

the FORUM



NEWS FROM THE BRUSSELS ECONOMIC FORUM



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"We need more ambition"



The economic crisis should spur the European Union to take a long, hard look at its shortcomings and come up with radical ideas for renewal, said Felipe González.

Europe is falling behind in the global economy and needs a reboot, former Spanish Prime Minister Felipe González told the Forum. In a passionate keynote speech, González said the European Union's response to the economic crisis had been "inadequate", and if it did not take tough decisions, it would lose its influence in the world.

"We should be more ambitious," he said. "But the crisis represents an opportunity. An opportunity for Europe to look in a mirror and do some self-criticism. If we can do this, the crisis will have served a purpose."

González is the Chairman of the Reflection Group on the future of the European Union 2020-2030, which was set up in 2007 to review the long-term challenges faced by the EU. The group is looking at global security, competitiveness, migration and the fight against crime and terrorism. González addressed all these issues in his speech, although he underlined that these were his personal views.

"Europe is losing its relevance in the world," he said. "Europe needs to change, get out of its old habits. This crisis is a chance to reassess and re-establish social relations, industrial relations, our educational systems. We need an efficient

Europe that can stand its ground in the global economy."

González, who led Spain into the EU in 1986, described a "new resetting of relations" and a "social pact or covenant for the 21st century" to address the new challenges. The new pact would make the EU more relevant to its citizens, and cover five major areas: combating the economic crisis, the technological and economic dimension of Europe, energy and climate change, social cohesion and migratory flows, and threats to security.

The crisis is an opportunity for Europe to look in a mirror and do some self-criticism

He said the EU should admit that its Lisbon Strategy, launched in 2000, had not met its target of making the EU the world's most dynamic economy within a decade.

Compared to the US, the EU had shown a very poor record for entrepreneurship over the past ten years, he said. He noted that many of the top 20 US companies were very different to those 20 years ago, whereas the top 20

European companies had been relatively unchanged over the past two decades. "My conclusion is that there is no mobility in Europe, upwards and downwards, in the world of business opportunities," González said.

He said Europe was too rigid, and this affected not only businesses, but trade unions and political parties, left and right. "There is nothing encouraging creativity and innovation. Europe is losing its competitive edge," he said. "We are too pampered, averse to taking initiatives, when we should be encouraging risks. We need a vision of a Bill Gates who can create successful companies."

González also bemoaned the belittling of the European Commission, which he described as the EU's driving force and engine. "I am a convinced European and I am irritated by leaders who say the Commission lacks initiative, but at the same time prevent the Commission from taking initiatives," he said.

At a global level, he said Europe needed to speak louder. He noted that his country, Spain, had been invited to the G20 summit in London in April, but it did not fill him with pride. "It did not make us stronger having seven leaders in London. Europe would have been stronger speaking with a single voice," he said.

Commissioner looks beyond the crisis...

The global economy has experienced its first contraction in 50 years, and we have witnessed the steepest fall in world trade on record.

Yet even as Europe grapples with the deepest recession since the founding of the Union, the European Commission is looking beyond the immediate crisis.

"It is likely that we will emerge from this crisis in a new economic and financial context with new challenges to tackle... we cannot expect a return to business as usual," states Joaquín Almunia, Commissioner of the Directorate-General for Economic and Financial Affairs.

In his address opening the Brussels Economic Forum, Almunia underscored the need to look beyond the immediate crisis and address questions such as how to plan for the unwinding of economic recovery plans, how to ensure that history does not repeat itself, and how to position Europe to manage the challenges of globalisation, ageing and climate change.

"Medium-term economic performance depends a great deal on action taken during a crisis," says Almunia, "we can sow the seeds for future growth and prosperity."

To get there, Europe will first have to address several difficult issues, however. Perhaps the most daunting of these is fiscal policy. Europe will have to implement strategies to put public finances back on a sustainable path, as soon as the huge amounts of budgetary support that have been channelled to the financial sector and the real economy are withdrawn.

Temporary support to crisis hit sectors will also have to be withdrawn and the dynamism that previously came from the financial markets will have to be found elsewhere. Europe will need to continue efforts to make product and labour markets more efficient, step up investment in R&D and innovation and upgrade workers' skills. Moreover, Europe's exit strategy must "put green growth at the heart of the agenda," says Almunia.

Most of this is not new. These initiatives have formed the core recommendations of the EU's Lisbon Strategy for some time. Yet, as Almunia states, "the crisis makes an ambitious and coordinated implementation of this agenda more necessary than ever."

"Despite positive signals, we still need to fire on all cylinders to bring about a recovery," says Almunia.

Over 1,300 participants have registered this year, including more than 120 journalists representing over 80 different media organisations from around the world, and close to 150 business representatives, many of them from the banking and insurance sector.



Europe and the global economy: weathering the storm

Many observers initially thought Europe might avoid the financial turmoil that erupted in the United States in the summer of 2007. Yet Europe soon found itself in the eye of the storm along with the other developed countries.

Where are we now?

"We often forget how severe this crisis has been," states Reza Moghadam of the IMF. "There's been a global cooling across the board, with most of the world economy growing below trend in 2009. Moreover, the speed of change has been unprecedented."

Even East Asia has not been immune to the effects of the crisis, growing by less than 2% in 2009 compared with 5% in 2008.

"East Asia doesn't have the problems related to the subprime crisis," states Alladin Rillo of ASEAN, "but increased risk aversion led to falls in asset prices and currencies, a slowdown in equity and portfolio growth in the region and the tightening of liquidity."

Emerging European countries started from a higher growth profile and their collapse has also been more dramatic.

"Emerging Europe faces a particularly challenging time in terms of its exit time out of the crisis," says Moghadam.

Despite the bad news "green shoots" are emerging.

"We seem to be beyond the period where the day after we publish a forecast new skeletons fall out of the cupboard," states Elmeskov.

How did we get into this mess?

The causes of the economic crisis are many and varied, but Jørgen Elmeskov of the OECD neatly categorises them into narrow financial market reasons and broader economic reasons.

According to Elmeskov, the narrow financial reasons for the crisis include the moral hazard created by entities that were too big or too interconnected to fail, the procyclical effects of financial regulation, the absence of balance sheet consolidation and transparency, securitisation, the role of rating agencies and skewed incentives.

The general economic reasons for the crisis were a period of macroeconomic stability, higher saving and easy monetary policy. This combination fuelled the now well-known asset and credit bubbles.

Exiting the crisis and making sure it never happens again

There is no clear consensus on how best to exit the crisis. A host of measures may be required including further fiscal stimulus, cleaning up toxic assets and better regulation. Longer-term it will be necessary to gracefully exit from current interventions and fix government budgets.

Governance is also an issue. According to André Sapir, Professor of Economics at Université Libre de Bruxelles and Senior Fellow at the thinktank Brueghel, Europe should make changes both in its external and internal governance.

Sapir is a strong advocate of a unified EU representation at the IMF. "We have many seats but very little influence," says Sapir. "Unified representation, at EU or euro level, should be done and should be done quickly."

Sapir believes that a unified EU representation would not only be good for Europe but would also benefit emerging countries by freeing space at the table for them.

All of this calls for a coordinated multilateral approach, and Europe has an excellent framework to provide that approach. ●

Exiting the Crisis: A Summary of Key Steps

"Yes, there is a way out of this crisis. Yes, Europe has the unity, the confidence and the determination to win this battle." Fighting talk from European Commission President Jose Manuel Barroso, but what needs to be done to put the economy back on its feet?

Confidence in the banking sector is key. Bank lending powers households, businesses and world trade.

The Commission is helping remove so-called 'toxic' assets from banks' balance sheets and increase protection for depositors.

National governments also need backing in difficult times, which is why support worth almost €15 billion has been provided for Hungary, Latvia and Romania. The Commission has brought forward spending from the EU cohesion and structural funds, releasing an extra €6.25 billion on top of the €5 billion already foreseen in the budget. The European Investment Bank is also increasing lending by about 30%, and the EBRD is substantially scaling up its lending and equity activities in the new EU Member States.

In the longer term, the EU needs protecting from a new financial disaster. To this end, the de Larosière Group has proposed an early warning system. The EU's ability to shield the bloc from global turbulence will be enhanced when the Lisbon Treaty comes into force. The treaty will improve decision-making.



These two graphs put the current crisis in context. The financial whirlwind which caused today's crash will have a much more profound impact on the real economy than the so-called 'dot-com' crisis of the turn of the century. On that occasion, the crash was also caused by a speculative bubble, in internet stocks. But as the graphs show, when the bubble burst in 2000, growth as measured by GDP declined but did not turn negative. World growth, in fact, remained at 2% or higher throughout the period before recovering quickly. This time, however, big falls in the EU, the US and Japan will pull the world economy into negative territory for the first time since the Second World War. Growth should return to positive territory next year, but a full recovery will take longer.

Europe: the view from Asia

Aladdin D. Rillo is Assistant Director and Head of Finance and Macroeconomic Surveillance for the Association of Southeast Asian Nations (ASEAN) Secretariat. Here he provides an Asian perspective on the crisis and Europe's response to it.

How is the financial and economic crisis different in Asia?

ADR The impact of the financial crisis is different in Asia because our financial markets have not been severely affected. Unlike in the US and Europe where large financial stresses have been the root cause of the problem, Asia's exposure to sub-prime mortgages and credit derivative products was relatively small. However, since Asian economies are connected to the rest of the world through trade, investment and financial flows, they have not been immune to the adverse impact of the crisis.

In terms of responses, there's not much difference. The immediate response to restore confidence and economic growth and re-establish financial stability remains the same, whether in Asia or in Europe. Only the strategies differ. For example, unlike in the US and Europe where the immediate priority is to fix the financial systems by removing toxic assets and recapitalising banks, in Asia, the focus is more on preserving the intermediation function of banks by strengthening the regulatory and

supervisory framework and risk management.

What do Asian nations think of Europe's approach to tackling the crisis?

ADR I think Europe's approach to tackling the crisis has been appropriate so far. The only problem was that European countries were slow to react at the start. Maybe it was because of the initial perception that Europe would be able to avoid the sub-prime crisis that hit the US financial markets, and that the macroeconomic repercussions from the US fallout would be limited. Moving forward, I think what Europe needs is a more coherent and coordinated policy response to avoid disorderly adjustment and spill over that can drag down recovery across countries in the region.

Do you believe that the IMF should be given extended powers to rectify global imbalances?

ADR The IMF's greater role in rectifying global imbalances is no doubt critical, particularly in future reforms of the global

financial architecture. The extent of the damage from the global crisis now necessitates that more global resources be focused on the critical areas of surveillance, risk management and better supervisory and regulatory frameworks. But the additional resources and powers given to the IMF should be accompanied by genuine reforms within the IMF. ●



Ageing Report 2009 | Reactions from experts

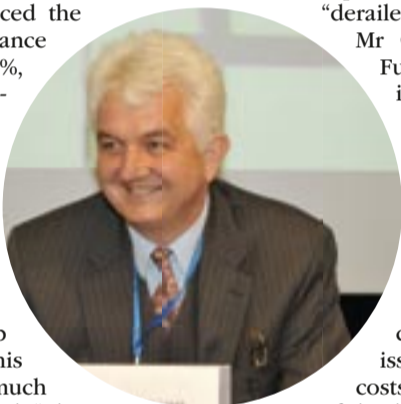
Europe's creaky pensions system undermined further by crisis

Europe's ageing population was already a challenge before the financial crisis. Presenting the new 2009 Ageing Report, experts at the Brussels Economic Forum, Gert Jan Koopman of the European Commission and Henri Bogaert, Chairman of the Ageing Working Group, showed that in its aftermath, things are looking worse.



Healthcare costs are set to increase as European Union Member States support ever-larger numbers of elderly citizens. New technologies, while offering new cures, will add to this burden, it was pointed out. "Technology will come at a cost," said Carlo Cottarelli of the International Monetary Fund.

The crisis has reduced the value of assets to finance retirements by 20-25%, according to an estimate by Robert Holzmann of the World Bank. It has hit state-supported and private pension funds alike.



Immigration to Europe should help release some of this pressure, but not much of it, the Forum heard. "The US has a much higher fertility rate than Europe," Mr Holzmann said. "The impact of the financial crisis

pales compared to demographic problems".

Dick Sluimers of the APG ALL Pensions Group said the private sector was an "essential" element to any solution. "Further development of funded pension systems – preferably collective funded pension systems – is essential to supplement future generations with an adequate and sustainable retirement income."

The panel of experts agreed more reform was required urgently. Given that many Member States are now burdened with huge debts, governments will have to change their approach to healthcare and pension entitlements. Facing down increased pension costs by reducing debt is an option that has been "derailed by the crisis," Mr Cottarelli said.

Further increases in retirement ages may be required, as could some rationalisation of healthcare – a much more politically sensitive issue. Balancing costs and benefits of healthcare will be "the key question for fiscal policy over the next decades," said Mr Cottarelli.

Almost all of society's institutions will need to be re-thought, said Mr Holzmann. "People need to be kept healthy and skilled for as long as possible."

The political risks of fundamental reform were underlined by Mr Sluimers, who pointed out that "future retirees may demand higher pensions benefits through the ballot box." In The Netherlands, political parties for the elderly already have considerable power, he noted.



Martine Durand, deputy director with the OECD, also emphasised the human consequences of pension reform. Cutting entitlements for low-income pensioners might be sustainable on a fiscal level, she said, but on a social level it probably will not be.

Public finances will be under increasing pressure due to the weight of pension expenditure. When you factor in the new debt burden resulting from the rescue of the banking system, the need for further development of private pension funds is pressing.



To insure against a repeat of the sharp falls in assets seen over the last year, pension funds should be better organised and regulated, it was argued.



Pensions: 'hard landing'?

Despite the bad news about pension fund losses, there is some cause for optimism. Yet without reform, demographic and structural issues will continue to threaten the adequacy and sustainability of pension systems in the long-term.

The Good	The Bad	The Ugly
<p>Good performance over the long-haul Pension funds work within a <i>long time horizon</i> so the overall impact of the current financial crisis is likely to be limited. Pension funds have <i>performed well over the past 10-15 years</i>.</p> <p>Very small liquidity needs Pension funds can rely on the regular flow of contributions and investment income, even if the latter is reduced. Therefore, they do not need to sell assets at current low market prices to meet benefit payments or other expenses.</p>	<p>Pension fund losses By end-2008, the total assets of all pension funds in the OECD had declined by about <i>USD 5.4 trillion</i>.</p> <p>Private pensions come with risks Private pensions have been seen as a way to fill the gap in public pension schemes. Private pension assets grew by 9.4% in OECD countries from 2001-2008. But <i>the recent slump in equity markets could lead to lower retirement incomes</i>, particularly for older workers who are close to retirement and have high equity exposures.</p>	<p>Rising public expenditures Public pension expenditures are expected to rise to <i>2.4% of GDP</i> over the period 2007-2060.</p> <p>Benefit cuts Members of defined benefit plans may experience <i>benefit cuts</i>, especially if the sponsoring company goes bankrupt.</p> <p>Work more, receive less Workers can expect to <i>work longer and receive less</i> relative to the wages they earn in the future.</p>

Europe must act now to cope with ageing

Europe cannot afford to shy away from the economic, budgetary and social challenges of an ageing population, Ministers and Commissioners warned in the policy panel discussion on ageing and the economic crisis.

EU Economic and Financial Affairs Commissioner Joaquín Almunia warned that delays in turning around Europe's fiscal and social structures would only make the problems worse – especially in the current economic crisis. "The crisis is increasing public debt, and that increases the urgency of our task," he said. He called for long-term fiscal sustainability, an increase in overall employment rates, and reforms to adapt social systems to the changing situation.

"We need to emerge from this crisis with more and better employment opportunities for older people," said Vladimír Špidla, EU Commissioner for

Employment, Social Affairs and Equal Opportunities. "We should reverse the trend for early retirement. Old people have lots of skills that we should make better use of: they have experience, they are usually available, and they have a maturity that younger workers usually lack."

Czech Finance Minister Eduard Janota said that ageing was one of the biggest challenges for the EU even before the economic crisis, and he chastised countries that had not used the good times to reform their public finances.

Swedish Finance Minister Anders Borg noted that Sweden's dependency ratio for retired people would rise from 28% to 50% between now and 2050. "But that is one of the lower rates. In Poland, it is expected to rise to 70%," he said, warning that the general public still

didn't appreciate the gravity of the ageing trends, which needed to be dealt with now. "If we want people to return to the labour force, there is a need for further labour tax cuts, especially for women and low-skilled workers," he added.

Portuguese Finance Minister Fernando Teixeira dos Santos said the crisis would exacerbate public debt dynamics across Europe. He urged three responses. "We need a fiscal stimulus that is timely, targeted and temporary.

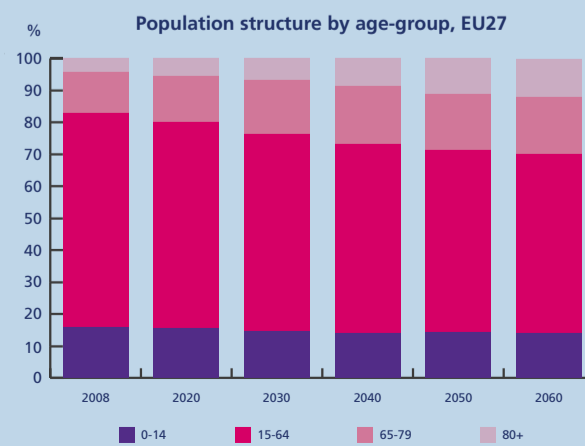
We must continue fiscal consolidation. And we must continue implementing structural reforms aimed at fostering long-term growth – to invigorate labour markets and boost human capital," he said.

"On funded pensions, nobody has the final answer today," was the conclusion of Commissioner Almunia.

On funded pensions, nobody has the final answer today

The greying of society

By 2060, nearly 1 in 3 citizens in the EU27 will be over the age of 65. Although the proportion of people aged 65 to 79 will increase by almost 50%, the most striking change in the population structure affects the proportion of people aged 80 and above, which will almost triple. With the proportion of the working-age population falling, this means the support ratio of dependants to people of working-age soars. By 2060, the EU will have 2 working-age people for every person aged over 65 years, from 4 to 1 in 2009.



Source: Ageing Report 2009, European Commission

Rewriting the rules

Jacques de Larosière and Mario Monti told the Forum that Europe needs bold ideas and a fresh spirit of compromise to help climb out of the economic crisis.

Two of Europe's most distinguished economic voices – former Bank of France Governor Jacques de Larosière and former European Commissioner Mario Monti – used the Brussels Economic Forum to plead for a new approach to help avert future economic crises.

De Larosière urged the European Union to seize the opportunity provided by the global economic crisis to agree the “modest reforms” in his recent report on financial supervision. His appeal was echoed by Monti, who called for a new pact within the EU that would uphold the essential principles of the single market through limited tax co-ordination.

De Larosière, whose high level group on EU financial reform

unveiled a blueprint of recommendations earlier this year, said the EU had “an historic window of opportunity.” He said his recommendations were, “ambitious but not unrealistic.”

“This is a modest report. It considers national authorities can do the job very well, but does propose a modest strengthening of the existing safeguarding committees,” he said. “It is not about putting new regulation on layers of past regulation. It's not just more regulation, its better regulation.”

The de Larosière report calls for an EU-wide scheme to oversee risks and give early warnings. The former IMF Managing Director said the lack of multilateral surveillance on current accounts was one of the most unsavoury features of this crisis, although it was not the cause. “We see the crisis as the result of a regulatory failure. It was not,” he said. “But the regulatory system led to very dangerous incentives. It led to short-term behaviour. And it was accompanied by many loopholes in regulation.”

De Larosière also warned against putting off tough decisions until later. “We do not yet have a supervisory system that can provide stability,” he said. “You may say that is for the future, and we should now be focused on shoring up the system. But we should be looking at the new systemic risks of tomorrow.”

Mario Monti was equally keen to see robust changes emerge from the crisis. Monti served two terms as Commissioner, firstly responsible for the Single Market and Taxation, and later for Competition policy. Currently president of Bocconi University, he recognised the tensions between EU member states following the Anglo-Saxon, free market economic model, and countries like Germany and France that have long followed social market economy models.

The pact would give new vigour to the faltering European project

But the two sides should compromise, he said, with a strategic pact that meets each other's concerns. “This opportunity would allow the European Union to meet the increasing social challenges while safeguarding integration,” he said. It could, he said, address the tendency of social market countries to dispute single market rules on issues like competition and state aid, and at the same time give them more scope to meet social objectives through their budgets.

“The first part of the pact would be a renewed, binding commitment to the single market, including strengthened enforcement mechanisms and initiatives,

with deadlines, to implement the single market in areas where it is still lacking,” Monti said.

The second would be limited measures of tax co-ordination, aiming not at full tax harmonisation – which he thought neither feasible nor necessary – but at enabling member states to retain tax sovereignty by acting together on parts of it. “If they prefer to defend individually the principle of tax sovereignty, they will see the continuing de facto evaporation of their nominal sovereignty through unrestrained tax competition,” Monti said.

This compromise, he said, would secure the future of the single market. Both groups would come out with a deal, which would combine the market and social dimensions more effectively, he said. “And last, but not least, the pact would give new vigour to the faltering European project,” he added.

Quotes of the day

“If in 2009, in the middle of all this mess, Europe is not able to get together on a modest compromise, then forget about it.”
JACQUES DE LAROSIÈRE

“If we want people to return to the labour force, there is a need for further tax cuts.”
ANDERS BORG

“If the world economy is in crisis, the market economy is in even bigger crisis.”
MARIO MONTI

“I'm irritated that national leaders complain the Commission lacks initiative while preventing the Commission from taking initiatives.”
FELIPE GONZÁLEZ

“Unified representation – at EU or euro-area level – should be done and should be done quickly. Not only would it be good for Europe, it would free space at the table for emerging countries.”
ANDRÉ SAPIR

“This is a very different world we are looking at. It is both older and less dynamic. It is a rather more difficult world than many of us seem to realise.”
GERT-JAN KOOPMAN

“The crisis will not be resolved simply by pouring vast amounts of money into an ailing bank sector.”
JOAQUÍN ALMUNIA



Viewpoint | Marco Annunziata

Banking supervision: “Not there yet”

Financial reforms need to stay focused on the core problems, top economist Marco Annunziata warns.

Europe's efforts to improve financial market regulation and boost banking supervision must avoid over-regulation, according to Marco Annunziata, chief economist, at the London-based UniCredit Group.

A former chief economist at Deutsche Bank, Annunziata spent six years at the IMF, splitting his time between emerging markets and the euro area, and was awarded the Rybczynski Prize for the best paper in business economics in 2007.

Annunziata, who takes part in today's session III, says the EU is moving in the right direction. But he urges policymakers to stick to simple, consistent and uniform rules. “It is important to avoid excessive regulation, which would lower

the long-term growth potential of the economies,” he says. “We need better regulation and better enforcement, not more regulation. Remember that the crisis has been triggered by the most regulated part of the financial sector, i.e. banks.”

While Annunziata welcomes the de Larosière report on financial reform as an important step forward, it is not enough.

“We're not there yet,” he says. “EU policymakers are still distracted by long-standing antipathies which have little to do with the crisis at hand. The urge to regulate hedge funds, for example, is hard to understand when hedge funds have been largely collateral damage in a

crisis brought about by banks and insurers.”

At the same time Annunziata believes the de Larosière report is not ambitious enough on the issue of international coordination of regulation and supervision. “Europe, and in particular the euro area, should have a single regulatory and supervisory authority, which could rapidly collate all relevant information in case of another crisis,” he says. “The insistence on preserving the prerogatives of national regulators and supervisors will almost certainly ensure that the flow of information across supervisory agencies is not strong enough, therefore limiting the effectiveness of the response to any future crisis.”

Marco Annunziata will speak today in the policy panel on “Financial stability and the design of a new rule book” (10:30-12:00)



On air

If you missed a session or are nostalgic about what you heard, recordings of sessions will be available from the Brussels Economic Forum website from 19 May onwards. Speeches and presentations will also be published on the website.

Professional broadcasters and others can get sound bites from the keynote speakers directly from Europe by Satellite.

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