Interparliamentary Conference on Economic and Financial Governance of the European Union in Vilnius, 16–17 October 2013

Vice-President Olli Rehn:

Genuine Economic and Monetary Union:

The Imperative to Move Forward

Check against delivery

Ladies and Gentlemen, honourable Members of Parliament,

Thank you very much for inviting me to this inaugural Interparliamentary Conference to speak on the future of EMU. I regret the fact that I cannot be with you in Vilnius today since my presence was required at the meeting of the College of Commissioners here in Brussels. Fortunately modern technology does nevertheless enable my participation via video link.

I myself have been both a Member of the Finnish Parliament and of the European Parliament. During my time in the Finnish Parliament, I had the privilege to head the Finnish delegation in the Council of Europe, an experience that taught me the high value of parliamentary cooperation.

Today, parliamentary cooperation in Europe is essential: the challenge is to manage this effectively in a multilevel system with both national parliaments and the European Parliament, each with specific, complementary roles.

This Interparliamentary conference builds on Article 13 of the Treaty on Stability, Coordination and Governance in the EMU (TSCG). In our view, there is a need for regular inter-parliamentary exchanges to increase awareness of the interdependencies of decisions. To this end, I want to wish you a successful conference.

Let me begin with a couple of words on the current state of affairs. Since this spring, we have seen increasing signs that a gradual recovery is underway. We expect this recovery to grow firmer in the coming months and to gather speed next year. Our strategy of differentiated fiscal consolidation and economic reforms supporting competitiveness is paving the way for a sustainable recovery.

Three key factors have enabled us to slow down the pace of fiscal consolidation in Europe over the past year. First, the increased credibility of eurozone members' fiscal policies since 2011. Second, the decisive action the ECB has taken to stabilise the markets. And third, the reform of EU economic governance, which now provides an effective medium-term framework for a differentiated fiscal adjustment and the advancement of structural reforms to boost competitiveness, growth and jobs.

Nevertheless, I continue to stress that any claims that "the crisis is over" are clearly premature. There are substantial economic divergences between our Member States. While the recovery is getting on to a stronger footing in some, it remains elusive in others. In many parts of Europe, unemployment remains at dramatic levels. Excessively tight lending conditions, especially for small and medium sized enterprises, remain a very serious bottleneck to growth.

And that is why ensuring a stable, deep and genuine Economic and Monetary Union is one of the key challenges the EU is facing today. In my view the crisis exposed a number of important weaknesses in EMU's original design, which lie at the heart of the challenges faced during the crisis.

First, the Stability and Growth Pact was insufficiently observed by the Member States and lacked robust mechanisms to ensure sustainable public finances. Good times were not used to ensure sustainability.

Secondly, the monitoring and coordination of national economic policies beyond the budgetary area was too weak to counter the progressive weakening of competitiveness and gaps between Member States. National economic policy-making paid insufficient attention to the euro area context within which the economies operate.

And finally, the sharp pace of financial integration was not accompanied by a similar shift of responsibilities from national to EU level in the areas of supervision and crisis management.

Since the beginning of the crisis important steps have been taken to fix these design flaws. We have had to combine fire-fighting and rebuilding the architecture of the EMU. Agreement on the improved economic governance framework, the Single Supervisory Mechanism and the set-up of the European Stability Mechanism are prominent examples of these reinforcements.

We will in the coming weeks put into practice the most recent element of the governance framework. Following the entry into force of the so called two pack, the Commission will adopt and publish in mid-November its assessment of the draft budgetary plans of the euro area

Member States. The exercise will take into account our autumn economic forecasts, which will be presented on the 5th of November.

This will not involve us going through every budget line with a fine tooth-comb. The aim of the assessment is to evaluate whether the draft budgetary plans are in line with the Member States own budgetary commitments made at the European level.

The role of the Commission here is not to veto national budgets. That is a power we do not have. Our role is instead to provide, in the spirit of partnership, independent and analytical policy advice based on the principles and policies agreed at the European level, and to do so early enough in the budgetary process so that it is useful for national governments and parliaments. If the Member States' commitments fall short or are not in line with the Stability and Growth Pact, we then can ask for a revision of the draft budgetary plan.

I dare to claim, that if we had todays' reinforced economic governance framework in place, with its' preventive elements, before the meltdown of the financial markets, a crisis of this magnitude could have been avoided. We have since then taken a quantum leap in economic governance, especially in the euro area, but that does not mean that the work is finished.

Ladies and gentlemen,

At this critical juncture, one of the greatest risks to sustained recovery is complacency. Going back to business as usual is not an option, both when it comes to fiscal policy and structural reforms, as well as the EMU. Therefore we need to go further in order to ensure a sound EMU.

We cannot ignore that the euro area after the crisis is different than before: debt has risen, financial markets are still fragmented, and potential growth is expected to remain modest. Furthermore, there remain substantial economic divergences between our Member States.

The three keys to sustainable growth in Europe are: the adjustment capacity in the real economy, a well-functioning financial system for efficient investment and provision of credit; and a credible framework for sound public finances.

First, the capacity for real economic adjustment is indeed crucial in a monetary union. Not sufficient attention was paid to this during the first decade of the EMU. A very high economic and social price has been paid for that neglect. Competitiveness depends essentially on our capacity to innovate and to ensure that our workforce has the appropriate skills. This is why structural reforms are so important: to improve the functioning of goods, services, labour and capital markets. This will be the focus of the autumn package.

The second key to sustainable growth is the financing of the necessary structural change and new economic activity. This financing is held back by vulnerabilities in the banking sector and financial fragmentation between Member States. Many SMEs in particular in southern Europe struggle to access finance.

We have done a lot, but we have not yet finished the crucial financial repair in Europe. The rigorous asset quality reviews and stress tests which will be conducted next year will be a key complement to our structural reform agenda, and they will be decisive for the return to sustainable growth and jobs.

Let me recall that the European Council in June concluded that in this context, Member States taking part in the Single Supervisory Mechanism will make all the appropriate arrangements, including the establishment of national backstops, ahead of the completion of this exercise. In case the balance sheet assessments reveal capital holes, the bill should be footed first via private solutions and internal resources before resorting to public backstops. Where State support is necessary for capital injections, the new State aid rules in force since 1 August will apply.

Furthermore, in restoring confidence and mitigating financial fragmentation within the EU, and especially in EMU, further steps towards genuine financial integration, the banking union, are needed. The single banking supervisor under the ECB will be complemented by a single resolution mechanism, in order to restructure non-viable banks while protecting the system. In order to maintain the momentum, we are calling for a speedy adoption.

The third key to sustainable growth is sound public finances. Sound public finances and structural reforms that lift the growth potential go hand in hand. Europe has reinforced its economic governance to ensure progress on both these fronts.

Concerns about fiscal sustainability and fragile market confidence in a number of euro area countries, called for a medium-term strategy aiming at ensuring, a lasting reduction of public deficit and debt levels. European fiscal rules promote differentiated fiscal consolidation, according to each Member State's fiscal space; focus on progress achieved in structural rather than purely nominal terms, and pay special attention to growth-friendly fiscal strategies.

Ladies and Gentlemen, Honourable Members of Parliament,

Further fiscal integration is an indispensable part of the transformation towards a genuine EMU. We are essentially rebuilding the EMU by strengthening the economic pillar, the E of the EMU.

The essential guiding principle for us is that any step towards increased solidarity and mutualisation of economic risk needs to be combined with increased responsibility and fiscal rigour – that is, with further sharing of sovereignty and deeper integration of decision-making. Just as crucial is that any steps towards further economic, financial and fiscal integration are accompanied by commensurate steps in the area of democratic legitimacy and accountability.

Both national Parliaments and the European Parliament play a key role in this regard. National Parliaments ensure legitimacy of Member States' action in the Council, as well as of the conduct of national fiscal and economic policies. At European level, democratic accountability and scrutiny is provided by the European Parliament.

Already today, both national Parliaments and the European Parliament have an opportunity to increased involvement in the new EU economic governance framework. The Commission will put forward, before the European elections, further ideas on the future of the EU and on how best to consolidate and deepen the community method in the longer term.

We see that it is essential to continue the efforts to further to enhance democratic legitimacy and accountability and hence reinforce the role of both national Parliaments and European Parliament.

Ladies and Gentlemen,

Let me conclude by saying that it is of paramount importance that we take the time to thoroughly discuss the topic of moving towards a deep and genuine EMU. This will not be an easy process since opinions differ sometimes quite widely, and the steps to be taken touch core political issues.

However it is essential to create a common understanding of what is needed to fix the original design flaws of the EMU and above all, why it is needed. We must establish a common purpose, a vision, of the road ahead. It is only by engaging in such an inclusive process that we can fully restore confidence in the sustainability of the euro and the EMU.

We have a collective imperative to move forward towards a genuine EMU. It is worth repeating that in the view of the Commission, any steps towards further economic, financial and fiscal integration should be accompanied by commensurate steps in the area of democratic legitimacy and accountability.

I look forward to your comments and thank you for your attention.