrete policy measures in its programmes.

Against this background, the Commission will now closely examine the forthcoming National Reform Programmes and Stability Programmes of all countries. Following that, our policy advice will be integrated in the package of country-specific recommendations in the end of May. This package will also cover the Excessive Deficit Procedure.

Honourable Members,
Talking about the EDPs and fiscal policy, let me refer to the EU's common economic strategy to promote sustainable economic growth and job creation and to contain the increase of debt. To achieve these twin goals, we have encouraged the balancing of public finances with a consistent fiscal policy over the medium term. That was the rationale to extend the EDP deadlines for Spain, Portugal and Greece last year.
In line with this policy, the pace of fiscal consolidation is now slowing down in Europe. This year, the structural fiscal effort will be ¾ of a percentage point of GDP in the euro area – half of last year’s figure of 1.5 percentage points. The decisions leading to this reduction were made in 2012, in line with the Commission’s recommendations of last spring. By comparison, the United States is reducing its deficit by 1.75 percentage points this year, proportionally twice as much as in Europe.
What has enabled this slower adjustment? This slowing down of the pace of fiscal consolidation has been made possible by three factors:
first, by the increased credibility of fiscal policy which the euro area member states have achieved since 2011;

second, by the decisive action the ECB has taken to stabilise the markets; and
third, by the reform of EU economic governance, which provides an effective framework for a differentiated fiscal adjustment and the advancement of structural reforms.
Thanks to these factors, we have the room to make fiscal policy with a more medium-term view. This was not possible in 2010-2011, when several euro area countries were in danger of becoming insolvent or of falling into to the whirlpool of prohibitively high interest rates. At that time, many member states had to restore their policy credibility by difficult decisions to bring their public finances onto a sustainable path.
Against the backdrop of the current economic outlook and the results of the IDRs, the case for a timely pursuit of necessary structural reforms and for rebuilding and deepening the EMU is evident. To this end, the Commission presented in March two communications: one on the ex- ante coordination of major economic policy reforms, and the other on a Convergence and Competitiveness Instrument.
Ex-ante coordination implies that plans for the most important economic policy reforms are assessed and discussed at EU-level before final decisions are taken at the national level.
The Convergence and Competitiveness Instrument would include contractual arrangement to enhance national ownership of reforms and the possibility of financial support for the implementation of the reform. For instance, a Member State would undertake a commitment to implement a difficult pension reform in a contractual arrangement and may receive support for a life-long learning programme.
Based on the feedback on the two communications, the Commission will put forward the necessary proposals in the course of 2013.
A final word on the lending for growth. The excessively tight financing conditions are at the moment the biggest obstacle to the revival of growth, especially in southern Europe. Today's liquidity trap is in fact a financing trap.

All efforts by all EU institutions and member states should therefore be made to address this urgent priority, so that exporting and growth-seeking businesses can get the financing they need in order to support their growth and job creation.

Thank you for your attention, and I am looking forward to your feedback and suggestions.