



Keynote Address by

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I am very happy to be with all of you and to share with you some of my ideas on the situation of Europe, the European project, European integration, European economies and how to tackle some of the big challenges that we are all facing. I will not follow all of the points that Professor Sinn has already presented in his very coherent speech, but will instead follow my own line of thoughts on the situation in Europe. Although I studied economics as a young man and have to deal with economic issues in my professional and political life, I am, as a member of the European Commission, a politician and will speak as a politician, and thus not at the same level as the economic presentation given by Professor Sinn.

I will start this speech with the reality in figures as presented yesterday when Eurostat released its figures for the first quarter of 2013. According to these figures, both the euro area and EU is undergoing a recession in terms of GDP development, after two consecutive quarters of negative growth. In terms of year-on-year change, the euro area was -1 percent at the end of the first quarter of 2013 compared to the same period last year, while the EU was -0.7 percent. So the negative growth figures are a little higher for the euro area, but overall there are no major differences in the evolution.

It is true that when we look at the composition of these aggregate figures in Europe or in the euro area, different situations emerge; but they are not as different as in some of the slides that Professor Sinn showed us. In terms of growth, the three Baltic countries constitute the group of good performers. The Southern periphery (and Ireland has escaped this periphery when it comes to GDP figures and now has positive growth), including France, is in a recession, which is stronger in Greece, weaker in France, and

somewhere in between the two in the other countries. However, the core economies of the EU, starting with Germany of course, are not in good shape in terms of growth either.

In view of the strong interdependencies of our economies, these problems are not the problems of a small group of countries, regardless of the acronym used to define this group. The problems that we are facing are the problems of the entire European economies and of Europe. The best way to pick up on these shared problems, which require analysis and solutions, are the messages that we receive as Europeans, be it Europeans working at the EU or at the national level, when we establish a dialogue with any other non-European interlocutor European. For interlocutors from outside Europe do not talk about the problems of Italy, Spain, Portugal, Greece or France, they talk about the problems of the euro area and the EU as a whole.

These are not only problems in terms of growth. In this case, the way that the situation is perceived at the national level changes more than when we look at the GDP figures. *Employment*, of course, is an extremely serious issue in Spain or Greece, and less serious in many other European countries like the Netherlands and Finland, where employment levels remain quite favourable, even if there are negative figures of growth.

*Credit flows and the cost of funding* are very serious issues and to a far greater degree in some members of the euro area than in others. We all appreciate the importance of banking and financing to the continental European economies and there are serious problems within the same economic and monetary union with the same monetary policy. The transmission of monetary policy or the different problems of the banking system that needs to allocate resources or to organize the financing of the non-financial part of the economy is not working well at all and this is a serious problem. The impact of this situation is different from country to country, but the differences are not so major in political terms.

Opinion polls show that Europeans' feelings regarding Europe are becoming increasingly negative. Despite national differences in these negative feelings, we are generally observing a serious degeneration in the trust and confidence of citizens in EU institutions, coupled with different degrees of lacking confidence in national institutions. In some countries opinions of EU institutions are still less negative than those of national institutions. In Germany, however, this trend does not apply. This general evolution is worrying because we are not only experiencing economic difficulties and suffering serious social tensions and problems, we are also experiencing a political crisis too. Many Europeans are pessimistic, their confidence in democratic representatives is evaporating and this is not only an economic problem, it is a political problem that we need to tackle and discuss. My point is that we cannot split economic analysis from political analysis.

For this reason, I cannot express any support whatsoever for the temporary exit solution. This is a major political issue that cannot be explained in a slide with a graphic. We are not only living with social unrest, demonstrations, tensions, fears, uncertainties, we are in the middle of a serious political malaise that is giving way to new forms of populism, which go far beyond the traditional forms that we are accustomed to suffering in our democracies. In some cases the expression of this populism is not democratic at all.

Many of the big challenges that we are facing have not been created by the crisis. The debate over how to achieve higher levels of growth, improve Europe's productivity and regain our competitiveness *vis-à-vis* developing economies was taking place before the crisis emerged. Ageing and the related risks that it poses for our social policies and systems in terms of social inequalities is not a new problem created by the euro crisis; it was there before. The fears of globalisation in parts of our societies, nationalism and protectionism have only been exacerbated, and in some cases to a great degree, by the crisis. The crisis has merely added new and very important points to our agenda.

These include the crisis of governance and the lack of adequate instruments in the Economic and Monetary Union. The euro continues to be a very good idea, both economically and politically, as a way of reinforcing our integration as Europeans. But the instruments put into the hands of those who are responsible for adopting decisions in fiscal and

financial policy or in structural reforms by the EU treaties; and that should result in a coherent policy mix that helps the EMU to fulfil our expectations, were not created before the crisis. During the difficult times of the last 4–5 years we have tried to advance and it is very difficult to think of the future, or the next 10–15 years, with ideas like mutualisation, and at the same time, to have to take the relevant short-term decisions to fight against the urgent problems faced every month in the Ecofin, for example. This work is being done, but it still is an on-going process and is far from finished.

When my colleague Michel Barnier, the Commissioner in charge of financial regulation, explains what we have been doing for the last three years in the so-called Barroso Commission, he has a long list of initiatives that, in many cases, have been finally agreed by the European Parliament and the Council, and in other cases are being discussed. Almost all of the initiatives of the G20 in 2008, or of the Financial Stability Board in the months after October/November 2008, that have been put forward as necessary regulations to overcome the problems caused by the financial crisis have either already been adopted or are in the adoption process.

At my level as Commissioner for Competition and State Aid Control, we have dealt with over 60 individual restructuring plans for financial institutions since the beginning of the crisis. In some cases we have looked at resolution plans, and in some cases at the winding down of institutions, including here in Germany, or in many other cases restructuring plans. This is a very important task that is on-going in the problem countries, as well as in some other countries of the euro area. Considerable public resources and effort is going into this process of financial repair and it remains important for the near future.

We have adopted many important decisions, some of which were *not* possible before the crisis; and were only made possible due to the pressure of the crisis because as leaders, governments and institutions, the crisis made us focus more on what is urgent and important. But the question is whether these decisions are enough? What needs to be done on top of the measures that are already being implemented, or have been discussed and agreed?

I think that the steps taken already are not enough. Even looking at the long list of very important, and

in some cases, historical decisions that have been adopted over the past three to four years, it is not enough. What else needs to be done from an economic standpoint, in my view, for countries that still have deficits and high levels of public debt? Consolidation needs to be continued. We now have more efficient tools to discipline fiscal consolidation at an international level, but at the same time, because fiscal consolidation is taking place, there are problems in terms of aggregate demand that cannot be ignored. Financial repair should continue, but at the same time we know that a banking system is being repaired and financial institutions that are being restructured at an individual level cannot take the lead in granting credit. Deleveraging in the financial sector is occurring in places where financial repair is the most intense and this is creating problems for the non-financial sectors of economy. Structural reforms are being agreed, but their impact on demand, on growth, on jobs is not immediate. Structural reforms produce excellent results, but their positive impact is only felt in the mid-term.

So everything that has been done is necessary, but does not go far enough. I would like to mention two points that deserve deeper discussion. From the macroeconomic point of view, I am worried about imbalances in the current accounts within the Economic and Monetary Union. The adjustments in deficits in the current accounts at the euro area level have been very rapid. All the countries with deficits, if we aggregate the figures, will not give us a deficit for 2013 when we aggregate all the traditional deficit countries, whereas the surplus at the EMU level will increase because the surplus countries have not reduced the size of their surplus. The size of the surplus this year is, according to our estimates, exactly the same in terms of GDP as the size of the surplus in 2006. The surplus of the aggregate euro area was close to zero before and at the beginning of the crisis, and will be 2.6 percent or 2.7 percent of the total GDP of the euro area this year, or more than the total size of the Greek economy. The logic and the consequences of this fact need to be discussed.

In the past we have lived with lower imbalances both on the surplus and the deficit side, and with an aggregate current account at the euro area level that was roughly balanced; but we will no longer be living in this world in the future if things do not change. The other point from the financial side are credit flows and how we will finance our economy if credit

flows are diminishing and set to remain extremely subdued, not only because of the problems of financial institutions and the lack of solvent demand, but also due to the implementation of Basel III and other elements that are creating additional pressure on banks' balance sheets. In terms of credit flows, all other things equal, I cannot expect that credit flows to increase in our euro area economies.

So there are three responses that need to be worked out. Firstly, a banking union to forge a link between the sovereign and the balance sheet of the banks, which was the principle under which the heads of states and governments committed to advance proposals and decisions towards a banking union one year ago. This remains a key element in the return to reasonable growth and employment figures. Secondly, we need to discuss internal demand, not in the simplistic terms of saying "Well, the Germans need to increase inflation to 5.5 percent", but by seeking ways of boosting internal demand or trying to create the conditions for more active internal demand, given that internal demand looks set to decrease in other parts of the euro area because we are in a process of consolidation and deleveraging.

So how can these problems be solved? With more Europe? Of course! I understand that some do not wish to advance any further towards integration, but it is the real challenge that we face. I don't see any possibility of gradually advancing proposals and gradually getting results or of improving the current situation, which is not only affecting part of Europe, but the whole of it, without more integration. We have too many things in common, too many common interests and values shared by 500 billion Europeans, to ignore that when we face this kind of extremely challenging period, the solution is to discuss reasonable instruments of economic policy and reasonable decisions. This does not mean giving up any of the rigor or quality of our policies, or the protection of a balanced economy, as all of these elements are necessary to improve productivity and lower imbalances. However, ensuring that the aggregate result of decisions at the European level is a better, more dynamic economy, higher growth figures, lower unemployment figures and the protection of our values without further social tensions and without widening the gap in trust that exists between citizens and politicians and between institutions and leaders, requires, in my view, more integration and not less; deeper integration and not exits.