SPEECH
for Commissioner ALMUNIA
Brussels Economic Forum
'Beyond the Crisis: A changing Economic Landscape'
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Beyond the crisis: what strategies for a sustainable economy?

Ladies and Gentlemen,

It gives me great pleasure to welcome you to the tenth edition of the Brussels Economic Forum.

Since the BEF was first set up in 2000, it has been a key platform for debating and shaping policy on the pressing challenges facing the EU economy.

This year will be no different.

Since I last stood here one year ago, the context for the European and global economy has been utterly transformed and is still changing day by day.

Our economies and financial systems have come under unprecedented pressure from the most severe financial crisis in the post war era. The global economy has experienced its first contraction in 50 years. We have witnessed the steepest fall in world trade on record. And this year Europe is set to live through the deepest recession since the foundation of the Union.

At this juncture, immediate crisis response is our first priority.

And yet, in our efforts to manage current challenges, we must take a longer term perspective.

Deep crises leave a lasting trace on economic activity. They bring powerful lessons for economic governance. It is likely that we will emerge from this crisis in a new economic and financial context with new challenges to tackle, even as we grapple with the old.

The upshot is that even when growth is restored, we cannot expect a return to business as usual.

Already now, when we look beyond the immediate crisis, there are a number of key questions that we need to ask ourselves.

How do we plan for the unwinding of the economic recovery plans and withdrawal of the massive support to the banking sector when growth and stability return?

How can we ensure that we have learned the lessons of this crisis, and taken appropriate action to ensure history will not be repeated?

How do we position Europe in a post-crisis world, so that we are equipped to manage the challenges of globalisation, ageing and climate change?

And as Member States turn increasingly to Europe for answers, how can we deliver the best results for the European economy at a time of global economic and societal transformation?

This year at the BEF we want to explore these pressing questions, propose potential solutions and debate a possible policy framework that will allow us to exit this crisis on a path of stability and sustainable growth.

Perhaps this is a lot for two days of discussions? I don't think so. Like many of you, I am convinced that we need to tackle these issues right away.

We cannot wait until the end of the crisis.

Medium term economic performance depends a great deal on action taken during a crisis. If we can develop post-crisis strategies now, we will help underpin confidence in our economic future. And we can sow the seeds for future growth and prosperity.

But before I address these issues, let me take stock of where we are today in terms of our crisis response.

Crisis response: progress and priorities

The crisis has tested the resilience and rapid reaction of governments worldwide and many of them have responded with speed and intensity. The EU is no exception.

Those who say that the EU, or the Commission, didn't react to the crisis are not taking into account what we did, and what we are doing. Let me remind them of some of our decisions and initiatives.

By creating coordinated deposit insurance schemes we have avoided large scale bank runs. Other important financial regulations have been adopted or are currently being discussed.

Thanks to efforts to re-capitalise banks and guarantee credits, no Lehman Brothers has happened in Europe.

Following a proposal from the Commission, several countries are now tackling the impaired assets on bank balance sheets. We encourage member states to go further down this road, and to complement these efforts with stress test exercises.

Monetary policy has been eased aggressively and the ECB has embarked on unconventional policies to ensure liquidity is available for businesses and financial markets.

Moreover, the EU has launched a massive, coordinated fiscal stimulus, in a bid to sustain demand and provide the hardest hit with temporary support or job protection. National measures amount to 1.8% of GDP for 2009 to 2010 and this figure rises to around 5% if we include the impact of the automatic stabilisers and other additional budgetary measures, including some at EU level.

Looking at all these measures, who can say that we were inactive?

The real question now, however, is the following: Where does this massive financial, fiscal and monetary policy effort leave us today?

We are seeing some progress. Financial markets have stabilised and recent indicators give grounds for optimism: Short term interest rates have come down from 5% in the autumn to 1% in the euro area today. There are signs that stock markets may be stabilising and financing conditions for companies appear to be improving if we consider the large wave in corporate bond issuances in the last months.

In the real economy too we have seen some positive signals in terms of business confidence and export data. The results of the massive stimulus underway here in Europe and around the world should begin to feed through in the coming months.

But let's be honest. Although there are signs that the recession is easing, a return to growth is not yet there. The economic forecasts I presented last week foresee a 4% contraction in the economy this year and only a modest and gradual recovery in 2010. And there are risks to this scenario linked to the still fragile financial sector and feedback loops between financial markets and the economy.

To bring about recovery sooner we need to focus on three immediate tasks:

We need to continue implementing fiscal stimulus measures as swiftly as possible. The Commission will monitor the economic situation carefully and be prepared to take further action if necessary.

We need to cushion the impact of the recession on labour markets. We anticipated that the impact of the crisis on employment would be severe. This impact is now materialising and jobs are being lost at a rapid pace. However, governments are not powerless to act.

Temporary working arrangements and flexible hours, active labour market policies to prevent people exiting the labour market and investment in training and skills, to empower workers to take advantage of new opportunities when the economy recovers – all these measures can cushion the impact of the crisis on labour markets. If efforts are coordinated between Member States, the positive effects will be multiplied.

Last but not least, we need to mobilise a concerted effort to address the crisis at source: to restore trust to the banking sector through a drive for transparency; and restore confidence through treating impaired assets.

For this, we need a full disclosure of losses so government support can be provided in the most efficient manner. And we need to push the process of bank restructuring forward. The crisis will never be resolved by simply pouring vast amounts of public money into an ailing banking sector. This was the Japanese approach of the early 1990s and it led to a decade of zombie banks, low growth and deflation.

Restructuring is essential for securing financial stability, and restoring financial institutions to normal functioning – a key requirement for recovery.

Exit strategies: from crisis to sustainable and equitable growth

This brings me to the issue at the heart of this year's Brussels Economic Forum– the need to devise strategies that will help us emerge from the crisis and lay the foundations for sustainable and equitable future growth.

As we come out of this crisis, we will be faced with the task of having to unwind the huge amounts of support channelled to the financial sector and the real economy. Not only that, but the crisis may leave us with a potentially subdued growth potential, high unemployment and public finances under severe strain.

Policies must take account of this new context and at the same time factor in the wider forces that are re-shaping the economic and financial landscape in the longer term – especially ageing, globalisation and climate change.

Effective exit strategies should steer our economies out of the crisis phase, equipping us to cope with a post-crisis world by bolstering growth potential and resilience.

Regarding this approach, I will highlight some key considerations which will need to be addressed as a matter of priority.

The first concerns **fiscal policy**. Here we need to devote serious attention to devising an exit strategy that balances fiscal sustainability with sustaining long term growth.

At some stage the budgetary support to the economy will have to be withdrawn. There is no question this will be a complex task, particularly to assess the right timing and pace of withdrawal specific to the situation of each Member State.

Winding up the fiscal stimulus should be followed with credible and well designed strategies for budgetary consolidation. Government deficits and debts have soared due to the crisis. And this deterioration occurs just when the impact of our ageing populations is gradually starting to set in. As our recent report on ageing confirms, age related spending is set to rise just as our shrinking labour force will negatively impact growth if current policies do not change.

So we must find, as a matter of urgency, strategies to put public finances back on a sustainable path once the recovery begins. Such strategies might include stronger fiscal frameworks to counter pro-cyclical fiscal policies. They may require pension reforms for certain Member States, or a renewed assessment of the role of automatic stabilisers.

Turning to **structural policies**. Structural reforms have a crucial role to play in helping our economies adjust to the multiple shocks associated with the crisis and to foster a sustained recovery.

One of the first challenges in this domain will be to withdraw the temporary support to crisis hit sectors. This support has been necessary in the short term; but if left in place, such measures would only hinder the adjustment of our economies.

Take, for example, the use of targeted aid to industry. This aid must be reversed if we want to avoid a situation where the state is propping up companies, creating competitive distortions in the market and a drain on scare public resources. However, we have to consider that some industries may have to undergo a restructuring if they want to maintain a competitive business model and guarantee their long term survival.

Taking a longer term perspective, structural policies will be critical when it comes to boosting growth potential and competitiveness.

We need to be realistic. The recovery in growth that follows the crisis may be gradual. Moreover, it is unlikely that the financial sector will be the engine of growth that it has been over the last decade. Financial institutions will be less leveraged, more risk averse and will have to adapt to new capital constraints. So the dynamism that previously came from the financial markets will have to be found elsewhere.

This is where structural reforms come into play. An acceleration of structural measures should start as soon as possible and should be focused on several areas:

We will need to continue efforts to make product and labour markets more efficient. This will be essential to reinforce economic resilience and yield competitiveness gains in the longer term.

With reduced resources coming from financial markets, governments will need to step up investment in productivity enhancing R&D and innovation. We must aim to consolidate our strengths in high value technologies and position ourselves to grasp new opportunities that will appear as the world economy recovers.

We will need to prioritise education and skills to develop our economic strengths and increase employability. The crisis will unquestionably lead to social hardship. To counter this, we need to equip people with the tools they need to make the most of new opportunities.

Finally, our exit strategy in terms of structural policy must put green growth at the heart of the agenda. The world's shift to low carbon offers huge possibilities for business and industry. Only by investing in renewable energies, low carbon technologies and green infrastructure will Europe maintain its place at the frontier of this revolution and tackle climate change that risks being so costly for our societies and economies.

Most of these initiatives are not new. They have formed the core recommendations of the EU's Lisbon Strategy for some time. And yet the crisis makes an ambitious and coordinated implementation of this agenda more necessary than ever.

Against this background, stronger economic policy coordination will be crucial.

Indeed, in general **enhanced coordination** coupled with more **effective surveillance** will be key to putting these exit strategies in place and ensuring their success.

Especially because the crisis has exposed shortcomings in both areas. The existing surveillance mechanisms proved unable to anticipate the nature and severity of the crisis. And if we are honest, the initial crisis response in Europe lacked the necessary coordination.

The Commission is already working on broadening economic surveillance to cover key challenges to stability such as internal imbalances and competitiveness developments. Moreover, building on the very useful recommendations of the De Larosière report, we will come forward at the end of May with proposals to renew our system of financial supervision, including the creation of a new body that will act as an early warning system for the build up of macro-financial risk.

Moving forward swiftly on both fronts will help develop a more holistic approach to surveillance of Europe's economy and financial systems. However, we may have to go further. For example, we could take a fresh look at the potential of existing instruments, and the role Commission and the Eurogroup to enhance economic policy coordination and reinforce governance of the EU economy.

Stronger coordination and governance will also help Europe to project its interests at the **global level**.

The crisis has brought the linkages between our economies and financial systems into sharp focus. Even the best policy framework at EU level will fail without a coordinated international effort to anchor growth and stability in the world economy.

Above all, this should encompass three elements:

First, the commitment to a fair and open multilateral trading system must be respected if we are to see a lasting recovery. Global leaders must make good on their pledge to counter protectionism to avoid doing lasting economic damage. And they must pursue the Doha negotiations as the only means to generate more equitable growth and development in the years to come.

Second, to anchor stability in the global system, we need to set up a new framework for macro-financial surveillance at the international level. Agreements to reinforce the role of the IMF should be implemented as soon as possible. We also need to tackle the global imbalances that grew to such large and damaging proportions during the last decade and which are partly responsible for the current crisis.

Finally, there can be no effective governance of the world economy without bringing all the relevant players to the table. International policymaking no longer concerns a cosy transatlantic club. If new global powers are to take their share of the responsibility for global governance, then multilateral institutions need to undergo a fundamental reform. These reforms have been a long time coming, and yet the crisis provides a real window of opportunity to move this agenda forward.

Without question, the EU must be an active partner in this new global order. We need to strengthen our voice and consolidate our external representation. If not, we will be powerless to influence the processes that are set to fundamentally transform the landscape of our world economy over the next decades.

Conclusion

Ladies and gentlemen, let me conclude.

We are currently experiencing some of the toughest conditions and biggest changes in a generation. Despite positive signals, we still need to fire on all cylinders to bring about a recovery.

At the same time, we must look beyond current challenges and turn our attentions to developing a policy framework that will deal with the crisis in a longer term perspective. The stakes are high because the choices we make today will determine how we manage the challenges of tomorrow.

Over the next two days, I look forward to vigorous debates on these issues. Your discussions and contributions during this conference can help shape a wider vision for Europe in the decade to come and answer some of the looming questions about how we organise our economies and reform our social models to ensure a fair and prosperous world for the generations to follow.

I wish you a fruitful and constructive conference.