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**CLOSING ADDRESS
for Marco Buti
EU-Russia Macroeconomic and
Financial Issues Dialogue
Brussels, 13 October 2009**

Closing address

Dear Mr Shatalov, Mr Klepach, Mr Ulyukaev, Ladies and Gentlemen,

- We have now come to the end of a very fruitful and enlightening day of discussions. As a reward for that effort, I do hope you all enjoy not only the wonderful food and wines that will be shortly served to us, but also the impressive views of Brussels that we have here from the "Grand Salle a Manger" of the Berlaymont.
- Nevertheless, before that, I would like first to make some points about the current status of the EU's economy. The EU economy seems to be at a turning point. Signs of improvement in the economic situation have become increasingly apparent since the start of the autumn and fears of a prolonged, deep recession are fading away. In particular, important policy interventions have succeeded in achieving stabilisation in the financial system and in providing support to economic activity.
- Financial market situation has been globally improving in September with further encouraging macroeconomic data and abundant liquidity within the financial system.
- On the positive side, the persisting risk appetite has not affected government bond yields which remained broadly at low levels. Subdued inflation and regular purchases of government bonds by commercial banks contributed to

keeping financing costs low in spite of record breaking debt sales.

- Several financial indicators continued to improve in September and have now reached pre-crisis levels: the interbank offered rates continued to ease, the benchmark government bond yields declined further and sovereign spreads as well as corporate spreads narrowed in the euro area and in the EU. Meanwhile stock markets continued to improve.
- However, the vast amount of money provided by central banks has not yet had a measurable impact on lending to the broader economy. Credit to the euro area private sector continued to slow down in spite of slightly lower interest rates.
- The recent recovery in financial markets is backed by positive economic and financial news. However, markets appear to price in a sustained economic recovery that has yet to be confirmed. Moreover, despite improvements in many financial market indicators, financial markets and, in particular, the banking sector, remain fragile. Interbank markets have not yet fully recovered, especially in the medium and longer-term segments. Funding in the capital markets remains impaired for several banks. Lending volumes are still depressed, and many financial institutions still hold significant amounts of impaired asset and have very high leverage ratios.
- Regarding the real economy, the most promising news was the data for the second quarter, indicating a significant easing in the pace of contraction of EU GDP. The question is whether this positive surprise reflects mostly one-off factors – or whether it is the start of a sustained recovery.
- There are several reasons to be optimistic about the near-term outlook. Apart from better news from financial markets, the outlook for external trade is more encouraging as the global (non-EU) economy seems to have rebounded, especially in Asia, and the inventory cycle is expected to turn

(although progress is uneven across countries). Low inflation has been giving support to real disposable income and although it is set to increase, inflation is likely to remain contained. Both business and consumer confidence indicators have continued to improve in recent months across most sectors and countries. Last but not least, the implementation of a number of already announced discretionary measures is planned for the fourth quarter.

- Thus, for the first time in two years, the Commission revised upwards its GDP growth forecast in September regarding the second half of this year. A full assessment of the economic outlook until 2011 is currently being undertaken by the Commission services and the results will be announced in early November.
- When looking ahead, however, it is clear that **uncertainty is rife**. There are reasons to believe that the recovery could be both volatile and sub-par. The full impact of the economic crisis on labour markets and public finances is still to be faced. Rising unemployment could weigh on consumption, while ample spare capacity and an anaemic credit supply might restrain investment. Therefore, a further negative feedback loop can not be ruled out. The crisis could also have long-lasting adverse effects on potential growth.
- Conversely, policy measures could prove more effective in restoring financial health, thereby supporting economic activity more effectively. Summing up, the strength of the recovery could surprise on the upside in the near term, but the adjustment to a new steady state may prove long and difficult.
- Another of the main points of the discussions today and one of the key areas in which the EU and Russia work together, and I must stress in a positive and cooperative manner, **is the G 20**. I would also like to elaborate a little on that.
- We at the European Commission welcome the results of the Pittsburgh summit, which marked a shift in focus from short-

term crisis management to medium-term crisis prevention. The summit has shown that we are progressing well in important areas. The main results that I would stress are:

- The **G20 was established as the premier global steering forum** on economic issues.
- The G20 Leaders took stock of improvements in the world economy, whilst considering that it is too early to be complacent. The strategy agreed at the London Summit is working. Leaders agreed that **the implementation of the announced stimulus programmes needs to continue until recovery is assured**. At the same time, Leaders agreed to **start developing and coordinating “exit strategies” to restore fiscal sustainability**. Our extraordinary government support measures have been successful in stabilising our economies and financial systems, but they are effective only as long as they remain temporary.
- The Leaders agreed to launch **a framework for sustainable and balanced growth**, which outlines a process for economic cooperation and coordination to help ensure a rebalancing of global growth going forward. We welcome the mandate that the Pittsburgh summit gave to G-20 Finance Ministers to devise such a mechanism. A sustainable rebalancing of the global growth model is necessary, and for this we will need effective and legitimate monitoring mechanisms. For the European Commission, it is crucial that the IMF retains its primacy regarding global macroeconomic surveillance, in line with its mandate; the role of the G-20 is to add political momentum and traction to this surveillance. Also, the process should fully reflect the state of economic and monetary integration of the euro area, so as not to undermine our own policy surveillance framework. We welcome that the envisaged monitoring process will focus on shared policy objectives, and medium-term policy frameworks. We also welcome the adoption of core values for sustainable and economic activity.

- We also strongly welcome the **continued focus on strengthening international financial regulation and supervision**. The Pittsburgh Summit made significant steps in the areas of securing the reform momentum in financial markets with concrete deadlines: building high quality capital, reforming compensation practices, improving over-the-counter derivatives markets, strengthening cross-border resolution mechanisms and prudential rules for systemically important financial institutions, converging towards single international accounting standards, as well as on non-cooperative jurisdictions. We would emphasize:
 - There is a continued commitment to ensure an adequate balance between **macroprudential and microprudential regulation** to control risks, and to develop the tools necessary to monitor and assess the buildup of macroprudential risks in the financial system. The G-20 should commit to a globally coordinated system of macro-prudential supervision to avoid the building-up of new systemic risks in the financial sector, based on close cooperation of the IMF, the FSB and the supervisory authorities, with effective exchange of information. The creation of the European Systemic Risk Board should facilitate this co-operation from the EU perspective.
 - On **banking prudential rules**, G20 Leaders have agreed to develop international rules before the end of 2010 to improve the quality and the quantity of bank capital, counter cyclical capital buffers,, discourage excessive leverage, together with strenghtned liquidity risk requirements. All major G20 financial centres are also committed to adopt Basel II before 2011. These are essential steps to make the financial system safer and more resilient to future shocks.
 - On **compensation**, we have further aligned compensation with long term value creation, and the G20 leaders fully endorsed the detailed FSB additional

implementation standards on pay structure, corporate governance arrangements, and enhanced disclosure on remuneration policies. Monitoring of implementation will now be key to ensure a global level playing field.

- On **international standards for accounting**, the results were limited as the G20 was not able to reach a more ambitious commitment to accelerate convergence towards a single global set of high quality accounting standards. Such a convergence, especially on financial instruments, remains our priority as we must avoid competitive distortions between American and European financial institutions and regulatory arbitrage between jurisdictions.
- The G20 Leaders laid important building blocks for the further reform of governance of the IFIs, giving greater responsibility to emerging and developing countries. G20 Leaders agreed to strengthen the voice and representation of emerging and developing countries in the IFIs, by shifting 5% of IMF quota share from over-represented countries to under-represented dynamic and emerging markets and developing countries, and by increasing the voting share for under-represented developing and transition countries in the World Bank by 3%. At the same time it was agreed to protect the voting power of low income countries. It will be essential to keep contributions to the World Bank Group as criterion, as agreed at the Development Committee meeting of October 2008. As part of the IMF quota review, it has been agreed to also address a number of other critical issues, including the size and composition of the Executive Board; ways of enhancing the Board's effectiveness; and the Governors' involvement in the strategic oversight of the IMF, which are similarly important in making the IFIs more effective and legitimate. We consider that also the Fund's voting majorities will need to be considered. The benefits of quota and voice reform will be greater if accompanied by

measures to improve the IMF's internal governance which are critical to the IMF's performance.

- We welcome the reaffirmed G-20 commitment to **conclude Doha negotiations in 2010** and to refrain from introducing restrictive trade and investment measures. Concluding Doha by 2010 will require stepping up progress between now and the meeting of trade ministers in early 2010.
- **On climate change finance, there is still a long way ahead of us if we are to make the Copenhagen summit in December a success.** Europe remains fully committed to an ambitious outcome, but all world regions must play their part.
- Looking forward, the European Commission remains fully committed to supporting the G20 process at all levels to ensure financial stability and sustained global growth.
- As I am aware that our Russian counterparts and our colleagues from DG MARKT will have a hard day of work ahead of them still tomorrow, so now all that is left to me is to wish you as fruitful discussion tomorrow as the ones we had today. I also look forward to the meeting in Russia in 2010. Thank you for your attention and lets all enjoy our dinner!